

GOOD CORPORATE GOVERNANCE AND FIRM SIZE AS DETERMINANTS OF FINANCIAL SUSTAINABILITY: FINANCIAL PERFORMANCE AS MODERATOR

Tesya Rinviana Hartadi^{1*}, Selfiani Selfiani²

^{1,2}Department of Accounting, Universitas Terbuka, Indonesia

*Corresponding Author:

052159861@ecampus.ut.ac.id

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Abstract

This study aimed to examine the effect of Good Corporate Governance and firm size on financial sustainability, with financial performance as a moderating variable, in Islamic commercial banks listed with the Financial Services Authority in Indonesia during the 2021–2025 period. The study employed a quantitative approach with an associative-causal design. The population consisted of all Islamic commercial banks registered with the Financial Services Authority, and a sample of 8 banks was selected through purposive sampling, resulting in 40 firm-year observations over five years. Secondary data were collected from annual reports and corporate governance reports. The data were analyzed using multiple linear regression and Moderated Regression Analysis with the assistance of SPSS version 25. The results showed that Good Corporate Governance had no significant effect on financial sustainability, with a significance value of 0.517. Firm size had no significant effect on financial sustainability, with a significance value of 0.125. Financial performance did not moderate the relationship between firm size and financial sustainability, with a significance value above 0.05. However, financial performance significantly and positively moderated the relationship between Good Corporate Governance and financial sustainability, with a significance value of 0.008 and an increase in the adjusted coefficient of determination from -0.015 to 0.143 . These findings implied that the effectiveness of Good Corporate Governance in ensuring financial sustainability depended heavily on the bank's ability to generate healthy financial performance, while firm size alone did not guarantee financial sustainability in Indonesian Islamic commercial banks.

Keywords: Good Corporate Governance, Firm Size, Financial Sustainability, Financial Performance

1. Introduction

The development of Islamic banking is now globally recognized as an alternative banking system and is starting to compete with conventional banks that were previously known by the public (Anggara & Harori, 2025). Islamic banking institutions are considered able to respond to the needs of people who want financial services in accordance with Sharia principles, especially including the prohibition of usury, speculative activities, and violations of the principles of justice in the transaction process. Financial sustainability is the ability of a company to carry out activities to achieve the goal of becoming a healthy financial institution and able to continue to operate and play a role in the progress of development. Financial sustainability is very important for the banking industry to be able to predict the potential going concern or the future survival of the bank (Oktoviyanti & Murwaningsari, 2023). The size of financial sustainability can



use the Financial Sustainability Ratio, which compares all costs, consisting of loan interest expense and operating expenses, with the income received from the activities carried out. The World Bank establishes a standard value of Financial Sustainability Ratio above 100 percent, which interprets that total receipts are more than the total costs incurred in order for the bank to be financially sustainable (Anggara & Harori, 2025).

Islamic banking currently has an important role in supporting a sustainable economy in Indonesia. However, the Islamic banking industry in Indonesia has experienced extraordinary dynamics throughout the 2021–2025 period. The period began in 2021, which was the recovery phase after the COVID-19 pandemic. Several indicators provide confidence that Indonesia's Islamic finance industry would grow further in 2021 because, in the midst of a pandemic that triggered monetary difficulties, the Islamic finance industry could continue to grow well. Based on data from the Financial Services Authority, throughout 2020 the growth of assets in the Islamic financial industry reached 21.48 percent to IDR 1,770.32 trillion, which includes assets owned by the Islamic banking industry of IDR 593.35 trillion, the Islamic capital market of IDR 1,063.81 trillion, and the Islamic Non-Bank Financial Industry of IDR 113.16 trillion (Wuryasti, 2021). The growth of Islamic banking in the midst of a pandemic can be caused by the advantages of Islamic banks themselves, namely relatively stable, safe, and resilient because they are rooted in Sharia principles. This shows that Islamic banking can fundamentally be one of the tools in national economic recovery (Pribadi, 2021).

When the national economy had begun to recover from the impact of the COVID-19 pandemic, Indonesia was then faced with global macroeconomic uncertainty, including the trend of high interest rates. The higher-for-longer phenomenon is influenced by ongoing geopolitical tensions, causing an increase in food and energy prices. A long-term interest rate hike will certainly have an impact on business actors, both businesses, the government, and society as a whole (Anggorowati, 2024). For Islamic banks that have listed on the Stock Exchange, the challenges faced are multiplied. This condition is a concern of the banking industry because it can affect the cost of funds, credit demand, and asset quality. However, the character of Sharia financing through murabahah contracts and profit-sharing schemes is one of the factors that make business performance better and resilient in the midst of the higher-for-longer phenomenon, because interest rate fluctuations do not directly affect the financing structure as is common in conventional banking (Mayasari, 2026). The industry's main focus in dealing with the current conditions is starting to shift from simply pursuing short-term profitability to achieving long-term financial sustainability (Puspadini, 2024).

