The Role of Risk Management in Achieving Branch Office KPIs in Bank X

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ABSTRACT

Achieving Key Performance Indicators (KPI) is one of the main challenges in ensuring the success of banking operational strategies, especially at the branch level which often faces various operational and strategic risks. This study aims to analyze the role of risk management in achieving KPIs at Bank X branches. A mixed method with a case study method was used, with data collection through questionnaires, in-depth interviews, and document analysis. The results of the study indicate that although risk policies have been designed in an integrated manner at the head office level, their implementation at the branch level faces challenges in the form of inequality in understanding risk, limited human resources and technology that is not yet optimal. Meanwhile, budget and communication have been running well. The risk management paradigm is often seen as a compliance tool rather than a proactive strategy to support the achievement of organizational targets. This study recommends the development of risk-based KPI indicators to create a more holistic and fair performance evaluation, strengthen the relationship between risk strategy and organizational performance, and build a more risk-aware organizational culture.

Keywords: Risk Management; Key Performance Indicators (KPI); Banking; Performance Evaluation.

Peran Manajemen Risiko dalam Pencapaian KPI Kantor Cabang di Bank X

ABSTRAK

Pencapaian Key Performance Indicators (KPI) merupakan salah satu tantangan utama dalam memastikan keberhasilan strategi operasional perbankan, terutama di tingkat cabang yang sering menghadapi berbagai risiko operasional dan strategis. Penelitian ini bertujuan menganalisis peran manajemen risiko dalam pencapaian KPI di cabang Bank X. Pendekatan campuran dengan metode studi kasus digunakan, dengan pengumpulan data melalui kuesioner, wawancara mendalam, dan analisis dokumen. Hasil penelitian menunjukkan bahwa meskipun kebijakan risiko telah dirancang secara terintegrasi di tingkat kantor pusat, implementasinya di tingkat cabang menghadapi tantangan berupa ketimpangan pemahaman risiko, keterbatasan sumber daya manusia dan teknologi yang belum optimal. Sedangkan anggaran dan komunikasi sudah berjalan dengan baik. Paradigma manajemen risiko sering dilihat sebagai alat kepatuhan daripada strategi proaktif untuk mendukung pencapaian target organisasi. Studi ini merekomendasikan pengembangan indikator KPI berbasis risiko untuk menciptakan evaluasi kinerja yang lebih holistik dan adil, memperkuat hubungan antara strategi risiko dan kinerja organisasi, serta membangun budaya organisasi yang lebih sadar risiko.

Kata Kunci: Manajemen Risiko; Key Performance Indicators (KPI); Perbankan; Evaluasi Kinerja.

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INTRODUCTION

Key Performance Indicators (KPI) are important measures used by organizations to assess performance in achieving strategic goals. In the banking sector, KPIs not only cover financial performance but also other aspects such as operational efficiency, customer satisfaction and risk management (Hollender et al., 2016). Effective KPI management provides guidance for banks in making better decisions and ensuring that all operational units work according to the targets that have been set (Ahmed et al., 2022). In line with the importance of KPIs, risk management is a crucial element to ensure that threats that can affect bank performance are identified, analyzed and mitigated appropriately (Susanto, 2018). Effective risk management not only helps protect banks from significant financial losses but also increases operational stability and customer trust which ultimately supports the achievement of KPIs on an ongoing basis (Otoritas Jasa Keuangan, 2016).

Although the importance of KPIs and risk management has been widely understood, in practice not all banks are able to manage these two aspects optimally. This is reflected in the performance of Bank X where many branch offices have difficulty in achieving their targets. Bank X is one of the national banking institutions that faces challenges in achieving performance at the branch level. As a bank operating in the financial services sector, Bank X must be able to manage various risks such as credit, liquidity, and operational risks. The role of KPI (Key Performance Indicators) is very important because it is a measuring tool for achieving strategic goals and a guide in managerial decision making. Although risk management policies have been implemented, the achievement of KPIs in many Bank X branch offices is still not optimal. Based on the report, of the 81 branch offices evaluated, only 18 offices or around 22.22% managed to achieve the KPI target (Bank X, 2024a). The cause of the failure is still unknown. Bank X only conducted a simple analysis by looking deeper into the KPI indicators that were achieved or not. Of the 22 KPI indicators, an average of 11 indicators were not achieved, including cost of funds; average current accounts and savings; average counter rate deposits; commercial credit volume; SME and micro credit volume; new realization of subsidized mortgages; loan at risk for commercial, SME, micro and consumer credit; savings NOA position; acquisition of new retail and priority customers; mortgage NOA; and budget realization (Bank X, 2024b).

