

ARTÍCULO

The Effectiveness of Risk Management on Quality of Financial Statements with Profitability as a Mediator in Banking Companies

Saribulan Tambunan¹, Muslim Wijaya², Erlina erlina³, Akbar Siregar⁴, Ikbar Pratama⁵

¹ *Fakultas Ekonomi dan Bisnis, Universitas Medan Area, Medan, Indonesia;* saribulan@staff.uma.ac.id

² *Fakultas Ekonomi dan Bisnis, Universitas Medan Area, Medan, Indonesia*

³ *Fakultas Ekonomi dan Bisnis, Universitas Sumatera Utara, Medan, Indonesia*

⁴ *Fakultas Ekonomi dan Bisnis, Universitas Medan Area, Medan, Indonesia*

⁵ *Fakultas Ekonomi dan Bisnis, Universitas Medan Area, Medan, Indonesia;* ikbar.p@gmail.com

* Correspondence: saribulan@staff.uma.ac.id; ikbar.p@gmail.com

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Abstract: The quality of the financial statements is vital for sound decision-making. Indonesian banking institutions plan and monitor the risk response for the quality of their financial statements with less innovation and strategy. The primary objective of this study is to explore the impact of risk management on the quality of financial statements in the Indonesian banking sector. This study focuses specifically on three aspects of risk management: planning risk responses, implementing risk responses, and monitoring risk. The research employed a cross-sectional methodology to collect data, and the respondents were financed department personnel from several Indonesian banking institutions. This study's approach is a fantastic contribution to the body of knowledge, as previous research ignored these aspects for measuring the quality of financial statements. From the standpoint of three critical elements of risk management and mediating influence on profitability, the study provided significant theoretical implications for understanding financial statements' quality. Practically, this research proved that planning risk responses, implementing risk responses, and monitoring risk are viable strategies for the quality of financial statements in banking firms. The research has several limitations, outlined alongside clear recommendations for future study.

1. Introduction

The financial accounts forecast the organization's functioning and success. The finance department is responsible for planning large-scale dynamics and integrating items with care. Planning is required for all operations and investments to maximize long-term success (Annamalah et al., 2018). Financial statements play a crucial function in supplying all types of trustworthy information regarding finance and the availability of resources. The financial institutions' lack of innovation is vital since there is no integrity without improved financial operations.

Furthermore, financial institutions must improve over time to provide businesses and stakeholders with credible financial statements (Qi et al., 2018). The financial statements are of interest to the board of directors of any organization, and decisions are also based on these statements. As proper judgments cannot be taken in the absence of financial statements, a decrease in the financial statement's trustworthiness can negatively impact any business's efficiency. Moreover, productive financial accounts are reliable for the operation of firms and organizations. The availability of financial statements can improve the goal-oriented nature of management's processes. The risk associated with managing

financial information is a crucial aspect that must be enhanced over time (Shad et al., 2019).

Risk management plays a crucial role in every organization's operation improvement. Less emphasis on risk management in the past has resulted in the downfall of numerous businesses' operations and their failure (Ahmed et al., 2021). All operations must adhere to the principles and recommendations of the organization's financial accounts. When financial statements are disregarded by a company's management, unfavorable and poor actions are to be anticipated. Evaluation of the financial accounts might be a more effective technique if appropriate steps to enhance performance are performed (Finger et al., 2018). Numerous businesses in industrialized nations have reached an advanced level due to a strategy to improve the organization's operations with risk management. In addition, the finance department must take strategic activities to analyze and evaluate the risk associated with financial decisions. The finance department's lack of knowledge and inefficiency is detrimental to any firm. The function of the bank's finance department is to optimize its operations. Indeed, proper planning and monitoring of financial accounts can be a superior asset management technique for any company. Numerous banks operate in Indonesia (see Figure 1).

