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Corporate Social Responsibility and Good Corporate Governance on Financial Risk: Corporate Reputation as a Mediating Variable in Banking

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ABSTRACT

Financial risk is an important concern in the banking sector because it can affect financial stability and stakeholder confidence. Corporate social responsibility and good corporate governance are expected to influence financial risk, while corporate reputation may represent an important mechanism linking these factors to financial outcomes. This study aimed to analyze the effects of corporate social responsibility and good corporate governance on financial risk, with corporate reputation as a mediating variable, among banking companies listed on the Indonesia Stock Exchange during 2022–2024. A quantitative explanatory research design was employed using secondary data obtained from annual reports, sustainability reports, and financial statements. The sample was selected through purposive sampling, resulting in 25 banking companies and 75 observations over the three-year study period. Corporate social responsibility was measured using a disclosure index based on the 2021 Global Reporting Initiative Standards, good corporate governance was measured through institutional ownership, managerial ownership, independent commissioners, and the audit committee, financial risk was proxied by non-performing loans, and corporate reputation was measured using corporate awards. Data were analyzed using Structural Equation Modeling–Partial Least Squares with SmartPLS 4 and bootstrapping for mediation testing. The results showed that corporate social responsibility and good corporate governance had positive and significant effects on financial risk, while corporate social responsibility had a positive and significant effect on corporate reputation. Good corporate governance had a positive but insignificant effect on corporate reputation, whereas corporate reputation had a positive and significant effect on financial risk. Corporate reputation did not mediate the effects of corporate social responsibility or good corporate governance on financial risk. These findings contribute to understanding the relationships among corporate responsibility, governance, reputation, and financial risk in the banking sector.

1. Introduction

In an increasingly competitive global business environment, companies are required not only to generate profits but also to maintain financial stability to ensure long-term survival and growth. Financial risk is an important concern because it affects cash flows, the ability to meet financial obligations, and operational stability. This issue is particularly relevant in the banking sector, which plays a strategic role in the national economic system through its intermediation function of collecting funds from the public and distributing them in the form of credit. The large amount of funds managed by banks and their substantial public responsibilities require banking institutions to maintain financial stability and manage risks effectively.

In practice, financial risk in the banking sector remains a concern, particularly credit risk, which can be assessed through Gross Non-Performing Loans (NPL) as an indicator of credit quality and banking risk. The performance of state-owned and private banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024 indicates variations in Gross NPL trends. Several banks experienced declining NPL levels, while others showed fluctuations. Bank Mandiri and BNI recorded declining NPL trends,

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whereas BRI experienced an increase before subsequently declining. Among private banks, BCA's NPL remained relatively stable, while CIMB Niaga and Danamon showed declining trends. Although credit quality generally improved, differences in NPL levels across banks indicate that their capabilities in managing credit risk have not been uniform.

These conditions suggest that factors beyond regulatory compliance may influence financial risk in the banking sector, including Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and corporate reputation. Although regulators have required banks to implement risk management through Financial Services Authority Regulation No. 18/POJK.03/2016, the effectiveness of risk management may differ across institutions. Such differences indicate that effective risk control is influenced not only by compliance with regulations but also by the quality of corporate governance, the extent of social responsibility, and stakeholder perceptions of the company.

The relationship between corporate policies and financial risk can be explained through Stakeholder Theory and Legitimacy Theory. Stakeholder Theory emphasizes that companies should consider the interests of parties affected by or having an interest in the company, including investors, customers, regulators, employees, and society. Legitimacy Theory, meanwhile, explains that companies seek to obtain and maintain social legitimacy by aligning their activities and disclosures with prevailing social values and norms. Attention to stakeholder interests and social legitimacy is expected to strengthen trust and support corporate sustainability.

One factor that may influence financial risk is Corporate Social Responsibility (CSR). CSR represents not only social concern but also a sustainability strategy for strengthening stakeholder relationships, enhancing legitimacy, and maintaining public trust. CSR can function as a risk management instrument by reducing potential social conflicts, improving corporate reputation, and creating long-term value. Tursunov et al. (2024) stated that sustainability-oriented CSR practices can reduce the risk of corporate deterioration. However, empirical evidence regarding the relationship between CSR and financial risk remains inconsistent. Boussaada et al. (2023) found that CSR had a negative and significant effect on NPL, whereas Rissanty et al. (2024) found that CSR had no effect on corporate risk. Fitria Herdianti et al. (2024) reported a positive but insignificant relationship.

In addition to CSR, Good Corporate Governance (GCG) is an important factor in risk control. GCG is a system and process for directing and controlling companies to create long-term value for stakeholders in a balanced manner (Sulfati, 2025). In the banking sector, GCG strengthens oversight, improves decision-making quality, and limits opportunistic managerial behavior. In this study, GCG is measured through institutional ownership, managerial ownership, the proportion of independent commissioners, and the audit committee, which represent monitoring and oversight mechanisms. Rissi and Herman (2020) found an association between GCG implementation and reduced banking risk. Meanwhile, Suharto and Siregar (2018) demonstrated that board size and the proportion of independent commissioners had positive effects on financial risk disclosure. Marfuah (2019) also found that institutional ownership had a negative effect on income smoothing practices, indicating the effectiveness of institutional monitoring.

Despite these findings, previous studies have reported inconsistent effects of CSR and GCG on financial risk. Existing empirical research has also been dominated by non-financial companies or sectors outside banking, even though banking institutions have distinct characteristics in terms of regulatory requirements, public trust, and the complexity of risks they face. Furthermore, empirical research examining indirect mechanisms through which CSR and GCG may influence financial risk remains relatively limited. In a banking industry that strongly depends on public trust, corporate reputation represents a strategic intangible asset. A strong reputation may increase customer and investor confidence, support the stability of third-party funds, and reduce perceived risk. From a theoretical perspective, corporate reputation may serve as a mechanism through which CSR and GCG influence financial risk through stakeholder perceptions. However, studies specifically examining the mediating role of corporate reputation in the relationship between CSR, GCG, and financial risk in the banking sector remain limited.

Accordingly, the research problem addressed in this study is whether CSR and GCG influence

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financial risk and whether corporate reputation explains these relationships among banking companies listed on the Indonesia Stock Exchange. This study therefore aims to analyze the effects of CSR and GCG on financial risk, proxied by Gross NPL, with corporate reputation as a mediating variable among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

This study contributes theoretically by extending the application of Stakeholder Theory and Legitimacy Theory to explain the relationships among CSR, GCG, corporate reputation, and financial risk in the banking sector. Practically, the findings provide relevant information for banking management, investors, regulators, and other stakeholders in evaluating how social responsibility, governance mechanisms, and corporate reputation relate to financial risk. The novelty of this study lies in integrating CSR and GCG with corporate reputation as a mediating mechanism in explaining financial risk within the Indonesian banking sector, thereby providing a more comprehensive perspective on the relationship between corporate practices and banking risk.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 Stakeholder Theory

Stakeholder Theory was developed by Freeman (1984) through *Strategic Management: A Stakeholder Approach*. The theory explains that companies are responsible not only to shareholders but also to all parties who have an interest in or are affected by corporate activities, including investors, customers, employees, governments, and society. Corporate survival is determined not only by the ability to generate profits but also by the ability to fulfill stakeholder interests and expectations through responsible, transparent, and sustainable business activities.

In this study, Stakeholder Theory is used to explain the relationships between Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), corporate reputation, and financial risk. CSR disclosure concerning economic, environmental, and social aspects reflects corporate attention to stakeholder interests. Meanwhile, GCG mechanisms through institutional ownership, managerial ownership, independent commissioners, and audit committees represent monitoring mechanisms intended to balance the interests of management, shareholders, and other stakeholders.

The fulfillment of stakeholder interests is expected to build stakeholder trust and corporate reputation. In the banking sector, customer and investor trust is particularly important for maintaining intermediation activities and corporate stability. Therefore, Stakeholder Theory provides a principal theoretical foundation for explaining the relationships among CSR, GCG, corporate reputation, and financial risk.

2.1.2 Legitimacy Theory

Legitimacy Theory explains legitimacy as a generalized perception that the actions of an organization are considered appropriate, proper, and acceptable within a socially constructed system of norms, values, beliefs, and rules (Suchman, 1995).

Companies seek to obtain and maintain legitimacy by conducting activities that are consistent with social expectations and by considering the impacts of their operations on society. One form of such effort is the implementation and disclosure of Corporate Social Responsibility (CSR).

In this study, Legitimacy Theory is used to explain that CSR disclosure covering economic, environmental, and social aspects represents corporate accountability for the impacts of operational activities. Such disclosure demonstrates the alignment of corporate activities with prevailing social values and expectations and is therefore expected to support social acceptance and generate positive stakeholder perceptions.

Accordingly, Legitimacy Theory provides a supporting foundation for explaining the relationship between CSR, corporate reputation, and financial risk. CSR disclosure may influence how stakeholders perceive the legitimacy and responsibility of banking companies, which may subsequently be reflected in corporate reputation and financial risk.

2.1.3 Agency Theory

Agency Theory was proposed by Jensen and Meckling (1976) and explains the contractual relationship between company owners (principals) and managers (agents). Owners delegate authority to managers to manage the company, but differences in interests and information asymmetry may generate agency conflicts.

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Such conflicts need to be controlled through effective monitoring mechanisms, including the implementation of Good Corporate Governance (GCG). Ownership structures, independent commissioners, and audit committees play important roles in monitoring management activities and reducing opportunities for opportunistic behavior.

In this study, Agency Theory explains the role of GCG in improving managerial accountability and supporting financial risk control, which is proxied by Non-Performing Loans (NPL). In addition, governance practices that reflect effective monitoring and accountability are expected to contribute to corporate reputation by strengthening stakeholder confidence in the quality of corporate management.

2.1.4 Corporate Social Responsibility

Corporate Social Responsibility (CSR) represents a company's responsibility toward stakeholders by considering the impacts of its operational activities on economic, social, and environmental dimensions. CSR is not merely a moral obligation but also a strategic commitment to supporting corporate sustainability.

Oetari et al. (2025) explain that CSR represents a strategic corporate commitment to managing social, environmental, and economic impacts and can support the improvement of corporate reputation through sustainable value creation. Gray et al. (1995), meanwhile, conceptualize CSR as a process through which organizations communicate their social and environmental activities to society, reflecting corporate accountability beyond financial obligations to shareholders.

CSR disclosure commonly refers to the Global Reporting Initiative (GRI), an international sustainability reporting framework covering three major dimensions: economic, environmental, and social. The economic dimension concerns the company's contribution to economic development and business sustainability; the environmental dimension reflects the impacts of corporate activities on the environment; and the social dimension concerns responsibilities toward employees, communities, customers, and other stakeholders.

In this study, CSR is measured using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the GRI Standards 2021. Measurement is conducted through content analysis of annual reports and sustainability reports by assigning a score of 1 when an item is disclosed and 0 when it is not disclosed. A higher CSRDI value indicates broader CSR disclosure.

2.1.5 Good Corporate Governance

Good Corporate Governance (GCG) refers to the systems and mechanisms governing relationships among management, shareholders, boards of commissioners, and other stakeholders in directing and controlling a company. Corporate governance is required to minimize conflicts of interest between owners and managers and to support business sustainability (Macey & O'Hara, 2003).

