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THE INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH RISK MANAGEMENT AS MEDIATING VARIABLE

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Abstract: This study examined the relationship between corporate governance mechanisms, risk management, and financial performance of banks in Indonesia. The sample comprised 160 banking entities listed on the Indonesia Stock Exchange from 2014 to 2018, chosen through purposive sampling. The data were analyzed using path analysis with AMOS version 22. The findings revealed that corporate governance significantly influenced risk management in the banking industry. Effective corporate governance mechanisms positively impacted risk management practices, indicating that well-governed banks were more likely to implement robust risk management strategies. Moreover, the study found that risk management played a crucial role as an intervening variable between corporate governance and financial performance. This suggests that the influence of corporate governance on financial performance was partially mediated through its impact on risk management practices. Additionally, the results demonstrated a significant positive effect of corporate governance on the financial performance of banks in Indonesia. Well-governed banks tended to exhibit better financial performance, likely due to their ability to manage risks more effectively and make sound strategic decisions. The study highlights the importance of strong corporate governance practices in enhancing risk management and subsequently improving the financial performance of banks. These findings have implications for regulators, bank management, and investors, emphasizing the value of promoting effective corporate governance in the banking sector to achieve sustainable financial growth and stability.

Keywords: banking, corporate governance, financial performance, mediating variable, risk management

Abstrak: *Penelitian ini menguji hubungan antara mekanisme tata kelola perusahaan, manajemen risiko, dan kinerja keuangan bank di Indonesia. Sampel terdiri dari 160 entitas perbankan yang terdaftar di Bursa Efek Indonesia dari tahun 2014 hingga 2018, dipilih melalui metode purposive sampling. Data dianalisis menggunakan analisis jalur dengan AMOS versi 22. Temuan penelitian menunjukkan bahwa tata kelola perusahaan berpengaruh signifikan terhadap manajemen risiko dalam industri perbankan. Mekanisme tata kelola perusahaan yang efektif berdampak positif pada praktik manajemen risiko, menandakan bahwa bank-bank yang dikelola dengan baik lebih cenderung menerapkan strategi manajemen risiko yang kuat. Selain itu, penelitian menemukan bahwa manajemen risiko memainkan peran penting sebagai variabel intervening antara tata kelola perusahaan dan kinerja keuangan. Hal ini menunjukkan bahwa pengaruh tata kelola perusahaan terhadap kinerja keuangan sebagian dimediasi melalui dampaknya pada praktik manajemen risiko. Selain itu, hasil penelitian menunjukkan adanya pengaruh positif signifikan dari tata kelola perusahaan terhadap kinerja keuangan bank di Indonesia. Bank-bank yang dikelola dengan baik cenderung menunjukkan kinerja keuangan yang lebih baik, kemungkinan karena kemampuan mereka dalam mengelola risiko secara lebih efektif dan membuat keputusan strategis yang baik. Penelitian ini menyoroti pentingnya praktik tata kelola perusahaan yang kuat dalam meningkatkan manajemen risiko dan dengan demikian meningkatkan kinerja keuangan bank. Temuan ini memiliki implikasi bagi regulator, manajemen bank, dan investor, yang menekankan pentingnya mempromosikan tata kelola perusahaan yang efektif dalam sektor perbankan untuk mencapai pertumbuhan keuangan dan stabilitas yang berkelanjutan.*

Kata kunci*:* *kinerja keuangan, manajemen risiko, perbankan, tata kelola perusahaan, variabel mediasi*

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INTRODUCTION

The implementation of corporate governance within a company can be seen from the effectiveness of the board of commissioners and the audit committee (Napitupulu et al. 2020; Putri & Prasetyo, 2020). The independence of the board of commissioners in carrying out their duties as a supervisory party must be able to represent minority shareholders and not act to benefit only activities of some parties (Prisandani, 2022). The board of commissioners and the audit committee must take an active role in implementing corporate governance in the company (Najamuddin et al. 2022; Herusetya & Suryadinata, 2022). This can be seen by how often the board of commissioners and the audit committee supervise management performance. In theory, the bigger and more members of the board of commissioners and audit committee, the performance will also increase (Kadarningsih et al. 2020). The competence of members of the board of commissioners and audit committee must meet the competency requirements so that the implementation of the oversight and advisory functions for the benefit of the company can be carried out properly. The audit committee must have knowledge in accounting and finance in order to be able to evaluate the company's financial statements. The better the management structure, in this case the corporate governance of banking companies, the better the performance produced by banking companies (Padoli, 2019).