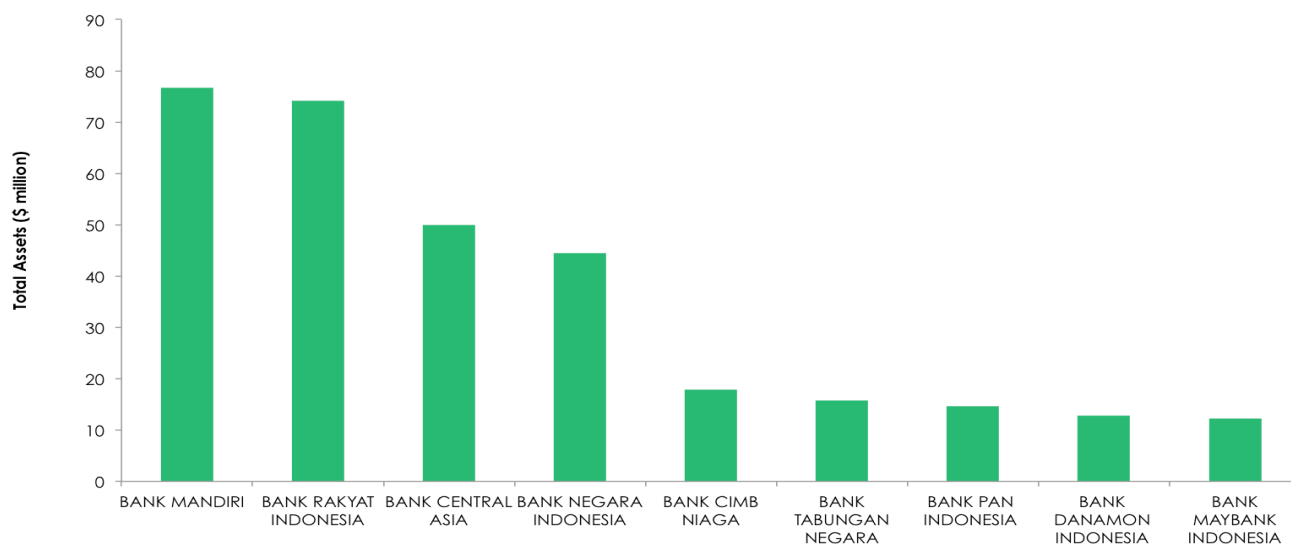


Figure 1. Banking Sector of Indonesia by Assets

Wang et al. (2018) found that the quality of financial statements can be enhanced when personnel are lawfully employed and deeply concerned with financial matters. Furthermore, this study indicated that strategic improvement in financial issues might be a means for any firm to enhance its financial challenges. In addition, Alawattegama (2018) concluded that stakeholders are only willing to accept the quality of financial statements and that the organization's mature activities can enhance this quality. This study also concluded that timely, reasonable actions are necessary to improve financial challenges and affairs strategically. Consequently, the research conducted by Bitar et al. (2018) contributed to the body of knowledge by demonstrating that the quality of financial statements may be enhanced through accountability and proper auditing. A review of the financial department's work is required to manage all types of work and prevent probable violations and misleading statements. Yan et al. (2018) study said that the management of the finance department might provide a functional approach to the employees creating the financial statements because working on this management can be improved for more suitable

outcomes. Literature research has investigated several aspects that may influence any operating department's financial affairs and statements.

The primary objective of this study is to explore the impact of risk management on the quality of financial statements in the Indonesian banking sector. This study has so examined three facets of risk management: planning risk responses, implementing risk responses, and monitoring risk. This study's approach is a fantastic contribution to the body of knowledge, as previous research ignored these aspects for measuring the quality of financial statements. In addition, the study employed a cross-sectional methodology to collect data, and the respondents were financed department personnel from several Indonesian banking institutions. From the standpoint of three critical elements of risk management and mediating influence on profitability, the research provided significant theoretical implications for understanding the quality of financial statements. This study indicated that planning risk responses, implementing risk responses, and monitoring risk are effective ways to improve financial statements' quality in banking

institutions. The research has several limitations, outlined alongside clear recommendations for future study.

2. Review of Literature, Hypotheses Development, and Research Framework

The research conducted by [Astuty et al., \(2022\)](#); [Qi et al. \(2018\)](#); [Tanjung et al., \(2022\)](#) indicated that the profitability of any firm might be raised by taking reasonable strategic activities. The success of a business is contingent upon ethical conduct and appropriate activities. To boost profitability, the banking industry must concentrate on strategic plans and await fair implementations. [Shad et al. \(2019\)](#); [Silviani et al., \(2022\)](#); [Susilawati et al., \(2022\)](#) found that organizational work has evolved with time, but planning for fair work is the only source to ensure the work's sustainability. Organizational profitability can be enhanced by adopting a productive attitude in the workplace. According to [Qi et al. \(2018\)](#), constructive work habits and applying planning and goal-setting procedures can effectively achieve profitability. Undoubtedly, fair work can raise the level of profitability in any firm, but substantial strategic effort is required to conduct these activities. The effectiveness of an organization can be improved by the dependability of its resources and the equitable application of its planning. According to the study by [Ahmed et al. \(2021\)](#), risk management is a suitable method for increasing productivity because it is designed to cope with essential situations involving implementations. Implementing more effective monitoring tactics is also crucial for increasing the profitability of firms, which is necessary for improved work performance. Corporate-level businesses and other working organizations can boost profitability if strategic policies are designed fairly to address future challenges. In addition, the study by [Finger et al. \(2018\)](#) indicated that using risk-avoidance strategies and dependable rules could improve the legal status of a company's profitability. In addition, planning any department's financial development can be a step toward achieving new, strategically sound objectives and effective implementation.

Similarly, [Elamer et al., \(2020\)](#); [Pratami et al., \(2022\)](#) research contributed to the understanding that risk management techniques can become fair when the management monitors these activities effectively to reach better aims. Indeed, risk management is a crucial habit, but the consistent implementation of policies can improve employee performance. Firms must engage in productive labour to earn a reasonable profit in exchange for addressing these risk management concerns. The literature review suggests the following hypotheses:

H1: There is a positive impact of plan risk response on profitability.

H2: There is a positive impact of implementing risk response on profitability.

H3: There is a positive impact of monitoring risk on profitability.