The achievement of KPI indicators may be different if Bank X implements risk management such as reviewing the risk appetite and risk tolerance for the cost of funds offered to customers, average current account, savings and deposit targets, credit product targets and credit quality and budget (Bank X, 2024b). Based on the results of initial interviews with the risk management work unit manager, Bank X has implemented integrated risk management up to the branch office level. However, in its implementation, the role of risk management in achieving branch office KPIs has a limited scope that only functions as governance guidance, so it does not become a comprehensive solution when risk management has been implemented (Bank X, 2024a). This encourages the importance of knowing how to optimize the role of risk management so that it is in line with strategy and planning and determining KPI indicators and targets that maintain risk appetite and risk tolerance. Thus, execution and achievement of targets on KPI indicators can be achieved.

Previous studies have shown that risk management plays an important role in the banking context. For example, Clear risk governance from the board of directors to the operational level is a key element in implementing risk management (J. Young, 2008). In addition, good internal control has been shown to improve the bank's ability to identify risks. This confirms the importance of risk management in supporting bank performance (Rahim et al., 2017). Effective operational risk management can reduce unexpected losses and increase the likelihood of achieving organizational targets (Ruiz-Canela López, 2021). The use of risk-based KPIs helps organizations identify and manage strategic threats more efficiently, thereby strengthening data-based decision making (Huang & Shen, 2023). The integration of KPIs and risk management allows organizations to create more measurable monitoring mechanisms for performance (Rasid et al., 2017). The implementation of strong internal control as part of risk management can help organizations achieve KPIs more effectively, especially in the financial sector (Strelnik et al., 2017). The hampered achievement of KPIs can also be caused by unmanaged compliance risks. By taking compliance risks into account, banks can be more efficient in achieving business targets (Olegs Cernisevs et al., 2023). This is also confirmed by research (Velez, 2022) where unmanaged operational risk can cause significant losses for banks. Banks that implement proactive risk management can improve service quality while reducing operational costs (Yousef et al., 2023).

Various studies have highlighted the importance of the role of risk management. However, research that specifically examines the role of risk management in achieving KPIs at the branch office level is still very limited. This study aims to analyze the role of risk management in achieving KPIs at Bank X branches. So that effective risk management strategies and recommendations can be identified to improve branch office performance in achieving the established KPIs. In addition, this study is expected to contribute to the development of literature in the field of risk management and banking performance and provide practical guidance for practitioners in the banking industry.

RESEARCH METHOD

This study uses a mixed method with a case study method. Primary data collection in this study was obtained from questionnaires and interviews as well as document analysis to obtain secondary data. The study began with document analysis, where documents related to risk management and KPI achievement at branch offices will be collected and reviewed in depth. Documents to be analyzed include risk management policies and procedures, branch office KPI reports, and risk evaluations provided by the head office. A questionnaire was conducted to collect quantitative data on factors that influence KPI achievement and how risk management is implemented in each branch office. This questionnaire was given to 81 employees as respondents representing each branch office of Bank X. A Likert scale of 1-7 was used in this questionnaire to assess respondents' perceptions, with a description of the questionnaire (1 = Strongly Disagree; 2 = Disagree; 3 = Quite Disagree; 4 = Neutral; 5 = Quite Agree; 6 = Agree; and 7 = Strongly Agree). There are 5 indicators used as questions in the questionnaire, where each indicator contains 5 questions based on the results of initial interviews with the risk management work unit manager and the strategy and planning work unit manager.

Semi-structured interviews were used to explore more in-depth information with related parties at Bank X branch offices. The interviews focused on exploring the implementation of risk management, the obstacles faced and the solutions implemented. The questionnaire and interviews refer to (Committee of Sponsoring Organizations of the Treadway Commission, 2017), which is considered relevant because it combines risk with KPI achievement at all levels of the organization including branch offices, so that direct analysis can be carried out. There are 5 components of (Committee of Sponsoring Organizations of the Treadway Commission, 2017), which are used in this study, namely Governance and Culture, Strategy and Objective-Setting, Performance, Review and Revision, and Information, Communication and Reporting. The sample used in this study was 81 respondents from each employee at Bank X branch offices. Data collection in interviews was carried out directly between researchers and respondents, either face-to-face or online. The selection of interviewees was carried out strategically to gain comprehensive insights from various perspectives related to the information being explored. The selected interviewees included the Head of the Branch Office, the Strategy and Planning Work Unit Manager, and the Risk Management Work Unit Manager.

The data obtained from the interviews will be compared with the results of the document analysis to identify the suitability or differences in the implementation of risk management. Thematic analysis will be used to uncover key patterns from the collected data, particularly those related to the effectiveness of risk management in achieving KPIs. Based on the results of the analysis, conclusions will be drawn regarding the contribution of risk management to achieving KPIs at branch offices. Furthermore, practical recommendations will be prepared to improve the effectiveness of risk management, including proposed improvements in the risk identification and mitigation process at the branch office level and improved coordination between branch offices and head office regarding risk reporting and KPIs.

