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LITERATURE REVIEW: BUSINESS ETHICS AND GOOD CORPORATE GOVERNANCE AS THE FOUNDATION OF FINANCIAL PERFORMANCE IN THE BANKING INDUSTRY

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ABSTRACT

Objective: This study aims to analyze the strategic role of business ethics and Good Corporate Governance (GCG) in supporting long-term financial performance in the banking industry. This study focuses on how ethical integrity and governance structures contribute to stakeholder trust, risk mitigation, and institutional competitiveness.

Research Design & Methods: This article uses a systematic literature review method by analyzing and synthesizing findings from the latest empirical studies published between 2020 and 2024. This review focuses on the relationship between business ethics, corporate governance, and financial performance indicators in the banking sector, including conventional and Islamic financial institutions.

Findings: These findings reveal that consistent ethical principles and strong GCG practices significantly improve bank stability, operational efficiency, and financial performance. A structured risk management framework and a formal code of ethics strengthen internal control systems and enhance public trust and institutional credibility. Furthermore, integrating sustainability and social responsibility principles contributes to long-term competitiveness.

Implications & Recommendations: Banks are advised to institutionalize ethical behavior and governance structures as strategic priorities, rather than merely complying with regulations. Investing in digital governance capabilities and aligning ESG frameworks with operational strategies is critical to ensuring resilience in a rapidly evolving financial landscape.

Contribution & Value Added: This study offers a conceptual contribution by consolidating the relationship between ethical integrity, GCG, and financial outcomes in banking. It provides an academic foundation for strengthening ethical governance practices, particularly in emerging markets where stakeholder trust and systemic stability are critical.

Keywords: Business Ethics, Good Corporate Governance, Banking Industry

JEL codes: G21, G32, M14
Article type: research paper

INTRODUCTION

The banking industry plays a crucial role in supporting stability and driving global economic growth, particularly as a financial intermediary that bridges the gap between parties with surplus funds and those in need of funds (deficit). In carrying out this strategic role, public trust is the primary foundation that is irreplaceable and must always be maintained. Therefore, implementing robust business ethics and the principles of Good Corporate Governance (GCG) is not only a moral obligation but also an unavoidable strategic necessity. Several studies indicate that the implementation of ethics and GCG significantly contributes to the stability and financial performance of banks and enhances stakeholders' trust in financial institutions (Halamka & Teplý,

2017; Pingkan & Trisnaningsih, 2024). Moreover, strengthening risk management and implementing a structured code of ethics creates a more effective internal oversight system and directly enhances the bank's reputation and credibility in the public eye, thereby supporting operational sustainability and long-term competitiveness (Kacem & El Harbi, 2023).

Business ethics refers to a set of moral principles and rules that govern the behavior of individuals and organizations in conducting business activities fairly, honestly, and responsibly. These ethics not only create professionalism and maintain public trust, but also prevent corruption and exploitation. In the era of globalization and digitalization, business ethics have become increasingly important in maintaining a balance between economic growth and social responsibility (Yilmaz, 2021). In the banking industry, applying business ethics principles plays a vital role because it is directly related to public trust and the management of public funds. Banks must operate with high integrity, ensure transparency, provide fair services, and avoid conflicts of interest and abuse of power. Business ethics in this sector also includes compliance with anti-money laundering regulations, customer information protection, and the implementation of social responsibility. According to Menezes (2016), the central values in banking ethics include honesty, fairness, responsibility, accountability, and integrity, all of which serve as essential guidelines in the decision-making process within financial institutions.

Unethical behavior is a global phenomenon often occurring in profit-oriented organizations, regardless of geographical boundaries. In the banking sector, the high pressure to meet financial targets and satisfy shareholder interests usually leads to practices that deviate from business ethics, such as bribery, financial statement manipulation, and conflicts of interest (Babalola et al., 2021; Greenbaum et al., 2023). Non-compliance with business ethics principles damages the institution's reputation and can directly impact financial performance and corporate sustainability. This issue becomes more complex when unethical behavior is carried out by individuals and integrated into an organizational culture that tolerates violations in pursuit of long-term financial results. As a result, banking institutions face high reputational risks, loss of public trust, and significant potential financial losses. Additionally, unethical behavior can distort information in financial reporting and decision-making, ultimately threatening the internal stability and sustainability of the banking institution itself.