Previous research on the effect of Good Corporate Governance on financial sustainability has produced mixed findings. Research by Rahim (2024), Rosa (2025), and Imiyah (2023) states that Good Corporate Governance has no effect on financial sustainability. Meanwhile, according to Latifah et al. (2019), Good Corporate Governance projected with the Board of Directors and the Audit Committee has an effect on financial sustainability, but the shareholding of the managerial and independent commissioners has no effect on the disclosure of financial sustainability. Then according to Khairiah and Inayah (2023), Good Corporate Governance has a significant influence, according to Haryati and Kristijadi (2014), Good Corporate Governance has a significant and positive effect on financial sustainability, and Amalia and Kartika (2025) also revealed that Good Corporate Governance has a positive effect on financial sustainability.

Previous research on the effect of firm size on financial sustainability has also produced mixed findings. According to Anggara and Harori (2025), Rustam and Adil



(2022), and Wijanarko et al. (2025), firm size has a positive and significant effect on financial sustainability. Research by Rifandi (2021) states that firm size has a significant negative effect on the disclosure of financial sustainability. In contrast to research by Sihite and Marsono (2024), Pangestu et al. (2026), and Rosa (2025), which states that firm size has no significant effect on financial sustainability.

The urgency of this research is driven by several critical factors. First, the development of Islamic banking is now globally recognized as an alternative banking system and is starting to compete with conventional banks, yet the extent to which governance mechanisms and firm size explain financial sustainability in this sector remains underexplored. Second, the Islamic banking industry in Indonesia has experienced extraordinary dynamics throughout the 2021–2025 period, including the post-pandemic recovery phase and the higher-for-longer phenomenon, yet empirical evidence on the determinants of financial sustainability during this period remains limited. Third, empirical evidence regarding Good Corporate Governance and firm size on financial sustainability remains inconclusive, with some studies reporting significant effects and others reporting insignificant or no relationship. Fourth, the moderating role of financial performance in these relationships remains underexplored, with contradictory findings in prior research. Fifth, the Islamic commercial banks during the 2021–2025 period represent a unique context characterized by post-pandemic recovery, global macroeconomic uncertainty, and evolving Sharia governance practices, yet empirical evidence on the determinants of financial sustainability in this sector remains limited.

Previous research has shown significant but fragmented findings regarding the determinants of financial sustainability. Studies have demonstrated that Good Corporate Governance significantly influences financial sustainability (Latifah et al., 2019; Khairiah & Inayah, 2023; Haryati & Kristijadi, 2014; Amalia & Kartika, 2025), and that firm size affects financial sustainability (Anggara & Harori, 2025; Rustam & Adil, 2022; Wijanarko et al., 2025). However, other studies have reported contradictory findings, indicating that Good Corporate Governance has no effect on financial sustainability (Rahim, 2024; Rosa, 2025; Imiyah, 2023), and that firm size has no significant effect on financial sustainability (Sihite & Marsono, 2024; Pangestu et al., 2026; Rosa, 2025). These inconsistencies suggest that the relationships among Good Corporate Governance, firm size, financial performance, and financial sustainability remain underexplored, particularly in the context of Islamic commercial banks in Indonesia.

The research gap in this study lies in the limited understanding of how Good Corporate Governance and firm size jointly influence financial sustainability, particularly in the Islamic commercial banking sector in Indonesia. While individual studies have examined the direct effects of these factors on financial sustainability, the integrated framework connecting these factors with financial performance as a moderating variable remains underexplored. Additionally, most previous studies have focused on various sectors or other periods, leaving a significant gap in knowledge regarding the dynamics of financial sustainability in Islamic commercial banks during the 2021–2025 period. Furthermore, empirical evidence on the determinants of financial sustainability in Indonesia remains limited, particularly in the context of post-pandemic recovery and global macroeconomic uncertainty.

The novelty of this research lies in several aspects. First, this study focuses on Islamic commercial banks listed with the Financial Services Authority during the 2021–2025 period, representing a unique context characterized by post-pandemic recovery, global macroeconomic uncertainty, and evolving Sharia governance practices. Second, this



study develops an integrative model that simultaneously examines the influence of Good Corporate Governance and firm size on financial sustainability, with financial performance as a moderating variable, providing a more comprehensive understanding of the determinants of financial sustainability in the Islamic commercial banking sector. Third, this study contributes to the limited empirical evidence on financial sustainability in Islamic commercial banks, providing insights into how governance mechanisms, firm size, and financial performance collectively influence financial sustainability. Fourth, this study extends the application of Agency Theory, Legitimacy Theory, and Stewardship Theory to the context of financial sustainability in Indonesia, validating theoretical predictions in an under-researched institutional context. Fifth, this study provides actionable insights for bank management, regulators, and academics in designing effective strategies to enhance financial sustainability and governance practices.

The purpose of this study is to examine the effect of Good Corporate Governance and firm size on financial sustainability in Islamic commercial banks listed with the Financial Services Authority during the 2021–2025 period, with financial performance as a moderating variable. Specifically, this research aims to analyze the effect of Good Corporate Governance on financial sustainability, analyze the effect of firm size on financial sustainability, analyze the moderating role of financial performance in the relationship between Good Corporate Governance and financial sustainability, and analyze the moderating role of financial performance in the relationship between firm size and financial sustainability. The choice of this goal was driven by the limited understanding of how these factors collectively influence financial sustainability and the need for empirical evidence that can inform bank management, regulators, and academics in designing effective strategies to enhance financial sustainability and governance practices.

