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Determinants of Bank Performance with Corporate Governance as Moderator

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ABSTRACT

This study utilizes a quantitative methodology to investigate multiple factors affecting the financial performance of banks listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. A particular focus is placed on assessing the role of Good Corporate Governance (GCG) as a moderating variable in these relationships. Utilizing a purposive sampling technique, researchers carefully chose 20 representative companies from a larger pool of 47. This approach ensures that the selected companies reflect key characteristics relevant to the study, This enables a more focused analysis of the determinants of financial performance specific to the banking industry. Using Moderated Regression Analysis (MRA), this study examined the interplay of capital structure, liquidity risk, and governance. Findings show a strong positive relationship between capital structure and financial performance, while liquidity risk demonstrates a significant negative effect on profitability. Furthermore, the moderation analysis presents a nuanced view of GCG. Although GCG does not strengthen the relationship between capital structure and performance, it is crucial in enhancing how effective liquidity risk management contributes to a bank's financial stability and performance.

Keywords: Capital Structure, Financial Performance, Good Corporate Governance, Liquidity Risk

INTRODUCTION

Financial institutions are vital for accelerating economic expansion, mitigating risks, and providing the fiscal infrastructure essential for the public and the broader economy. In carrying out these objectives, banks face challenges, such as regulatory changes, social and environmental challenges, intense competition, internal challenges, and external challenges. The banking industry serves as a cornerstone of the financial system by facilitating essential financial services, mobilizing public capital, and acting as a primary driver for national economic health. As posited by Ekinci and Poyraz (2019), the intermediary function of banks serves as a catalyst for economic expansion. In the Indonesian context, the banking sector is strategically designed to bolster national development initiatives, specifically by promoting economic equity, stimulating growth, and maintaining national stability to enhance public prosperity (Undang-Undang Nomor 7 Tahun 1992 Tentang Perbankan, 1992).

The figure presented above indicates that global inflation experienced a significant rise, climbing from 4.7% in 2021 to 8.8% in 2022. However, this upward trend was followed by a

decrease, as inflation fell to 6.5% in 2023. In a press release on November 28, Otoritas Jasa Keuangan (2022) assessed that global economic uncertainty remains high due to the normalization of global economic policy by the US Federal Reserve, geopolitical uncertainty, and high inflation rates. Meanwhile, the national economic recovery continues as the pandemic is brought under control and economic activity returns to normal. In an effort to encourage national recovery, the active role of banks is one of the main keys through financing priority sectors, consumption, MSMEs, and regional development (OJK, 2020). Banks have an important role in national recovery, so banks must maintain good financial performance.

Prioritizing the strengthening of health ratios is imperative for both conventional and Islamic commercial banks to improve their financial performance (Sabir et al., 2016). Good bank financial performance will ensure the smooth flow of economic funds, increase public confidence, and reflect the bank's ability to manage risk effectively. Therefore, bank financial performance has a broad impact, not only on the bank itself but also on the economy as a whole. Return on Assets (ROA) serves as a fundamental measure for evaluating a bank's financial health and efficiency, which measures its proficiency in generating profit from its total assets (Hasti et al., 2022).

Table 1. *Commercial Bank Performance Values and Ratios*

Year	Profit Before Tax (in billions of IDR)	Average Total Assets (in billions of IDR)	Return on Assets (ROA)
2021	174.271	9.476.690	1,84%
2022	252.499	10.391.582	2,43%
2023	302.765	10.988.023	2,76%

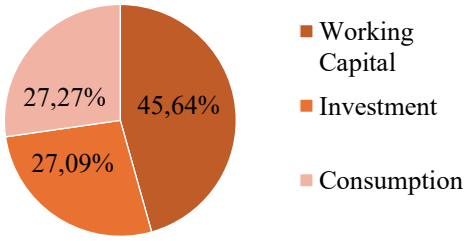
Source: OJK, 2024

The enhancement of financial performance within commercial banking institutions can be effectively monitored and analyzed through the evaluation of their specific financial ratios (Statistik Lembaga Keuangan, 2024). Table 1.1 shows that the ROA of commercial banks in 2023 was 2.76 percent, higher than in 2021 and 2022. This indicates that the ability of banks to earn profits in 2023 as a whole has increased. The observed trend points to enhanced efficiency in the financial performance of the banking sector. In this context, financial performance is understood as a comprehensive measure of fiscal health, encapsulating the results of a firm's strategic management of both capital mobilization and credit allocation (Tambunan & Prabawani, 2018). The assessment of financial performance yields a holistic understanding of a firm's operational viability and long-term prospects. Furthermore, it furnishes management with the essential information necessary for strategic decision making, evaluating the efficacy of offerings, and monitoring the attainment of corporate objectives. A company's financial performance is a critical factor (Damayanti, 2022) for investors considering an investment. Good financial performance can increase the trust and confidence of stakeholders or financial stakeholders such as investors and creditors.