The OECD (2015) defines corporate governance as a set of relationships among management, the board, shareholders, and stakeholders that establishes the basis for determining corporate objectives and the mechanisms for monitoring their achievement. GCG is also based on the principles of transparency, accountability, responsibility, independence, and fairness.

In the Indonesian banking sector, GCG implementation is guided by Financial Services Authority Regulation No. 17 of 2023 concerning the Implementation of Governance for Commercial Banks. The application of governance principles is intended to strengthen oversight, improve accountability, minimize operational risks, and maintain stakeholder confidence.

This study measures GCG using four indicators: institutional ownership, managerial ownership, the proportion of independent commissioners, and the audit committee. These four indicators represent monitoring and oversight mechanisms designed to minimize agency conflicts and improve the quality of corporate decision-making.

2.1.6 Financial Risk

Financial risk refers to the possibility of deviations between expected and actual outcomes resulting from uncertainty in corporate activities. In the banking sector, financial risk has distinctive characteristics because the principal activities of banks involve collecting funds from the public and distributing those funds through lending.

One of the major risks associated with these

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activities is credit risk, which arises when borrowers are unable to fulfill their obligations to banks. Lending decisions made without adequate analysis may increase the probability of problematic loans. Errors in credit analysis can result in increasing levels of non-performing loans and therefore require measures to resolve problematic credit (Sihombing et al., 2025).

Banking credit risk can be measured using the Non-Performing Loan (NPL) ratio, which represents the proportion of problematic loans relative to total loans extended. A higher NPL indicates a greater proportion of problematic loans and therefore a higher level of credit risk.

In this study, financial risk is focused on credit risk and is proxied by Gross NPL. This indicator is selected because banking activities are highly dependent on lending. Gross NPL reflects the proportion of problematic loans relative to total loans before considering specific deductions and therefore provides an indication of the level of credit problems faced by banks.

2.1.7 Corporate Reputation

Corporate reputation refers to the collective perception or assessment of stakeholders concerning a company's credibility, performance, and ability to create sustainable value. Reputation is formed through the assessments of various stakeholders, including investors, customers, and society, concerning corporate activities and responsibilities (Afifah et al., 2021).

From the perspective of Stakeholder Theory, reputation reflects stakeholder assessments of a company's ability to fulfill their interests and expectations. Meanwhile, Legitimacy Theory explains that social recognition can be obtained through corporate activities that are consistent with prevailing social norms and values.

In addition to being influenced by internal performance, corporate reputation may also be reflected through external recognition, including corporate recognition awards. Awards represent external recognition of particular aspects of corporate performance and quality.

In the banking sector, reputation is particularly important because banking operations rely heavily on public trust. A positive reputation is expected to increase stakeholder confidence and influence perceptions of corporate risk, thereby supporting corporate stability.

In this study, corporate reputation is proxied by corporate awards using a dummy variable. A value of 1 is assigned when a company receives an award in a given year of observation, while a value of 0 is assigned when it does not receive an award.

2.2 Review of Empirical Studies

Previous empirical studies have examined the relationships among CSR, GCG, corporate reputation, and financial risk across different sectors and research contexts. The findings provide an empirical foundation for developing the hypotheses in this study while also revealing inconsistencies that justify further investigation in the banking sector.

Previous empirical studies have examined the relationships among Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), corporate reputation, financial risk, and corporate financial performance across various industries and institutional contexts. The findings indicate that these relationships are not uniform and may vary depending on the characteristics of the industry, measurement indicators, research period, and analytical methods employed.

Rissanty et al. (2024) examined companies in the transportation and logistics sector during 2020–2022 and found that CSR had a positive effect on financial performance. However, CSR did not have a significant effect on corporate risk, and financial risk did not mediate the relationship between CSR and financial performance. These findings indicate that CSR activities may contribute to organizational performance without necessarily producing a direct reduction in corporate risk. In contrast, Tursunov et al. (2024), using data from Fortune Global 500 companies during 2021–2023, found that CSR implemented through sustainable employment contributed positively to reducing financial risk. The effect was also reported to be stronger in developing countries, suggesting that the institutional and economic context may influence the relationship between CSR and financial risk.

Fitria Herdianti et al. (2024) investigated textile and garment companies during 2021–2022. From 24 companies in the population, 15 companies met the research criteria, and the data were analyzed using PLS-SEM. The results showed that CSR had a positive but insignificant effect on firm value, while financial risk had a negative and significant effect on

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firm value. Financial risk also did not mediate the relationship between CSR and firm value. These findings demonstrate that CSR does not always generate significant economic outcomes and that financial risk may influence firm value through a different mechanism.

Research concerning GCG has also produced relevant findings regarding financial risk. Rissi and Herman (2020), who examined Bank Nagari during 2015–2019 using Spearman correlation analysis, found a very strong relationship between GCG and financial risk. Their findings indicate that improvements in GCG can contribute to minimizing financial risk. Similarly, Suharto and Siregar (2018) examined companies in the financial sector during 2015–2017 using 198 observations from 66 companies. Their findings showed that board size and the composition of independent commissioners had a positive and significant effect on financial risk disclosure, whereas other governance mechanisms did not have significant effects. These results suggest that individual GCG mechanisms may produce different outcomes depending on their functions and the dimensions of risk examined.

Several studies have specifically examined the relationship between CSR and corporate reputation. Oetari et al. (2025) investigated 14 coal mining companies during 2022–2023 using PLS-SEM and found that CSR had a positive and significant effect on corporate reputation. The study also found that financial performance strengthened the relationship, whereas Green Technology Innovation (GTI) had a negative moderating effect. Afifah et al. (2021), using data from 120 manufacturing companies in 2018, similarly found that CSR had a positive effect on corporate reputation. Corporate reputation also had a positive effect on firm value, although corporate reputation did not significantly mediate the relationship between CSR and firm value. These findings indicate that CSR can contribute to the development of corporate reputation, while the role of reputation as an intervening mechanism may depend on the specific dependent variable and organizational context.

The mediating role of corporate reputation has also been examined in the banking sector. Shatila et al. (2025), based on 297 respondents from Middle Eastern banking institutions, found that CSR had positive direct and indirect effects on financial performance through corporate reputation, employee engagement, and innovation. Among these mediating mechanisms, innovation was identified as the strongest mediator. This finding indicates that CSR can influence organizational outcomes through multiple internal and external mechanisms, including reputation, although the strength of each mechanism may differ.

Evidence concerning the direct relationship between CSR and financial risk is also provided by Boussaada et al. (2023). Using 630 observations from 70 European banks operating in 19 countries during 2008–2017 and applying the System Generalized Method of Moments (System GMM), the study found that CSR had a negative and significant effect on Non-Performing Loans (NPL). The study further showed that NPL had a negative and significant effect on both Return on Assets (ROA) and Tobin's Q. These findings suggest that stronger CSR engagement may be associated with lower credit risk in the banking sector, while higher credit risk may subsequently weaken financial performance and market value.

Putri Saf (2024) examined consumer non-cyclical and energy companies during 2021–2022 and found that economic disclosure had no significant effect on corporate reputation, environmental disclosure had a negative effect, and social disclosure had a positive effect on corporate reputation. The study also found that GCG strengthened the relationship between economic disclosure and corporate reputation, but did not significantly moderate the relationships between environmental or social disclosure and corporate reputation. These findings demonstrate that different dimensions of CSR disclosure may have different implications for corporate reputation and that the role of GCG as a moderating mechanism is not necessarily consistent across disclosure dimensions.

Other studies have further linked CSR and GCG to corporate financial outcomes. Fahlevi et al. (2025), using panel regression on mining companies during 2021–2023, found that CSR had a positive effect on Return on Assets (ROA), while GCG through board diversity mediated the relationship between CSR and financial performance. This finding highlights the potential interaction between social responsibility and governance mechanisms in strengthening corporate financial outcomes. Alzaira and Wardoyo (2025), who examined 13 property and real estate companies during 2021–2023, found that

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GCG and CSR jointly had a significant effect on financial distress. In particular, independent commissioners and CSR had negative and significant effects on financial distress, whereas institutional ownership and managerial ownership did not have significant effects. These findings further indicate that the effectiveness of GCG mechanisms may differ according to the specific governance indicator and financial outcome examined.

Overall, the empirical evidence demonstrates that the relationships among CSR, GCG, corporate reputation, and financial risk remain inconclusive. Several studies report that CSR can reduce financial risk (Tursunov et al., 2024; Boussaada et al., 2023), whereas other studies find no significant relationship between CSR and corporate risk (Rissanty et al., 2024). Similarly, GCG has been associated with lower financial risk in some contexts (Rissi & Herman, 2020), while individual governance mechanisms have produced mixed results (Suharto & Siregar, 2018; Alzaira & Wardoyo, 2025). Evidence generally supports a positive relationship between CSR and corporate reputation (Oetari et al., 2025; Afifah et al., 2021), although different CSR dimensions may generate different effects (Putri Saf, 2024). Furthermore, corporate reputation may function as a mediating mechanism in some contexts (Shatila et al., 2025), but not in others (Afifah et al., 2021). These inconsistencies provide a basis for further investigation of the direct and indirect relationships among CSR, GCG, corporate reputation, and financial risk, particularly in banking companies listed on the Indonesia Stock Exchange.

2.3 Identification of the Research Gap

The empirical evidence indicates that the relationships among CSR, GCG, corporate reputation, and financial risk remain inconclusive. Previous studies have produced different findings regarding the effect of CSR on financial risk. Boussaada et al. (2023) found that CSR had a negative and significant effect on NPL, whereas Rissanty et al. (2024) found that CSR had no effect on corporate risk. Tursunov et al. (2024) also reported that CSR-related sustainable employment practices contributed to reducing financial risk. These differences indicate that the relationship between CSR and financial risk may vary according to the characteristics of the industry, country, and risk measurement used.

The relationship between GCG and financial risk also requires further investigation. Rissi and Herman (2020) identified a strong relationship between GCG implementation and banking financial risk, while Suharto and Siregar (2018) found that only certain governance characteristics were associated with financial risk disclosure. Alzaira and Wardoyo (2025) further demonstrated that some GCG mechanisms had significant effects on financial distress, whereas institutional and managerial ownership did not. These findings indicate that the effectiveness of individual governance mechanisms may differ across institutional and sectoral contexts.

A further gap concerns the role of corporate reputation. Oetari et al. (2025) and Afifah et al. (2021) provide evidence that CSR can improve corporate reputation. Shatila et al. (2025) also found that corporate reputation could mediate the relationship between CSR and financial performance in the Middle Eastern banking sector. Nevertheless, research specifically examining corporate reputation as a mediating mechanism between CSR, GCG, and financial risk remains limited, particularly in Indonesian banking companies.

Most previous studies have also focused on non-financial sectors, such as transportation and logistics, textiles and garments, energy, mining, and property and real estate. Although some studies have examined banks, such as Boussaada et al. (2023), Rissi and Herman (2020), and Shatila et al. (2025), their institutional settings, measurement approaches, time periods, and analytical models differ from the Indonesian banking context. Indonesian banks operate under extensive regulatory requirements and depend heavily on public trust, making reputation, governance, social responsibility, and credit risk particularly relevant.