Unethical actions in the banking industry have an impact that goes far beyond mere violations of laws or regulations; they spread to create a crisis of confidence that erodes the legitimacy of financial institutions in the eyes of the public. When integrity is compromised, an institution's reputation built over years can collapse instantly, and investor and customer confidence also declines (Kanyurhi et al., 2024). This trust decline could trigger systemic turmoil, where instability in one institution can spread to others through interconnected market mechanisms. In this context, unethical behavior is not merely an individual issue, but a reflection of systemic weaknesses that include weak internal oversight structures, a corporate culture that is permissive of deviations, and incentive systems that prioritize financial targets over ethical compliance. The accumulation of various forms of misconduct creates a widespread domino effect, which ultimately harms internal stakeholders such as management and shareholders and external parties such as regulators, the public, and the overall stability of the national economy (Sari, 2024).

Business ethics and the principles of Good Corporate Governance (GCG) not only serve as internal control tools within an organization, but also form an essential foundation for building public trust and maintaining the reputation of banking institutions. Effective implementation of GCG functions as an internal control tool promotes transparency, accountability, and compliance with regulations, positively impacting long-term financial performance, particularly in profitability and operational efficiency (Nabilah & Rialdy, 2022). In addition, integrating Islamic ethical values in corporate social responsibility also strengthens the reputation and performance of Islamic financial institutions. However, the influence of GCG on reputation may vary depending on the context (Syurmita & Fircarina, 2020).

This article examines and summarizes various scientific findings related to the role of business ethics and Good Corporate Governance (GCG) as a strategic foundation in driving long-term financial performance in the banking industry. This article explores how applying ethical

principles and good governance functions as a control mechanism and an essential instrument in building public trust, improving operational efficiency, and strengthening institutional reputation. Through this literature review, a comprehensive understanding of the relationship between ethical integrity, GCG structure, and financial performance indicators can be obtained, thereby contributing conceptually to strengthening governance practices in the banking sector.

LITERATURE REVIEW

Business Ethics

Business ethics has become an integral part of the modern business world, consisting of moral principles that guide corporate behavior towards customers, employees, and the social environment. As defined in recent academic literature, business ethics is a multidimensional discipline that combines theoretical perspectives and practical approaches to behavior considered ethical in the business environment. This study emphasizes the importance of compliance with moral norms and encourages companies to act responsibly toward various stakeholders, including employees, consumers, investors, and the broader community. In this context, business ethics encompasses essential issues such as corporate social responsibility, decision-making processes that consider moral values, transparency, and business practices that support environmental and social sustainability (Arnold et al., 2019; Crane et al., 2019).

Business ethics is closely related to corporate social responsibility (CSR) and sustainability practices, which are increasingly becoming a significant concern in the modern business world. Essentially, business ethics evaluates and shapes moral guidelines that form the basis for determining right and wrong actions in the relationship between a company and all of its stakeholders. These stakeholders include various parties, such as employees, customers, suppliers, local communities, and the broader environment. These ethics play a crucial role in building trust, strengthening a company's reputation, and fostering the creation of long-term value that balances economic gains with social contributions (Pembi & Ali, 2024).

In recent years, the scope of business ethics has expanded significantly to address the new dynamics and challenges organizations face in the modern era. Its development now encompasses contemporary issues such as formulating frameworks for moral-based decision-making, the application of ethics in information technology (IT), and the development of market strategies that consider ethical values. This reflects the urgent need for companies to focus on profitability and the moral impact of every decision made. The complexity of the global business environment, influenced by technological advancements, social pressures, and public expectations, makes business ethics a crucial element in shaping the direction of organizational policies and behavior (Arnold et al., 2019).

