

THE INFLUENCE OF ORGANIZATIONAL CULTURE ON FINANCIAL REPORTING QUALITY: THE MEDIATING ROLE OF INNOVATION, RISK MANAGEMENT IMPLEMENTATION, AND SUSTAINABILITY REPORTING IN SHARIA RURAL BANK



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Abstract

This study aims to analyze the influence of organizational culture on the quality of financial reporting in Sharia Rural Bank (BPRS) in Indonesia, by examining the mediating roles of risk management implementation, innovation, and sustainability reporting. The primary issue addressed in this research is the high closure rate of BPRS, which is largely attributed to the lack of integrity and transparency in financial reporting. A quantitative research approach was employed, utilizing purposive sampling techniques to collect data from 129 respondents, including directors, managers, and division heads across various BPRS institutions. Data were gathered through an online questionnaire and analyzed using the SmartPLS software. The findings reveal that organizational culture has a significant positive effect on risk management effectiveness, innovation, and sustainability reporting, all of which subsequently contribute to enhancing financial reporting quality. Moreover, the mediating variables are proven to strengthen the relationship between organizational culture and financial reporting quality. Based on these findings, it is recommended that BPRS institutions foster a corporate culture that promotes innovation, effective risk management, and sustainability in order to ensure reliable and Sharia-compliant financial reporting. Future research is encouraged to explore additional influencing factors, such as corporate governance and information technology, within the context of Islamic banking.

Keywords: Organizational Culture, Risk Management, Innovation, Sustainability Reporting, Financial Reporting Quality

INTRODUCTION

The Indonesian banking sector, particularly Bank Perkreditan Rakyat (BPR) as rural bank and Bank Pembiayaan Rakyat Syariah (BPRS) as sharia rural bank, faces escalating challenges concerning the integrity of financial reporting and operational stability (Respati et al., 2024). In 2024 alone, the Financial Services Authority (OJK) revoked the licenses of multiple BPR and BPRS institutions due to financial statement falsification, with 15 closures reported by September and a projected total of 20 by year-end (Hakim, 2024). Despite the enactment of OJK Regulation No. 15 of 2024 to reinforce financial reporting integrity, implementation gaps persist, as evidenced by continuing institutional failures (Keuangan, 2024; Andrew et al., 2022). These conditions underscore a systemic concern regarding the limitations of regulatory oversight and the urgent need to strengthen financial reporting quality, particularly within the BPRS segment of Indonesia's Islamic banking system.

Organizational culture is widely recognized as a critical determinant of effective financial reporting. A positive and adaptive culture strengthens internal governance, fosters innovation, and accelerates strategic decision-making factors that are essential for institutional resilience in dynamic financial environments (Heriansyah et al., 2024). In the context of BPRS, which operate under Islamic principles, organizational culture must reflect Sharia values such as *adl* (justice), *amanah* (trust), *ihsan* (benevolence), and *taqwa* (God-consciousness), forming an ethical framework for financial accountability (Eleswed, 2019; Heriaznsyah et al., 2024).

Another crucial determinant of financial reporting quality is the effectiveness of risk management implementation. Within corporate environments, well-integrated risk management frameworks are recognized as strategic instruments that enhance organizational performance, ensure business continuity, and foster long-term value creation (Asir et al., 2023; Candy et al., 2024; Phan et al., 2020). Empirical studies affirm that structured risk management contributes not only to performance optimization but also to competitive advantage and improved non-financial outcomes (Soliman et al., 2018; Yang et al., 2018). Moreover, embedding risk governance within the organizational structure enhances transparency and accountability by reducing reporting-related uncertainties and strengthening the accuracy of financial disclosures (Rahman et al., 2022). Accordingly, the effective implementation of risk management is indispensable for mitigating potential threats while simultaneously reinforcing the quality and integrity of financial reporting.

Financial innovation is a pivotal driver of enhanced financial reporting quality, particularly in sustainability-oriented disclosures, while simultaneously strengthening institutional competitiveness and overall financial performance (E. A. Firmansyah et al., 2024). It encompasses the development and deployment of new financial instruments and technologies ranging from automated teller machines (ATMs), mobile banking, and internet banking, to broader FinTech applications that improve operational efficiency, transparency, and market accessibility (Khalifaturafi'ah, 2023; Chipeta & Muthinja, 2018; Wang et al., 2024). As the integration of finance and technology accelerates, innovation emerges not only as a catalyst for cost efficiency but also as a strategic enabler of more accurate, timely, and stakeholder-responsive financial reporting in the banking sector. In line with this Yuwono et al. (2025), found that innovation serves as an essential effort for companies to enhance performance by fostering efficiency, competitiveness, and sustainable value creation.

