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# Corporate Risk as a Mediator in Banking Financial Performance: Examining the Impacts of Sustainable Finance, Governance, and Auditor Reputation

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**Abstract** — *This study investigates the role of corporate risk as a mediator in the relationship between sustainable finance, governance mechanisms, and auditor reputation on banking financial performance. With the increasing emphasis on sustainable finance, particularly following regulations like POJK No.51/POJK.03/2017, the integration of economic, social, and environmental factors in financial reporting has gained prominence. The research employs a quantitative methodology using SMARTPLS version 4.0 and SEM-PLS analysis, focusing on data from banking institutions listed on the Indonesia Stock Exchange from 2021 to 2023. The findings reveal that auditor reputation significantly enhances financial performance, while corporate risk negatively impacts it. Sustainable finance shows a positive but insignificant effect, and governance mechanisms do not significantly influence financial performance. Notably, corporate risk significantly mediates the relationship between sustainable finance and financial performance, indicating that effective risk management is crucial for leveraging sustainable finance initiatives. This study contributes to the understanding of how corporate governance and sustainable practices can enhance financial stability in the banking sector*
***Keywords:*** *Auditor Reputation, Corporate Risk, Financial Performance, Governance Mechanism, Sustainable Finance.*

**Abstrak** — Studi ini menyelidiki peran risiko perusahaan sebagai mediator dalam hubungan antara keuangan berkelanjutan, mekanisme tata kelola, dan reputasi auditor terhadap kinerja keuangan perbankan. Dengan meningkatnya penekanan pada keuangan berkelanjutan, khususnya setelah peraturan seperti POJK No.51/POJK.03/2017, integrasi faktor ekonomi, sosial, dan lingkungan dalam pelaporan keuangan menjadi lebih menonjol. Penelitian ini menggunakan metodologi kuantitatif dengan menggunakan SMARTPLS versi 4.0 dan analisis SEM-PLS, dengan fokus pada data dari lembaga perbankan yang terdaftar di Bursa Efek Indonesia dari tahun 2021 hingga 2023. Temuan penelitian mengungkapkan bahwa reputasi auditor secara signifikan meningkatkan kinerja keuangan, sementara risiko perusahaan berdampak negatif padanya. Keuangan berkelanjutan menunjukkan efek positif tetapi tidak signifikan, dan mekanisme tata kelola tidak secara signifikan memengaruhi kinerja keuangan. Khususnya, risiko perusahaan secara signifikan memediasi hubungan antara keuangan berkelanjutan dan kinerja keuangan, yang menunjukkan bahwa manajemen risiko yang efektif sangat penting untuk memanfaatkan inisiatif keuangan berkelanjutan. Studi ini berkontribusi pada pemahaman tentang bagaimana tata kelola perusahaan dan praktik berkelanjutan dapat meningkatkan stabilitas keuangan di sektor perbankan.
**Kata Kunci:** Keuangan Berkelanjutan, Kinerja Keuangan, Mekanisme Tata Kelola, Reputasi Auditor, Risiko Perusahaan.

## INTRODUCTION

Currently, sustainable financial practices are being intensified by various business groups or governments. Financial reporting has become more intensive since the ratification of POJK no. 51 concerning the implementation of sustainable finance for financial services institutions, issuers and public companies. The purpose of this law is to encourage increased public acceptance of public financial management groups through reporting to the OJK. In international efforts, sustainable financial disclosure requirements have been set called the global reporting



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initiative (GRI), POJK 51 and the Sustainability accounting general board (SASB). In Indonesia, many financial institutions support the development of sustainable finance, starting from the Ministry of Finance, the Financial Services Authority, and Bank Indonesia. The three entities form a sustainable finance committee and are regulated in government regulations (OJK, 2024).

Now OJK is working with a number of its affiliated institutions to provide a sustainable financial blueprint for the financial sector in Indonesia for the future. Public companies, issuers, and financial institutions are all subject to the Financial Services Authority Regulation No. 51 / POJK.03 / 2017 which regulates the implementation of sustainable finance. Sustainable financial reporting seeks to integrate economic, social, and environmental factors in a way that promotes long-term stability and fairness in the economy (Husada & Handayani, 2021). The regulation was issued with the aim of minimizing problems that arise from economic, social and environmental changes.

The phenomenon that occurs from the ongoing issue of sustainable finance is the transformation of the financial paradigm. This is interpreted as a major shift from focusing on financial profit to a broader approach that includes social, economic and environmental aspects. Sustainable finance is not only limited to green financing but includes various social dimensions such as gender, water, agriculture and renewable energy. The scope of sustainable finance has a fairly long roadmap, related to investment management, funding, and financial decision making. The benefits provided can maximize long-term value for all stakeholders and create a sustainable business financially, socially and environmentally. Reporting on the institution's activities is recorded in the form of a Sustainable Report (Sarnisa et al., 2022). Stakeholders benefit from investing in banking but every investment has a fair amount of risk to consider.

The failure of large institutions such as Enron and Anderson has shocked the business world with the scale of illegal and unethical transactions, so global business attention is strengthening corporate governance. Banking executives at the Central Bank of Nigeria have taken excessive risks and deviated from the objectives of risk management (Abubakar et al., 2018). This situation occurs because there is no separation between the director and the risk management committee that is expert in monitoring and mitigating risks without interference from management. Financial performance can be maximized if there is a well-functioning management committee. Therefore, Bank Indonesia issued Law Number 08/04/PBI/2006 concerning the Implementation of GCG for Commercial Banks, which requires Industrial Banks to form a Risk Management Committee. The existence of a risk management committee helps auditors assess the internal risk monitoring system and reduces audit reputation losses due to failure (Halim et al., 2017).

This research involves two research sources (Rampisela, 2023) that corporate risk has a negative effect on corporate performance because the fluctuation of risk faced by the company will have a negative impact on profits. In addition, corporate governance on financial performance mediated by credit risk and operational risk can be assessed and managed effectively through the corporate risk management committee which has a positive impact on financial performance (Bastomi et al., 2017). This shows that banking governance management plays a good role in reducing conflicts of interest and information asymmetry which can minimize the risk of non-performing loans and agency costs. Research (Halim et al., 2017) the establishment of a risk management committee separately from the audit committee is directly demonstrated by the board of commissioners to increase the effectiveness of risk management through supervision. However, the company's risk variables can be directly correlated to financial performance because the committee is positioned as an expert in managing corporate risk and has sufficient experience in guidelines and policies when processing risk supervision. (Abubakar et al., 2018). This can help companies to avoid potential unwanted operational risks to company performance.

Based on the background that has been explained, the researcher conducted this analysis with the intention of gaining in-depth insight into "The Influence of Sustainable Finance, Governance Mechanisms and Auditor Reputation on Financial Performance with Corporate Risk as an Intervening Variable."

