

INTERNAL CONTROL SYSTEM AND SYSTEM ANALYSIS RISK MANAGEMENT ON COMPANY PERFORMANCE THROUGH GOOD CORPORATE GOVERNANCE ON PT REGIONAL DEVELOPMENT BANK EAST JAVA Tbk

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Abstract

This study aims to analyze the influence of Internal Control System and Risk Management System on Company Performance, with Good Corporate Governance as a mediating variable at PT Bank Pembangunan Daerah Jawa Timur Tbk. The specific objectives of this study are: (1) to analyze the influence of Internal Control System on Company Performance; (2) to analyze the influence of Risk Management System on Company Performance; (3) to analyze the role of Good Corporate Governance in mediating the influence of Internal Control System on Company Performance; and (4) to analyze the role of Good Corporate Governance in mediating the influence of Risk Management System on Company Performance. The population in this study is the Retail Credit Division, Credit Risk Analysis Division, Internal Audit Division, Risk Management Division, Compliance Division and Corporate Secretary of PT Bank Pembangunan Daerah Jawa Timur Tbk totaling 90 employees, using the Slovin formula obtained a sample of 73 respondents. The analysis method used is Partial Least Square (PLS) with the help of Smart PLS 3.0 software. The research results show that: (1) the Internal Control System can have a positive impact on Company Performance; (2) the Risk Management System also plays an important role in improving Company Performance; (3) Good Corporate Governance functions as a link that strengthens the influence of the Internal Control System on Company Performance; and (4) Good Corporate Governance also strengthens the relationship between the Risk Management System and Company Performance.

Keywords: *Internal Control System, Risk Management System, Good Corporate Governance, Company Performance.*

INTRODUCTION

In an increasingly competitive era of globalization, companies face significant challenges in maintaining operational continuity and achieving their strategic goals. Global competition, technological advancements, and regulatory changes require companies to continuously innovate and adapt. To achieve optimal performance, companies must be able to manage various aspects, particularly internal control systems and risk management. Internal control systems aim to ensure that all company operational activities are carried out in accordance with the company's vision, mission, and established long-term goals. This system focuses not only on achieving strategic goals but also on operational effectiveness that supports efficiency and productivity. Meanwhile, risk management plays a role in identifying, measuring, and mitigating risks that could threaten the company's stability and performance. Without effective risk management, companies are vulnerable to various external and internal threats that can be detrimental. In this context, financial management is a crucial pillar in company management. Financial management encompasses not only the management of financial resources but also the decision-making process that impacts the company's long-term strategy and operations. According to Irfani (2020), financial management involves the process of managing business activities related to financial decision-making, both strategic and operational. This decision-making includes investment planning, asset management, working capital management, and long-term financial planning. In this context, financial reports are a vital tool used by company leaders as a basis for analyzing financial conditions and making strategic decisions. Through financial reports, management can identify weaknesses and opportunities, and take necessary actions to improve company performance. Financial reports play a significant role in the evaluation and decision-making process. By conducting financial ratio analysis, companies can evaluate existing historical data and identify potential issues that require further attention. According to Hery (2018), financial

ratios are tools used to assess a company's financial condition and performance by comparing various components in the financial statements, such as assets, liabilities, equity, and revenue. These ratios, such as ROA (Return on Assets), LDR (Loan to Deposit Ratio), and CAR (Capital Adequacy Ratio), provide important information regarding a company's financial health. Therefore, financial ratio analysis allows companies to determine how effectively they are managing their assets and liabilities, while also helping identify areas that require improvement (Pertiwi, TK, 2024). In the banking industry, financial reports not only serve as an internal evaluation tool but also serve as a basis for external parties such as regulators, investors, and the government to assess a bank's health and performance. Bank health is a crucial aspect that determines the stability of the overall financial system. According to Triandaru & Budisantoso (2013), a bank's health is measured by its ability to carry out normal operations, fulfill obligations, and comply with applicable regulations. In this regard, Bank Indonesia, as the monetary authority, plays a role in overseeing the health of every bank in Indonesia, both conventional and Islamic banks, to ensure financial system stability. Assessing bank health is important not only for the company itself but also for the wider community who use banking services and the government, which requires banking sector support in implementing various economic programs, such as the People's Business Credit (KUR) and infrastructure projects.

