



Integration of Corporate Governance, Financial Risk, and Digital Transformation on Bank Performance

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Abstract

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This study aims to analyze the relationship between Good Corporate Governance, financial risk, and digital transformation on banking performance. The approach used is Systematic Literature Review with a narrative method based on the literature review of the last five years. The results of the analysis show that Good Corporate Governance has a positive influence on bank performance through increased transparency, accountability, and supervisory effectiveness. Financial risks are found to have a negative impact on profitability if not managed properly. Digital transformation plays a role as a mediating variable that strengthens the influence of Good Corporate Governance on performance and reduces financial risk through automation and data-based information systems. The integration of these three variables forms a modern banking governance model that is adaptive to technological disruption and market changes. This study confirms the importance of synergy between governance, risk management, and digitalization to improve the competitiveness and stability of financial institutions in the digital age.



1. Introduction

The modern banking industry has an important role in maintaining global economic stability. However, during the 2018–2022 period, banks faced significant pressure due to technological disruptions, regulatory changes, and increased exposure to financial risks. In the midst of digital transformation and global challenges, good corporate governance practices (GCG) are the main pillars to maintain the trust and financial performance of banking institutions (Anginer et al., 2018). The rapid development of the digital financial system has given rise to new needs in the application of the principles of transparency, accountability, and social responsibility in financial institutions (Situmorang & Kurniawan, 2021). Therefore, understanding the relationship between GCG, financial risk, and digital transformation is key in measuring the success of contemporary banking performance.

GCG practices have been proven to be able to suppress conflicts of interest between management and shareholders, thereby increasing the efficiency and profitability of financial institutions (Anginer et al., 2018). However, the implementation of inconsistent governance can magnify potential financial risks such as credit, market, and liquidity risks. Previous research has shown that GCG plays a significant role in risk control, but the results have not always been consistent across various economic contexts (Singh et al., 2021). This condition indicates that the relationship between GCG and financial risk has not been fully stable, especially in the banking sector which is experiencing an acceleration of digitalization.

Along with the development of financial technology (fintech), banks are faced with new opportunities and challenges in financial risk management. Digitalization improves operational efficiency, expands customer base, and opens access to financial service innovation. However, on the other hand, digitalization also increases exposure to cyber risks, system dependencies, and reputational risks (Owusu Kwateng et al., 2020). Research shows that banks that strategically adopt financial technology are able to increase efficiency and profitability provided that their governance and risk management are effective (Ozili, 2018). This emphasizes the importance of digital transformation as a determining factor in the relationship between governance and financial performance of banks.

In the context of theory, agency theory explains that a good GCG structure will reduce information asymmetry and improve the quality of managerial decisions (Anginer et al., 2018). Meanwhile, risk management theory highlights the importance of an efficient control system to reduce potential losses due to financial risks (Singh et al., 2021). These two theories are expanded with a Technology–Organization–Environment (TOE) approach that places digitalization as a catalyst that strengthens the role of GCG and risk management in improving bank performance (Situmorang & Kurniawan, 2021). Thus, digital transformation can serve as a mediating variable that bridges the relationship between GCG and financial risk to banking performance (Owusu Kwateng et al., 2020).

Although a number of studies have examined the influence of GCG and financial risk on banking performance (Ekadjaja & Ekadjaja, 2020), research that places digital transformation as a mediating variable is still limited. Most previous

research has focused on the direct influence between variables, without considering how digital innovation strengthens governance and risk mitigation in increasing bank profitability (Ozili, 2018). This gap provides room for further research that examines the integration of these three aspects simultaneously, especially in the post-pandemic era that drives digital adoption in the global financial system (Situmorang & Kurniawan, 2021).

Therefore, this study aims to analyze the influence of Good Corporate Governance and Financial Risk on Banking Performance, with Digital Transformation as a mediating variable. This study is expected to make a theoretical contribution by expanding the application of agency theory and risk management in the context of digital banking, as well as a practical contribution by helping banks design effective digital governance strategies to maintain stability and profitability in the midst of evolving technological dynamics.

2. Literature Review

2.1 Good Corporate Governance and Banking Performance

Good Corporate Governance (GCG) is a supervision and control mechanism to ensure that banks are managed in a transparent, accountable, and oriented manner to the interests of shareholders and customers. GCG principles in banking include fairness, responsibility, and transparency in strategic decision-making. In the context of agency theory, GCG plays a role in reducing conflicts of interest between management and capital owners, thereby increasing resource management efficiency and market trust (Anginer et al., 2018). Good GCG implementation contributes to

increasing the profitability, reputation, and financial stability of banking institutions (Ekadjaja & Ekadjaja, 2020).