The financial success of an organization is driven by a confluence of underlying factors, with capital structure being one of the most critical determinants. Capital structure is described by a company's financing decisions, which include an assessment of the debt capital to be used for operational activities (Suherman & Khairunnisa, 2024). Decisions regarding capital structure can influence a company's capacity, a firm should optimize its capital structure by adjusting the proportions of equity and debt financing (Halimahtussakdiah et al., 2023). Corporate management typically determines a company's capital structure by strategically optimizing the mix of debt and equity to meet organizational goals. This optimal balance enhances financial flexibility and mitigates risk, which in turn allows the firm to maximize returns and deliver substantial value to shareholders.

The strategic configuration of a firm's capital base remains a fundamental and highly significant pillar of corporate finance, warranting continuous academic inquiry and empirical investigation over time. Research by Islami and Wulandari (2023), Halimahtussakdiah et al. (2023), and Suherman and Khairunnisa (2024), has demonstrated the significant influence of capital structure on financial performance. This view contrasts with the findings of Cahyani & Puspitasari (2023), Oktaviyana et al. (2023), and Situmorang et al. (2024), whose findings indicate that the impact of capital structure on performance is statistically insignificant. This discrepancy in findings arises from the use of samples across various business sectors and the employment of different indicators to assess financial performance.

Beyond the arrangement of capital, a firm's financial results are also significantly dictated by its exposure to liquidity risk. A firm's liquidity risk is evaluated by its capacity to fulfill immediate financial commitments as they become payable (Pertiwi & Masitoh W, 2022). The assessment of liquidity risk serves as a vital tool for both internal and external stakeholders in gauging a firm's financial vulnerability and its long-term institutional stability. Inadequate liquidity risk in banks can cause disruption to the entire financial system because banks act as liquidity providers in the financial system. As a result, the government mandates that banks uphold a sufficient level of liquidity risk. To establish a robust banking infrastructure that can thrive in both domestic and global markets, financial institutions must maintain sufficient liquidity to navigate potential periods of economic crisis (Peraturan Otoritas Jasa Keuangan Nomor 42 /POJK.03/2015 tentang Kewajiban Pemenuhan Rasio Kecukupan Likuiditas (*Liquidity Coverage Ratio*) Bagi Bank Umum, 2015).



Source: OJK, 2023

Figure 1. *Credit Composition by Type of Use of Commercial Banks*

The figure above shows that the largest use of credit is for working capital, at 45.64%. Working capital can help accelerate economic growth by supporting sectors with high growth potential. The use of credit for investment and consumption differs only slightly, at 0.18%. Banks need to monitor the composition of bank credit usage. By understanding how credit is used and how much credit is easily liquidated, banks can identify potential liquidity risks. Liquidity risk is a topic that is always relevant and important over time, so many studies use the topic of liquidity risk. Maulana et al. (2021) empirically demonstrated that the Loan to Deposit Ratio (LDR), a critical measure of liquidity risk, positively and significantly affects bank performance as measured by ROA. Empirical evidence on the influence of liquidity risk is inconsistent. A study by Hacini et al. (2021) confirms a negative effect on financial performance. However, findings by Putri et al. (2022) and Silitonga and Manda (2022) indicate no statistically significant relationship. The variations in research findings can be attributed to the use of samples from various business sectors and the implementation of different indicators for measuring financial performance.

Despite the complexity inherent in how capital structure and liquidity risk affect performance, GCG functions as a critical moderating force, capable of meaningfully shifting

the dynamics of these relationships. Sustainable corporate viability is underpinned by GCG and its core principles: transparency, accountability, responsibility, independence, and fairness (Gemilang & Wiyono, 2021). According to Halimahtussakdiah et al. (2023), audit committees, which are a fundamental aspect of GCG, effectively moderate the link between capital structure and financial performance. The OJK has released several regulations related to GCG practices for businesses operating within the financial sector. Banking institutions must implement and continuously refine internal governance protocols to ensure their business operations remain compliant and effective (Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 17 Tahun 2023, 2023).

