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# The Effect Of Credit Risk Management And Good Corporate Governance On The Financial Performance Of Conventional Banks With Operational Efficiency As An Intervening Variable (Case Study Of Conventional Banks Listed On The Indonesia Stock Exchange)

**Arfi Febiansyah [1)]; Dede Hertina [2)]**
**[1,2)] Master of Management Study Program, Postgraduate Faculty, Widyatama University, Bandung, Indonesia**
**Email: [1)] Arfi.febiansyah@widyatama.ac.id ;[2)] dede.hertina@widyatama.ac.id**

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**ABSTRACT**

This study aims to analyze the effect of Credit Risk Management and Good Corporate Governance (GCG) on the Financial Performance of conventional banks with Operational Efficiency as a mediating variable. Secondary data were obtained from the financial reports of conventional banks listed on the Indonesia Stock Exchange for the period 2020–2024 and analyzed using panel data regression and mediation tests. The results show that Credit Risk Management has a positive effect on Operational Efficiency but a negative effect on Financial Performance. GCG has a positive effect on operational efficiency but no significant effect on Financial Performance. Operational Efficiency has a negative effect on Financial Performance but is able to mediate the relationship between Credit Risk Management and GCG on Financial Performance. These findings indicate that the implementation of effective Credit Risk Management and GCG can improve efficiency, although their impact on profitability is not yet consistent. This study provides implications for bank management to strengthen governance and risk control in order to promote sustainable financial performance.

## INTRODUCTION

Banking is one of the strategic sectors that plays an important role in maintaining national economic stability. As an intermediary institution, banks function to collect, manage, and distribute public funds, so public trust is key to their operational sustainability. In the

Indonesian context, competition among banks is becoming increasingly fierce as the number of financial institutions grows and public expectations regarding service quality rise. These dynamics require banks to not only maintain liquidity, but also improve efficiency and financial performance in order to remain competitive amid global economic challenges and the acceleration of digitalization (Saputri & Avriyanti, 2023).

The performance of Indonesia's banking industry in recent years has shown fluctuating patterns. After experiencing improvement during the post-pandemic recovery period due to credit restructuring and monetary stimulus policies, conditions faced renewed pressure in the following years. This decline was influenced by various factors, ranging from interest rate policies and increased funding costs to weakening consumer purchasing power (OJK, 2023; CNBC Indonesia, 2024). This phenomenon indicates that financial performance is not only influenced by external factors, but also depends on the ability of banks to manage internal factors, particularly credit risk management, the implementation of good corporate governance, and improvements in operational efficiency (Ervina et al., 2021; Firdaus et al., 2021).Credit risk management plays a role in maintaining asset quality by controlling credit risks arising from lending activities. Theoretically, the better the implementation of credit risk management, the lower the level of non-performing loans, and the more stable the bank's financial performance (Sutono & Hermawan, 2024). However, in practice, a decrease in non-performing loans does not always have a direct impact on increased profitability. This indicates that the effectiveness of credit risk management in improving financial performance still faces obstacles, both due to implementation factors and the existence of other variables that influence this relationship (Ervina et al., 2021).

Good Corporate Governance (GCG) is another important factor in improving bank performance. GCG is believed to promote transparency, accountability, and fairness in bank management, thereby strengthening investor and customer confidence. However, the implementation of Good Corporate Governance (GCG) still faces obstacles. Several cases show that the supervisory functions of the board of commissioners and audit committee are still merely formalities, and there are even cases of fraud and credit report manipulation, indicating weak implementation of governance (Tempo, 2024). Another factor is operational efficiency, which describes the extent to which banks are able to optimally utilize resources to generate income. Efficient banks can reduce operating costs and increase productivity, thereby achieving sustainable profitability (Dzaky & Faishal, 2023). However, the phenomenon in Indonesia shows that banking efficiency is still fluctuating. Digital transformation has driven efficiency in certain periods, but on the other hand, it has incurred additional costs, particularly for technology investment and regulatory compliance (Wihardianto et al., 2023).