RESULTS AND DISCUSSION

Based on the results of the analysis of understanding risks at the branch office level, several results were obtained. Based on the results of interviews with branch office heads, information was obtained regarding the uneven understanding of risk at the branch office level, which is one of the challenges in efforts to achieve optimal performance in Bank X. Although risk management policies and guidelines have been well prepared at the head office level, their implementation often faces obstacles at the branch office level. This is caused by various factors such as differences in HR competency levels to minimal direct monitoring of the implementation of risk policies in the field. As a result, there is a disparity in how risk is understood, identified and managed by each branch office which ultimately has an impact on the mismatch of risk mitigation strategies with the operational realities of branch offices. This analysis will dig deeper into the root of the problem including the specific obstacles faced and strategic recommendations to improve risk understanding at the branch office level.

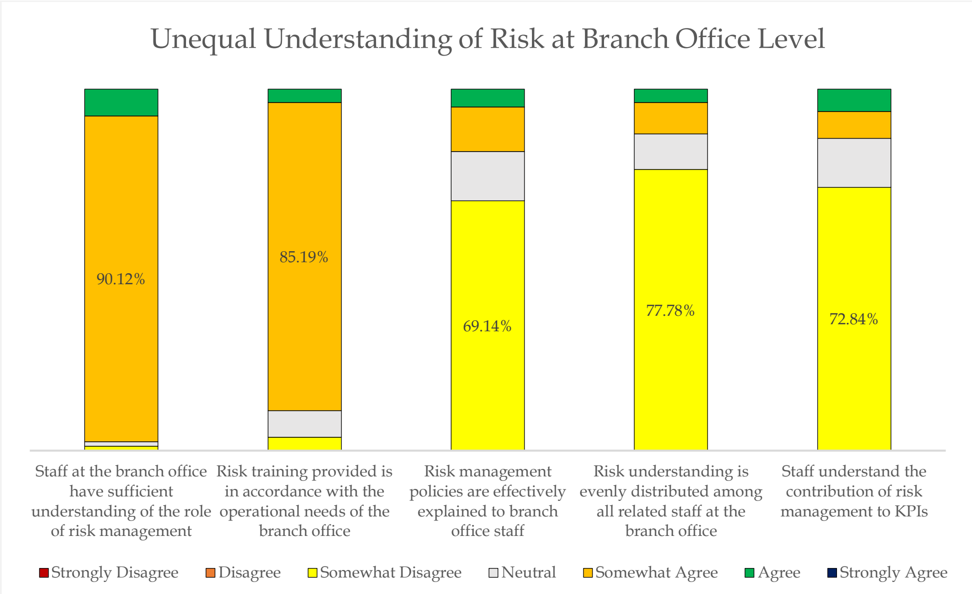

Figure 1. Questionnaire Results for the Indicator of Unequal Understanding of Risk at Branch Office Level

Source: Research Data, 2024

Based on the results of the questionnaire conducted in **Figure 1**, the majority of respondents stated that they quite agree that staff at the branch office have sufficient understanding of the role of risk management with a percentage of 90.12%. As many as 85.19% of respondents stated that they quite agree that risk training has been provided in accordance with the operational needs of the branch office. This indicates that branch office staff have sufficient understanding of the role of risk management and the risk training provided is quite relevant to the bank's needs. On the other hand, 69.14% of respondents stated that they quite disagree that risk management policies are explained effectively to branch office staff. This indicates that although staff have sufficient understanding and risk training has also been provided periodically, there is still a gap in the communication of risk management policies to staff. Most respondents stated that they disagree that risk understanding is evenly distributed among all related staff at the branch office with a value of 77.78%. This occurs because understanding of risk management is still not fully evenly distributed among all staff. Respondents, as many as 72.84%, also stated that they quite disagree that staff understand the contribution of risk management to KPIs. Understanding the relationship between risk management and achieving KPIs can still be strengthened, especially in terms of instilling awareness of the impact of risk on organizational targets.

Meanwhile, based on the results of interviews with several respondents such as branch office heads, strategy and planning work unit managers and risk management work unit managers, most branch office employees already understand the basics of risk management policies where each employee periodically receives risk management training for each specific job level such as staff, unit heads to branch office heads. However, in its implementation, not all employees understand risk management as a whole, risk management is still considered a compliance rule. To overcome this, Bank X has made internalization efforts through the implementation of quizzes and sharing sessions on understanding risk management which are routinely carried out every 1-2 weeks and the implementation of rewards and punishments for employees. "*Currently, periodically at each level there are risk competency certification tests such as UKMR for employees including employees at branch offices, there are also routine e-learning quizzes every month and coaching from superiors to staff has been carried out*." (Respondent, Strategy and Planning Work Unit Manager Bank X, 2024). This indicates that understanding of risk at the branch office level can be said to be widespread and running well.