A significant gap exists in understanding how GCG moderates the effects of capital structure and liquidity risk on performance, a direct result of inconsistent prior evidence. The inconsistencies can be attributed to differences in research objects, methodologies, variables, timeframes, and sampling techniques, alongside the unique conceptualization of GCG as a moderator rather than a direct predictor. Therefore, further investigation is clearly warranted into the interplay of these factors with GCG acting as a moderating force. Given these considerations, the researchers established the study titled "Determinants of Bank Performance with Corporate Governance as Moderator".

LITERATURE REVIEW

Capital Structure and Financial Performance

Financial performance reflects an organization's proficiency in effectively managing its fiscal resources to achieve operational stability and profitability (Hasti et al., 2022). An organization's fiscal health is fundamentally appraised through the evaluation of its financial performance, so companies will use various methods to improve their financial performance (Gemilang & Wiyono, 2021). One factor that can affect financial performance is capital structure.

Capital structure represents the strategic integration of diverse funding sources utilized to sustain a firm's operational requirements (Situmorang et al., 2024). An optimal capital structure can provide benefits for companies in terms of costs and risks (Halimahtussakdiah et al., 2023). A key metric for evaluating bank capital structure is the Capital Adequacy Ratio (CAR) (Pratiwi et al., 2020), which measures a bank's capacity to maintain adequate capital against its risk-weighted assets (Putri et al., 2022). If CAR increases, the bank's capacity to absorb financing risks will also rise (Maulana et al., 2021). Banks that effectively manage financing risks will reduce large losses and maintain the stability of their financial performance.

Managers are responsible for making financial decisions that include determining the optimal capital structure (Hasti et al., 2022). Managers have more freedom in making decisions regarding capital structure, but this is not always in line with the owners' interests in improving long-term financial performance. Thus, agency theory offers a foundational framework to analyze the managerial decisions behind capital structure and to assess how those choices ultimately influence a firm's financial results. Drawing from the mentioned theoretical arguments, the primary hypothesis is formulated as detailed below:

H1: An increase in capital structure leads to improved financial performance.

Liquidity Risk and Financial Performance

Financial performance provides a quantitative measure of an organization's proficiency in managing and distributing its resources to generate economic value (Amelinda & Rachmawati, 2021). A core objective of evaluating financial performance is to gauge the efficiency with which operational activities convert assets into corporate earnings (Titania &

Taqwa, 2023). This performance can be influenced by several factors, one of which includes liquidity risk.

Liquidity risk refers to the possibility that a bank will not have sufficient funds to meet its short-term financial obligations as they become due (Sunaryo et al., 2021). The LDR is frequently utilized as a metric to evaluate this specific credit and liquidity exposure (Parulian & Bebasari, 2024). This particular ratio illustrates an institution's capacity to extend credit using funds sourced from public deposits (Putri et al., 2022). An elevated LDR signifies illiquidity or a deficiency in meeting obligations, whereas a lower ratio suggests robust liquidity and the ability to fulfill debts (Maulana et al., 2021). Ultimately, financial institutions that consistently honor their obligations reflect superior financial outcomes.

In line with agency theory, there exists a connection between principals and agents in a company (Jensen & Meckling, 1976). Managers, as agents, pursue strategies that increase short-term profits, such as providing more high-yield credit to increase profits but with less liquidity (Adi & Suwarti, 2022). On the other hand, owners acting as principals, typically prioritize long term stability and sustainable performance. This mismatch can cause managers to take excessive liquidity risks, which negatively impact long-term financial performance. Robust supervision serves to mitigate exposure to liquidity risk and enhance overall financial performance. Drawing from the preceding arguments, the second hypothesis is formulated as detailed below:

H2: Liquidity risk has a substantial negative effect on a bank's financial performance.

Good Corporate Governance, Capital Structure, and Financial Performance

The purpose of a Good Corporate Governance (GCG) framework is to optimize corporate goal achievement by ensuring effective oversight of management and upholding accountability to all stakeholders (Amelinda & Rachmawati, 2021). GCG ensures financial decisions, including capital structure, take long term interests into account. GCG encompasses various oversight mechanisms, including the board of directors, the independent board of commissioners, and the audit committee.

