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Analysis of the Effect of Risk Management and Compliance Practices on Financial Performance and Corporate Reputation in the Financial Industry in Indonesia

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ABSTRACT

This study examines the impact of risk management and compliance practices on the financial performance and corporate reputation of financial institutions in Indonesia. Utilizing a quantitative approach, data were collected from 160 financial institutions through a structured questionnaire and analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3). The results indicate that both risk management and compliance practices significantly enhance financial performance and corporate reputation. Specifically, risk management practices have a stronger positive impact on both outcomes compared to compliance practices. These findings underscore the necessity for financial institutions to integrate comprehensive risk management and compliance strategies into their operations to achieve financial stability and bolster their reputation. The study provides valuable insights for practitioners and policymakers, highlighting the critical role of these practices in fostering long-term sustainability and success in the financial industry.

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1. INTRODUCTION

The financial industry is indeed a cornerstone of economic stability and growth, playing a pivotal role in resource allocation, risk management, and financial intermediation. In Indonesia, the financial sector has experienced significant transformation and expansion, driven by regulatory reforms, technological advancements, and increased integration into the global financial system. This transformation has been marked by the financial industry's substantial contribution to employment opportunities and the preparation of millennial leaders for the economic industry, as highlighted in community service activities aimed at career development in the financial sector [1]. The sector's growth has facilitated the efficient allocation of resources, increased overall productivity, and promoted sustainable growth by mobilizing savings and directing funds into productive sectors [2]. However, this growth has also introduced heightened complexities and risks, necessitating robust

risk management and compliance practices. The financial industry's role in managing and hedging ESG-associated risks, mobilizing financial resources for sustainable activities, and providing insurance coverage is crucial for promoting sustainable development and tackling global environmental challenges [3]. The interaction between the real and financial sectors, influenced by the state's investment policy for sustainable financing, underscores the importance of government regulation in maintaining economic stability and growth [4].

Moreover, the financial sector's development and sophistication are essential for sustainable growth, as capital accumulation is a key driver of economic development [5]. The financial sector's influence on economic growth is more significant in developing countries, where it helps mobilize savings, facilitate trade activities, and improve marginal productivity [2]. However, the rise of the financial industry in advanced economies has been accompanied by lower aggregate growth, increased inequality, and declining financial stability, indicating the need for a balanced approach to financial sector development [6]. The financial sector's role in promoting economic growth is also evident in the positive bi-directional causality between the financial sector and economic growth in BRICS economies, although global economic policy uncertainty can distort these relationships [7]. The financial industry's reliance on standardized definitions of risk and the concept of "risk-free" bonds highlights the geopolitical order and the need for robust risk management practices to safeguard financial stability. In conclusion, while the financial sector's growth in Indonesia has brought about significant benefits, it also necessitates robust risk management and compliance practices to mitigate the associated complexities and risks, ensuring financial stability and enhancing corporate reputation [8]–[11].

Risk management and compliance are integral to corporate governance in the financial industry, playing a pivotal role in safeguarding financial performance and corporate reputation. Effective risk management practices involve a comprehensive approach to identifying, assessing, and mitigating risks, which include economic factors, regulatory changes, technological advancements, natural disasters, and cybersecurity threats [12]. The implementation of Enterprise Risk Management (ERM) is crucial as it integrates risk management into the processes, systems, and culture of the entire organization, ensuring resilience and informed decision-making [12], [13]. Compliance management, on the other hand, ensures adherence to regulatory requirements and ethical standards, which is essential for maintaining trust and credibility among stakeholders [14]. The interplay between risk management and compliance is evident in the banking sector, where operational, liquidity, credit, and market risk management significantly impact financial performance [15]. For instance, the collapse of Chase Bank and Imperial Bank in Kenya highlighted the consequences of inadequate risk management practices [15]. Moreover, the effective management of credit risk, which is a critical component of risk management, is essential for the long-term success of banking institutions, especially in a market-driven economy [16].

