

# Interplay of Risk Management in the Multi-Disruption Era and Agency Theory Insights: A Literature Review

*Risk Management in  
Multi-Disruption Era*

495

Nisrina Afifawati

*Department of Management, Faculty of Economics, Universitas Tidar, Magelang,  
Indonesia*

E-Mail: nisrinaafifawati@gmail.com

Lia Asriyani Nur Khasanah

*Department of Management, Faculty of Economics, Universitas Tidar, Magelang,  
Indonesia*

Axel Giovanni

*Department of Management, Faculty of Economics, Universitas Tidar, Magelang,  
Indonesia*

Submitted:  
2 MAY 2023

Accepted:  
23 JULY 2023

## **ABSTRACT**

*This research aims to provide empirical insights into the intersection of risk management and agency theory, focusing on their role in preparing for and navigating contemporary disruptions. Risk management is conceptualized as a structured approach for addressing uncertainty related to threats, involving risk assessment, strategy formulation, and risk mitigation through empowerment and resource management. Using a literature review methodology, the study unveils a substantial influence of risk management on entrepreneurial Enterprise Risk Management (ERM), particularly within the domain of intellectual capital. The findings deepen our understanding of how effective risk management practices are crucial in navigating the dynamic landscape of modern business disruptions.*

**Keywords:** *Intellectual capital, Risk management, Entrepreneurship, Disruption era*

## **ABSTRAK**

*Penelitian ini bertujuan untuk memberikan wawasan empiris tentang perpotongan antara manajemen risiko dan teori agensi, dengan fokus pada peran keduanya dalam mempersiapkan dan menghadapi gangguan di era kontemporer. Manajemen risiko dikonseptualisasikan sebagai pendekatan terstruktur dan metodologi untuk mengatasi ketidakpastian yang terkait dengan ancaman. Ini mencakup sejumlah aktivitas manusia, seperti penilaian risiko, formulasi strategi untuk manajemen yang efektif, dan mitigasi risiko melalui pemberdayaan dan pengelolaan sumberdaya. Dengan menggunakan metodologi tinjauan literatur, penelitian ini mengungkapkan pengaruh yang signifikan dari manajemen risiko pada Manajemen Risiko Wirausaha (ERM) dan terutama terlihat dalam ranah modal intelektual. Temuan ini memberikan kontribusi pada pemahaman yang lebih mendalam tentang seberapa pentingnya praktik manajemen risiko yang efektif dalam lanskap bisnis modern yang dinamis.*

**Kata kunci:** *Modal intelektual, Manajemen risiko, Kewirausahaan, Era disrupsi*

**JIMKES**

Jurnal Ilmiah Manajemen  
Kesatuan  
Vol. 11 No. 2, 2023  
pp. 495-502  
STIE Kesatuan  
ISSN 2337 – 7860

## **INTRODUCTION**

All global business actors, including those in Indonesia, currently face economic pressure and uncertainty stemming from environmental changes, such as technological advancements and globalization. These shifts, impacting mindsets, have necessitated a reevaluation of risk management governance systems in companies. The presence of disruptions, particularly in Indonesia, is pervasive and spans various aspects, constituting a multi-disruption phenomenon triggered by the millennial storm, the fourth industrial revolution, and the VUCA phenomenon, followed by the Covid-19 pandemic. In the intensely competitive business landscape, companies must continually evolve strategies to excel globally and remain resilient (Kaveh et al., 2015). The escalating competition underscores the need for companies to navigate uncertainties that present both opportunities and threats to their goals, originating from internal and external sources.

Changes in consumer preferences, shifting from conventional to internet users, along with evolving regulations and increasingly challenging macroeconomic conditions, have prompted numerous companies to close their businesses. This decision often stems from a cultural inertia in management. It is plausible that many businesspeople are unprepared to operate in an era characterized by multiple disruptions and the VUCA phenomenon—Volatility, Uncertainty, Complexity, and Ambiguity. Addressing these complex changes necessitates companies to innovate and transform their business models and risk management governance systems, enabling them to compete effectively. Strategic management, encompassing comprehensive planning across all organizational components, is outlined in the form of a strategic plan and operational planning, detailed in work programs and annual projects, as explained by Andriansyah et al. (2019).

The millennial storm, referring to the emergence of a new generation, encompasses those born from 1980 to 1995 (Generation Y) and those born from 1996 to 2000 (Generation Z). These two generations share unique characteristics distinct from previous ones, influenced by growing up in an era of advanced technology. This upbringing has led to a lifestyle and behavior heavily reliant on technology, with a tendency to focus on gadgets for various purposes, potentially contributing to a perception of laziness. Revolution 4.0, characterized by advancements like big data, the Internet of Things (IoT), robotics, and 4D printing, brings significant changes to work processes, potentially leading the millennial generation to feel overly dependent on all-in-one technology, neglecting manual data entry.