Accordingly, this study addresses three principal gaps. First, it examines the relationship between CSR and financial risk in Indonesian banking companies using Gross NPL as a direct measure of credit risk. Second, it examines GCG using a combination of institutional ownership, managerial ownership, independent commissioners, and audit committees rather than relying on a single governance mechanism. Third, it integrates corporate reputation as a mediating variable to examine whether reputation provides an indirect mechanism linking CSR and GCG to financial risk. This integrated model provides a more contextual

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understanding of how corporate responsibility and governance practices are associated with financial risk in the Indonesian banking sector.

2.4 Development of the Conceptual Framework

This study examines the effects of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on financial risk, with corporate reputation serving as a mediating variable. CSR and GCG represent important components of corporate management because they concern both corporate responsibility toward stakeholders and the implementation of effective governance mechanisms. The implementation of CSR and GCG is expected to influence stakeholder perceptions, corporate reputation, and financial risk. Accordingly, corporate reputation is positioned as a mediating variable that may explain the relationships between CSR and GCG and financial risk.

As attention to responsible business practices increases, companies are expected to incorporate social, environmental, and governance considerations into their operations. In the banking sector, CSR and GCG are particularly important because banking activities are closely associated with public and stakeholder trust. Effective CSR and GCG practices may shape positive stakeholder perceptions, while the resulting corporate reputation may influence stakeholder confidence and the company's relationship with external parties. These conditions may subsequently be associated with the level of financial risk faced by the bank. Therefore, this study examines the direct effects of CSR and GCG on financial risk as well as their indirect effects through corporate reputation.

CSR is the first independent variable in this study. CSR represents a company's commitment to conducting business responsibly by considering economic, social, and environmental aspects. Based on Legitimacy Theory, companies seek to obtain and maintain social acceptance by conducting activities that are consistent with prevailing social values, norms, and expectations. CSR therefore provides a means for companies to demonstrate responsibility toward stakeholders and obtain social legitimacy for their operational activities.

Stakeholder Theory further suggests that companies should consider the interests and expectations of various stakeholders when conducting their business activities. CSR disclosure represents one form of corporate responsibility toward stakeholders through attention to economic, social, and environmental aspects. Effective CSR implementation and disclosure can support relationships with stakeholders and increase confidence in the company. Consequently, broader CSR implementation and disclosure may contribute to positive stakeholder assessments and corporate reputation.

CSR is measured in this study using the Corporate Social Responsibility Disclosure Index (CSRDI), referring to the Global Reporting Initiative (GRI) Standards 2021 as an internationally recognized sustainability reporting standard.

In banking, comprehensive CSR disclosure may strengthen corporate reputation through increased public trust and social legitimacy. A positive reputation can subsequently strengthen relationships with stakeholders, reduce uncertainty, and influence the financial risks faced by banks. Therefore, CSR may function not only as a form of social responsibility but also as a corporate strategy associated with reputation and financial risk management.

The second independent variable is Good Corporate Governance (GCG). GCG represents the systems, principles, and mechanisms used to regulate and control a company so that its management operates transparently, accountably, responsibly, independently, and fairly. In this study, GCG is measured using corporate governance mechanisms referring to Adiwuri and Nurleli (2022), namely institutional ownership, managerial ownership, independent commissioners, and audit committees.

The dependent variable is financial risk. Financial risk refers to the possibility of financial losses or uncertainty arising from internal and external factors that affect a company's ability to fulfill its financial obligations. In this study, financial risk is proxied by Non-Performing Loans (NPL) as the principal representation of credit risk in banking. NPL is selected because it is commonly used in banking research, reflects asset quality, and indicates credit risk that can directly affect bank performance and financial stability. In addition, NPL data are consistently available compared with several alternative risk indicators. Therefore, NPL is considered an appropriate measure for representing financial risk in the banking sector.

The mediating variable is corporate

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reputation. Corporate reputation reflects stakeholder perceptions of a company's credibility, performance, and ability to create sustainable value. Reputation represents the collective assessment of observers based on the company's financial, social, and environmental impacts and reflects stakeholder perceptions of its ability to deliver quality and value (Afifah et al., 2021).

In this study, corporate reputation is measured using an award-based proxy represented by a dummy variable. Awards are used as an indicator of reputation because they represent external recognition and evaluation by independent parties of particular aspects of corporate performance and quality. A value of 1 is assigned when a company receives or discloses an award during a given year of observation, and a value of 0 is assigned when the company does not receive or disclose an award.

The relationships examined in this study consist of the effect of CSR on financial risk, the effect of GCG on financial risk, the effect of CSR on corporate reputation, the effect of GCG on corporate reputation, and the effect of corporate reputation on financial risk. In addition, corporate reputation is examined as a mediating variable in the relationships between CSR and financial risk and between GCG and financial risk.

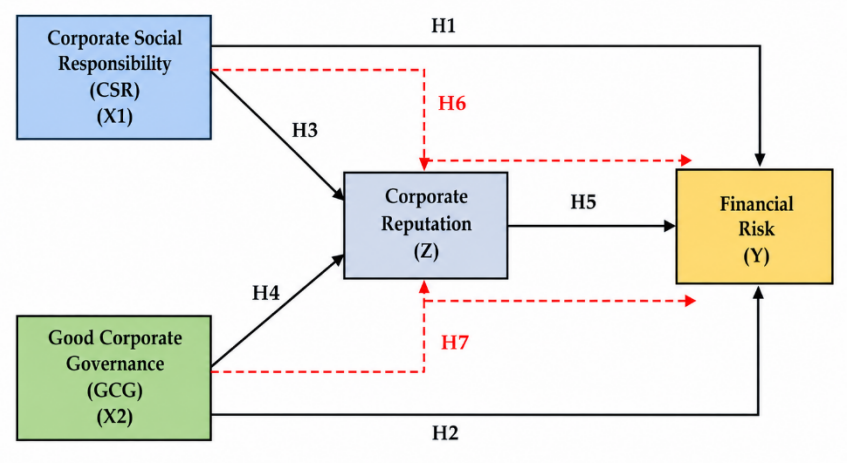


Fig.1. Conceptual Framework

2.5 Hypotheses or Research Propositions

2.5.1 Effect of Corporate Social Responsibility on Financial Risk

Based on Legitimacy Theory, companies seek to maintain alignment between their operational activities and social values and expectations in order to obtain social legitimacy. CSR represents one form of corporate responsibility toward stakeholders through social, environmental, and economic activities. CSR disclosure provides stakeholders with information concerning corporate responsibility and may increase transparency regarding corporate activities.

From the perspective of Stakeholder Theory, companies need to consider the interests and expectations of various stakeholders. CSR disclosure represents an effort to demonstrate corporate responsibility toward stakeholders through attention to economic, social, and environmental aspects. In the banking sector, CSR is particularly relevant because banking activities depend heavily on public trust. CSR practices may increase stakeholder awareness of corporate activities and provide greater transparency concerning the bank's social and operational responsibilities.

The empirical evidence concerning the relationship between CSR and financial risk remains mixed. Boussaada et al. (2023) found that CSR had a negative and significant effect on NPL among European banks, indicating that stronger CSR was associated with lower NPL. Tursunov et al. (2024) similarly reported that CSR-related sustainable employment practices contributed to reducing financial risk. In contrast, Rissanty et al. (2024) found that CSR had no effect on corporate risk, while Fitria Herdianti et al. (2024) reported a positive but insignificant CSR relationship in their broader financial-performance model.

The inconsistent findings indicate that the CSR–financial risk relationship may differ across sectors and institutional contexts. In the Indonesian banking context, broader CSR disclosure may be

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associated with greater transparency and more comprehensive disclosure of corporate activities and responsibilities. Such disclosure may also make stakeholders more aware of corporate exposure and risk-related conditions. Therefore, this study specifically tests the relationship between CSR disclosure and financial risk as measured by Gross NPL.

Based on the theoretical arguments and previous empirical evidence, the hypothesis is formulated as follows:

H1: Corporate Social Responsibility (CSR) has a positive effect on financial risk among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.2 Effect of Good Corporate Governance on Financial Risk

Agency Theory suggests that conflicts of interest between principals and agents may increase corporate risk because managers may engage in opportunistic behavior. Effective monitoring mechanisms through GCG are therefore required to ensure that corporate management operates transparently and accountably. Institutional ownership, managerial ownership, independent commissioners, and audit committees represent mechanisms for monitoring management and controlling agency problems.

In the banking sector, GCG is particularly important because weaknesses in governance can affect credit decisions, risk management, and the overall stability of banking operations. Effective governance may improve monitoring and decision-making quality, while governance structures may also increase transparency concerning risk exposure.

Stakeholder Theory further indicates that GCG represents a mechanism through which companies consider stakeholder interests. Effective governance can strengthen transparency, accountability, and responsibility toward stakeholders. However, stronger governance may also result in greater disclosure and identification of risks that were previously less visible. Therefore, the relationship between GCG and measured financial risk cannot necessarily be assumed to be negative.

Rissi and Herman (2020) found a very strong relationship between GCG implementation and financial risk in Bank Nagari. Suharto and Siregar (2018) found that board size and independent commissioner composition had positive and significant effects on financial risk disclosure, while other governance mechanisms did not show significant effects. Alzaira and Wardoyo (2025) also found that independent commissioners and CSR disclosure had significant effects on financial distress, whereas institutional and managerial ownership were not significant.

The evidence indicates that governance mechanisms may be associated with financial risk through different channels. In the context of this study, the empirical relationship is expected to be positive, reflecting the possibility that stronger governance mechanisms are accompanied by greater transparency and identification of financial risk. Accordingly, the following hypothesis is proposed:

H2: Good Corporate Governance (GCG) has a positive effect on financial risk among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.3 Effect of Corporate Social Responsibility on Corporate Reputation

Legitimacy Theory suggests that companies seek social acceptance by conducting activities consistent with societal norms and expectations. CSR provides a means for companies to demonstrate their commitment to social and environmental responsibility. Companies that actively implement and disclose CSR may receive more positive evaluations because stakeholders perceive them as more attentive to social and environmental concerns.

From the perspective of Stakeholder Theory, CSR disclosure represents an effort to fulfill stakeholder interests through attention to economic, social, and environmental aspects. Attention to stakeholder interests can strengthen relationships and trust, which may subsequently contribute to corporate reputation. In banking, reputation is particularly important because public confidence is fundamental to the continuity of banking activities.

Oetari et al. (2025) found that CSR had a positive and significant effect on corporate reputation. Afifah et al. (2021) similarly found that CSR had a positive effect on corporate reputation. These findings provide empirical support for the argument that CSR disclosure can contribute to positive stakeholder perceptions and strengthen corporate reputation.

Accordingly, the hypothesis is formulated as

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follows:

H3: Corporate Social Responsibility (CSR) has a positive effect on corporate reputation among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.4 Effect of Good Corporate Governance on Corporate Reputation

Agency Theory explains that GCG provides monitoring mechanisms to reduce conflicts of interest between management and shareholders. Effective governance reflects transparency, accountability, responsibility, independence, and fairness, which may strengthen stakeholder confidence in the company.