The main objective of business ethics is to build moral awareness among businesspeople so that they always conduct honest, fair, and responsible business practices and avoid fraudulent or manipulative actions that damage public trust. Business ethics promotes the formation of a positive corporate image by applying ethical principles in management and operations, enabling businesses to gain widespread acceptance from society, particularly those who uphold moral values in the business world. This approach aims to erode the negative stigma that the business world is synonymous with dirty and opportunistic practices. Since every business activity has moral consequences, a strong ethical commitment is required from all parties involved, both in decision-making and daily operational activities, as emphasized by Samari (2020).

Good Corporate Governance

Effective corporate governance is a fundamental element in ensuring the sustainability and growth of a company, as has been widely discussed by various experts in various contexts. Based on the revised OECD Principles of Corporate Governance and the Code of Best Practice, good governance reflects the application of principles and practices that support achieving long-term value and align with market preferences. A critical aspect of this framework is transparency, which enhances management accountability and serves as a strategic factor in fostering investor confidence and strengthening the company's value in the eyes of the market. A study by Cheung et al., (2007) emphasizes that transparency plays a central role in company valuation, indicating that

information disclosure is the cornerstone of creating sustainable value and strengthening governance reputation.

Corporate governance has undergone a significant transformation, from simply managing conflicts between owners and managers to a system that considers ethical aspects and corporate social responsibility (CSR). This change reflects an awareness that business decisions impact shareholders and other stakeholders, such as employees, the community, and the surrounding environment. In line with this development, integrating social and environmental issues into business strategies has become crucial in creating sustainable value and building public trust (Gill, 2008). Research by Ramiyati et al., (2025) also shows that a solid governance structure, combined with effective risk management practices and business ethics principles, can drive higher-quality decision-making, enhance transparency and accountability, and directly contribute to improved financial performance and overall corporate competitiveness.

Banking Financial Performance

Financial performance is an analysis of a company's financial performance based on applicable regulations, such as Financial Accounting Standards (FASB) or Generally Accepted Accounting Principles (GAAP), to ensure that the financial statements produced accurately and accountably reflect the company's financial condition. This measurement is essential because financial statements prepared in accordance with standards can improve the quality of financial information, enhance transparency, and support decision-making by management and external stakeholders. Several studies support the importance of applying accounting standards in improving the performance and accountability of financial statements, especially in the small and medium-sized enterprise (SME) sector, such as the application of SAK EMKM, which has been proven to have a significant impact on the quality of reports and business performance (Meilani et al., 2025; Wildaniyati et al., 2024).

Banking financial performance is a key indicator that reflects how effectively and efficiently a bank manages its financial resources to achieve objectives such as profitability, liquidity, and solvency. Standard measures used to assess this performance include financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Non-Performing Loan (NPL). ROA measures the efficiency of management in using assets to generate profits, while ROE assesses the extent to which shareholders' equity generates profits. NIM shows a bank's ability to earn net interest income on interest-bearing assets, and NPL reflects asset quality by showing the proportion of non-performing loans to total loans (Gupta & Dongre, 2024; Karamoy & Tulung, 2020; Syaferi & Simatupang, 2024).

In accordance with the perspectives of Gowri and Malepati (2017), Ioan et al., (2020), and Roussakis (2016), bank performance encompasses not only financial aspects but also fund management, information technology effectiveness, marketing, and human resource quality. Bank performance evaluation reflects how well banks manage public funds and channel them productively through a structured management system. Research shows that effective bank performance measurement needs to consider financial indicators such as return on assets (ROA), return on equity (ROE), and operational and managerial efficiency, which affect bank profitability and stability.

Theory Agency

Agency theory is one of the essential theoretical foundations in business and management studies, explaining the relationship between principals (employers) and agents (employees) in an organizational context. This theory assumes that agents tend to have personal interests that may not align with the principals' objectives, as well as limited rationality and different risk preferences. Issues arise when principals appoint agents to make decisions or act on their behalf, especially when there is information asymmetry—when agents have more information than principals—leading to risks of conflicts of interest and opportunistic behavior. In this context, Payne and Petrenko (2019) emphasize that agency theory is highly relevant for understanding the coordination and control challenges organizations face to align the interests of both parties effectively.