Cristianto (2018) states that corporate governance arises as a result of agency problems that arise, where there is behavior to bring personal benefits, especially from agents to the detriment of the interests of other parties (principals). Similar notion was also proposed by Jiang & Kim (2020), Hoi et al. (2019). The agency problem that arises in the banking sector is information asymmetry (Chod & Lyandres, 2021; Bastomi et al. 2017). Managers (agents) have more information about the company's finances than investors (principals) so that management tends to make decisions that benefit themselves. To overcome this agency problem, a concept of Good Corporate Governance is needed which aims to make the company healthier (Rompas et al. 2018). The implementation of corporate governance is aimed at improving company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on established regulations (Arora & Sharma, 2016; Glass et al. 2016). Monitoring activities within the company are carried out by the board of commissioners and assisted by the audit committee.

In addition to corporate governance, banks must also be able to manage their risks. Several studies have examined the ability of risk management to mediate the relationship between corporate governance and financial performance, providing consistent results. Bastomi et al. (2017) stated that corporate governance has a positive and significant effect on financial performance mediated by credit risk and operational risk, this explains that the implementation of good corporate governance can minimize conflicts of interest and information asymmetry which causes the cost of write-off reserves bad debts and additional capital costs thus increasing the company's profitability. Bahoo et al. (2019) Padoli (2019) and Setiawaty (2016) state that the effect of corporate governance on financial performance through banking risk can have a positive and significant indirect effect. This means that risk is capable of mediating the indirect relationship between corporate governance and the financial performance of banking companies. The banking sector is selected as the research object in this study because this sector has different specifications from other industrial companies, namely collecting funds from the public in the form of savings and channeling them back in the form of credit. In addition, the banking sector is one of the sources of financing for the domestic industry so that it has an important role in national development and economic growth. This study seeks to examine the influence of corporate governance mechanisms on financial performance with risk management as an intervening variable.

METHODS

Based on the type of data studied, this research is included in the type of empirical research (empirical research) and is quantitative in nature which describes and explains the influence of the phenomena that are used as research objects. The purpose of this research is to test hypotheses that explain the nature of certain relationships or determine the differences between groups or the independence (independence) of two or more factors in a situation (Sekaran, 2006). This study uses the dependent variable (endogenous variable) of financial performance which is proxied by Return on Assets (ROA) and Return on Equity (ROE) and Net Interest Margin (NIM) and the independent variable (exogenous variable) is corporate governance which is proxied by the effectiveness of the board of commissioners and the effectiveness of the audit committee and there is an intervening variable (mediation variable) risk management. The sample used in this study is a banking company listed on the Indonesia Stock Exchange (IDX) from 2014–2018. In this study, the object of research is the relationship between corporate governance and financial performance mediated by risk management. This study prioritizes empirical data and facts using secondary data sources obtained from the Indonesian Stock Exchange (IDX) website. The research sample is shown in Table 1.

Table 1. Research sample

Research Sample Company	Number of Companies
Banking companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2018	42
Banking companies that went IPO between 2014-2018 so that financial reports and annual reports are not available on the Indonesia Stock Exchange (IDX)	(8)
Companies that were delisted during the research year from 2014 to 2018	(2)
Banking companies that meet the research criteria	32
Total research for 5 years	160

The population used is all banks listed on the Indonesia Stock Exchange (IDX) for the 2014–2018 period. which can be seen on the website www.sahamok.com. The sample in this study was selected using a non-probability sample selection method, namely using purposive sampling with the aim of obtaining a representative sample according to the specified criteria. The sample criteria to be used are, first, banking companies that have annual reports and financial reports that present all the completeness of the data needed in this study (own and present data on the board of commissioners, audit committee and financial data in annual reports to calculate each other measurements) and publish them on the Indonesia Stock Exchange (IDX) from 2014–2018 or on the website of each company. Second, banking companies whose financial reports are denominated in rupiah and whose financial reporting ends on December 31. This study uses secondary data from banking companies listed on the Indonesia Stock Exchange. Supranto (1997) defines secondary data as data obtained in a ready-made form in the form of publications, the data has been collected by the agency. This study uses secondary data obtained from financial reports (audited) and annual reports of banking companies registered at PT. Indonesia Stock Exchange (IDX) in 2014–2018. The data was retrieved by accessing the sites www.idx.co.id and www.sahamok.com.