From the perspective of Stakeholder Theory, GCG represents an effort to fulfill stakeholder interests by ensuring that corporate management is conducted transparently, accountably, responsibly, independently, and fairly. Effective governance may strengthen stakeholder confidence because it signals that the company is managed through appropriate oversight mechanisms.

In the banking sector, public confidence is closely connected to perceptions of governance quality. Effective GCG can therefore contribute to corporate image and stakeholder confidence. Sultan and Ratnadi (2024) found that GCG had a positive effect on corporate reputation among banking companies listed on the Indonesia Stock Exchange during 2020–2022. Putri Saf (2024) also found that GCG strengthened the relationship between economic performance disclosure and corporate reputation.

Based on these theoretical and empirical arguments, the hypothesis is formulated as follows:

H4: Good Corporate Governance (GCG) has a positive effect on corporate reputation among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.5 Effect of Corporate Reputation on Financial Risk

Stakeholder Theory explains that corporate reputation is formed through stakeholder evaluations of how a company conducts its business and fulfills the interests of different parties. A positive reputation may reflect strong relationships between a company and its stakeholders and may increase the confidence of investors, customers, and society.

Legitimacy Theory further suggests that companies with stronger social recognition may receive greater stakeholder acceptance and support. In banking, reputation is particularly important because the industry depends heavily on public confidence. Corporate reputation may therefore influence how stakeholders perceive the financial condition and risk exposure of banks.

However, corporate reputation may also reflect the visibility and recognition of a company, including external awards and recognition. Such recognition may increase stakeholder attention to the company and make its financial risk more visible. Therefore, corporate reputation may be associated with measured financial risk rather than necessarily reducing it.

Brahmana et al. (2022) found that companies with higher corporate reputation had lower total risk and tail risk. This finding indicates that reputation is associated with corporate risk, although the direction and magnitude of this relationship may vary according to the risk measure and institutional context.

In the context of this study, corporate reputation is expected to have a positive relationship with financial risk as measured by Gross NPL, reflecting the empirical pattern identified in the study. Therefore, the hypothesis is formulated as follows:

H5: Corporate reputation has a positive effect on financial risk among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.6 Mediating Role of Corporate Reputation in the Effect of Corporate Social Responsibility on Financial Risk

Stakeholder Theory and Legitimacy Theory suggest that CSR can influence stakeholder perceptions and social acceptance. Effective CSR practices may strengthen corporate reputation because stakeholders perceive the company as responsible toward social, environmental, and economic interests. Corporate reputation may subsequently influence how stakeholders assess the company's financial condition and risk.

In the banking sector, reputation is particularly important because public trust affects customer relationships, investor confidence, and the continuity of banking activities. CSR may therefore influence financial risk indirectly through corporate

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reputation. Shatila et al. (2025) found that corporate reputation mediated the relationship between CSR and financial performance in the Middle Eastern banking sector. This finding demonstrates that reputation can function as an intermediary mechanism linking CSR practices to corporate outcomes.

However, the existing evidence remains limited regarding whether corporate reputation mediates the relationship between CSR and financial risk, particularly when financial risk is directly measured using NPL in Indonesian banking companies. This study therefore extends previous research by examining corporate reputation as an intermediary mechanism between CSR and financial risk.

Based on the theoretical arguments and empirical evidence, the hypothesis is formulated as follows:

H6: Corporate reputation mediates the effect of Corporate Social Responsibility (CSR) on financial risk among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

2.5.7 Mediating Role of Corporate Reputation in the Effect of Good Corporate Governance on Financial Risk

Agency Theory suggests that GCG strengthens monitoring, transparency, accountability, and managerial oversight. Effective governance may shape stakeholder perceptions of corporate management and thereby contribute to corporate reputation. Stakeholder Theory further indicates that good governance supports the fulfillment of stakeholder interests and strengthens confidence in the company's management.

In banking, reputation arising from effective governance is important for maintaining public confidence. Strong stakeholder confidence may influence perceptions of the bank's ability to manage its operations and risks. Thus, GCG may influence financial risk both directly and indirectly through corporate reputation.

Putri Saf (2024) found that GCG played a role in strengthening the relationship between sustainability disclosure and corporate reputation. Although GCG was positioned as a moderating variable in that study rather than as a direct antecedent, the finding demonstrates a relationship between governance mechanisms and corporate reputation.

The present study extends this relationship by positioning corporate reputation as a mediator between GCG and financial risk. GCG is expected to influence corporate reputation, while corporate reputation is subsequently expected to influence financial risk. The mediating relationship is therefore tested in the Indonesian banking context using Gross NPL as the financial-risk proxy.

Accordingly, the hypothesis is formulated as follows:

H7: Corporate reputation mediates the effect of Good Corporate Governance (GCG) on financial risk among banking companies listed on the Indonesia Stock Exchange during 2022–2024.

3. Research Methods

3.1 Research Design

This study uses a quantitative approach with an explanatory research design. The quantitative approach was selected because the research data consist of numerical information that can be analyzed using statistical techniques to test the proposed hypotheses. The explanatory design is appropriate because the study aims to explain the causal relationships among the research variables.

The research model consists of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) as exogenous variables, financial risk as the endogenous variable, and corporate reputation as a mediating variable. The analytical method employed is Structural Equation Modeling Partial Least Squares (SEM-PLS) using SmartPLS 4. SEM-PLS was selected because it allows direct and indirect relationships among variables to be examined simultaneously and is suitable for models involving mediation relationships and relatively small to medium sample sizes.

3.2 Research Context and Setting

The research focuses on the banking sector listed on the Indonesia Stock Exchange (IDX). The banking sector was selected because financial risk, particularly credit risk, is an important aspect of banking stability and is closely associated with the quality of asset management and corporate governance. In addition, banking companies are required to disclose information regarding corporate governance, sustainability activities, and financial performance, providing relevant secondary data for

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examining the relationships proposed in this study.

The observation period covers 2022–2024. The research data were obtained from annual reports, sustainability reports, and financial statements published by banking companies through the official IDX website and the respective corporate websites.

During the 2022–2024 observation period, 47 banking companies were identified as members of the research population. The final sample was subsequently determined using purposive sampling based on predetermined criteria.

3.3 Population and Sample / Research Participants

The population comprises all banking companies listed on the Indonesia Stock Exchange during 2022–2024. Sugiyono (2022) defines a population as a generalization area consisting of objects or subjects with specific qualities and characteristics determined by researchers for study and subsequent conclusion.

Based on the IDX-listed banking population during the observation period, 47 banking companies constituted the research population. The study employed purposive sampling, whereby sample selection was based on specific criteria established in accordance with the research objectives.

The sample selection criteria were as follows:

a. Banking companies listed on the Indonesia Stock Exchange consecutively throughout the 2022–2024 observation period.
b. Banking companies that published annual reports, sustainability reports, and financial statements during the 2022–2024 research period.
c. Banking companies that provided the information required to measure CSR, GCG, corporate reputation, and financial risk.
d. Banking companies that used the GRI Standards 2021 as a guideline for CSR disclosure.

Based on these criteria, 25 banking companies met all the requirements and were selected as the research sample. With a three-year observation period, the study generated 75 firm-year observations, calculated as 25 companies × 3 years.

Table 1. Sample Selection Criteria

No.	Sample Selection Criteria	Number of Companies
1	Banking companies listed on the Indonesia Stock Exchange during 2022–2024	47
2	Banking companies that did not publish annual reports, sustainability reports, and financial statements during the research period	0
3	Banking companies that did not provide the information required to measure CSR, GCG, financial risk, and corporate reputation	(4)
4	Banking companies that did not use the GRI Standards 2021 for CSR disclosure and only referred to POJK No. 51/POJK.03/2017	(18)
	Final sample	**25**
	Observation period	**3 years**
	Total firm-year observations	**75**

The sample selection process resulted in 25 banking companies that satisfied all predetermined criteria. The excluded companies consisted of four companies that did not provide the information required for variable measurement and 18 companies that did not use the GRI Standards 2021 for CSR disclosure and only referred to POJK No. 51/POJK.03/2017. No companies were excluded because of the non-publication of annual reports, sustainability reports, or financial statements during the observation period.

Accordingly, the final dataset consisted of 75 observations, representing 25 banking companies observed over three consecutive years from 2022 to 2024. The selected observations were subsequently used for empirical testing of the proposed research model.

3.4 Data Sources and Data Collection

This study uses secondary quantitative data. The data were collected from published financial statements, annual reports, and sustainability reports of banking companies listed on the Indonesia Stock Exchange during 2022–2024.

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Data collection employed a documentation method, which involved identifying, collecting, recording, and analyzing information disclosed in the annual reports, sustainability reports, and financial statements of the sampled banking companies. The data were obtained from the official Indonesia Stock Exchange website and the respective websites of the sampled banking companies.

The documentation process focused on information required to measure CSR, GCG, corporate reputation, and financial risk. CSR information was obtained from sustainability and annual reports based on the GRI Standards 2021. GCG information was obtained from corporate governance disclosures, including ownership structure, independent commissioners, and audit committee information. Financial risk was measured using Non-Performing Loans (NPL), while corporate reputation was measured using corporate awards disclosed or reported by the companies.

3.5 Measurement of Variables and Research Instruments

According to Sugiyono (2022), a research variable is an attribute, characteristic, or value of an object or activity determined by the researcher for study and subsequent conclusion. This study consists of two exogenous variables, one mediating variable, and one endogenous variable: CSR (X1), GCG (X2), corporate reputation (Z), and financial risk (Y).

3.5.1 Financial Risk

Financial risk is defined as the potential level of loss that a bank may experience as a result of financial instability affecting its ability to fulfill its obligations. In this study, financial risk is proxied by Non-Performing Loan (NPL) because NPL reflects credit risk, which represents one of the major risks in the banking sector and is relevant for assessing asset quality and financial stability. NPL is measured as the proportion of problematic loans to total loans and is calculated as follows:

$$NPL = (\text{Non-Performing Loans} / \text{Total Loans}) \times 100\%$$

Source: POJK No. 18/POJK.03/2016.

3.5.2 Corporate Social Responsibility

Corporate Social Responsibility (CSR) represents the extent to which a company discloses its social, environmental, and economic activities to stakeholders through corporate reporting. CSR disclosure is measured based on the GRI Standards 2021, covering three major dimensions:

a. Economic aspects (GRI 200);
b. Environmental aspects (GRI 300); and
c. Social aspects (GRI 400).

CSR disclosure is measured using a Corporate Social Responsibility Disclosure Index (CSRDI) based on content analysis. Each disclosure item is assigned a score of 1 when disclosed and 0 when not disclosed. The CSRDI is calculated as follows:

$$CSRDI = \Sigma Xij / Nj$$

where:

ΣXij = the number of CSR disclosure items disclosed by the company; and

Nj = the total number of CSR disclosure items used in the study.

Source: Global Reporting Initiative (GRI) Standards 2021.