Unequal understanding of risk at the branch office level of Bank X is one of the significant challenges in achieving optimal performance. This was expressed during an interview with the Head of the Branch Office of Bank X *"Related to the understanding of branch office employees regarding risk management policies, it is actually still a challenge in many branch offices. Some employees still consider risk management to be just a rule on paper that must be obeyed, whereas, when viewed from a business perspective, risk management can be a tool to mitigate potential future problems while improving future performance"*. These results indicate that although risk management policies have been well-formulated at the head office, their implementation is often constrained at the operational level. The effectiveness of risk management is not only determined by policies at the strategic level, but also by implementation across all levels of the organization (P. C. Young et al., 2015). In addition, although the majority of respondents stated that they understood the role of risk management, the findings showed that risk policy communication was still not optimal. Most respondents stated that risk management policies were not explained effectively. This indicates a gap in the communication mechanism between the head office and branches. Ineffective communication regarding risk policies can hinder the implementation of consistent risk mitigation strategies, thus impacting the achievement of the organization's KPIs (Md Ariff et al., 2017). Unequal understanding of the contribution of risk management to achieving KPIs was also found to be a crucial issue. Most respondents did not fully understand how risk management could affect the achievement of organizational targets. These findings are in line with research by (O Cernisevs et al., 2023) which shows that integrating risk management with KPIs is very important to create a performance measurement mechanism. Bank X's efforts to improve risk understanding through regular training, certification, and e-learning programs have shown positive results, although there is still room for improvement. Such programs are in line with the findings of (Graham, 2017) which highlight the importance of continuous training in improving HR competency in managing risk. This study also provides additional value by highlighting the importance of risk internalization mechanisms that are tailored to the specific needs of branch offices. Therefore, Bank X needs to improve risk policy communication mechanisms, strengthen the link between risk management and KPIs, and ensure that training and internalization programs are more strategic and oriented towards achieving performance.

In addition, the results of the analysis of resource limitations in branch offices include HR, budget and technology as follows. Based on the results of

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interviews with branch office heads, limitations in human resources, budget and technology are one of the obstacles in supporting the achievement of expected performance targets. At the operational level, branch offices often face challenges in optimizing performance with a limited number of workers that are not always comparable to the workload and complexity of tasks. On the technology side, the system currently used is still not fully automated. Thus, manual analysis is still carried out which affects the level of effectiveness and efficiency of work. Meanwhile, from the budget side, centralization has been carried out by the head office. Thus, the implementation of activities can be easily monitored. In this analysis, the focus will be given to how these limitations affect the achievement of KPIs in branch offices and the strategic steps that can be taken to overcome them.

Based on the results of the questionnaire in **Figure 2**, the majority of respondents stated that they quite disagreed that the number of human resources in branch offices was adequate to manage risks that affect KPIs with a total of 76.54%. As many as 80.25% of respondents stated that they quite disagreed that the available budget was sufficient to support the risk mitigation program at the branch office. These two results indicate that the number of available human resources is not fully adequate and the allocated budget is inadequate to support the risk mitigation program. In addition, 79.01% of respondents stated that they quite agree that technology supports the risk identification and mitigation process at the branch office. As many as 77.78% of respondents stated that they quite agree that technology support from the head office meets the risk analysis needs at the branch office. This indicates that the available technology sufficiently supports the risk identification and mitigation process, and is also able to meet the risk analysis needs at the branch office. In addition, 77.78% of respondents stated that they quite disagreed that the budget allocation was sufficient to encourage the acceleration of KPIs. These results indicate that the budget allocation is considered not to fully support the achievement of KPIs.

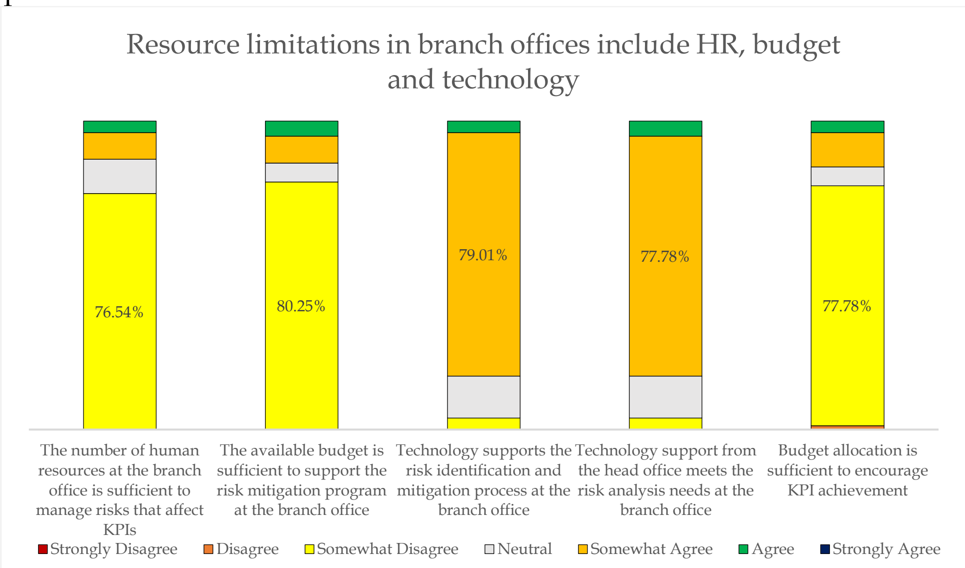

Figure 2. Questionnaire Results on Resource Limitation Indicators in Branch Offices including HR, Budget and Technology
Source: Research Data, 2024