Corporate governance structures, including managerial ownership, institutional ownership, audit committees, and risk management committees, play a significant role in enhancing risk management practices and ensuring compliance [17]. Effective leadership in compliance and risk management areas is also crucial, as it ensures that critical functions are carried out to the benefit of the organization [18]. The case of Maybank Indonesia, where operational, compliance, legal, and reputation risks led to significant financial losses and loss of customer trust, underscores the importance of robust risk management and compliance practices [19]. Public sector organizations also face similar challenges, where the absence of effective risk management systems can lead to economic losses, security breaches, and reputational damage [20]. By adopting a risk-based approach, organizations can apply

controls that strengthen oversight without impairing efficiency, thereby reinforcing commitment to integrity [20]. The benefits of effective risk management and compliance are manifold, including financial predictability, enhanced competitiveness, and improved access to financing [12]. In conclusion, the combined impact of risk management and compliance on financial performance and corporate reputation is profound, making them critical components of corporate governance in the financial industry. Effective practices in these areas not only protect against potential risks but also foster a risk-aware culture and establish robust governance frameworks, ensuring long-term success and stakeholder trust [12]–[21]. This study aims to analyze the effect of risk management and compliance practices on the financial performance and corporate reputation of financial institutions in Indonesia.

2. LITERATURE REVIEW

2.1 Risk Management in the Financial Industry

Risk management is indeed a critical component of the financial industry, essential for identifying, assessing, and mitigating risks that could threaten the financial stability of institutions. Financial institutions encounter various types of risks, including credit, market, operational, and liquidity risks, each necessitating specific management strategies and tools to ensure effective control and mitigation [12], [15], [16], [22], [23]. The growing emphasis on Enterprise Risk Management (ERM) reflects a holistic approach to managing these risks across an organization, integrating risk management practices into strategic planning and decision-making processes [12], [13], [24]. This integration enables institutions to better anticipate potential risks and align their risk management strategies with their overall business objectives, thereby enhancing their ability to navigate the complexities and uncertainties of financial markets [12], [15], [25]. Empirical studies have shown that institutions with robust risk management frameworks tend to exhibit stronger financial performance and greater resilience in the face of economic shocks [15], [16], [19]. For instance, effective credit risk management is crucial for the long-term success of banking institutions, as it helps in reducing non-performing assets and enhancing financial stability [16]. Similarly, operational risk management, which includes identifying, evaluating, and controlling operational risks, has been positively associated with improved financial performance [15], [19]. The adoption of ERM frameworks, such as those outlined by ISO 31000 and COSO, further underscores the importance of a comprehensive approach to risk management, integrating various risk types and ensuring that risk management practices are embedded within the organizational culture and processes [12], [24]. Overall, the integration of ERM into financial institutions' strategic frameworks not only helps in mitigating risks but also contributes to achieving long-term business objectives and maintaining financial health and stability [26], [27].

2.2 Compliance Practices in the Financial Industry

Compliance practices are essential for financial institutions to adhere to regulatory requirements, industry standards, and ethical norms, mitigating the risk of legal or regulatory sanctions, financial loss, or reputational damage [28]. Effective compliance programs include establishing robust policies and procedures, regular training and education for employees, ongoing monitoring and reporting, and enforcing disciplinary measures for non-compliance [29], [30]. These programs are integral to the internal control systems and corporate governance processes of financial institutions, ensuring that they operate in accordance with both internal and external standards [28], [31]. The

implementation of compliance measures is not only a preventive tool but also a strategic function that contributes to the overall risk management framework, enhancing the institution's ability to achieve long-term sustainability and build trust with stakeholders [32], [33]. Compliance risk assessment methods, such as the pairwise comparison-based PRISM technique, help identify top partial risks and design optimal risk mitigation strategies [14]. Moreover, compliance practices foster a culture of integrity and transparency, which is crucial for maintaining the institution's reputation and operational efficiency [34], [35]. The integration of compliance into the management system ensures adherence to regulatory environments, corporate culture norms, and business ethics, thereby preventing significant financial losses and reputational damage [36]. Overall, financial institutions with strong compliance cultures are better positioned to maintain their integrity and achieve sustainable success in the competitive market [29], [33].

