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RISK LEADERSHIP AND EMOTIONAL INTELLIGENCE ON ISO 31000 APPLICATION'S EFFECTIVENESS FOR ORGANISATION

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ABSTRACT

Background: According to ISO 31000, risk management is a science in which competencies are integrated into individuals. It also emphasizes the significance of good leadership while displaying dedication to risk management implementation. Humans are emotional beings and can sometimes be swayed by the power of our emotions rather than intellectual argument.
Aim: This study discusses the interplay of emotional intelligence and risk leadership in risk management implementation.
Method: The case study verification approach was used in the research, which used a qualitative descriptive design. It employed a non-probability sampling method to choose individuals in senior management positions.
Findings: According to the findings, it is difficult for leaders to build an effective risk culture if they do not have a sufficient level of emotional intelligence. These findings may help decision-makers understand the interrelationships between emotional intelligence, risk culture, and the risk management maturity of an organization.

KEYWORDS *risk management; risk leadership; emotional intelligence*

INTRODUCTION

The significance of risk management in order to prosper in this volatile and fast-changing business climate has grown, not to mention the effects of the COVID-19 pandemic. International Organisation for Standardisation (ISO) has established an international standard of risk management guideline, ISO 31000, which the latest version was published in 2018. Surprisingly, the 16-page standard emphasizes the significance of leadership in efficiently implementing risk management in an organization.

In practice, risk often produces a negative reaction in individuals which ultimately ends in avoidance. It depends on many factors, one of which is the culture of the organisation (Barnabei, 2008). Regardless of personal ideas that may influence one's psychological processes, organizational culture is one of the most familiar and influential concepts because it affects all organizational members on a daily basis. Moreover, Lehman et al. (2004) suggest that psychological processes influence culture and, fascinatingly, culture influences psychological processes as well. Individual thoughts and actions shape cultural norms, practices, and behaviors as they evolve over time, and these sets of behaviors influence the thoughts and actions of people or a bigger entity, such as organizations.

Specifically, in managing risks, an organisation should have a mature risk culture which is the critical foundation for implementing risk management best practices (Barnabei, 2008). Collective attitudes inside organizations contribute to the overall risk culture; similarly, people shape an organization's risk culture, and risk culture influences how employees respond and react to organizational risks. However, little study has been conducted on this soft competency

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of risk management, with most studies focusing on the hard abilities instead. Therefore, this study emphasises risk leadership while taking into account the culture and attitudes involved which are highly influenced by emotions (Salovey, Mayer, & Brackett, 2004). Correspondingly, a leader's reaction and action will be depending on the perception of emotions in a particular situation (Apter, 1992). As a result, leaders must be able to identify and literate emotions in order to display risk leadership.

Every organisation, basically, has done risk management activities to some certain extent, whether intentionally or not; holistically or partially; and integrated or siloed (Center for Risk Management and Sustainability (CRMS) Indonesia, 2019). Renn (2008) and Grote (2011) emphasise that the application of risk management is one of the fastest-growing business fields, and it has become an important agenda in various sectors and industries across the globe. In particular, the government of Indonesia has placed risk management on the national agenda. In fact, the Financial Services Authority (OJK) has issued regulations related to risk management implementation, not for the banking industry only; however, The Indonesian Financial Services Authority Regulation (POJK) No. 44 of 2020 clearly states that the non-bank financial institutions, including insurance, pension funds, and financing companies are obliged to set up a risk committee and to carry out effective enterprise risk management. Besides, the government has also included risk management in the Medium-Term National Development Plan (RPJMN) 2020-2024. Furthermore, the Ministry of State-Owned Enterprises has formally proclaimed that as of 2021, every listed Indonesian state-owned firm must have a risk management unit and a board-level executive in charge of enterprise risk management implementation.

The importance of risk management has been emphasized within the country; as a result, many organizations demand their human resources to be competent in risk management. As a result, many knowledge-intensive business services, such as training organizations, professional certification bodies, universities, and so on, provide and facilitate risk-management-related upgrading programs. The most commonly taught risk management subjects are about the fundamentals—principles, structure, and process—risk assessment methodologies, risk-based internal audit, project risk management, and the execution of risk management based on the appropriate legislation for specific firms. According to an interview with one of the major risk management training providers in Indonesia, Center for Risk Management and Sustainability (CRMS) Indonesia, from the entire training activities as of 2021, there were approximately 28 public programs and some requested in-house programs. All of the programs were designed to meet risk management's technical and hard competencies. Furthermore, all requests for in-house training are concerned with the technical components of risk management implementation. On the contrary, despite the fact that risk leaders and risk leadership are recognized as critical success elements in risk management implementation, they have received the least attention. In a broader sense, the number of studies on a person's psychological process in exhibiting risk leadership in risk management implementation is quite small—and hence the interrelationships are not well developed. To fill this need, this study incorporates emotional intelligence as the psychological process of risk leadership into the larger equation of risk management implementation in an organizational setting.

