

# The Implementation of Good Corporate Governance in Maintaining Financial Stability at Perumda BPR Bank Kota Kediri

Original Article

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## Abstract

The implementation of Good Corporate Governance (GCG) is considered a crucial mechanism for ensuring transparency, accountability, and sustainability in financial institutions, including regionally owned rural banks (BPRs). However, challenges related to governance practices, political intervention, and organizational capacity often affect the effectiveness of GCG in maintaining financial stability. This study aims to analyze the implementation of Good Corporate Governance (GCG) and its impact on financial stability at Perumda BPR Bank Kota Kediri. This qualitative study using a case study approach collected data through in-depth interviews with board of commissioners, directors, internal auditors, and external parties, as well as analysis of internal financial reports. The results show that the implementation of the five GCG principles which are transparency, accountability, responsibility, independence, and fairness remains formal and not yet fully substantive. Key obstacles include local government ownership structure leading to intervention, limited Human Resources (HR) capacity, hierarchical organizational culture, and suboptimal information technology systems. The impact of suboptimal GCG implementation on financial stability is reflected in the still high non-performing loan (NPL) ratio, although it shows an improving trend from 45% (2019) to 23.49% (2023). Other indicators such as Return on Assets (ROA) and operational efficiency (BOPO) also show positive improvement. The conclusion emphasizes that the effectiveness of GCG in maintaining the financial stability of regionally-owned BPRs highly depends on internalizing governance principles into the organizational culture and reducing political intervention, in addition to complying with the formal structures set by the Financial Services Authority (OJK) regulations.

**Keywords:** Bank Health Level, Case Study, Financial Stability, Good Corporate Governance, Rural Bank.

## 1. Introduction

Rural Banks (BPR) play a vital role in the national financial ecosystem, especially in reaching small communities and Micro and Small Enterprises (MSEs) that are not fully served by Commercial Banks. As local, region-based financial institutions, BPRs are expected to serve as instruments for microeconomic development through their intermediary functions, fund mobilisation, and inclusive credit distribution (OJK, 2024). However, to date, BPRs still lag far behind commercial banks in terms of their contribution to the national banking system. The latest data shows that the aggregate contribution of BPRs is only 1.8% of total banking assets and 2.1% of total credit. On the other hand, BPRs face serious challenges in the form of low asset quality, marked by a gross non-performing loan (NPL) ratio of 9.87% at the end of 2023, which is almost double the maximum limit set by the OJK, which is 5% (OJK, 2024). This has a direct impact on the decline in profitability and operational efficiency of BPRs.



The 2023 Annual Report of the Financial Services Authority shows that although BPRs still recorded positive growth in assets and credit, their efficiency (BOPO) and profitability (ROA) ratios were much lower than those of commercial banks. The high NPL is a fundamental problem that not only reduces profitability but also increases the risk to the sustainability of BPRs (Irchani et al., 2025). This is exacerbated by the weak implementation of Good Corporate Governance (GCG) principles, particularly in small and local government-owned BPRs. Similar conditions were also found at Perumda BPR Bank Kota Kediri. Over the past decade, this bank has been plagued by various serious governance issues, such as the disbursement of loans without the approval of the supervisory board, conflicts of interest between management and owners (local government), and corruption cases involving public officials and bank executives (Kompas, 2012; RadarKediri, 2021). An internal crisis of confidence has also emerged, reflected in employee strikes and complaints about discriminatory practices in human resource management (BangsaOnline, 2020; Duta.co, 2020).

Similar conditions were also found at Perumda BPR Bank Kota Kediri. Over the past decade, this bank has been plagued by various serious governance issues, such as the disbursement of loans without the approval of the supervisory board, conflicts of interest between management and owners (local government), and corruption cases involving public officials and bank executives (Kompas, 2012; RadarKediri, 2021). An internal crisis of confidence has also emerged, reflected in employee strikes and complaints about discriminatory practices in human resource management (BangsaOnline, 2020; Duta.co, 2020). In terms of financial performance, Perumda BPR Bank Kota Kediri's NPL was even reported to have reached 45%, a condition that is very dangerous for the bank's survival and reflects poor risk management (Kediripost, 2020). This indicates a fundamental failure in the implementation of the principles of responsibility and accountability, as stipulated in POJK No. 9 of 2024 concerning the Governance of BPR and BPRS.

This case was selected because it represents a critical case of governance challenges faced by regionally owned rural banks in Indonesia. While the severity of the problems experienced by Perumda BPR Bank Kota Kediri may appear extreme, the underlying issues, such as political intervention, weak internal control, and limited managerial capacity, are commonly reported in many local government-owned BPRs. Therefore, examining this case provides valuable insights into how governance weaknesses can affect financial stability and institutional performance in the broader rural banking sector.

Good corporate governance (GCG) is one of the main pillars in creating a healthy, stable, and sustainable banking industry. In the context of banking, GCG is understood as a system and mechanism for managing financial institutions in a professional, transparent, and accountable manner, based on the principles of prudence and compliance with applicable regulations (OJK, 2019). The implementation of GCG is very important because banks are intermediary institutions that manage public funds. Therefore, the sustainability of banks is highly dependent on the level of public trust. To ensure sound and responsible management, the Financial Services Authority (OJK) through POJK Number 4/POJK.03/2015 concerning the Governance of BPR and BPRS and SEOJK Number 15/SEOJK.03/2015 concerning Guidelines for the Implementation of Governance for BPR as amended by POJK Number 09/2024 concerning Governance of Rural Banks and Rural Bank Associations and SEOJK Number 15/SEOJK.03/2024 concerning the Implementation of Governance for Rural Banks, which requires all banks, including Rural Banks (BPR), to implement the five main principles of GCG, namely transparency, accountability, responsibility, independence, and fairness.