[Bitar et al. \(2018\)](#) demonstrated in the academic literature that risk management actions are suitable for enhancing employee performance. Financial planning and its outcomes illustrate the impact of risk management qualities. The management's assurance of the fairness of their policies can serve as a means

to apply these policies strategically. Although risk management is a crucial duty, qualified personnel in the finance department can work more effectively against any potential threat. Service dependability and risk management can be enhanced when acceptable measures are made to address any problem. Accordingly, [Al-Dmour et al. \(2018\)](#) found that policymaking is straightforward and fairly implementing these policies is crucial. Financial planning becomes more reliable when the procedures are executed in their genuine spirit. The promise to manage just policies may make better financial planning possible. For institutions with qualified management for risk management policies, the finance department's performance improves. In addition, [Maoba's \(2016\)](#) study contributed to the literature by demonstrating that implementing the right policies in the financial department can promote strategic functioning to improve financial performance. Undoubtedly, strategically distinct policies are produced for various implementations, but the advancement of these rules can serve as a path to a suitable work ethic.

Similarly, [Reid et al. \(2019\)](#) found in their literature review that planning alone is insufficient for financial growth and that implementing the chosen methods is required to boost it. Increase the dependability of the financial statements when the monitoring of the policies is deemed fair and strategic activities are required to alter the policy for financial profitability. In addition, [Huy et al. \(2021\)](#) concluded that financial advancement is a means for firms to flourish and work strategically with correct planning and execution. The failure of a company's strategic planning and implementation can harm its financial growth and output quality. In addition, [Keshk et al. \(2018\)](#) argued in the literature that financial growth could become a viable method for business performance if risk management concerns are applied equitably in organizational work. The literature review suggests the following hypotheses:

H4: There is a positive impact of plan risk response on the quality of financial statements.

H5: There is a positive impact of implementing risk response on the quality of financial statements.

H6: There is a positive impact of monitoring risk on the quality of financial statements.

According to the study by [Saeidi et al. \(2019\)](#) published in the academic literature, profitability is the primary priority of every business in the corporate sector. Each organization's sub-performance departments can be enhanced by creating policies for their correct implementation. Modern businesses are expanding in mature markets due to various variables, the most important of which is achieving reasonable sustainability. According to [Alonso-Conde et al. \(2020\)](#), the profitability of an organization can be increased by its commitment to the formulation of policies for the acceptable performance of the finance department. The attitude of the staff can improve the performance of the financial statement in the finance department. When decreasing employee performance is recognized, management must take reasonable corrective action. The rationale for working is to improve performance, yet the performance of companies with strategic working behavior improves significantly over time.

Moreover, Wang et al. (2018) noted that wealthy businesses have access to voluminous data from the past and that new strategic strategies are produced to tackle any critical threat to financial performance. Profit is a worry of every organization's financial account, and this profit can be secured by implementing long-term goals for strategic working behavior. Similarly, Reid et al. (2019) found that organizational employees should be encouraged to implement new policies into their practices to improve organizational functioning. Purposeful financial growth is required to address contemporary issues and their remedies. However, the reliability of the job can be achieved when the employees' behavior is more productive, following the organization's expectations. In the meantime, Elamer et al. (2020) found that an organization's performance culture can be enhanced by strategic initiatives and proper planning for financial growth.

Nonetheless, new and distinct difficulties are arising with time. This necessitates the vigor and dependability of the financial

department's operations against these obstacles. In addition, the research conducted by Annamalah et al. (2018) revealed that the objective of risk management is to safeguard the company from financial decline and that strategic measures are the only means of avoiding the risk challenges in financial statements. The literature review suggests the following hypotheses:

H7: Profitability mediates the relationship between plan risk response and quality of financial statement.

H8: Profitability mediates the relationship between implementing risk response and the quality of the financial statement.

H9: Profitability mediates the relationship between monitoring risk and the quality of financial statements.

The conceptual framework of this research is shown in Figure 2.