However, the implementation of GCG is often faced with obstacles such as weak internal supervision, information asymmetry, and lack of compliance with new digital governance principles. In the era of digitalization, the concept of GCG needs to be adapted to technological changes that demand data transparency and cyber risk governance. Situmorang and Kurniawan (2021) stated that digital governance is now a new dimension of modern GCG because it functions to maintain the integrity and security of the technology-based financial system. Therefore, the success of banking in the digital era is highly dependent on management's ability to effectively integrate GCG principles with technological innovation strategies.

2.2 Financial Risk and Bank Stability

Financial risks include credit, market, liquidity, and operational risks that can affect the performance and sustainability of banking institutions. Banks as high-risk financial institutions must have a strong internal control system in order to identify and manage potential losses effectively. Singh et al. (2021) affirm that efficient risk management can reduce the negative impact of economic volatility on profitability. Meanwhile, Ozili (2018) shows that the efficiency of risk management also affects the competitiveness of banks in facing digital transformation and fintech integration.

The relationship between financial risk and bank performance is dynamic and depends on the level of readiness of the organization in implementing technology-based supervision systems. Research by Owusu Kwateng et al. (2020) found that digital banking is able to increase the effectiveness of risk management through the

automation of transaction monitoring and control processes. Thus, digital transformation not only expands the range of services, but also enhances risk mitigation capabilities in real-time. Banks that are able to proactively manage financial risks with the support of digital infrastructure will be more stable and adaptive to changes in the global financial environment.

2.3 Digital Transformation as a Mediator

Digital transformation is a key catalyst that changes the operating patterns and risk management structures of banks. The application of financial technology, big data analytics, and process automation allows for increased efficiency, reduced operational costs, and strengthened financial governance. Situmorang and Kurniawan (2021) emphasized that digital adoption in the banking sector strengthens transparency and accelerates responses to systemic risks. In addition, Owusu Kwateng et al. (2020) stated that digitalization can strengthen the positive effects of GCG on bank performance by creating a more measurable supervisory system.

On the other hand, digital transformation also acts as a mediator that connects governance practices and financial risks to bank performance (Ozili, 2018). This mechanism occurs because digitalization improves operational efficiency and the accuracy of data used in decision-making. Thus, digital transformation is not only a technological instrument, but also a managerial strategy that bridges the relationship between GCG and financial risks to bank profitability. The integration of technological aspects in the governance and risk management framework makes

digital banking a determining factor for the competitive advantage of modern banking.

3. Methods

This study uses a narrative study approach with the Systematic Literature Review (SLR) method as the basis for data collection and analysis. The main objective of this method is to identify, assess, and synthesize various empirical findings related to the influence of Good Corporate Governance (GCG) and Financial Risk on Banking Performance with Digital Transformation as a mediating variable. This approach was chosen because it was able to provide an in-depth understanding of the patterns of relationships between variables from various previous research contexts without conducting direct statistical tests.

The stages of implementing SLR are carried out systematically. First, a literature search was conducted through databases such as Google Scholar, Elsevier, and Taylor & Francis with a time span of the last five years. Selected articles must meet the criteria: (1) focus on the banking sector, (2) address at least two of the three main variables of the research, and (3) be published in a reputable accredited or international journal. The second stage is the screening and eligibility process to ensure the relevance of the content of the article to the topic. Furthermore, data extraction was carried out by grouping the findings into major themes such as the role of GCG on performance, the influence of financial risk on profitability, and the contribution of digital transformation in mediating both.

The analysis was carried out with a descriptive narrative approach. Each literature is reviewed based on the theoretical framework, empirical results, and the underlying economic context. The results of the synthesis from various sources are then used to construct a conceptual model that explains the causal relationships between variables in the context of modern banking. This model illustrates that good GCG implementation and effective financial risk management can improve banking performance, both directly and through digital transformation mechanisms as a mediating variable.

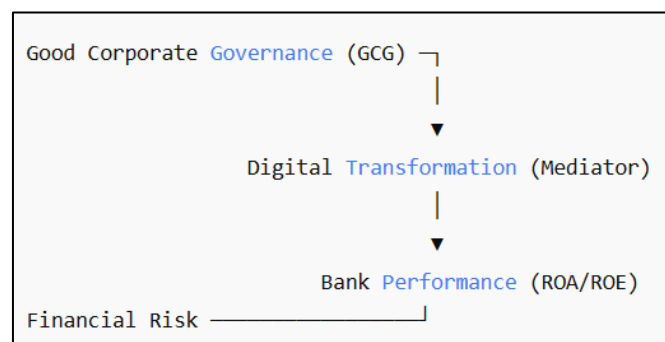


Figure.1 Conceptual Framework

The framework illustrates that Good Corporate Governance and Financial Risk directly influence Bank Performance, while Digital Transformation acts as a mediating variable. Strong governance practices enhance decision-making and control mechanisms, while effective risk management minimizes exposure to losses. The presence of digital transformation strengthens both processes by improving

transparency, efficiency, and adaptability leading to improved financial performance and stability.