The application of these governance principles has been shown to have a significant impact on bank health. Effective GCG improves strategic decision-making, strengthens internal control systems, and increases resource efficiency, which ultimately supports the financial stability of banks (Boubaker & Elnahass, 2024). Previous studies also show that the implementation of GCG contributes positively to improving bank health (Altaf et al., 2022; Bastomi et al., 2017). Strong governance enables the establishment of effective internal control systems, reduces fraud, strengthens prudent lending, and maintains asset quality (Anginer et al., 2018; Ekadjaja & Ekadjaja, 2020). Therefore, GCG is not only an ethical and administrative instrument but also an important foundation for creating sustainable banks, particularly in rural banking institutions that are vulnerable to conflicts of interest and weak management practices (Jannah, 2016; Permatasari, 2020).

In addition, several studies indicate that banks with stronger governance practices tend to demonstrate better financial performance. Good governance is associated with higher profitability ratios, including return on assets (ROA) and return on equity (ROE) (Bastomi et al., 2017; Musah & Adutwumwaa, 2021). A well-structured governance system also provides clearer strategic direction and stronger oversight of managerial decisions, thereby reducing the risk of financial mismanagement (Aslam & Haron, 2020; Bhagat et al., 2010).

Beyond profitability, GCG also contributes to improving operational efficiency. Effective governance supports more controlled work processes, better cost management, and stronger internal audit practices (Oteng-Abayie et al., 2018). These mechanisms help ensure more efficient resource allocation and compliance with business plans, which ultimately reduces operational inefficiencies (Karyani et al., 2020). Furthermore, governance mechanisms play an important role in managing banking risks, particularly credit risk. Banks that consistently apply governance principles tend to implement more prudent and well-documented lending processes, supported by supervision from committees such as audit and risk monitoring committees (Endah et al., 2020). This approach contributes to reducing non-performing loans (NPLs), which are a key indicator of bank stability (Ekadjaja & Ekadjaja, 2020). In the rural banking sector, strong governance is particularly important given the frequent cases of financial distress caused by weak internal supervision and conflicts of interest in lending practices (Nugroho & Muharam, 2023).

Finally, GCG also influences the capital resilience of banks. Strong governance encourages more prudent expansion strategies and prevents excessive exposure to high-risk assets. Previous studies show that effective board structures and active risk oversight committees contribute to better risk management and stronger capital adequacy (Bhatia & Gulati, 2021; Fernandes et al., 2018). In rural banks, this governance framework can help maintain adequate capital levels and support financial stability in accordance with regulatory requirements.

However, the implementation of GCG is not without challenges, especially in the BPR environment. Despite growing literature on GCG in commercial banks, empirical studies specifically examining GCG implementation in government-owned BPRs remain limited. Some of the obstacles that often arise include weak human resource capacity, unclear roles of management bodies, and low independence in decision-making. These conditions mean that the implementation of GCG is not yet fully effective, even though regulations have detailed the obligations and administrative sanctions for violations of governance principles (OJK, 2024). Therefore, to strengthen the competitiveness and resilience of the banking industry, the implementation of GCG must go beyond mere administrative compliance and truly become an organisational culture that is applied across all lines of management and bank operations. With a strong commitment to GCG principles, banks can maintain public trust, improve

efficiency, strengthen financial performance, and maintain asset quality in a sustainable manner.

Thus, this study aims to comprehensively examine the implementation of GCG at Perumda BPR Bank Kota Kediri and its impact on the bank's financial performance, in terms of profitability, operational efficiency, and asset quality. This study is expected to provide empirical contributions to the formulation of policies to improve the governance of government-owned rural banks in Indonesia. Based on this background, this study formulates three main problems: first, how the principles of Good Corporate Governance (GCG) are implemented at Perumda BPR Bank Kota Kediri; second, what are the obstacles faced in implementing GCG; and third, how the implementation of GCG affects the bank's health. In accordance with the formulation of the problems, the objectives of this study are to analyse the implementation of GCG principles, identify the obstacles encountered in their implementation, and analyse the impact of GCG implementation on the health of Perumda BPR Bank Kota Kediri.

This study is expected to benefit various parties. For bank management, the results of this study can be used as a basis for evaluating and improving governance strategies and internal supervision. For the Kediri City Government as the owner, this study provides objective information on the effectiveness of governance and financial performance to support policy and investment decision-making. For the Financial Services Authority (OJK), the research findings can be used as consideration in the supervision and formulation of policies to strengthen the BPR industry. For customers, improvements in governance are expected to increase trust, service quality, and fund protection. Finally, for future researchers, this study can be used as an empirical and methodological reference for further studies on GCG and performance in the microbanking sector.

## 2. Literature Review

### 2.1. Concepts and Principles of Good Governance

Good Corporate Governance (GCG) is a system of principles and mechanisms that guide companies in achieving sustainable objectives while ensuring accountability to all stakeholders, including the relationship between management, the board of directors, shareholders, and other stakeholders (Tabassum & Singh, 2020). According to the Financial Services Authority (OJK), the five main pillars of GCG consist of transparency, accountability, responsibility, independence, and fairness (Awaliah & Sembiring, 2025). Theoretically, GCG is grounded in agency theory and stakeholder theory. Agency theory explains that governance mechanisms are necessary to minimise conflicts of interest between principals (shareholders) and agents (management) through supervision, transparency, and control mechanisms (Tabassum & Singh, 2020:18). In the banking context, this theory is particularly relevant to mitigating lending risks and preventing opportunistic behaviour by bank managers, such as imprudent credit disbursement, excessive risk-taking, or misuse of depositor funds. Effective governance structures, such as active boards, internal audits, and risk management committees—serve to monitor managerial decisions and reduce agency costs in financial institutions.

