

The Influence of Good Corporate Governance (GCG) on Financial Performance with Bank Risk Management as Intervening Variable and Intellectual Capital as A Moderating Variable

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ABSTRACT: *This research aims to determine the effect of GCG (Good Corporate Governance) on financial performance with bank risk management as an intervening variable and intellectual capital as a moderating variable. The GCG variable is proxied by managerial ownership, institutional ownership, board of directors and independent commissioners. Financial performance variables are proxied by ROA (Return on Asset), ROE (Return on Equity), and NIM (Net Interest Margin). The population of this research is commercial banks listed on the Indonesia Stock Exchange with an observation period of 2016-2020. The sample size is 20 observation units. The sampling technique uses a purposive sampling method. The results of this research show that GCG, which is proxied by the board of directors and independent commissioners, influences financial performance. Intervening (bank risk management) and moderation (intellectual capital) variables are proven to participate in the relationship between GCG and financial performance, having a positive and significant influence especially. Therefore, this indicates that the implementation of GCG is very important in improving bank financial performance.*

KEYWORD: *Good Corporate Governance, Financial Performance, Bank Risk Management, Intellectual Capital*

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I. INTRODUCTION

The big involvement in the economy of the country force bank to be strong institution, but are very vulnerable to risk (Pradipta Rata et al., 2019). The bank is expected to continue to monitor factors that are able to lead to create risk both micro and macro in order to avoid bankruptcy which also influenced the economic crisis such as in 1997-1998, so the implementation of risk management is very important in a banking institution. Iramani et al., (2018) also enhanced that the IMF concluded that the economic crisis in Asia in 1998 occurred due to poor corporate governance mechanisms or Good Corporate Governance (GCG). Since then, GCG has become a priority in economic policy in a country, therefore nowadays every company is obliged to implement GCG in running its business.

Ownership structure, board of directors and independent commissioners are important indicators of GCG in banking with the the purpose of monitoring the company's performance so that it can continue to improve. The implementation of this GCG mechanism also becomes an instrument for banks to perform their responsibilities in conveying accurate and correct information to all stakeholders at the proper time (Tulung & Ramdani, 2018).

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The Basel Committee on Banking Supervision in Iramani et al., (2018) claimed that if GCG in a bank is bad it will enervate its financial condition. Based on these statements, it can be concluded that the implementation of GCG mechanisms in a bank is very important to maximize banking financial performance. There are mediating or intervening variables whose aim is to connect GCG variables to financial performance, which is called as banking risk management.

There are numerous risks that many banking institutions deal with, such as liquidity risk, credit risk, capital and operational risks which are also used in this research. Permatasari, (2020) said credit risk occurs if debtors or customers are unable to pay their loans, this risk that will always exist in the banking business. Then liquidity risk is the risk that arises if the bank cannot pay off its debts using the cash flow it has. Operational risk

occurs due to system errors, human error, or external events that can affect banking operational activities. Meanwhile, capital risk is a risk that arises due to the bank's inability to manage capital so that it continues to be sufficient to operate its business (Setiawaty, 2016).

Researchers also attach a moderating variable in this research, which is the intellectual capital (IC) variable. Brooking (1996) in Susanti et al., (2020) defines IC as a combination of a collection of intangible assets such as markets, infrastructure, human resources and intellectual property that are used in operating the company. The role of the IC variable in this research is to be a factor that strengthens or weakens the relationship between GCG and financial performance. Apart from that, the preference of banking object is considered very appropriate because banks are companies that are very susceptible to risk so they need to be managed well by company managers and shareholders so they can maximize performance.

Based on this background explanation, the researcher chose the title "The Influence of Good Corporate Governance on Financial Performance with Bank Risk Management as a Mediating Variable and Intellectual Capital as a Moderating Variable in Commercial Banks listed on the BEI".

II. LITERATURE REVIEW

2.1 Good Corporate Governance

Aggarwal (2013) stated that one of the main keys to implementing GCG mechanisms in the banking sector is the board of directors. The board of directors is an instrument to diminish agency problems that can occur between principals and upper level management, therefore that the board of directors is provided the trust to make decisions that are in accordance with the company's interests (Isik & Riza Ince, 2016).

