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The Influence of Leadership Capabilities and Risk Management Practice on Enterprise Resilience: Case Study on Financial Service Industry in Indonesia

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Abstract

The challenges of the FS industry in Indonesia are to ensure that the industry remain resilient and able to anticipate the downside risks arising, including strengthening governance, risk management, and prudential principles. This study will determine the effect of leadership capability and risk management practice to enterprise resilience. The method in this study is a survey research method. A questionnaire that was given to senior executives in the financial sector of Indonesia, including SVP/VP members of the board of directors. The results show that transformational leadership capability plays a role in the growth of business resilience and risk management practice. However, there hasn't been a lot of research done on the financial sector in Indonesia. The empirical data from this study will contribute to our understanding of how risk management is related to enterprise resilience. These findings make it possible for management in the financial sector and policymakers to design strategies and a framework for policymaking that will foster enterprise resilience and assist the financial sector in navigating risky and disruptive business conditions successfully. This study's contribution will provide empirical data that broadens the environment for using the organizational resilience concept and theory of dynamic capacity in various organization types, like the financial industry, that operate in developing nations.

Keywords: *risk management practice, enterprise resilience, leadership capability, financial industry, emerging country.*

INTRODUCTION

The macroeconomic situation, changes in consumer preferences and behavior, competitive competition in the market as well as rapid developments and changes disrupt business continuity. Technological change, natural and man-made disasters, the effects of climate change, geopolitical instability (such as wars in Russia and Ukraine), and health crises such as the COVID-19 pandemic are some of the situations that can threaten the future of an organization (Lisdiono, et.al, 2022). In such situations, some companies build

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resilience profiles to create predictability, modify and also gain new competitiveness in the face of crisis due to internal factors. and externally caused. (Morales et al., 2019). One of the ways to minimize the crisis, increase the resilience of the business and have a measurement method is to use an enterprise risk management framework. Various studies indicate that risk management plays an important role in determining the resilience of a business (Hudakova et.al. 2020).

According to Coutu (2002) and Hamel et.al (2003), organizational resilience is organization ability to put in place adaptive measures related to responding to threats received in order to survive. , as well as the ability to cope with different disorders. However, a company's resilience is determined by its dynamic capabilities. Dynamic capacity refers to the ability of a company to intentionally create, develop and regulate its assets. They help companies adapt to new and volatile environments (Jiang et.al. 2019). According to Schoemaker (2018), leadership is an executive-level power to encourage resilient companies. Leadership initiates a forward-thinking dialogue between different stakeholders (Fiksel et.al 2015). Leadership at the top of the management team is an essential part of the strategic management framework to drive business resilience (Schoemaker, 2018). They suggest that dynamism and strategic leadership work together to help companies navigate volatility, uncertainty, complexity and ambiguity (VUCA) scenarios using their ability to take a long-term view and visualize different scenarios in the future. future.

Therefore, considering this gap, this study aims to examine the impact of leadership as a dynamic competency on the resilience of the organization to deal with all uncertainties and challenges. towel. In addition, this study examines the role of risk management practices in mediating the relationship between corporate leadership and resilience. This question will be tested using 4 (four) hypotheses: Does leadership affect business resilience? Does leadership influence risk management practices? Do risk management practices affect the resilience of the business? Whether risk management practices mediate the relationship between leadership and solid resilience in the financial services industry in Indonesia. The main contribution of this study is to show that dynamic competencies, especially leadership competencies and risk management practices, contribute to building business resilience in the financial services sector. The results of this study will strengthen the financial services industry, helping senior executives of financial services companies choose the right strategy to sustain and maintain the viability of their businesses. , and the government as a regulator develops policies that encourage the growth and resilience of the financial services industry. As the financial services sector plays an important role, especially in developing countries, other countries such as ASEAN can leverage the results of this study to increase resilience in an dynamic uncertain environment.