## LITERATURE REVIEW

### Credit Risk Management and Operational Efficiency

Credit risk management is important in bank operations because it is directly related to asset quality and the bank's ability to manage non-performing loans. Effective credit risk management can reduce impairment reserves and minimize credit supervision costs, thereby contributing to increased operational efficiency (Veronica & Pebriani, 2020). When credit risk can be reduced and credit quality maintained, banks can focus more on optimizing business processes and cost management (Hossain & Golder, 2022). In signaling theory, strong credit risk management sends a positive signal to investors about the stability and good prospects of the bank. Conversely, non-performing loans will reduce efficiency due to increased provisioning and risk management costs (Obondy et al., 2025). However, other studies have found that credit risk management does not have a significant effect on efficiency or financial performance (Ervina et al., 2021). The first hypothesis can be formulated as follows:

H1: Credit risk management affects operational efficiency

**GCG and Operational Efficiency**

Good Corporate Governance (GCG) plays an important role in creating transparent, accountable, and efficient governance. In the banking sector, GCG encourages stronger internal oversight through the functions of independent boards of commissioners and audit committees, which aim to reduce waste and improve business processes (Laksono & Kusumaningtias, 2021). Agency theory explains that conflicts between management and owners can be minimized with an effective GCG structure. Several studies state that GCG can promote operational efficiency by reducing unproductive costs (Firdaus et al., 2025; Ika et al., 2025). However, other studies have found that GCG has a negative effect on operational efficiency, indicating that in practice, the implementation of GCG in the Indonesian banking sector is still weak in substance and tends to be merely a formality (Wihardianto et al., 2023). The second hypothesis can be formulated as follows:

H2: GCG affects operational efficiency.

**Credit Risk Management and Financial Performance**

Credit risk arises when borrowers or other entities fail to meet their financial obligations to banks, potentially resulting in a reduction or loss of anticipated income from unpaid loans or investments (Veronica & Pebriani, 2020). Bank profits are greatly influenced by prudent and appropriate credit risk management and are affected by risk management practices and the determination of appropriate strategies to deal with various risks (Aldoseri, 2021). In addition to maximizing profits, the implementation of good credit risk management will minimize bad debts arising from high credit growth targets (Sutono & Hermawan, 2024). The study found that the same credit risk has an insignificant effect on bank performance from the perspective of bank management and shareholder value. Non-performing loans negatively explain bank performance from the perspective of bank management. However, this does not affect the market perspective and shareholder value on bank performance (Ervina et al., 2021; Hossain & Golder, 2022). However, other studies suggest that credit risk management affects financial performance. This proves that companies are successful in their operational activities, thereby increasing profitability and obtaining low credit risk values (Veronica & Pebriani, 2020). This is in line with signal theory, which suggests that stable company performance signals investors to invest in the company (Obondy et al., 2025). Referring to the various studies above, the second hypothesis can be formulated as follows:

H3: Credit risk management affects financial performance.

**GCG and Financial Performance**

The implementation of GCG in the banking sector can improve and strengthen the reputation of institutions facing difficult times, protect the interests of stakeholders, and encourage compliance with relevant regulations and legislation (Ika et al., 2025). Agency theory explains that conflicts of interest that arise between managers (agents) and company owners (principals) can be minimized through effective oversight mechanisms. The presence of an independent board of commissioners is expected to strengthen control functions within the company. The greater the proportion of independent commissioners, the more optimal the supervision will be and the potential for agency problems can be reduced. The existence of an audit committee can also serve as a support for the board of commissioners in ensuring the accuracy and fairness of the company's financial statements (Laksono & Kusumaningtias, 2021). In a study conducted by Ika et al. (2025), it was stated that GCG has a positive effect on financial performance. This is because the larger the number of board members, the more individuals there will be to oversee the management of company resources. As a result, communication and collaboration are also likely to be easier, which will improve the company's financial performance. Similar findings were reported by Pebiana et al. (2024); Firdaus et al. (2025); Wihardianto et al. (2023), who stated that GCG affects financial performance. Companies that

can implement good corporate governance will create added value for their stakeholders and ultimately improve financial performance. However, in their research, Laksono & Kusumaningtias (2021) stated that GCG does not affect financial performance. Referring to the various studies above, the fourth hypothesis can be formulated as follows:
H4: GCG affects financial performance.