Sustainability reporting is also recognized as a key determinant of financial reporting quality, serving not only as a transparency mechanism but also as a governance instrument that reinforces stakeholder trust and accountability (Abed et al., 2022). In Indonesia, the Financial Services Authority (OJK) has regulated sustainability disclosure through Regulation No. 51/POJK.03/2017, mandating its adoption among financial institutions, public companies, and issuers (Keuangan, 2017). This regulatory framework is intended to promote sustainable finance while restoring public confidence in the financial sector. Beyond compliance, transparent and comprehensive sustainability reporting has been shown to improve public image, enhance long-term value creation, and align corporate practices with environmental, social, and governance (ESG) objectives (Gutiérrez-Ponce & Wibowo, 2023).

This study offers a novel contribution by examining the integrated influence of organizational culture, risk management effectiveness, financial innovation, and sustainability reporting on financial reporting quality, an approach that addresses gaps and inconsistencies in existing literature. Unlike prior studies such as Candy (2021), which focused solely on risk management practices in BPR, or Ifada et al. (2019), which explored Islamic organizational culture and corporate social responsibility in Islamic banking, this research captures the more complex interrelationship among these constructs within the context of BPRS, institutions characterized by distinct Sharia-compliant operational models.

Accordingly, this study provides a new perspective on how internal organizational dynamics rooted in cultural values, risk governance, and innovation interact with sustainability practices to elevate financial reporting quality in Sharia rural banks. Given the absence of sector-specific regulatory frameworks for sustainability reporting within BPRS, this research is expected to generate insights that inform the formulation of more effective Islamic financial governance policies and support institutional competitiveness in the evolving landscape of Indonesia's Islamic banking sector.

REVIEW OF LITERATURE

The Influence of Organizational Culture on the Effectiveness of Risk Management Implementation

Organizational culture plays a vital role in shaping the effectiveness of risk management practices. Cultures that emphasize transparency, open communication, ethical behavior, and accountability foster environments conducive to risk-aware decision-making and structured governance (Thomya & Saenchaiyathon, 2015; Viscelli et al., 2016; Anton & Nucu, 2020). An organization-wide commitment to risk awareness enhances holistic risk identification, mitigation, and performance outcomes (Kanu, 2020; Quang et al., 2024). Such cultures not only strengthen resilience in the face of uncertainty but also facilitate the successful integration of sustainability considerations within risk frameworks.

H1: Organizational Culture has a positive influence on the Effectiveness of Risk Management Implementation.

The Influence of Organizational Culture on Innovation

A culture that promotes creativity, flexibility, and continuous learning is widely acknowledged as a key enabler of innovation. Openness to new ideas, tolerance for failure, and interdepartmental collaboration foster an environment in which innovation can thrive

(Naranjo-Valencia et al., 2016; Siswanti & Nurhariati, 2022; Iragi & Kyongo, 2023). Management's role in nurturing autonomy and facilitating experimentation further mediates the cultural impact on innovation outcomes (Zhang et al., 2023). Furthermore, cultures that balance adaptability with stability help firms manage both exploratory and exploitative innovation activities effectively (AlSaied & McLaughlin, 2024).

H2: Organizational Culture has a positive influence on Innovation.

The Influence of Organizational Culture on Sustainability Reporting

Organizational culture also shapes the quality of sustainability reporting by embedding values of social responsibility, environmental concern, and transparency into corporate practices. Firms with strong sustainability-oriented cultures tend to produce more credible and comprehensive disclosures, reflecting genuine commitment to ESG principles (Assoratgoon & Kantabutra, 2023; Atika & Simamora, 2024; Alkhadra et al., 2023). Additionally, cultures emphasizing stakeholder responsiveness and accountability enhance the clarity and integrity of sustainability information (Rajabalizadeh, 2024; Magsi et al., 2018).

H3: Organizational Culture has a positive influence on Sustainability Reporting.

The Effect of Effective Risk Management Implementation on Financial Reporting Quality

Effective risk management implementation is widely acknowledged as a key determinant of financial reporting quality. It enhances transparency, accountability, and internal control, thereby improving the accuracy and reliability of financial statements. Studies have shown that organizations with mature risk management systems are better positioned to comply with accounting standards and mitigate reporting-related risks (Madu & Hassan, 2021; Winarto & Chariri, 2022; Al-Khonain & Al-Adeem, 2020). These practices help identify and control risks related to asset valuation, liabilities, and transactions, reducing the likelihood of misstatement (Olayinka et al., 2019; Faisal et al., 2021). Thus, risk management contributes directly to the credibility and integrity of financial disclosures.