In addition, stakeholder theory emphasises that companies must consider the interests of a broader group of stakeholders beyond shareholders alone, including customers, employees, regulators, and the wider community (Magnan & Michelon, 2024). This perspective is particularly important in the banking sector, where banks manage public funds and therefore bear a responsibility to maintain financial stability and public trust. In practice,

stakeholder-oriented governance requires banks to balance the interests of shareholders seeking profitability with those of depositors who prioritise the safety of their funds, as well as regulators who seek systemic stability. Therefore, integrating stakeholder considerations into governance practices helps ensure responsible lending, prudent risk management, and sustainable financial performance.

In the banking sector, GCG is crucial because banks act as intermediary institutions with high transaction complexity and a strategic role in the national financial system. Effective governance can mitigate the risks of information asymmetry and moral hazard, while governance failures have historically been identified as a major cause of banking crises (Boubaker & Elnahass, 2024). The success of GCG does not depend solely on administrative compliance (tick-box governance), but also requires substantive implementation supported by a strong organisational culture and leadership commitment (Tabassum & Singh, 2020).

In the context of banking institutions, the relevance of agency theory and stakeholder theory becomes more pronounced. Agency theory explains the need for strong governance mechanisms to mitigate conflicts of interest between owners and management, particularly in lending decisions that involve high risk and the management of public funds. Weak monitoring can lead to opportunistic behaviour, such as imprudent credit allocation and moral hazard. Meanwhile, stakeholder theory emphasises that banks are not only responsible to shareholders but also to depositors, regulators, and the wider community. This is especially important for rural banks (BPRs), which operate closely with local communities and rely heavily on public trust. Therefore, the implementation of GCG in banking must balance risk control, profitability, and the protection of stakeholder interests to ensure long-term sustainability.

## 2.2. GCG Principles and Indicators According to the OJK

The Financial Services Authority (OJK) has established five main principles of Good Corporate Governance (GCG) that must be implemented by financial institutions, including Rural Credit Banks (BPR), namely transparency (provision of relevant and accurate information), accountability (clarity of functions and responsibilities), responsibility (compliance with regulations and prudential principles), independence (management free from the influence of any party), and fairness (fair treatment of all stakeholders) (OJK, 2015). These five principles are outlined operationally in POJK No. 4/POJK.03/2015 and SEOJK No. 15/SEOJK.03/2015, which were later updated through POJK No. 09/2024 concerning Governance of BPR and BPRS and SEOJK No. 12/SEOJK.03/2024 concerning the Application of Governance for Rural Banks.

The governance indicators that must be implemented by BPRs include nine main aspects: (1) the implementation of the Board of Directors' duties in managing and implementing governance at all levels of the organisation; (2) the implementation of the Board of Commissioners' duties in supervising and providing advice without being involved in operational decisions; (3) the completeness and function of committees such as the Audit Committee, Risk Monitoring Committee, and Remuneration-Nomination Committee; (4) handling conflicts of interest to protect the bank and its customers; (5) implementation of compliance, internal audit, and external audit functions to maintain the independence of supervision; (6) implementation of risk management and internal control systems in accordance with the complexity of the business; (7) compliance with maximum credit limits (BMPK) to prevent risk concentration; (8) preparation and implementation of realistic business plans; and (9) transparency of financial and non-financial conditions to stakeholders and regulators.

### 2.3. GCG in the Context of Rural Banks (BPR)

The implementation of Good Corporate Governance (GCG) in Rural Banks (BPR) is of high urgency. This is due to the characteristics of BPRs as microfinance institutions that serve small segments with limited resources, simple structures, and significant owner involvement, making them prone to conflicts of interest and weak transparency. For this reason, POJK Number 9 of 2024 requires BPRs to implement the five principles of GCG comprehensively at all levels of the organisation, supported by technical guidelines in SEOJK Number 12/SEOJK.03/2024, which cover internal control systems, risk management, and periodic self-assessment. The assessment of GCG implementation covers aspects of structure, process, and results as seen from compliance, transparency of reports, and financial performance indicators (Chasanah et al., 2025). This regulation also emphasises the role of each organ: shareholders are required to provide support without excessive intervention, while the board of directors is responsible for establishing independent audit and risk management functions. Thus, the substantive implementation of GCG is not merely a matter of complying with regulations, but serves as the main foundation for building public trust, reputation, competitiveness, and resilience of BPRs in facing the dynamics of the financial industry.

### 2.4. Health Rating of Rural Banks (BPR)

The health rating of Rural Banks (BPR) is a key instrument in the supervision of the Financial Services Authority (OJK) to ensure operational continuity and stability. Based on OJK regulations, BPRs are required to conduct periodic self-assessments using a proactive approach. This assessment integrates four main factors: risk profile, governance (GCG), profitability, and capitalisation, to produce a composite rating on a scale of 1 (very healthy) to 5 (unhealthy). Risk profile evaluates exposure to credit, operational, liquidity, and compliance risks, with key indicators such as the NPL ratio. The GCG factor is assessed qualitatively based on the effectiveness of the implementation of basic governance principles. Meanwhile, profitability is measured by ratios such as ROA and BOPO, and capital adequacy by a minimum CAR of 12%. The final rating determines the regulator's actions: BPRs with a rating of 1-2 are considered healthy and encouraged to grow, while those with a rating of 4-5 will be subject to intensive supervision and corrective measures, making this system the foundation for the resilience and professionalism of BPRs.