2.2 Bank Risk

According to the *Otoritas Jasa Keuangan* (Financial Service Authority), (2016) in OJK Regulation no. 18/POJK.03/2016 risk is the opportunity for loss due to a certain event and the implementation of risk management is an instrument that can be applied to monitor, assess, control and identify risks that arise from all bank business activities. Risk management is also an indicator for measuring the health level of commercial banks. Pradipta Rata et al., (2019) mentioned that the implementation of risk management can be managed well if banks implement effective GCG in their businesses. The existence of GCG can enhance investor confidence in banks because if the risk is low, meaning the company's environment is favorable, thus they will invest their funds in the bank (Yuliani & Fithria, 2022).

2.3 Financial Performance

Bastomi et al., (2017) justified that if the implementation of GCG and bank risk management is poor, it will lead to bankruptcy thus that Bank Indonesia as the central bank has issued a decision regarding the importance of assessing risk, GCG, profitability and capital which have an influence on the level of bank health.

2.4 Intellectual Capital

Nawaz Khan & Ali, (2018) mentioned that according to the OECD (OECD, 2006) that reporting, measuring and managing intellectual assets is closely related to GCG mechanisms, which consist of monitoring risk policies, accountability and reporting to shareholders, board strategy and supervise the performance of top-level management. Besides that, if the management of intellectual capital is optimal, it will provide protection for the disciplinary rights of the board and management as well as minority shareholders so that the company's performance escalates.

III. RESEARCH METHOD AND MATERIALS

3.1 The development of research hypothesis

Several research hypothesis are developed as below,

3.1.1 The Influence of Good Corporate Governance to Bank Risk Management

Permatasari's research results (2020) implies that the implementation of GCG can provide influence on bank risk management such as liquidity, operational and credit risks. Thus, the following hypothesis is proposed;

H1: Good corporate governance has a positive effect on bank risk management.

3.1.2 The Influence of Good Corporate Governance to Financial Performance

Paulina et al., (2020) corporate governance mechanisms are the influence of supplementary financial performance in banking which is diverged into two, such as external (institutional ownership) and internal. Therefore, the following hypothesis is proposed;

H2: Good corporate governance has a positive effect on financial performance.

3.1.3 The Influence of Bank Risk Management to Financial Performance

Implementing risk management leads to better control risk, banks can explore more opportunities, strengthen relationships with stakeholders in order to increase the bank's reputation, and protect management and directors in managing the company (Bastomi et al., 2017). Hence, the following hypothesis is proposed;
H3: Bank Risk Management has positive effect to Financial Performance

3.1.4 The Influence of Bank Risk Management Mediates The Relationship Between Good Corporate Governance and Financial Performance

The implementation of risk management in the banking industry is closely related to the implementation of GCG, this is based on theory which explains that the correlation between GCG and banking financial performance can be influenced by risk management (Paulina et al., 2020). Thus, the following hypothesis is proposed;
H4: Risk management is able to mediate the relationship between good corporate governance and financial performance

3.1.5 The Influence of Intellectual Capital Mediates The Relationship Between Good Corporate Governance and Financial Performance

Mardan et al., (2021) said that due to there are many differences regarding the relationship between GCG and financial performance, the intellectual capital variable can be added and the results of his research stated that GCG can enhance business productivity with the presence of high intellectual resources. So the following hypothesis is proposed:
H5: Intellectual capital is able to moderate the relationship between GCG and financial performance

3.2 Research Model

The research model as below:

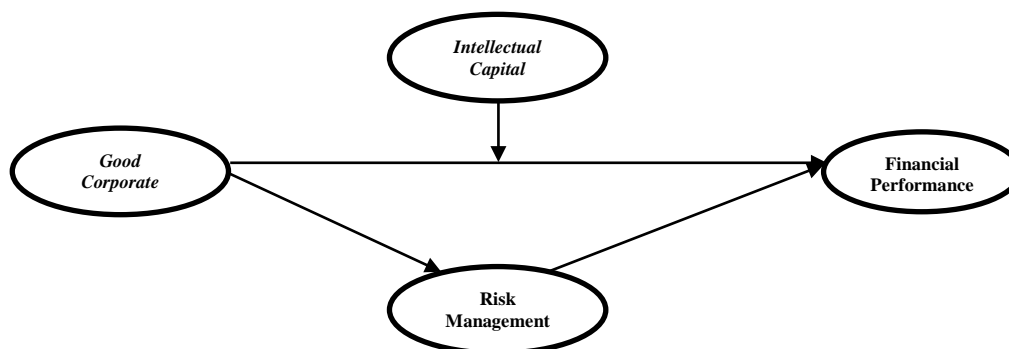


Figure 3.1. Research Model

3.3 Definition of Operational

3.3.1 Variables

The dependent variable in this research is financial performance which is assessed using profitability ratios. In this research, financial performance is measured using ROA (Return on Assets), ROE (Return on Equity), and NIM (Net Interest Margin). The independent, mediating, and moderating variable in this research is the mechanism for implementing GCG, bank risk management, and IC sequentially.

3.3.2 Population and Sample

This research will focus on the High-IC Intensive Industry sector. The population is service companies in the financial sector with an observation period of 2016-2020. Commercial Banks listed on the IDX are the companies chosen to be the object of this research.

IV. RESULT AND DISCUSSION

4.1 Descriptive Analysis

Based on table 4.1, it is shown that there are 4 indicators for questions on the GCG variable. It is discovered that indicator X1.1 is the lowest indicator answer mean, namely 0.24, while the indicator X1.3 is the highest average indicator answer, namely 7.87.

	Mean	Min	Max	Standard Deviation
X1.1	0.24	-0.70	2.60	1.27
X1.2	2.28	-0.70	4.60	1.30
X1.3	7.87	3.00	17.00	2.91
X1.4	0.64	-0.10	2.80	0.91

It is depicted there are 3 question indicators according to table 4.2 on the financial performance variable. It is found that the lowest mean indicator answer was indicator Y1.1, which was worth 1.35, while indicator Y1.2 was the highest mean answer indicator, which was worth 7.05.

	Mean	Min	Max	Standard Deviation
Y1.1	1.35	-11.15	7.96	1.96
Y1.2	7.05	-64.14	23.08	11.31
Y1.3	4.98	0.47	9.30	1.65

In the bank risk management variable based on table 4.3, it is drawn there are 4 question indicators. It is found that the lowest mean indicator answer was for the Z1.1 indicator, which was worth 2.14, while the highest mean answer for the indicator was for the Z1.4 indicator, worth 85.89. There are descriptive statistics for the intellectual capital variable.

	Mean	Min	Max	Standard Deviation
Z1.1	2.14	0.00	6.37	1.53
Z1.2	3.03	2.36	3.82	0.26
Z1.3	4.42	3.67	4.91	0.18
Z1.4	85.89	25.70	235.20	23.95

Based on table 4.4 on the Intellectual capital variable, it is acknowledged that the minimum Intellectual Capital score is -14.54 and the maximum score is 8.29. The mean of the Intellectual capital variable is 3.57 with a standard deviation of 2.60.

	Mean	Min	Max	Standard Deviation
Z2.1	3.57	-14.54	8.29	2.60

4.2 Model

4.2.1 Convergent Validity

The measurement results using SmartPLS depicts correlation numbers between constructs and variables, proving that there are still invalid indicators, namely in the GCG variables indicators X1.1 and model. The following are the results of the validity test after removing invalid indicators.