Multi-disruption encompasses changes in global integration, deregulation, creative business practices, rising middle incomes, environmental awareness, and Industry 4.0, giving rise to the VUCA phenomenon (Volatility, Uncertainty, Complexity, and Ambiguity). This state of constant uncertainty, occurring anytime and anywhere, has brought about substantial changes, including culture shock, to nearly all companies. VUCA urges businesspeople to persist in the analysis process for planning, risk management, problem-solving, and decision-making, aligning decisions with the four anomaly factors (Jannah et al., 2020).

Change carries the inherent notion of risk, as future outcomes may deviate from desired ones. In economic exchanges, risk is inevitable, and transactions devoid of risk disadvantage one party, discouraging engagement (Peters, 1991). Consequently, companies must adopt a risk management perspective, examining implications for running goals such as financial targets, cost budgets, profits, cash flow improvements, and management reports, aligning with evolving times and risk management developments. The research contributes theoretical insights to enrich financial literature and practical ideas for companies to mitigate agency conflicts, especially through intellectual capital and overconfidence perspectives. Given that agency theory and intellectual capital involve non-monetary and monetary measurements (Supriyono and Muslimah, 2018), this study employs a literature review method, aligning with the objective to delve into risk management in an era of multiple disruptions. The research utilizes secondary data from official book sites and previous studies.

## **RESULTS AND DISCUSSION**

Strategic planning is integral to risk management, as a well-crafted strategy contributes to achieving effective goals. Given the current landscape of financial management, the emergence of moral hazard in entrepreneurship underscores the need for robust risk management. In MSMEs, entrepreneurial marketing relies heavily on word of mouth (WOM) and necessitates promotional activities, including below-the-line strategies (Pamuji, 2018). Entrepreneurial activities, encompassing identification of new opportunities, application of innovative techniques, product delivery, and understanding market needs, are gauged through the innovation orientation of a company's behavior. In this context, COSO serves as a crucial tool for enterprise risk management, aligning with the organization's strategy and functioning as an integrated risk management system. It involves mechanisms that integrate organizational risk, control, and risk minimization for effective reporting, ensuring the company's continuity and preventing losses from overshadowing its sustainability (Colquitt & Hoyt, 1997).

Examining the role of entrepreneurship in economic growth, Indonesia's economy can achieve real growth in each province and drive the convergence process through entrepreneurial activities. This is facilitated by knowledge spillover, where entrepreneurs create new products or services, fostering economic growth. The fraud phenomenon exemplifies internal risks in a company due to weak risk management. Implementing Enterprise Risk Management (ERM) helps control management activities, minimizing the occurrence of detrimental fraud. Despite regulations requiring financial and non-financial companies to submit risk information in annual reports, there is no specified minimum limit for risk management disclosure. Non-financial companies are not obliged to disclose minimum risk management practices, and the disclosure of a risk management committee's existence is advisory rather than mandatory for them (Giovanni et al., 2021). For instance, lax ERM disclosure provisions for non-financial companies lead to a tendency to overlook the completeness of ERM disclosure instruments (Anisa and Prastiwi, 2012). The disclosure of intellectual capital (IC) information is also crucial non-financial information for investors. Intellectual Capital (IC) comprises human capital, organizational capital (structural capital), and customer capital (relational capital), representing integral components for optimizing company performance. However, the extent of ERM divergence does not impact backers' service in money management; it merely signals the potential for the company's reputation to have a positive or negative image through risk management. Therefore, adopting a perspective that addresses risks within the company becomes essential for managing existing conflicts.

In this regard, it is necessary to examine the role of Intellectual Capital. Intellectual capital comprises three components: human capital residing in people, structural capital residing in companies, and relational capital residing in relationships between companies (Febry, 2018). Different environments and varied contents of the intellectual capital dimensions determine the procedures for achieving superior performance in a company. When intellectual capital is assessed with dimensions reflecting real impact, these dimensions become integral to the company's capabilities, contributing to competitive advantage. The process of recording intellectual capital is likewise part of a developed risk management system. Intellectual capital, an intangible asset crucial for strategy formulation in companies (Lestari, 2017), is considered the wealth of the company through its main moving capital components, comprising knowledge assets that enhance competitive advantage (Robiyanto, 2021). In a knowledge-based management system, conventional capital, such as natural resources and financial resources, becomes less significant compared to knowledge and technology.