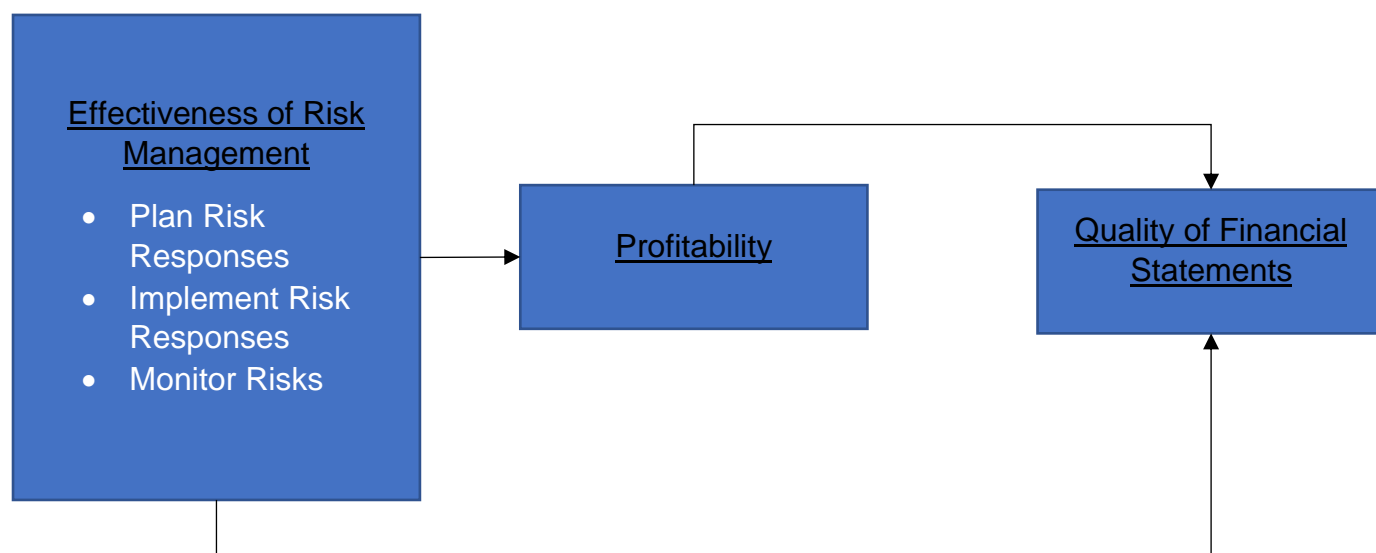


Figure 2. Conceptual Framework

3. Methodology

3.1 Instruments

This study aims to evaluate the impact of risk management on the quality of financial statements. The "rating scale" was utilized for response collection and data analysis in the existing research on this topic. Additionally, a questionnaire was created based on the modified and adapted questionnaires from previous studies. Al-Dmour et al. (2018) drew the items for the quality of financial statements from their research, and their validity was also assessed. Following this, the items for profitability are derived from the research conducted by Maoba (2016), and the items' validity was also evaluated. In addition, the items used for monitoring risks were selected from the research conducted by Boon et al. (2011), and their validity was also evaluated. In addition, the items for implementing risk responses were derived from the research conducted by Sax et al. (2019), and their validity was also evaluated.

Similarly, the items for plan risk responses were drawn from Selomo and Govender's (2016) research, and their validity was also evaluated. "Smart PLS 3.0" was utilized for analyzing and assessing data, as advised by contemporary studies. The "measurement model and structural model" findings are used for data analysis and relationship confirmation.

3.2 Population and Data Collection

This study's population consists of personnel in the finance departments of various Indonesian banking institutions. Indonesia has multiple banks, including corporate, commercial, and microfinance institutions. The data collection is conducted in the capital of Indonesia, and respondents are selected using the "random sampling" technique. Indeed, bank personnel and management consent are required before data acquisition. Printed questionnaires with "Likert scale" items are utilized for data gathering. In addition, the study has intriguingly collected data, and the "cross-sectional" method is utilized to save time and money. In addition, studies in the academic literature demonstrated that cross-sectional designs are appropriate for data gathering and analysis. In addition, respondents were hesitant to submit personal and confidential information that was not taken final in this survey.

Furthermore, there was no bias in the data gathering for this study; the sample consisted of personnel of both genders. Employees of each managerial position in the finance department who contribute to the planning, implementation, and monitoring of good risk management are the subjects of this study. Thus, the sample size for this study is 391 individuals, and the results can be generalized.

3.3 Data Statistics, Analysis, and Results

"Smart PLS 3.0" was used to evaluate the research's data and outcomes. The "normality of data" is initially assessed to find "missing values and outliers." For this examination, a "skewness and kurtosis" test is undertaken. According to [Groeneveld and Meeden \(1984\)](#), "a general guideline for skewness is that if the number is greater than +1 or less than -

1, this indicates a significantly skewed distribution, and for kurtosis if the number is greater than +1, the distribution is excessively peaked." Nevertheless, according to [Kim and White \(2004\)](#), "skewness is a measure of symmetry, or more precisely the lack of symmetry, and kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative to a normal distribution." As demonstrated in [Table 1](#), there are no "missing values" in this investigation.

Table 1. Kurtosis and Skewness

Items	No.	Missing	Mean	Standard Deviation	Excess Kurtosis	Skewness
PRR1	1	0	3.244	1.531	-0.528	0.091
PRR2	2	0	3.244	1.815	-0.599	0.453
PRR3	3	0	3.524	1.905	-0.822	0.324
PRR4	4	0	3.498	1.923	-0.827	0.388
PRR5	5	0	3.538	1.738	-0.483	0.304
IRR1	6	0	3.493	1.833	-0.744	0.242
IRR2	7	0	3.493	1.850	-0.917	0.153
IRR3	8	0	3.676	1.892	-0.828	0.209
IRR4	9	0	3.711	1.886	-0.795	0.299
IRR5	10	0	3.658	1.958	-0.813	0.376
IRR6	11	0	3.560	1.906	-0.757	0.382
MR1	12	0	3.587	1.872	-0.645	0.369
MR2	13	0	3.613	1.904	-0.797	0.316
MR3	14	0	3.493	1.806	-0.502	0.450
MR4	15	0	3.533	1.934	-0.951	0.211
MR5	16	0	3.471	1.833	-0.660	0.321
PY1	17	0	3.658	1.800	-0.679	0.250
PY2	18	0	3.080	1.477	-0.103	0.595
PY3	19	0	3.182	1.499	0.467	0.889
PY4	20	0	3.236	1.443	0.775	0.904
PY5	21	0	3.156	1.460	0.414	0.745
PY6	22	0	3.102	1.399	0.470	0.659
QFS1	23	0	3.196	1.513	0.283	0.694
QFS2	24	0	3.142	1.463	0.516	0.815
QFS3	25	0	3.036	1.426	-0.264	0.418
QFS4	26	0	3.182	1.382	0.354	0.626
QFS5	27	0	3.116	1.447	0.145	0.630
QFS6	28	0	3.129	1.469	0.248	0.699