LITERATURE REVIEW

Leadership Competence and organizational resilience

In an uncertain business environment characterized by rapid and sometimes disruptive change, effective leadership becomes essential for organizational success (Lengnick-Hall, 2015). Leaders can help organizations adapt to their environment by providing direction, leadership, and support to subordinates (Taylor et al., 2019). Shin et al. Research on resilience in supply chains. (2021) found that leadership creates superior resilience. Resilience leadership requires implementing organizational strategies that promote resilience by rapidly changing all organizational systems and adapting to changes in the business environment (Dartey-Baach, 2015). Corporate governance capacity can ensure corporate resilience (Suryaningtyas et.al., 2019; Ree et.al., 20021). Organizational resilience depends on strong leadership styles that foster interdependence in team cohesion and collaboration (Southwick et al., 2017). .

Hypothesis (H1): There is a significant impact between leadership ability and organizational resilience.

Leadership Competence and Risk Management

According to Borgelt et.al (2017), innovation occurs when leaders allow teams to take risks that were previously carefully planned, executed and managed by skilled people. Risk and risk management are always concerns of management (Ashby et.al, 2018). Leaders identify the risks facing an organization, lead actions to mitigate those risks, and guide the management team to recognize the opportunities that exist in difficult times by turning risks into opportunities. There is a strong association between leadership and crisis (Boin et al., 2003). In the event of a shock, the entire organization relies on leaders to take appropriate steps to protect the business. High-risk organizations (e.g., those with significant debt) often appoint a chief risk officer to demonstrate that they are effectively managing their risks and are committed to sound oversight. Yes (Lienbergenberg et al., 2003).

Hypothesis (H2): There is a significant impact between leadership capabilities and risk management practices.

Risk Management Practices and Organizational Resilience

In an uncertain world where change is inevitable, organizations need to be able to see more than short-term performance. They become more resilient and stronger to the risk of unexpected change. Ultimately, you will be more resilient. To achieve different benefits both in normal times and in the face of threats and unpredictable changes, companies must make various efforts to enhance the resilience of their operations. One attempt is to apply proactive risk management (Nauck et.al., 2022)

According to Hudakova & Lahutan (2020), if you want to make your organization more resilient in today's dynamic environment, it is proposed to use risk management as an organizational requirement. Businesses often prepare to respond to crises. Implementing enterprise risk management (ERM) is therefore one of the tools to prevent crises and increase enterprise resilience. Current risk management focuses on addressing risks associated with extreme uncertainty and unknown unknowns (Teece et al., 2016).

Hypothesis (H3): There is a significant impact between risk management practices and organizational resilience.

Mediating Effects of Risk Management Practices on the Relationship Between Leadership Competence and Organizational Resilience

According to Al-Abrrow et.al. (2018) Impact of Organizational Resilience and Top Management Salient Characteristics on Project Success was investigated. They found that risk management partially impacts project performance. A study by Bogodistor & Wohlgemuth (2017) considers risk management to be a contributing factor to a company's resilience to all possible risks. They found that the ability of an organization to dynamically reassess and reconfigure resources in the context of changing environmental conditions requires risk management to be a priority of the organization's capacity. Additionally, it explores how risk management capabilities enable organizations to build and maintain data sustainability in turbulent environments as part of their dynamic capabilities.

Hypothesis (H4): Risk management practices mediate the relationship between leadership competence and organizational resilience.

This framework is a model for explaining and determining research hypotheses. Figure 1 shows that she has two independent variables: Leadership Competence (LC) and Risk Management Practices (RMP). Enterprise resilience (ER) is the dependent variable in this

study, and the mediating variable, risk management practices (RMP), explores the relationship between leadership competence (LC) and enterprise resilience (ER).

