Risk Management: Maintaining Strategic Performance of Start-Up Companies in The Digital Economy Era

Budi Winarno[1], Yanita Hendarti[2]
Faculty of Economics and Business, Universitas 17 Agustus 1945 Surabaya, Indonesia
E-mail: 1272200066@surel.untag-sby.ac.id, 1272200046@surel.untag-sby.ac.id

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Abstract

This research aims to reveal the importance of risk management in strategic performance in start-up companies. This research examines the actual problem of uncertainty in startup companies today. The approach used in this research is a qualitative approach, while the type of research used is library research. The results of this study include that founders of start-up companies must be able to understand risk management, so that they can anticipate various challenges and obstacles that may occur in the future. This is very important because strategic performance can be consistently maintained if the founders of start-up companies understand risk management. Moreover, now is the era of the digital economy which demands rapid adaptation of everything.

Keywords: *Management Risk, Strategic Performance, Startup, Digital Economic*

INTRODUCTION

Digitalization is something that cannot be avoided in the era of Industrial 4.0 technology, the development of digitalization penetrates into various aspects of people's lives, one of which is the economic realm. The era of the digital economy has actually been going on since the 1980s, with the presence of personal computers (PCs) as a work tool and the internet as a key technological support used for business efficiency. Starting from the use of these two technologies, it became a new chapter in the development of electronic commerce (Marhawati et al., 2023). This technological development shows that civilization has entered a new digital economy, marked by the existence of mobile technology, internet access, and the presence of cloud technology used in the digital economy process (Kumala, 2021). This technological development is also a strong basis for the growth of creativity so that various kinds of businesses or startups emerge.

Business*startups* in their development are able to create and foster good economic opportunities by bringing new innovations for the younger generation that change the mechanism from traditional market models to virtual markets with physical and digital products (Isma et al., 2020). Changes in economic activities that all use technology are clear evidence of the development of the current digital economy (Andani et al., 2024). It is hoped that the development of this digital economy can provide a positive direction, especially for increasing creativity in*startup* companies. However, in fact, startup companies face quite complex challenges because they operate in a high-risk environment (Pambudi & Andriyanto, 2024).

Start-up companies must also be prepared to face all the rapid technological changes so that rapid adaptation is needed as well, this aims to be able to remain relevant and compete effectively because companies must remain at the forefront regarding innovation and utilization of the latest technology to improve products and services (Hartatik et al., 2023). This uncertainty is a big challenge for startups. The market can change rapidly because it is influenced by various factors such as consumer trends, policy changes and global events (Judijanto et al., 2024). Startups need to be able to respond to this uncertainty quickly and flexibly in order to overcome the challenges that arise so that the company can develop further. The progress of this company is closely related to business sustainability, which can be measured by one of them, namely generating good *returns*.

Generating a good *return* should boost a startup's capabilities. Other facts show that good *returns* are not enough because when a crisis occurs, the ability of startups will also be reduced. This crisis for startups actually happened during the financial crisis in 2008-2009 when the world and Indonesian capital markets corrected sharply (Gunawan, 2022). At that time, many startups went bankrupt or went out of business (Deloof & Vanacker, 2018). Fortunately, Indonesia was not too affected by the crisis because at that time many companies in Indonesia had not done business online and most were still offline, so the most affected at that time was only the Indonesia Stock Exchange where the value was corrected quite sharply. The bankruptcy or decline of these startups began at the beginning of the Covid-19 pandemic in early 2020 (Griffith, 2020).

The phenomenon of startup decline is not only happening in Indonesia, but also around the world. Many technology-based startups eventually close operations and impact employees, investors and entrepreneurs (Harel et al., 2022). This is likely due to the fact that not all *startup* entrepreneurs have qualified experience and mature strategies to face challenges (Gottschalk et al., 2017). This lack of experience causes not all start-ups to be able to survive and experience bankruptcy and even close down, of course, many start-up entrepreneurs will learn to survive for their next business (Stokes & Blackburn, 2002).

The description that has been described illustrates that the sustainability of *startups* in the digital economy era explains the importance of risk management to deal with the speed of change that occurs so that *startups* can survive in the face of various challenges. The ability to understand all challenges and be able to solve them is the main key in the sustainability of startups. Based on this, it is very important to study that risk management skills must be embedded in every manager or owner of a startup business.