4. Results

The results of the literature review show that the integration between Good Corporate Governance (GCG), financial risk management, and digital transformation has a significant influence on banking performance in various countries, especially in the post-pandemic context and the acceleration of financial sector digitalization. Based on the results of the synthesis of research over the last five years, it was found that the three variables are interrelated in shaping the competitiveness, stability, and profitability of banking institutions. In general, GCG acts as an internal control mechanism that strengthens financial risk management, while digital transformation functions as a mediating factor that increases the effectiveness of governance and operational efficiency of banks (Anginer et al., 2018).

Research by Anginer et al. (2018) confirms that the application of GCG principles, especially transparency and accountability, can reduce the risk of moral hazard and increase the financial stability of banks. They also found that strong governance practices are able to minimize credit risk and liquidity risk through more effective internal supervision. In a similar context, Ekadjaja and Ekadjaja (2020) show that GCG has a positive effect on banking performance in Indonesia, especially through increasing public trust and the effectiveness of the supervisory function of the board of commissioners. However, the study also notes that the

relationship between GCG and performance is often indirect, as it is influenced by intermediary factors such as operational efficiency and market conditions.

In addition to governance, financial risk is the most determining factor for the stability and sustainability of bank performance. Singh et al. (2021) explain that credit, market, and liquidity risks have a negative relationship with bank profitability if not managed optimally. In turbulent economic conditions, banks' ability to anticipate risk fluctuations determines the resilience of institutions. The results of Ozili's (2018) research also reinforce this view by emphasizing that technology-based risk management can increase banks' resilience to market changes. Banks that utilize digital financial information systems can detect potential risks more quickly and take corrective actions efficiently, thereby maintaining their financial stability.

Digital transformation has proven to play an important role in strengthening the relationship between GCG, financial risk, and bank performance. According to Owusu Kwateng et al. (2020), the implementation of digital banking has changed the way banks manage risk and increase profitability. Digital technology enables increased cost efficiency, transaction acceleration, and expansion of financial services across geographical boundaries. The results of Situmorang and Kurniawan's (2021) research also show that digitalization strengthens corporate governance through increased transparency and data-based accountability. In this model, digital transformation becomes a mediator that bridges the governance system and financial performance outcomes, with a significant effect on efficiency and long-term sustainability.

Research by Tsindeliani et al. (2022) expands this concept by highlighting the influence of digitalization on the Environmental, Social, and Governance (ESG) performance of banks. They found that the adoption of digital technology improves operational efficiency while strengthening sustainability reporting, which ultimately positively impacts the bank's reputation and market value. These findings show that digital transformation is not only relevant in the economic context, but also in building governance that is oriented towards social and environmental values. Meanwhile, the study of Wu et al. (2019) adds a new dimension by highlighting the adoption of blockchain technology in financial governance systems. Blockchain is considered a digital instrument that can improve the quality of accounting information, reduce the risk of data manipulation, and strengthen the integrity of bank financial statements.

On the other hand, the results of the research of Napitupulu et al. (2020) shows that the integration between digital transformation and governance, risk management, and compliance (GRC) is the key to improving the performance of banks in developing countries. They emphasized that without synchronization between the three elements, digitalization only generates technical efficiencies without having a significant impact on profitability. This is in line with the research of Grove et al. (2018) which found that the success of banking digitalization is highly dependent on the readiness of the governance structure and the quality of risk management implemented. GCG that is adaptive to digital innovation will create a banking system that is more resilient and able to compete in the global market.

In a regional context, Zahrawani and Sholikhah's (2021) research strengthens cross-border evidence that GCG has a positive effect on bank performance through effective supervisory mechanisms and ethical organizational culture. They also highlighted that the influence of GCG on performance will be stronger when supported by a transparent and adaptive information technology system. Thus, digitalization can be considered a catalyst in strengthening the relationship between governance and banking financial performance outcomes. The integration between GCG, financial risk, and digital transformation creates strategic synergies that support sustainable growth and strengthen investor confidence.

Based on the overall findings of the literature, it can be concluded that Good Corporate Governance has a direct positive influence on bank performance and an indirect influence through digital transformation. Financial risks have a negative effect on bank performance, but their impact can be minimized through good governance and the application of digital technology. Digital transformation functions as a mediating variable that strengthens the influence of GCG on performance and weakens the negative impact of financial risks. This model shows that the success of modern banking depends not only on management's ability to manage risk, but also on the organization's capacity to adapt to technological changes.