H4: Effective Risk Management Implementation has a positive effect on Financial Reporting Quality.

The Effect of Innovation on Financial Reporting Quality

Financial innovation influences financial reporting quality in both positive and complex ways. While innovative activities may introduce uncertainty and complexity that challenge reporting accuracy, well-managed innovation can enhance transparency and strategic communication (Lobo et al., 2018). Transparent reporting, in turn, supports innovation by reducing information asymmetry and facilitating resource access (Simpson & Tamayo, 2020; Huang et al., 2021). Regulatory mandates have also been found to shape innovation behavior by encouraging structured disclosure practices (Breuer et al., 2023). Additionally, firms adopting innovation in financial reporting such as through digital transformation or integrated reporting can build investor trust and showcase their strategic potential more effectively (Ibrahimov et al., 2022; Cuandra & Candy, 2024). Accordingly, although innovation may initially introduce reporting complexity, its alignment with sound governance, technological capability, and ethical management practices is expected to enhance the overall quality of financial reporting.

H5: Innovation has a positive effect on Financial Reporting Quality.

The Effect of Sustainability Reporting on Financial Reporting Quality

Sustainability reporting has emerged as a key contributor to financial reporting quality by promoting ethical transparency and long-term risk disclosure. Integrating sustainability considerations into financial reporting practices enhances clarity, reduces information gaps, and strengthens investor confidence (Qirem et al., 2023; Utami et al., 2024). High-quality sustainability disclosures are often associated with reduced earnings management and more reliable financial statements (Martínez-Ferrero et al., 2015; Al-Shaar 2020). Firms that report extensively on CSR and ESG issues also tend to adopt more precise financial reporting practices (Sebrina et al., 2023). These insights underscore the complementary relationship between sustainability and financial reporting in building trust and ensuring regulatory compliance.

H6: Sustainability Reporting has a positive effect on Financial Reporting Quality.

The Mediating Role of Risk Management, Innovation, and Sustainability Reporting in the Relationship between Organizational Culture and Financial Reporting Quality

Organizational culture has been consistently identified as a critical driver of financial reporting quality, particularly through its influence on internal strategic mechanisms such as risk management, innovation, and sustainability reporting. A culture characterized by openness, accountability, and ethical values fosters the effective implementation of risk identification and mitigation processes, which in turn improve the transparency and reliability of financial disclosures (Viscelli et al., 2016; Rajabalizadeh, 2024; Braumann et al., 2024). Strong organizational values have been shown to support integrated governance mechanisms, including accounting systems and risk oversight that enhance the credibility of financial reporting (Binh et al., 2022; Azwari et al., 2023).

In parallel, an innovation-oriented culture marked by adaptability, collaboration, and strategic vision encourages the development of innovative practices that improve the relevance, comparability, and responsiveness of financial disclosures. Innovation facilitated by a supportive culture reduces information asymmetry and builds investor trust through enhanced transparency and stakeholder engagement (Schein, 1990; Binh et al., 2022; Zeb et al., 2021; Shuraki et al., 2021; Phornlaphatrachakorn & Kalasindhu, 2021).

Furthermore, organizational culture also contributes to financial reporting quality through its effect on sustainability reporting. Cultures that prioritize ethical conduct, long-term orientation, and social responsibility tend to produce more comprehensive and credible non-financial disclosures aligned with ESG principles. This alignment strengthens the integrity and accountability of financial reporting by embedding sustainability considerations into corporate transparency practices (Radu et al., 2023; Porcel et al., 2024; Bhandari et al., 2022; Ching et al., 2017; Setyaningsih et al., 2024).

Taken together, these findings provide strong theoretical support that organizational culture improves financial reporting quality not only directly but also indirectly through its positive influence on the implementation of effective risk management, the development of innovation, and the practice of sustainability reporting.

H7: Organizational culture has a positive effect on financial reporting quality through the mediating role of effective risk management implementation.

H8: Organizational culture has a positive effect on financial reporting quality through the mediating role of innovation.

H9: Organizational culture has a positive effect on financial reporting quality through the mediating role of sustainability reporting.

RESEARCH METHOD

This study applies a quantitative approach with an explanatory design to investigate the causal relationships between organizational culture and financial reporting quality, both directly and through the mediating roles of innovation, risk management implementation, and sustainability reporting. The method is appropriate for hypothesis testing and analyzing inter-variable relationships through systematic measurement and statistical modeling (Khasanah & Azizah, 2022). The population comprises structural executives of Sharia Rural Banks (BPRS) in Indonesia, including directors, managers, and department heads involved in strategic decision-making. Using purposive sampling, 129 qualified respondents were selected based on specific criteria relevant to the research objectives.