Agency theory explains that there is an assumption that human nature is selfish and does not like risk. In an entity in which there are shareholders and management who have different interests. This difference in interests is the basis of agency problems or agency problems, each party will instinctively try to be selfish and they will try to avoid risk as much as possible. In this study, corporate governance is proxied by the board of commissioners and audit committee based on Hermawan's (2009) research by examining 4 factors which are indicators in assessing the effectiveness of the board of commissioners and audit committees in Indonesia, namely independence, competence, number of members (size), and activity (activities). The board of commissioners established a risk management committee to improve their ability to supervise the company (Halim et al. 2017; Larasati et al. 2019). The independent board of commissioners will improve risk management activities and disclose what they have done to find solutions and address the risks of the companies they manage. The audit committee plays a role in maintaining the credibility of the preparation of financial reports such as maintaining an adequate monitoring system (Dobija, 2015; Cohen et al. 2017). With the functioning of the audit committee effectively, control over the company will be better so that it can reduce agency problems (Trisnantari, 2008).

Padoli's (2019) research stated that corporate governance has a positive effect on risk management. The same thing was also found by Setiawaty (2016) stated that corporate governance has a positive effect on risk management. In agency theory, one of the factors that causes a conflict of interest is the emergence of information asymmetry, where in general management has more information about the actual financial position and operating position of the entity from the owner (principal), causing conflict of interest that arise as a result of dissimilar objectives, where management does not always act in the interests of the owner. To avoid this conflict, the concept of corporate governance is needed which aims to make the company healthier.

In this study, Corporate Governance is proxied by the board of commissioners and audit committees based on Hermawan's research (2009) by examining 4 factors which are indicators in assessing the effectiveness of boards of commissioners and audit committees in Indonesia, namely independence, competence, number of members (size), and activities.

Research conducted by Ruslim and Santoso (2018) found that the proportion of independent commissioners, audit committees, institutional share ownership has a significant effect on the company's financial performance. Similar results were also obtained by Bahoo et al. (2019) which states that corporate governance has a positive effect on financial performance. According to Attar (2014) there are several risks that are often faced by banks, including: credit risk, liquidity risk and operational risk. One of the main banking activities is lending. By extending credit to debtors, there is a credit risk that accompanies it. Credit risk is the risk that occurs as a result of the debtor's failure to fulfill his obligations. The amount of credit risk can be proxied by the ratio of non-performing loans (NPL). the increase in non-performing loans causes income and profits to decrease, Return on Asset (ROA) and Return on Equity (ROE) also decrease. Therefore, banks need to improve their credit risk management so that the level of non-performing loans or NPLs does not exceed the provisions of Bank Indonesia (BI).

Liquidity risk is proxied by the Loan to Deposit Ratio (LDR) which reflects the bank's ability to repay depositors' withdrawals by relying on loans as a source of liquidity. The higher the liquidity ratio, the better a company is because the higher this ratio means that the amount of credit extended increases, causing interest income and profits received to also increase. Operational risk is the risk caused by the lack of functioning of the bank's internal processes, human error, failure of the technology system or due to external problems. Operational risk in this study can be seen from Operational Costs to Operating Income (BOPO). BOPO is a comparison between operating expenses and operating income (Attar, 2014). One that affects profitability is efficiency in reducing operating and non-operating costs. Banks that are efficient in reducing their operational costs can reduce losses so that income and profits increase, ROA and ROE also increase (Nurwulandari et al. 2022).