### 2.5. Good Corporate Governance and Financial Performance

Based on existing literature reviews, there is a close and mutually reinforcing relationship between the implementation of Good Corporate Governance (GCG) and the financial stability of BPRs. Regulations such as POJK No. 9/2024 and SEOJK No. 12/SEOJK.03/2024 emphasise that GCG is not merely a legal obligation, but a crucial instrument for maintaining the sustainability and financial health of banks. Empirically, research shows that GCG mechanisms such as independent and optimally sized boards have a direct impact on improving financial performance, as reflected in key indicators such as ROA, CAR, and BOPO. Strong governance also significantly reduces risk, including NPL, and prevents fraud through strengthened internal controls and transparency. Thus, the substantive implementation of GCG serves as a dual foundation for BPRs: increasing profitability and operational efficiency while simultaneously building resilience through better risk management, which ultimately ensures long-term financial stability.

## 2.6. Previous Research

Various international and national studies confirm the positive correlation between strong corporate governance and banking health and performance. Quantitatively, studies in Pakistan (Ullah et al., 2023) and Malaysia (Lassoued, 2018) prove that GCG mechanisms such as independent boards directly improve financial stability (measured by Z-score) and mitigate risk. Similar findings in Nigeria (Kafidiye et al., 2021) and a global meta-analysis (Bhatia & Gulati, 2021) confirm that board structure, such as size, the presence of independent directors, and gender diversity, has a positive effect on performance (ROA/ROE), while CEO duality tends to have a negative impact.

In the Indonesian context, research shows that GCG not only improves the performance and stability of commercial banks (Iramani et al., 2018; Ekadjaja & Ekadjaja, 2020), but is also critical in risk management and fraud prevention at the Rural Credit Bank (BPR) level. Research on BPRs in Kediri (Endah et al., 2020) and Surabaya (Jannah, 2016) reveals that the implementation of GCG contributes to strengthening internal control and transparency, although implementation challenges such as legal constraints and weaknesses in written procedures are still encountered. Thus, empirical evidence consistently shows that substantive GCG serves as a pillar for building resilience, efficiency, and trust in banking institutions.

## 3. Methods

### 3.1. Research Approach

This study uses a purely qualitative approach with a case study method. This approach was chosen to gain an in-depth understanding of the phenomenon of implementing Good Corporate Governance (GCG) principles and their relationship with performance aspects at Perumda BPR Bank Kota Kediri in a real and local context (Yin, 2018:125). The exploratory and descriptive nature of the problem, as well as the focus on the narratives, perceptions, and interpretations of key informants, were the main reasons for choosing this approach. Quantitative indicators such as NPL, BOPO, ROA, and CAR were used only as interpretive references and analysed thematically, rather than for statistical hypothesis testing.

The case study method allows for holistic exploration through various data sources such as interviews, documents, observations, and archives, resulting in a rich and contextual understanding. This approach is also flexible, allowing the data collection and analysis process to be carried out iteratively in accordance with field dynamics (Crabtree & Miller, 2025). To answer questions about the effect of GCG implementation on the health of rural banks, descriptive quantitative data (financial ratios) were combined with qualitative narratives as complementary supporting data, without inferential statistical processing. Thus, the objective of this study is not numerical generalisation, but rather to understand the process, constraints, and meaning of GCG implementation in the structural and cultural context of BPR organisations.

### 3.2. Unit of Analysis

The unit of analysis in this study is Perumda BPR Bank Kota Kediri as an organisational unit that is the focus of observation. This study observes the organisation holistically, with particular attention to practices, policies, and internal dynamics that influence the implementation of Good Corporate Governance (GCG) and its relationship with financial performance. To obtain in-depth and contextual data, the researcher used purposive sampling techniques by setting criteria for competence, experience, and authority in decision-making related to GCG. Key informants interviewed included: the Chair of the Supervisory Board, the

Business Director, the Head of the Internal Audit Unit (SKAI), the Compliance & Manrisk PE, and the Chair of Korsek Kediri (BPR Association).

### 3.3. Data Collection Methods

Data collection was carried out using three main methods: open questionnaires, semi-structured interviews, and direct observation. This combination was designed to obtain a comprehensive and in-depth picture of the implementation of GCG at Perumda BPR Bank Kota Kediri. Open questionnaires were used as an initial instrument to identify informants' perceptions, allowing researchers to capture subjective experiences and practical knowledge (Crabtree & Miller, 2023). Semi-structured interviews then followed to explore important issues further in a flexible manner with key informants such as members of the supervisory board and directors (Yin, 2018) Direct observation of the work environment and governance practices provided additional context that was not always revealed through other methods (Yin, 2018).

### 3.4. Data Validity Techniques

Data validity is ensured through triangulation techniques and peer debriefing. Triangulation is carried out by combining various data collection methods (interviews, observation, documentation) and comparing information from various informant sources, as well as confirming findings with external experts from the OJK. Discussions with academic colleagues aim to obtain critical feedback on data interpretation, maintain objectivity, and sharpen analysis. These two techniques enhance the credibility and accuracy of understanding the phenomenon of GCG implementation.

### 3.5. Data Analysis

Data was analysed using systematic and iterative thematic analysis, following the stages of data reduction, data presentation, and conclusion drawing (Yin, 2018). Raw data was filtered and simplified to highlight important parts related to the research focus. Next, the data was classified into main themes such as GCG strategies, implementation barriers, the role of governance bodies, and the impact of GCG on BPR health indicators (ROA, CAR, BOPO, NPL). The data was presented in thematic narratives and relationship matrices. Conclusions were drawn based on thematic findings to answer the research questions, comparing the results with OJK provisions regarding bank health assessments.

## 4. Results and Discussion

### 4.1. Research Results

#### 4.1.1. Respondents' Responses

This study distributed questionnaires to internal parties (Chairman of the Supervisory Board, Business Director, Compliance & Manrisk PE and Head of SKAI) as well as external parties (Chairman of the Kediri Region BPR Association). The respondents' answers are presented in Table 1.