The inclusion criteria required that respondents (1) held managerial or executive positions such as directors, managers, or division heads; (2) had at least three years of working experience in Sharia Rural Banks (BPRS); (3) were actively involved in strategic decision-making related to financial reporting, risk management, innovation, or sustainability initiatives; and (4) possessed a minimum educational qualification of a bachelor's degree (S1) in economics, management, accounting, or related fields. These criteria ensured that the respondents had sufficient knowledge and expertise regarding the organizational and reporting practices examined in this study (Rahman et al., 2022; Heriansyah et al., 2024). This sampling approach aligns with the purposive method described by Firmansyah & Dede (2022), emphasizing respondent selection based on relevance and competence toward the studied variables. The total sample of 129 respondents satisfies the minimum requirement for correlational studies as suggested by Gay & Diehl (1992), ensuring adequate representativeness and statistical power.

Data collection was conducted via an online questionnaire using a five-point Likert scale adapted from validated instruments contextualized for Islamic banking (Farida & Setiawan, 2022). Respondents were reached through institutional email and follow-up calls, ensuring voluntary participation and confidentiality in line with research ethics. The variables in this study include organizational culture (independent), innovation, risk management, and sustainability reporting (mediators), and financial reporting quality (dependent). Data analysis employed Partial Least Squares–Structural Equation Modeling (PLS-SEM) using SmartPLS 3.0, involving outer model assessment (AVE, Composite Reliability, Cronbach's Alpha) and inner model evaluation (path coefficients, R^2 , f^2 , Q^2 , and bootstrapping) to validate the constructs and test the structural relationships (Duryadi, 2021).

RESULTS AND DISCUSSION

Respondent Demographic Analysis

Table 1.

Respondent Demographic Data			
Variable	Category	Total Respondent	Percentage
Sex/gender	Male	98	76 %

	Female	31	24 %
Age	12 - 27 years-old (Generation Z)	6	4,7 %
	28 - 43 years-old (Generation Y)	76	58,9 %
	44 - 59 years-old (Generation X)	47	36,4 %
Level of Education	Diploma/D4	1	0,8 %
	Bachelor's Degree/S1	64	49,6 %
	Master's Degree/S2	62	48,1 %
	Doctorate/S3	2	1,6 %
Job Position	Director	2	1,6 %
	Manager	53	41,1 %
	Head of Bureau/Division	74	57,4 %
Business Period	3 – 5 years	57	44,2 %
	>5 years	72	55,8 %
Estimated Total Assets	Rp 50 s.d. Rp 100 billion	68	52,7 %
	Rp 100 s.d. Rp 300 billion	61	47,3 %

Source: Data processed (2025)

The majority of the 129 respondents were male professionals from Generation Y with undergraduate or master's educational backgrounds. Most held managerial or divisional leadership roles within BPRS that had been operating for over five years, with institutional assets ranging from IDR 50 billion to IDR 300 billion. This respondent profile indicates a relevant and qualified representation of organizational decision-makers, aligning with the study's focus on organizational culture, innovation, risk management, sustainability reporting, and financial reporting quality.

Common Method Biases (CMB) Analysis

Table 2.

Component	Extraction Sums of Squared Loading		
	Total	% of Variance	Cumulative (%)
1	14,563	44,131	44,131

Source: Processed Data from Smart PLS 3.0 (2025)

To address potential measurement bias, Harman's single-factor test was performed, yielding a variance of 44.131%, which is below the 50% threshold (Kock, 2021). This result indicates that common method bias is not a concern in this study, supporting the validity of the data collected.