Digital risk management aims to assess, monitor, and respond to new risks arising from digital transformation and the ongoing adoption of disruptive technologies. The integration of technology into daily business processes by the public sector often leads to various undesirable outcomes. Beta serves as a measure of the volatility of a security or portfolio's return concerning market returns, indicating the systematic risk relative to

market risk. Volatility, on the other hand, refers to the fluctuation of security or portfolio returns in a given period. According to the Institute of Risk Management, risk management is defined as the combination of the likelihood of an event with its various consequences.

Risk management provides companies with the understanding to manage risks across all business units and helps them increase return on capital and capital efficiency (Yulinda et al., 2020). Nocco and Stulz (2006) found that companies can gain long-term competitive advantages because risk management provides micro-level benefits by determining risk-taking responsibilities at lower levels, such as how and by whom the risk is owned. Some researchers have found mixed or adverse results regarding the relationship between risk management and firm value. McShane et al. (2011) investigated the effect of risk management on firm value and found evidence of a positive relationship between increasing levels of ERM capabilities and firm value, but no additional firm value for firms achieving high risk management ratings. Furthermore, Kitahara et al. (2011) conducted theoretical research and tested the influence of management on firm value, finding that the implementation of risk management showed a significant negative correlation with firm value. Research conducted by Supriyadi and Setyorini (2020) shows that there is no significant relationship between company value and risk management; this could happen because the effects of risk management have not been reflected in company value.

The implementation of risk management must follow a top-down approach because the results felt by all levels of the organization's management take a long time. Understanding risk management by middle to lower-level administrators can be considered an unnecessary additional workload, so implementation initiatives must start from top leadership. Strong leadership and commitment demonstrated by top management are also key steps in implementing risk management. Furthermore, there needs to be official written regulations governing the implementation of risk management, in accordance with the characteristics of bureaucracy, which generally requires a legal umbrella. Human resource (HR) development is an important step in implementing risk management. The creation of a critical mass, namely the minimum number of individuals who have the knowledge, attitudes, behavior, and skills needed to carry out risk management, can be achieved through training programs and risk management competency certification. Additionally, developing a risk culture is the key to successful implementation, in accordance with established standards. Periodic maturity measurements are needed to ensure risk management implementation steps are on the right track and to plan future improvements. As in various management systems, the implementation of risk management also requires the principle of continuous improvement.

Overconfidence is the characteristic of exaggerating knowledge, underestimating risk, and overstating predictive ability and information reliability (Lhoungu et al., 2016). Thus, overconfidence is defined as the condition of someone who believes excessively. One factor leading to the emergence of overconfident behavior is advice; the more information and advice a person receives from experienced individuals, the higher their level of self-confidence becomes (Giovanni et al., 2021). Overconfidence represents a form of risk frequently observed in entrepreneurship due to excessive reliance on one's abilities rather than external input, leading to a misalignment between expectations and reality (Sabir et al., 2019). Overconfidence can also be interpreted as a form of ambition coupled with underestimating all forms of risk. Risk management is essential to identify the potential magnitude of risks, especially at the level of overconfidence, which may influence decision-making. When making decisions, there can be a conflict of perspectives between overconfidence and agency theory. Psychologically, overconfidence is associated with knowledge, hope for success, and positive expectations from events, arising from individuals not recognizing the limits of their knowledge. Decision-makers' excessive optimism in the initial evaluation stage makes it challenging to incorporate additional information acquired later, as their overconfidence impedes it. According to numerous

researchers, overconfidence is seldom directly observed but is manifested in passive actions, particularly in decision-making, where the decisions taken significantly impact a company's operational trajectory.

Agency theory is defined as the relationship between actors, such as shareholders, and agents, such as company executives and managers. In this theory, shareholders, who are owners or leaders of the company, employ agents to carry out work. Shareholders delegate the running of the business to directors or managers, who act as shareholders' agents (Setiawati et al., 2022). Agency theory suggests that employees or managers in organizations can be self-interested. Shareholders, according to agency theory, expect agents to act and make decisions in the interests of the principal. However, agents may not necessarily make decisions in the principals' best interests; they may succumb to self-interest, engage in opportunistic behavior, and fail to align with the principal's aspirations and the agent's pursuits. Additionally, the understanding of risk can be lost in this approach. Despite such setbacks, agency theory was essentially introduced as a separation of ownership and control (Bhimani et al., 2011). Agents are controlled by rules created by principals, with the goal of maximizing shareholder value. Therefore, a more individualistic view is applied in this theory (Clarke, 2014). Indeed, agency theory can be used to explore the relationship between ownership and management structure. However, in cases where there is separation, an agency model can be applied to align management objectives with those of the owner (Djabid, 2009). The model of an employee described in agency theory is more self-interested, individualistic, and bound by rationality, where rewards and punishments seem to take priority (Smulowitz et al., 2019). The results and discussions in the training provide an explanation regarding the development of implications related to intellectual capital with agency conflict and overconfidence with agency conflict. The relationship between understanding intellectual capital and overconfidence and agency conflict is represented through mathematical functions and the conceptual framework as follows.