PT Bank Pembangunan Daerah Jawa Timur Tbk (Bank Jatim) is one of the largest regional development banks in Indonesia, playing a significant role in supporting economic growth in East Java Province. This bank carries out its primary banking function, namely collecting funds from the public and redistributing them in the form of credit and other banking services. In 2017, Bank Jatim's net profit was recorded at 1.15 trillion rupiah. However, in 2018 it increased to 1.26 trillion rupiah. This condition improved again in 2019 with a profit increase to 1.38 trillion rupiah. The upward trend in Bank Jatim's profit continued until 2022, reaching 1.54 trillion rupiah. Then, a decline occurred in 2023, where profits decreased to 1.47 trillion rupiah. Bank Jatim's net profit decreased by 4.5% YoY from 2022's profit, to 1.47 trillion rupiah. This fluctuation in net profit indicates that Bank Jatim faces challenges in maintaining stable profitability. Factors such as credit risk management, operational efficiency, liquidity, and the implementation of Good Corporate Governance (GCG) principles are very important to pay attention to. To obtain a more comprehensive picture of financial performance, analysis can also be seen from the Risk Profile, Good Corporate Governance, Return on Assets (ROA), and Return on Equity (ROE) ratios of Bank Jatim for the 2017–2023 period, which show quite fluctuating dynamics throughout the 2017–2023 period. The NPL (Non-Performing Loan) ratio increased (negative) in 2019–2021, reflecting a decrease in non-performing loans, although it decreased (positive) in 2021–2023. The LDR (Loan to Deposit Ratio) ratio tends to decrease consistently, indicating that Bank Jatim has not been able to manage the LDR optimally. From the aspect of Good Corporate Governance (GCG), Bank Jatim's performance is ranked at a composite 3 (PK-3) throughout the period, which means that governance is considered quite good although there is still room for improvement. Meanwhile, the ROA and ROE ratios have decreased from year to year, indicating challenges in maintaining profitability.

Bank Jatim is a financial institution that plays a vital role in supporting regional economic growth in East Java Province. As a regional government-owned bank, Bank Jatim has a responsibility to maintain stable and sustainable company performance. However, over the past seven years (2017–2023), Bank Jatim's financial performance data shows quite striking fluctuations in net profit and profitability. Although it achieved a net profit of IDR 1.15 trillion in 2017, this figure decreased in 2018 to IDR 1.26 trillion, and despite experiencing a rebound, this unstable trend continued until 2023. Furthermore, the ROA (Return on Assets) ratio, an important indicator of asset utilization efficiency, continued to decline from 3.12% in 2017 to 1.87% in 2023. This fact indicates that Bank Jatim has not been able to maintain consistent efficiency and effectiveness in its performance. These fluctuations are not only an external symptom of national economic dynamics but also indicate structural and functional weaknesses within the organization. The fundamental issue of primary concern is the suboptimal performance of the internal control system. The internal control system serves as a crucial mechanism for ensuring operational order, accurate financial reporting, regulatory compliance, and the protection of company assets. When the internal control system is weak, the potential for irregularities in business processes such as credit granting, transaction recording, and financial reporting increases. This directly impacts the quality of managerial information and strategic decision-making, which can lead to inefficiencies and losses. An ineffective internal control system also hinders the internal improvement efforts needed to adapt to the increasingly complex and digital banking industry. Furthermore, weak internal controls increase the opportunity for fraud, misconduct, and procedural inconsistencies, which can damage the bank's reputation and credibility in the eyes of the public and regulators. Weaknesses in the internal control system are also closely related to a suboptimal risk management system. In the banking industry, credit and liquidity risks are crucial issues that must be carefully managed. Data shows that the Non-Performing Loan (NPL) ratio, which had declined (positively) from 4.59% in 2017 to 2.77% in 2019, rose again to 4.00% in 2020 and reached 4.48% in 2021. This increase in NPL

indicates that Bank Jatim is experiencing difficulties in controlling the quality of its credit portfolio. Debtors' failure to meet payment obligations indicates a weak risk mitigation function, both in the creditworthiness assessment stage, ongoing credit monitoring, and the collection process. Furthermore, the declining trend in the Loan to Deposit Ratio (LDR) from 79.69% in 2027 to 56.50% in 2022 indicates a conservative approach in disbursing funds. This can be interpreted as a response to risk uncertainty, but it could also indicate that business opportunities are not being optimally utilized. The inability of the risk management system to maintain a balance between prudence and business aggressiveness also hampers the company's ability to generate maximum profits. Previous research confirms that risk management plays a crucial role in improving company performance, with risk disclosure signaling transparency and preparedness to face uncertainty, positively impacting company value (Azim & Abdelmoniem, 2020; Devi et al., 2019; Jafari et al., 2018). However, the effectiveness of risk management is inextricably linked to the implementation of Good Corporate Governance (GCG), which, in the context of Bank Jatim, stagnated at a PK-3 rating, or "fairly healthy," for the 2017–2023 period. This indicates that GCG implementation remains administrative in nature and not yet fully substantive, weakening the supervisory function, internal control system, and risk management. Therefore, Bank Jatim needs to ensure that GCG implementation is carried out effectively and consistently to strengthen governance, improve efficiency, and drive sustainable company performance.