## LITERATURE REVIEW

### Legitimacy Theory

Legitimacy theory provides a view on the importance of social responsibility being disclosed in reports because it can provide media attention and exposure for stakeholders. Dowling & Prefer (1975) stated that: "Legitimacy is the public's belief that if the behavior, output or method of operation of an organization that is currently considered not in accordance with social norms and values, the community will tend to change those values, output or method of operation to be in accordance with social values."

Legitimacy theory can support the growth of banking performance aspects in the commitment to financial sustainability practices so that trust and exposure from stakeholders increase. In order to be officially in compliance, a company must run its operations in accordance with environmental standards accepted in society. According to legitimacy theory, getting society to approve of a company is essential to ensure that the company remains in business. Therefore, the business world needs to find out what society can tolerate and what is

in accordance with society's standards and ideals (Indriastuti & Chairiri, 2021).

**Stakeholder Theory**

According to (Freeman & McVea, 1984) in (Husada & Handayani, 2021) reveals that: “Organizations, according to Stakeholder theory, seek to maximize value and profits in response to stakeholder expectations by recognizing, measuring, and responding to the needs of those who are affected or impacted by the firm's operations.”

Companies can get support and maintain their reputation through disclosure of financial and non-financial information where the demands and expectations of stakeholders do get reports related to all business operational journeys. Fulfillment of external funding needs can be obtained from banking and non-banking financial institutions (Ekadjaja & Ekadjaja, 2020). The goals of banking are increasingly complex in maintaining maximum profits by balancing the risks of the banking business. This is in line with stakeholder theory because companies are not only responsible to shareholders without exception to all parties who have an interest in the company's decisions and operations. Stakeholder theory is an approach that focuses on the relationship between companies and all bodies involved in their business domain. Stakeholders have various characters that are a challenge for companies in disclosing social and environmental performance in the countries where they operate (Permatasari & Setyastrini, 2019).

**Agency Theory**

The potential conflict of interest between shareholders and internal management each has different goals. However, both are interconnected and support the progress of banking referred to in agency theory. The figure who initiated the agency theory is Jensen and Meckling (1976).

Agency theory connects principal and agent, the existence of governance in accordance with the principles of transparency, accountability, responsibility and independence can help create a conducive climate for the creation of efficient and sustainable growth in the corporate sector (Artika et al., 2023). The fundamentals of contracts and incentives serve to balance the interests of both parties and are important for agency theory. Management can balance both parties through the incentives and contracts used. Management involvement in managing risk management provides a long-term planning and action strategy with more confidence from a more adequate understanding of risk.

**Sustainable Finance**

Conceptually, sustainable finance is the provision of financing for investment that takes into account environmental, social and governance aspects (Artika et al., 2023) and (Utama et al., 2024). In OJK regulation No. 51 of 2017, Sustainable finance is comprehensive support from the financial services sector to create sustainable economic growth by aligning economic, social and environmental interests (Hadad & Maftuchah, 2022). Several previous research studies by (Wulandari, 2020), *sustainable finance* is sustainable financing from the financial services industry applied in the banking sector to implement sustainable growth and development by prioritizing 3 aspects. According to Rampisela (2023) Sustainable finance can be said to be an activity that has an influence on improving a company's reputation and can also have an indirect influence on enterprise value.

Sustainability finance is an integral part of a responsible and sustainable global economy with all stakeholders working together to achieve this goal (Bakken, 2021). One of the objectives of regulating the implementation of sustainable finance in Indonesia is to improve the policy, strategy and work program aspects of sustainable finance stakeholders in order to support the realization.

**Governance Mechanism**

The Forum for Corporate Governance in Indonesia (FCGI) defines corporate governance as: “A set of regulations that regulate the relationship between shareholders, company managers, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations or in other words a system that controls the company..

Governance can be defined as the structures, systems and processes implemented by a company to provide sustainable added value (Nurwulandari et al., 2022). Meanwhile, governance mechanisms are systems and processes used to direct and control the company.\ (Mahrani & Soewarno, 2018). Effective governance practices can facilitate the implementation of more appropriate risk management, which in turn can improve financial performance (Husaini et al., 2020).

In the principles contained in Corporate Governance, there is an explanation for managing the Company so that shareholders can operate in balance with stakeholders, such as directors, board of commissioners and shareholders who also support it because it starts from the governance mechanism and the interests of stakeholders that are in harmony (Roselind & Ratnawati, 2022). The main points of implementing governance include (1) Principles of governance, (2) Principles of implementing governance from the OECD, (3) Elements of governance practices, (4) governance systems and procedures (Susilo, 2017).

**Auditor Reputation**

Auditors are essential to ensure that the corporate governance structure is well managed. The selection of auditors with a good reputation is an important

factor for a company. Companies in Indonesia currently tend to use the services of auditors or KAPs with excellent reputations (Li et al., 2021). This is the effect of its influence on the credibility of the released audit financial report. A superior KAP has a reliable and trustworthy presentation of financial information.

**Corporate Risk**

The Institute of Internal Auditors states that risk is an uncertainty of an event that has an impact on the target objective. The International Standard Organization (ISO) also explains that risk is the impact of the uncertainty of a target. Based on PP No. 66 of 2008, it states that risk identification is the process of determining what, where, when, why and how an event fails to achieve an objective. In a narrow sense, it can be concluded that corporate risk is the entity's uncertainty from business operations due to unexpected conditions.

One of the advantages of good risk management is that it protects investors from losing a lot of money because it is not done properly, according to industry standards. There are types of risks in Financial Services Institutions in the book (Sukamulja, 2022) including; Interest Rate Risk, Credit Risk, Liquidity Risk, Foreign Exchange Rate Risk, Sovereign Risk/Country Risk, Trading Risk, Off Balance-Sheet Risk, Technology and Operational Risk, Bankruptcy Risk.

**Financial performance**

Financial performance is a study of financial ratio calculations that are useful as evaluation materials to assess financial and operational goals. Several financial performance measures are the most important materials for stakeholders because they can see the health and success of the Company's future business. The success of an organization is directly proportional to its performance, which in turn is influenced by its resource management strategy (Wulandari, 2021). Financial ratios are one reflection of a company's financial success. There are 2 parts of the benefits of financial ratios, namely recording fluctuations from a certain period and becoming a material for investment decision making for external parties (Pertiwi, 2022). Financial performance is determined by the accuracy of utilizing assets and cost control so as to produce optimal resources. The goal of optimizing resources and communicating strategic information is to produce value for stakeholders.