Meanwhile, based on the results of interviews with several respondents such as branch office heads, strategy and planning work unit managers and risk management work unit managers, the implementation of risk management is often constrained by limitations in both human resources and technology. Human resources in branch offices are more inclined to how to achieve business targets, from a technological perspective, several technologies such as credit risk evaluation and operational risk reporting are still not fully automated and from a budget perspective, centralization has been carried out at the head office so that branch offices. "*One of the biggest challenges is that human resources employees in branch offices are more focused on how to achieve KPI targets. From an IT perspective, existing systems are not fully automated such as credit risk evaluation and operational risk reporting. From a budget perspective, centralization has been carried out at the head office.*" (Respondent Head of Bank X Branch Office, 2024). This indicates that the implementation of risk management at Bank X branch offices is still hampered by limitations in both human resources and technology. However, Bank X has made gradual improvement efforts according to priority scale.

Limited human resources (HR) and technology at Bank X branch offices are the main obstacles in supporting the achievement of expected performance targets. From a resource management perspective, the number of HR that is not comparable to the workload and complexity of operational tasks creates an imbalance that impacts the effectiveness of risk management. The success of an organization is highly dependent on the quality of the available workforce (Hoa & Thoa, 2014). Meanwhile, although technology is recognized as quite supportive of the risk identification and mitigation process, the existence of a system that is not yet fully automated is still a challenge. Reliance on manual analysis not only slows down the decision-making process but also increases the potential for errors. This finding is in line with (Priya et al., 2023) which emphasizes the importance of automation in improving operational efficiency and reliability of data management. Bank X has demonstrated gradual improvement efforts, such as increasing priority in HR management and technology development, although the impact still requires further evaluation.

In addition, it was found that Bank X was not optimal in linking risk management strategies with operational needs. Based on **Figure 3**, the majority of respondents stated that they quite agree that the risk management strategy reflects the operational needs of the branch office with a value of 79.01%. As many as 85.19% of respondents stated that they quite agree that the risk strategy helps overcome specific risks in the branch office's operational area. As many as 87.65% of respondents also stated that they quite agree that the branch office has the flexibility to adapt the risk strategy according to local needs. The three results above indicate that the risk management strategy has reflected the operational needs of the branch office, and is quite effective in managing specific risks in each region, and indicates that the branch office has the flexibility to adapt the risk strategy based on local needs. In addition, there are 58.02% of respondents who stated that they quite disagree that the risk policy supports targets such as credit growth or new customer acquisition. There are 51.85% of respondents who also stated that they quite disagree that the risk mitigation strategy helps achieve KPIs. This indicates that the existing risk policy is not fully effective in supporting the achievement of targets such as credit growth or new customer acquisition, and the current risk mitigation strategy is not optimal in helping to achieve KPIs.

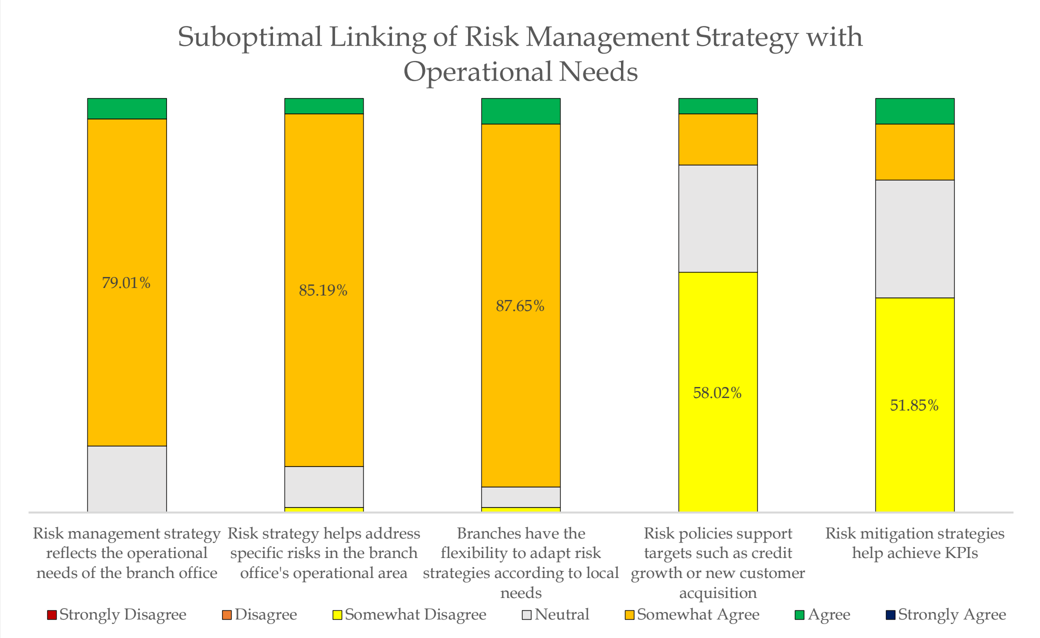

Figure 3. Questionnaire Results on Indicators of Suboptimal Linking Risk Management Strategy to Operational Needs
Source: Research Data, 2024