Risk is not an exact matter and is multi-interpretative in nature. In addition, having the capacity to control emotion is important as well as the ability to demonstrate leadership in an

organisation (Ochsner & Gross, 2005). This research, thence, would also be taking the capability of leaders regarding emotional intelligence into the equation. Particularly, this research focuses on the dynamics of emotional intelligence in regards to the way a person demonstrates their risk leadership which, ultimately, affects the risk management maturity of an organisation. Therefore, the aim of this study is to address the question of how emotional intelligence and risk leadership affect the effectiveness of a risk management implementation based on ISO 31000 in an organisation.

METHOD

This paper is an exploratory study in which the best appropriate method to obtain answers for its research questions is by using a qualitative research approach (Kothari, 2004). The methods used to analyse data and generate new findings in this qualitative research are by conducting case studies.

Risk management is not a precise science and is multi-interpretative in nature; thus, different perceptions result in different emotions, different courses of action, distinct risk cultures, and varied attitudes toward risk. To address these multi-interpretative challenges, an open-ended response was required, as well as verified data-collection devices to account for the dimensions of emotional intelligence. The author will employ case studies as its primary verification approach to analyze the data and develop fresh discoveries. The research use both direct and indirect methods to gather all of the essential empirical evidence, including self-administered surveys, semi-structured individual interviews, direct and indirect observation, and secondary data.

The Bar-on (2006) emotional intelligence questionnaire will be adopted and adjusted to the Indonesian language and organisational context. The author ran a validity test through evidence based on test content using expert judgment by, at least, three experts in the field of risk management, governance, as well as industrial and organisational psychology. Afterward, a try-out session was carried out to 30 samples through which internal consistency will be assessed. Moreover, a correlation test was executed through an item discrimination analysis. Should an item score be below 0.3, it will be revised, and the entire adopted questionnaire will redo the validity and reliability test until all items in the questionnaire are greater than 0.3. The questionnaire then is distributed both online and on-site to eight risk management practitioners.

Risk management maturity is a proxy for an organization's risk management implementation effectiveness. It will be evaluated using ERMA RM3, which collects both primary and secondary data. The author will observe the application of ISO 31000 risk management processes in the organizations of the informants. Six attributes of risk management maturity will be analyzed at each stage of the present risk management processes. Primary data will be acquired through semi-structured interviews with the relevant players involved in the risk management process's execution and the dynamics of risk leadership inside the organization. Secondary data, on the other hand, will provide proof or evidence to back up the interview results.

Purposive sampling was employed by the author to obtain data on the levels of EI of eight informants using a questionnaire, semi-structured interview, and observation. Furthermore, based on ISO 31000:2018 and ERMA RM3, the author gives a hypothetical-based description of the dynamic of informants' leadership in an attempt to manage organizational risks inside a

corporation, which resulted in the construction of interview questions and environment for direct observation. Following that, risk leadership and maturity level were assessed through another interview based on their efforts in implementing risk management principles, structure, and processes. In particular, for primary data, the study relied heavily on narrative analysis, which took into account the context of each informant's case as well as the distinct experiences of each informant in his or her individual situation.

RESULTS AND DISCUSSION

Based on the EI questionnaire, eight informants from various organizations were interviewed (see Table 1). Following that, another set of questions was asked to explore the organization's risk management maturity, which was backed up by secondary data as proof or evidence. Table 2 summarizes each informant's EI dimensions in relation to the risk management maturity of the organization in which they work. Table 3 shows the full risk management maturity assessment scores in each of their organizations, as well as each informant's (as the organization's leader) emotional intelligence category.

