Eduvest – Journal of Universal Studies
Volume 4 Number 05, May, 2024
p- ISSN 2775-3735- e-ISSN 2775-3727

THE ROLE OF RISK MANAGEMENT IN ENHANCING COMPANY RESILIENCE

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ABSTRACT

In an era of globalization full of uncertainty, companies are faced with various risks that can disrupt the smooth running of operations and even threaten their sustainability. The aim of this research is to analyze the role of risk management in increasing company resilience. This study used qualitative research methods. The data collection technique in this research is literature study. The data that has been collected is then analyzed in three stages, namely data reduction, data presentation and drawing conclusions. The research results show that the role of risk management in increasing company resilience is as a tool to identify, measure and manage potential risks that can have a negative impact on the company's strategic targets. Implementing risk management can help companies build resilience against risks that can disrupt operations, protect organizational assets, reduce losses, increase compliance with applicable regulations, laws or standards, and optimize opportunities. Implementing risk management can be done through several steps, such as risk identification, risk evaluation and risk management.

KEYWORDS *Risk Management, Resilience, Company*

INTRODUCTION

In an era of globalization filled with uncertainty, companies face various risks that can disrupt their operations and even threaten their survival. Technological growth, political and regulatory changes, global market fluctuations, and economic instability are just a few examples of many factors that can pose risks to companies. Additionally, increasing competition, challenges in maintaining data security and privacy, and reputation-related risks are also important considerations for

How to cite:	Robertus Maria Bambang Gunawan. (2024). The Role Of Risk Management In Enhancing Company Resilience. *Journal Eduvest. 4* (5): 4151-4159
E-ISSN:	2775-3727
Published by:	https://greenpublisher.id/

companies in managing their risks. Therefore, it is essential for companies to implement effective risk management strategies.

Risk management is a structured method that includes the processes of identifying, evaluating, controlling, and monitoring risks that can affect the achievement of an entity's objectives. Its focus is on recognizing potential problems or negative impacts arising from uncertainty or changes in the operational environment, and taking necessary actions to mitigate risks or manage their impacts (Radiansyah et al., 2023).

These risk threats are also implemented by companies as an effort to maintain corporate resilience. Corporate resilience is a company's ability to endure and adapt in the face of various challenges, risks, and changes in the external and internal environment. This involves the company's ability to respond effectively to disruptions or crises that may occur, such as market changes, intense competition, economic instability, natural disasters, or other challenges (Bahari, 2023).

Risk management issues often become a concern in government administration, even regulated in several established regulations. One example is Government Regulation Number 60 of 2008 concerning the Government Internal Control System (SPIP). This regulation mandates the implementation of risk management as part of the control of activities in Ministries/Agencies and Local Governments (Rachman & Andrianto, 2015).

The Ministry of Administrative and Bureaucratic Reform issued Ministerial Regulation Number 5 of 2020 concerning Electronic-Based Government Systems related to Risk Management. In this regulation, risk management is required to be integrated into various activities from planning to implementation (Ministry of Energy and Mineral Resources, 2022).

Previous research by Asir et al., (2023) shows that risk management has a significant impact on company performance. Risk management plays a positive role in improving company performance. It is considered one of the important guidelines for effectively managing company resources, enabling companies to achieve optimal value and attain targeted profits.

Another study by Monazzam & Crawford (2024) reveals that various Enterprise Risk Management (ERM) practices, such as risk governance frameworks, risk culture, risk artifacts, and risk awareness, have diverse impacts on resources and corporate resilience. The development from conventional risk management to ERM is seen as an ongoing process to ensure that risk management remains aligned with company strategies.

The novelty of this research lies in its subject, corporate resilience, which has not been previously studied in conjunction with risk management. The theoretical implication of the role of risk management in enhancing corporate resilience is that risk management theory provides a conceptual and methodological foundation for companies in facing a complex and dynamic business environment. The aim of this study is to analyze the role of risk management in improving corporate resilience.

RESEARCH METHOD

This research employs a qualitative research method. Qualitative research is an approach aimed at understanding complex and contextual phenomena in a deep and detailed manner. This method focuses on interpreting the meaning of the data obtained, recognizing that social reality is subjective and can vary between individuals or groups (Hasan et al., 2023). The data collection technique used in this research is literature review. A literature review is the process of gathering information and data from various written sources relevant to the research topic. This technique involves analyzing books, scientific journals, articles, research reports, official documents, and other sources related to the topic under study. The collected data is then analyzed in three stages: data reduction, data presentation, and conclusion drawing.

RESULT AND DISCUSSION

A company is one of the main pillars in driving a country's economy due to its ability to utilize labor and natural resources in the production of goods and services. A company is a form of entity or organization established by an individual or group, with the primary goal of seeking profit through activities conducted regularly or with equipment (Fauzi, A., & Handayani, I. P. 2019). The main objective of a company is to utilize human and natural resources to efficiently produce goods or services, in order to generate as much profit as possible. Companies also serve as venues for production activities, where goods or services are then sold to the public. This is done by producing goods or services that can solve societal problems or meet their needs (Ramadhani et al., 2023).