**Operational Efficiency and Financial Performance**

Operational efficiency is an important indicator in assessing a bank's effectiveness in using its resources to generate profits. The more efficient a bank is, the greater the likelihood that it will record good financial performance, particularly in terms of profitability (Prakoso & Sholahudin, 2025). Low operational efficiency reflects optimally reduced operational costs, resulting in higher profit margins. Research by Husnain et al. (2021) and Dzaky et al. (2023) found that operational efficiency has a significant impact on ROA. However, in some cases, high efficiency does not always guarantee profitability, especially when accompanied by strategic risks or strict interest rate policies (OJK, 2024). Referring to the various studies above, the fifth hypothesis can be formulated as follows:
H5: Operational efficiency affects financial performance.

**Operational Efficiency in Mediating the Effect of Credit Risk Management on Operational Efficiency**

Good credit risk management can create a more efficient operational environment, which in turn has an impact on improving financial performance. When credit risk is low, banks do not need to allocate high reserves and can focus on productive activities (Obondy et al., 2025). However, Obondy et al. (2025) found that efficiency was not able to significantly mediate the relationship between credit risk management and financial performance in SACCOs in Kenya. In contrast, Husnain et al. (2021) show that efficiency has a significant influence as a mediator. Referring to the various studies above, the eighth hypothesis can be formulated as follows:
H6 : Operational efficiency mediates the influence of credit risk management on financial performance.

**Operational Efficiency in Mediating the Influence of GCG on Financial Performance**

The implementation of strong GCG principles will strengthen operational efficiency through cost control, internal supervision, and management accountability. This efficiency then contributes to optimal financial performance (Wihardianto et al., 2023). Audit committees, financial report transparency, and commissioner independence are important instruments in creating cost efficiency. Wihardianto et al. (2023) state that operational efficiency significantly mediates the influence of GCG on financial performance. However, not all GCG practices have a real impact, especially if they are only implemented to fulfill formalities (Laksono & Kusumaningtias, 2021). Referring to the various studies above, the ninth hypothesis can be formulated as follows:
H7: Operational efficiency mediates the influence of GCG on financial performance.

## METHODS

The population of this study consists of banking companies listed on the Indonesia Stock Exchange with KBMI categories 3 & 4. The sample was taken from 10 companies using purposive sampling technique. The criteria used to select the sample were: (1) banking sector companies listed on the IDX during the 2020-2024 period with KBMI categories 3 & 4; (2) having an average credit growth of <5% during the research period.

This research is applied research with a quantitative approach. The data used in this study is secondary data. Secondary data is data that is published or used by other organizations, not by users. The data was collected from the official website of the Indonesia Stock Exchange, company annual reports, and IDX statistics. The researcher also took existing information, such as articles, journals, textbooks, and others. This study uses a combination of time series data and cross-sectional data known as data pooling/data panel. The use of panel data regression analysis is known to be more informative than the simple time series commonly used (Indrasetianingsih & Wasik, 2020) and for mediation testing using path analysis hypothesis testing (Ghozali, 2021). The variables observed in this study consist of financial performance with return on assets (ROA) as the dependent variable. Credit risk management using the non-performing loan (NPL) ratio, good corporate governance (GCG) using the composition of independent commissioners as the independent variable, and operational efficiency using operating expenses to operating income (BOPO) as the intervening variable. All variables used in this study and their measurements can be seen in Table 1.

**Table Definition and Measurement of Operational Variables**

| Variable | Proxy | Measurement | Reference |
|---|---|---|---|
| Credit Risk Management (X1): a series of coordinated activities carried out to monitor and manage the risks that an organization may face. | Non-Performing Loan (NPL) Ratio | Total non-performing loans / total or gross loans | (Chen, 2014:8) |
| Good Corporate Governance (GCG) (X2): a set of rules governing the relationships among shareholders, company management, lenders, the government, employees, and other stakeholders. | Composition of Independent Commissioners | Value 1 if the company has a composition of independent commissioners >50%, and 0 if it has a composition of independent commissioners <50% | (Firdaus et al., 2021) |
| Financial Performance (Y): the main benchmark used to measure whether a company performs well or not. | Return on Assets (ROA) Ratio | EAT / total assets | (Kasmir, 2021; Saputra & Abdi, 2022; Wiranthie & Putranto, 2022) |
| Operational Efficiency (Z): a measure that indicates the effectiveness of an | Operating Expense to Operating Income Ratio | Operating expenses / operating income | (Wangarry et al., 2023) |

| | | | |
|---|---|---|---|
| organization in utilizing its resources to achieve goals and produce outputs. | | | |