Research conducted by Poudel (2012) proves that risk management has a positive effect on financial performance. Attar (2014) in his research revealed that risk management has a positive effect on banking performance meaning that if banking risk is managed properly it will reduce the level of risk so that financial performance will increase. The board of commissioners as an organ of the company has collective duties and responsibilities for supervising and providing advice to the directors and ensuring that the company implements GCG (KNKG, 2006). From a risk management perspective, the number of commissioners can affect the presentation of broad risk information. The greater the proportion of the number of members of the board of commissioners has the benefit of increased monitoring and providing information capacity which can improve the quality of risk management. Research conducted by Permatasari and Novitasary (2014) found that the implementation of corporate governance will improve financial performance and risk management is also able to strengthen the relationship between the two variables. The same thing was also expressed by Padoli (2019) and Setiawaty (2016) who found that the influence of corporate governance on banking performance was able to have a positive and significant indirect effect. So based on the description, the proposed hypotheses were as follows:

H_1: Corporate Governance has a positive effect on risk management

H_2: Corporate Governance has a positive effect on financial performance

H_3: Risk management has a positive effect on financial performance

H_4: Corporate Governance has a positive effect on financial performance through Risk Management

The research model proposed in the following figure is a conceptual framework and a line of thought in testing hypotheses. The framework of thought in this study is illustrated in Figure 1. In this study, corporate governance is proxied by the board of commissioners and audit committees based on Hermawan's research (2009) by examining 4 factors which are indicators in assessing the effectiveness of boards of commissioners and audit committees in Indonesia, namely independence, competence, number of members (size), and activities. To sum, corporate governance was measured by using the assessment score board and audit committee characteristics based on the independency, activities, size and competency. Risk management is measured by risk management index constructed with three different risk; credit risk, liquidity risk and operatonal risk while the banks' performance is measured by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Analysis of the research data was carried out using a path analysis model operated through the IBM SPSS AMOS 22.0 program. According to Ghozali (2011), path analysis is the development of a regression model that is used to test the fit of the correlation matrix of two or more models being compared, models are usually depicted with circles and arrows indicating a causality relationship. Regression is performed for each variable in the model. The regression value predicted by the model is compared with the correlation matrix of the observed variables and the Goodness-of-Fit (GoF) value is calculated. The best model is chosen based on the value of goodness of fit.

RESULTS

Descriptive statistics are data analysis that provides an initial description of research data or variables that are useful for knowing the characteristics of the sample to be used in research. The results of descriptive statistics were presented in Table 2. The initial data for all samples has a number of studies (N) of 160 studies, but there are data that have quite extreme values so that they are exposed to outliers and must be removed from the data set so that the results presented describe the actual data used. There are 15 research data affected by oulier so that from Table 2, it shows that the results of the descriptive statistical test have a total of 145 studies (n). The first research variable in descriptive statistics is Financial Performance (FP). The first measurement of financial performance is measured using the Return On Assets (ROA) ratio. The average value of CG in this test is 0.92046958 or 92.04% indicating that the companies in the study sample have implemented good corporate governance. The standard deviation value of 0.049829100 is less than the average value, which indicates that during the observation period, the CG value had relatively low variations.

In this study the model is used to examine the effect of corporate governance on financial performance mediated by risk management. Financial performance is proxied by 3 indicators, namely Return On Assets (ROA), Return On Equity (ROE) and Net Interest Margin (NIM). The model uses the Maximum Least Square Estimation (ML) technique because the sample size is small, namely between 100-200 and the assumption of normality is met. in Table 3 is a summary of the comparison of models built with the Goodness-of-Fit's cut-off value. Table 3 shows all the goodness-of-fit indices criteria resulting in a fit acceptance level. The Chi-Square value is 1.729, which is said to be relatively small. The probability index is 0.189, greater than the cut-off value (≥0.05). The CMIN/DF index is 1.729, which is smaller than the cut-off value (≤2.00). The GFI index is 0.994, greater than the cut-off value (≥0.90). The AGFI index is 0.940, greater than the cut-off value (≥0.90). The TLI index is 0.986, greater than the cut-off value (≥0.90). The CFI index is 0.998, greater than the cut-off value (≥0.90). The RMSEA index is 0.071, greater than the cut-off value (≤0.08). The results of the Goodness of Fit Indices test after the repair show that the developed model is accepted at the fit level and the model does not require further modification so that the model is declared feasible and can be continued with hypothesis testing.