Variable	Indicator	Outer Loading	Validity
Good Corporate Governance	X1.3	0.906	Valid
	X1.4	0.627	Valid

Financial Performance	Y1.1	0.967	Valid
	Y1.2	0.962	Valid
	Y1.3	0.637	Valid
Bank Risk Management	Z1.1	0.757	Valid
	Z1.4	0.919	Valid
Intellectual Capital	Z2.1	1.000	Valid

The correlation figure between the construct and the variables proves that the overall loading factor figure exceeds 0.6, so the construct for each variable is valid in the model. The results are:

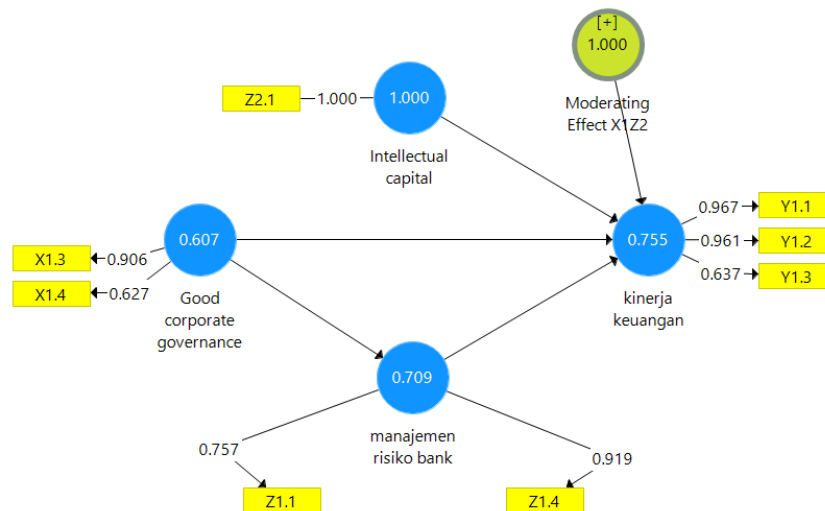


Figure 4.2 Outer Structural Model

According to figure 4.2 and table 4.5, it shows that all loading factors have a value of > 0.60. Thus, the convergent validity test generates valid indications for all variables. After searching at the convergent validity values, all the outer loading figures have exceeded 0.60 so they are in accordance with the convergent validity requirements. The details as follows,

1. The dominant indicator for the GCG variable is X1.3 with a value of 0.906, which is the Board of Directors of Commercial Banks listed on the IDX. Another indicator is X1.4 with a value of 0.627, which is called as Independent Commissioner at a Commercial Bank listed on the IDX. This confirms that each independent variable (X) has a score exceeding 0.50 and reaches the convergent requirements.
2. The dominant indicator for the Financial Performance (Y) variable is the Y1.1 indicator with a value of 0.967, which is ROA in commercial banks listed on the IDX. Meanwhile, the lowest indicator is Y1.3 with a value of 0.637, which is called as NIM in influencing the financial performance of commercial banks listed on the IDX. This indicates that each dependent (Y) score exceeds 0.50 and achieves the convergent requirements.
3. The dominant indicator for the Bank Risk Management variable is the Z1.4 indicator with a value of 0.919 is BOPO in commercial banks listed on the IDX. Otherwise, another indicator is Z1.1 with a value of 0.757, which is NPL in influencing bank risk management in commercial banks listed on the IDX. This denotes that each mediating variable (Z1) has a score exceeding 0.50 and reaches the convergent requirements.

4.2.2 Discriminant Validity

The result of discriminant validity with AVE value, as shown in Table 4.6

Variable	Average Variance Extracted (AVE)
Good Corporate Governance	0.607
Intellectual Capital	1.000

Financial Management	0.755
Bank Risk Management	0.709

Overall, every variable has an AVE number > 0.5, hence it is said that variables are valid. The assessment results can be shown in the table below.

Table 4.7 Fornell-Larcker Criterion Among Variables

	Good Corporate Governance	Intellectual Capital	Financial Management	Bank Risk Management
Good Corporate Governance	0.779			
Intellectual Capital	0.302	1.000		
Financial Management	0.444	0.873	0.869	
Bank Risk Management	-0.454	-0.726	-0.770	0.842

Table 4.8. Cross Loading Between Latent Variable and Indicator

	Good Corporate Governance	Intellectual Capital	Financial Management	Bank Risk Management
X1.3	0.906	0.392	-0.472	0.269
X1.4	0.627	0.297	-0.175	0.198
Y1.1	0.420	0.967	-0.772	0.887
Y1.2	0.388	0.961	-0.780	0.886
Y1.3	0.387	0.637	-0.339	0.356
Z1.1	-0.390	-0.402	0.757	-0.301
Z1.4	-0.390	-0.817	0.919	-0.817
Z2.1	0.302	0.873	-0.726	1.000

According to these results, if the number of an indicator is greater, it can be assumed that all the indicators used have good discriminant validity in the formation of each variable.