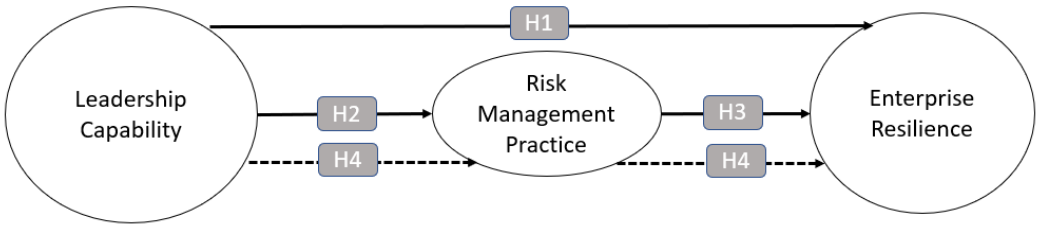

Figure 1. Conceptual Framework

MATERIALS AND METHOD

This study is a descriptive and causally explained research study. The data is a methodological survey of board members and executives in the financial services industry as a source of factual information about how to implement leadership skills (LC), risk management practices (RMP), and enterprise resilience. Collected using means. (ER) is currently ongoing within the organization. The data in this survey are primary data. The choice of primary data for this study is due to the nature of the information about individual perceptions and attitudes obtained through the distribution of questionnaires.

This research study focuses solely on the Indonesian financial services sector. In this study, we applied non-probabilistic sampling based on the targeted sampling method by taking n=30 samples that are more suitable for the scope and characteristics of the study. The sampling frame for this study includes all members of the financial services industry (represented by banking, insurance and multifinance) at Director level (C-level), Head/SVP and Vice President level. The “senior” managers used in this study took a deductive approach and used investigative strategies. The study focused on the board and executive levels of all stakeholders in the financial services sector on the OJK website and his website for each company in order to gain insight at the company level (as a unit of analysis). They were selected as respondents because they play a key role in managing, controlling and determining the company's policies and strategies. The target sample was selected because the survey requires respondents to meet certain criteria, such as those currently in board or senior management positions. Data are processed using structural equation modeling (SEM) approach with Partial Least Square SEM tool to test proposed hypotheses.

Respondents are listed in the following table:

Table 1. Respondents Demographic Profile of the Sample

	Frequency	Percent	Cum. Percent
Enteprise Age			
1 - 10 year	2	6.7	6.7
11-20 year	8	26.7	33.3
21-30 year	10	33.3	66.7
30-40 year	-	-	66.7
40-50 year	5	16.7	83.3
> 50 year	5	16.7	100
No of Employee			
>10.000	8	26.7	26.7
1001 - 10.000	11	36.6	63.3
501 - 1000	6	20.0	83.3

s.d 500	5	16.7	100
Core Business			
Bank	14	46.7	46.7
Insurance	7	23.3	70.0
Multi Finance	9	30	100
Avg . Revenue in IDR			
<1000 bio	10	33.3	33.3
1001 - 10000 bio	10	33.3	66.6
> 10000 bio	10	33.3	100
Gender			
Female	12	40	40
Male	18	60	100.0
Position			
CEO	4	13.3	13.3
Finance & Ris kDirector	11	36.7	50.0
Other Directors	8	26.7	76.7
Senior Vice President	3	10.0	86.7
Vice President	4	13.3	100.0
Education			
Bachelor degree	5	16.7	16.7
Diploma/Below	1	3.3	20.0
Doctor/PhD	4	13.3	33.3
Master degree	20	66.7	100.0

Source: processed by researcher

RESULTS AND DISCUSSIONS

From the analysis we can describe several things as below i.e: path coefficient, validity and reliability test result.