Agency theory assumes, every agent or principal only carries out activities or actions that are in their own interests, resulting in a disputes of interest involving company management as agents who seek to expand their personal profits (Gemilang & Wiyono, 2021). To avoid such conflicts of interest, agents and principals can uphold Good Corporate Governance practices to benefit all parties (Islami & Wulandari, 2023). GCG can provide effective oversight of capital structure decisions, thereby ensuring that managers as agents do not make decisions that could harm owners (principals). From an agency theory perspective, GCG mitigates conflicts of interest, by aligning agent actions with principal interests, this process reinforces the beneficial link between an effective capital structure and improved performance. Drawing from these arguments, the third hypothesis is formulated as detailed below:

H3: Good Corporate Governance amplifies the positive effect of capital structure on financial performance.

Good Corporate Governance, Liquidity Risk, and Financial Performance

GCG acts as a framework that bridges all stakeholders by granting them equitable authority. The primary objective of GCG implementation is to safeguard stakeholders against non-transparent or unethical management conduct (Adi & Suwarti, 2022). GCG ensures financial decisions, including the level of liquidity risk, take long-term interests into account.

Based on agency theory, a formal relationship exists within a corporation between the principals and the agents (Jensen & Meckling, 1976). Agents and principals can uphold GCG behavior to benefit all parties (Islami & Wulandari, 2023). With strong GCG, banks can ensure

that the liquidity management strategies decided by managers as agents are implemented transparently to reduce the risk of decisions that are not in line with the principals. Thus, GCG's oversight function serves to fortify the relationship between liquidity risk and financial performance. Grounded in these considerations, the fourth hypothesis is formulated as detailed below:

H4: The implementation of GCG strengthens the link between liquidity risk management and financial outcomes.

METHODOLOGY

Type of Research

This study, classified as quantitative research following Sugiyono (2017), is based on the analysis of numerical data and statistical methods. Within the proposed framework, financial performance is positioned as the dependent variable. The independent variables consist of capital structure and liquidity risk, while GCG acts as the moderating variable. Data processing and subsequent statistical analysis were conducted using SPSS (Statistical Package for the Social Sciences), version 26.

Location and Time of the Research

This study's scope includes all banking institutions that were listed on the Indonesia Stock Exchange (IDX) throughout the 2021–2023 timeframe. Its aim is to provide a thorough analysis of the sector's performance, utilizing data sourced from the official IDX platform as well as the individual corporate websites of each bank, ensuring both accuracy and relevance. The entire research process was conducted between January and June 2024, providing ample time for detailed analysis and interpretation of the results in relation to the current financial landscape of these institutions. This timeframe also allowed for the assimilation of relevant financial reports and updates.

Population and Sample

All IDX-listed banking institutions between 2021 and 2023 constitute the target population. To derive a suitable sample, the researchers utilized purposive sampling, a method involving selection based on specific, pre-defined attributes (Sugiyono, 2017). The specific requirements are as follows:

1. Banking institutions listed on the IDX during the 2021–2023 period.
2. Banks that released comprehensive annual reports throughout the 2021–2023 timeframe.
3. Banks that presented their financial statements in Rupiah.
4. Banks providing comprehensive data for all variables used in this research.
5. Banking companies that remained profitable during the 2021–2023 observation years.

The sample size calculation based on the criteria specified above is as follows:

Table 2. *Sample Size Calculation*

Description	Amount
Banking institutions listed on the IDX during the 2021–2023 period	47
Banking that consistently published annual reports from 2021 to 2023	(16)
Banking institutions that presented their financial data in Indonesian Rupiah	(1)
Companies providing complete disclosures for all variables used in this study	(3)
Companies that were profitable throughout the 2021-2023 period	(7)
Total research objects	20

Description	Amount
Research period 2021-2023	3
Total	60

Source: Processed data from 2024.

Data Analysis Techniques

Before analyzing the data, the data analysis proceeded in two primary stages. First, descriptive statistics were calculated, and diagnostic tests for classical regression assumptions including normality, multicollinearity, heteroscedasticity, and autocorrelation were conducted to validate the integrity of the dataset. Subsequently, Moderated Regression Analysis (MRA) was employed to test the proposed hypotheses concerning the moderating effect of GCG.