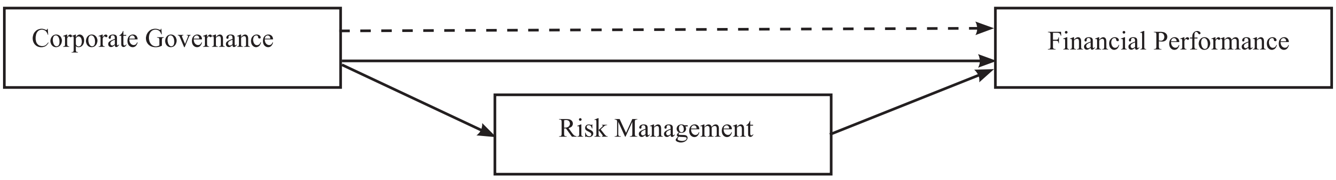

Figure 1. Research framework (──→ Direct influence, − − → Indirect influence)

Table 2. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets (ROA)	145	-0.013565	0.031343	0.01146529	0.008599007
Return on Equity (ROE)	145	-0.131785	0.248153	0.08001774	0.059500600
Net Interest Margin (NIM)	145	0.018826	0.148763	0.07268190	0.030074306
Risk Management (RM)	145	0.00	0.300	2.0000	0.90066
Corporate Governance (CG)	145	0.738095	1.000000	0.92046958	0.049829100

Table 3. Goodness of fit indices of full structural model

Goodness of fit index	Cut-off value	Model Results	Information
Chi-Square	Expected small	1.729	Fit
Probability	≥0.05	0.189	Fit
CMIN/DF	≤2.00	1.729	Fit
GFI	≥0.90	0.994	Fit
AGFI	≥0.90	0.940	Fit
TLI	≥0.90	0.986	Fit
CFI	≥0.90	0.998	Fit
RMSEA	≤0.08	0.071	Fit

This study aims to examine the effect of corporate governance on financial performance mediated by risk management. The direct effect can be known by examining at the regression weight and standardized regression weight. Standardized regression weight to analyze the significance level of hypothesis testing can be seen in Table 4. Meanwhile the indirect effect of the causal relationship between variables is known by observing Table 5 standardized indirect effect on the output of AMOS 22. Furthermore, the results of testing Hypothesis 4 (H4) of the indirect effect can be seen in Table 5 of standardized indirect effect. Table 5 shows that there is an indirect effect of corporate governance variables on financial performance mediated by risk management of 0.065. The significance of the effect of the indirect relationship can be known through the Sobel test. Meanwhile, Table 6 shows a (regression coefficient of corporate governance on risk management) of 0.195 and b (regression coefficient of risk management on performance) of 0.336. Sa (standard error of a) is 0.018 and sb (standard error of b) is 0.001.

The results of testing Hypothesis 1 (H1) prove that corporate governance has an effect on risk management. The test results of the parameter estimation (standardized regression weight) between corporate governance (CG) and risk management (RM). The standardized regression weight shows a positive regression coefficient of 0.195 and the regression weight shows a critical ratio (CR) of 2.375 and a p-value of 0.018. The CR value is above the critical value of ± 1.96 with a significance level of 0.000 (meaning significant) and p is below a significant value of 0.05. These results indicate that corporate governance has a significant positive effect on risk management. Based on these results, it can be concluded that the first hypothesis is accepted. This result is in line with research conducted by Permatasari and Novitasary (2014) which suggests that corporate governance mechanisms have a positive and significant effect on banking risk management. governance influences risk management. The results are in line with previous research which showed that corporate governance mechanism is expected to be able to carry out the oversight function more effectively on policies carried out by managers related to the company's main activities, namely raising funds and distributing funds to the public so that the risks faced by the company can be managed properly (Lubis et al. 2017; Listyaningsih et al. 2018).