Agency theory, which was developed explicitly by Jensen (1994), explains the relationship between principals (such as shareholders) and agents (such as company managers), highlighting potential conflicts of interest due to differences in objectives, incentives, and information. Jensen (1994) emphasizes that agents' behavior often deviates from principals' interests due to information asymmetry and self-interest, including altruistic motives. To address this dilemma, agency theory offers solutions through contract design and incentive structures aimed at aligning the interests of both parties and reducing opportunistic behavior. This concept has become a foundational principle in various fields such as corporate governance, economics, and organizational management, helping to design risk mitigation strategies in contractual working relationships.

Agency theory is not limited to corporate governance but has broad relevance in various social and professional relationships based on contractual structures. This concept can be applied in relationships between voters and politicians, investors and brokers, and clients and lawyers, where principal-agent relationships bind each party. Interestingly, the application of agency theory is now being expanded beyond the conventional Anglo-American framework. Phan and Yoshikawa (2000) highlight how this theory is used to understand managerial responses to pressures and changes in the global market. This demonstrates that agency theory is flexible and adaptable to different cultural characteristics and economic systems, enriching our understanding of organizational behavior across various parts of the world.

METHODS

This article uses the Systematic Literature Review (SLR) approach, a systematic, structured, and transparent research approach designed to identify, evaluate, and synthesize findings from studies relevant to a specific topic. In practice, SLR involves several critical stages, including formulating research questions, developing a literature search protocol, selecting and screening articles based on explicit inclusion and exclusion criteria, assessing study quality, and synthesizing findings comprehensively. These stages are carried out to minimize bias, ensure valid replication in scientific studies, and guarantee that conclusions are based on credible and scientifically accountable evidence (Amjad et al., 2023; Caldwell & Bennett, 2020). This approach has been widely used across various disciplines, including management, medicine, social sciences, and engineering, due to its effectiveness in providing a comprehensive overview of scientific developments and identifying remaining research gaps (Castillo & Grbovic, 2022; Varsha P S et al., 2024).

Researchers are increasingly using the Systematic Literature Review (SLR) method due to its ability to summarize and analyze various studies systematically, structured, and transparently. In practice, many researchers utilize online applications such as Google Scholar as their primary source for searching scientific articles due to its broad reach and open access to various journals (Nabila & Usiono, 2024). Additionally, applications like Publish or Perish have proven effective in helping researchers access and filter bibliometric data from Google Scholar, thereby enhancing the systematic search and selection of literature (Susanto et al., 2023).

This article was compiled with reference to publications from the last five years, namely from 2020 to 2024. The selection of this time frame aims to ensure that the data and information analyzed are up-to-date, relevant, and reflect the latest developments in the field of research being studied. By limiting the sources of reference to publications from the last five years, researchers can avoid using outdated literature that is no longer relevant to the current scientific and technological context. Additionally, this approach aligns with best practices in conducting a Systematic Literature Review (SLR), which prioritizes accuracy, timeliness, and data validity. References drawn from reputable scientific articles from national and international journals strengthen the credibility and scientific contribution of the literature review conducted.

RESULT

Based on a systematic review of three leading databases—Scopus, Web of Science, and ScienceDirect—for the period 2020 to 2024, 47 articles were found that discussed the topics of business ethics, Good Corporate Governance (GCG), and financial performance in the context of the banking industry. Analysis of publication trends indicates a consistent increase in interest in

this topic, with 23% of articles published in 2020–2021, rising to 31% in 2022, and sharply increasing to 46% in the 2023–2024 period. This surge reflects the academic and practical urgency to strengthen governance and ethics in the banking industry, particularly following the global disruption caused by the COVID-19 pandemic.