RESULTS AND DISCUSSION

Analysis of Descriptive Statistics

Table 3 presents the final sample, which includes 60 observations derived from 20 IDX-listed banking institutions for the 2021-2023 period. The capital structure, measured by the CAR, exhibits an average of 0.2812 which had a standard deviation of 0.13120, suggesting limited variability across the sample. The observed CAR values range from 0.11 (PT Bank Mayapada Internasional) to 0.83 (PT Allo Bank Indonesia). An average CAR of 28.12% indicates a strong capital position, significantly surpassing the 8% regulatory minimum mandated by Bank Indonesia Regulation Number 10, thereby reflecting sound financial health among the observed banks.

For the liquidity risk variable, proxied by the LDR, the descriptive statistics reveal an average of 0.8555 which had a standard deviation of 0.17940. The relatively low standard deviation confirms limited variance in the dataset. The LDR ranges from a minimum of 0.51, observed at PT Bank Pembangunan Daerah Jawa Timur, to a maximum of 1.63 at PT Allo Bank Indonesia. The average LDR of 85.55% suggests that most banks in the sample maintain a liquidity position that supports their ability to honor financial commitments.

Three key variables are summarized as follows. Financial performance, measured by ROA, averages 0.0194 (SD = 0.01263), showing limited variation, with values from 0.00 to 0.05. The GCG variable, represented by audit committee size, has a mean of 4.42, ranging from 3 to 8 members. The minimum value of 3 indicates full compliance with the OJK's regulatory requirement for audit committee composition.

Table 3. *Overview of Descriptive Statistical Findings*

	N	Min	Max	Mean	Std. Dev.
Capital Structure	60	0,11	0,83	0,2812	0,13120
Liquidity Risk	60	0,51	1,63	0,8555	0,17940
Financial Performance	60	0,00	0,05	0,0194	0,01263
Good Corporate Governance	60	3	8	4,42	1,418

Source: Processed data from 2024.

Normality Test

As shown in Table 4, the normality test yields an Asymp. Sig. (2-tailed) value of 0.200. As this value exceeds the conventional alpha level of 0.05, the null hypothesis of non-normal distribution is rejected, confirming that the data are normally distributed.

Table 4. *Normality Assessment Outcomes*

	Unstandardized Residual
N	60
Asymp. Sig. (2-tailed)	0,200

Source: Processed data from 2024.

Multicollinearity Test

Table 5 demonstrates, the multicollinearity test indicates that each independent variable capital structure (tolerance = 0.448, VIF = 2.233), liquidity risk (tolerance = 0.475, VIF = 2.106), and Good Corporate Governance (tolerance = 0.802, VIF = 1.247) falls within acceptable thresholds. With all tolerances > 0.1 and all VIF < 10, it is concluded that multicollinearity is not a concern in this study.

Table 5. *Multicollinearity Assessment Outcomes*

Variable	Collinearity Statistics	
	Tolerance	VIF
Capital Structure	0,448	2,233
Liquidity Risk	0,475	2,106
Good Corporate Governance	0,802	1,247

Source: Processed data from 2024.

Heteroscedasticity Test

Table 6 demonstrates, indings from the heteroscedasticity assessment after applying a natural log transformation indicate significance values of 0.654 for capital structure, 0.719 for liquidity risk, and 0.103 for GCG. The fact that all values surpass the 0.05 alpha level indicates that heteroscedasticity is not present in the model.

Table 6. *Heteroscedasticity Diagnostic Outcomes*

Variable	*Sig.*	Description
Capital Structure	0,654	There is an absence of heteroscedasticity.
Liquidity Risk	0,719	There is an absence of heteroscedasticity.
Good Corporate Governance	0,103	There is an absence of heteroscedasticity.

Source: Processed data from 2024.

Autocorrelation Test

The autocorrelation analysis yields a Durbin-Watson (DW) statistic of 2.097. Given a 5% significance level with n=60 and k=3 independent variables, the upper critical value (dU) is 1.6875. Autocorrelation is not present in the model, given that the Durbin-Watson value (2.097) is between the upper critical bound (dU = 1.6875) and 4-dU (2.3125).