Validity & Reliability Test Analysis
Outer Model

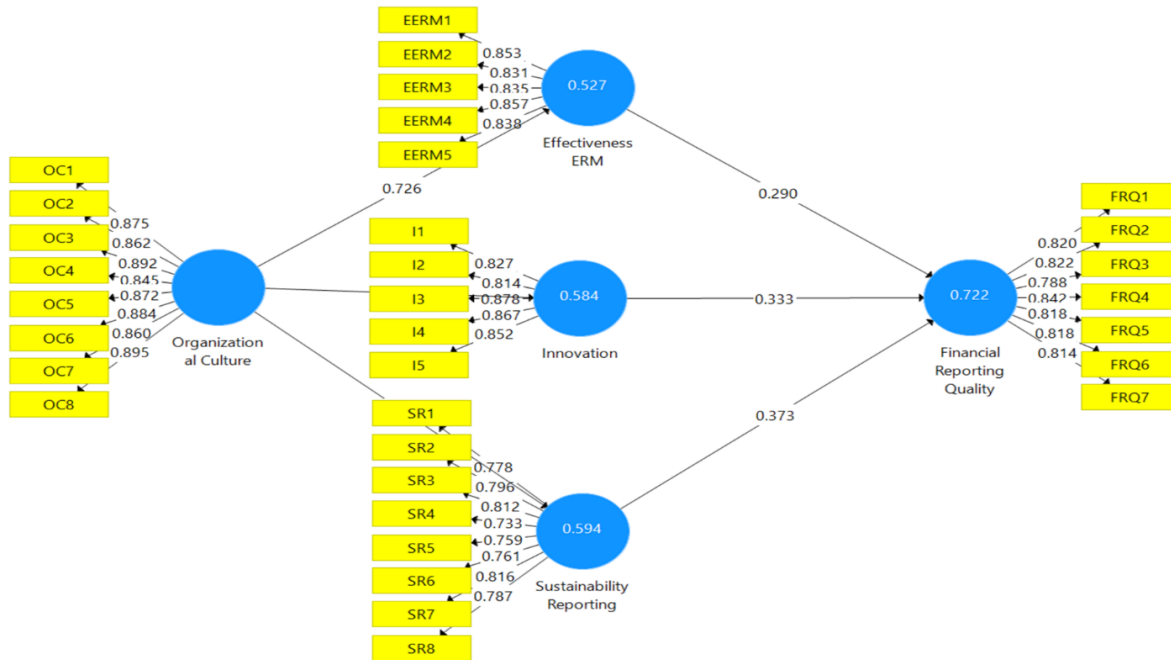


Figure 1.

Outer Model Results of the Structural Equation Modeling (PLS-SEM)

Source: Processed Data from Smart PLS 3.0 (2025)

Figure 1 presents the structural and measurement model results from the PLS-SEM analysis. All indicator loadings exceed 0.7, confirming strong reliability and convergent validity. The R² value of 0.722 for Financial Reporting Quality indicates that 72.2% of its variance is explained by Organizational Culture, Innovation, ERM Effectiveness, and Sustainability Reporting. Additionally, the model reveals a strong path coefficient from Organizational Culture to Innovation (0.726), with other paths showing varying yet significant effects on Financial Reporting Quality.

Table 3.

Common Variance Inflation Factor test results

Indicator Variable	(VIF)
EERM1	2,565
EERM2	2,378
EERM3	2,322
EERM4	2,649
EERM5	2,204
FRQ1	2,622
FRQ2	2,625
FRQ3	2,302
FRQ4	2,795
FRQ5	2,556
FRQ6	2,664

FRQ7	2,592
I1	2,233
I2	2,067
I3	2,876
I4	2,872
I5	2,495
OC1	3,696
OC2	3,120
OC3	4,038
OC4	2,921
OC5	3,440
OC6	3,828
OC7	3,155
OC8	3,938
SR1	2,245
SR2	2,303
SR3	2,342
SR4	1,941
SR5	2,247
SR6	2,012
SR7	2,524
SR8	2,310

Source: Processed Data from Smart PLS 3.0 (2025)

Based on the data processing results using SmartPLS 3, as presented in Table 3, it was found that all indicators across the respective variables have Variance Inflation Factor (VIF) values below 5. This indicates that the data in this study are free from multicollinearity issues (Hamid & Anwar, 2019).

Table 4.
Outer Loadings test results

Variable	Outer Loadings	Description
EERM1 <- Effectiveness ERM	0,853	Valid
EERM2 <- Effectiveness ERM	0,831	Valid
EERM3 <- Effectiveness ERM	0,835	Valid
EERM4 <- Effectiveness ERM	0,857	Valid
EERM5 <- Effectiveness ERM	0,838	Valid
FRQ1 <- Financial Reporting Quality	0,820	Valid
FRQ2 <- Financial Reporting Quality	0,822	Valid
FRQ3 <- Financial Reporting Quality	0,788	Valid
FRQ4 <- Financial Reporting Quality	0,842	Valid
FRQ5 <- Financial Reporting Quality	0,818	Valid
FRQ6 <- Financial Reporting Quality	0,818	Valid
FRQ7 <- Financial Reporting Quality	0,814	Valid
I1 <- Innovation	0,827	Valid