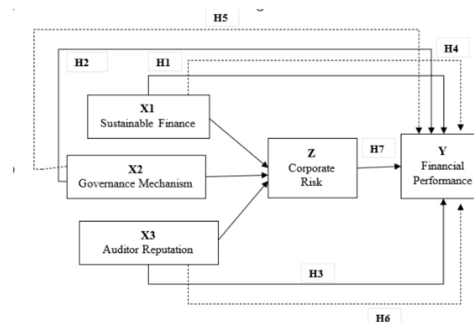


**Figure 1.** Framework

**The Impact of Sustainable Finance on Financial Performance**

Research result (Rampisela, 2023) obtain negative impact of sustainable finance on financial performance due to sustainable finance practices as a tool to cover unethical financing practices. This projects high risk in banks to finance sustainable finance so that financial performance decreases. The main factor of profit of financial service institutions, one of which is the banking sector, is to seek the highest return on credit and securities, reduce risk and meet liquidity needs with liquid assets (Dangnga & Haeruddin, 2018). However, the research results (Shakil et al., 2019), (Artika et al., 2023) and shows the release of sustainability reports of financial services institutions can create investor skepticism in the scope of sustainable and responsible investment because the information presented proves that banking has participated in advancing economic development in the financial sector and solving problems related to risks and threats to sustainability. Increasing sustainable finance practices will encourage the financial performance of financial services institutions.

Legitimacy theory emphasizes the premise that there is a social contract between the company and the community in which the company operates. The strategy to increase legitimacy for an entity is to disseminate information to the company's stakeholders about changes in business and financial performance. This can reduce information asymmetry between management and the community.

**H1 :** Sustainability Finance has a positive impact on financial performance

**The Impact of Governance Mechanisms on Financial Performance**

Research result (Roselind & Ratnawati, 2022) Corporate governance structure has a positive effect on company performance, the results of the study show that the performance of the board of commissioners contributes to the success of the company. These results support that corporate governance mechanisms that have been improved in terms of transparency, accountability and better supervision of financial performance and

management are able to reduce the practice of profit deviation in financial reports (Mahrani & Soewarno, 2018). However, the implementation of internal corporate governance mechanisms, the composition of the board of directors and the size of institutional ownership do not have a significant influence, while the existence and role of the board of commissioners contribute to improving company performance (Purnomo et al., 2021). So it states that while governance mechanisms have a positive effect on financial performance, governance mechanisms that are implemented with high levels of transparency and accountability can increase investor confidence in capital and investments that are useful for improving or expanding financial performance.

Agency theory empirically proves that principals can control agents by providing incentives to agents and of course spending a number of monitoring costs to limit agent activities that can harm the principal. However, this agency problem is difficult to eliminate so that this problem will continue to occur. The monitoring costs incurred in relation to providing incentives to agents and losses due to agency problems are called agency costs.

**H2 :** Governance mechanisms have a positive impact on financial performance

### The Impact of Auditor Reputation on Financial Performance

Research result (Gu & Zhao, 2022) Large auditors can ease financing challenges, especially for private and small sector companies, thereby improving financial performance. In addition, auditor reputation is positively correlated to firm value, although its direct impact on financial performance varies considerably (Wardhana & Kusumawardhany, 2022). This supports the research (Nelwan et al., 2021) and (Li et al., 2021) especially prominent auditors and independent attitudes can reduce moral hazard practices, it is shown that companies with strong audit reputations can perform better financially. Auditor reputation significantly affects financial performance by increasing the credibility of the company and reducing financing constraints.

Agency theory focuses on the relationship between principal and agent, where the principal delegates the management of the company to the agent. The presence of a reputable auditor can reduce agency costs arising from management supervision and control. With a good auditor reputation, the principal feels more confident that the financial statements reflect the actual condition of the company, so that the cost of direct supervision can be minimized.

**H3 :** Auditor reputation has a positive impact on financial performance

### The Impact of Sustainable Finance on Financial Performance Mediated by Corporate Risk

The Financial Services Authority Regulation (No. 18/POJK.03/2016) defines credit risk as the potential for losses when another party does not fulfill its obligations to the bank. This definition includes risks related to debtor default, credit risk concentration, counterparty credit risk, and risks related to transaction settlement. The best efforts to implement risk management by controlling bank business operations at reasonable limits and benefiting financial institutions. Efforts to facilitate the implementation of sustainable finance by central banks involve creating funding options to address climate change, which includes managing risks related to the movement towards a low-carbon economy. The strategic blueprint aimed at improving sustainable finance focuses on three main aspects: (1) increasing the availability of environmentally friendly funding, (2) increasing interest in sustainable financial products, and (3) increasing supervision and collaboration in implementing sustainable finance initiatives (Simamora, 2019).

Banks with high environmental, social and governance performance tend to have higher financial institution risks because aligning social responsibilities opens up opportunities for financial sustainability transitions (Buallay, 2019) and (Urban & Wójcik, 2019). This supports the research (Rampisela, 2023) and (Afifah et al., 2023) proves that the development of loans indirectly high credit risk is able to maximize sustainable financial financing, but reduces the company's financial profitability. Financial institutions reduce the risk of NPL to prioritize sustainable finance, which has an impact on less risky investment financial instruments (Bachtiar & Nainggolan, 2023). Therefore, sustainable financial financing funded by financial institutions can reassure investors that future financial risk evaluations can reduce the increase in financial performance.

Legitimacy theory is based on the premise that companies need legitimacy from society to ensure their survival. This legitimacy is achieved when a company's actions, values, and goals are aligned with widely accepted social norms. Companies that adhere to sustainability norms tend to face lower risks, whether reputational, legal, or operational. Entities that are proactive in environmental management are less likely to be subject to legal sanctions or public boycotts. This leads to increased revenues, market stability, and access to capital at a lower cost, which overall contribute to better financial performance.

**H4 :** Sustainability finance has a negative impact on financial performance through Corporate Risk

**The Impact of Governance Mechanisms on Financial Performance Mediated by Corporate Risk**

Research result (Fauziyah et al., 2024) The implementation of governance mechanisms effectively can reduce agency problems that arise by increasing transparency, accountability and supervision of the management of risks that can disrupt the achievement of financial goals. Risk practices that are managed as mediators in the relationship between relational governance mechanisms in the form of minimizing uncertainty and opportunism that arise in the relationship between principal and agent (Tukamuhabwa et al., 2023). Therefore effective governance mechanisms help in identifying and mitigating more integrated risks and reducing detrimental conflicts of interest ultimately improving financial performance. Research (Paulina et al., 2020) and (Fauziyah et al., 2024) found that there was an increase in financial performance that was getting better because the evaluation of the performance design in the governance mechanism system could reduce the risk of uncontrolled business operations, as well as the risk of the company being able to become a link to improve financial performance. So investors are more likely to invest in companies that have good governance because they believe that business risks can be managed with projections that have been prepared.