4.2.3 Reliability Test

The reliability test result by can be carried out by Cronbach's Alpha and composite reliability value as follows,

Table 4.9. Reliability Testing

Variable	Cronbach's Alpha	Composite Reliability	Rule of Thumb	Reliability
Good Corporate Governance	0.785	0.749	> 0.70	Reliable
Intellectual Capital	1.000	1.000		Reliable
Financial Management	0.835	0.900		Reliable
Bank Risk Management	0.710	0.829		Reliable

According to this table 4.9, it can be concluded that the constructs for all variables comply with the reliable provisions considering the composite reliability and Cronbach's Alpha obtained from the SmartPLS estimation results obtained are > 0.70 as recommended.

4.3 Structural Model or Inner Model

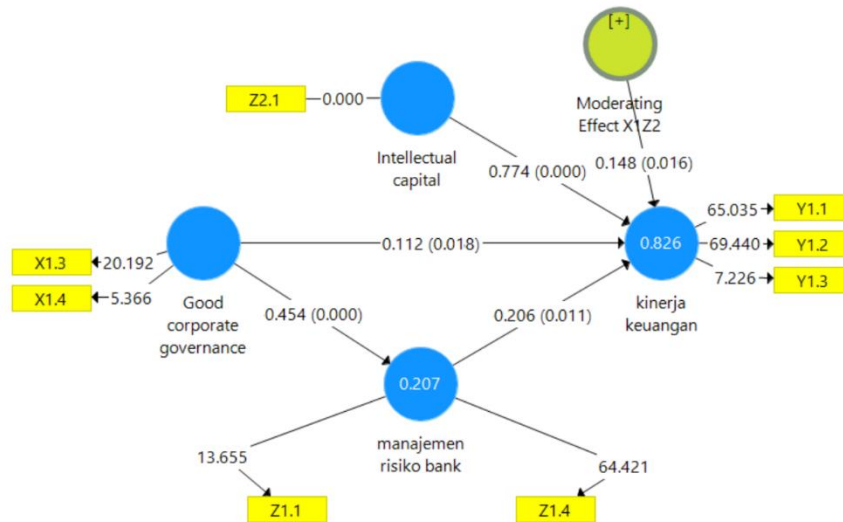


Figure 4.4 Inner Structural Model

Using R-square in the dependent construct of the t-test and the significance of the structural route coefficient, the structural model is evaluated. The evaluation of the model using PLS, R-square and Q-square is required, so that each of the dependent latent variables is checked first. Table 4.10 displays the results of SmartPLS R-square and Q-square estimates.

Variable	R Square	Q Square
Bank Risk Management	0,207	0,146
Financial Performance	0,826	0,556

The table displays that GCG variables can explain bank risk management variables with a level of 20.7%. While, intellectual capital variables can elaborate financial performance variables at a level of 82.6%. The Q Square value for the financial performance bank risk management variable are 0.556 and the 0.146 sequentially, those value exceeds 0, thus proving that the model has predictive relevance.

Variabel	Indikator	VIF
Good corporate governance	X1.3	1.060
	X1.4	1.060
Financial Performance	Y1.1	2.665
	Y1.2	2.443
	Y1.3	1.326
Bank Risk Management	Z1.1	1.239
	Z1.4	1.239
Intellectual capital	Z2.1	1.000

Based on this table, it is known that all variables have a VIF number below 3, meaning they fulfill the multicollinearity assumption.