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

The "reliability & validity" of the research is examined using the "measurement model assessment" detailed in [Table 2](#). In this stage, the study examined "average variance extracted (AVE), composite reliability (CR), factor loadings (FL), and Cronbach's alpha (α)." According to [Alarcón et al. \(2015\)](#), "average variance extracted > 0.50 is a measure of the proportion of variance captured by a construct to the proportion of variance attributable to measurement error." Composite dependability > 0.70 is a measure of internal consistency in scale items, much like Cronbach's alpha, according to [Moonen-van Loon et al. \(2013\)](#). According to [Peterson \(2000\)](#), "factor loading indicates how well an item represents the underlying construct and must be greater than 0.70." According to [Taber \(2018\)](#), "Cronbach's alpha > 0.70 is a measure of internal consistency, or how closely linked a group of items are. It is considered a measure of the trustworthiness of scales." The findings demonstrate the "reliability and validity" of the research.

The research additionally examined the "discriminant validity" using the "cross-loading" and "Heteritrait-Monotrait (HTMT)" methods described in [Tables 3 and 4](#), respectively. Cross-loading to demonstrate discriminant validity at the item level indicates a high correlation between items of the same construct and a very weak correlation between items of different constructs, according to [Yujun Li et al. \(2020\)](#). "HTMT is a measure of similarity between latent variables," stated

[Roemer et al. \(2021\)](#). According to the review of the outcome, the study had "discriminant validity."

A "structural equation model" is applied to the examination of empirical outcomes for the confirmation or rejection of research hypotheses (see [Figure 3](#)). The Hair, [Sarstedt et al. \(2012\)](#) threshold is considered for the study findings. The study has determined that the impact of plan risk response on profitability is significantly acknowledged, and H1 is confirmed. Second, the study determined that the influence of implementing risk response on profitability is significantly accepted, therefore confirming hypothesis 2. Thirdly, the research demonstrates that the influence of monitoring risk on profitability is widely acknowledged, and H3 is confirmed. Accordingly, the study has determined that the impact of plan risk response on the quality of financial statements is widely acknowledged, and H4 is confirmed. Fifthly, the study explored whether the influence of implementing risk response on the quality of financial statements is widely accepted, and H5 is confirmed. In addition, the research demonstrates that the influence of monitoring risk on the quality of financial statements is widely accepted, confirming H6.

Table 2. Validity and Reliability

Variable	Items	FL	α	CR	AVE
IRR	IRR1	0.910	0.956	0.965	0.819
	IRR2	0.896			
	IRR3	0.891			
	IRR4	0.901			
	IRR5	0.924			
	IRR6	0.908			
MR	MR1	0.888	0.940	0.954	0.807
	MR2	0.906			
	MR3	0.903			
	MR4	0.902			
	MR5	0.892			
	MR6	0.892			
PRR	PRR1	0.902	0.941	0.955	0.809
	PRR2	0.906			
	PRR3	0.914			
	PRR4	0.895			
	PRR5	0.879			
	PRR6	0.879			
PY	PY1	0.711	0.929	0.945	0.743
	PY2	0.868			
	PY3	0.900			
	PY4	0.894			
	PY5	0.895			
	PY6	0.887			
QFS	QFS1	0.924	0.946	0.957	0.787
	QFS2	0.914			
	QFS3	0.861			
	QFS4	0.881			
	QFS5	0.871			
	QFS6	0.871			

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

Table 3. Cross Loadings

	IRR	MR	PRR	PY	QFS
IRR1	0.910	0.819	0.859	0.687	0.638
IRR2	0.896	0.816	0.850	0.678	0.599
IRR3	0.891	0.853	0.839	0.643	0.557
IRR4	0.901	0.884	0.835	0.669	0.604
IRR5	0.924	0.871	0.866	0.671	0.593
IRR6	0.908	0.854	0.844	0.671	0.602
MR1	0.809	0.888	0.821	0.655	0.587
MR2	0.845	0.906	0.820	0.615	0.539
MR3	0.826	0.903	0.821	0.611	0.535
MR4	0.894	0.902	0.850	0.667	0.599
MR5	0.836	0.892	0.825	0.685	0.592
PRR1	0.834	0.835	0.902	0.739	0.685
PRR2	0.844	0.824	0.906	0.645	0.590
PRR3	0.836	0.834	0.914	0.652	0.586
PRR4	0.834	0.818	0.895	0.702	0.649
PRR5	0.867	0.831	0.879	0.707	0.635
PY1	0.609	0.634	0.613	0.711	0.591
PY2	0.587	0.563	0.613	0.868	0.819
PY3	0.624	0.602	0.653	0.900	0.842
PY4	0.584	0.568	0.616	0.894	0.848
PY5	0.591	0.564	0.629	0.895	0.869
PY6	0.640	0.612	0.661	0.887	0.869
QFS1	0.608	0.582	0.640	0.860	0.924
QFS2	0.641	0.596	0.684	0.875	0.914
QFS3	0.590	0.575	0.649	0.836	0.861
QFS4	0.559	0.539	0.578	0.819	0.881
QFS5	0.541	0.521	0.561	0.788	0.871
QFS6	0.581	0.572	0.619	0.821	0.871

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

Table 4. HTMT

	IRR	MR	PRR	PY	QFS
IRR					
MR	0.789				
PRR	0.781	0.979			
PY	0.789	0.775	0.824		
QFS	0.695	0.673	0.740	0.674	

Significance "HTMT < 0.90."