According to Setia (2015), there are two directions of uncertainty within a company, leading to either beneficial or adverse possibilities. Uncertainty leading to beneficial possibilities is termed "opportunity," while uncertainty leading to adverse possibilities is termed "risk." Risk in this context arises due to a lack of information about future events. In general, risk can be defined as a situation where a company faces the possibility of an event occurring that can have harmful impacts.

Corporate risk can be defined as the potential for hazards or uncertainties in daily activities. This risk refers to the possibility of unwanted events occurring that can cause losses if not anticipated or managed properly (Fitrianti, 2017). This highlights the importance of managing corporate risk, as unmanaged risk can be very dangerous and disrupt corporate resilience.

Conversely, a resilient company will always be able to maintain its business resilience with high performance and the ability to continually renew itself through innovation. The concept of business resilience refers to an organization's adaptive ability to face disruptions. According to Simeone (2015), business resilience can be defined as an organization's capability to quickly adapt when facing disruptions, while maintaining the continuity of business operations, human resources, assets, and overall company equity. Business resilience emphasizes the main ability of an organization to sustain business continuity amid environmental uncertainty. This includes the ability not only to survive but also to thrive in facing complex and diverse challenges.

According to Erol et al. (2010) in Bahari (2023), the characteristics of corporate resilience are defined as the ability to:

1. Prevent the occurrence of disruptive phenomena because the company has systems or strategies designed to identify potential threats or disruptions and take proactive steps to prevent these disruptions from occurring or significantly impacting business operations.
2. Control the effects of disruptive phenomena to prevent them from worsening. This refers to the company's ability to respond quickly when disruptions or crises occur and implement necessary actions to reduce their negative impacts and prevent the situation from deteriorating.
3. Recover from the disruptive phenomena that have occurred, demonstrating the company's ability to recover and restore operations after experiencing disruptions or crises. This involves a structured recovery process, including damage evaluation, system repairs, and learning from experiences to enhance future resilience.

The importance of corporate resilience highlights the need to protect companies from various risks that could threaten their future business continuity. To achieve this resilience, companies need to control potential risks, and one approach used is through risk management (Agus, A., & Fauzi, A., 2020). Risk management is a key element in the business continuity management framework. This approach enables companies to strengthen their preparedness in facing identified risks (Torabi et al., 2016). According to Rahayu (2023), risk management becomes an important tool in protecting companies from potential losses or negative impacts that can result from various risks. Risk management is an essential element in a company's business operations, as the corporate world evolves and the complexity of business activities increases, so do the risks faced. The main goal of implementing risk management is to protect the company from potential losses that may arise from these risks (Arifudin et al., 2020). Quoting Sadgrove (2016), risk management can help companies reduce costs, avoid disruptions, and prevent dissatisfaction.

Corporate risk management is the primary approach in managing and optimizing risks, enabling companies to determine the level of uncertainty and risk that the organization can accept. Involving all aspects of the company, corporate risk management functions as a strategic risk analysis at all organizational levels, cutting across business units and departments, and considering processes from start to finish. By adopting a risk management approach, companies gain the ability to align their risks and tolerances with business strategies by identifying events that can be leveraged as opportunities while managing their adverse impacts and subsequently developing action plans to manage them (Alijoyo & Norimarna, 2021).

According to Sajjad et al. (2020), risk management is a systematically and logically organized method aimed at directing, identifying, monitoring, establishing solutions, reporting risks, and managing an organization to handle risks. The study also explains several types of risks in a company, such as: (Sajjad et al., 2020)

1. **Financial Risk (Leverage)** Financial risk is the possibility of losses or uncertainties in the company's finances. This type of risk specifically affects the income of a business and is related to capital, revenue, and losses.

2. **Product Risk** Product risk is related to operational risks, but the difference lies in the output of the products (finished goods) produced by the company. Product risk is directly connected to consumers and needs to be anticipated, managed, and re-evaluated.
3. **Marketing Risk** Marketing risk depends on the environment in which the company operates, including the level of competition, raw material prices, and promotional strategies. It is crucial for companies to innovate in facing marketing risks to minimize their impact and potentially turn them into added value for the company and influence its reputation.

These risks must be identified and managed using a risk management approach. Risk management plays a crucial role in identifying significant risks that can threaten the success or survival of a company, allowing for efficient handling. Errors in assessment or failure to recognize risks can be fatal, ranging from losing customers to destructive impacts, such as financial losses, environmental damage, or even bankruptcy (Falkner & Hiebl, 2015).

The role of risk management in enhancing corporate resilience through strategic steps, according to Brand-William (1995) as cited by Nuraini (Nuraini, 2022), involves three main stages: risk identification, risk measurement, and risk handling. The initial stage in risk management is identifying the risks that the company might face. This process involves recognizing various threats and potential losses that may arise in the company's business activities (Lisnawati et al., 2023).