Based on the results of interviews with branch office heads, the risk management strategy is quite relevant. However, it can still be optimized, such as the collection strategy for credit risk mitigation. The collection strategy cannot be done one fit for all, meaning that there must be several different treatments for each customer. In line with that, based on the results of interviews with the strategy and planning work unit manager, the integration of risk management strategy with operational needs has been included in Bank X's strategic plan where it has been mapped based on geography and business profile. The results of interviews with the risk management work unit manager, explained that the risk strategy from the head office was designed to be flexible. However, in its implementation, it is necessary to adjust to the business profile in each branch office. "*The risk strategy from the head office has actually been designed quite flexibly. However, its implementation must be adjusted to the characteristics of each branch. For example, a branch that focuses on subsidized mortgage loans requires different risk mitigation than a branch that focuses on non-subsidized mortgage loans/commercial loans. We always involve branches in annual evaluations to ensure that risk policies are relevant to their needs. Don't let risk management policies get in the way of business*" (Respondent, Risk Management Unit Manager Bank X, 2024). This indicates that the integration of risk management strategies with operational needs has been running well.

The risk management strategy at Bank X that has been designed flexibly and relevant to operational needs shows an effort to integrate risk management into achieving organizational goals. Risk strategy must be aligned with operational needs and business targets to ensure the sustainability and efficiency of the organization. However, the effectiveness of this strategy has not been fully optimized in supporting the achievement of specific targets such as credit growth and new customer acquisition. This indicates a gap in the implementation of risk strategies that do not directly support Key Performance Indicators (KPIs). Effective risk management should not only focus on risk mitigation but also provide added value to the achievement of strategic goals (Radomska, 2018). The findings show that the success of integrating risk management with operations is greatly influenced by the organization's ability to understand local risk profiles and provide contextual policies.

The effectiveness of risk management is more often seen as compliance with policies. Based on the results of the questionnaire in **Figure 4**, as many as 56.79% of respondents agreed that risk management is more often viewed as a compliance tool than a strategic tool. Most respondents agreed that risk evaluation focuses more on compliance than its impact on KPIs with a value of 72.84%. As many as 72.84% of respondents agreed that risk policies do not emphasize the relationship between risk and KPIs. Most respondents agreed that the implementation of risk management is more directed at internal control with a value of 74.07%. Most respondents also agreed that the risk paradigm needs to be changed to support the achievement of branch office KPIs with a value of 75.31%. From the results of the questionnaire, it indicates that risk management is seen more as a compliance mechanism than a tool for strategic decision making. In addition, risk evaluation tends to focus more on compliance than its impact on achieving KPIs. From the questionnaire results, it can also be seen that the current risk policy is considered not clear enough in linking risk to KPI achievement, the implementation of risk management is more focused on internal control than proactive efforts to support business development or KPI achievement, it is also necessary to change the risk management paradigm, from just a control and compliance tool to a strategic tool that can support KPI achievement.

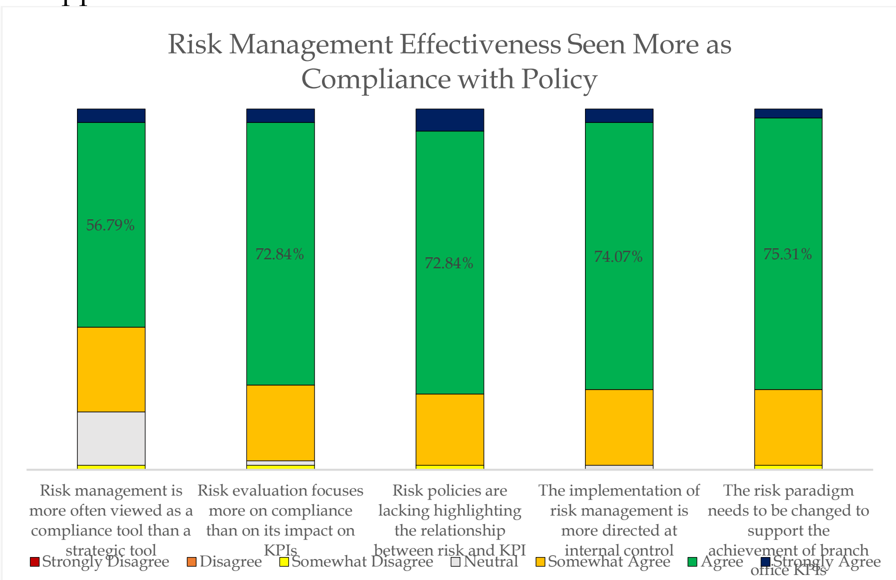

Figure 4. Questionnaire Results on Risk Management Effectiveness Indicators Are Seen More as Compliance with Policy
Source: Research Data, 2024