**Table 1. Summary of Respondents' Responses**

Principles of GCG	R1 (Chairman of the Supervisory Board)	R2 (Head of the Kediri Regional Secretariat)	R3 (Business Director)	R4 (PE Compliance and Risk Management)	R5 (Head of SKAI)
Transparency	Monthly reports to the Board of Commissioners, quarterly reports to owners, monthly meetings, information to select customers	Reports to OJK & annual publications; Monthly performance reports to management.	Encourage the Board of Directors to submit material information to the OJK.	Transparency is already excellent at all levels of reporting, both internal and external.	Transparency is rated as very good, particularly in the internal reporting and auditing processes.
Accountability	The roles of the Board of Directors and Board of Supervisors are clear, but certain decisions must be approved by the local government.	The Board of Directors is responsible for operations; meeting minutes and accountability to the Board of Commissioners.	The Board supervises and provides guidance, but does not engage in operations.	A strong, clear accountability structure that has been implemented in accordance with regulations.	Accountability is considered strong and orderly, in accordance with internal control standards.
Responsibility	Compliant with OJK regulations, but sometimes late due to limited human resources.	All products and policies comply with the latest POJK regulations.	Ensure policies comply with regulations and prudence.	Regulatory compliance and the application of prudential principles are excellent.	Compliance is going very well, according to observations from internal audits.
Independence	There is owner intervention in some policies	Mostly independent, but some policies require the Owner's approval.	Formally independent, but the owner's influence remains.	Very positive, no external intervention whatsoever.	The bank is independent, both in its credit decisions and in the audit process.
Fairness	Customers are treated equally, but employees face discrimination in promotions.	All customers are equal, but priority is given to loyal long-term customers.	Customers are treated equally, but certain information is provided more quickly.	Fairness is already working very well for both human resources and customers.	Fairness has been implemented very well in human resources and customer service.

Based on the data collected, perceptions regarding the implementation of GCG at Perumda BPR Bank Kota Kediri show consistency in some aspects but variation in others. In general, respondents agree that the principles of transparency, accountability, and responsibility have been pursued through regular reporting and regulatory compliance.

However, transparency is still considered limited for customers, and the implementation of responsibility is constrained by limited human resources.

On the other hand, the aspects of independence and fairness are the most prominent weaknesses. The majority of respondents acknowledge that there is intervention, especially in strategic credit decisions, which erodes management independence. In addition, although the treatment of customers is considered fair, there are indications of unfairness in internal human resource management, particularly in relation to promotions and transfers. The sharp differences in assessment between some respondents, ranging from critical to very positive, indicate that a formal GCG framework is in place and is considered strong by certain units, but substantive implementation at the operational level still faces structural challenges that require urgent improvement.

#### 4.1.2. Implementation of Good Corporate Governance (GCG) Principles

Based on in-depth interviews with leaders and supervisory officials, as well as document analysis, the study shows that Perumda BPR Bank Kota Kediri has attempted to implement the five principles of GCG (transparency, accountability, responsibility, independence, and fairness) in accordance with OJK guidelines, albeit with varying degrees of success in each aspect. The principles of transparency and accountability have been formally implemented through routine financial reporting mechanisms to regulators, owners (the municipal government), and the supervisory board. However, transparency to customers is still limited, and the strategic accountability process is often influenced by the ownership structure, requiring complicated approvals. Meanwhile, responsibility or compliance with regulations is considered good, although constrained by limited human resource capacity.

The main challenge lies in the principles of independence and fairness. Intervention from capital owners or interested parties in strategic credit decisions still occurs, eroding management independence. The principle of fairness is also more consistently applied in customer service, but is not yet evenly applied in internal human resource management, where there are still indications of unfairness in promotions and transfers. These findings underscore that although a formal GCG framework is in place, its substantive implementation still faces structural and organisational cultural obstacles that need to be addressed immediately.

**Table 2. Summary of the Implementation of GCG Principles at BPR Kota Kediri**

Principles of GCG	Questionnaire Results	Findings	Principles of GCG
Transparency	The majority of respondents agreed that financial reports were submitted regularly; a small number considered access to customer information to be limited.	<p>R1: Transparency to regulators is good, but customer information access is still lacking.</p> <p>R2: Reports are submitted regularly, but some internal information has not been disseminated evenly across all units.</p> <p>R3: Operational transparency is good, but publication to customers is still limited.</p> <p>R4: All information is disclosed openly, completely, and in a timely manner,</p>	Transparency is good towards regulators and internally, but still limited towards customers.

Principles of GCG	Questionnaire Results	Findings	Principles of GCG
Accountability	The majority of respondents stated that decision-making processes are generally carried out independently; however, several respondents indicated that certain strategic policies still require approval from the capital owner (local government).	<p>transparency is considered optimal.</p> <p>R5: Internal reporting is very open, data is easily accessible to auditors, and transparency is working very well.</p> <p>R1: There is owner intervention in some policies.</p> <p>R2: Mostly independent, but some policies require the owner's approval.</p> <p>R3: Formally independent, but the owner's influence remains.</p> <p>R4: Governance is very positive and there is no external intervention.</p> <p>R5: The bank operates independently in credit decisions and the audit process.</p>	The accountability structure is quite clear, but bureaucratic due to the intervention of capital owners.
Responsibility	Most respondents rated regulatory compliance as good; some felt it was constrained by human resources.	<p>R1: Regulatory compliance is good but limited human resources cause delays in some procedures. R2: SOPs are adhered to, but high workloads hinder consistency.</p> <p>R3: Prudence is well implemented but requires improved oversight.</p> <p>R4: Compliance is excellent, with SOPs being applied consistently.</p> <p>R5: Regulations and SOPs are consistently adhered to and monitored through internal audits.</p>	Regulatory compliance is enforced, but consistency is still affected by human resource limitations.
Independence	The majority of respondents considered the role of the Board of Directors and Board of Commissioners to be clear; one respondent mentioned the influence of capital owners.	<p>R1: Accountability structure is clear, but accountability practices are sometimes influenced by owners.</p> <p>R2: Audit and oversight functions are effective, but inter-unit</p>	Decision-making is formally independent, but the owner's influence is still present in several strategic policies.