In testing the hypotheses in this study, a multiple linear regression model is used, with the following regression equation model:

$$OF = \alpha + \beta_1 CRM + \beta_2 GCG + e1 \quad (1)$$

$$FP = \alpha + \beta\_1\, CRM + \beta\_2\, GCG + \beta\_3\, OF + e2 \quad (2)$$

where α is a constant, β1, β2, β3, β4 are regression coefficients, and have been defined in Table 1 above.Multiple linear regression testing begins with instrument testing, classical assumption testing consisting of normality testing, multicollinearity testing, and heteroscedasticity testing. The aim is to ensure that the regression equation model formed has accuracy in estimation, is unbiased, and consistent. The regression model test is used to see whether the proposed regression model can be accepted or rejected. The test used consists of three tests, including the F test, which shows whether all independent variables included in the model have a combined effect on the dependent variable (Ghozali, 2021). The coefficient of determination (R2) test is used to determine whether the model formed has been established and whether the independent variables used in this study are capable of interpreting changes in the dependent variable. The final test that can be performed is a hypothesis test (t-test) to determine whether each independent variable used in this study has an effect on the dependent variable with a 5% error rate (Ghozali, 2021). Then, to see the effect of the mediating variable, a path analysis test is performed.

## RESULTS

The results of the multicollinearity test in model 1 show that there is no multicollinearity problem between independent variables, or it can be said that all independent variables in the regression model are independent of each other because the correlation coefficient value is < 0.8 (Table 2). The results of the heteroscedasticity test using Breusch Pagan Godfrey (BPG) show that the Chi-Squares probability value of 0.0089 < 0.05 indicates that there is a problem of heteroscedasticity, so a White test was conducted to overcome the problem of heteroscedasticity. The results of the regression model test using Chow, Hausman, and Langrange multiplier tests show that the random effect is the appropriate model for this study. According to (Nachrowi & Usman, 2006), if the number of cross sections is greater than the number of time series, then the appropriate model is the random effect. In this study, the number of cross sections is 50 and the number of time series is 4, so the model chosen is the random effect. The results of the regression model test can be seen in the following table:

**Table 1 Regression Model Test Results (1)**

| Variable | Coefficients | Multicollinearity |
|---|---|---|
| CRM | 7.246850* | -0.009864 |
| GCG | 2.755562* | -0.009864 |
| Adjusted R-squared | 0.506342 | |
| F-statistic | 26.12950 | |
| Prob(F-statistic) | 0.000000 | |

significant at 1%
Source: Financial statements, processed data

The statistical test results show that the regression model has been improved, as can be seen from the Prob value of the F-statistic < 0.05, meaning that there is a linear relationship between the independent variables, namely credit risk management and GCG, and the dependent variable (operational efficiency). The coefficient of determination test explains that the ability of the independent variables to interpret changes in the dependent variable is 50.63% (adjusted R2 value), with the remaining 49.37% explained by other variables not used in this study. The results of the hypothesis test (t-test) as shown in Table 2 above illustrate that the credit risk management variable has a positive effect on operational efficiency, while GCG has a positive effect on operational efficiency.

The results of the multicollinearity test in model 2 show that there is no multicollinearity problem between independent variables, or it can be said that all independent variables in the regression model are independent of each other because the correlation coefficient value is < 0.8 (table 2). The results of the heteroscedasticity test using Breusch Pagan Godfrey (BPG) show that the Chi-Squares probability value of 0.6039 > 0.05 indicates that there is no heteroscedasticity problem. The results of regression model testing using Chow, Hausman, and Langrange multiplier tests show that the random effect model is suitable for this study. According to Nachrowi & Usman (2006), if the number of cross sections is greater than the number of time series, then the appropriate model is the random effect model. In this study, the number of cross sections is 50 and the number of time series is 4, so the model chosen is the random effect model. The results of the regression model test can be seen in the following table:

**Table 2 Regression Model Test Results (2)**

| Variable | Coefficients | Multicollinearity |
|---|---|---|
| CRM | -2.285134** | -0.009864 |
| GCG | 0.871307 | 0.390984 |
| EO | -5.516969* | 0.559339 |
| Adjusted R-squared | 0.644016 | |
| F-statistic | 30.54887 | |
| Prob(F-statistic) | 0.000000 | |

significant at 1%
Source: Questionnaire, processed data

The statistical test results show that the Prob value of the F-statistic is < 0.05, meaning that there is a linear relationship between the independent variables, namely credit risk management, GCG, and operational efficiency, and the dependent variable (financial performance). The coefficient of determination test explains that the ability of independent variables to interpret changes in the dependent variable is 64.40% (adjusted R2 value), while the remaining 35.60% is explained by other variables not used in this study. The results of the hypothesis test (t-test) as shown in Table 3 above illustrate that the variables of credit risk management and operational efficiency have a negative effect on financial performance, while GCG has no effect on financial performance.

The results of the Sobel test calculation on the credit risk management variable show that the t-value of 6.6580 > t-table 2.123, so H0 is accepted, meaning that operational efficiency is

able to mediate the effect of credit risk management on financial performance. For the GCG variable, the t-value of 2.7185 is greater than the t-table value of 2.123, so H0 is accepted, meaning that operational efficiency is able to mediate the effect of GCG on financial performance.

## DISCUSSION

The results of the study indicate that credit risk management has a positive effect on operational efficiency, thus accepting the hypothesis. Signaling theory states that the implementation of effective credit risk management sends a positive signal to investors and stakeholders regarding financial stability and the bank's ability to manage its assets (Brigham & Houston, 2016).

Banks with a good credit risk management system are able to identify, measure, and control potential credit risks early on, thereby minimizing non-performing loans (NPLs), which often become an operational cost burden. The results of this study are in line with Veronica & Pebriani (2020), which show that effective credit risk management reduces credit loss reserves and monitoring costs, thereby promoting operational efficiency. Hossain & Golder (2022) mention that strict credit risk management contributes to reduced operational costs and increased productivity.

Conversely, Ervina et al. (2021) found that credit risk management does not always affect efficiency, depending on the risk management implementation strategy applied by the bank. GCG has a positive effect on operational efficiency, so the hypothesis is accepted. Good Corporate Governance (GCG) plays an important role in creating efficiency through transparent, accountable, and independent oversight mechanisms. Based on agency theory, GCG helps minimize agency conflicts between managers (agents) and shareholders (principals) through effective oversight by independent boards of commissioners and audit committees (Jensen & Meckling, 2012).

The application of the principles of transparency, accountability, responsibility, independence, and fairness (POJK No. 17/POJK.03/2023) enables companies to reduce unproductive costs and improve operational effectiveness. The results of this study are in line with the findings of Ika et al. (2025) and Firdaus et al. (2025), which show that the implementation of GCG substantially improves operational efficiency. However, the findings of Wihardianto et al. (2023) warn that the implementation of GCG in several companies in Indonesia tends to be a formality, so it does not always have a significant impact. Operational efficiency has a negative effect on financial performance, so the hypothesis cannot be accepted. In signaling theory, high efficiency sends a positive signal to investors regarding management's ability to manage costs effectively. However, the results of the study show that operational efficiency has a negative effect on financial performance. In the 2023 period, operational efficiency (low BOPO ratio) increased sharply, but profitability only rose slightly. Conversely, in 2024, efficiency declined due to increased administrative burdens from OJK policies, and profitability weakened.

This indicates that operational efficiency alone is not sufficient to improve financial performance, especially when accompanied by policies that suppress interest income or increase non-productive costs. The results of this study are in line with Dzaky et al. (2023), which shows that excessive efficiency can reduce banks' ability to innovate and expand credit, thereby reducing profitability.