Meanwhile, based on the results of interviews with branch office heads, risk management at branch offices is still more inclined towards compliance and how to ensure risk management meets risk appetite and risk tolerance. Risk management can be optimized to be more strategic to the business. Thus, it can help businesses achieve their targets. "*Risk management is still inclined towards compliance. The initial goal was to improve operational compliance. The focus is on meeting risk appetite and risk tolerance. But in my opinion, risk management should be more strategic, so it can help us achieve our targets. If all risks can be identified, it means we can measure (the potential risks that will arise)*" (Respondent Head of Branch Office of Bank X, 2024). This indicates that the effectiveness of risk management is still seen as compliance with policies, not as a tool that can support the achievement of business targets. In line with that, based on the results of interviews with the risk management work unit manager, the change in the risk management mindset from risk management to comply with regulations was changed to risk management to optimize business results. This indicates that the perspective on risk management is slowly being shifted to form a more strategic employee mindset, so that it is able to support the optimization of business performance.

The paradigm of risk management that is more often viewed as a compliance tool than a strategic tool indicates untapped potential in supporting Bank X's business objectives. Organizations often focus on risk management as an internal control mechanism to meet regulatory requirements, rather than utilizing it to support strategic decision-making. The results of the study indicate that the main focus of risk management today is still on meeting risk appetite and risk tolerance, which although important, tend to hinder its strategic potential in optimizing business performance. Organizations that are successful in risk management tend to position risk management as an integral part of strategic decision-making (Derradji & Hamzi, 2024). Although still in the early stages of a paradigm shift, Bank X has shown progressive steps to shift the focus of risk management from mere compliance to a strategic tool that is more relevant to business objectives.

In addition, regarding the need to create risk-based KPI indicators at the branch office level, the following results were obtained. Based on the results of interviews with several respondents such as branch office heads, strategy and planning work unit managers and risk management work unit managers, KPIs at Bank X branch offices tend to focus on financial and operational aspects without directly integrating the risk dimensions faced. This analysis will explore the needs and benefits of formulating risk-based KPIs that can drive branch office performance while strengthening risk management. Furthermore, based on the results of the questionnaire in **Figure 5**, most respondents agreed that risk-based KPI indicators are needed to assess the effectiveness of risk mitigation with a value of 77.78%. This indicates that the majority of employees at branch offices understand the importance of risk-based indicators to measure the extent to which risk mitigation has been successfully implemented. As many as 66.67% of respondents agreed that risk-based indicators help link risk to KPIs. As many as 65.43% of respondents agreed that risk-based indicators would increase the linkage between risk management and KPIs. Most respondents agreed that risk-based KPIs allow for a more measurable evaluation of risk mitigation with a value of 61.73%. As many as 60.49% of respondents also agreed that risk-based indicators ensure risk management is integrated into branch office strategies. This indicates that risk-based indicators can function as a link between the risks faced and the achievement of KPIs, the implementation of these indicators can strengthen the relationship between risk management and the achievement of organizational targets, creating better synergy between the two, risk-based indicators can be used to evaluate risk mitigation strategies in a more structured and measurable manner, and risk-based indicators will encourage the integration of risk management into strategies implemented at the branch office level.