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

Table 5. Path Analysis (Direct)

Direct	Original Sample	Standard Deviation	t	p
PRR -> PY	0.616	0.155	3.972	0
IRR -> PY	0.152	0.039	3.897	0
MR -> PY	0.611	0.157	3.891	0
PRR -> QFS	0.109	0.017	6.411	0
IRR -> QFS	0.343	0.091	3.769	0
MR -> QFS	0.134	0.026	5.153	0

Threshold "p < 0.05."

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

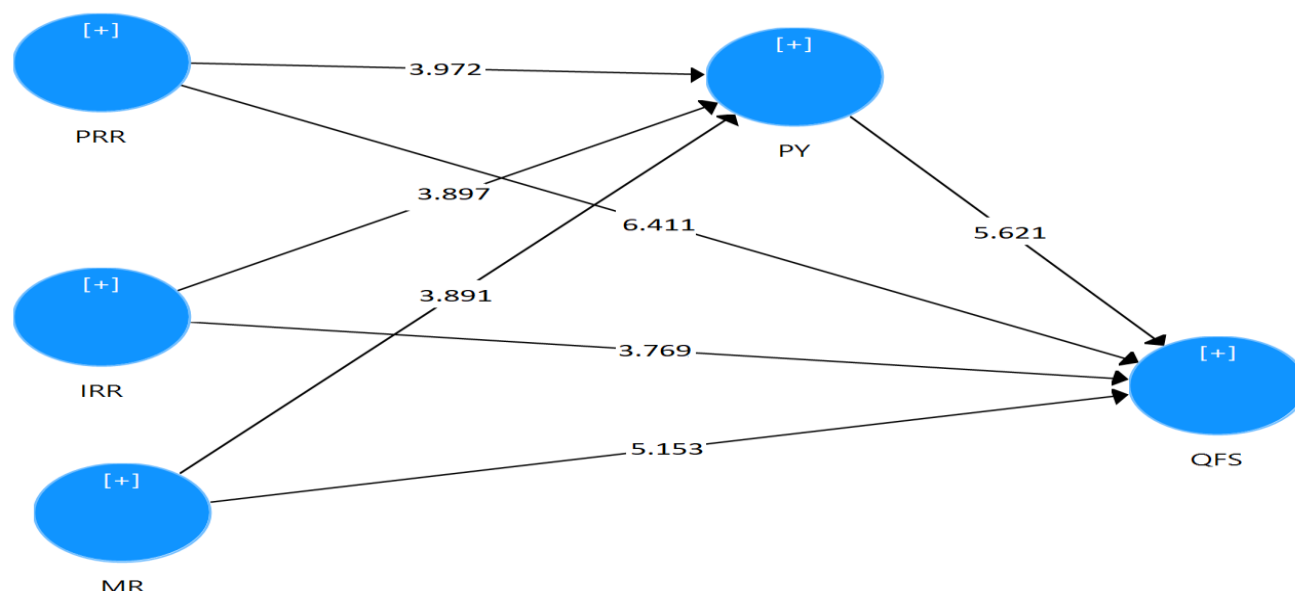


Figure 3. Structural Model Assessment

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

In addition, the research has determined that the mediating role of profitability between plan risk response and financial statement quality is recognized, and H7 is approved. In addition, the mediating role of profitability between risk response implementation and financial statement quality is

proven, and H8 is positively confirmed. Importantly, this research does not corroborate the mediating effect of profitability between monitoring risk and the quality of financial statements. Hence hypothesis 9 is rejected.

Table 6. Path Analysis (Indirect)

Indirect	Original Sample	Standard Deviation	t	p
PRR -> PY -> QFS	0.607	0.154	3.939	0
IRR -> PY -> QFS	0.984	0.028	35.446	0
MR -> PY -> QFS	0.011	0.154	0.072	0.943

Threshold "p < 0.05."

PRR = Plan Risk Responses, IRR = Implement Risk Responses, MR = Monitor Risk, PY = Profitability, and QFS = Quality Financial Statements

4. Discussion and Conclusion

The "structural equation model" results are applied in this study to arrive at pertinent conclusions. The study has determined that the impact of plan risk response on profitability is

significantly acknowledged, and H1 is confirmed. Nonetheless, for the sake of cross-examination and validation, the results of H1 are compared to those of previously conducted research. The study by [Huy et al. \(2021\)](#); [Pratami et al., \(2022\)](#)

demonstrated that any operating organization could increase its profitability by taking modest actions to run strategically. Profitability depends on ethical behavior and sound decision-making. The banking sector must focus on strategic planning to increase profitability and await just implementations. Saeidi et al. (2019) concluded that although organizational working has evolved, the only thing ensuring working sustainability is preparation for fair working. Productive working behavior is the method that can boost an organization's financial performance. Fair working conditions can unquestionably increase a company's level of profitability, but strategic initiatives are required to establish these circumstances. Consequently, the comparison of findings supported the initial hypothesis of this study.