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on corporate governance and financial sustainability by proposing and testing an integrative model that links Good Corporate Governance and firm size with financial sustainability, incorporating financial performance as a moderating variable, extending the application of Agency Theory, Legitimacy Theory, and Stewardship Theory to the context of financial sustainability in Indonesia. The findings contribute to the understanding of how governance mechanisms, firm size, and financial performance influence financial sustainability, providing a more nuanced theoretical framework for analyzing Islamic banking practices. From a practical perspective, this study provides actionable insights for bank management, regulators, and academics in assessing and managing financial sustainability risk. For bank management, the results offer insights into the importance of substantive Good Corporate Governance implementation and efficiency-driven strategies in maintaining financial sustainability. For regulators, the results offer insights into the importance of evaluating governance assessment methods and integrating objective performance audit results. For academics, this study contributes to the growing body of literature on corporate governance and financial sustainability, providing a foundation for future research on financial sustainability.

2. Theoretical Background

2.1 Agency Theory

Agency theory was first proposed by Jensen and Meckling (1976). According to Jensen and Meckling (1976), agency theory explains the relationship between



management as an agent and an investor as principal. In the context of this study, Good Corporate Governance functions as a control mechanism to reduce conflicts of interest between management and owners so that management acts in harmony with the goal of improving financial sustainability and financial performance. Within the Agency Theory framework, Good Corporate Governance, firm size, financial performance, and financial sustainability function as mechanisms that influence the relationship between management and shareholders. Good Corporate Governance reflects the control mechanisms that align management interests with shareholder interests, while firm size reflects the scale of operations and resources available for governance and sustainability practices. Financial performance reflects the financial outcomes that connect governance and firm size to financial sustainability. Accordingly, Agency Theory provides the theoretical foundation for this study by explaining how Good Corporate Governance and firm size influence financial sustainability.

2.2 Legitimacy Theory

Legitimacy Theory was introduced by Dowling and Pfeffer in 1975 as a framework that describes the relationship between the company and the external society. This theory explains that the survival of a company is largely determined by the company's ability to acquire and maintain social legitimacy. Without legitimacy, companies risk losing public trust, reputation, and access to the economic resources needed to operate. Large banks tend to be more highlighted by the public, so they need strong legitimacy to remain trusted. Within the Legitimacy Theory framework, Good Corporate Governance, firm size, and financial performance function as mechanisms that influence the company's ability to acquire and maintain social legitimacy. Good Corporate Governance reflects the company's commitment to transparency and accountability, while firm size reflects the scale of operations and public visibility that influence the need for legitimacy. Financial performance reflects the financial outcomes that demonstrate the company's ability to meet stakeholder expectations. Accordingly, Legitimacy Theory provides the theoretical foundation for this study by explaining how Good Corporate Governance, firm size, and financial performance influence financial sustainability through the acquisition and maintenance of social legitimacy.

2.3 Stewardship Theory

Stewardship Theory is a theory put forward by Donaldson and Davis in 1991. Stewardship Theory describes a situation where managers are not motivated by personal goals but rather prioritize their main results for the benefit of the organization. Stewardship Theory views that Islamic bank management acts as stewards who have integrity to achieve organizational goals, which is very compatible with Sharia principles, namely Amanah and Maslahah. This theory strengthens the relationship between Good Corporate Governance and financial performance towards financial sustainability. Within the Stewardship Theory framework, Good Corporate Governance, firm size, and financial performance function as mechanisms that enable management to fulfill their stewardship responsibilities. Good Corporate Governance reflects the institutional arrangements that support management in carrying out their responsibilities effectively, while firm size reflects the resources available for stewardship practices. Financial performance reflects the outcomes that demonstrate management's competence in managing the mandate entrusted to them. Accordingly, Stewardship Theory provides the theoretical foundation



for this study by explaining how Good Corporate Governance and firm size influence financial sustainability through effective stewardship behavior.

2.4 Financial Sustainability

Sustainability is the ability of the company to carry out activities to achieve the goal of becoming a healthy financial institution and able to continue to operate and play a role in the progress of development (Anggara & Harori, 2025). Financial sustainability is very important for the banking industry to be able to predict the potential going concern or the future survival of the bank (Oktoviyanti & Murwaningsari, 2023). The size of financial sustainability can use the Financial Sustainability Ratio, which compares all costs, consisting of loan interest expense and operating expenses such as employee salaries, equipment, and inventory, with the income received from the activities carried out. The World Bank establishes a standard value of Financial Sustainability Ratio above 100 percent, which interprets that total receipts are more than the total costs incurred in order for the bank to be financially sustainable (Anggara & Harori, 2025). From the perspective of Agency Theory, Legitimacy Theory, and Stewardship Theory, financial sustainability reflects the outcomes of effective governance mechanisms, social legitimacy, and stewardship behavior (Jensen & Meckling, 1976; Dowling & Pfeffer, 1975; Donaldson & Davis, 1991). In this study, financial sustainability is measured using the Financial Sustainability Ratio.