Table 1. Overall Informants' EI and Risk Management Maturity

Informant	Emotional Intelligence	Risk Management Maturity	Industry	Organisation Size
A	Low	Initial	Education	Micro
B	Low	Repeatable	Construction	Small
C	Moderate	Initial	Accommodation	Small
D	Moderate	Initial	Retail	Small
E	Moderate	Repeatable	Education	Micro
F	Moderate	Defined	Information and communication	Micro
G	High	Defined	Education	Small
H	High	Managed	Manufacturing	Small

[*]*In assets; in IDR, properties are excluded. Micro: <500 Billion; and Small: 500 Billion – 1 Trillion*

The overall emotional intelligence profile of the eight informants is depicted in Table 1. The author divided the informants into three EI categories based on five characteristics of EI: low, moderate, and high. Two informants have low EI and two have high EI, while the other four have moderate EI. The risk management maturity of each informant's organization varies, particularly in the low and moderate EI groups. The two high EI informants worked in an organization that had a relatively higher level of maturity in terms of risk management implementation. Furthermore, the recapitulation in Table 3 presents each informant's background in order to better comprehend each of their organizational contexts, which subsequently relate to each of their findings.

Table 2. EI Dimensions Toward Risk Management Maturity

Inf.	EI	Dimensions Stress					RMM
		Intrapersonal	Interpersonal	Management	Adaptability	GM	
A	Low	Low	Low	Low	Low	Low	Initial
B	Low	Low	Low	Low	Mod.	Low	Rep.

C	Mod.	Mod.	Low	Mod.	Mod.	Low	Initial
D	Mod.	Mod.	Mod.	Low	Mod.	Mod.	Initial
E	Mod.	Mod.	Mod.	Mod.	Mod.	Mod.	Rep.
F	Mod.	Mod.	Mod.	High	Mod.	Mod.	Def.
G	High	Mod.	High	High	Mod.	High	Def.
H	High	Mod.	High	High	High	High	Managed

Bar-On (2002) states that in elaborating emotional intelligence, a mere, generic score will be inadequate, and therefore it requires a deep understanding of every profile of its components (or dimensions). Table 4 describes the recapitulation of the five dimensions of EI towards each of the informant's organisation's risk management maturity levels. Table 4 sorts the informants from the lowest score of EI, including its five dimensions, to the highest. Only two informants (A and who have a consistent trend of EI on every dimension. Informants in the moderate EI category tend to have a more varied profile compared to other informants in the low and high categories. There are two informants who are in the moderate category but operate in organisations with an initial stage of risk management maturity. Nonetheless, informant F with a moderate EI but high on stress management dimension operates in an organisation with a defined level of risk management maturity.

Table 3. Attributes of Risk Management Maturity Toward EI

Attributes	**Informant/Organisation**							
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**
RC	0,83	1,25	0,67	0,67	2,17	3,00	3,00	2,75
RMF	0,17	1,46	0,29	0,29	1,92	2,46	2,29	3,46
RMP	0,75	1,63	0,75	0,75	1,75	3,25	2,88	3,38
MP	1,75	2,38	1,75	1,125	2,625	4,00	3,75	4,5
PM	1,00	1,33	1,00	1,00	2,00	3,00	2,50	3,42
RS	1,00	1,58	1,50	1,33	1,38	2,13	1,58	2,54
Aggregated Maturity Level	Initial 18,3%	Rep. 33,1%	Initial 19,9%	Initial 17,2%	Rep. 39,4%	Def. 59,4%	Def. 53,3%	Managed 66,8%
EI	Low	Low	Mod.	Mod.	Mod.	Mod.	High	High

Information:
RC = Risk Culture
RMF = Risk Management Framework
RMP = Risk Management Process
MP = Management Process
PM = Performance Management
RS = Resilience and Sustainability
EI = Emotional Intelligence
Rep = Repeatable
Mod. = Moderate
Def. = Defined

Table 3 summarizes the risk management maturity qualities in the risk management implementation in each of the informants' organizations and their EI category. Data were collected and analyzed based on the risk management implementation of (1) principles or in creating and protecting value; (2) framework or in demonstrating leadership and commitment; and (3) process or in communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring, and reviewing organizational risks. In most circumstances, organizations have a higher score in documents when compared to other criteria. Internal policies, regulations, or any other guidelines linked to risk management implementation in the organization, as well as reports and paperwork, are referred to as documents. When compared to others in the moderate and low EI categories, the organization of informants with high EI has a more effective risk management implementation, particularly for risk management process features. Similarly, under the leadership of informants with greater EI, attitudes toward risk management implementation in each component of risk management are higher.