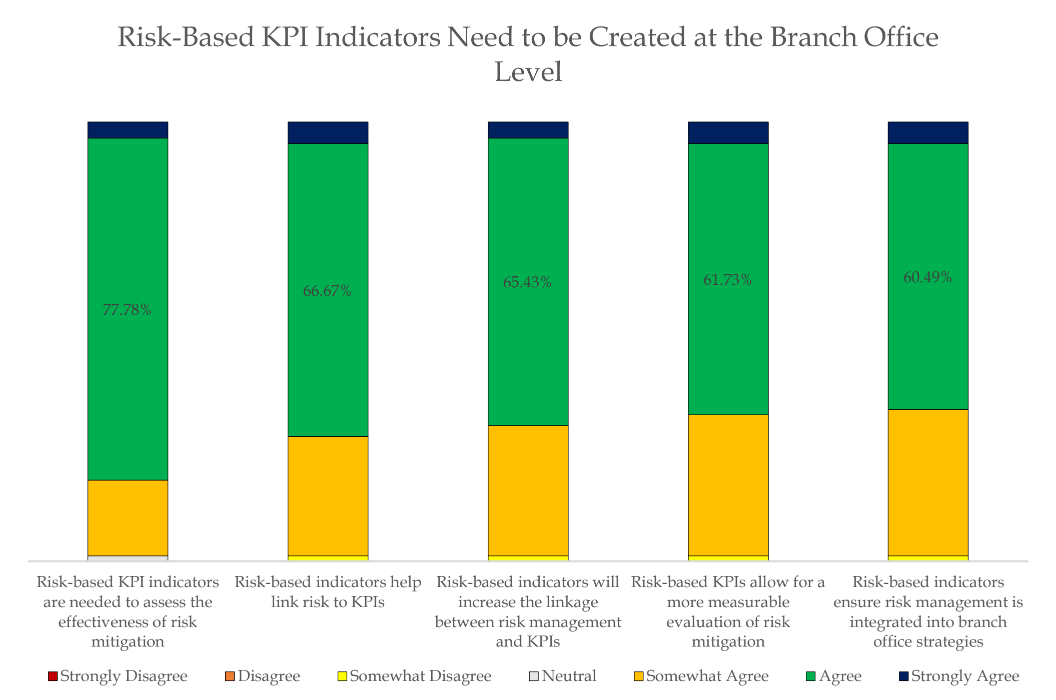

Figure 5. Questionnaire Results on Indicators Need to Create Risk-Based KPI Indicators at Branch Office Level

Source: Research Data, 2024

Based on the results of interviews with branch office heads, the implementation of risk-based KPIs can be a fairer approach, because currently the KPIs used still tend to focus on financial and operational aspects. In line with this, based on the results of interviews with strategy and planning work unit managers, the preparation of risk-based KPIs needs to be reviewed with related work units, so that they can be effectively implemented in all work units. Based on the results of interviews with risk management work unit managers, risk-based KPIs will be Bank X's main focus in the future in designing KPIs for each work unit, so that KPI assessments can be carried out more objectively, not only from a financial aspect but also from a risk perspective. "*We have discussed internally that this (risk-based KPI) will be a priority in the future. With KPIs like this, we hope that branch performance can be assessed more objectively, while encouraging them to be more proactive in managing risk. So that in a balanced way they pursue business but also pay attention to risk*" (Respondent, Risk Management Work Unit Manager Bank X, 2024). This indicates the importance of implementing risk-based KPIs to ensure a more comprehensive and balanced performance assessment, covering both financial and risk aspects simultaneously.

The need to formulate risk-based KPI indicators at the branch office level shows the importance of integrating risk management with organizational performance measurement. This finding is in line with research by (Rana et al., 2019), which confirms that risk-based performance measurement can improve the effectiveness of risk management by directly linking the risks faced by the organization with the achievement of its strategic goals. Currently at Bank X, KPIs still tend to focus on financial and operational aspects without explicitly including the risk dimension. This has the potential to create an imbalance in performance evaluation, where risk mitigation efforts have not been fully measured for their contribution to achieving organizational targets. Risk-based KPIs also offer a fairer performance assessment approach, as expressed by one of the respondents in this study. In addition, the implementation of risk-based KPIs at Bank X will provide strategic benefits in building a more risk-aware organizational culture. With this indicator, each work unit is expected to be more proactive in managing risk, so that they are able to anticipate potential losses while optimizing existing opportunities. This finding is consistent with research by (Almasarweh et al., 2024), which shows that organizations with a risk-based KPI system tend to be more responsive to risk dynamics and changes in the business environment. Bank X's strategic move to make risk-based KPIs a priority is a very relevant approach. This move will not only increase fairness and objectivity in performance evaluation, but also strengthen the relationship between risk management strategy and overall organizational goals.

This study has several limitations that need to be considered, such as the data used only comes from one institution, so the results of the study may be less relevant if applied to other banks with different characteristics. In addition, the results of the study have not considered external factors such as economic conditions and regulations that can affect the achievement of KPIs. Future research is recommended to involve more institutions to increase the generalization of the results and take into account external variables that have the potential to affect the effectiveness of risk management in achieving performance targets.

CONCLUSION

This study reveals that risk management has an important but suboptimal role in supporting the achievement of Key Performance Indicators (KPI) at Bank X branches. Although risk policies have been designed in an integrated manner at the head office level, their implementation at the branch level still faces challenges in the form of disparities in understanding risk, limited human resources and suboptimal technology. The findings show that the risk management paradigm tends to be seen as a compliance tool rather than a proactive strategy to support the achievement of organizational targets. In addition, the integration of risk strategies with operational needs has been running quite well, but has not fully supported the achievement of targets such as credit growth and new customer acquisition. This study highlights the need to formulate risk-based KPI indicators to create a more measurable and fair performance evaluation, while encouraging a more risk-aware organizational culture. By adopting strategic steps such as improving internal training and integrating risk-based indicators into the KPI system, Bank X has the potential to increase the effectiveness of risk management while accelerating the achievement of performance targets. This study makes a significant contribution to strengthening the understanding of how risk management can be optimized to support organizational performance in the banking sector. By improving the linkage between risk policies and KPI achievement, this study emphasizes an integrated approach to risk management, which can be adopted by other banks facing similar challenges. In addition, this study extends the academic literature by highlighting the importance of risk-based performance indicators as a more holistic evaluation tool.

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