Agency theory explains the relationship between principals (owners or shareholders) and agents (management), where management is responsible for managing the company in the interests of the owners. However, there is often a conflict of interest due to differences in goals between the principal and agent, which causes agency costs to arise. These agency costs consist of three main types, namely monitoring costs, bonding costs, and residual costs. Monitoring costs include principal expenses to monitor management performance, such as audit fees or board of commissioner supervision. Bonding costs are management expenses to convince the principal that managers are working in the interests of the owners through the preparation of audited financial statements or performance-based incentive systems.

**H5 :** Governance mechanisms negatively impact financial performance through corporate risk.

**The Impact of Auditor Reputation on Financial Performance Mediated by Corporate Risk**

The audit reputation label has a dominant trusted audit quality on the big four scale, because the expertise and complexity of the audit can provide an opinion evaluating the company's risk disclosure (Rahmawati & Sugeng, 2022). Therefore, the auditor's reputation tends to be assessed in depth regarding high credit risk so that the company's audit report reflects the actual conditions.

Communication between external auditors and the audit committee is a critical element in a company's audit process. The audit committee relies heavily on internal auditors to carry out their responsibilities and uncover events in the company's activities. The banking company that ranks among the top five banks has different transaction complexities and industries, so it is vulnerable to errors or fraud in the company's financial statements. Therefore, the company uses the fourth largest public accountant to provide additional support in assessing the internal risk monitoring system so that there is no reputational loss due to audit failures (Halim et al., 2017). As well as (Agbaje & Adeboboye, 2024) high corporate risk caused by the inability of debtors to pay their obligations makes the company's financial statements more vulnerable to manipulation or errors. So that the risk disclosure carried out by the company's risk management committee operates under the supervision of a high-profile auditor to ensure the credibility of the financial statements (Kirana, 2017). The higher the company's risk, the lower the financial performance because the auditor's accuracy provides the right risk identification and assessment. The control mechanism of the leading auditor is able to provide stronger assurance to the owner that the financial reports produced by management are prepared reliably and free from manipulation.

Based on stakeholder theory, a reputable auditor can provide assurance to stakeholders that the financial information presented by financial institutions is accurate and reliable. The audit reputation label has a dominant big four scale trusted audit quality, because the expertise and complexity of the audit can provide an opinion evaluating the company's risk disclosure.

**H6 :** Auditor reputation negatively impacts financial performance through corporate risk

**The Impact of Corporate Risk on Financial Performance**

Corporate risk is the uncertainty arising from the company's operations and profitability including market risk, operational risk, liquidity risk, and credit risk (Fadriyaturrohmah & Manda, 2022). High corporate risk indicates declining income or experiencing losses, so it is seen that the consumption of credit risk taken is high. High credit risk results in an increased level of vulnerability of funds to the Allowance for Bad Debts, which can reduce the company's net profit. The regulated corporate risk includes the implementation of risk management. Activities carried out by banks such as collecting funds, distributing credit, and providing payment traffic services and money circulation so that agents (banks) need to ensure that the strategies implemented reduce the potential for losses (Diana et al., 2023).

Based on agency theory to support the interests of agents, namely getting incentives from the company,

agents take higher risks in order to increase short-term profits. However, it can harm the principal in the long term if the risk fails or is not managed properly. The company's risk of defaulting on debt requires debt restructuring or liquidation. Debt restructuring involves the elimination of debt which is offset by a decrease in equity through adjustments that have an impact on increasing financial burdens. Research results (Diana et al., 2023), (Tran & Le, 2020) and (Fadriyaturrohmah & Manda, 2022) states that the higher the corporate risk, the lower the financial performance.

**H7 :** Corporate risk has a negative impact on financial performance.

## RESEARCH METHOD

### Research Design

The purpose of this study is to prove the influence of sustainable finance, governance mechanisms, and auditor reputation on financial performance mediated by corporate risk. . This type of research uses a quantitative approach. Thus, the data obtained comes from financial reports and sustainability reports obtained from publications on financial institution websites. The population of this study is the financial sub-sector (banking) listed on the Indonesia Stock Exchange website. Furthermore, using a purposive sampling technique in deciding on banking samples. The research year was conducted from 2021 to 2023. So the research sample amounted to 47 banking sub-sectors.

Purposive sampling was chosen because it is able to guarantee sample representation that is in accordance with research objectives, ensure data quality, and increase the validity of the results obtained. while the binary scale for determining auditor reputation was chosen because makes it easier to classify companies based on the auditors used, making it more objective and less ambiguous in the analysis. If other measures such as perception-based scores or auditor experience levels are used, the results can be subjective and difficult to compare consistently across companies.

SEM-PLS lebih fleksibel dalam menangani data dengan distribusi non-normal dan ukuran sampel yang relatif kecil, yang sering menjadi kendala dalam metode berbasis regresi yang mengasumsikan distribusi normal dan ukuran sampel yang besar untuk hasil yang optimal. Keunggulan lain dari SmartPLS adalah kemampuannya dalam mengestimasi hubungan kausal secara langsung melalui bootstrapping, yang memberikan hasil lebih akurat dalam mengukur signifikansi efek langsung, tidak langsung, dan total dalam satu model analisis.

There was an increase in operating expenses caused by a decline in fair value and a very high loss on the sale of securities (173.57% yoy). This indicates that banks are experiencing pressure from their financial assets, possibly due to the weakening of the bond market or other investment instruments they own (OJK, 2022). Therefore, this study exclusively focuses on the banking sector in 2021-2023. Banking as a sample in this research includes all categories of the main board, development and special monitoring. This is related to the limited population because there is a suitability of characteristics for research purposes (Amin et al., 2023). Some of these criteria include:

1. Issuers included in the banking sector are listed on the IDX
2. Publish the complete financial report of the issuer for the period 2021-2023 on the IDX and banking websites.

**Table 1.** Variable Size

| Factors | Measurement and Researchers | Category |
|---|---|---|
| Financial performance | $Return\ On\ Aset = \frac{Total\ Net\ Profit}{Total\ Aset}$ (Rampisela, 2023), (Bastomi et al., 2017), (Halim et al., 2017) | Ratio |
| *Sustainablity finance* | POJK No.51/POJK.03/2017 *Sustainable financial index* total 42 indicators x 5 points = 210 points (Rampisela, 2023). $Indeks\ Sustainable\ finance = \frac{Number\ of\ disclosure\ items}{210\ total\ disclosure\ points}$ * Size description using a 0-5 point scale | Ratio |
| Governance Mechanism | (Bastomi et al., 2017), Number of points from the score *Corporate Governance Perception indeks*= $\frac{Number\ of\ item\ published}{80\ indicator\ item\ OECD}$ | Ratio |
| Auditor Reputation | • Score 1 leading affiliated audited banking 4<br>• Score 0 non-leading affiliated audited banking 4<br>(Halim et al., 2017) | Nominal |

| | | |
|---|---|---|
| Corporate Risk | (Rampisela, 2023), Rasio<br>*Non Performance Loan* = $\frac{Total\ bad\ credit*}{Total\ loans}$<br>* Total non-performing loans consist of total substandard loans, doubtful loans and bad loans. | Ratio |

## RESULT AND ANALYSIS

Table 2 shows that the sustainable finance variable as X1 has a minimum value of 0.289 and a maximum of 0.970. The minimum value was obtained by AGRS in 2022, BDMN in 2023, BSWD in 2021 and BRIS in 2022. The decreasing value in disclosing the best practices of sustainable finance in environmental aspects in order to maintain reputation and financial performance. This average value means that the development of sustainable finance by more than 70% can improve financial performance. The standard deviation value of 0.165 or 16.5% shows that the variation in sustainable finance data between one company and another is quite homogeneous.