Hypothesis Testing

Moderated Regression Analysis (MRA) Test

Based on the results of the Moderated Regression Analysis (MRA) presented in Table 7, the research model can be expressed as the following regression equation:

$$Y = \propto + \beta1.X1 + \beta2.X2 + \beta3(X1*Z) + \beta4(X2*Z) + e$$

$$Y = 0.052 + 0.262X1 + -0.127X2 + 0.026(X1*Z) + 0.026(X2*Z) + e$$

Table 7. *MRA (Moderated Regression Analysis) Outcomes*

Variable	Coefficient B	t calculate	Sig.	Description
(Constant)	-3,615	-6,454	0,000	
Capital Structure	20,960	4,888	0,000	Supported
Liquidity Risk	-8,669	-5,026	0,000	Supported
Capital Structure *Good Corporate Governance	-4,213	-3,543	0,001	Not Supported
Liquidity Risk *Good Corporate Governance	1,548	4,282	0,000	Supported

Source: Processed data from 2024.

Based on the results presented in Table 7, each finding is explained in detail below:

1. Capital Structure and Financial Performance

   According to the MRA output, the variable for capital structure is a significant predictor of financial performance. With a coefficient of 20.960, a t-statistic of 4.888, and a p-value of 0.000 ($p < 0.001$), the effect is both positive and statistically significant. This result empirically validates the first hypothesis (H1), confirming that capital structure has a significant positive impact on financial performance.

2. Liquidity Risk and Financial Performance

   Analysis of the MRA output indicates that liquidity risk is a significant negative predictor of financial performance. The regression coefficient of -8.669 ($t = -5.026$, $p < 0.001$) confirms a strong inverse relationship, whereby elevated liquidity risk is associated with reduced financial outcomes. This finding provides empirical validation for the second hypothesis (H2).

3. Good Corporate Governance, Capital Structure, and Financial Performance.

   The test of the third hypothesis (H3) yielded a statistically significant interaction effect ($p = 0.001$). However, the direction of the moderation was opposite to that predicted: the negative coefficient ($\beta = -4.213$, $t = -3.543$) signifies that higher levels of GCG reduce the positive effect of capital structure on financial performance. Therefore, H3 is rejected.

4. Good Corporate Governance, Liquidity Risk, and Financial Performance.

   The analysis of the interaction term between liquidity risk and GCG yields a significant positive coefficient ($\beta = 1.548$, $p < 0.001$), confirming that GCG acts as a positive moderator. This result empirically validates the fourth hypothesis (H4), demonstrating that effective governance strengthens the relationship between liquidity risk and financial performance.

Coefficient of Determination (Adjusted R^2)

The model reports an Adjusted R^2 of 0.384, indicating that 38.4% of the variance in financial performance is jointly explained by the independent variables (capital structure and liquidity risk) and their moderation by GCG, while controlling for the number of predictors. This suggests the model accounts for a substantial portion of the variance, with the remaining 61.6% attributable to factors not included in this study.

Table 8. *Coefficient of Determination Findings*

Predictor	Adjusted R^2
(Constant), Capital Structure, Liquidity Risk, Capital Structure*GCG, Liquidity Risk*GCG	0,384

Source: Processed data from 2024.

Discussion

1. Capital Structure and Financial Performance

The test of the first hypothesis (H1) produces a coefficient of 20.960 with high statistical significance ($t = 4.888$, $p < 0.001$). The positive sign confirms that capital structure exerts a significant positive effect on financial performance, thereby supporting H1. This result reinforces the role of sound capital management in enhancing profitability and aligns with previous empirical evidence (Islami & Wulandari, 2023; Halimahtussakdiah et al., 2023; Suherman & Khairunnisa, 2024).

Capital structure is the process by which a company makes decisions about its financing by considering the balance between equity and debt to achieve optimal results. The composition of the capital structure is usually decided by company management using an optimal strategy to achieve the company's objectives. An optimal capital structure will generate optimal returns for shareholders in obtaining these profits.

Banking companies with high capital structures indicate that they have sufficient capital to absorb risks and losses. A high capital structure is very important for companies to comply with regulations and maintain the trust of stakeholders. A good capital structure reflects good financial performance for long-term growth. Good financial performance will benefit company owners and managers as agents in deciding the level of capital structure in agency theory.