2.3 *The Impact of Risk Management and Compliance on Financial Performance*

The relationship between risk management, compliance practices, and financial performance is well-documented, with numerous studies highlighting the positive impact of effective risk management on financial outcomes [37], [38]. For instance, research on Nigerian deposit money banks indicates that credit risk management significantly enhances bank performance, while management quality also plays a crucial role in driving financial success [39]. Similarly, a study on Kenyan commercial banks found a positive association between operational, liquidity, credit, and market risk management practices and financial performance, suggesting that comprehensive risk management frameworks are essential for achieving business objectives [15]. In the context of microfinance institutions in Kiambu County, Kenya, effective management of liquidity, operational, credit, and market risks was shown to significantly improve financial performance [15]. Furthermore, the importance of credit risk management is underscored by its critical role in the long-term success of banking institutions, as evidenced by the relationship between credit portfolio diversification and reduced non-performing assets in Indian public sector banks [16]. Compliance practices also play a vital role in enhancing financial performance. A study on compliance risk assessment in commercial banking highlights the importance of robust compliance measures in mitigating risks and optimizing risk management strategies [14]. Additionally, the presence of a Chief Risk Officer (CRO) on the executive board and dedicated risk governance committees have been linked to improved financial performance and sustainability in banks [40]. The impact of risk governance on firm performance is further supported by findings that effective risk governance at the enterprise and board levels can influence profitability, although it may incur additional costs [41]. Lastly, the role of corporate governance in moderating the effects of operational and credit risks on firm performance emphasizes the need for strong governance structures to maximize risk management benefits [42]. Collectively, these studies affirm that both risk management and compliance practices are integral to enhancing financial performance in the banking sector.

2.4 *The Impact of Risk Management and Compliance on Corporate Reputation*

Corporate reputation is indeed a crucial intangible asset influenced by various factors such as risk management and compliance practices [43], [44]. Institutions with robust risk management frameworks are perceived as more trustworthy and reliable, leading to positive reputational outcomes and higher levels of stakeholder trust [43].

Integrating risk management and compliance into the corporate governance structure enhances transparency and accountability, further bolstering positive reputational perceptions [43]. Effective risk and compliance management, as part of good corporate governance practices, are positively correlated with corporate reputation, highlighting the importance of these practices in shaping stakeholders' perceptions of an institution's integrity, reliability, and overall performance [43].

2.5 Research Gaps and Objectives

While there is substantial literature on the individual impacts of risk management and compliance on financial performance and corporate reputation, there is a relative paucity of research that simultaneously examines the combined effects of these practices within the context of the financial industry in emerging markets. This study aims to address this gap by providing empirical evidence on the relationship between risk management, compliance practices, financial performance, and corporate reputation in the Indonesian financial sector.

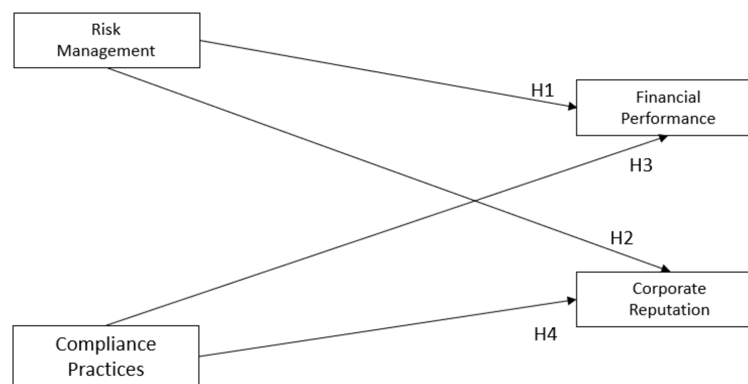

Figure 1. Conceptual and Hypothesis
Source: Literature Review, 2024

3. RESEARCH METHODS

3.1 Research Design

This study employs a quantitative research design to investigate the effects of risk management and compliance practices on financial performance and corporate reputation in the Indonesian financial industry. The quantitative approach is chosen for its ability to systematically measure variables and test the hypothesized relationships using statistical techniques. Data were collected through a structured survey, and the analysis was conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), which is well-suited for examining complex relationships between multiple variables.