2.5 Good Corporate Governance

Good Corporate Governance regulates how the company's managers, shareholders, creditors, government, employees, and other stakeholders interact with each other regarding their rights and obligations. Good Corporate Governance is also a set of principles and mechanisms that ensure that the company is managed with transparency, accountability, and integrity, which when implemented properly can increase competitiveness and create a sustainable business environment within the company (Rahim & Aisyah, 2025). Good Corporate Governance measurement uses composite values of self-assessment, which are categorized into five ranks, namely Rank 1, Rank 2, Rank 3, Rank 4, and Rank 5. Smaller Good Corporate Governance factor ratings reflect better Good Corporate Governance implementation (Bank Indonesia Circular, 2013). The company conducts self-assessment on the implementation of Good Corporate Governance at least twice a year. From the perspective of Agency Theory, Legitimacy Theory, and Stewardship Theory, Good Corporate Governance reflects the control mechanisms, legitimacy strategies, and stewardship arrangements that influence financial sustainability (Jensen & Meckling, 1976; Dowling & Pfeffer, 1975; Donaldson & Davis, 1991). In this study, Good Corporate Governance is measured using composite values of self-assessment.

2.6 Firm Size

Company size shows the scale of the company's operations which can be seen from total assets, number of sales, and average revenue per year (Anggara & Harori, 2025). This study uses total assets to represent the firm size variable. According to Rustam and Adil (2022), it is important to know the size of the company as a reference for the public in decision-making, because the more people who believe in the company, the better the company's performance and sustainability in the future. From the perspective of Agency Theory, Legitimacy Theory, and Stewardship Theory, firm size reflects the scale of



operations and resources available for governance and sustainability practices (Jensen & Meckling, 1976; Dowling & Pfeffer, 1975; Donaldson & Davis, 1991). In this study, firm size is measured using the natural logarithm of total assets.

2.7 Financial Performance

The company's financial performance can be seen by calculating the profitability ratio, which is a ratio that describes the company's ability to generate profits (Rohmandika, 2023). This study uses the Return on Assets ratio as a ratio that can represent a company's financial performance. Return on Assets measures the ability of a bank management to generate profits from the total assets it manages (Amilin et al., 2025). The main business of the banking industry is to collect funds and redistribute them in the form of loans. The bank's capital structure is dominated by loan funds or customer deposits, not its own capital. So according to Amilin et al. (2025), Return on Assets can be an ideal financial performance indicator to measure the extent to which a bank is able to turn its entire asset base into revenue. From the perspective of Agency Theory, Legitimacy Theory, and Stewardship Theory, financial performance reflects the financial outcomes that connect governance and firm size to financial sustainability (Jensen & Meckling, 1976; Dowling & Pfeffer, 1975; Donaldson & Davis, 1991). In this study, financial performance is measured using Return on Assets.

2.8 The Effect of Good Corporate Governance on Financial Sustainability

Good Corporate Governance regulates how the company's managers, shareholders, creditors, government, employees, and other stakeholders interact with each other regarding their rights and obligations (Rahim & Aisyah, 2025). From the perspective of Agency Theory, Good Corporate Governance functions as a control mechanism to reduce conflicts of interest between management and owners so that management acts in harmony with the goal of improving financial sustainability and financial performance (Jensen & Meckling, 1976). In this study, Good Corporate Governance is measured using composite values of self-assessment. Empirical evidence supports this relationship, with studies by Haryati and Kristijadi (2014) and Amalia and Kartika (2025) finding that Good Corporate Governance has a positive effect on financial sustainability. However, other studies report contradictory findings, indicating that Good Corporate Governance has no effect on financial sustainability (Rahim, 2024; Rosa, 2025; Imiyah, 2023). Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H1: Good Corporate Governance has a positive effect on financial sustainability.

2.9 The Effect of Firm Size on Financial Sustainability

Company size shows the scale of the company's operations which can be seen from total assets, number of sales, and average revenue per year (Anggara & Harori, 2025). From the perspective of Legitimacy Theory, large companies can gain legitimacy more easily because they are considered more stable and have greater resources to meet stakeholder expectations (Dowling & Pfeffer, 1975). In this study, firm size is measured using the natural logarithm of total assets. Empirical evidence supports this relationship, with studies by Anggara and Harori (2025), Rustam and Adil (2022), and Wijanarko et al. (2025) finding that firm size has a positive and significant effect on financial sustainability. However, other studies report contradictory findings, indicating that firm size has no significant effect on financial sustainability (Sihite & Marsono, 2024;



Pangestu et al., 2026; Rosa, 2025). Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H2: Firm size has a positive effect on financial sustainability.