3.5.3 Good Corporate Governance

Good Corporate Governance (GCG) is understood as a monitoring mechanism that reflects the effectiveness of a company's control system in supervising and directing management performance. In this study, GCG is represented by four governance indicators: institutional ownership, managerial ownership, independent commissioners, and audit committee. These indicators reflect monitoring and oversight functions aimed at minimizing agency conflicts and improving the quality of corporate decision-making. The operational measurements are as follows:

a. Institutional Ownership (KI) is measured by the percentage of shares owned by institutional investors based on information disclosed in the company's annual report.
b. Managerial Ownership (KM) is measured by the percentage of shares owned by directors and members of the board of commissioners.
c. Independent Commissioners (KInd) are measured by the proportion of independent commissioners relative to the total number of commissioners.
d. Audit Committee (KA) is measured by the number of audit committee members.

Source: Adiwuri and Nurleli (2022).

3.5.4 Corporate Reputation

Corporate reputation represents stakeholders'

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overall assessment of a company's credibility, performance, and quality, which develops through stakeholder perceptions and external recognition of the company. In this study, corporate reputation is measured using a corporate award proxy with a dummy approach. The measurement is coded as follows:

1 = the company received or disclosed a corporate award during the year;
0 = the company did not receive or disclose a corporate award during the year.
The operationalization of all research variables is summarized in Table 2.

Table 2. Operationalization and Measurement of Variables

Variable	Operational Definition	Indicator	Measurement
Financial Risk (Y)	The potential level of loss that may be experienced by a bank due to financial instability affecting its ability to fulfill its obligations.	Non-Performing Loan (NPL)	NPL = Non-Performing Loans / Total Loans × 100%. Source: POJK No. 18/POJK.03/2016
Corporate Social Responsibility (CSR) (X1)	The extent of corporate disclosure concerning social, environmental, and economic activities directed toward stakeholders.	Economic (GRI 200), Environmental (GRI 300), and Social (GRI 400) aspects	CSRDI = ΣXij / Nj. Content analysis: 1 = disclosed; 0 = not disclosed. Source: GRI Standards 2021
Good Corporate Governance (GCG) (X2)	A corporate monitoring mechanism reflecting the effectiveness of the control system in supervising and directing management performance.	Institutional ownership, managerial ownership, independent commissioners, and audit committee	KI = percentage of institutional ownership; KM = percentage of managerial ownership; KInd = proportion of independent commissioners; KA = number of audit committee members. Source: Adiwuri and Nurleli (2022)
Corporate Reputation (Z)	Stakeholders' assessment of corporate credibility, performance, and quality formed through perceptions and external recognition.	Corporate awards	Dummy variable: 1 = company received/disclosed an award; 0 = company did not receive/disclose an award

3.6 Data Analysis Techniques

The data were analyzed using SmartPLS 4 through Structural Equation Modeling Partial Least Squares (SEM-PLS). The analysis consisted of descriptive statistical analysis, measurement model assessment, structural model assessment, hypothesis testing, and mediation analysis.

3.6.1 Descriptive Statistical Analysis

Descriptive statistics were used to provide an overview of the characteristics and distribution of the research data. The analysis included the minimum value, maximum value, mean, and standard deviation of the research variables. This analysis provides preliminary information regarding the distribution and general characteristics of CSR, GCG, corporate reputation, and financial risk.

3.6.2 Measurement Model Assessment

The measurement model, or outer model, was assessed to evaluate the validity and reliability of the indicators used to represent the research constructs.

a. Convergent Validity

Convergent validity assesses the extent to which indicators adequately explain their respective latent constructs. The evaluation is based on:
1) loading factor > 0.70; and

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2) Average Variance Extracted (AVE) > 0.50.

b. Discriminant Validity

Discriminant validity is assessed to ensure that each construct has sufficient empirical distinction from other constructs in the research model. The assessment uses:

1) Cross-loading; and
2) Fornell–Larcker criterion.

c. Reliability Testing

Reliability testing evaluates the consistency of indicators in measuring the respective research constructs. The reliability criteria are:

1) Cronbach's Alpha > 0.70; and
2) Composite Reliability > 0.70.

3.7 Validity, Reliability, and Trustworthiness

The quality of the measurement model was assessed through convergent validity, discriminant validity, and reliability testing. Convergent validity was evaluated using loading factors and Average Variance Extracted (AVE), while discriminant validity was assessed using cross-loadings and the Fornell–Larcker criterion. Reliability was evaluated using Cronbach's Alpha and Composite Reliability.

The structural model was subsequently assessed using R^2, F^2, and Q^2 to determine the explanatory capability, effect size, and predictive relevance of the model.

3.7.1 R-Square (R^2)

R-Square measures the proportion of variance in the endogenous variable explained by the exogenous variables. The interpretation criteria used are:

0.75 = strong;
0.50 = moderate; and
0.25= weak.

3.7.2 Effect Size (F^2)

F-Square assesses the magnitude of the effect of an exogenous construct on an endogenous construct. The criteria are:

0.02 = small;
0.15 = medium; and
0.35 = large.

3.7.3 Predictive Relevance (Q^2)

Q-Square assesses the predictive relevance of the structural model. A value of $Q^2 > 0$ indicates that the model has predictive relevance.

3.8 Ethical Considerations

This study uses secondary data obtained from publicly available corporate reports and official information sources. No primary data were collected from individual respondents, and therefore the study did not involve direct interaction with human participants, informed consent procedures, or the collection of personal information.

All data were used exclusively for academic research purposes and were obtained from publicly disclosed annual reports, sustainability reports, financial statements, and corporate governance information. The research maintains academic integrity by appropriately identifying the sources of measurement indicators and publicly available information used in the analysis.

3.9 Research Procedure

The research procedure was conducted systematically through several stages. First, the research problem and theoretical relationships among CSR, GCG, corporate reputation, and financial risk were identified based on the relevant literature. Second, the research population was determined by identifying banking companies listed on the Indonesia Stock Exchange during 2022–2024. Third, the purposive sampling criteria were established and applied to the population, resulting in 25 banking companies and 75 firm-year observations. Fourth, secondary data were collected from annual reports, sustainability reports, and financial statements of the selected companies. Fifth, the collected information was coded and operationalized according to the predetermined measurement procedures. CSR was measured using the GRI Standards 2021 disclosure index, GCG was measured using institutional ownership, managerial ownership, independent commissioners, and audit committee indicators, financial risk was measured using NPL, and corporate reputation was measured using the corporate award dummy. Sixth, the data were processed using SmartPLS 4. The analysis began with descriptive statistics, followed by measurement model assessment, structural model assessment, hypothesis testing, and mediation analysis. Finally, the results were interpreted in relation to the proposed hypotheses and the research

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objectives.

3.10 Methodological Limitations

Several methodological limitations should be considered when interpreting the findings. First, the study relies exclusively on secondary data disclosed by banking companies in their annual reports, sustainability reports, and financial statements. Consequently, the analysis is dependent on the completeness, consistency, and transparency of corporate disclosures. Second, the observation period is limited to 2022–2024, with 25 sampled banking companies and 75 firm-year observations. Therefore, the findings reflect the conditions of the banking sector during the specified observation period and may not fully represent longer-term developments. Third, CSR is measured using disclosure information based on the GRI Standards 2021, while corporate reputation is proxied by corporate awards using a dummy variable. These measurement approaches may not capture all dimensions of CSR implementation and corporate reputation. In particular, the award-based proxy identifies external recognition but may not fully capture stakeholders' broader perceptions of corporate reputation.

Finally, GCG is operationalized through four indicators, namely institutional ownership, managerial ownership, independent commissioners, and audit committee. Other governance mechanisms may also influence financial risk and corporate reputation but are not incorporated into the present model. Future research may consider extending the observation period, incorporating additional governance mechanisms, and employing broader measures of corporate reputation and CSR performance.

4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Descriptive Statistics

The final sample consisted of 25 banking companies listed on the Indonesia Stock Exchange during 2022–2024. With three years of observation, the study generated 75 firm-year observations. Descriptive statistical analysis was conducted to provide an overview of the characteristics and distribution of the research data based on the minimum, maximum, mean, and standard deviation values.

Table 3. Descriptive Statistics

Indicator	N	Minimum	Maximum	Mean	Std. Deviation
CSRDI (CSR)	75	500.00	9800.00	5046.52	2392.40
KA (GCG)	75	3000.00	9900.00	5917.09	1393.74
KI (GCG)	75	3.00	7.00	4.99	0.97
KM (GCG)	75	6500.00	9800.00	7859.12	660.16
KInd (GCG)	75	1000.00	9500.00	4848.77	1837.98
RA (Corporate Reputation)	75	0.00	1.00	0.57	0.49
RK (Financial Risk/NPL)	75	2000.00	95000.00	52560.33	21610.97

Source: SmartPLS 4.0 output, processed data (2026).

As shown in Table 3, the RA indicator, which represents corporate reputation based on corporate awards, has a mean value of 0.57. This indicates that more than half of the firm-year observations in the sample involved banking companies that received or disclosed a corporate award during the respective observation year. The RK indicator, representing financial risk through Non-Performing Loans (NPL), exhibits substantial variation across the sampled banks, as indicated by its relatively high standard deviation of 21,610.97 compared with its mean of 52,560.33. This indicates heterogeneity in the level of credit risk among banking companies listed on the Indonesia Stock Exchange during the observation period.

4.1.2 Data Quality and Preliminary Analysis

The preliminary analysis consisted of measurement model assessment and multicollinearity testing. The measurement model was evaluated through convergent validity, discriminant validity, and reliability testing. The analysis also examined outer VIF values to identify potential multicollinearity among indicators.

a. Convergent Validity

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Convergent validity was assessed using outer loading and Average Variance Extracted (AVE). An outer loading value above 0.70 and an AVE value above 0.50 were considered acceptable.

Table 4. Convergent Validity and Reliability Assessment

Construct	Indicator(s)	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE	Assessment
CSR	CSRDI	1.000	1.000	1.000	1.000	Valid and reliable
GCG	KA	0.836	0.893	0.926	0.757	Valid and reliable
	KI	0.915				
	KM	0.888				
	KInd	0.839				
Moderating Effect 1	RA × CSRDI	0.940	1.000	1.000	1.000	Valid and reliable
Moderating Effect 2	RA × KA	0.835	0.890	0.919	0.741	Valid and reliable
	RA × KI	0.904				
	RA × KM	0.803				
	RA × KInd	0.781				
Corporate Reputation	RA	1.000	1.000	1.000	1.000	Valid and reliable
Financial Risk	RK	1.000	1.000	1.000	1.000	Valid and reliable

Source: SmartPLS 4.0 output, processed data (2026).

The results show that all indicators have outer loading values above 0.70. The four GCG indicators have outer loadings ranging from 0.836 to 0.915, indicating that all indicators adequately represent the GCG construct. CSR, corporate reputation, and financial risk are single-indicator constructs, resulting in outer loading values of 1.000. The AVE values for all constructs exceed 0.50, ranging from 0.741 to 1.000. Therefore, the constructs meet the criterion for convergent validity.

b. Discriminant Validity

Discriminant validity was assessed using the Fornell–Larcker criterion, cross-loading values, and the Heterotrait–Monotrait Ratio (HTMT).