I2 <- Innovation	0,814	Valid
I3 <- Innovation	0,878	Valid
I4 <- Innovation	0,867	Valid
I5 <- Innovation	0,852	Valid
OC1 <- Organizational Culture	0,875	Valid
OC2 <- Organizational Culture	0,862	Valid
OC3 <- Organizational Culture	0,892	Valid
OC4 <- Organizational Culture	0,845	Valid
OC5 <- Organizational Culture	0,872	Valid
OC6 <- Organizational Culture	0,884	Valid
OC7 <- Organizational Culture	0,860	Valid
OC8 <- Organizational Culture	0,895	Valid
SR1 <- Sustainability Reporting	0,778	Valid
SR2 <- Sustainability Reporting	0,796	Valid
SR3 <- Sustainability Reporting	0,812	Valid
SR4 <- Sustainability Reporting	0,733	Valid
SR5 <- Sustainability Reporting	0,759	Valid
SR6 <- Sustainability Reporting	0,761	Valid
SR7 <- Sustainability Reporting	0,816	Valid
SR8 <- Sustainability Reporting	0,787	Valid

Source: Processed Data from Smart PLS 3.0 (2025)

Table 4 presents the outer loading values for all measurement indicators, each exceeding the 0.60 threshold (Duryadi, 2021). These results confirm the validity of the indicators in representing their respective constructs.

Table 5.

Average Variance Extracted Test Results

Variable	AVE Validity	Description
Effectiveness ERM	0,710	Valid
Financial Reporting Quality	0,668	Valid
Innovation	0,719	Valid
Organizational Culture	0,763	Valid
Sustainability Reporting	0,609	Valid

Source: Processed Data from Smart PLS 3.0 (2025)

Table 5 reports the Average Variance Extracted (AVE) values for each construct, all of which exceed the 0.50 threshold, thereby confirming adequate convergent validity across variables (Duryadi, 2021).

Table 6.

Cross Loading Test Results

	Effectiveness ERM	Financial Reporting Quality	Innovation	Organizational Culture	Sustainability Reporting
EERM1	0,853				
EERM2	0,831				
EERM3	0,835				
EERM4	0,857				

EERM5	0,838		
FRQ1		0,820	
FRQ2		0,822	
FRQ3		0,788	
FRQ4		0,842	
FRQ5		0,818	
FRQ6		0,818	
FRQ7		0,814	
I1			0,827
I2			0,814
I3			0,878
I4			0,867
I5			0,852
OC1			0,875
OC2			0,862
OC3			0,892
OC4			0,845
OC5			0,872
OC6			0,884
OC7			0,860
OC8			0,895
SR1			0,778
SR2			0,796
SR3			0,812
SR4			0,733
SR5			0,759
SR6			0,761
SR7			0,816
SR8			0,787

Source: Processed Data from Smart PLS 3.0 (2025)

Table 6 presents the cross-loading analysis to assess discriminant validity. All indicators demonstrate the highest loading on their respective constructs, exceeding the minimum threshold of 0.70, thus confirming satisfactory discriminant validity (Duryadi, 2021).

Table 7.
Fornell-Larcker Criterion Test Results

Variable	Effectiveness ERM	Financial Reporting Quality	Innovation	Organizational Culture	Sustainability Reporting
Effectiveness ERM	0,843				
Financial Reporting Quality	0,720	0,818			
Innovation	0,564	0,705	0,848		

Organizational Culture	0,726	0,732	0,764	0,873	
Sustainability Reporting	0,650	0,748	0,560	0,771	0,781

Source: Processed Data from Smart PLS 3.0 (2025)

Table 7 confirms discriminant validity using the Fornell–Larcker criterion, where each construct's square root of AVE exceeds its correlations with other constructs, indicating that all constructs are empirically distinct (Fornell & Larcker, 1981).

Table 8.

Heterotrait-Monotrait Ratio (HTMT) Test Results

Variable	Effectiveness ERM	Financial Reporting Quality	Innovation	Organizational Culture	Sustainability Reporting
Effectiveness ERM					
Financial Reporting Quality	0,790				
Innovation	0,622	0,770			
Organizational Culture	0,783	0,780	0,821		
Sustainability Reporting	0,720	0,816	0,616	0,826	

Source: Processed Data from Smart PLS 3.0 (2025)

The HTMT results in Table 8 indicate that all inter-construct correlations are below the 0.90 threshold, confirming adequate discriminant validity of the model (Henseler et al., 2015).

Table 9.