2.10 Financial Performance Moderates the Relationship Between Good Corporate Governance and Financial Sustainability

The company's financial performance can be seen by calculating the profitability ratio, which is a ratio that describes the company's ability to generate profits (Rohmandika, 2023). From the perspective of Stewardship Theory, managers have motivation to give more importance to their work results for the benefit of the organization (Donaldson & Davis, 1991). The implementation of good Good Corporate Governance is only recognized if management is able to show concrete work results, and good financial performance is the main indicator that management is competent in managing mandates. In this study, financial performance is measured using Return on Assets. Empirical evidence supports this relationship, with studies by Amalia and Kartika (2025) finding that financial performance moderates the relationship between Good Corporate Governance and financial sustainability. Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H3: Financial performance moderates the relationship between Good Corporate Governance and financial sustainability.

2.11 Financial Performance Moderates the Relationship Between Firm Size and Financial Sustainability

The company's financial performance can be seen by calculating the profitability ratio, which is a ratio that describes the company's ability to generate profits (Rohmandika, 2023). From the perspective of Legitimacy Theory, the large size of the company coupled with high profits is not a guarantee of sustainability, because Islamic investors and customers prioritize blessings and transparency rather than just large assets and profits (Dowling & Pfeffer, 1975). In this study, financial performance is measured using Return on Assets. Empirical evidence supports this relationship, with studies by Wijanarko et al. (2025) finding that financial performance moderates the relationship between firm size and financial sustainability. Based on the theoretical explanation and empirical findings, the hypothesis proposed in this study is as follows:

H4: Financial performance moderates the relationship between firm size and financial sustainability.

3. Methods

3.1 Research Design

This study uses a quantitative approach with an associative-causal design to examine the effect of Good Corporate Governance and firm size on financial sustainability, with financial performance as a moderating variable, in Islamic commercial banks listed with the Financial Services Authority during the 2021–2025 period. The quantitative approach is considered appropriate because the study aims to empirically test the proposed hypotheses using statistical analysis of numerical data derived from annual reports and corporate governance reports. The associative-causal research design enables the examination of causal relationships between independent variables (Good Corporate Governance and firm size) and the dependent variable (financial sustainability), with financial performance as a moderating variable. The type of data used is secondary data,



including financial statement data, corporate governance report data, and financial performance information obtained from official sources and capital market research institutions.

3.2 Population and Sample

The population in this study consists of all Islamic commercial banks in Indonesia registered with the Financial Services Authority during the 2021–2025 period. The sample was selected using purposive sampling with the following criteria: (1) Islamic commercial banks in Indonesia recorded by the Financial Services Authority during the 2021–2025 period; (2) banks that published complete annual reports and corporate governance reports during the 2021–2025 period; (3) banks that did not experience errors in their reports during the observation period; and (4) banks with complete data for all research variables. Based on these criteria, the final sample includes 8 Islamic commercial banks, resulting in 40 firm-year observations (8 banks $\times$ 5 years), as presented in Table 1.

Table 1. Sample Determination

No	Name of Islamic Commercial Bank
1	PT Bank Aladin Syariah Tbk
2	PT Bank BCA Syariah
3	PT Bank Jabar Banten Syariah
4	PT Bank Syariah Indonesia Tbk
5	PT Bank BTPN Syariah Tbk
6	PT Bank Mega Syariah
7	PT Bank Muamalat Indonesia Tbk
8	PT Bank Panin Dubai Syariah Tbk

Source: Processed data (2026)

Table 1 presents the eight Islamic commercial banks selected as the research sample. These banks were selected based on the predetermined purposive sampling criteria, including complete annual reports and corporate governance reports during the 2021–2025 period, absence of reporting errors, and complete data for all research variables. The eight banks represent the Islamic commercial banking industry in Indonesia and provide a sufficient basis for examining the determinants of financial sustainability in this sector.

3.3 Data Collection Techniques

Data collection was conducted using the documentation method. The required data were obtained from publicly available secondary sources, particularly annual reports and corporate governance reports published by Islamic commercial banks during the 2021–2025 period. Annual reports and corporate governance reports were obtained from the official website of each Islamic commercial bank. The collected data were subsequently organized and coded according to the operational definitions and measurement instruments of each research variable. The data collection process involved several sequential steps: (1) identification of Islamic commercial banks registered with the Financial Services Authority during the 2021–2025 period; (2) selection of banks meeting the predetermined purposive sampling criteria; (3) collection of annual reports and corporate governance reports for each observation year; (4) collection of financial sustainability data from financial statements using the Financial Sustainability Ratio; (5) collection of Good Corporate Governance data from corporate governance reports using composite values of self-assessment; (6) collection of firm size data from financial



statements using total assets; (7) collection of financial performance data from financial statements using Return on Assets; and (8) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis.