$$\text{Agency conflict} = f(\text{Intellectual Capital}, \text{Overconfidence})$$

Overall, this literature review revealed that risk management plays a vital role in capital protection and optimizing returns against risk. In the expansive business landscape, including the SME sector, continual risk management implementation ensures maximum control, facilitating the identification, measurement, monitoring, and control of all risk exposures. Studies suggest that enterprise risk management reduces financial distress costs, enhances managerial risk aversion, alleviates expected tax payments, addresses underinvestment issues, and instills confidence for new investment projects. Effective risk management improves company performance by lowering capital costs, increasing investor confidence, and enhancing the company's rating, showcasing debt-paying capability. Thus, relevant risk management disclosure underscores a company's ability to overcome challenges, positioning risk as a factor contributing to increased profits. This research aims to develop a theoretical study and conceptual framework regarding agency conflicts from the perspectives of intellectual capital and overconfidence (Emar & Ayem, 2020). Through the intellectual capital lens, agency conflicts may arise due to subjective tendencies in fund allocation, particularly regarding income in the form of dividends. Individuals with higher mental accounting scores are presumed to articulate financial planning more clearly. From an overconfidence standpoint, agency conflicts stem from management's excessive valuation of its goal-achieving abilities, disregarding the likelihood of risks (Iswajuni et al., 2018).

## CONCLUSIONS

This research provides theoretical and practical contributions related to the development of risk management in an era of multiple disruptions. The research results highlight the importance of involving intellectual capital and understanding the impact of overconfidence in managing agency conflicts. The use of the literature study method in

this research allows an in-depth analysis of key concepts related to risk management. Risk factors are obtained based on activities in the production process which include the demand process, production process, environmental factors and delivery. Based on risk management analysis, it was found that the most dominant risk factors are environmental factors with their risk drivers.

From the analysis of the Isikawa Diagram and the 5W+1H program, the main recommendations that companies need to pay attention to are related to availability and feasibility. For companies in the era of multiple disruptions, it is recommended to focus on developing intellectual capital as an integral part of the risk management strategy. In addition, companies need to increase awareness of the potential impact of overconfidence in decision making, by involving a more objective approach. Further research can be conducted to dig deeper into the implementation of these concepts in specific industrial contexts and expand understanding of other factors that influence risk management in an era of multiple disruptions.