Cronbach's Alpha Reliability & Composite Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	Description
Effectiveness ERM	0,898	0,925	Reliable
Financial Reporting Quality	0,917	0,934	Reliable
Innovation	0,902	0,927	Reliable
Organizational Culture	0,955	0,963	Reliable
Sustainability Reporting	0,908	0,926	Reliable

Source: Processed Data from Smart PLS 3.0 (2025)

Table 9 confirms that all constructs demonstrate adequate reliability, with composite reliability values exceeding 0.7 and Cronbach’s Alpha values above 0.6, meeting established reliability thresholds (Hamid & Anwar, 2019).

Inner Model

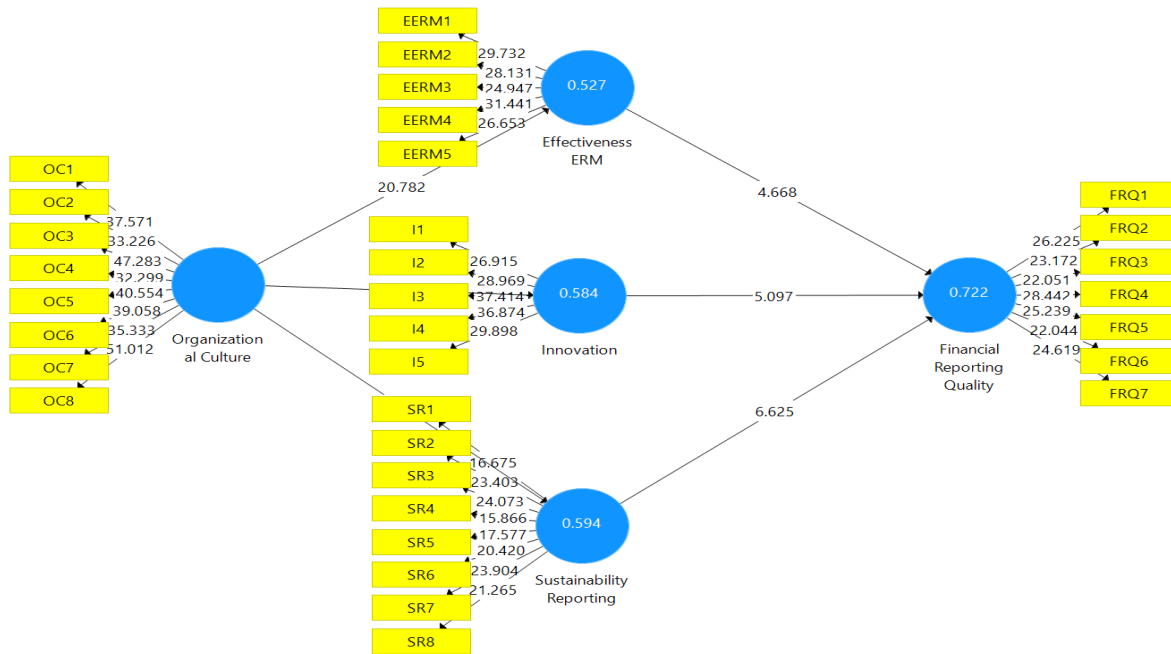


Figure 2.
Inner Model Results of the Structural Equation Modeling (PLS-SEM)

Source: Processed Data from Smart PLS 3.0 (2025)

Figure 2 presents the structural model outcomes, indicating that Organizational Culture significantly influences Innovation, ERM Effectiveness, and Sustainability Reporting, each of which positively contributes to Financial Reporting Quality. The respective path coefficients (5.097 for Innovation, 4.668 for ERM Effectiveness, and 6.625 for Sustainability Reporting) are statistically significant, while the R² value of 0.722 confirms that 72.2% of the variance in Financial Reporting Quality is explained by the three mediating variables, affirming the model’s robustness and explanatory power.

Table 10.
Direct Effect Test Results

Variable	T Statistics (O/STDEV)	P-Values	Description
Effectiveness ERM -> Financial Reporting Quality	4,668	0,000	Significant
Innovation -> Financial Reporting Quality	5,097	0,000	Significant
Organizational Culture -> Effectiveness ERM	20,782	0,000	Significant
Organizational Culture -> Innovation	20,493	0,000	Significant
Organizational Culture -> Sustainability Reporting	25,663	0,000	Significant
Sustainability Reporting -> Financial Reporting Quality	6,625	0,000	Significant

Source: Processed Data from Smart PLS 3.0 (2025)

The results in Table 10 confirm a statistically significant relationship between the independent and dependent variables. The t-statistic exceeds 1.96, and the p-value is below 0.05, indicating that the first hypothesis is supported.