Identifying risks involves a comprehensive review of possible threats that could affect the continuity of operations and the company's goals. This includes a deep understanding of all types of risks that might occur and hinder business operations. Risk identification involves understanding what, why, and how factors can influence the occurrence of risks and identifying their sources. Various approaches can be used in the risk identification stage, such as brainstorming, checklists, SWOT analysis (Strengths, Weaknesses, Opportunities, Threats), Risk Breakdown Structure, Root Cause Analysis, Delphi method, interviews, and other methods (Sari et al., 2017). Effective risk identification allows a company to prepare for various challenges that might arise in its business environment. This process is a crucial foundation for developing an appropriate risk management strategy, with the next step after identifying risks being risk measurement.

Measuring risks is a way for companies to assess the magnitude or severity of the risks they will bear over a certain period based on the identified risks. The goal of risk measurement is to determine the likelihood and impact of risks, enabling the company to understand the level of risk it faces. Additionally, measuring risks allows the company to assess the impact of these risks on overall performance (Munawwaroh, 2017).

Risk measurement can be done quantitatively or qualitatively, with commonly used methods including probability-impact analysis, sensitivity analysis, and statistical approaches. Through risk measurement, companies can gain a better understanding of the level of risks faced and identify areas that require more attention (Lisnawati et al., 2023). This allows companies to prioritize risks and determine which risks are most relevant or have the most significant impact, enabling them to focus on those that need deeper attention and handling to maintain business stability and success.

The final step in risk management is risk handling, where the company develops strategies to address or manage the identified risks. Managing risks involves actions taken by the company to mitigate the identified and measured risks. Managing risks is a process that includes developing strategies and tactics to reduce potential risks while maximizing existing positive opportunities (Lisnawati et al., 2023).

According to Dalimunthe et al. (2021), there are several ways to handle risks, such as avoiding risk (risk avoidance), where the company withdraws from activities that have high risk to avoid potential losses. Second, reducing risk (risk reduction), which involves minimizing the possibility of losses by taking appropriate preventive or mitigation measures. Third, retaining risk (risk retention), where the company chooses to bear the risk without taking any action because the amount is economically small. Fourth, sharing risk (risk sharing), which means involving other parties to jointly face the risk. Companies can share risks with business partners, suppliers, or other interested parties. Finally, transferring risk (risk transferring), where the company transfers the risk to another party that is willing and able to bear it, such as an insurance company. By paying insurance premiums, the company can transfer some or all of the risk to the insurance company, which will be responsible for covering losses if the risk occurs.

By using various methods to handle risks, companies can manage the risks they face more effectively, minimize potential losses, and maximize growth and success opportunities. Risk management allows potential risk events to be better identified. Once identified, companies can evaluate the consequences of each event, enabling them to reduce the impact of potential risks. It is important to note that risk management activities are carried out before the risk actually occurs, acting as a preventive measure (Sari et al., 2017).

According to Anita et al. (2023), implementing risk management provides several benefits for companies, including reducing financial risks. Effective risk management allows companies to identify and reduce financial risks, such as default, market, credit, and operational risks. Additionally, risk management helps improve operational efficiency by reducing risks and enhancing employee safety and health, thereby reducing operational disruptions caused by risks. Risk management also helps companies identify potential project risks and take preventive measures to avoid project failures. Furthermore, risk management increases risk awareness throughout the organization and enhances employees' ability to identify and manage risks. It also helps companies avoid failures or losses that could damage their reputation. Finally, risk management can reduce risks and ensure compliance with applicable laws and regulations, helping companies avoid penalties and legal risks (Rahayu, 2023).

An example is the publicly traded company PT Unilever Indonesia Tbk, a large company that manages risk effectively. Effective risk management is crucial for good business management, and the company's success depends on its ability to identify and manage key risks and opportunities. Internal controls and compliance monitoring are used to evaluate risk management strategies. Internal and external audits play a significant role in ensuring operational risks and business execution are well managed. This strengthens corporate resilience, evidenced by PT Unilever Indonesia Tbk's longevity, having been in operation for over 90 years since its establishment on December 5, 1933, and currently being a leader in the fast-moving consumer goods (FMCG) industry in Indonesia. The company and its subsidiaries offer a wide range of products, including household and personal care, detergents, food, soap, ice cream, and fruit juices. Unilever Indonesia believes that businesses should be part of the solution (Sinulingga, 2019).

Based on these findings, by implementing risk management, companies can enhance their resilience to various risks that could disrupt operational continuity. This includes protecting organizational assets from financial losses, reducing overall financial loss potential, increasing compliance with applicable regulations and laws, and optimizing available opportunities. This enhances corporate resilience in facing uncertainties and challenges that may arise in their business environment.

CONCLUSION

The role of risk management in enhancing corporate resilience is crucial as it serves as an instrument to identify, measure, and manage potential risks that could negatively impact the company's strategic objectives. By implementing risk management, companies can strengthen their resilience against risks that may disrupt operational continuity, protect organizational assets, reduce potential financial losses, improve compliance with applicable regulations and laws, and optimize available opportunities. The process of applying risk management involves several key steps, including identifying potential risks, evaluating the severity and likelihood of these risks, and managing risks through appropriate mitigation strategies and the development of effective follow-up plans.

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