2. Liquidity Risk and Financial Performance

The statistical test of the second hypothesis (H2) yields a coefficient of -8.669 with high significance ($t = -5.026$, $p < 0.001$). The negative sign confirms that liquidity risk significantly impairs financial performance, thereby supporting H2. This conclusion is consistent with prior research by Hacini et al. (2021), which also identified a negative relationship between liquidity risk and profitability.

Liquidity risk stems from a company's potential failure to meet its immediate obligations. Under agency theory, it is the responsibility of managers, as agents, to determine the appropriate liquidity risk level. A high risk level indicates that a company is illiquid and struggling to meet its commitments, whereas a low risk level signifies a liquid position. Maintaining low liquidity risk ensures that banks can handle short-term obligations, such as customer withdrawals and maturing payments without facing financial distress. Stability in liquidity risk levels will instill confidence in customers, shareholders, and investors. With the trust of various parties, financial performance will also improve.

3. Good Corporate Governance, Capital Structure, and Financial Performance

The interaction term for capital structure and GCG is statistically significant but negative ($\beta = -4.213$, $p = 0.001$). This indicates that GCG reduces, rather than enhances, the positive effect of capital structure on financial performance. Consequently, GCG does not act as a positive moderator in this relationship.

GCG aims to foster transparency, accountability, and robust risk management; however, unbalanced implementation can lead to negative outcomes. Elevated compliance costs and an excessive focus on risk avoidance may lessen the beneficial effect of capital structure on financial performance. Excessively strict governance frameworks can potentially constrain a firm's strategic flexibility and risk taking capacity, which are often necessary to pursue growth opportunities (Kusumaningtyas, 2023). Within the highly regulated banking sector, such restrictions may cause banks to miss high-return investment opportunities, preventing GCG from strengthening the connection between capital structure and profitability. The present observation that GCG can weaken the capital structure-performance link corroborates the work of Adi & Suwarti (2022), who similarly reported a potential negative impact of audit committee-based governance on financial outcomes.

4. Good Corporate Governance, Liquidity Risk, and Financial Performance

The analysis confirms that GCG positively moderates the liquidity risk performance relationship, as evidenced by a significant coefficient of 1.548 ($p < 0.05$). Thus, GCG intensifies the effect of liquidity risk on financial outcomes. Specifically, for each unit increase in this interaction, financial performance rises by 1.548, indicating that effective governance improves a bank's capacity to manage liquidity risk profitably.

These results confirm that GCG amplifies the influence of liquidity risk on performance. This is consistent with agency theory's view that governance practices, collaboratively upheld by agents and principals, serve to protect and enhance stakeholder value (Islami & Wulandari, 2023). Through robust GCG, banks ensure that liquidity management strategies decided by managers are implemented transparently, thereby mitigating the risk of decisions that contradict the interests of the principals (Juliansyah et al., 2023).

Supporting prior evidence (Amelinda & Rachmawati, 2021), the results affirm that GCG, proxied by the audit committee, exerts a favorable influence on performance. The mechanism identified here is that robust governance enhances financial outcomes by fortifying the connection between liquidity risk and a bank's profitability. Banking companies that implement GCG as a form of supervision show that they can maintain their liquidity risk level and maintain customer trust to deposit their funds. By maintaining customer trust, they can maintain operational stability and good financial performance.

CONCLUSION AND SUGGESTION

It is empirically established that capital structure positively and significantly affects the financial performance of IDX-listed banks for the period 2021–2023. This is substantiated by a high-magnitude regression coefficient of 20.960 with a probability value below the 0.001 threshold. Conversely, liquidity risk demonstrates a significant negative effect, indicated by a coefficient of -8.669 ($p = 0.000$). These results imply a negative relationship: higher liquidity risk corresponds to diminished profitability, while lower risk correlates with enhanced profitability.

The analysis reveals that GCG attenuates, rather than strengthens, the positive impact of capital structure on performance, which is statistically supported by a negative moderation coefficient of -4.213. Nevertheless, the results indicate that GCG significantly strengthens the association between liquidity risk and performance, as shown by a positive interaction

coefficient (β = 1.548, p = 0.000), confirming that governance reinforces the risk-performance relationship. The finding implies that robust governance mechanisms are indispensable for controlling liquidity risk and enhancing a bank's financial returns. Future research could use panel data with longer periods (e.g., 5–10 years) to examine the dynamics of the relationship between variables under various economic conditions.

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