Table 11.
Specific Indirect Effect Test Results

Variable	T Statistics (O/STDEV)	P-Values	Description
Organizational Culture -> Effectiveness ERM -> Financial Reporting Quality	4,583	0,000	Significant Positive
Organizational Culture -> Innovation -> Financial Reporting Quality	5,131	0,000	Significant Positive
Organizational Culture -> Sustainability Reporting -> Financial Reporting Quality	6,296	0,000	Significant Positive

Source: Processed Data from Smart PLS 3.0 (2025)

Table 11 shows that the mediating variable significantly influences the relationship between the independent and dependent variables, as evidenced by a t-statistic above 1.96 and a p-value below 0.05. This confirms that the indirect effect is statistically significant.

Table 12.
R Square Test Results

Variable	R Square	Description
Effectiveness ERM	0,530	Moderate
Financial Reporting Quality	0,728	Strong
Innovation	0,585	Moderate
Sustainability Reporting	0,597	Moderate

Source: Processed Data from Smart PLS 3.0 (2025)

The coefficient of determination (R^2) results indicate that Organizational Culture explains 53% of the variance in ERM Effectiveness, 58.5% in Innovation, 59.7% in Sustainability Reporting, and 72.8% in Financial Reporting Quality. These values, which fall within the moderate to strong range based on Chin (1998) classification, suggest that the model possesses satisfactory explanatory power across all endogenous variables.

Table 13.
Standardized Root Mean Square Residual Test Results

	Original Sample (O)	Sample Mean (M)
Saturated Model	0,052	0.046
Estimated Model	0.054	0.050

Source: Processed Data from Smart PLS 3.0 (2025)

As shown in Table 13, the SRMR values of 0.046 and 0.050 fall below the 0.10 threshold, indicating that the model demonstrates a good fit with the observed data (Hu & Bentler, 1999).

This study demonstrates that organizational culture has a significant positive effect on innovation, ERM effectiveness, and sustainability reporting. H1, H2, and H3 are therefore accepted, while the null hypotheses are rejected. These findings align with previous research by Beasley et al. (2020), Zhen et al. (2021) and Wijethilake et al. (2023), which assert that a strong organizational culture fosters innovation, supports structured risk management, and drives sustainability-oriented disclosure practices.

Furthermore, the analysis reveals that ERM effectiveness, innovation, and sustainability reporting each significantly enhance the quality of financial reporting. H4, H5, and H6 are accepted, confirming the positive influence of these strategic mechanisms. These results support findings from Al-Shaer (2020), Zadorozhnyi et al. (2021) and Braumann et al. (2024) who emphasized that innovation strengthens information relevance and risk management enhances reporting credibility. However, the significant impact of ERM effectiveness differs from the findings Novatiani et al. (2022) who reported no such effect. A similar divergence appears in relation to sustainability reporting, where Al-Shaer (2020) found a negative association, suggesting possible contextual or methodological differences.

Lastly, this study confirms that organizational culture indirectly improves financial reporting quality through innovation, ERM effectiveness, and sustainability reporting. H7, H8, and H9 are accepted. These findings align with previous research by Binh et al. (2022) demonstrated that organizational culture is a critical factor in enhancing the quality of accounting information systems in Vietnamese firms. A study by Atika et al. (2023) found that a strong organizational culture is associated with higher-quality sustainability reporting. However, this finding stands in contrast to the study by Novatiani et al. (2022), which found that enterprise risk management (ERM) does not exert a positive and significant influence, thereby representing a divergence from prior empirical evidence.

Overall, the findings obtained (p -value = 0.000) are consistent with various strands of research that emphasize the significant role of effective risk management implementation, innovation, organizational culture, and sustainability reporting in enhancing the quality of financial reporting. Each of the cited studies provides empirical evidence supporting both the direct and mediating mechanisms of these variables, thereby contributing to a comprehensive conceptual framework for strengthening the accountability and transparency of financial reports.

CONCLUSION

This study concludes that organizational culture significantly influences financial reporting quality in Indonesian Sharia Rural Banks (BPRS) by fostering innovation, enhancing risk management effectiveness, and promoting transparent sustainability reporting. These three variables mediate the impact of culture, demonstrating that improving reporting quality requires not only regulatory adherence but also internal institutional strengthening. The findings underscore the importance of cultivating adaptive, innovative, and accountable organizational values to enhance governance in Islamic financial institutions. For regulators, policymakers, and BPRS management, this implies the need for integrated strategies ranging from embedding cultural values in recruitment and performance systems to advancing literacy and training in risk, innovation, and sustainability domains to ensure the credibility and relevance of financial reports and support the broader development of the Islamic banking sector.

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