Principles of GCG	Questionnaire Results	Findings	Principles of GCG
Fairness	Most respondents considered that customers were treated fairly; a small number considered that fairness in human resources was still weak.	<p>coordination is not yet optimal.</p> <p>R3: The roles of the board and committees are clear, but strategic decisions are not always consistent with the ideal structure.</p> <p>R4: Documentation and accountability structure are strong and effective.</p> <p>R5: Accountability is very well established; documentation is clear and can be audited without difficulty.</p> <p>R1: Customer service is fair, but fairness in human resources is still lacking.</p> <p>R2: Performance assessments are not yet fully merit-based.</p> <p>R3: Employee rotation and promotion are not yet fully transparent.</p> <p>R4: Fair treatment is given to customers and human resources; human resources policies are considered equitable.</p> <p>R5: Fairness is good, there is no discriminatory treatment of customers or employees.</p>	Customer fairness is fairly good, but internal fairness (employees) is still inconsistent.

Table 2 shows that the implementation of Good Corporate Governance (GCG) principles at Perumda BPR Bank Kota Kediri is perceived differently by respondents. Respondents 1-3 assessed that the implementation of GCG still faces several obstacles, such as limited transparency to customers, accountability that is not yet fully independent due to the influence of capital owners, operational responsibilities that are constrained by human resource capacity, weak independence due to external intervention in strategic decisions, and human resource fairness that is not yet fully merit-based. In contrast, Respondents 4 and 5 gave very positive assessments of all GCG principles, judging that reporting has been open, structural accountability is strong, regulatory compliance is consistent, independence is maintained without intervention, and fairness towards customers and employees is very good. This difference in perception indicates a gap between operational implementers and the audit/supervision unit, showing that although the GCG framework is well established, its effectiveness at the operational level still needs to be strengthened.

### 4.1.3. Constraints on GCG Implementation in the Field

Based on the results of thematic analysis of questionnaires and semi-structured interviews, four main categories of GCG implementation constraints were identified:

#### 1) Local Government Ownership Structure

As a regionally owned bank, the ownership structure centred on the Kediri City Government has both positive and negative consequences. On the one hand, capital support from the government provides continuity and legitimacy. However, on the other hand, the dominance of a single owner has a strong influence on the independence of management bodies. Several strategic decisions, such as the direction of credit distribution, are often influenced by political considerations rather than professionalism alone. As a result, the principle of independence, which is one of the main pillars of GCG, has not been optimally implemented. The Supervisory Board is often in a difficult position when it has to provide objective recommendations that are not in line with the interests of the Kediri City Government. This makes the supervisory process, which is supposed to be an internal control tool, less than fully effective.

#### 2) Human Resource Capacity

Limited human resource capacity is also a significant obstacle. Most employees come from non-banking backgrounds and do not have professional certifications in risk management, internal auditing, or governance. This situation causes many employees to still view GCG as merely an administrative obligation rather than a value and work culture that must be implemented. The lack of continuous training also results in weak capabilities in implementing control and risk mitigation systems. This can be seen, for example, in the creditworthiness analysis process, which is not yet fully consistent with the new procedures. These limitations create risk gaps that should be anticipated through the implementation of strong GCG.

#### 3) Hierarchical Organisational Culture

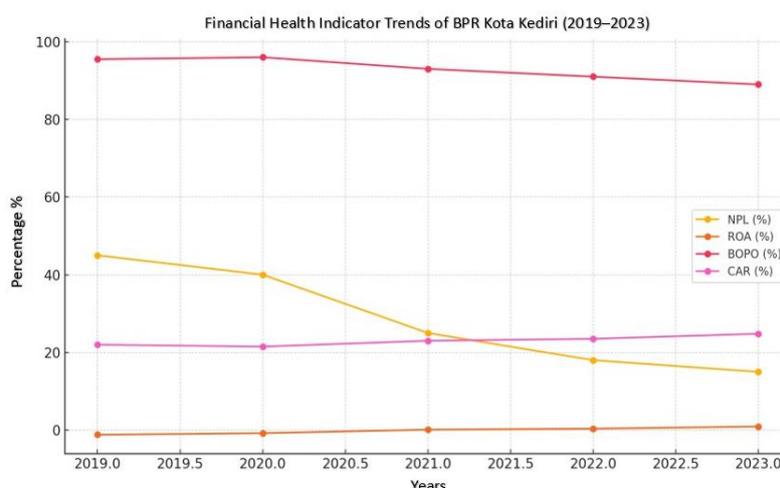
The organisational culture at Perumda BPR Bank Kota Kediri still exhibits a hierarchical and top-down work relationship pattern. Prior to institutional transformation, decision-making was largely dependent on instructions from leadership without active participation from middle and lower levels. This pattern persists today, even though the formal structure has been improved. The impact is a lack of initiative from lower-level work units in reporting potential problems or providing input. Several policies that should be implemented with discipline, such as multi-layered monitoring mechanisms, are often carried out only as a formality. The process of changing to a participatory work culture requires time, consistency, and support from top management in order to take root across all lines.