4.4 Hypothesis Testing

The research hypothesis can be accepted if the t-statistic number is > 1.96 and is declared significant if the p value is < 0.05. However, the hypothesis will be rejected if the t-statistic < 1.96 and p-values > 0.05.

Table 4.12. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Good Corporate Governance -> Bank Risk Management	0.454	0.468	0.055	8.329	0.000
Good Corporate Governance -> Financial Performance	0.112	0.127	0.075	2.495	0.018
Manajemen risiko bank -> Financial Performance	0.206	0.200	0.089	2.313	0.011
Good corporate governance -> Bank Risk Management -> Financial Performance	0.094	0.092	0.040	2.375	0.009
Moderating Effect X1Z2 -> Financial Performance	0.148	0.164	0.113	2.307	0.016

After the model test is carried out both for its validity and reliability, the next stage is hypothesis testing. The hypothesis test stage will analyze the influence of free variables on bound variables and analyze the degree of significance of the influence that occurs between variables. The hypothesis test here is carried out using the bootstrapping method with a significance level of 5%, meaning that the test will be carried out by reviewing t-count or t-statistical values and p values.

Based on table 4.12, the influence of independent variable to the dependent is able to be elaborated as follows,

1. The coefficient of the original sample parameter for the GCG variable (X) on bank risk management (Z1) is 0.454. This means that a one unit increase in X can increase Z1 by 45.4%. From the results of calculations through resampling or bootstrapping, it shows that there is a significant influence, where the t-statistics number = $8.329 > 1.96$ and $p\text{-value} = 0.000 < 0.05$, then the hypothesis can be accepted or the GCG variable (X) is positively significant and has an influence on bank risk management (Z1) statistically. It is in accordance with hypothesis 1. (H1 Accepted).
2. The coefficient of the original sample parameter for the GCG variable (X) on financial performance (Y) is 0.112. This means that an increase in one unit of X can increase Y by 11.2%. According to measurements using resampling or bootstrap, it discovers that there is a significant influence, where the t-statistics number = $2.495 < 1.96$ and $p\text{-value} = 0.018 < 0.05$. Therefore, the hypothesis can be accepted or have a positively significant GCG variable (X) that has an influence on financial performance (Y). Therefore, it is in accordance with hypothesis 2. (H2 Accepted).
3. The coefficient of the original sample parameter of the bank risk management variable (Z1) on the financial performance variable (Y) is 0.206. This means that a one unit increase in Z(1) will increase Y by 20.6%. According to the computation results through resampling or bootstrap, it shows that there is a significant influence, where the $p\text{-value} = 0.011 < 0.05$ and $t\text{-statistics} = 2.313 > 1.96$ p. Thus, the hypothesis can be accepted or has a positive and significant influence on financial performance (Y). It is in accordance with hypothesis 3. (H3 Accepted).
4. The coefficient of the parameter through risk management (Z1) for the indirect relationship between GCG variables (X) and financial performance (Y) is 0.094. This means that a unit increase in X can maximize Y through Z1 worth 9.4%. According to the results of calculations using resampling or bootstrap, it displays that there is a significant influence, where the $p\text{-value} = 0.009 < 0.05$ and $t\text{-statistics} = 2.375 < 1.96$. Thus, the hypothesis can be accepted or GCG significantly influences financial performance through risk management. It is in accordance with hypothesis 4. (H4 Accepted).
5. The coefficient of the original sample parameter for the relationship between the GCG variable (X) and financial performance (Y) which is moderated by the intellectual capital variable (Z2) is 0.148. This means that a one unit increase in X can increase Y moderated by Z2 with a score of 14.8%. Based on computations using bootstrapping or resampling, it shows that there is a significant influence, where the $p\text{-value} = 0.016 < 0.05$ and $t\text{-statistics} = 2.307 < 1.96$. Hence, the hypothesis can be accepted or the GCG variable significantly influences financial performance which is moderated by intellectual capital (Z2). Therefore, it is in accordance with hypothesis 5. (H5 Accepted).