Second, the study determined that the influence of implementing risk response on profitability is significantly accepted, therefore confirming hypothesis 2. However, for the sake of cross-examination and validation, the results of H2 are compared to those of previous investigations. In contrast, Qi et al. (2018) found that good planning and goal-setting approaches and effective work practices can achieve profitability more successfully. The reliability of a company's resources and judicious application of strategic planning can increase the operation's productivity. Consequently, according to Ahmed et al. (2021)'s research, risk management is an effective method for boosting productivity since it is prepared to cope with the essential condition for managing projects. Increasing a company's profitability, which is necessary for improved employee satisfaction, can also be accomplished through enhanced monitoring techniques. Corporation-level firms and other working organizations can increase their profitability if their strategic policies are planned equitably to combat the future's challenging situations. Consequently, the comparison of findings confirmed the results of the second hypothesis of this study.

Thirdly, the research demonstrates that the influence of monitoring risk on profitability is widely acknowledged, and H3 is confirmed. For cross-examination and validation, the findings of H3 are compared with those of previously conducted research. For instance, Finger et al. (2018) asserted that a company's legal profitability position could be improved if its management does not seek to take risks and adopts effective laws. In addition, proper planning of a department's financial growth can facilitate the attainment of new strategic objectives. Similarly, Astuty et al., (2022); Bitar et al. (2018) added to our understanding of how fair risk management processes maybe when they are appropriately monitored by management to achieve better objectives. Although risk management is an essential activity, the performance of employees can be enhanced by executing policies efficiently. Organizational efficacy is required for the successful management of these types of risk management challenges and the attainment of the requisite profit. Eventually, the comparison of results verified the third premise of this study.

Accordingly, the study has determined that the impact of plan risk response on the quality of financial statements is widely acknowledged, and H4 is confirmed. For cross-examination and validation, the results of H4 are compared with the conclusions of previous investigations. Al-Dmour et al. (2018); Pratami et al., (2021); Tambunan et al., (2022) have shown that financial planning steps that increase staff productivity are acceptable. The financial planning process and its outcomes demonstrate the effects of risk management expertise. The management's assurance that the policies it has set could open the way for implementing its strategic plan. Although risk management is a crucial responsibility, the finance department's qualified personnel can more effectively address future issues. Both the dependability of the services and the risk management can be

enhanced by taking the proper actions to address any issues. Consequently, Bishu et al. (2018)'s study underlined that while developing policies is simple, implementing them fairly to all stakeholders is challenging. The comparison of findings supported the fourth hypothesis of this investigation.

Fifthly, the study explored whether the influence of implementing risk response on the quality of financial statements is widely accepted, and H5 is confirmed. Nonetheless, for the sake of cross-examination and validation, the results of H5 are compared to those of previous investigations. When policies are strictly adhered to, the precision of financial planning is enhanced. If there is the confidence that equitable policies will be implemented, better financial planning may be feasible. In institutions with skilled administration for risk management procedures, the performance of the finance department is enhanced. In addition, Reid et al. (2019) contributed to the body of knowledge by demonstrating how the finance department's implementation of the appropriate policies can advance strategic functioning and enhance financial performance. Different policies are undoubtedly designed strategically for diverse implementations, but formulating these policies can pave the way for accepting the proper work ethic. Similarly, Elamer et al. (2020) found that planning alone is insufficient for financial growth and that implementing the chosen strategies is necessary to improve it. In addition, the comparison of findings confirmed the results of the fifth hypothesis of this study.

In addition, the research demonstrates that the influence of monitoring risk on the quality of financial statements is widely accepted, confirming H6. For cross-examination and validation, the results of H6 are compared to those of previously conducted research. Once a fair assessment of the policies is conducted and strategic efforts are taken to modify the procedure for financial profitability, the financial statements' credibility can be enhanced. In addition, Annamalah et al. (2018); Dura (2022) research concluded that financial advancement is a method for businesses to advance and expand while employing strategic planning and implementation. When firms fail to implement their strategic planning, the amount of economic growth and the quality of the economic department's output can be diminished. In addition, Shad et al. (2019) noted in the literature that economic growth might become a feasible route for corporate success when risk management issues are treated equitably in organizational functioning. Eventually, the comparison of results verified the sixth hypothesis of this study.