To support effective risk management, the implementation of GCG is a crucial element that cannot be ignored (Meitasari, & Anwar, M., 2021). Good Corporate Governance, as stipulated in Bank Indonesia Regulation No. 13/1/2011, is corporate governance encompassing five main principles: transparency, accountability, responsibility, professionalism, and fairness. These principles serve as the foundation for building a sound organizational structure, maintaining management integrity, and protecting stakeholder interests. GCG at Bank Jatim was assessed as quite stable between 2017 and 2023 with a PK-3 rating, indicating that corporate governance is in the "fairly healthy" category. Good GCG performance not only impacts the company's internal stability but also public and investor perceptions of the company's integrity and financial health. In this context, this study aims to analyze how internal control systems and risk management systems affect company performance, with Good Corporate Governance as a mediating variable. A thorough understanding of the interplay between internal control systems, risk management, and GCG is crucial to helping companies, particularly Bank Jatim, improve their performance and face future challenges. With proper implementation, companies can increase operational efficiency, mitigate risks, and maintain their competitiveness in an increasingly competitive marketplace.

Theoretical basis

Internal Control System

According to Romney and Steinbart (2015), internal control is an important company operating process and an integral part of management activities that function to provide adequate assurance so that the company can achieve maximum profits. Therefore, companies need to design effective internal control, especially in the sales cycle, because the lack of internal control in sales activities can trigger fraud and deliberate misappropriation due to weaknesses in internal control. In addition, internal control also functions as a comprehensive monitoring method for company activities and systems used in running the company, and includes the instruments used by the company. The company's internal control system is not only to check the validity of figures and safeguard company assets in terms of recording, but also includes the company's organizational structure to create work efficiency, limit authority, and supervise the functions of each resource, in order to minimize the occurrence of centralization of authority in a position that can lead to fraud or misappropriation. Therefore, it is necessary to periodically evaluate internal control so that its function can run well.

Risk Management System

Risk can be defined as the potential for an event to occur that results in a loss. Risk is the possibility of an undesirable outcome occurring, which can result in losses if not anticipated and managed properly. According to Adiwarman A. Karim, risk in the banking context is a potential event, either anticipated or unanticipated, that negatively impacts a bank's income and capital. According to GR Terry, management is a unique process consisting of planning, organizing, implementing, and controlling actions, each of which uses both knowledge and expertise and is followed sequentially in order to achieve predetermined goals. According to Nawawi, management is intellectual work carried out by people in relation to organizations. Management requires coordination of resources and materials towards achieving goals. From this definition, it can be explained that management is a process or system of management or arrangement in which there is planning, decisions, organizing, leadership, and supervision in doing business.

Risk management according to Herman Darmawi is an effort to identify, analyze and control risks in every company activity with the aim of achieving higher effectiveness and efficiency. Risk management according to Adiwarman A. Karim is identifying, measuring, monitoring, and controlling the course of bank business activities with a reasonable and directed, integrated, and sustainable level of risk. Risk management according to Ferry N. Idroes is a logical and systematic method in identifying, quantifying, determining attitudes, determining solutions, and monitoring and reporting risks that occur in every activity or process.

Good Corporate Governance

The Cadbury Committee (1992) in Sudarmayanti (2007) stated that corporate governance is a system that focuses on and controls the company and its objectives in ensuring the continuity of the powers needed by the company to ensure its continued existence and accountability to stakeholders. Corporate governance encompasses the relationships between stakeholders relevant to the company's management objectives. The main actors in corporate governance consist of shareholders, the Board of Directors, the Board of Commissioners, the Audit Committee, and the Sharia Supervisory Board (SSB). According to the Forum for Corporate Governance in Indonesia (FCGI, 2003), corporate governance is defined as a set of regulations governing the relationship between shareholders, management, government, creditors, employees, and other internal and external stakeholders regarding their rights and obligations, also known as a system of direction and control for the company. Meanwhile, the definition of Good Corporate Governance (GCG) according to the Organization for Economic Cooperation and Development (OECD, 2004) is a regulatory structure for shareholders, the Board of Commissioners, and managers to determine the company's objectives and the means to achieve these objectives and monitor their implementation. If the implementation of good corporate governance runs efficiently and effectively, all company operational activities can run smoothly, so that problems regarding company operations, both financial and non-financial, can also be resolved (Brown, 2004).

Company performance

Company performance is a crucial indicator that reflects the degree to which an organization's goals, mission, and objectives are achieved. Performance not only refers to final results, but also assesses the processes, steps, and efforts taken to achieve those goals, including the ability to face challenges and find effective solutions (Moeheriono, 2012). Performance reflects an organization's actions and activities over a specific period, with reference to standards such as efficiency, accountability, and management responsibility (Rivai, 2013). Internal factors such as management and organizational culture, as well as external factors such as market conditions and regulations, collectively influence a company's ability to achieve optimal performance.