## REFERENCES

- [1] Andriansyah, A., Taufiqurokhmana, T., & Wekkeb, I. S. (2019). Responsiveness of public policy and its impact on education management: An empirical assessment from Indonesia. *Management Science Letters*, 9, 413-424.
- [2] Anisa, W. G., & Prastiwi, A. (2012). *Analisis Faktor Yang Mempengaruhi Pengungkapan Manajemen Risiko (Studi empiris pada laporan tahunan perusahaan-perusahaan nonkeuangan yang terdaftar di BEI tahun 2010)* (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).
- [3] Bhimani, R. H., Anderson, L. C., Henly, S. J., & Stoddard, S. A. (2011). Clinical measurement of limb spasticity in adults: state of the science. *Journal of Neuroscience Nursing*, 43(2), 104-115.
- [4] Clarke, T. (2014). The impact of financialisation on international corporate governance: the role of agency theory and maximising shareholder value. *Law and Financial Markets Review*, 8(1), 39-51.
- [5] Colquitt, L. L., & Hoyt, R. E. (1997). Determinants of corporate hedging behavior: Evidence from the life insurance industry. *Journal of risk and insurance*, 649-671.
- [6] Djabid, A. W. (2009). Kebijakan dividen dan struktur kepemilikan terhadap kebijakan utang: Sebuah perspektif agency theory. *Jurnal Keuangan dan Perbankan*, 13(2), 249-259.
- [7] Emar, A. E. S., & Ayem, S. (2020). Pengaruh pengungkapan enterprise risk management dan pengungkapan intellectual capital terhadap nilai perusahaan dengan good corporate governance sebagai moderasi. *Wacana Ekonomi (Jurnal Ekonomi, Bisnis dan Akuntansi)*, 19(2), 79-90.
- [8] Febry, I. H. (2018). Pengaruh modal intelektual terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening. *Jurnal Manajemen Bisnis Indonesia (JMBI)*, 7(3), 284-293.
- [9] Giovanni, A., Utami, D. W., Astuti, U. D., & Fania, F. (2021). Konflik Keagenan dalam Perspektif Keuangan Keperilakuan. *JAF (Journal of Accounting and Finance)*, 5(1), 1-10.
- [10] Iswajuni, I., Soetedjo, S., & Manasikana, A. (2018). Pengaruh enterprise risk management (erm) terhadap nilai perusahaan pada perusahaan manufaktur yang terdaftar di bursa efek. *Journal of Applied Managerial Accounting*, 2(2), 275-281.
- [11] Jannah, L., Aulia, D., & Sumunar, K. I. (2020). Enterprise Risk Management Disclosure, Komite Manajemen Risiko Dan Nilai Perusahaan. *Syntax Literate*, 5(8), 595-604.
- [12] Kaveh, D., Bamipour, E. M., Salari Far, M., & Salari Far, M. (2015). The relationship between knowledge management and competitive advantage: a case study in small and medium-sized companies in the packaging industry of Khorasan Razavi. *European Online Journal of Natural and Social Sciences: Proceedings*, 4(1 (s)), pp-650.
- [13] Kitahara, C. M., Platz, E. A., Freeman, L. E. B., Hsing, A. W., Linet, M. S., Park, Y., ... & Berrington de González, A. (2011). Obesity and thyroid cancer risk among US men and women: a pooled analysis of five prospective studies. *Cancer epidemiology, biomarkers & prevention*, 20(3), 464-472.
- [14] Lestari, H. S. (2017). Pengaruh intellectual capital terhadap kinerja perusahaan asuransi di indonesia. *Jurnal Manajemen*, 21(3), 491-509.
- [15] Lhoungu, V., Mishra, B., & Suresh, P. S. (2016). Public expenditure and economic growth in Nagaland: A time series analysis. *International Journal of Research in Social Sciences*, 6(10), 839-888.
- [16] McShane, M. K., Nair, A., & Rustambekov, E. (2011). Does enterprise risk management increase firm value?. *Journal of Accounting, Auditing & Finance*, 26(4), 641-658.
- [17] Nocco, B. W., & Stulz, R. M. (2006). Enterprise risk management: Theory and practice. *Journal of applied corporate finance*, 18(4), 8-20.

- [18] Pamuji, M. (2018). Entrepreneurial Marketing: Mengintegrasikan Pemasaran dan Kewirausahaan Dalam Upaya Meningkatkan Kinerja Usaha Mikro Kecil dan Menengah (UMKM). *Jurnal Ilmiah Ekonomi Global Masa Kini*, 9(1), 8-14.
- [19] Robiyanto, R., Putra, A. R., & Lako, A. (2021). The effect of corporate governance and intellectual capital toward financial performance and firm value of socially responsible firms. *Contaduría y administración*, 66(1), 1-24.
- [20] Sabir, S. A., Mohammad, H. B., & Shahar, H. B. K. (2019). The role of overconfidence and past investment experience in herding behaviour with a moderating effect of financial literacy: evidence from Pakistan stock exchange. *Asian Economic and Financial Review*, 9(4), 480-490.
- [21] Setiawati, L., Kurniawan, I. S., & Lahaya, I. A. (2022). The influence of enterprise risk management disclosure and intellectual capital disclosure on the value of companies with an independent board of commissioners as moderation variables. *INOVASI*, 18, 38-48.
- [22] Smulowitz, S., Becerra, M., & Mayo, M. (2019). Racial diversity and its asymmetry within and across hierarchical levels: The effects on financial performance. *Human Relations*, 72(10), 1671-1696.
- [23] Supriyadi, A., & Setyorini, C. T. (2020). Pengaruh pengungkapan manajemen risiko terhadap nilai perusahaan melalui kinerja keuangan di industri perbankan Indonesia. *Owner: Riset dan Jurnal Akuntansi*, 4(2), 467-484.
- [24] Supriyono, S., & Muslimah, E. (2018). Perancangan sistem informasi manajemen kas berbasis web studi kasus: RS dr. Etty Asharto Batu. *MATICS: Jurnal Ilmu Komputer dan Teknologi Informasi (Journal of Computer Science and Information Technology)*, 10(1), 21-25.
- [25] Yulinda, N., Nasir, A., & Savitri, E. (2020). Pengaruh Pengungkapan Manajemen Risiko Perusahaan Dan Modal Intelektual terhadap Nilai Perusahaan. *Bilancia: Jurnal Ilmiah Akuntansi*, 4(1), 102-114.