The research synthesis also confirms that the banking sector that has successfully digitized has a competitive advantage compared to conventional institutions. This is due to their ability to integrate data-based GCG systems with automated risk monitoring. For example, technology-based audit systems allow for

real-time monitoring of transactions, thereby minimizing the possibility of irregularities and strengthening organizational integrity (Owusu Kwateng et al., 2020). In addition, banks that utilize fintech collaboration and big data analytics are better able to respond to market needs and maintain customer confidence. Thus, digitalization not only changes the way banks operate, but also expands the meaning of governance and risk management in the context of the industrial era 4.0.

Although most of the research results support the positive relationship between GCG and digital transformation on bank performance, there are still some limitations. Several studies have found that digitalization does not always result in increased profitability if it is not accompanied by adequate human resource and infrastructure readiness (Singh et al., 2021). In addition, the inconsistency of digital reporting regulations and standards in several countries is also an obstacle to the effectiveness of digital governance. Therefore, a more comprehensive approach is needed that includes technological, organizational, and environmental aspects as described in the TOE framework. With this approach, the integration between GCG, risk management, and digital transformation can be carried out holistically to drive growth and stability in the banking sector.

Based on the overall, the findings of the research support the conceptual model that Good Corporate Governance and Financial Risk have a significant influence on Banking Performance, with Digital Transformation acting as a mediating variable that strengthens or weakens the relationship between variables. This is in line with agency theory and risk management theory that emphasize the importance of effective governance and adaptive control systems. These findings

also provide an empirical basis that the success of digital transformation in the banking sector depends not only on technological innovation, but also on the integrity and capacity of the underlying governance.

5. Discussion

The results of the study show that the relationship between Good Corporate Governance (GCG), financial risk, and digital transformation is complementary in improving banking performance. These findings confirm that GCG serves as the main foundation in risk control and strategic decision-making. Banks that implement governance with the principles of transparency, accountability, and fairness are able to create a more effective risk management system. Ekadjaja and Ekadjaja (2020) show that the implementation of GCG strengthens investor confidence and reduces the possibility of moral hazard, so that profitability and stability increase significantly. These findings are consistent with agency theory that emphasizes the importance of governance in suppressing conflicts of interest between management and shareholders.

However, the literature findings also show that financial risk remains the dominant factor influencing bank performance. Singh et al. (2021) emphasized that credit, liquidity, and operational risks can reduce profitability if not balanced with an adequate control system. In this context, digital transformation plays an important role in minimizing the impact of these risks. Owusu Kwateng et al. (2020) found that digital banking is able to strengthen internal supervisory mechanisms and accelerate responses to market changes. Situmorang and Kurniawan (2021) also

added that financial technology strengthens GCG principles through automated audit systems and real-time reporting, which ultimately improves the efficiency and transparency of banking institutions.

This discussion shows that digitalization is not only a mediating variable, but also a reinforcing factor that expands the scope of governance and risk management in the modern era. Ozili (2018) and Tsindeliani et al. (2022) emphasizes that banks that successfully integrate digital technology into their business processes not only improve financial performance, but also strengthen the reputation and sustainability of the organization. This is especially evident in banks that implement data-driven governance systems and big data analytics to identify potential risks. Thus, digital transformation is not only technological, but also strategic in building adaptive governance.

Overall, the results show that the combination of GCG, risk management, and digital transformation creates significant synergies to banking performance. The conceptual model developed confirms that the success of the performance of modern banks is not enough only with regulatory compliance, but also with technology-based governance innovations. Therefore, this research makes an important contribution to the development of digital governance theory and practice in the financial sector, as well as the basis for further research assessing the effectiveness of GCG and risk management in the context of global digitalization.

6. Conclusion

This study concludes that the integration between Good Corporate Governance (GCG), financial risk, and digital transformation is a crucial factor in improving banking performance in the modern financial era. GCG acts as a control and supervision mechanism that suppresses conflicts of interest and strengthens public trust in financial institutions. Meanwhile, effective financial risk management helps banks maintain stability and profitability in the face of global market dynamics. These two variables are closely related and cannot function optimally without the support of an adaptive and transparent digital system.

Digital transformation has proven to be a strategic link that strengthens the impact of GCG on performance and at the same time reduces the negative influence of financial risks. Digitization enables increased operational efficiency, automation of surveillance, and more accurate data-driven decision-making. Through the use of technology such as big data analytics, blockchain, and digital audit systems, banks can optimize performance and maintain more transparent governance. The results of this study confirm that the success of banking performance in the future is not only determined by the ability to manage risks and implement good governance, but also by the ability to adapt to the development of digital technology. Therefore, the synergy between GCG, risk management, and digital transformation must continue to be strengthened so that banks are able to compete, maintain public trust, and contribute to sustainable economic stability and growth.

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