**Table 2.** Descriptive Statistic

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| *Sustainable Finance* | 141 | 0.289 | 0.970 | 0.700 | 0.165 |
| Governance Mechanism | 141 | 0.270 | 1.00 | 0.650 | 0.303 |
| Auditor Reputation | 141 | 0 | 1 | 0.546 | 0.498 |
| Corporate risk | 141 | 0.0001 | 0.140 | 0.030 | 0.024 |
| Financial Performance | 141 | -0.0123 | 0.114 | 0.015 | 0.018 |

Source: (Secondary Data, 2025)

The governance mechanism variable as X2 has a minimum value of 0.27 and a maximum of 1.00. The minimum value obtained by PNBN in 2022 indicates that the company is very trusted to carry out corporate governance practices in accordance with regulations and legal compliance. The maximum value was obtained by BBCA in 2023 because in that year it reflected that the governance system or process had been well integrated according to the TARIF guidelines (transparency, accountability, responsibility, independence and fairness). The standard deviation value of 0.303 or 30.3% indicates that the variation in governance mechanism data between one company and another is quite homogeneous.

The auditor reputation variable as X3 has a minimum value of 0 and a maximum of 1. Frequency table 4.2. describes the reputation of big 4 affiliated auditors as many as 77 companies and have a score of 1, while companies that are not affiliated with big 4 are 64 companies and have a score of 0. Therefore, companies that maintain financial performance that continues to grow prefer auditors with the biggest reputation 4.

Table 3 shows that from the auditor reputation frequency table which is divided into 2 categories, namely big 4 and non-big 4 auditors. Big 4 auditors consisting of the 4 largest audit firms in the world (KPMG, PwC, Delloite, EY), have a frequency of 77 companies using big 4 KAP or 54.6% of the total sample. Meanwhile, non-big 4 auditors have a frequency of 64 or 45.4%. The total data used is 141 with a cumulative percentage of 100%, indicating that there is no missing data.

**Table 3.** Frequency Distribution of Auditor Reputation

| | | Frequency | Percent | Valid Percent |
|---|---|---|---|---|
| Big 4 | 1 | 77 | 54.6 | 54.6 |
| Non-Big 4 | 0 | 64 | 45.4 | 45.4 |
| **Total** | | 141 | 100.00 | 100.00 |

The company's risk variable as Z (intervening) has a minimum value of 0.0001, namely in Allo Bank Indonesia Tbk in 2022. This means that the company in that year took a very low credit risk in order to maintain the stability of financial performance. Allo Bank Indonesia Tbk maintains credit quality by routinely monitoring the credit category or credit portfolio as a whole. The debtor risk profile measurement system, procedures, risk management systems, database systems and credit organizations continue to be refined with an emphasis on the "Four eyes principle" where credit decisions are taken based on considerations from 2 sides, namely the business development side and the credit risk analysis side. The standard deviation value of 0.024 or 2.4% shows that the variation in total bad debts with the total credit given between one company and another is quite homogeneous.The financial performance variable as a dependent has a minimum value of negative 0.0123, namely Bank Of India Indonesia Tbk in 2021 because in that year the bank's ability to create a return on assets was lower due to a high decline in asset value and debt restructuring. The standard deviation value of 0.018 or 1.8% indicates that the picture of low standard deviations and sample variations is quite heterogeneous.

## Intervening Regression Analysis

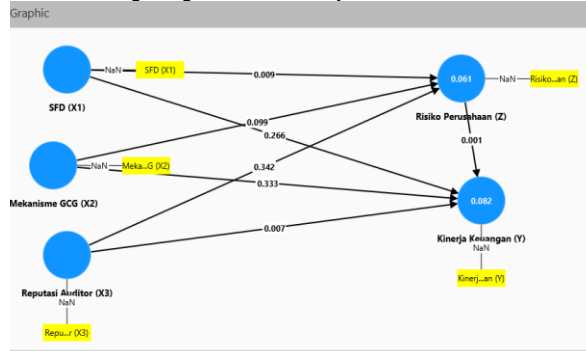

**Figure 2.** Diagram Path Coefficient

Based on the smartpls output results in equation 1, it provides a direct equation model as follows:

**Model directly:**
Financial Performance (Y) = 0.266.(*Sustainable Finance*) + 0.333.(Governance Mechanism) + 0.007.(Auditor Reputation) + 0.001.(Corporate risk) + 0.91 ……..(1)

**Model Indirectly**
Financial Performance (Y) = 0.001.(Corporate risk) + [0.009.(*Sustainable Finance*) + 0.099.(Governance Mechanism) + 0.342.(Auditor Reputation)] + 0.83 ……..(2)

This means that corporate risk has a significant influence on mediating sustainable finance, governance mechanisms and auditor reputation on financial performance by 17%. While directly sustainable finance, governance mechanisms and auditor reputation and corporate risk have a significant influence on financial performance by 9%. Then the amount of $e_1 = \sqrt{1 - 0.0412} = 0.91$ and $e_2 = \sqrt{1 - 0.0552} = 0.83$.

### SEM-PLS Inner Model Evaluation

Table 4 shows that the variables of sustainable finance, governance mechanisms and auditor reputation are able to influence the company's risk variable by 0.041 or 4.1%. While financial performance is influenced by sustainable finance, governance mechanisms and auditor reputation by 0.055 or 5.5%. Variables that can drive the adjusted r-square value should include economic growth (GDP), inflation, interest rates, and exchange rates that can influence the relationship between sustainable finance, corporate risk, and financial performance.

**Table 4.** Coefficient of Determination

| | R-Square | R-Square Adjusted | Patokan | Conclusion |
|---|---|---|---|---|
| Financial Performace (Y) | 0.082 | 0.055 | <0.25 | Weak |
| Corporate risk (Z) | 0.061 | 0.041 | < 0.25 | Weak |

Source: (Output, 2025)

Table 5 shows that financial performance has a predictive relative because the Q square value is 0.002 or 0.2%. This means that the model in this study is strong enough at 0.2% to explain or predict the relationship between variables. While the intervening variable has a relatively low Q Square value of 0.2%, meaning that the company's risk is low enough to be used as an intermediary to explain endogenous variables.