#### 4) Information Technology and Reporting Systems

The final factor that poses an obstacle is the limited support of information technology and reporting systems. Although the bank has begun to digitise its services, the systems that support the risk management and internal audit reporting processes are still simple and not yet integrated. As a result, the process of collecting data and reporting performance is largely done manually and is time-consuming. The limitations of these systems have an impact on the effectiveness of supervision. Early detection of potential credit problems is often delayed, and internal oversight reports are not always accurate because they rely on manual data consolidation. In fact, the use of modern information technology can be an important instrument in strengthening the principles of transparency and accountability expected from the implementation of GCG.

#### 4.1.4. The Impact of GCG Implementation on Financial Stability

The results of the study indicate that the implementation of Good Corporate Governance (GCG) at Perumda BPR Bank Kota Kediri has begun to have a positive impact on financial stability. This impact can be seen in several bank health indicators such as Non-Performing Loans (NPL), Return on Assets (ROA), Operating Expenses to Operating Income (BOPO), and Capital Adequacy Ratio (CAR). Internal financial report data for the past five years shows an improvement in trends after various governance reforms were carried out from 2019 to 2023. Although there are still challenges, these indicators are moving in a healthier direction. Changes in financial indicators during the 2019–2023 period are also visualised in Figure 1 below. This graph clarifies the improvement trend, particularly the decline in NPL and BOPO and the increase in ROA and CAR:



**Figure 1. Trend graph of financial indicators for Perumda BPR Bank Kota Kediri (2019–2023)**

##### 1) Decrease in NPL (Non-Performing Loan)

Prior to governance reforms, the ratio of non-performing loans or NPLs was at an alarming level. In 2019, NPLs reached 45%, indicating high credit risk exposure. Reforms to credit granting SOPs, the formation of a credit committee, and credit portfolio evaluations began in 2020. The impact was seen in the decline in the NPL ratio to 30.37% in 2021, continuing to decline to 23.49% in 2023. A high Non-Performing Loan (NPL) value indicates weak credit risk management, which leads to low operational efficiency (as indicated by a high BOPO). This reflects the failure to implement the principles of responsibility and accountability in lending practices. Although the CAR is relatively strong, this is more a result of effective collection by Perumda BPR Bank Kota Kediri in collaboration with the Kediri City Attorney's Office in collecting Special Power of Attorney (SKK) letters.

In-depth interviews revealed that the absence of strict sanctions for violations of GCG principles, as well as the disbursement of loans without following procedures, were the main causes of the deterioration in financial performance. These findings are reinforced by documented cases of abuse of authority and corruption scandals involving internal officials over the past decade. These results indicate that GCG implementation efforts are beginning to have a positive impact. However, the sustainability of these improvements still depends heavily on management's commitment and owner support to reduce political intervention.

In addition, the significant decline in NPLs reflects the implementation of credit monitoring functions and tighter financing procedures. More systematic creditworthiness assessment practices and the strengthening of the credit committee's role are factors that have

contributed to the decline in the non-performing loan ratio. Nevertheless, the NPL figure, which is still double the OJK limit, indicates that credit risk remains a major concern that must be managed continuously. Although this figure is still well above the maximum limit of 5% set by the OJK, the downward trend shows that the strengthening of governance has contributed to improving the quality of the credit portfolio.

2) Increased Profitability (ROA)

Return on Assets (ROA) also showed improvement. In 2019 and 2020, ROA was negative due to the bank's net losses. However, starting in 2021, the bank began to post positive profits. In 2022, ROA reached 0.63%, and in 2023 it increased to 2.42%. This improvement indicates the implementation of internal controls and prudence in credit expansion, as well as a reduction in PPAP provisions, which, when collected, become income. The improvement in ROA indicates that the effectiveness of the bank's asset utilisation has slightly increased due to restrictions on high-risk credit expansion and the optimisation of productive assets. This finding is in line with the literature, which states that good governance can improve the efficient use of resources and minimise waste. However, this achievement is still relatively small, requiring a sustainable strategy to expand the non-interest income base.

3) Improvement in Operational Efficiency (BOPO)

The BOPO ratio, which measures the operational efficiency of banks, reached 141.04% in 2020. After improvements were made to the work system and cost control, this ratio was successfully reduced to 85.10% in 2023. The decline in the BOPO ratio was due to a reduction in PPAP expenses, which became bank income in the form of PPAP recovery. In addition, the decline in the BOPO ratio was due to stricter operational cost controls, which have had a positive impact, although not yet significant. This efficiency shows that governance improvements are beginning to yield tangible benefits for the bank's business processes.

4) Capital Adequacy Ratio (CAR)

In terms of capital, the bank's Capital Adequacy Ratio (CAR) is relatively stable and high. Since 2019, the CAR has consistently been above 12%. In 2023, the CAR was recorded at 21.02%, indicating that the bank's capital capacity is strong enough to absorb potential losses due to credit risk. In general, a consistently high CAR indicates that, in terms of capital, Perumda BPR Bank Kota Kediri has sufficient capital reserves to withstand potential risk of loss. However, this capital resilience should not be a reason to ignore other risks. Strong capital needs to be supported by sound risk management so that it is not eroded by non-performing loans. To analyse the impact of GCG on financial stability, this study uses the bank's Financial Health Indicators, namely:

**Table 3. Development of Financial Health Indicators of Perumda BPR Bank Kota Kediri (2019–2023)**

Year	NPL (%)	ROA (%)	BOPO (%)	CAR (%)
2019	45%	-2.49	130.77	48.79
2020	19.58	-3.80	141.04	25.14
2021	30,37	-4,89	142.28	18.21
2022	21,74	0,63	96.28	19.60
2023	23,49	2,42	85.10	21.02

Source: Internal Financial Report of Perumda BPR Bank Kota Kediri (processed)

**4.1.5. Synthesis Analysis and Contextualisation**

The results of this study support the proposition that GCG has a significant effect on bank financial stability. However, in the context of local government-owned rural banks, the implementation of GCG should not be based solely on administrative compliance, but must be reinforced by institutional integrity and managerial professionalism. This is in line with the

study by Ekadjaja and Ekadjaja (2020), which emphasises that the effectiveness of GCG in improving financial performance is highly dependent on the internalisation of governance values in the organisational culture, not just on formal structures. In the case of Perumda BPR Bank Kota Kediri, a GCG structure is in place, but it has not yet become a value system that is deeply rooted throughout the management line.