The Influence of Internal Control Systems on Company Performance

Internal Control Systems (ISCs) play an important role in improving company performance by creating a clear, consistent, and fair environment for employees. Based on Social Cognitive Theory (Bandura, 1986), SPI influences personal factors such as employee perceptions of control, self-efficacy, and accountability. Employees who understand their roles, procedures, and job expectations will be more motivated, proactive, and able to face challenges, resulting in more productive work behavior and a focus on achieving company goals. Consistent SPI also fosters a culture of compliance and high performance through rewards, punishments, and positive social pressure. In addition, SPI helps companies identify risks, improve operational efficiency, and ensure compliance with laws and internal standards. Supported by Good Corporate Governance (GCG), SPI strengthens transparency, accountability, and the reliability of financial reports, which increases investor confidence and company value. Overall, effective SPI implementation not only...maintaining stability and smooth operations, but also being a strategic foundation for achieving corporate goals and improving long-term performance.

The Influence of Risk Management Systems on Company Performance

A Risk Management System (SMR) improves company performance by creating an environment that encourages proactive, confident employees and the ability to make sound decisions amidst uncertainty. The transparent, participatory, and consistent implementation of a SMR builds a culture of risk awareness, increases accountability, collective motivation, and operational effectiveness, thus directly impacting company performance. In addition, risk management through a management committee and intellectual capital risk control, including human, structural, and relational capital, ensures the company can identify, assess, and mitigate internal and external risks. Companies that manage risk effectively are able to maintain competitiveness, customer satisfaction, and long-term performance, making SMR a strategic instrument for increasing organizational resilience and success.

The Role of Good Corporate Governance in Mediating the Influence of Internal Control Systems on Company Performance

Good Corporate Governance(GCG) acts as a mediator that strengthens the influence of the Internal Control System (ISC) on company performance. Based on Social Cognitive Theory (Bandura, 1986), organizational behavior and individuals are formed through the reciprocal interaction of personal factors, the environment, and actual behavior. In this context, SPI forms a structure that directs and limits behavior, while GCG creates norms, ethics, and a culture that ensure SPI is implemented effectively. With the principles of transparency, accountability, independence, and fairness, GCG encourages employees to comply with SPI internally, increases self-efficacy, and fosters collective behavior aligned with organizational goals, thereby improving company performance. As an intervening variable, GCG ensures that SPI is implemented not only as a formal procedure but also as a concrete behavior that supports performance. GCG principles enable faster and more accurate decision-making, minimize the risk of irregularities, and increase compliance with policies. Internal control. Research by Siregar (2024) and Wulan et al. (2022) shows that consistent GCG implementation strengthens the effects of SPI, organizational commitment, and corporate culture on performance, confirming GCG's role as a strategic link that makes internal control more effective and has a significant impact on achieving company performance.

The Role of Good Corporate Governance in Mediating the Influence of Risk Management Systems on Company Performance

Good Corporate Governance(GCG) plays a crucial role in mediating the influence of the Risk Management System on company performance. Based on Social Cognitive Theory (Bandura, 1986), a risk management system creates an environment that enables risk identification, evaluation, and control, while GCG builds norms, ethics, and a culture that ensure the system's effective implementation. With the principles of transparency, accountability, and responsibility, GCG strengthens risk management implementation, encouraging adaptive, proactive, and ethical organizational behavior, allowing the impact of risk to be leveraged as a strategic opportunity to improve company performance. As an intervening variable, GCG links the risk management system to tangible organizational outcomes. GCG ensures that identified risks are translated into concrete actions, supports informed decision-making, and enhances compliance and stakeholder trust. Without GCG, a risk management system can potentially remain merely a formal document with no tangible impact. Zega's (2022) study shows that GCG practices integrated with risk management improve company performance and stakeholder trust, underscoring the importance of GCG as a catalyst for effective risk management and oriented toward achieving long-term performance.

Hypothesis

Based on the theoretical study and framework of thought as referred to above, the following hypothesis can be formulated:

- H1 : Internal Control System has a positive effect on Performance
Company for Employees of PT Bank Pembangunan Daerah Jawa East Tbk.
- H2 : Risk Management System has a positive effect on performance
Company for Employees of PT Bank Pembangunan Daerah Jawa East Tbk.
- H3 : *Good Corporate Governance* able to mediate the influence of the System
Internal Control of Company Performance on Employees
PT East Java Regional Development Bank Tbk.
- H4 : *Good Corporate Governance* able to mediate the influence of the System
Risk Management on Company Performance for PT Employees
East Java Regional Development Bank Tbk.