**Table 5.** Predictive Relevance

| Factor | $Q^2$ Predict | Describe |
|---|---|---|
| Financial Performace (Y) | 0.002 < 0,35 | Predictive Relevance falls into the small category |
| Corporate risk (Z) | 0.002 < 0.35 | Predictive Relevance falls into the small category |

Source: (Output, 2025)

Table 6 shows that the f-square variable of sustainable finance, governance mechanisms and auditor reputation on financial performance has a feasible model of less than 0.05. While the indirect effect is the company's risk has a fit model..

**Table 6.** Goodness Of Fit Score

| Matrix | Value of f-Square | |
|---|---|---|
| | Financial Performance (Y) | Corporate risk (Z) |
| Sustainable Finance (X1) | 0.003 | 0.054 |
| Governance Mechanism (X2) | 0.001 | 0.012 |
| Auditor Reputation (X3) | 0.031 | 0.001 |
| Corporate risk (Z) | 0.044 | |

Source: (Output, 2025)

The f-square variable of sustainable finance, governance mechanisms and auditor reputation on financial performance has a feasible model of less than 0.05. While the indirect effect is the company's risk has a fit model..

### Hypothesis Testing

Table 7 shows that the sustainable finance variable has a positive but insignificant effect on financial performance. The p-value of 0.266 > 0.05 means that the sustainable finance variable does not affect financial performance. The beta value of sustainable finance is 0.057. From these results, it means that the effect of sustainable finance on financial performance has a positive direction or the more sustainable finance (X1) increases, the more financial performance (Y) increases. Thus, hypothesis 1 is rejected.

**Table 7.** Directly Effect

| Coefficient Direct Effect | Direction prediction | Original Sampel (Beta) | P-Value | Results |
|---|---|---|---|---|
| Sustainable Finance → Financial Performance | Positive | 0.057 | 0.266 | H1 Rejected |
| Governance Mechanism → Financial Performance | Positive | -0.033 | 0.333 | H2 Rejected |
| Auditor Reputation → Financial Performance | Positive | 0.168 | 0.007 | H3 Accepted |
| Corporate Risk → Financial Performance | Negative | -0.207 | 0.001 | H7 Accepted |

Source: (Output, 2025)

The relationship between governance mechanisms and financial performance has a significance value or p-value of 0.333 > 0.05. This means that there is no significant relationship between governance mechanisms and financial performance. The original sample value is -0.033. From these results, it means that the influence of govSSSernance mechanisms (X2) on financial performance is negative and does not have a significant effect on financial performance (Y), so the second hypothesis is rejected. Therefore, governance mechanisms are not proven to have a significant positive effect on financial performance.

The relationship between auditor reputation and financial performance has a significance value or p-value of 0.007 where the value is significant because it is greater than the alpha criterion, which is 0.05. This means that there is no significant relationship between auditor reputation and financial performance. The beta value of the auditor reputation variable is 0.168. The higher the auditor reputation (X3), the higher the financial performance (Y). Thus, hypothesis 3 is accepted.

The relationship between corporate risk and financial performance has a significance value or p-value of 0.001 <0.05 where the value is stated as significant because it is smaller than 0.05. This means that there is a significant negative relationship between corporate risk and financial performance. The beta value of the corporate risk variable is negative 0.207. The higher the corporate risk (Z), the lower the financial performance (Y). Thus, hypothesis 7 is accepted.

**Table 8.** Mediator Significant Test

| Coefficient Indirect Effect | Original Sampel (Beta) | P-Value | Results |
|---|---|---|---|
| Sustainable Finance → Financial Performance | 0.057 | 0.266 | H1 Rejected |
| Governance Mechanism → Financial Performance | -0.033 | 0.333 | H2 Rejected |
| Auditor Reputation → Financial Performance | 0.168 | 0.007 | H3 Accepted |
| Sustainable Finance → Corporate Risk → Financial Performance | 0.047 | 0.048 | H4 Accepted |
| Governance Mechanism → Corporate Risk → Financial Performance | 0.022 | 0.133 | H5 Rejected |
| Auditor Reputation → Corporate risk → Financial Performance | 0.007 | 0.354 | H6 Rejected |

Source: (Output, 2025)

Table 8 shows the intervening relationship of corporate risk between sustainable finance and financial performance has a significance value of 0.047 where this value is significant because it is smaller than 0.05. This means that there is a significant relationship between corporate risk as an intervening between sustainable finance and financial performance. The original sample or beta value is negative 0.047. So corporate risk (Z) has a significant mediating effect on sustainable finance (X1) on financial performance (Y).

The relationship between corporate risk as an intervening between governance mechanisms and financial performance has a significance value of 0.133 where this value is not significant because it is greater than the alpha criterion of 0.05. This means that there is no significant relationship between corporate risk as an intervening between governance mechanisms (X2) and financial performance (Y). The original sample or beta value is 0.022.

The relationship between corporate risk as an intervening factor between auditor reputation and financial performance has a significance value or p-value of 0.354 where the significance value is greater than the alpha criterion of 0.05. This means that there is no significant relationship between corporate risk as an intervening factor between auditor reputation (X3) and financial performance (Y). The beta value or original sample is 0.007.

Table 9 explains the insignificance of the direct relationship between sustainable finance and financial performance can be explained by the nature of investments in sustainability that take longer to produce tangible financial impacts. The implementation of sustainable finance often requires high upfront costs, such as investments in green technologies, green financing policies, or meeting stricter ESG standards. Therefore, its impact on financial performance is not immediately visible in the short term. However, corporate risk can be a key channel through which sustainable finance affects financial performance. Sustainable finance can help reduce corporate risk, for example by improving operational efficiency, reducing regulatory risk, or increasing the company's resilience to changes in the business environment. With lower risk, corporate stability increases, which in turn can have a positive impact on financial performance.