4.5. Discussion

4.5.1 The influence of GCG on bank risk management

This validates that the implementation of GCG mechanisms is very important in a company, especially in the banking sector because banks are companies that are very vulnerable to the risk, thus they require to be managed well to avert bankruptcy. Regulations regarding the obligation to implement GCG in all commercial banks are issued by Bank Indonesia as the banking regulator in Indonesia, called as BI Regulation No. 8/4/PBI/2006 in running its business. Indicators of independent commissioners and boards of directors as the main factors in improving bank risk management in this research.

4.5.2 The Influence of Good Corporate Governance on Financial Performance

Banking financial performance which is influenced by GCG is divided into two mechanisms, which are internal and external, where in this research the one proven to have an influence on financial performance is the board of directors. A significant task of the board of directors is monitoring, such as checking the agent's attitude in line with shareholder goals, then advising, or called as providing advice and direction to managers in running the company's business. This is appropriate with research by Arora & Sharma (2016), that increasing the number of members of the board of directors will result in better intellectual knowledge, which will later have an influence in making decisions and improving financial performance.

4.5.3 The Influence of Bank Risk Management on Financial Performance

The aim of implementing risk management is therefore that the bank can control possible risks that may occur in order to explore more opportunities and strengthen relationships with stakeholders so that the bank's reputation can continue to escalate and protect the board of directors and management in managing the company. This is in line with research by Hunjra et al., (2022), namely that credit and operational risks must be managed and minimized properly for the benefit of all stakeholders, especially policies for credit risk management to avoid bad credit which will of course affect the bank's financial performance.

4.5.4 The influence of bank risk management which mediates the relationship between GCG and financial performance

Banks are an industry that is very vulnerable to risk because almost all bank capital comes from customers which is then distributed through credit, hence Bank Indonesia issued regulations regarding the obligation to implement GCG mechanisms to prevent bankruptcy. This is corresponded with the results of research by Rahayu & Utiyati (2018), which is that bank risk management mediates the positive relationship between GCG and financial performance.

4.5.5 The influence of intellectual capital which moderates the relationship between GCG and financial performance

The organization has capability to manage its resources, and it can be called as intellectual capital, so the company will obtain a competitive advantage. Banks are service companies that rely heavily on their human capital so that they can continue to have innovation in serving their customers optimally. The conclusion can be drawn that the bank is high-IC intensive. If top management can maximize these resources well, it will have an impact on the financial performance of the bank itself. This is strengthened with the results of research by Pratiwi & Chariri (2021), namely that the company's goal of increasing profits can be achieved if management is able to manage its resources, namely intellectual capital.

V. CONCLUSION

Based on the results of the analysis and discussion in Chapter IV, the following conclusions can be drawn;

1. GCG with indicators from the Board of Directors and Independent Commissioners has a significant positive effect on bank risk management in commercial banks listed on the IDX during the 2016-2020 period. This indicates that the existence of a board of directors as company managers who are also assisted by independent commissioners is very important in banking sector companies because of the power they have in making policies regarding bank risk management. Therefore, the larger the size of the board of directors and independent commissioners, the better the implementation of bank risk management.
2. GCG with indicators from the Board of Directors and Independent Commissioners has a significant positive effect on the financial performance of commercial banks listed on the IDX during the 2016-2020 period. This shows that their role as top management who has responsibility for making every decision in accordance with the interests of shareholders has a good effect on improving financial performance.

3. Bank risk management with NPL and BOPO indicators has a positive effect on the financial performance of commercial banks listed on the IDX during the 2016-2020 period. The lower these risks, the higher the profits obtained by the bank. This means that if credit risk and operational risk can be controlled well, the bank's financial performance will upgrade.
4. Bank risk management is able to mediate the relationship between GCG and financial performance in commercial banks listed on the IDX for the 2016-2020 period. This means that if GCG, which is proxied by the board of directors and independent commissioners, is able to control bank risks well, it will impact the bank's financial performance.
5. Intellectual capital as a moderating variable influences financial performance and its capability to moderate the relationship between GCG and financial performance in commercial banks listed on the IDX for the 2016-2020 period. This means that the combination of GCG and intellectual capital can improve the bank's financial performance.

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