Table 5. Discriminant Validity Assessment

Assessment	Main Result	Criterion	Conclusion
Fornell–Larcker Criterion	Diagonal values are higher than inter-construct correlations	Square root of AVE > construct correlations	Discriminant validity established
Cross Loading	Each indicator has its highest loading on its respective construct	Loading on own construct > cross-loadings	Discriminant validity established
HTMT	HTMT values range from 0.004 to 0.770	HTMT < 0.90	Discriminant validity established

Source: SmartPLS 4.0 output, processed data (2026).

The Fornell–Larcker results show that the square root of AVE on the diagonal is greater than the correlations between each construct and the other constructs. The single-indicator constructs CSR, corporate reputation, financial risk, and Moderating Effect 1 have diagonal values of 1.000.

The cross-loading results also indicate that each indicator has a higher loading on its respective

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construct than on the other constructs. The HTMT values are all below the 0.90 threshold, with values ranging from 0.004 to 0.770. Thus, the constructs demonstrate adequate discriminant validity.

c. Reliability Testing

Reliability was assessed using Cronbach's Alpha and Composite Reliability, with a minimum acceptable value of 0.70. The results in Table 4 show that all constructs have Cronbach's Alpha and Composite Reliability values above 0.70. GCG has a Cronbach's Alpha of 0.893 and Composite Reliability of 0.926, while Moderating Effect 2 has values of 0.890 and 0.919, respectively. The remaining single-indicator constructs have values of 1.000. Therefore, all constructs satisfy the reliability criteria.

d. Multicollinearity Assessment

Multicollinearity was assessed using Variance Inflation Factor (VIF). All outer VIF values were below 5, with the highest value being 3.346 for KI. The inner VIF values were also below 5, ranging from 1.119 to 1.343.

Table 6. Multicollinearity Assessment

Assessment	Minimum VIF	Maximum VIF	Criterion	Conclusion
Outer VIF	1.000	3.346	VIF < 5	No serious multicollinearity
Inner VIF	1.119	1.343	VIF < 5	No serious multicollinearity

Source: SmartPLS 4.0 output, processed data (2026).

The results indicate that the measurement and structural models do not exhibit serious multicollinearity problems.

4.1.3 Main Analytical Results

The structural model was evaluated using R-Square (R^2), Effect Size (F^2), Predictive Relevance (Q^2), Inner VIF, and model fit.

a. Coefficient of Determination (R^2)

Table 7. R-Square Results

Endogenous Variable	R-Square	Adjusted R-Square	Category
Corporate Reputation	0.151	0.127	Weak
Financial Risk	0.707	0.686	Strong

Source: SmartPLS 4.0 output, processed data (2026).

The R-Square value for corporate reputation is 0.151, indicating that CSR and GCG jointly explain 15.1% of the variation in corporate reputation, while the remaining 84.9% is explained by factors outside the research model. This value is categorized as weak.

The R-Square value for financial risk is 0.707, indicating that CSR, GCG, corporate reputation, and the interaction terms included in the structural model explain 70.7% of the variation in financial risk. The remaining 29.3% is explained by factors outside the model. This value is categorized as strong.

b. Effect Size (F^2)

Table 8. Effect Size Results

Structural Relationship	F^2	Category
CSR → Corporate Reputation	0.108	Small
GCG → Corporate Reputation	0.013	No effect
CSR → Financial Risk	0.880	Large
GCG → Financial Risk	0.185	Medium
Moderating Effect 1 → Financial Risk	0.0001	No effect
Moderating Effect 2 → Financial Risk	0.085	Small
Corporate Reputation → Financial Risk	0.097	Small

Source: SmartPLS 4.0 output, processed data (2026).

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The F^2 results indicate that CSR has a large effect on financial risk, while GCG has a medium effect on financial risk. The effects of CSR on corporate reputation, corporate reputation on financial risk, and Moderating Effect 2 on financial risk are categorized as small. GCG on corporate reputation and Moderating Effect 1 on financial risk show relatively no effect.

c. Predictive Relevance (Q^2)

Table 9. Predictive Relevance Results

Endogenous Variable	SSO	SSE	Q^2	Assessment
Corporate Reputation	75.000	68.073	0.092	Predictive relevance
Financial Risk	75.000	24.788	0.669	Predictive relevance

Source: SmartPLS 4.0 output (Blindfolding), processed data (2026).

Both endogenous constructs have Q^2 values greater than zero, indicating that the model has predictive relevance. Corporate reputation has a Q^2 value of 0.092, indicating relatively weak predictive relevance, while financial risk has a Q^2 value of 0.669, indicating substantially stronger predictive relevance.

d. Structural Model Fit

Table 10. Model Fit Results

Fit Criterion	Saturated Model	Estimated Model
SRMR	0.047	0.047
d_ULS	0.061	0.062
d_G	0.045	0.045
Chi-Square	19.607	19.731
NFI	0.933	0.933

Source: SmartPLS 4.0 output, processed data (2026).

The SRMR value of 0.047 is below the 0.08 threshold, while the NFI value of 0.933 approaches 1. These results indicate an acceptable level of model fit for the estimated structural model.

4.1.4 Hypothesis Testing Results / Key Findings

Hypothesis testing was conducted using the bootstrapping procedure in SmartPLS 4. The assessment was based on the original sample (O), T-statistics, and P-values. A relationship was considered statistically significant when the T-statistics exceeded 1.96 and/or the P-value was below 0.05.

Table 11. Hypothesis Testing Results

Hypothesis	Structural Relationship	Path Coefficient (O)	T-Statistics	P-Value	Decision
H1	CSR → Financial Risk	0.588	9.625	0.000	Rejected*
H2	GCG → Financial Risk	0.257	4.312	0.000	Rejected*
H3	CSR → Corporate Reputation	0.328	2.774	0.006	Supported
H4	GCG → Corporate Reputation	0.116	0.984	0.326	Rejected
H5	Corporate Reputation → Financial Risk	0.185	2.538	0.011	Rejected*

Source: SmartPLS 4.0 output (Bootstrapping), processed data (2026).

Note: H1, H2, and H5 are rejected because the estimated coefficients are positive, whereas the corresponding hypotheses predicted negative effects.

The results show that H1 is rejected. CSR has a positive and statistically significant effect on financial risk, with a path coefficient of 0.588, T-statistics of 9.625, and P-value of 0.000. Although the

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relationship is statistically significant, its positive direction is contrary to the negative direction proposed in H1. H2 is also rejected. GCG has a positive and statistically significant effect on financial risk, with a path coefficient of 0.257, T-statistics of 4.312, and P-value of 0.000. The positive coefficient is inconsistent with the negative relationship proposed in H2. In contrast, H3 is supported. CSR has a positive and statistically significant effect on corporate reputation, with a path coefficient of 0.328, T-statistics of 2.774, and P-value of 0.006. H4 is rejected because GCG does not have a statistically significant effect on corporate reputation. The path coefficient is 0.116, with T-statistics of 0.984 and a P-value of 0.326. Finally, H5 is rejected. Corporate reputation has a positive and statistically significant effect on financial risk, with a path coefficient of 0.185, T-statistics of 2.538, and P-value of 0.011. The positive direction differs from the negative direction proposed in H5.

The mediation analysis examined whether corporate reputation mediates the relationships between CSR and financial risk and between GCG and financial risk. The analysis used the specific indirect effect through the bootstrapping procedure.

Table 12. Mediation Testing Results

Hypothesis	Indirect Relationship	Coefficient (O)	T-Statistics	P-Value	Decision
H6	CSR → Corporate Reputation → Financial Risk	0.061	1.835	0.067	Rejected
H7	GCG → Corporate Reputation → Financial Risk	0.021	0.843	0.400	Rejected

Source: SmartPLS 4.0 output (Bootstrapping), processed data (2026).

The results indicate that H6 is rejected. The indirect effect of CSR on financial risk through corporate reputation has a coefficient of 0.061, T-statistics of 1.835, and P-value of 0.067, which does not meet the significance criterion of 0.05. Therefore, corporate reputation does not significantly mediate the relationship between CSR and financial risk.

Similarly, H7 is rejected. The indirect effect of GCG on financial risk through corporate reputation has a coefficient of 0.021, T-statistics of 0.843, and P-value of 0.400. Since the indirect effect is not statistically significant, corporate reputation does not mediate the relationship between GCG and financial risk.

4.1.5 Visual Presentation of Results

The visual results are consistent with the statistical findings presented in Tables 3–12. The structural model demonstrates significant direct relationships from CSR to financial risk, GCG to financial risk, CSR to corporate reputation, and corporate reputation to financial risk, while the relationship between GCG and corporate reputation is statistically insignificant. The indirect relationships through corporate reputation are also statistically insignificant.

4.2 Research Discussion

4.2.1 Interpretation of Key Findings

The empirical findings provide evidence regarding the relationships among Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), corporate reputation, and financial risk in banking companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The results indicate that CSR has a positive and significant effect on financial risk, GCG has a positive and significant effect on financial risk, CSR has a positive and significant effect on corporate reputation, GCG has a positive but insignificant effect on corporate reputation, and corporate reputation has a positive and significant effect on financial risk. Furthermore, corporate reputation does not significantly mediate the effects of either CSR or GCG on financial risk.

The first finding shows that CSR has a positive and significant effect on financial risk, which is proxied by Non-Performing Loan (NPL). Thus, higher levels of CSR disclosure are associated with higher observed NPL levels. Because this direction is opposite to the hypothesized relationship, H1, which proposed that CSR would negatively affect financial risk, is rejected. This finding indicates that extensive CSR disclosure does not necessarily reflect lower financial risk in banking companies.

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This finding is consistent in direction with (Fitria Herdianti et al., 2024), who found a positive relationship between CSR and financial risk, although the effect was not significant. The difference in significance may be related to differences in research objects, observation periods, and financial risk measurements. Fitria Herdianti et al. (2024) used the Debt to Assets Ratio (DAR) as a proxy for financial risk, whereas this study uses NPL, which is directly associated with credit risk in the banking sector. In addition, (Oh et al., 2025), through a meta-analysis of 197 empirical studies, demonstrated that the relationship between CSR and corporate risk is complex and does not consistently indicate a risk-mitigation effect. Therefore, the relationship between CSR and risk may vary depending on the type of risk, CSR dimension, and research context.

The finding differs from (Putri, 2023), who found that CSR had no effect on bank risk among banking companies in Indonesia. (Putri, 2023) explained that CSR disclosure in the Indonesian banking sector tends to remain oriented toward fulfilling reporting obligations. The finding also differs from (Boussaada et al., 2023), who found that CSR had a negative and significant effect on NPL among European banks. These differences may be attributable to variations in the characteristics of the research objects, business environments, observation periods, and measurements of CSR and financial risk.

The positive relationship identified in this study should not be interpreted as evidence that CSR directly causes an increase in NPL. CSR is measured using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the GRI Standards 2021, which primarily captures the extent of CSR disclosure rather than the quality or effectiveness of CSR implementation. CSRDI does not directly measure a bank's ability to conduct credit analysis, assess debtor eligibility, or ensure borrowers' repayment capacity. Consequently, a bank may disclose extensive CSR information while still experiencing increasing NPL when credit risk management is not optimal or borrowers' repayment capacity deteriorates.