In terms of geographical distribution, the majority of research comes from developing countries (58%), with the highest concentration in Asia (34%) and Africa (24%). This indicates that governance challenges and the need to implement strong business ethics principles are key concerns in emerging markets, which generally face complex structural, institutional, and regulatory dynamics. Meanwhile, 42% of the remaining articles originate from developed countries, with a primary focus on strategic issues such as the implementation of Basel III policies and the integration of ESG (Environmental, Social, and Governance) reporting within the framework of bank performance and reputation. This difference in focus highlights the need to consider local and global contexts when building a profit-oriented banking system grounded in ethical and sustainable governance principles.

Only 10 articles were selected for further analysis because they met strict and structured selection criteria. These articles were selected based on their strong thematic relevance to business ethics, good corporate governance (GCG), and financial performance in the banking industry. In addition, the quality of the research methodology was a key consideration, including the clarity of the research design, data validity, and the strength of the analysis used. Equally important, each article's theoretical and practical contributions were also decisive factors, as these articles provided new insights for the development of knowledge while offering relevant policy and practice implications for stakeholders in the banking sector. With this selective approach, the analysis is expected to have sufficient depth and sharpness to answer the research questions and enrich the existing literature.

Table 1. Summary of Selected Research ArticlesClick to apply

Reference	Research Title	Main Focus	Finding	Country
Pingkan and Trisnaningsih (2024)	Application of Business Ethics and Good Corporate Governance to Company Financial Performance	Business Ethics, GCG, and managerial accounting	GCG and business ethics enhance stakeholder trust and financial performance	Indonesia
Leța (2024)	Navigating the Moral Compass: Business Ethics in the Banking Sector	Business ethics and transparency in the financial sector	Business ethics and transparency in the financial sector	Uni Eropa
Adaga, Egieya, Ewuga, Abiola Abdul, et al., (2024)	A Comprehensive Review of Ethical Practices in Banking and Finance	A comprehensive review of ethical practices	Regulations, technology, and organizational culture greatly influence ethics in the financial industry.	Nigeria, Inggris
Imron and Murdiansyah (2024)	The Effect of Good Corporate Governance and CSR on Financial Performance	GCG, CSR, and bank performance	CSR positively correlates with bank ROE—the higher the CSR, the better the performance.	Indonesia
Agwu (2020)	Impact of Business Ethics on Nigerian Financial Institutions	Ethics and moral violations	Many unethical practices were found in Nigerian banks, requiring policy intervention.	Nigeria
(Yadav, 2024)	Upholding Financial Stability: Exploring Corporate Governance Compliance in Banking	GCG compliance and financial stability	GCG supports long-term reputation and systemic risk mitigation	India

Reference	Research Title	Main Focus	Finding	Country
Giannopoulos et al., (2024)	What Is the Relationship between CSR and Financial Performance in UK Banks?	ESG vs. ROA/ROE	High ESG scores hurt banks' short-term profitability	Inggris
Hamid (2023)	The Impact of Corporate Governance on Firm Performance in the Banking Industry	Literature review of GCG in banking	The impact of GCG on performance varies depending on culture and location	Global
Alfian (2020)	Mekanisme Corporate Governance terhadap Kinerja Keuangan di BEI	Ownership mechanism, audit committee	Managerial ownership & audit committee are significant to financial performance.	Indonesia
Walter and Narring (2020)	How Can Supervisors and Banks Promote Governance & Ethics?	The role of regulators and ethical culture	Regulation by the ECB raises awareness and improves governance frameworks	Uni Eropa

Based on the analysis in the table, most studies from developing countries such as Indonesia, Nigeria, and India confirm that the consistent application of Good Corporate Governance (GCG) principles and business ethics has a positive impact on improving bank financial performance. This is achieved through strengthening stakeholder trust, improving operational efficiency, and enhancing institutional reputation. Some studies also highlight the strategic role of Corporate Social Responsibility (CSR) as an integral part of GCG implementation, which impacts the strengthening of Return on Equity (ROE) and creates long-term social and economic value for the company and the broader community. On the other hand, studies from developed countries such as the United Kingdom and the European Union tend to focus on structural issues and macro policies, including the integration of Environmental, Social, and Governance (ESG) principles, the implementation of Basel III regulations, and the strengthening of ethical culture and risk management in the banking sector. Interesting findings from the UK indicate a dilemma between social responsibility and short-term financial goals, where a strong commitment to ESG can reduce profitability in the short term, particularly regarding indicators such as ROA and ROE. Thus, these findings underscore that implementing business ethics and GCG is not only a normative obligation but also a strategic element that determines the resilience, sustainability, and competitiveness of the banking sector across various economic and regulatory contexts.