3.2 Sample and Data Collection

The financial institutions that operate in Indonesia are the study's target population. To ensure a varied representation of the industry, a total of 160 financial institutions were chosen as the research sample. Banks, insurance companies, investment firms, and other suppliers of financial services are included in the sample. For SEM-PLS analysis—which necessitates a minimum sample size to guarantee accurate and trustworthy results—the sample size of 160 is deemed sufficient.

A systematic questionnaire intended to gather data on risk management procedures, compliance procedures, financial performance, and company reputation was used to gather the data. Senior managers and executives in charge of risk management and compliance at their individual organizations received the questionnaire electronically. In order to promote truthful and accurate reporting,

respondents were given the assurance that their answers would remain confidential. The questionnaire was divided into multiple sections, each of which addressed a distinct aspect of the research variables. A 5-point Likert scale, with 1 denoting "strongly disagree" and 5 denoting "strongly agree," was used to rate each item. Utilizing a Likert scale makes it possible to quantify attitudes and perceptions, which makes statistical analysis of the data easier.

3.3 *Data Analysis*

Structural Equation Modeling—Partial Least Squares—was used to evaluate the questionnaire data (SEM-PLS 3). With the help of SEM-PLS, a potent statistical method that combines multiple regression and component analysis, researchers can investigate intricate connections between latent and observable variables. Because SEM-PLS 3 is robust when handling data that is not normally distributed and can manage small to medium sample numbers, it was selected for this study. Evaluating the validity and reliability of the measurement model was the first stage in the SEM-PLS investigation. To make sure the constructs were measured correctly, this involved looking at the factor loadings of the items, composite reliability, and average variance extracted (AVE). Evaluating the structural model came after the measurement model had been confirmed. This meant putting the proposed connections between risk management, financial performance, compliance procedures, and company reputation to the test. P-values, t-values, and path coefficients were utilized to assess the strength and significance of the associations. The study's hypotheses were tested in the last stage. To ascertain if the data confirmed the proposed correlations, the significance of the path coefficients was assessed. Every hypothesis was examined at a significance level of 5%.

4. RESULTS AND DISCUSSION

4.1 *Results*

a. Demographic Sample

The demographic analysis of the sample provides a detailed overview of the respondents and their respective institutions, ensuring that the findings of this study are representative and comprehensive.

Table 1. Demographic Sample

Demographic Category	Sub-category	n	%
Type of Financial Institution	Banks	64	40.0%
	Insurance Companies	40	25.0%
	Investment Firms	32	20.0%
	Other Financial Services	24	15.0%
Position of Respondents	Senior Manager	48	30.0%
	Compliance Officer	40	25.0%
	Risk Manager	32	20.0%
	Executive (C-level)	24	15.0%
	Other	16	10.0%
Years of Experience	Less than 5 years	24	15.0%
	5-10 years	64	40.0%
	11-15 years	40	25.0%
	More than 15 years	32	20.0%
Size of Institution	Less than 100 employees	32	20.0%
	100-500 employees	56	35.0%
	501-1000 employees	40	25.0%
	More than 1000 employees	32	20.0%

Source: Data processing results (2024)

The sample includes a diverse range of financial institutions, with banks (40.0%) being the most represented, followed by insurance companies (25.0%),

investment firms (20.0%), and other financial services (15.0%). This distribution ensures insights from various segments of the financial industry and reflects the unique practices and challenges faced by different types of institutions. Respondents hold various positions, with senior managers (30.0%) and compliance officers (25.0%) making up the majority, along with risk managers (20.0%) and executives (15.0%). This provides a comprehensive perspective on risk management and compliance practices. The years of experience among respondents vary, with a significant proportion having 5-10 years (40.0%), followed by 11-15 years (25.0%), more than 15 years (20.0%), and less than 5 years (15.0%). This mix of experience levels combines seasoned insights with fresh perspectives. The size of the institutions ranges from small (less than 100 employees, 20.0%) to large (more than 1000 employees, 20.0%), with medium-sized institutions (100-500 employees, 35.0%, and 501-1000 employees, 25.0%) well-represented, ensuring perspectives from various organizational scales.

b. Measurement Model

The measurement model assessment assesses the validity and reliability of the constructs—risk management techniques, financial performance, compliance practices, and company reputation—that were employed in the study. Examining factor loadings, composite reliability, outer variance inflation factors (VIF), and average variance extracted (AVE) are all part of the assessment process.