The results of testing hypothesis 2 (H2) prove that corporate governance has an effect on banking financial performance. Test results on the estimation parameter (standardized regression weight) between corporate governance (CG) and financial performance (FP). Standardized regression weight shows a positive regression coefficient of 0.438. Regression weight shows a critical ratio (CR) of 6.104 and a p-value 0.00. The CR value is above the critical value of ± 1.96 with a significance level of 0.00 (meaning significant) and p is below a significant value 0.05. These results indicate that corporate governance has a significant positive effect on banking financial performance. Based on these results, it can be concluded that the second hypothesis is accepted. These results are in line with research conducted by Ruslim and Santoso (2018) who argued that corporate governance mechanisms have a positive and significant effect on financial performance. The same thing is also in line with research conducted by Bahoo et al (2019) which states that corporate governance has an effect on the financial performance of banks that apply corporate governance mechanisms that effectively help banks earn profits. This is because the corporate governance mechanism provides a monitoring effect on the implementation of banking operations so as to assist management in making good decisions as well that have an impact on bank performance (Wibowo et al. 2022).

The results of testing hypothesis 3 prove that risk management has an effect on banking financial performance. Test results on the estimation parameter (standardized regression weight) between risk management (RM) and financial performance (FP). The standardized regression weight shows a positive regression coefficient of 0.336 and the regression weight shows a critical ratio (CR) of 4.490 and a p-value of 0.000 (significant). The CR value is far above the critical value of ± 1.96 with a significance level of 0.000 (meaning significant) p is below the significant value of 0.05. These results indicate that risk management has a significant positive effect on banking financial performance. Based on these results, it can be concluded that the third hypothesis is accepted. The results of this study are in line with the results of research conducted by Attar (2014), who conducted research on the impact of risk management on bank financial performance with the results of the research stating that risk management has a positive impact on banking financial performance. The same thing was also expressed by Poudel (2012) stating that risk management has a positive effect on banking financial performance because risk management in general has a very significant contribution to bank performance, so it is recommended that banks emphasize more control on risk management (Manurung et al. 2016; Arieffiandi et al. 2016).

Table 4. Regression Weights

	Standardized Regression Weight	Estimate	S.E.	C.R.	P
RM ← CG	0.167	0.042	0.018	2.375	0.018
FP ← RM	0.195	0.003	0.001	4.490	***
KK ← CG	0.336	0.001	0.000	6.104	***
ROE ← FP	0.438	7.845	0.529	14.817	***
ROA ← FP	1.012	1.000			

note: ROA= Return on Assets; ROE= Return on Equity; NIM= Net Interest Margin; RM= Risk Management; CG= Corporate Governance; FP= Financial Performance

Table 5. Standardized indirect effect

	Corporate Governance (CG)	Risk Management (RM)	Financial Performance (FP)
Financial Performance (FP)	0.065	0.000	0.000

Table 6. Indirect effect coefficient

Variable	Standardized Regression Weight		Regression Weight	
Risk Management (RM) ← Corporate Governance (CG)	0.195	a	0.018	sa
Financial Performance (FP) ← Risk Management (RM)	0.336	b	0.001	sb

The results of testing hypothesis 4 prove that risk management can mediate the relationship between corporate governance and banking financial performance. The standardized indirect effect shows a positive regression coefficient of 0.065 and based on the Sobel-test calculations it shows that the t-count is 9.8818067 > t-table is 2.132 with a significance level of 0.05. As the mediation coefficient is 0.065 which is significant, this means that there is a mediating effect of risk management in mediating the relationship between corporate governance and financial performance. Based on these results, it can be concluded that the fourth hypothesis is accepted. These results are in line with research conducted by Bahoo et al (2019), Padoli (2019), Bastomi et al (2017), Setiawaty (2016) which analyzes the effect of risk management as a mediation between corporate governance relationships and banking financial performance. The results of the study show that corporate governance has a significant and positive influence on banking financial performance through the application of risk management. credit risk can mediate the effect of corporate governance on financial performance. The more effective the corporate governance mechanism, the better the implementation of risk management which can reduce operational costs so as to improve banking financial performance.