RESEARCH METHODS

This study uses a quantitative approach, which focuses on collecting, processing, and analyzing numerical data to test hypotheses (Sugiyono, 2016). The study population included 90 employees from various divisions at PT Bank Pembangunan Daerah Jawa Timur Tbk, namely the Retail Credit Division, Credit Risk Analysis, Internal Audit, Risk Management, and Compliance and Corporate Secretary. The population was selected because they play a crucial role in the internal control system, risk management, and the implementation of Good Corporate Governance (GCG). The

research sample was determined using probability sampling with simple random sampling and stratified sampling methods, so that the sample is representative of the characteristics of the population. Based on the Slovin formula, 73 respondents were obtained consisting of first-line employees (Retail Credit & Credit Risk Analysis Division), second-line (Risk Management), third-line (Internal Audit), and Compliance & Corporate Secretary Division. Data analysis was performed using Partial Least Squares (PLS) using Smart PLS 3.0. PLS was chosen because it is capable of testing one-way causal relationships with small sample sizes and non-normal data (Ghazali, 2015; Sholihin & Ratmono, 2020). PLS analysis includes:

1. Structural model (inner model): connecting latent variables.
2. Measurement model (outer model): connecting indicators with latent variables.

Hypothesis Testing done by comparing the path coefficient and T-table, where:

1. The hypothesis is significant if T-count > T-table at a significance level of 1%, 5%, or 10%.
2. The alternative hypothesis is accepted if the T-statistic ≥ 1.96 or the p-value < 0.05.

RESEARCH RESULTS AND DISCUSSION

Description of Research Results

Descriptive statistical descriptions are used to determine the description of respondents' answers based on the results of distributing questionnaires to the elements in each variable.

Table 1. Respondent Characteristics

Profile	Total	Percentage (%)
Gender		
Man	39	53.4
Woman	34	46.6
Education		
D3	14	19
S1	42	58
S2	17	23
Age		
21–35 years	27	37.0
36–45 years	27	37.0
46–55 years	15	20.5
> 55 years	4	5.5

Research result

Outer Model (Measurement Model and Indicator Validity)

This study uses two independent variables: the Internal Control System and the Risk Management System, one dependent variable, and one moderating variable, Good Corporate Governance, with reflective indicators. This examination was conducted to identify the most important and dominant indicators, or those that fit in shaping or reflecting each independent variable.

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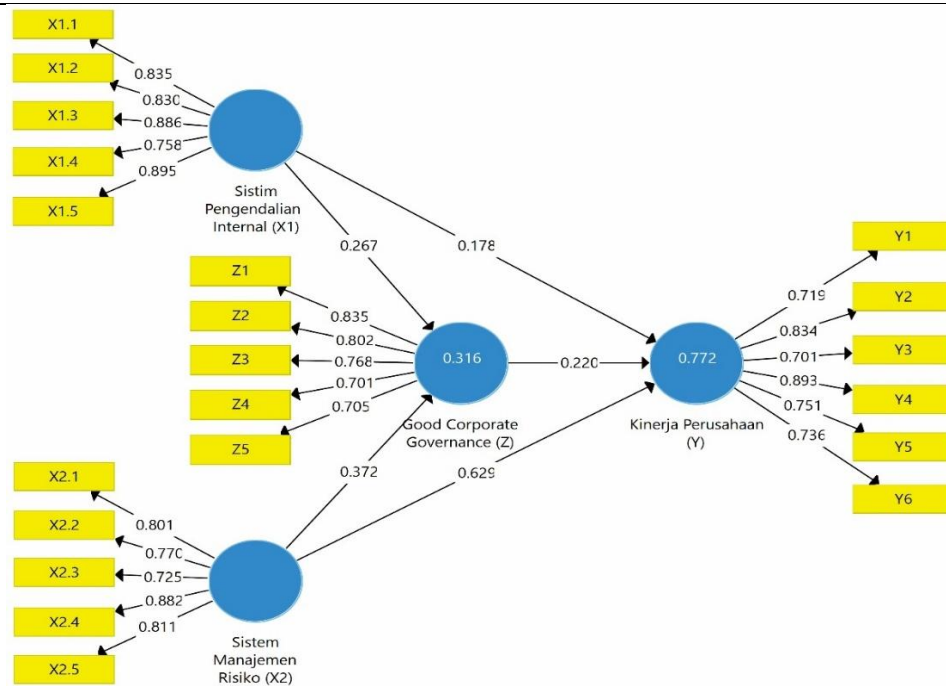


Figure 1. PLS Model

Source: Processing via SmartPLS (2025)

Convergent Validity Test

Convergent Validity namely the loading factor value must be more than 0.5 for confirmatory research and the average variance extracted (AVE) value must be greater than 0.5 (Ghozali, 2015). The relationship model between variables and indicators in the measurement model for Reflective variables, namely Internal Control System, Risk Management System, Good Corporate Governance and Company Performance is based on the outer Loading table.