**Table 9.** simple tabulation of research results

| Hypotesis | Conclusion | Notes |
|---|---|---|
| H1 : Sustainability Finance has a positive impact on financial performance | No significant positive effect (H1 is rejected) | shows that financial sustainability affects corporate risk first before ultimately impacting financial performance. |
| H2 : Governance mechanisms have a positive impact on financial performance | No significant effect (H2 is rejected)) | indicates that governance factors may be more related to long-term aspects or other factors not tested in this study. |
| H3 = Auditor reputation has a positive impact on financial performance | Has a significant positive effect (H3 is accepted) | This means that the auditor's role is more related to the credibility and transparency of financial reports than to direct risk mitigation. |
| H4 = Sustainability finance has a negative impact on financial performance through Corporate Risk | There is a significant positive effect on company risk mediating financial performance (H4 is accepted) | This suggests that risk is the main mechanism linking sustainability policies to financial outcomes. |
| H5 = Governance mechanisms negatively impact financial performance through corporate risk. | There is no significant effect of company risk in mediating (H5 is rejected) | This indicates that corporate risk is not the main channel bridging the relationship between governance and financial performance. |
| H6 = Auditor reputation negatively impacts financial performance through corporate risk | There is no significant influence of company risk in mediating (H6 is rejected) | which means that the auditor's role is more related to the credibility and transparency of financial reports than direct risk mitigation. |
| H7 = Corporate risk has a negative impact on financial performance. | Has a significant negative effect (H7 is accepted) | High risk increases the cost of capital because investors and creditors will demand higher returns to compensate for the uncertainty. |

The insignificance of the direct relationship between sustainable finance and financial performance can be explained by the nature of investments in sustainability that take longer to produce tangible financial impacts. The implementation of sustainable finance often requires high upfront costs, such as investments in green technologies, green financing policies, or meeting stricter ESG standards. Therefore, its impact on financial performance is not immediately visible in the short term. However, corporate risk can be a key channel through which sustainable finance affects financial performance. Sustainable finance can help reduce corporate risk, for example by improving operational efficiency, reducing regulatory risk, or increasing the company's resilience to changes in the business environment. With lower risk, corporate stability increases, which in turn can have a positive impact on financial performance.

In conclusion, sustainable finance does not directly improve financial performance but contributes through reducing corporate risk. Corporate risk is the main mechanism that links the impact of sustainability to financial results. On the other hand, auditor reputation has a direct impact on financial performance, as it increases market confidence in the credibility of the company's financial statements. These findings suggest that an effective sustainable finance strategy should not only focus on short-term profitability, but also on risk management as a key factor in building long-term financial stability.

**Discussion**

The results of this study found that sustainable finance (X1) did not have a significant effect on financial performance (Y). Based on the data that has been collected, sustainable finance (X1) which is measured using POJK No. 51 information on activities or operational areas that have an impact on the environment, especially on the aspect of biodiversity, shows a number of important findings. As a financial services institution, banking does not have a direct operational impact on conservation areas or environments with high biodiversity, so the focus of its reporting is more often directed at other aspects, such as carbon footprint, energy efficiency, and waste management. In addition, banking tends to prioritize social and economic contributions, such as financial inclusion, empowerment of MSMEs, and green financing, which are considered more relevant to direct impacts on society. This result is relevant to the legitimacy theory that the company's responsibility and commitment have met the standards of stakeholder expectations so that a perception of openness arises in the company's ethical operational activities. Banks must increase transparency by presenting more measurable and functional ESG impact data. These results refute the results of the study (Rampisela, 2023), (Shakil et al., 2019) and (Artika et al., 2023) states that sustainable finance has a significant positive effect on financial performance. However, supporting research (Ifadhoh & Yuliana, 2024) and (Aina & Sadikin, 2023) Investor reactions in support of sustainable finance cannot directly respond to financial performance quickly. Therefore,

sustainable finance investments can be affected by fluctuations from geopolitical uncertainty.

The implementation of sustainable finance can project large initial investments, such as financing green projects or strict policies to provide tangible financial benefits in the short term. Likewise, strong governance mechanisms focus more on risk mitigation, regulatory compliance, and increased transparency and accountability, whose effects on financial performance tend to develop in the long term through operational stability and increased investor confidence.

This relationship requires consideration that between stable cash flow and investment opportunities, companies that implement sustainable finance and good governance are actually building a stronger financial foundation. However, the stable cash flow from sustainable projects will only be seen after a certain period, especially after the projects generate profits that can be reinvested into the company. In the short term, companies may face high costs and smaller profit margins due to investments in sustainable initiatives and strict governance systems, which may explain why the results of this study show no significant direct impact on financial performance. However, in the long term, when these projects begin to generate stable cash flow, companies will have more chaos in allocating resources for expansion, innovation, and diversification of more profitable investments.

This indicates that the impact may be more long-term, where the stability of cash flows generated from ongoing activities will be a key catalyst in creating more sustainable investment opportunities and corporate growth in the future.

This study found that governance mechanisms (X2) do not have a significant effect on financial performance (Y). This is reflected in the minimal disclosure of the results of the audit committee's report quality assessment in the annual report. The audit committee's report has a crucial role in overseeing good corporate governance, including ensuring compliance with regulations and risk management. Lack of attention to this aspect may indicate that the board of directors' supervision of the audit committee's function is not optimal, which in turn can affect the company's transparency and accountability. To improve this, proactive steps are needed from the board of directors in paying more attention to the disclosure of the audit committee's evaluation results, including including an in-depth analysis of the effectiveness of the supervision carried out. In addition to agency theory, this study also considers Stewardship Theory, which states that managers act not only as agents who seek to maximize personal profits, but also as managers who are responsible for the wishes of the company. In the banking context, management focuses not only on the interests of shareholders, but also on the long-term interests of customers and regulators. Therefore, the effectiveness of governance mechanisms may be more related to stability and regulatory compliance than to increasing short-term profitability. The results of this study support (Kweh et al., 2017), (Suhadak et al., 2020) and (Utama et al., 2023) which states that governance mechanisms do not have a significant effect on financial performance. The higher the implementation of governance mechanisms does not mean that it affects the increase in financial performance. The governance perception index generally has a positive impact on financial performance for making strategic decisions based on projection data that has been recorded in banking companies.

Strict governance mechanisms can actually create additional costs for companies, for example through increased compliance costs, stricter internal audits, and more bureaucratic decision-making processes due to multiple layers of oversight. This can slow down the company's flexibility in responding to rapid investment opportunities or adjusting business strategies to market changes, which ultimately hinders the potential for improving financial performance in the short term. Therefore, governance mechanisms do not have a significant effect on financial performance.

In addition, the effectiveness of governance in influencing financial performance can also be influenced by the level of company compliance with regulations without any encouragement of innovation or proactive business strategies. Companies that only implement governance as a form of administrative compliance, without integrating it with a broader managerial strategy, may not experience significant benefits in terms of increasing profitability or operational efficiency.

Auditor reputation (X3) obtained results that significantly influenced financial performance (Y). Auditors with high reputations tend to provide stricter supervision of financial reports, thereby improving the quality of information presented and strengthening investor confidence. This has an impact on improving financial performance, both in terms of profitability, operational efficiency, and risk management. External auditors can contribute positively as external supervision, especially from auditors, creating increased investor confidence in the credibility of the sample company. The auditor's reputation is reflected in the size of the public accountant, which turns out to cause an increase in financial performance. Large public accountants do not cause excessive adjustments that have the effect of improving financial performance. This study supports by (Wardhana & Kusumawardhany, 2022), (Nelwan et al., 2021) and (Li et al., 2021) auditors with a good reputation tend to gain more trust from shareholders or stakeholders because of their thoroughness and professionalism in releasing accurate and transparent financial reports. The higher the auditor's reputation, the better the financial performance, and significantly affects the movement of financial performance.