#### 4.2. Discussion

The results of this study indicate that the implementation of Good Corporate Governance (GCG) principles at Perumda BPR Bank Kota Kediri has a significant impact on the process of improving governance quality, not only administratively, but also as an important momentum for strengthening internal control mechanisms, restructuring credit procedures, and increasing transparency. These findings are in line with the theory that the implementation of good governance is the main foundation for improving the resilience of financial institutions, especially in the BPR sector, which is highly complex but has limited resources.

The apparent improvement in financial health indicators, particularly the decline in the NPL ratio from 45% to 23% in the last five years, confirms the effectiveness of risk control measures implemented through the establishment of a credit committee and the tightening of the credit analysis process. These findings are consistent with the research by Ekadjaja and Ekadjaja (2020) and Altaf et al. (2022), which states that strong governance practices contribute directly to credit risk control. In the context of agency theory, this strengthening of supervision can be understood as an effort to reduce conflicts of interest and opportunistic behaviour by management through more systematic control mechanisms.

Further, improvements in profitability (ROA) and operational efficiency (BOPO) indicators indicate an indirect impact of GCG implementation. This study found that since the governance reform, banks have become more cautious in expanding credit, improving cost allocation systems, and strengthening discipline in resource use. This reinforces the findings of Bastomi et al. (2017) and Oteng-Abayie et al. (2018), signifying that a sound governance structure enables more rational decision-making processes, strict cost control, and long-term efficiency.

However, the results of the study also show that the positive impact of GCG implementation still faces limitations due to contextual factors, particularly those related to ownership structure and organisational culture. Political intervention from owners (local governments) has been shown to affect the independence of supervisory bodies and slow down strategic decision-making. This phenomenon is in line with the findings of Wali et al. (2023), which emphasise that in regionally-owned banks, the influence of owners is often the biggest challenge to the effectiveness of GCG. Thus, the success of governance reform in regionally-owned rural banks is not only a matter of formal structure, but also of political commitment to respect management professionalism.

Limited human resource capacity is also a significant constraint. The lack of GCG literacy among employees has an impact on the implementation of governance principles, which remain formalistic. This shows that institutional transformation will not be optimal without adequate investment in competency development, especially in the areas of auditing, risk management, and information technology. Studies by Srivastav and Hagendorff (2016) and Kafidipe et al. (2021) emphasise that the quality of governance is not only determined by the existence of regulations or committee structures, but also by the capabilities of human resources who understand the values and practices of good governance.

The findings also confirm the relevance of stakeholder theory in the context of local government-owned rural banks. As institutions operating at the local level, banks are not only accountable to their owners and regulators, but also to the community who are their customers

and source of funds. Failure to maintain transparency and accountability will result in a decline in public trust, which in turn can disrupt the intermediary function of banks. Thus, efforts to improve GCG are not only a matter of compliance with OJK regulations, but also part of a strategy to maintain the bank's social legitimacy and reputation in the public view.

The limitations of information technology infrastructure identified in this study indicate that the implementation of the principles of transparency and accountability is still hampered by manual reporting processes. This condition supports the argument of Magnan and Michelon (2024) who state that modern governance requires the support of a strong information system so that the monitoring process can be carried out in real-time and based on data. Without adequate digitalisation, governance is prone to delays in risk detection and inaccuracy of information, so that the effectiveness of control mechanisms is not maximised.

Overall, this study demonstrates that the consistent implementation of GCG can become a key factor in strengthening the resilience of rural banks against financial risks, although the impact does not occur instantaneously. The institutional reforms undertaken at Perumda BPR Bank Kota Kediri represent an important initial step in improving governance practices. However, for rural banks (BPRs), governance reform should not be viewed as a one-time corrective measure, but rather as a continuous institutional commitment that requires sustained leadership support, improved human resource capacity, and reduced external intervention in managerial decision-making. Through such long-term commitment, governance can function not only as a regulatory requirement but also as a strategic foundation for maintaining financial stability and strengthening public trust.

## 5. Conclusion

This study concludes that the implementation of Good Corporate Governance (GCG) at Perumda BPR Bank Kota Kediri remains largely formal and has not yet been fully substantive. Although the governance structure complies with regulatory requirements, its implementation still faces significant challenges. The principles of transparency and accountability are not yet optimal, while independence and fairness are often affected by intervention from capital owners. Structural constraints, organisational culture, and limited human resource capacity further weaken governance effectiveness. These conditions are reflected in the bank's financial performance, particularly in the high Non-Performing Loan (NPL) ratio and relatively low profitability. This finding confirms that governance should not be treated merely as administrative compliance but as a fundamental requirement for maintaining the financial health of rural banks.

The findings provide several practical implications aligned with the five GCG principles. Strengthening transparency requires improving financial reporting and information systems. Enhancing accountability involves reinforcing internal control and audit functions. Ensuring responsibility requires stronger compliance with prudent lending and regulatory standards. Strengthening independence requires reducing operational intervention from local government owners, while promoting fairness requires transparent and equitable human resource management practices.

This study is limited by its focus on a single institution and the constraints of qualitative data access. Future research is encouraged to expand the scope to multiple BPR institutions and apply mixed-method approaches. Only by embedding GCG principles into daily organisational practice can rural banks transform from fragile institutions into resilient pillars of local economic development.

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