The second finding shows that GCG has a positive and significant effect on financial risk. The increase in the GCG indicators used in this study, namely institutional ownership, managerial ownership, independent commissioners, and the audit committee, is associated with an increase in NPL. Since the direction is opposite to the hypothesized negative relationship, H2 is rejected. From the perspective of Agency Theory, effective GCG should strengthen managerial monitoring, reduce conflicts of interest between owners and managers, and limit opportunistic behavior that may increase corporate risk. The findings indicate, however, that the formal presence of GCG mechanisms does not necessarily reflect their effectiveness in controlling credit risk.

The positive direction is similar to the findings of (Ardana & Pringsewu, 2019), who reported that several GCG mechanisms, including institutional ownership, independent commissioner size, and the size of the Sharia supervisory board, had positive coefficients in relation to financing risk proxied by Non-Performing Financing (NPF), although the effects were not significant. (Ardana & Pringsewu, 2019) explained that this condition may be related to limitations in monitoring functions resulting from a relatively low proportion of institutional ownership and the fact that the presence of independent commissioners does not necessarily improve monitoring effectiveness.

The finding can also be related to (Sari et al., 2022), who examined GCG implementation in risk management in Indonesian banking companies. Their study emphasized that risk management involves various governance and risk-management elements, including shareholders, boards of commissioners, directors, management, audit committees, and internal and external auditors. This indicates that GCG implementation in banking is closely connected to risk-management processes and requires coordination and active involvement from various corporate organs. Therefore, the existence of GCG mechanisms alone does not guarantee low risk when those mechanisms do not function effectively in monitoring and decision-making.

The result differs from (Rissi & Herman, 2020), who found a very strong relationship between GCG implementation and financial risk at Bank Nagari and explained that better GCG implementation was associated with stronger internal conditions and minimized financial risk. The difference may arise from differences in research objects, observation periods, banking characteristics, analytical methods, and the measurement of GCG and risk. (Rissi & Herman, 2020) focused on Bank

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Nagari during 2015–2019 and examined the relationship between GCG and financial risk using Spearman correlation, whereas this study examines banking companies listed on the IDX during 2022–2024, with GCG measured using several structural indicators and financial risk proxied by NPL.

The third finding demonstrates that CSR has a positive and significant effect on corporate reputation, supporting H3. This finding supports Legitimacy Theory and Stakeholder Theory, which explain that CSR implementation and disclosure represent forms of corporate responsibility toward stakeholders and can facilitate social recognition and legitimacy. Effective CSR can strengthen relationships with stakeholders and contribute to the development of a positive corporate reputation. This result is consistent with (Oetari et al., 2025), who found a positive and significant effect of CSR on corporate reputation, and (Afifah et al., 2021), who also found a positive effect of CSR on corporate reputation. Thus, broader CSR disclosure based on the GRI Standards 2021 may increase the opportunity for banks to receive external recognition or corporate awards reflecting their social and environmental commitments.

The fourth finding indicates that GCG has a positive direction of influence on corporate reputation, but the effect is statistically insignificant. Therefore, H4 is rejected. This finding is consistent with (Fatikhatur Riziqiyah et al., 2025), who found that GCG did not significantly affect corporate reputation, and with (Sudirman & Ningrum, 2022), who also reported an insignificant effect of GCG on corporate reputation.

From the perspective of Agency Theory, GCG is expected to strengthen monitoring mechanisms and reduce conflicts of interest between owners and managers. Effective governance may theoretically increase confidence in a company by demonstrating adequate monitoring and control mechanisms. Nevertheless, the present finding indicates that the GCG mechanisms examined do not have a significant effect on corporate reputation. This suggests that formal governance structures may not be directly reflected in corporate reputation when reputation is measured through awards.

The finding differs from (Sultan & Ratnadi, 2024), who found a positive and significant effect of GCG on corporate reputation among banking companies listed on the IDX during 2020–2022. This difference indicates that the effect of GCG on corporate reputation may vary according to the characteristics of the research object, observation period, GCG indicators, and reputation proxy.

The fifth finding shows that corporate reputation has a positive and significant effect on financial risk. The direction is opposite to the hypothesized relationship, resulting in the rejection of H5. The hypothesis proposed that a strong corporate reputation would reduce financial risk through increased stakeholder trust and lower uncertainty. The empirical evidence instead indicates that banks receiving awards as an indicator of corporate reputation exhibit higher NPL levels.

This finding is consistent with Kaur et al. (2025), who found that corporate reputation had a positive and significant effect on systematic risk. Although Kaur et al. (2025) used systematic risk while this study uses financial risk proxied by NPL, the similar direction indicates that corporate reputation is not necessarily associated with lower risk. The relationship between reputation and risk may vary depending on company characteristics, the type of risk, and the measurement of reputation.

The result differs from (Brahmana et al., 2022), who found that companies with higher reputation had lower total risk and tail risk. This difference further indicates that the relationship between corporate reputation and financial risk may depend on the characteristics of the research object, observation period, type of risk, and reputation proxy.

In this study, corporate reputation is measured based on the receipt of corporate awards. This measure captures external recognition but does not necessarily represent all dimensions of corporate reputation. Banks with larger business scales and greater public exposure may have greater opportunities to receive awards, while their credit distribution characteristics and credit risk levels may differ. Therefore, receiving an award does not necessarily correspond to a lower level of financial risk.

The sixth finding concerns the mediating role of corporate reputation in the relationship between CSR and financial risk. The mediation test shows that corporate reputation does not significantly mediate the effect of CSR on financial risk, resulting in the rejection of H6. Although CSR has a positive and significant effect on corporate reputation (path a),

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and corporate reputation has a positive and significant effect on financial risk (path b), the indirect effect of CSR on financial risk through corporate reputation is not statistically significant at the 95% confidence level. Therefore, the effect of CSR on financial risk is not sufficiently transmitted through corporate reputation.

The R-Square value of corporate reputation is 0.151, indicating that CSR and GCG jointly explain 15.1% of the variation in corporate reputation, while the remaining 84.9% is explained by factors outside the research model. This provides supporting evidence that other factors may contribute to corporate reputation. Nevertheless, the R-Square value does not directly determine whether the mediation effect is statistically significant.

This finding is consistent with (Dang et al., 2025), who found that corporate reputation did not mediate the relationship between social responsibility and risk in international construction projects. Their indirect effect of social responsibility on risk through corporate reputation was $\beta = 0.136$ with $p = 0.144$, indicating an insignificant mediation effect. Although their study found that social responsibility positively affected corporate reputation, corporate reputation did not significantly affect risk. The similarity with the present study lies in the absence of a significant mediating role of corporate reputation. The studies differ in their research contexts and risk measures, as (Dang et al., 2025) examined international construction projects with project risk as the dependent variable, whereas this study examines listed banking companies and uses NPL as the proxy for financial risk.

The finding also differs from (Shatila et al., 2025), who found that corporate reputation played a mediating role in the relationship between CSR and corporate performance. The difference may be explained by the dependent variable. (Shatila et al., 2025) focused on financial performance, whereas this study focuses on financial risk proxied by NPL. Thus, corporate reputation does not necessarily constitute a mechanism through which CSR affects financial risk. The findings indicate that greater CSR disclosure is not sufficient to influence financial risk through corporate reputation among the banking companies examined.

The seventh finding shows that corporate reputation does not significantly mediate the effect of GCG on financial risk, resulting in the rejection of H7. The specific indirect effect of GCG on financial risk through corporate reputation is statistically insignificant. This finding is consistent with the insignificant direct effect of GCG on corporate reputation found in H4 and indicates that GCG is not sufficiently strong to affect financial risk through corporate reputation.

The finding is consistent with (Fatikhatur Riziqiyah et al., 2025), who found that corporate reputation did not mediate the effects of GCG and green accounting on ESG reporting. Although the dependent variable differs, their findings indicate that corporate reputation is not always a mechanism through which GCG affects another corporate outcome. The finding also differs from (Putri Saf, 2024), who identified a role for GCG in strengthening the relationship between sustainability disclosure and corporate reputation. The difference may be attributable to differences in the research model, variables, research objects, and relationships examined. In the present study, corporate reputation functions as a mediator between GCG and financial risk, and this indirect relationship is not statistically significant.

4.2.2 Comparison with Previous Studies

Overall, the findings demonstrate that the relationships among CSR, GCG, corporate reputation, and financial risk are not uniform across research contexts. The positive and significant relationship between CSR and NPL is consistent in direction with (Fitria Herdianti et al., 2024), but differs from the insignificant result reported by (Putri, 2023) and the negative significant relationship reported by (Boussaada et al., 2023). Similarly, the positive relationship between GCG and financial risk is consistent in direction with (Ardana & Pringsewu, 2019), but differs from the risk-minimizing relationship identified by (Rissi & Herman, 2020).

The positive and significant effect of CSR on corporate reputation is consistent with (Oetari et al., 2025) and (Afifah et al., 2021), whereas the insignificant effect of GCG on reputation is consistent with (Fatikhatur Riziqiyah et al., 2025) and (Sudirman & Ningrum, 2022), but differs from (Sultan & Ratnadi, 2024). The positive relationship between corporate reputation and financial risk is consistent with Kaur et al. (2025), but differs from (Brahmana et al., 2022), which found lower total and tail risk among firms with stronger reputations.

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The mediation results also provide a distinction from previous evidence. The absence of CSR-reputation-risk mediation is consistent with (Dang et al., 2025), but differs from (Shatila et al., 2025), which identified a mediating role of reputation in the relationship between CSR and financial performance. Similarly, the absence of GCG-reputation-risk mediation is consistent with (Fatikhatur Riziqiyah et al., 2025), while the finding differs from the strengthening role of GCG in sustainability disclosure and reputation reported by (Putri Saf, 2024).

These differences suggest that the relationships between CSR, GCG, reputation, and risk cannot be interpreted independently of the characteristics of the industry, period, risk type, governance mechanism, and measurement approach. In particular, NPL represents credit risk in banking and therefore differs conceptually from financial leverage, systematic risk, total risk, tail risk, or financial performance used in several previous studies.

4.2.3 Theoretical Contributions

The findings contribute to Stakeholder Theory, Legitimacy Theory, and Agency Theory by demonstrating that the existence or disclosure of corporate practices does not automatically translate into lower financial risk.

From the perspective of Stakeholder Theory, the positive and significant effect of CSR on corporate reputation supports the proposition that attention to stakeholder interests and the disclosure of social and environmental responsibilities can strengthen external recognition. However, the positive relationship between CSR and NPL and the absence of mediation through reputation indicate that stakeholder-oriented disclosure does not necessarily function as a direct mechanism for reducing credit risk. This extends the application of Stakeholder Theory by distinguishing between stakeholder recognition and operational risk management.

From the perspective of Legitimacy Theory, the positive relationship between CSR and corporate reputation indicates that CSR disclosure can contribute to social recognition and legitimacy. At the same time, the positive CSR-NPL relationship suggests that disclosure as a mechanism for communicating corporate responsibility should not be equated with the effectiveness of internal risk management. Thus, the findings distinguish between the legitimacy function of CSR disclosure and the operational function of credit-risk management.