DISCUSSION

Fundamental Concepts of Business Ethics and Good Corporate Governance in Banking

The banking industry occupies a very strategic position in the economic system because its sustainability is highly dependent on public trust. In this context, applying ethical values in corporate governance has become necessary and essential as a key pillar of institutional stability. Ethical governance in the banking sector is no longer viewed solely as a normative obligation or an effort to comply with regulations. Still, it has evolved into an integral part of proactive managerial strategies aimed at creating added value. Integrating ethical principles, such as transparency, accountability, and integrity, along with forming a healthy organizational culture, has proven to enhance banks' resilience in facing various challenges, including systemic risks, global economic pressures, and reputational threats. Furthermore, an ethical approach to bank management also significantly contributes to developing sustainable competitive advantage and strengthens the social legitimacy of banking institutions in the eyes of stakeholders (Walter & Narring, 2020).

Implementing business ethics in the banking sector covers various important aspects such as transparency, fairness, and commitment to social and environmental responsibility. These ethical practices not only serve as a moral foundation but also directly impact increasing customer loyalty and operational stability of banks. Recent research indicates that ethical behavior plays a central role in building stakeholder trust and strengthening the resilience of banking institutions in the face of market dynamics and challenges arising from technological disruption (Adaga, et al., 2024; Leța, 2024) In addition, the existence and implementation of a comprehensive code of ethics

has been proven to improve the effectiveness of risk committee functions, which in turn has a positive impact on the overall performance of banking institutions (Kacem & El Harbi, 2023).

The ethical approach applied in the banking industry helps build strong synergy between essential elements such as good corporate governance, effective risk management, and the formation of an organizational culture of integrity. The collaboration of these three aspects has been proven to contribute significantly to improving financial performance and strengthening the foundation for the long-term sustainability of banking institutions (Ramiyati et al., 2025). Specifically, in the context of Islamic banking, business ethics rooted in moral values and Sharia principles not only serve as a guide for behavior but also function as a strategic differentiator that strengthens institutional identity, enhances customer trust, and expands market penetration at the global level (Laouisset, 2021).

Future Directions and Implications for Banking Practices

Integrating sustainability principles into the core operations of banking businesses is now seen as an inevitable strategic step, going beyond mere compliance with regulatory requirements. With increasing pressure from regulators and rising stakeholder expectations for responsible financial practices, banking institutions are driven to adopt frameworks that integrate environmental, social, and governance (ESG) dimensions into their decision-making processes. The implementation of ESG principles not only demonstrates ethical commitment but has also proven to deliver tangible benefits, such as improved operational efficiency, transparency, better reputation, and more stable long-term financial performance (Efunniyi et al., 2023; Purcarea & Radulescu, 2024). In Europe, this trend is evident as systemic banks gradually strengthen ESG integration into their governance structures, although there are still disparities in the level of implementation among different institutions (Dicuonzo et al., 2022). This shows that ESG is not merely a compliance tool but has become a key element in the sustainability and competitiveness strategies of the global banking industry.

Amidst the acceleration of digital transformation in the banking industry, digital governance capabilities have become a crucial aspect in dealing with various new risks, such as cyber attacks, personal data protection, and ethical dilemmas related to using artificial intelligence (AI) technology. The ability of banks to respond to these risks reflects their technological readiness and the resilience of their governance systems in adapting to the digital era. Research in the Indonesian banking sector shows that a strong digital governance strategy is an essential foundation for maintaining the sustainability and resilience of banking institutions amid ongoing technological disruption (Yunanda & Dewiyanti, 2024). Furthermore, integrating advanced technologies such as AI and blockchain with the ESG framework promotes operational efficiency and transparency and strengthens compliance with increasingly complex and dynamic global sustainability standards (Morina & Dinaj, 2025; Shrinag et al., 2024).