The research has found, based on the results of the mediation path, that the mediating role of profitability between plan risk response and quality of financial statements is accepted. Thus, H7 is approved. In addition, the mediating role of profitability between risk response implementation and financial statement quality is proven, and H8 is positively confirmed. This research does not corroborate the mediating effect of profitability between monitoring risk and the quality of financial statements. Hence Hypothesis 9 is rejected. The findings of the mediating hypotheses are thus noteworthy, except H9. Following these findings on mediating interactions, the results of previous investigations are also compared. The inquiry Every company in the corporate sector, according to Yan Li and Wang (2018), places a strong focus on profitability. Each organization's sub-departments can function more effectively with the development of policies for their proper implementation. Obtaining sustainability in a just manner is the most critical factor in the expansion of modern enterprises in an established industry. According to Bitar et al. (2018), a company's ability to establish procedures that ensure the finance department performs moderately can boost its profitability. The efficacy of the financial statement can be

enhanced if the finance department's employees have the proper work ethic. When the leadership observes a decline in worker productivity, they are expected to take prudent action. Rational working aims to improve performance, but firms that embrace strategic working techniques have significant performance gains over time.

Alonso-Conde and Rojo-Suárez (2020) also noted that affluent companies have access to a lot of historical data and that new strategic policies are developed to meet any significant hurdles to financial performance. Each company's budgetary accounts demonstrate its concern for profit, which can be ensured by implementing long-term goals for strategic working behavior. Alawattegama's (2018) research also demonstrated that employees must be encouraged to accept new policies to improve organizational performance. Deliberate financial growth is required to confront contemporary concerns and develop answers. However, trustworthy work is made possible when employees behave more productively, following the organization's needs. According to research by Keshk et al. (2018), an organization's performance culture can be improved through strategic activities and good financial expansion planning.

Nonetheless, new and diverse challenges continually emerge. The financial department must operate efficiently to overcome these challenges and cultivate a solid work ethic. In addition, Reid et al. (2019) found that the purpose of risk management is to protect the business from financial loss and that the only way to achieve this is through strategic actions.

5. Theoretical and Practical Implications

Firstly, the model developed by this research is a fantastic contribution to the body of knowledge, as previous studies have disregarded these aspects for determining the quality of financial statements. In addition, the research provided significant theoretical implications for understanding the quality of financial statements from the standpoint of three significant dimensions of risk management and their mediating effect on profitability. This study has established a direct, positive, and significant correlation between plan risk response and profitability. Accordingly, the study has demonstrated an immediate, significant, and positive correlation between risk response implementation and profitability. In addition, the study has demonstrated a direct, positive, and significant correlation between risk monitoring and profitability. In addition, the study has demonstrated a clear, positive, and statistically significant correlation between plan risk response and the quality of financial statements.

Similarly, the study has demonstrated a direct, positive, and statistically significant correlation between implementing risk response and the quality of financial statements. In addition, the study has demonstrated a clear, positive, and statistically significant correlation between monitoring risk and the quality of financial statements. This paradigm contributes to the literature's novel direct and substantial relationships. In addition, this research has contributed to the role of profitability as a mediator between plan risk response and financial statement quality. Accordingly, the study reveals the mediating effect of profitability between adopting risk response and financial statement quality. Indeed, these substantial discoveries are novel to the literature, and the mediating role expands our understanding. The scholars would adequately comprehend this mediating link to exhibit future literary works. However, this study also revealed in the body of knowledge that the empirical findings of this study refute the mediating role of profitability between monitoring risk and financial statements.

This study indicated that planning risk responses, implementing risk responses, and monitoring risk are effective ways to

improve financial statements' quality in banking institutions. The results of this study revealed that strategic activities are required for the information system and financial statement comprehension. According to the findings of this study, planning the risk response is strategic for enhancing the quality of the financial statement during a crisis. Planning is required to improve the risk situation if the organization's finance team operates effectively and plans activities to control all types of damage. The quality of the financial statements can be enhanced with an approach to work that enhances the strategic implementation of the crisis risk response strategy. The financial departments of banking institutions are obliged to adopt these strategic steps to improve the advancement of financial statements. In addition, the financial statements can be enhanced by the right monitoring of risk and financial statement quality. Leading banking institutions are expected to monitor the risk response for financial statements fairly to avoid any form of negativity. The risk management strategy might be better designed, and reasonable activities are necessary to implement the proposed risk management strategy effectively. Using these key tactics, the financial statement's quality and profitability can be enhanced over time.

6. Limitations and Future Directions

Nevertheless, the model developed by this study is a fantastic contribution to the body of knowledge, as previous studies have disregarded these aspects for evaluating the quality of financial statements. The research provided substantial theoretical implications to the understanding of the quality of financial statements from the standpoint of three significant dimensions of risk management and their mediating influence on profitability. Consequently, this study revealed that planning risk responses, implementing risk responses, and monitoring risk are reliable ways to enhance financial statements' integrity in banking institutions. The cross-sectional nature of this study's data collection makes it impossible to generalize its conclusions. To accurately assess the role of plan risk response, the implementation of risk response, and the monitoring of risk response, it is therefore recommended that researchers gather data longitudinally throughout time.

Similarly, the respondents of this study are limited to banking companies, so these conclusions cannot be extended to any industry. To corroborate the findings of this study, the researchers are inspired to collect data from other sectors, such as insurance institutes from diverse places. Nonetheless, this research model has no moderating variables. Therefore, it is recommended that researchers investigate the moderating effect of standardized financial policy on the relationship between risk management effectiveness and financial statement quality.

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