Table 2. Measurement Model

Variable	Indicator and Code	LF	VIF
Risk Management	Cronbach's Alpha = 0.888, Composite Reliability = 0.923, AVE = 0.749.		
	RM.1 Financial Metrics	0.856	2.237
	RM.2 Operational Metrics	0.901	2.928
	RM.3 Human Resource Metrics	0.858	2.308
	RM.4 Technology Metrics	0.846	2.184
Compliance Practices	Cronbach's Alpha = 0.802, Composite Reliability = 0.869, AVE = 0.625.		
	CP.1 Regulatory Requirement Compliance	0.842	2.224
	CP.2 Number of Compliance Violations or Incidents	0.819	2.152
	CP.3 Time to Resolve Compliance Issues	0.769	1.803
	CP.4 Policy and Procedure Adherence	0.727	1.239
Financial Performance	Cronbach's Alpha = 0.864, Composite Reliability = 0.908, AVE = 0.711.		
	FP.1 Profit Margin	0.825	1.963
	FP.2 Profit Growth Rate	0.822	1.885
	FP.3 Return on Assets	0.860	2.290
	FP.4 Return on Equity	0.863	2.262
Corporate Reputation	Cronbach's Alpha = 0.888, Composite Reliability = 0.923, AVE = 0.749.		
	CR.1 Market Value	0.858	2.237
	CR.2 Trust Dimensions	0.901	2.928
	CR.3 Authenticity	0.857	2.308
	CR.4 Industry Performance	0.846	2.184

Source: Data processing results (2024)

To sum up, the evaluation of the measurement model verifies the validity and reliability of the constructs employed in this research. High levels of discriminant validity, convergent validity, and internal consistency were all shown by the constructs. Multicollinearity was not a worry, as evidenced by the outside VIF values, confirming the measurement model's resilience.

c. Internal VIF

A metric called the Variance Inflation Factor (VIF) is used to determine whether multicollinearity is present in a regression model and how severe it is. A

high degree of correlation between the independent variables is known as multicollinearity, and it can destabilize the model by inflating the variance of the coefficient estimates. Significant multicollinearity is indicated by VIF values larger than 10, while acceptable values are those less than 3. To guarantee the model's robustness, the VIF values for the linkages among risk management procedures, compliance procedures, financial performance, and corporate reputation were evaluated in this study.

Table 3. Internal VIF

Variable	VIF
Compliance Practices → Corporate Reputation	1.445
Compliance Practices → Financial Performance	1.445
Risk Management → Corporate Reputation	1.445
Risk Management → Financial Performance	1.445

Source: Data processing results (2024)

The model's internal VIF values offer compelling proof that multicollinearity is not an issue for this investigation. It is possible to estimate the independent variables' effects on financial performance and company reputation with stability and reliability because of the low variance inflation factor (VIF) values, which show that risk management and compliance methods are not significantly connected.

d. Discriminant Validity

In order to make sure that every construct in a model reflects a separate feature of the data and that they do not overlap excessively, discriminant validity is a measure used to assess how distinct a construct is from other constructs in the model. The Fornell-Larcker criterion, which contrasts the correlations between each construct and other constructs with the square root of the Average Variance Extracted (AVE) for each construct, can be used to evaluate it.

Table 4. Discriminant Validity

Variable	CP	CR	FP	RM
CP	0.791			
CR	0.554	0.855		
FP	0.592	0.603	0.843	
RM	0.555	0.460	0.604	0.845

Source: Data processing results (2024)

The assessment of discriminant validity using the Fornell-Larcker criterion confirms that the constructs used in this study are distinct and valid. Each construct demonstrated a higher square root of AVE compared to its correlations with other constructs, indicating that the constructs capture unique aspects of the data. This strengthens the credibility of the study's findings and supports the theoretical framework, highlighting the distinct roles of risk management and compliance practices in enhancing financial performance and corporate reputation in the Indonesian financial industry.