Corporate risk (Z) can mediate the effect of sustainable finance (X1) on financial performance (Y). The principle of sustainable finance in the OJK framework reflects the representation of responsible credit distribution and is based on social, environmental, and economic impact analysis content that can help reduce the risk of bad debt. With low NPLs, companies are able to increase operational efficiency, maintain cash flow stability, and improve the entity's finances. Proving that the fourth hypothesis proposed in this study is that corporate risk is able to mediate the effect of sustainable finance on financial performance. In the tests that have been conducted, sustainable finance has been proven to be able to mediate the effect of sustainable finance on financial performance. The results of this study support the legitimacy theory that the implementation of sustainable financial practices that consider the social and environmental impacts of investments can increase credit risk. Thus, credit risk managers will tighten borrower creditworthiness policies and procedures and ensure that banks comply with applicable regulations. Therefore, good credit risk management can strengthen the positive impact of sustainable finance on financial performance. These results support the research Rampisela (2023), Afifah et al. (2023) and Bachtiar & Nainggolan (2023) states that sustainable finance has a significant effect on financial performance with corporate risk as an intervening factor. Thus, corporate risk is quite strong in mediating the effect of sustainable finance on financial performance. Therefore, the focus of sustainable finance is designed to capture specific aspects of the environment, social and governance, while the risk of banking companies to maximize sustainability practices has mitigated and considered the risk profile. So the higher the practice of sustainable finance, the higher the operational efficiency or profit of the company is influenced by corporate risk.

Corporate risk (Z) as a mediator does not affect the governance mechanism (X2) on financial performance (Y). Corporate risk (Z) is not sensitive to mediating influence reflected in the less than optimal responsibility of the board of directors in supervising credit risk management and the low frequency of board meetings, so that strategic decision making related to risk mitigation does not run effectively. As a result, although corporate governance has a good framework, its implementation is not fully able to control NPL at an ideal level. This shows that the quality of governance alone is not enough to support optimal financial performance without the active involvement and adequate supervision of the board of directors and board of commissioners. The results of this study are in contrast to the agency theory which states that governance mechanisms can minimize the risk of agency conflicts between management and shareholders. However, it is relevant to the social contract theory because banking institutions develop and are organized through voluntary agreements between related individuals. Effective governance aims to minimize potentially detrimental risks so that it can improve the company's financial performance. The governance mechanism is reflected in the company's compliance with the general guidelines for Indonesian corporate governance to manage integrated governance that is less sensitive to financial performance. This can be caused by several factors such as less than optimal implementation of governance or the role of corporate risk that is less significant. It is not always negative, it could also be because corporate risk has been well anticipated by the governance system so that its impact on financial performance is not significant. While the original sample value of 0.004 is interpreted as a strong governance mechanism that is able to manage corporate risk comprehensively so that it can provide a positive contribution to improving financial performance. The results of this study support Weli & Pambudi (2023), Hutabarat (2018) and Utami et al. (2022) states that corporate risk cannot mediate governance mechanisms on financial performance.

Corporate risk (Z) is unable to significantly mediate auditor reputation (X3) on financial performance (Y). This is due to the fact that the majority of entities studied use auditors from large firms with high reputations, so that audit quality tends to be uniform and does not directly affect the management of bad debt risk. In addition, the calculation of NPL is entirely the responsibility of the entity and is based on internal policies related to credit risk management. The auditor only ensures that the calculation is in accordance with accounting standards without having the authority to influence or improve policies related to handling bad debts. In the tests that have been conducted, corporate risk as an intervening has been proven to have a negative effect on financial performance. However, it is not significant as seen from the p-value of 0.354 because the complexity of the company's operations is comparable to the quality of the audit provided by a highly reputable auditor so that the reliability of the financial statements contributes to market perception. The results of this study are in line with the signaling theory which states that information provided by management including audit reports can function as a signal to shareholders. A high auditor reputation can encourage a positive signal on the quality of the company's financial statements. However, showing high corporate risk, a positive signal is not enough to drive financial performance. Corporate risk becomes insignificant mediating because the company operates in a competitive environment and high market volatility. In such conditions, financial performance is more influenced by market dynamics than corporate risk. The results of this study are relevant by (Yanti, 2020) and (Maulina & Nurbaiti, 2018) stated that auditor reputation does not have a significant effect on corporate risk, although highly reputable auditors

maintain their audit quality, increased corporate risk can affect market perceptions of the reliability of financial reports. High corporate risk results in decreased financial performance because it reduces the cost of capital, thereby increasing operational uncertainty.

The company's risk (Z) on financial performance (Y) is significantly negative, so the seventh hypothesis is accepted. In the tests that have been conducted, the company's risk has been proven to be able to influence financial performance. Therefore, the agency theory has been proven to state that the higher the risk taken by the risk manager, the lower the financial performance. Loans provided by the banking sector are quite high so that the potential for default increases. This disrupts the company's cash flow. The company's cash flow will reveal the inability to meet its short-term obligations so that it is very vulnerable to losing the expected cash flow from interest and principal due to debtors who fail to pay the company's payments or financial performance decreases. The higher the risk of bad debts, the lower the financial performance. Banking or financing companies are very relevant to having high credit risk because the main function of banking is as a financial intermediary and financial service provider. The results of this study support the research (Tran & Le, 2020), (Diana et al., 2023) and (Fadriyaturrohmah & Manda, 2022) found that corporate risk has a significant negative effect on financial performance

## CONCLUSION

The implications provided as recommendations for the banking sector are Tightening supervision of risk management practices, especially in banks that have high exposure to financing risky sectors, such as MSMEs and industries that are affected by global economic changes. This study does not include external factors such as economic growth, inflation, interest rates, and political stability, which can affect the relationship between sustainable finance, governance, and financial performance. These macroeconomic factors have the potential to be control or moderating variables in the relationship, as volatile economic conditions can weaken or strengthen the impact of corporate governance and risk mechanisms on bank profitability.

This research aims to determine the effect of sustainable finance, governance mechanisms and auditor reputation on financial performance with corporate risk as an intervening variable. The sample of this study was 47 general banking companies listed on the Indonesia Stock Exchange in 2021-2023. Based on the tests conducted and the results of the discussion of this study, it can be concluded that: (1) Sustainable finance does not have an impact on financial performance, (2) governance mechanisms do not affect financial performance, (3) auditor reputation has a significant positive effect on financial performance, (4) corporate risk has a significant positive effect on mediating sustainable finance on financial performance, (5) corporate risk has no mediating effect on governance mechanisms on financial performance, (6) corporate risk has no mediating effect on auditor reputation on financial performance, and (7) corporate risk has a significant negative effect on financial performance.

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