Digital transformation in corporate governance has created strategic opportunities to strengthen transparency, accountability, and effectiveness in the oversight process. Using cutting-edge technologies such as blockchain, artificial intelligence (AI), and data analytics enables the provision of more accurate and real-time information, thereby improving the quality of financial and non-financial reporting that is more credible in the eyes of stakeholders (Varoglu et al., 2021). This digitalization also promotes more open and interactive communication between companies and stakeholders through digital platforms, strengthening public participation in governance practices (Manita et al., 2023). However, this progress also brings new challenges, particularly related to cybersecurity and personal data protection, which require regulatory updates and strengthening governance systems to remain resilient and responsive (Govindraj, 2024). Therefore, the success of digitalization implementation in governance is highly dependent on balancing technological innovation with effective risk management and building a framework that emphasizes security, privacy, and digital inclusivity (Aro et al., 2024).

Applying business ethics and good corporate governance in banking practices is no longer an option, but rather a strategic necessity that directly impacts financial institutions' long-term sustainability and competitiveness. Studies indicate that ethical leadership significantly promotes the sustainability of banking institutions, particularly when integrated through corporate social

responsibility (CSR) programs, which act as mediators in strengthening sustainable performance (Shaukat & Janee Ali, 2024). Additionally, the ethical climate within a bank significantly contributes to its sustainable corporate reputation, which in turn enhances public trust and strengthens the institution's competitive position (Yadav et al., 2021). At the regulatory level, the European Central Bank (ECB) emphasizes the importance of integrity, a strong risk culture, and governance oversight in creating a crisis-resilient and sustainable banking business model (Walter & Narring, 2020). Research by Ramiyati et al., (2025) also emphasizes that strong governance structures, proactive risk management, and ethical business practices contribute positively to financial performance and build sustainable competitive advantage for companies, including in the financial sector. Thus, banks that neglect ethics and governance risk facing increased regulatory scrutiny and intense market pressure, while proactive banks will reap the benefits of market confidence, customer loyalty, and long-term stability.

CONCLUSION

Business ethics and good corporate governance (GCG) are fundamental pillars in creating a healthy, credible, and sustainable banking system. Both are not merely normative instruments or formalities in fulfilling regulatory obligations, but have become an integral part of institutional strategy to promote solid and stable financial performance in the long term. Ethical principles such as integrity, honesty, fairness, and social responsibility are embedded in good governance practices, creating an organizational culture that upholds moral values in every decision-making process. The implementation of strong ethics and GCG directly impacts public trust, customer loyalty, and the competitiveness of banks amid increasingly intense industry competition. This is evident from the positive relationship between ethical integrity and GCG structure with financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), particularly in developing countries facing market volatility and regulatory challenges.

Integrating sustainability principles and corporate social responsibility (CSR) into the governance framework further strengthens the bank's strategic position in the eyes of stakeholders. In an era where the economy increasingly demands environmental and social sustainability, the ESG (Environmental, Social, and Governance) approach has become an important instrument that balances financial and non-financial objectives. This is where the role of digital transformation becomes significant, as technological advancements such as blockchain, artificial intelligence (AI), machine learning, and data analytics enable governance processes to operate more efficiently, transparently, and based on accurate data. These technologies support real-time reporting, proactive risk monitoring, and strengthen the relationship between banks and stakeholders through more open digital communication channels. However, the digitalization of governance also poses new challenges that cannot be ignored, such as increased cyberattack threats, data breaches, and ethical complexities in using AI. Therefore, the success of digital governance heavily depends on the maturity of digital risk management, regulatory updates, and the institution's commitment to building a governance framework that is inclusive, adaptive, and focused on long-term sustainability.

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