Table 2 Outer Loadings (Factor Loading)

	Good Corporate Governance(Z)	Company Performance (Y)	Risk Management System (X2)	Internal Control System (X1)
X1.1				0.835
X1.2				0.830
X1.3				0.886
X1.4				0.758
X1.5				0.895
X2.1			0.801	
X2.2			0.770	
X2.3			0.725	
X2.4			0.819	
X2.5			0.811	
Y1		0.719		
Y2		0.834		
Y3		0.701		
Y4		0.893		
Y5		0.751		
Y6		0.736		
Z1	0.835			
Z2	0.802			
Z3	0.768			
Z4	0.701			
Z5	0.705			

Source: Processing via SmartPLS (2025)

Table 2 shows the results of the outer loading test which aims to assess convergent validity, namely the extent to which the indicators are able to represent the construct or variable being measured. A good loading value is ≥ 0.70 , indicating that the indicator has a strong correlation with its construct. In the Internal Control System variable (X1), all indicators (X1.1–X1.5) show loading values between 0.758 and 0.895, indicating that elements such as internal control and segregation of duties are valid in measuring X1. Likewise, in the Risk Management System (X2), indicators X2.1–X2.5 have loadings between 0.725–0.819, which means that indicators such as risk identification and control are strong enough to explain the construct. For the Company Performance variable (Y), six indicators show loading values between 0.701–0.893, which illustrates that indicators such as effectiveness, efficiency, and service quality are relevant in assessing company performance. Meanwhile, in the Good Corporate Governance (Z) variable, the five indicators have loadings between 0.701–0.835, reflecting that the principles of Good Corporate Governance such as transparency and accountability have been measured validly. Overall, all indicators in this study have outer loading values above 0.70, which means that convergent validity is achieved and the construct can be used reliably in the structural model analysis. Good convergent validity also indicates that each indicator is consistently able to represent the measured construct.

Discriminant Validity Test

Discriminant Validity related to the principle that different construct measures (manifest variables) should not be highly correlated. The way to test discriminant validity with reflexive indicators is by looking at the cross-loading value for each variable which must be > 0.70 .

Table 3 Outer Loadings (Factor Loading)

Fornell-Larcker Criterion

	<i>Good Corporate Governance (Z)</i>	<i>Company Performance (Y)</i>	<i>Risk Management System (X2)</i>	<i>Internal Control System (X1)</i>
<i>Good Corporate Governance (Z)</i>	0.753			
<i>Company Performance (Y)</i>	0.626	0.793		
<i>Risk Management System (X2)</i>	0.514	0.636	0.762	
<i>Internal Control System (X1)</i>	0.466	0.615	0.533	0.804

Source: Processing via SmartPLS (2025)

Based on Table 3 above, it can be seen that each indicator has the highest loading value on its respective construct, and the value is also greater than 0.70. This indicates that each indicator does measure the intended variable and does not show a high correlation with other constructs. Thus, it can be concluded that: All indicators in this study have met discriminant validity, meaning each indicator can well distinguish between one construct and another. This strengthens the quality of the research instrument and indicates that the constructs used are unique and do not overlap.

Table 4. Cross Loading

Cross Loadings

	<i>Good Corporate Governance(Z)</i>	<i>Company Performance (Y)</i>	<i>Risk Management System (X2)</i>	<i>Internal Control System (X1)</i>
X1.1	0.394	0.465	0.508	0.835
X1.2	0.427	0.501	0.493	0.830
X1.3	0.419	0.591	0.482	0.886
X1.4	0.284	0.452	0.306	0.758
X1.5	0.328	0.446	0.323	0.695
X2.1	0.428	0.409	0.601	0.380
X2.2	0.353	0.674	0.770	0.353
X2.3	0.384	0.701	0.725	0.382
X2.4	0.238	0.435	0.582	0.359
X2.5	0.290	0.477	0.611	0.306
Y1	0.494	0.719	0.642	0.478
Y2	0.457	0.534	0.310	0.469
Y3	0.384	0.701	0.725	0.382
Y4	0.473	0.693	0.456	0.448
Y5	0.283	0.751	0.702	0.397
Y6	0.552	0.736	0.538	0.419
Z1	0.435	0.225	0.172	0.233
Z2	0.602	0.254	0.242	0.149
Z3	0.768	0.397	0.404	0.355
Z4	0.701	0.258	0.205	0.161
Z5	0.705	0.443	0.467	0.440

Source: Processing via SmartPLS (2025)

The cross-loading results in the table above indicate that the correlation value of the construct/variable with its indicator is greater than the correlation value with other indicators. For example, the Internal Control System variable has a higher correlation value with its indicator compared to the correlation value with other indicators. Thus, all constructs or latent variables have good discriminant validity, where the indicators in the construct/variable indicator block are better than the indicators in other blocks.