3.4 Operational Definition of Variables

Table 2. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	Source
Financial Sustainability (Y)	The company's ability to carry out activities to achieve the goal of becoming a healthy financial institution and able to continue to operate (Anggara & Harori, 2025)	$FSR = \frac{\text{Total Revenue}}{\text{Total Costs}}$	Ratio	Anggara & Harori (2025)
Good Corporate Governance (X ₁)	A set of principles and mechanisms that ensure that the company is managed with transparency, accountability, and integrity (Rahim & Aisyah, 2025)	Composite values of self-assessment (Rank 1–5)	Ordinal	Bank Indonesia Circular (2013)
Firm Size (X ₂)	The scale of the company's operations which can be seen from total assets, number of sales, and average revenue per year (Anggara & Harori, 2025)	$SIZE = \ln(\text{Total Assets})$	Ratio	Anggara & Harori (2025)
Financial Performance (Z)	The company's ability to generate profits from the total assets it manages (Amilin et al., 2025)	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio	Amilin et al. (2025)

Source: Developed for this research (2026)

Table 2 presents the operational definitions and measurements of all research variables. Financial sustainability is measured using the Financial Sustainability Ratio, which compares total revenue to total costs. Good Corporate Governance is measured using composite values of self-assessment, categorized into five ranks. Firm size is measured using the natural logarithm of total assets. Financial performance is measured using Return on Assets, which compares net income to total assets.

3.5 Data Analysis Techniques

Data analysis in this study was conducted using IBM SPSS Statistics version 25. The analysis stages included descriptive statistics, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), multiple linear regression



analysis, and hypothesis testing. Descriptive statistics were employed to describe the characteristics of the research data, including minimum and maximum values, average, and standard deviation. The classical assumption tests were conducted to ensure that the regression model satisfied the required assumptions. The normality test was performed using the Kolmogorov-Smirnov test, with a significance value greater than 0.05 indicating normally distributed residuals. The multicollinearity test was assessed using tolerance and Variance Inflation Factor values, with tolerance greater than 0.10 and VIF less than 10 indicating no multicollinearity. The heteroscedasticity test was conducted using the Glejser test, with a significance value greater than 0.05 indicating no heteroscedasticity. The autocorrelation test was performed using the Durbin-Watson statistic, with values between du and 4-du indicating no autocorrelation.

The multiple linear regression model used in this study was formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1.Z + \beta_4 X_2.Z + \varepsilon$$

Where:

Y = Financial Sustainability

α = Constant

β_1 – β_4 = Regression coefficients

X_1 = Good Corporate Governance

X_2 = Firm Size

$X_1.Z$ = Interaction between Good Corporate Governance and Financial Performance

$X_2.Z$ = Interaction between Firm Size and Financial Performance

ε = Error term

Hypothesis testing was conducted using several methods. The partial t-test was used to determine the individual effect of each independent variable and interaction term on financial sustainability. The coefficient of determination (adjusted R^2) was used to determine the model's ability to explain variations in financial sustainability. All hypothesis tests were conducted at a significance level of 5 percent ($p < 0.05$).

4. Results and Discussion

4.1 Classical Assumption Tests

Table 3. Classical Assumption Test Results

Test	Indicator	Value	Conclusion
Normality	Kolmogorov-Smirnov Sig.	0.200	Normally distributed
Multicollinearity	Tolerance	> 0.10	No multicollinearity
	VIF	< 10.00	No multicollinearity
Heteroscedasticity	Glejser Sig.	> 0.05	No heteroscedasticity
Autocorrelation	Durbin-Watson	1.742	No autocorrelation

Source: Processed data from SPSS 25 (2026)

Table 3 presents the classical assumption test results. The normality test using the Kolmogorov-Smirnov method produced an Asymptotic Significance value of 0.200, which is greater than 0.05, indicating that the data are normally distributed. The multicollinearity test shows that all variables obtained a tolerance value greater than 0.10 and VIF less than 10.00, indicating that all variables do not have symptoms of multicollinearity. The heteroscedasticity test using the Glejser method shows that all



variables obtained a significance value greater than 0.05, indicating that the data do not cause symptoms of heteroscedasticity. The autocorrelation test using the Durbin-Watson method produced a value of 1.742. With two independent variables, one moderating variable, and 40 observations, the dU value in the Durbin-Watson table is 1.6589. Because $dU < DW < 4 - dU$ ($1.6589 < 1.742 < 2.3411$), it can be concluded that the data do not have autocorrelation symptoms.

4.2 Hypothesis Testing

Table 4. Regression Model I Results (GCG → Financial Sustainability)

Model	R	R Square	Adjusted R Square	Sig.
1	0.105	0.011	-0.015	0.517

Source: Processed data from SPSS 25 (2026)

Table 4 presents the results of Regression Model I, which examines the effect of Good Corporate Governance on financial sustainability. The significance level is 0.517, which is greater than 0.05, indicating that Good Corporate Governance has no significant effect on financial sustainability. The adjusted R-square value of -0.015 indicates that the relationship between Good Corporate Governance and financial sustainability is negative. Therefore, H1 is rejected, meaning that Good Corporate Governance has no effect on financial sustainability.

Table 5. Regression Model II Results (Firm Size → Financial Sustainability)

Model	R	R Square	Adjusted R Square	Sig.
2	0.248	0.062	0.036	0.125

Source: Processed data from SPSS 25 (2026)

Table 5 presents the results of Regression Model II, which examines the effect of firm size on financial sustainability. The significance level is 0.125, which is greater than 0.05, indicating that firm size has no significant effect on financial sustainability. The adjusted R-square value of 0.036 indicates that only 3.6 percent of the variation in financial sustainability can be explained by firm size. Therefore, H2 is rejected, meaning that firm size has no effect on financial sustainability.