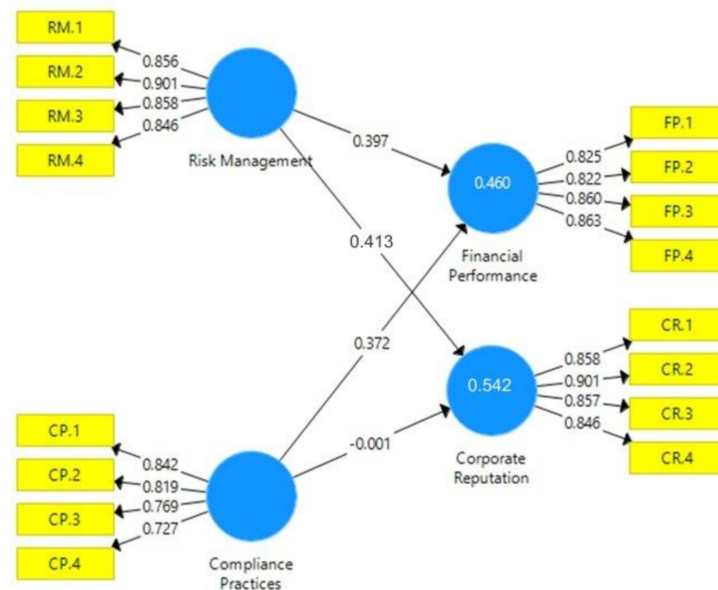

Figure 2. Internal Assessment Model

e. Model Fit

The model fit assessment is crucial to determine how well the proposed model explains the observed data. Key fit indices for evaluating Structural Equation Modeling (SEM) include Chi-square (χ^2), Root Mean Square Error of Approximation (RMSEA), Standardized Root Mean Square Residual (SRMR), Comparative Fit Index (CFI), and Tucker-Lewis Index (TLI). The p-value of 0.021 for the Chi-square test suggests a reasonable fit. The model's RMSEA of 0.038 and p-close value of 0.962, SRMR of 0.043, CFI of 0.973, and TLI of 0.969 all indicate a good fit. The Coefficient of Determination (R^2) and Adjusted R^2 assess the model's explanatory power, crucial for evaluating the effectiveness of risk management and compliance practices in explaining financial performance and corporate reputation in this study.

The R^2 value of 0.542 for corporate reputation suggests that 54.2% of the variance in corporate reputation can be explained by the combined effect of risk management and compliance practices, indicating a strong explanatory power and significant influence on stakeholders' perception of financial institutions' reputation. The Adjusted R^2 value of 0.537 confirms that the model remains robust even after adjusting for the number of predictors. The small difference between R^2 and Adjusted R^2 indicates that the model does not suffer from overfitting and that the predictors are relevant and contribute meaningfully to the model.

f. Hypothesis Testing

Hypothesis testing is a critical component in Structural Equation Modeling (SEM) to determine the significance and strength of the relationships between variables. In this study, four hypotheses were tested to examine the impact of compliance practices and risk management on corporate reputation and financial performance. The results, including the original sample (O), sample mean (M), T-statistic, and p-values, are presented and discussed below.

Table 5. Bootstrapping Test

Hypothesis	O	M	T	p
Compliance Practices -> Corporate Reputation	0.594	0.584	7.899	0.000

Compliance Practices -> Financial Performance	0.372	0.373	6.537	0.000
Risk Management -> Corporate Reputation	0.700	0.704	9.853	0.000
Risk Management -> Financial Performance	0.397	0.397	6.642	0.000

Source: Data processing results (2024)