From the perspective of Agency Theory, the positive and significant relationship between GCG and financial risk, combined with the insignificant relationship between GCG and corporate reputation, challenges the assumption that the formal presence of governance mechanisms necessarily produces lower risk and stronger reputation. Institutional ownership, managerial ownership, independent commissioners, and audit committees represent structural mechanisms, but their existence does not necessarily demonstrate the effectiveness of monitoring and decision-making. The findings therefore extend Agency Theory by highlighting the distinction between the formal structure of governance and the effectiveness of governance implementation in the banking sector.

The findings concerning mediation further indicate that corporate reputation does not automatically serve as an intermediate mechanism linking CSR or GCG to financial risk. This provides a theoretical contribution by demonstrating that reputational recognition and financial-risk outcomes may operate through different organizational mechanisms.

4.2.4 Practical and Policy Implications

The findings provide several practical implications for banking management. First, banks should not treat extensive CSR disclosure as a substitute for effective credit-risk management. Because CSR disclosure was positively associated with NPL in this study, managers need to ensure that social and environmental reporting is accompanied by effective processes for credit assessment, debtor monitoring, and repayment-capacity evaluation.

Second, the findings regarding GCG indicate that banks should focus not only on maintaining formal governance structures but also on ensuring that governance mechanisms function effectively. Institutional ownership, managerial ownership, independent commissioners, and audit committees should be supported by active monitoring, effective risk identification, and prudent credit decision-making. The positive association between GCG indicators and NPL should therefore be considered in evaluating whether governance mechanisms are

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functioning substantively rather than merely existing structurally.

Third, the positive effect of CSR on corporate reputation indicates that CSR disclosure remains relevant for strengthening external recognition. Nevertheless, banks should ensure that CSR activities and disclosures reflect substantive organizational practices rather than being considered solely as instruments for obtaining external recognition or awards.

Fourth, the insignificant effect of GCG on corporate reputation and the insignificant mediation effects indicate that governance mechanisms and reputational recognition should not be relied upon as the sole channels for controlling financial risk. Banking managers need to integrate governance, CSR, reputation management, and credit-risk management within a broader risk-management framework.

For banking policymakers and regulators, the findings indicate the importance of emphasizing the effectiveness of governance and risk-management implementation rather than relying solely on formal governance structures or disclosure compliance. The findings also suggest that CSR reporting and governance assessments should be considered alongside indicators that reflect substantive risk-management practices, particularly credit-risk management and NPL development.

4.2.5 Integration with the Research Gap

The findings address the research gap identified in the literature review by providing empirical evidence on the integrated relationships among CSR, GCG, corporate reputation, and financial risk in banking companies listed on the IDX during 2022–2024. Previous studies have produced mixed findings regarding whether CSR and GCG reduce financial risk, whether they strengthen corporate reputation, and whether reputation functions as an intermediary mechanism.

The present study contributes to this gap by examining CSR and GCG simultaneously as antecedents of financial risk while positioning corporate reputation as a potential mediating mechanism. The results show that CSR and GCG are both positively and significantly associated with financial risk, CSR significantly strengthens corporate reputation, GCG does not significantly affect reputation, and corporate reputation itself has a positive and significant relationship with financial risk. More importantly, corporate reputation does not significantly mediate either the CSR-financial risk relationship or the GCG-financial risk relationship.

These findings demonstrate that the relationship between responsible corporate practices and financial risk is more complex than an assumption that CSR, GCG, and reputation automatically reduce risk. The results also provide context-specific evidence for the banking sector, where NPL reflects credit risk and may be influenced by debtor repayment capacity in addition to internal corporate policies. Thus, the study helps clarify why findings from other industries or studies using different risk measures may not produce identical conclusions.

4.2.6 Acknowledgement of Study Limitations

Several limitations should be considered when interpreting the findings. First, the study focuses on banking companies listed on the IDX during the 2022–2024 observation period. Therefore, the findings reflect the characteristics of the banking sector and the specified period and should not automatically be generalized to other industries or periods with different economic and regulatory conditions. Second, CSR is measured using the CSRDI based on the GRI Standards 2021. This measurement captures the extent of CSR disclosure but does not fully assess the quality, depth, or effectiveness of CSR implementation. Consequently, the positive relationship between CSR disclosure and NPL should not be interpreted as evidence that substantive CSR activities increase credit risk. Third, corporate reputation is proxied by the receipt of corporate awards. Although awards provide an observable form of external recognition, they do not necessarily capture all dimensions of corporate reputation perceived by customers, investors, employees, regulators, and other stakeholders. This limitation is particularly relevant to the interpretation of the positive relationship between reputation and NPL. Fourth, GCG is represented by institutional ownership, managerial ownership, independent commissioners, and the audit committee. These indicators primarily capture structural aspects of governance and may not fully represent the quality and effectiveness of governance practices, including the intensity of monitoring, quality of decision-making, and actual implementation of risk-

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management controls.

Finally, financial risk is proxied by NPL, which specifically reflects credit risk. Other dimensions of financial risk may produce different relationships with CSR, GCG, and corporate reputation. Therefore, the findings should be interpreted specifically within the context of credit risk rather than as evidence concerning all forms of financial risk.

5. Conclusion

5.1 Summary of Key Findings

Based on the results and discussion concerning the effect of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on financial risk with corporate reputation as a mediating variable in banking companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024, several conclusions can be drawn.

First, Corporate Social Responsibility (CSR) has a positive and significant effect on financial risk. This finding indicates that broader CSR disclosure is associated with higher financial risk as proxied by Non-Performing Loans (NPL). This relationship may occur because the measurement of CSR emphasizes the extent of disclosure rather than the quality of CSR implementation and its effectiveness in supporting risk management.

Second, Good Corporate Governance (GCG) has a positive and significant effect on financial risk. The finding indicates that improvements in GCG indicators are not necessarily accompanied by lower financial risk. This condition may be attributed to the GCG indicators used in the study, which primarily represent formal governance structures, while the effectiveness of risk oversight may not be fully reflected in these indicators.

Third, CSR has a positive and significant effect on corporate reputation. This finding indicates that broader CSR disclosure based on the GRI 2021 Standards is associated with greater opportunities for companies to obtain recognition and awards from external parties, which serve as the proxy for corporate reputation.

Fourth, GCG has a positive but insignificant effect on corporate reputation. This finding indicates that the GCG indicators used in the study, namely institutional ownership, managerial ownership, independent commissioners, and audit committees, are not sufficient to explain differences in corporate reputation among banks. These indicators tend to reflect internal governance structures and may not be directly visible to external stakeholders.

Fifth, corporate reputation has a positive and significant effect on financial risk. This finding indicates that corporate reputation measured through awards does not demonstrate a relationship that reduces financial risk. This condition may be associated with the characteristics of banking companies, which generally have substantial credit activities and exposure.

Sixth, corporate reputation does not mediate the effect of CSR on financial risk. Although CSR significantly affects corporate reputation and corporate reputation significantly affects financial risk, the indirect effect of CSR on financial risk through corporate reputation is not significant.

Seventh, corporate reputation does not mediate the effect of GCG on financial risk. This finding indicates that corporate reputation has not functioned as a connecting mechanism between GCG and financial risk. This result is also consistent with the insignificant effect of GCG on corporate reputation.

5.2 Theoretical Contributions

This study contributes to the literature by demonstrating that CSR disclosure, GCG, and corporate reputation do not necessarily function as mechanisms for reducing financial risk in banking companies. The findings provide a more nuanced understanding of the relationship between corporate responsibility, governance, reputation, and financial risk by showing that broader CSR disclosure and stronger formal GCG indicators may coexist with higher financial risk.

The findings also contribute to the application of Stakeholder Theory and Legitimacy Theory by indicating that CSR disclosure can be associated with corporate reputation, particularly when external recognition and awards are used as indicators of reputation. At the same time, the findings indicate that reputational recognition does not automatically translate into lower financial risk. In relation to Agency Theory, the results suggest that formal governance structures, including ownership structures, independent commissioners, and audit committees, do not necessarily ensure more effective risk oversight or produce stronger corporate

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reputation.

The absence of significant mediation through corporate reputation further contributes to the literature by indicating that reputation does not necessarily serve as an intermediate mechanism linking CSR and GCG to financial risk. These findings therefore refine the understanding of the relationships among CSR, GCG, reputation, and financial risk in the banking sector and provide empirical evidence relevant to the research gap identified in the study.

5.3 Practical and Policy Implications

For banking companies, the findings indicate the importance of improving the quality and effectiveness of CSR implementation and GCG practices rather than focusing solely on formal compliance or the extent of disclosure. CSR programs should be implemented substantively and integrated with corporate risk management and stakeholder interests. Similarly, GCG should emphasize the effectiveness of oversight, accountability, and risk management rather than merely fulfilling formal governance structures. Corporate reputation should also be supported by sound risk management, transparency, and stakeholder trust.

For investors, CSR disclosure, GCG indicators, and corporate awards should not be used as the sole basis for investment decisions. Investors should also consider NPL, financial conditions, and other relevant risk indicators when assessing the financial condition and risk profile of banking companies.

For government and regulators, particularly the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), the findings highlight the importance of continuously strengthening oversight of GCG implementation and improving the standardization and consistency of CSR disclosure. More consistent and comparable corporate information can support greater transparency and enable stakeholders to make more informed assessments of banking companies.

5.4 Limitations of the Study

This study has several limitations that should be considered when interpreting and applying its findings. First, the study focuses on banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Therefore, the findings may not be directly generalizable to companies in other industries, unlisted banking institutions, or periods outside the observation period. Second, CSR is measured based on the extent of disclosure using the GRI 2021 Standards. This measurement reflects the breadth of information disclosed by companies but does not fully capture the quality, effectiveness, or actual outcomes of CSR implementation. Third, corporate reputation is measured using corporate awards. Although awards provide an observable indicator of external recognition, they may not fully capture the multidimensional nature of corporate reputation among stakeholders. Fourth, GCG is represented by institutional ownership, managerial ownership, independent commissioners, and audit committees. These indicators primarily reflect formal governance structures and may not fully capture the effectiveness of governance practices, monitoring quality, or actual risk oversight. Finally, financial risk is proxied by NPL, which primarily represents credit risk. Therefore, other dimensions of financial risk, such as liquidity risk, market risk, capital risk, or other banking-specific risks, are not fully represented in the analysis.

5.5 Directions for Future Research

Future research is encouraged to extend the observation period and expand the research objects to include a broader range of banking institutions or other industries. Such expansion may provide further evidence regarding the consistency of the relationships among CSR, GCG, corporate reputation, and financial risk across different contexts. Future studies may also employ more comprehensive proxies for corporate reputation to capture its multidimensional characteristics and incorporate alternative measures of CSR that consider not only disclosure breadth but also the quality and effectiveness of CSR implementation. Similarly, future research may use broader GCG indicators that capture the effectiveness of governance and risk oversight rather than relying primarily on formal structural indicators. In addition, future studies are encouraged to incorporate additional financial risk indicators and other relevant variables, such as profitability, firm size, liquidity, and capital adequacy. These extensions may provide a more comprehensive understanding of the factors influencing financial risk and help explain the

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relationships that were not fully captured by the current research model.

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