Path Coefficient

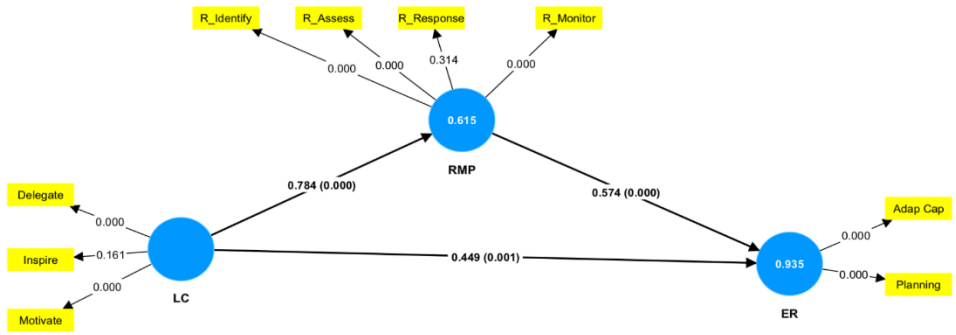

Figure 2. Path Coefficient

Source: processed by researcher

Figure 2 above shows that the path coefficient of Leadership Capability is proven to partially influence Risk Management Practice (path coefficient value: 0.784). Meanwhile, Risk Management Practice influences Enterprise Resilience variable with path coefficient: 0.574. While Leadership Capability affects Enterprise Resilience (coefficient

path value: 0.449). Leadership Capability has the strongest influence content value on Risk Management Practice, compared to Risk Management Practice on Enterprise Resilience and Leadership Capability on Enterprise Resilience.

On the other hand, risk management practices have a significant impact on organizational resilience (path coefficient: 0.784) > 0.70. This means that's leadership competencies have a significant impact on the risk management practices of financial services firms.

Table 2. Path Analysis

	Original Sample (O)	Sample Mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
LC ---> ER	0.449	0.424	0.14	3.206	0.001
LC ---> RMP	0.784	0.811	0.061	12.95	0.001
RMP ---> ER	0.574	0.584	0.126	4.554	0.001
LC-->RMP-->ER	0.436	0.419	0.204	2.143	0.017

Source: analyzed by researcher

From the results of data analysis, all p values were obtained <0.05, so it can be concluded that H0 is rejected, H1 is accepted. Thus, Leadership Capability has a significant effect on Risk Management Practice, Risk Management Practice has a significant effect on Enterprise Resilience and Leadership Capability has a significant effect on Enterprise Resilience. Including Leadership Capability has a significant effect on Enterprise Resilience through the mediating variable Risk Management Practice.

Validity Test

From the results of validity testing with the Principal Component Analysis (PCA) approach, the following results are obtained:

Table 3. Validity Test

Variable	**Composite Reliability (rho_a)**	**Composite Reliability (rho_c)**
LC	0,600	0,776
RMP	0,795	0,771
ER	0,921	0,962

Source: analyzed by researcher

The results of the validity test show a minimum r value of > 0.5, so that it can be said that all variables are valid. (Hair, Black, Babin, Anderson, & Tatham, 2006; Manning & Don Munro 2006; Pallant, 2016).

Reliability Test

Reliability test using SPSS produces results as below:

		N	%	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
Cases	Valid	30	100	0.908	0.926	12
	Excluded *)	0	0			
	Total	30	100			

*) Listwise deletion based on all variables in the procedure

Figure 3. Reliability Test

Source: analyzed by researcher

Data analysis results yielded all p-values (0.90). It can be said that all measurement concepts have excellent reliability for each item/item/questionnaire variable (Manning & Munro, 2006; Gregory, 1996).

CONCLUSIONS

Based on the research, discussion, and problem-solving results described in the previous chapter, this study answers the research question as follows.

1. Leadership competence has a significant impact on risk management practices and is primarily influenced by the inspirational aspect of the leader. Administrative factors inspire employees to solve complex issues related to risk management practices.

2. Risk management practices have a significant impact on organizational resilience and are primarily influenced by the risk treatment aspect.

3. Leadership competencies have a significant impact on organizational resilience and are influenced primarily by the inspiration dimension of leadership and the fact that organizational leaders are the source of inspiration in building organizational resilience. considered important.

4. Risk management practices are the intermediary that binds leadership competencies and is a source of inspiration for promoting risk management best practices to enhance organizational resilience, particularly for management. have a great effect on power.

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