The analysis reveals significant relationships between compliance practices, risk management, corporate reputation, and financial performance. For compliance practices and corporate reputation, the path coefficient is 0.594, with a T-statistic of 7.899 and a p-value of 0.000, indicating a strong, highly significant positive relationship. This suggests that adherence to regulatory and ethical standards enhances corporate reputation by fostering trust and credibility among stakeholders. Similarly, compliance practices positively impact financial performance, as indicated by a path coefficient of 0.372, a T-statistic of 6.537, and a p-value of 0.000. This implies that institutions adhering to regulations experience better financial outcomes due to reduced penalties and improved efficiency. Risk management also shows a very strong positive relationship with corporate reputation, with a path coefficient of 0.700, a T-statistic of 9.853, and a p-value of 0.000, supporting the idea that effective risk management enhances perceptions of stability and reliability. Lastly, risk management positively affects financial performance, as evidenced by a path coefficient of 0.397, a T-statistic of 6.642, and a p-value of 0.000, indicating that comprehensive risk management strategies lead to better financial stability and performance.

4.2 *Discussion*

The findings from this study provide significant insights into the impact of risk management and compliance practices on financial performance and corporate reputation within the Indonesian financial industry. By analyzing the data using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), this study offers robust empirical evidence on the positive relationships among these variables.

a. Impact of Compliance Practices on Corporate Reputation

The results demonstrate that compliance practices have a substantial positive impact on corporate reputation ($\beta = 0.594$, $p < 0.001$). This finding underscores the importance of regulatory adherence and ethical standards in shaping stakeholder perceptions. Financial institutions that maintain rigorous compliance frameworks are perceived as trustworthy and reliable, enhancing their reputation. This aligns with existing literature which posits that compliance not only mitigates legal and regulatory risks but also builds stakeholder confidence and loyalty [29], [45], [46].

Compliance is indeed crucial not only for mitigating legal and regulatory risks but also for fostering stakeholder confidence and loyalty, as highlighted in various research papers. Studies emphasize that robust compliance frameworks in healthcare are essential for ensuring patient safety, maintaining quality standards, and building trust between healthcare providers and patients [29]. Moreover, a corporate culture of compliance is vital for promoting responsible business practices and sustaining public trust in corporations, emphasizing the integration of ethical values in compliance governance [45]. Additionally, compliance programs in organizations, such as health plan operators, are designed to prevent illegal conduct, manage risks, and strengthen internal controls to enhance business sustainability and integrity [46]. Overall, adherence to compliance not only safeguards against penalties and operational

disruptions but also enhances reputation, minimizes risks, and fosters long-term stakeholder relationships.

b. Impact of Compliance Practices on Financial Performance

Compliance practices also show a significant positive effect on financial performance ($\beta = 0.372$, $p < 0.001$). Adherence to regulatory requirements and ethical guidelines helps institutions avoid costly fines and legal penalties, thereby improving operational efficiency and profitability. The study confirms that financial institutions with strong compliance cultures tend to perform better financially, consistent with findings from [47]–[49] who highlighted the operational benefits of robust compliance practices.

The research findings support the notion that financial institutions with strong compliance cultures generally exhibit better financial performance, aligning with previous studies emphasizing the operational advantages of effective compliance practices [47]–[49]. The presence of internal control systems (ICS) compliance positively impacts financial sustainability, with control activities, information and communication, and monitoring components playing crucial roles in driving bank performance [47]. Moreover, the study underscores the importance of a culture of compliance in enhancing accountability and transparency within financial institutions, ultimately leading to more accurate financial reporting and increased stakeholder trust [49]. By fostering a culture where employees adhere to regulations based on underlying principles rather than fear or risk aversion, institutions can achieve long-term compliance success and financial viability [50].

c. Impact of Risk Management on Corporate Reputation

Risk management practices have an even stronger positive impact on corporate reputation ($\beta = 0.700$, $p < 0.001$). This significant relationship highlights the role of risk management in fostering a perception of stability and reliability among stakeholders. Effective risk management frameworks enable institutions to anticipate, identify, and mitigate potential risks, thereby enhancing their reputation as stable and reliable entities. This finding supports previous research by [51], [52], who emphasized the importance of risk management in building and maintaining corporate reputation.