Dynamics of Risk Leadership and Emotional Intelligence

Risk leaders with low EI find it challenging to effectively recognize and literate emotions in themselves and others. Though they believe that risk management is one of the most important components in achieving long-term growth, particularly during or after the COVID-19 pandemic, others in their organizations appear to have overlooked the importance of risk management. According to Informant A, "other employees regard any risk management measures as an additional job and a disruption to the current work conditions—even the smallest projects." A similar issue was observed in informant B's organization, where the leader believes that the majority of employees are unwilling to pursue risk management efforts in a proactive manner. Informant B tried to conduct regular audits, but instead of being compliant and eager to improve, most staff were demotivated. Risk management knowledge and an effective risk culture simply did not exist in either organization. Employees from both organizations were interviewed, and the vast majority felt that there was no common ground on why an organization should perform risk management; in other words, the logic and reasons were not created and well-communicated. Informant A claimed that she did not fully comprehend the concept behind risk management, therefore she was simply advising everyone what to do based on what ISO 31000 recommendations suggested. While informant B clearly stated that he was unaware that other employees did not comprehend since he assumed that, despite its many flaws, the logic had already been established prior to the epidemic. Bar-On (2010) elaborates that EI can be improved, and the ability to understand and to express inner self (intrapersonal) is the foundation to develop other abilities. Leaders with low EI may be unable to effectively interpret emotions, making understanding what others require more difficult. This obviously hampered their ability to have a peaceful connection with others—in this example, employees.

Leaders in the moderate group have a more diverse risk leadership profile than those in the other categories. Nonetheless, these leaders may exhibit inconsistencies in the overall risk management application. Informant C agreed with this notion, stating that he is both a calm risk leader and an impetuous risk leader at times. Similarly, in informant D's organization, the leader claimed that he is unable to get everyone on the same page, particularly when it comes

to risk culture cultivation—"everything appears to be siloed, though I have tried to listen to what they want and need," informant D revealed. Informants E and F have done an excellent job of establishing risk culture, since employees' attitudes toward risk management are shaping throughout the risk management procedures.

The two high-EQ executives have communicated their leadership by establishing a number of official documents as proof of their commitment to implementing risk management in their organizations. Employees in informant H's organization indicated that he has a leadership style that requires him to change his own methods to the personalities and situations of other employees on a regular basis. He managed to inspire high performers even more by posing difficult-yet-achievable challenges, but those who oppose change were given an understanding that may eventually unfreeze the old mindset. "He leads by giving examples, and he is not just a supervisor, but also a mentor and a friend", another board member commented. Risk management is heavily reliant on people's competence and capacity. As a result, in order to build an effective risk culture, change management must be properly led—hence, good-tailored risk leadership. In the example of informant G, even though the organization was at the defined level, the leader was perceived as someone who could not always see a helicopter view of an issue in which impulsive behavior occasionally appeared. This phenomena corresponds to her slightly poorer flexibility when compared to other dimensions. On the other side, she was able to display risk leadership while also demonstrating a high level of empathy throughout the process. With a positive attitude, she inadvertently communicated the spirit to her employees, resulting in a risk culture that was pretty appropriate.

One of the most important duties of a risk leader in an organization is to lead change, which refers to the impact of transformations, amendments, alterations, or modifications made in the process of implementing or strengthening risk management processes. The structure of the top-down process elevates leaders' positions because they are crucial people in determining whether an organization can effectively manage risk. As a result, these crucial individuals must influence and bring the opinions of other emotional beings. As a result, the capacity to identify and literate emotions is critical for leading change and cultivating an effective risk culture through suitable risk leadership. When a result, as the suitable culture thickens, a higher risk management maturity level may be attained.

CONCLUSION

The purpose of this article was to examine how risk leaders' emotional intelligence (EI) affects the success of risk management implementation in an organization. The author examined the characteristics of EI to see how they influenced risk leadership and, eventually, risk management maturity. These influences should motivate an organization to remove any potential barriers and create an effective risk-aware culture. The findings imply that leadership can either lead to successful risk management or failure. Leaders' roles are emphasized even more in high-context societies, as the aspects complement the nature of a top-down process even more. In the Indonesian environment, risk leadership is a critical and defining factor in developing a mature risk management approach. Leaders must display and exhibit their abilities.

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