Reliability and Validity of Variables

Table 5 Composite Reliability Table Average Variances Extracted

Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
<i>Good Corporate Governance(Z)</i>	0.792	0.804	0.878	0.706
<i>Company Performance (Y)</i>	0.762	0.829	0.869	0.768
<i>Risk Management System (X2)</i>	0.728	0.791	0.811	0.613
<i>Internal Control System (X1)</i>	0.781	0.707	0.775	0.782

Source: Processing via SmartPLS (2025)

The next measurement model is the Average Variance Extracted (AVE) value, which indicates the magnitude of the indicator variance contained by the latent variable. Convergence: An AVE value greater than 0.5 also indicates adequate validity for the latent variable. Reflective indicator variables can be seen from the Average Variance Extracted (AVE) value for each construct (variable). A good model is required if the AVE value of each

construct is greater than 0.5. The test results in Table 4.15 show that the AVE value for the constructs (variables) of the Internal Control System, Risk Management System, Good Corporate Governance, and Company Performance variables has a value greater than 0.5, so it is valid. A questionnaire is said to have good composite reliability if the composite reliability value is > 0.70 , although it is not an absolute standard. (Solimun, Fernandes & Nurjannah, 2017:116). Based on table 4.10 above, the construct reliability is measured by the composite reliability value, the construct is reliable if the composite reliability value is above 0.70 then the indicator is said to be consistent in measuring its latent variable. The test results show that the constructs (variables) of the Internal Control System, Risk Management System, Good Corporate Governance and Company Performance have a composite reliability value greater than 0.7. So it is reliable.

Structural Model Testing (Inner Model)

Testing of the structural model is done by looking at the R-Square value which is a goodness-fit test of the model. Testing the inner model can be seen from the R-square value in the equation between latent variables. The R² value explains how much the exogenous (independent) variables in the model are able to explain the endogenous (dependent) variables.

Table 6.. R Square

	R Square	R Square Adjusted
Good Corporate Governance(Z)	0.316	0.296
Company Performance (Y)	0.772	0.762

Source: Processing via SmartPLS (2025) Appendix 6

The R² value is 0.772. This can be interpreted as the model being able to explain 77.20% of the Company's Performance phenomena/problems. The remaining 22.80% is explained by variables other than the Internal Control System, Risk Management System, and Good Corporate Governance that have not been included in the model and are error-prone. Predictive relevance (Q-Square) is a test to assess the model's ability to produce good observation values through a blindfolding procedure. A Q-Square value > 0 indicates the model has predictive relevance, while a Q-Square ≤ 0 means the model does not have predictive relevance. The range of Q-Square values is $0 < Q^2 < 1$, where the closer to 1 indicates a better model. The magnitude of the Q-Square is equivalent to the total coefficient of determination in path analysis, making it an important indicator in assessing the predictive quality of a model (Ghozali, 2016).. The predictive-relevance value is obtained using the formula (Hair, 2013):

$$Q^2 = 1 - (1 - R_{12}) (1 - R_{22}) \dots (1 - R_{n2})$$

Where the values of R₁₂, R₂₂... R_{n2} are the R-Square values of the endogenous variables in the model. Based on the R-Square values in Table 4.12 above, the Q-Square values using the Stone-Geisser Q-Square Test formula are as follows (Ghozali, 2016):

$$Q^2 = 1 - (1 - R_{12}) (1 - R_{22})$$

$$Q^2 = 1 - (1 - 0.316) (1 - 0.722)$$

$$Q^2 = 1 - (0.684) (0.228)$$

$$Q^2 = 1 - 0.1555952$$

$$Q^2 = 0.844$$

The Q² value = 0.844 indicates that this model has very good predictive relevance, because the Q² value is greater than 0 and close to 1. This means that the model can accurately predict the observed values of endogenous variables based on the exogenous variables in the model.

Hypothesis testing is carried out to determine the direct and indirect influence between research variables.

1. Hypothesis Testing – Direct Effect

Table 7. Path Coefficients T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Internal Control System (X1) -> Company Performance (Y)	0.178	0.178	0.080	2,219	0.027
Risk Management System (X2) -> Company Performance (Y)	0.629	0.634	0.089	7,038	0,000

Source: Processing via SmartPLS (2025)

Based on the hypothesis testing in Figure 4.5 PLS Model and Table 4.13, the causality test (cause and effect relationship) can be interpreted as follows:

1. The Internal Control System has a significant positive effect on Company Performance with a path coefficient of 0.178, where the p-value = 0.027 is smaller than the α value = 0.05.
2. The Risk Management System has a significant positive effect on Company Performance with a path coefficient of 0.629, where the p-value = 0.000 is smaller than the α value = 0.05.

2. Hypothesis Testing – Indirect Effect

Table 8. Specific Indirect Effects T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Internal Control System (X1) -> Good Corporate Governance (Z) -> Company Performance (Y)	0.137	0.143	0.062	2,214	0.027
Risk Management System (X2) -> Good Corporate Governance (Z) -> Company Performance (Y)	0.394	0.412	0.071	5,560	0,000

Source: Processing via SmartPLS (2025)

3. *Good Corporate Governance* proven to play a role as a mediating variable in the influence of the Internal Control System on Company Performance with a path coefficient of 0.137, where the p-value = 0.027 is smaller than the α value = 0.05
4. *Good Corporate Governance* proven to play a role as a mediating variable in the influence of the Risk Management System on Company Performance with a path coefficient of 0.394, where the p-value = 0.000 is smaller than the α value = 0.05