Managerial Implication

Stakeholder theory emphasizes that stakeholders, such as government, society, employees, investors have the right to obtain information about the company's financial statements, especially for companies that use funds from the public for the benefit of their business operations. The sustainability of the bank is very dependent on the level of public trust in the bank because the bank will not be able to carry out its duties as an intermediary institution if there are no people who entrust their funds to be managed by the bank so that in presenting financial reports that do not disappoint, the management will set aside the long-term risks that arise may be experienced by the bank. The findings of this study pose the risks examined in this study are crucial in developing governance and financial performance of banking sector, namely credit risk, liquidity risk and operational risk. As one of the main activities of a bank, of course the bank's ability to manage credit risk will greatly determine the performance of a bank. If there is a failure in managing credit risk, it will have an impact on liquidity risk where banks will find it difficult to provide cash within a certain period of time, so that the company's operations will be disrupted. The independent nature of the audit committee will make monitoring carried out by the audit committee truly impartial to one party so that the interests of stakeholders who cannot directly participate in the company's operations will also be maintained. Monitoring carried out by the audit committee on the company's control system will certainly improve the control system including risk management implemented in the company.

The findings demonstrated that improved corporate governance mechanisms will have an impact on oversight of policies carried out by management so that they can reduce the level of risk in banking because effective corporate governance practices which ultimately reduces the risks that may be carried out by the board with decisions that benefit themselves. In this regard, the board of commissioners plays a role in minimizing agency problems that arise between the board of directors and shareholders. The board of commissioners plays an important role in directing strategy and overseeing the running of the company and ensuring that managers really improve company performance as part of company goals. The size of the board of commissioners determines the effectiveness of monitoring the company's financial performance. So that the larger the size of the board of commissioners, the better the company's financial performance. Similarly, the findings denoted that the audit committee has an important and strategic role in maintaining the credibility of the preparation of financial reports such as maintaining an adequate monitoring system. With the functioning of the audit committee effectively, control over the company will be better so that it is expected to reduce agency problems. Overall, this study places importance of stakeholder theory suggesting the importance of companies paying attention to the interests of stakeholders in the company's performance so that the company's value in the eyes of stakeholders is maintained properly. This is consistent with Attar (2014) stating that the company is starting to realize the importance of risk management to be applied in the entire business world that is completely uncertain and to increase the value of the company in the eyes of stakeholders by fulfilling the principles of good corporate governance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The findings showed empirical evidence of corporate governance mechanisms on financial performance with risk management as a mediating variable. The corporate governance mechanism has proven to have a positive effect on risk management. It can be interpreted that corporate governance is able to influence risk management. The higher the effectiveness of corporate governance implemented by the company, the higher the risk management is carried out. The corporate governance mechanism is proven to have an effect on financial performance. It can be interpreted that corporate governance is able to influence financial performance. The more effective corporate governance implemented by the company, the higher the banking financial performance. Risk management is proven to have an effect on financial performance. It can be interpreted that risk management is able to influence financial performance. The better the management of risk management by the company, the higher the banking financial performance. Risk management used as a mediating variable in this study has proven to have a positive effect on the relationship between corporate governance and financial performance. This can be interpreted that risk management mediates. The relationship between corporate governance and financial performance. The more effective corporate governance that is implemented by the company, it will be able to minimize the risks faced by the company so that operational expenses will decrease and will improve financial performance.Notes for Model (Group number 1 – Default model)

Theoretically, the findings confirm that in agency theory there is information asymmetry between managers (agents) and shareholders (principals) which causes agency conflict, in general agency problems are in the form of information asymmetry between managers and shareholders which results in the taking of personal benefits by managers and shareholders. detrimental to the principal. Practically, the results of this study can provide input for management to further study the influence of corporate governance mechanisms, so that they can evaluate, improve and optimize their functions in achieving corporate goals, namely improving banking financial performance by improving risk management.

Recommendations

Based on the empirical evidence presented in this study, several recommendations can be made. Firstly, it is crucial for companies, especially banks in Indonesia, to focus on strengthening their corporate governance mechanisms. Effective corporate governance practices can positively influence risk management, leading to better risk mitigation and decision-making processes. To achieve this, companies should prioritize transparency, accountability, and independent oversight within their governance structures. Secondly, the study highlights the importance of enhancing risk management practices within banking entities. Companies should invest in robust risk management frameworks and tools to identify, assess, and manage risks effectively. By doing so, banks can minimize potential losses, improve operational efficiency, and ultimately enhance their financial performance. Additionally, it is advisable for companies to consider risk management as an integral part of their corporate governance practices. Recognizing the mediating role of risk management between corporate governance and financial performance, companies should aim to align their governance mechanisms with risk management strategies to achieve optimal outcomes.

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