Table 6. Regression Model III Results (GCG × Financial Performance → Financial Sustainability)

Model	R	R Square	Adjusted R Square	Sig.
3	0.422	0.178	0.143	0.008

Source: Processed data from SPSS 25 (2026)

Table 6 presents the results of Regression Model III, which examines the moderating role of financial performance in the relationship between Good Corporate Governance and financial sustainability. There is an increase in the adjusted R-square value from Regression Model I to Regression Model III, with an increment of 0.158 (obtained from $0.143 - (-0.015)$). The adjusted R-square value of 0.143 indicates that 14.3 percent of the variation in financial sustainability can be explained by Good Corporate Governance moderated by financial performance. The significance level of 0.008 is less than 0.05, indicating that Good Corporate Governance moderated by financial performance has a significant and positive effect on financial sustainability. Therefore, H3 is accepted, meaning that financial performance moderates the relationship between Good Corporate Governance and financial sustainability.



Table 7. Regression Model IV Results (Firm Size × Financial Performance → Financial Sustainability)

Model	R	R Square	Adjusted R Square	Sig.
4	0.399	0.159	0.118	> 0.05

Source: Processed data from SPSS 25 (2026)

Table 7 presents the results of Regression Model IV, which examines the moderating role of financial performance in the relationship between firm size and financial sustainability. There is an increase in the adjusted R-square value from Regression Model II to Regression Model IV, with an increment of 0.082 (obtained from 0.118 – 0.036). The adjusted R-square value of 0.118 indicates that 11.8 percent of the variation in financial sustainability can be explained by firm size moderated by financial performance. However, the significance level exceeds 0.05, indicating that firm size moderated by financial performance does not have a significant effect on financial sustainability. Therefore, H4 is rejected, meaning that financial performance does not moderate the relationship between firm size and financial sustainability.

4.3 Discussion

4.3.1 The Effect of Good Corporate Governance on Financial Sustainability

The results show that Good Corporate Governance has no significant effect on financial sustainability ($p = 0.517$). This finding is consistent with Rahim (2024), Rosa (2025), and Imiyah (2023), who also concluded that Good Corporate Governance has no effect on financial sustainability. From the perspective of Agency Theory, Good Corporate Governance functions as a control mechanism to reduce conflicts of interest between management and owners (Jensen & Meckling, 1976). However, the results of this hypothesis test are not in accordance with Agency Theory because this study uses composite values of self-assessment as a measurement of Good Corporate Governance, where there are several assessments in addition to the relationship between management and investors. In addition, self-assessment tends to have a high level of subjectivity. The finding implies that the financial resilience of Islamic commercial banks in Indonesia is more sensitive to other factors, such as macroeconomic fluctuations, monetary policy, industrial competition, or daily operational efficiency, rather than simply the Good Corporate Governance predicate values released in the annual report and corporate governance report.

4.3.2 The Effect of Firm Size on Financial Sustainability

The results show that firm size has no significant effect on financial sustainability ($p = 0.125$). This finding is consistent with Sihite and Marsono (2024), Pangestu et al. (2026), and Rosa (2025), who also concluded that firm size has no effect on financial sustainability. From the perspective of Legitimacy Theory, large companies can gain legitimacy more easily because they are considered more stable (Dowling & Pfeffer, 1975). The rejection of H2 breaks this assumption in Islamic commercial banks in Indonesia, as the size of a large company is not a guarantee to gain legitimacy from the community. The public will trust Islamic commercial banks more that can carry out the mandate and ease of transactions. The finding implies that firm size alone does not guarantee financial sustainability in Islamic commercial banks in Indonesia.



4.3.3 Financial Performance Moderates the Relationship Between Good Corporate Governance and Financial Sustainability

The results show that financial performance significantly and positively moderates the relationship between Good Corporate Governance and financial sustainability ($p = 0.008$), with an increase in the adjusted R-square value from -0.015 to 0.143 . This finding is in accordance with Stewardship Theory, which describes a situation where managers have motivation to give more importance to their work results for the benefit of the organization (Donaldson & Davis, 1991). The implementation of good Good Corporate Governance is only recognized if management is able to show concrete work results, and good financial performance is the main indicator that management is competent in managing mandates. The finding implies that the effectiveness of Good Corporate Governance in ensuring financial sustainability is highly dependent on the bank's ability to generate profits or healthy financial performance.

4.3.4 Financial Performance Moderates the Relationship Between Firm Size and Financial Sustainability

The results show that financial performance does not moderate the relationship between firm size and financial sustainability ($p > 0.05$). This finding is not in line with Legitimacy Theory, which suggests that large companies can gain legitimacy more easily because they are considered more stable (Dowling & Pfeffer, 1975). The large size of the company coupled with high profits is not a guarantee of sustainability, because Islamic investors and customers prioritize blessings and transparency rather than just large assets and profits. The finding implies that firm size and financial performance alone do not guarantee financial sustainability in Islamic commercial banks in Indonesia, and that other factors such as Sharia compliance, transparency, and stakeholder trust may play more important roles.