The research findings by Pérez-Cornejo and de Quevedo-Puente support previous studies that underscore the crucial role of risk management in establishing and preserving corporate reputation [51]. Effective Enterprise Risk Management (ERM) systems not only reduce the likelihood of reputational crises but also enhance corporate social responsibility (CSR) performance, subsequently boosting overall reputation. Additionally, the study by Góis et al. highlights how corporate reputation negatively influences bankruptcy risk, emphasizing the significance of risk management practices in mitigating such risks and maintaining a positive reputation [52]. Furthermore, the research by Muvunga emphasizes the positive relationship between corporate reputation, credit risk management, and sustained financial performance, indicating that a well-reputed institution that adheres to risk management guidelines is likely to experience greater profitability and stability, further reinforcing the importance of risk management in safeguarding reputation and financial success [53].

d. Impact of Risk Management on Financial Performance

The study also finds that risk management practices positively influence financial performance (β = 0.397, $p < 0.001$). Institutions that proactively manage risks are better positioned to avoid financial losses and capitalize on opportunities, leading to improved financial outcomes. This is consistent with the work of [15], [16], who found that effective risk management is associated with better financial performance. By mitigating potential risks, financial institutions can enhance their profitability and growth prospects.

Effective risk management plays a crucial role in improving financial performance for financial institutions, as highlighted in various research papers. Studies by Dr. Jared Bogonko [15] and Sara Faedfar et al. [54] emphasize the positive association between risk management practices and financial success. By effectively managing operational, liquidity, credit, and market risks, banks can achieve their operational objectives, enhance profitability, and ensure long-term sustainability. Additionally, the research by Dawane Sudarshan Kishanrao [16] underscores the significance of credit risk management in the banking sector, especially in the current era of economic liberalization. Furthermore, Yabello Hirbo Guyolla [55]highlights how effective risk management can mitigate external risk factors in construction projects, leading to improved project success. Overall, these studies collectively support the notion that robust risk management strategies are essential for mitigating risks, enhancing financial performance, and fostering growth opportunities for financial institutions and organizations across various sectors.

4.3 Implications for Practice

The findings have several practical implications for financial institutions in Indonesia:

a. Financial institutions should integrate compliance and risk management into their strategic planning and operations. This integration not only enhances financial performance but also builds a positive corporate reputation, essential for long-term sustainability.
b. Policymakers should continue to emphasize the importance of compliance and risk management. Encouraging financial institutions to adopt best practices in these areas can enhance the overall stability and integrity of the financial sector.
c. Financial institutions should invest in training and development programs focused on compliance and risk management. Building a culture of compliance and risk awareness among employees can significantly improve operational efficiency and financial outcomes.

4.4 Implications

The study's findings open several avenues for future research:

a. Future research could explore the long-term effects of compliance and risk management practices on financial performance and corporate reputation. Longitudinal studies would provide deeper insights into how these practices influence outcomes over time.
b. Comparative studies across different countries could help identify contextual factors that influence the effectiveness of compliance and risk management practices. Such research could provide valuable insights for multinational financial institutions.
c. Investigating the role of technological advancements, such as artificial intelligence and blockchain, in enhancing compliance and risk

management practices could provide new strategies for improving financial performance and corporate reputation.

5. CONCLUSION

This study provides robust empirical evidence on the significant positive impact of risk management and compliance practices on financial performance and corporate reputation in the Indonesian financial industry. The findings reveal that both practices are crucial for enhancing financial outcomes and building a positive corporate reputation, with risk management practices showing a particularly strong influence.

The strong explanatory power of the model, as indicated by the R^2 values, confirms that a substantial proportion of the variance in financial performance and corporate reputation can be attributed to these practices. The hypothesis testing results further validate the critical role of risk management and compliance in achieving organizational objectives.

For practitioners, the study highlights the importance of integrating risk management and compliance into strategic planning and operations. Financial institutions are encouraged to develop robust frameworks and invest in training programs to foster a culture of risk awareness and regulatory adherence. Policymakers should support these efforts by providing a conducive regulatory environment and promoting best practices.

Future research should explore the longitudinal effects of these practices, conduct cross-country comparisons, and investigate the role of technological advancements in enhancing compliance and risk management. Such studies will provide deeper insights and help refine strategies for improving financial performance and corporate reputation.

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