Discussion

The Influence of Internal Control Systems on Company Performance

The Internal Control System has a positive and significant impact on the company's performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. Consistent implementation of this system helps improve operational efficiency, effectiveness, and integrity, minimize risks, prevent fraud, and ensure business processes run according to company policies. The most important indicator is regular monitoring and evaluation of internal control effectiveness, which allows the company to systematically identify risks and design relevant control procedures to support the achievement of strategic objectives. These findings align with Agency Theory, where the Internal Control System serves as a mechanism that aligns the interests of principals and agents and directs managerial behavior in accordance with company objectives. The success of this system is also influenced by employee characteristics and support for Good Corporate Governance practices, including internal audits, segregation of duties, transaction authorization, and whistleblowing channels. Therefore, strengthening the Internal Control System is a crucial strategy

for creating an organized, transparent, and accountable work environment that supports superior and sustainable company performance.

The Influence of Risk Management Systems on Company Performance

The Risk Management System has a positive and significant impact on the company's performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. The implementation of structured risk management enables the company to detect potential disruptions, design mitigation strategies, and maintain stability and resilience against uncertainties that could threaten business objectives. A key indicator of this system is the clear delivery of risk information to relevant parties, which emphasizes the need for concrete and systematic follow-up so that risks can be proactively managed and do not hinder performance achievement. These results align with Agency Theory, which emphasizes the importance of control mechanisms to align the interests of principals and agents and minimize the risk of opportunistic behavior. The success of risk management is also influenced by human resources, risk culture, and the company's adaptive capacity, which at PT Bank Jatim are realized through procedures for risk identification, measurement, monitoring, and reporting, employee training, and the Risk Management Committee. Thus, this system becomes an integral part of the business process, supporting the company's consistency, efficiency, and competitive advantage, as well as strengthening its performance on a sustainable basis.

The Role of Good Corporate Governance in Mediating the Influence of Internal Control Systems on Company Performance

Good Corporate Governance(GCG) acts as a mediator that strengthens the influence of the Internal Control System on company performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. Internal control systems, such as budget oversight, periodic audits, and segregation of duties, become more effective when supported by transparent, accountable, and independent GCG principles. Transparency allows management to access clear and timely information, so that problems can be identified and resolved more quickly, increasing efficiency, cost savings, and achieving company targets. Furthermore, GCG principles such as accountability, compliance, and fairness strengthen the effectiveness of internal control by encouraging responsibility, discipline, and compliance among all individuals within the company. This aligns with Agency Theory, where GCG helps align the interests of principals and agents, reduces information asymmetry, and ensures managerial decisions are made ethically and professionally. Thus, GCG serves as a crucial catalyst that bridges the internal control system with sustainable company performance, creating an adaptive, accountable, and responsible organization.

The Role of Good Corporate Governance in Mediating the Influence of Risk Management Systems on Company Performance

Good Corporate Governance(GCG) acts as a mediator that strengthens the Risk Management System's influence on company performance. With GCG, risk management implementation becomes more consistent, structured, and accountable, enabling the process of risk identification, mitigation, and control to translate into concrete strategic and operational steps. GCG principles such as transparency, accountability, and independence encourage prudent decision-making and a focus on sustainability and long-term value creation. Furthermore, GCG helps align the interests of managers and company owners within the framework of Agency Theory, prevents behavioral deviations, and ensures managerial decisions are made ethically and professionally. The synergy between risk management and GCG is a crucial foundation for improving performance, organizational resilience, and sustainable company growth.

Conclusion

Based on the test results using PLS analysis, to test the influence of several variables on Company Performance, the following conclusions can be drawn:

1. The Internal Control System contributes to the Company's performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. An effectively implemented Internal Control System helps maintain operational stability, prevent irregularities, and improve work efficiency. This encourages the achievement of organizational goals and positively impacts company performance.
2. The Risk Management System contributes to the Company's performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. Effective risk management enables the company to anticipate and address potential threats early. This enables the company to make more informed decisions to maintain and improve performance.
3. *Good Corporate Governanc*e mediating the influence of the Internal Control System on Company Performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. With Good Corporate Governance, the Internal Control

System runs more focused and accountable in supporting the achievement of organizational targets. This makes the Internal Control System's contribution to performance more optimal.

4. *Good Corporate Governance* mediating the influence of the Risk Management System on Company Performance at PT Bank Pembangunan Daerah Jawa Timur Tbk. Good Corporate Governance helps ensure that the Risk Management System is implemented strategically and in accordance with good governance principles. This role magnifies the positive impact of the Risk Management System on improving Company Performance.

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INTERNAL CONTROL SYSTEM AND SYSTEM ANALYSIS RISK MANAGEMENT ON COMPANY PERFORMANCE THROUGH GOOD CORPORATE GOVERNANCE ON PT REGIONAL DEVELOPMENT BANK EAST JAVA Tbk

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