5. Conclusion

This study aimed to analyze the effect of Good Corporate Governance and firm size on financial sustainability, with financial performance as a moderating variable, in Islamic commercial banks listed with the Financial Services Authority during the 2021–2025 period. Using a quantitative approach with multiple linear regression on 40 firm-year observations from 8 banks selected through purposive sampling, the study successfully tested the proposed hypotheses.

The results indicate that Good Corporate Governance has no significant effect on financial sustainability, with a significance value of 0.517 , indicating that H1 is rejected. Good Corporate Governance measured by the composite value of self-assessment has no effect on financial sustainability, indicating that the financial resilience of Islamic commercial banks in Indonesia is more sensitive to other factors, such as macroeconomic fluctuations, monetary policy, industrial competition, or daily operational efficiency, rather than simply the Good Corporate Governance predicate values released in the annual report and corporate governance report. Firm size has no significant effect on financial sustainability, with a significance value of 0.125 , indicating that H2 is rejected. Firm size also does not guarantee financial sustainability in Islamic commercial banks in Indonesia.

Financial performance significantly and positively moderates the relationship between Good Corporate Governance and financial sustainability, with a significance value of 0.008 and an increase in the adjusted R-square value from -0.015 to 0.143 , indicating



that H3 is accepted. The effectiveness of Good Corporate Governance in ensuring financial sustainability is highly dependent on the bank's ability to generate profits or healthy financial performance. Financial performance does not moderate the relationship between firm size and financial sustainability, with a significance value above 0.05, indicating that H4 is rejected. The large size of the company coupled with high profits is not a guarantee of sustainability, because Islamic investors and customers prioritize blessings and transparency rather than just large assets and profits.

The theoretical implications of this study extend the application of Agency Theory, Legitimacy Theory, and Stewardship Theory to the context of financial sustainability in Indonesia. The finding that Good Corporate Governance does not significantly influence financial sustainability suggests that the composite values of self-assessment tend to have a high level of subjectivity, and that financial resilience is more sensitive to other factors. The finding that firm size does not significantly influence financial sustainability suggests that large company size is not a guarantee to gain legitimacy from the community. The finding that financial performance moderates the relationship between Good Corporate Governance and financial sustainability supports Stewardship Theory's emphasis on the importance of concrete work results in demonstrating management competence. This study also contributes to the limited empirical evidence on the determinants of financial sustainability in Islamic commercial banks, providing insights into how governance mechanisms, firm size, and financial performance collectively influence financial sustainability.

Based on these findings, several recommendations can be proposed. For the management of Islamic commercial banks in Indonesia, it is recommended to pay more attention to the substantive effectiveness of the implementation of Good Corporate Governance and its orientation to the achievement of financial performance, not just the fulfillment of regulatory formalities. The management of Islamic commercial banks is also advised to change the orientation of business strategies from asset-driven or aggressive focus to enlarge the size of the company to efficiency-driven that focuses on financial health. For the Financial Services Authority as a regulator, it is recommended to evaluate and tighten the self-assessment method of Good Corporate Governance composite values, and to integrate governance assessment indicators more rigorously with objective field performance audit results. For academics, this study contributes to the growing body of literature on corporate governance and financial sustainability, providing a foundation for future research on financial sustainability.

This study has several limitations that should be acknowledged. First, the sample used is only eight Islamic commercial banks, so the results may be less representative of this industry or even other industry sectors. Second, there are many other factors that may have more influence on financial sustainability but are not included in this research model. Third, the study uses a five-year observation period (2021–2025), which may not capture long-term changes in financial sustainability. Fourth, the study uses composite values of self-assessment as a measurement of Good Corporate Governance, which tends to have a high level of subjectivity. Fifth, the model's explanatory power is moderate, with an adjusted R-square value of 0.143, indicating that other factors not included in the model may still influence financial sustainability.

For future research, it is recommended to expand the scope of the sample and the variables taken in order to provide a more comprehensive picture of the factors that affect the financial sustainability of banking companies in Indonesia. Future studies may also employ alternative measures of Good Corporate Governance that are more objective, and



extend the observation period to capture long-term changes in financial sustainability. Researchers should also consider employing qualitative or mixed-method approaches to gain deeper insights into the challenges and effectiveness of governance practices in Islamic commercial banks.

This study contributes to the growing body of literature on corporate governance and financial sustainability by providing empirical evidence on the determinants of financial sustainability in Islamic commercial banks in Indonesia. The findings suggest that Good Corporate Governance and firm size do not significantly influence financial sustainability, but financial performance significantly moderates the relationship between Good Corporate Governance and financial sustainability. As Indonesia continues to strengthen its Islamic banking industry and governance practices, understanding these factors becomes increasingly important for developing effective strategies to enhance financial sustainability and promote sustainable business practices.

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