Thus, efficiency must be balanced with aggressive business strategies in order to have a positive impact on financial performance. Credit risk management has a negative effect on financial performance, so the hypothesis cannot be accepted. In signaling theory, strong credit risk management should increase investor confidence and support profitability. However, these negative results can be explained by the trade-off between risk control and credit growth. When

banks focus too much on reducing risk, lending becomes more selective, which ultimately limits potential interest income. The results of this study are in line with Hossain & Golder (2022) and Ervina et al. (2021), who state that credit risk management does not always have a positive impact on financial performance, especially during periods of economic pressure. Conversely, Veronica & Pebriani (2020) show that credit risk management implemented with a proactive approach actually increases profitability.

During the research period, even though banks' credit risk management declined, strict policies and high loss reserves in several years actually suppressed profits. GCG does not have a significant effect on financial performance. This finding is not in line with the author's initial hypothesis, so the hypothesis is rejected and it can be concluded that increases or decreases are not directly related to the level of financial performance.

Agency theory explains that effective GCG implementation can reduce conflicts of interest between managers (agents) and shareholders (principals) through oversight mechanisms such as independent boards of commissioners and audit committees (Jensen & Meckling, 2012). If oversight is effective, agency costs can be reduced, thereby improving the company's financial performance. However, the results of this study contradict this theory and a number of previous studies.

Research by Ika et al. (2025) and Firdaus et al. (2025) shows that GCG, when implemented substantially, increases profitability because it encourages better decision-making and cost efficiency. The results of this study are in line with Laksono & Kusumaningtias (2021), who state that in many Indonesian companies, the implementation of GCG tends to be a formality to comply with regulations without actually strengthening control functions.

Operational efficiency can mediate the effect of credit risk management on financial performance, thus accepting the hypothesis. The results of this study are in line with the view that effective credit risk management not only reduces credit risk but also increases cost efficiency through a reduction in loss reserves and credit monitoring costs (Veronica & Pebriani, 2020).

According to signaling theory, good credit risk management signals stability to investors, but this effect does not always directly increase profitability. This effect is amplified when operational efficiency improves, as credit risk-related costs can be reduced. The research by Husnain et al. (2021) supports this finding, that operational efficiency strengthens the relationship between CRM and financial performance. However, in the study by Obondy et al. (2025), it was found that efficiency does not mediate the relationship between CRM and performance in the context of SACCOs in Kenya.

This indicates that the effectiveness of efficiency mediation depends on the industry context and the quality of risk management implementation. In the case of conventional banks in Indonesia, a significant reduction in credit risk during the study period was accompanied by increased efficiency in certain years, thereby indirectly improving financial performance. GCG can mediate the influence of credit risk management on financial performance, thus accepting the hypothesis.

Theoretically, in agency theory, strong GCG encourages good supervision and control, thereby increasing the efficiency of resource use and leading to higher profitability. In their study, Wihardianto et al. (2023) found that operational efficiency is an important channel through which GCG can improve financial performance. However, the effectiveness of this mediation depends on the quality of GCG implementation. If governance is only a formality, efficiency improvements will not be significant, and the impact on profitability will be limited (Laksono & Kusumaningtias, 2021).

## CONCLUSION

This study aims to determine the effect of credit risk management and gcg on financial performance, with operational efficiency as a mediating variable. The results show that credit risk management has a positive effect on operational efficiency, gcg has a positive effect on operational efficiency, credit risk management has a negative effect on financial performance, gcg has no effect on financial performance, operational efficiency has a negative effect on financial performance, and operational efficiency can mediate the effect of credit risk management and gcg on financial performance.

## LIMITATION

This study has several limitations, including a limited observation period from 2020 to 2024 and only involving ten conventional banks in the KBMI 3–4 category listed on the Indonesia Stock Exchange, so the results of the study cannot be generalized broadly. The variables used—Credit Risk Management (NPL), Good Corporate Governance (independent commissioners), and Operational Efficiency (BOPO)—do not cover other factors such as CAR, LDR, or macroeconomic conditions that may also affect financial performance.

In addition, the use of secondary data and a single GCG indicator is considered to not fully represent corporate governance as a whole, while the path analysis method is not yet capable of describing dynamic causal relationships.

Further research is recommended to extend the observation period, expand the sample coverage, and use more comprehensive GCG indicators and advanced analysis methods such as Structural Equation Modeling (SEM) or Generalized Method of Moments (GMM) so that the research results are stronger and can be generalized more broadly.

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