Literature Review

Digital Economy

The digital economy is part of economic activities that use technological support in the form of computing, the internet and artificial intelligence (*AI*). Digital economy is also an economic activity that uses digital technology in the process of production, distribution, consumption of goods and services. The digital economy can make changes to the economic activities of society and business, from manual to fully automated (Handayani, 2022). The digital economy is a business conducted through virtual media, the creation and exchange of value, relationships between mature economic actors with the internet as a medium of exchange (Andani et al., 2024). Digital users such as the community, business actors and even government agencies must have the infrastructure, literacy and mindset of digital culture so that all communication networks, applications used and even *big data* owned must be utilized wisely (Aprilia, 2021). Users must have an open attitude to new technological developments and advances so that the distribution of information received in the digital economy era is supported by adequate technological security insights.

Start-up

The term *startup* refers to a newly established and growing company and is often related to technology (Tiffany et al., 2020). A*startup* is a business founded by one or more people who want to focus on developing products/services to meet market demand (Ismail & Pranadani, 2023). *Startups* are startup companies that have enormous growth potential, therefore startups are considered to be one of the economic pillars of society in today's modern era (Kuckertz et al., 2020). Startup companies are mostly newly established companies and are still in the research and development phase to find a suitable market. The development of startups in Indonesia can be said to be quite fast, every year or every month many new startup owners appear. *Startups* that have developed in Indonesia include Bukalapak, Go-jek, Traveloka, Kitabisa.com, Grab, Tiket.com, Uber, and so on (Husnayain & Mawardi, 2018).

Risk Management

The concept of risk comes from the knowledge of the possibility of something uncertain happening in the future. COSO (2017) describes risk management as a culture, capabilities and practices integrated with the implementation of strategies and their implementation, which organizations rely on to manage risks in creating, preserving and realizing organizational value. ISO (2018) explains risk management is a coordinated activity to direct and control the organization with regard to risk. Risk management is the process of identifying, evaluating, and handling risks associated with an activity or process in the organization. All of that aims to identify potential threats or opportunities that can affect the achievement of organizational goals, and take steps to manage these risks in accordance with the established risk tolerance. The risk management process involves steps such as risk identification, risk assessment, development of risk mitigation strategies, implementation of preventive measures, and ongoing monitoring and control of risks. Risk management is not only concerned with avoiding negative risks but also includes managing opportunities to achieve desired results.

There are several types of risk, including operational risk, legal and regulatory risk, business risk and financial risk. Operational risk is the potential loss resulting from inadequate systems, management failure, control failure, and human error (Crouhy & Bank, 2009). Legal and regulatory risk is the potential impact on business and economy, such as regulatory sanctions, financial losses, damage to reputation, due to failure to comply with applicable laws and regulations (Lam, 2017). Business risk is the potential loss arising from adverse business decisions, corporate strategy and business strategy, ineffective strategy implementation, failure to respond to industry and technological changes, and lack of business diversification. Financial risk is the potential business and economic impact resulting from adverse movements in market prices and interest rates, borrowing, or default of counterparties, and the inability to meet cash flow requirements in an economical and timely manner.

METHOD

This research is a literature study of actual problems that exist in the industry or startups today. The approach used in this research is a qualitative approach, while the type of research used is library research (Bakker & Zubair, 2007). Data collection in this research is by literature study which involves searching, selecting and analyzing relevant sources of information from various previously published literature. This process allows researchers to gather a comprehensive understanding of the research topic from a variety of different perspectives and sources. The nature of this literature review method is that it does not require field research, but research is carried out only on library collection materials. So in other words, a literature review is a study that explores a topic from the results of scientific research or publications without describing the scientific method This study discusses Risk Management: Maintaining *Start-Up* Strategy Performance in the Digital Economy Era.

RESULTS AND DISCUSSION

The digital economy with its various conveniences has given rise to a trend of new companies such as *startup* companies. Startup companies are identified as beginner or newly established companies (Ryandono, 2018). A startup is a company that focuses on innovation in digital technology, utilizing the advancement of the times as its advantage (Karina et al., 2022). These companies generate profits by providing solutions to problems in society through technology. Some characteristics that can be recognized from startups (Syauqi, 2016), some of which are: less than 3 years old, less than 20 employees, revenue less than $100,000 per year, still in the development stage, generally engaged in technology, products in the form of digital applications or others, and operating through websites or social media.

Some of the characteristics that have been described show that companies are still very vulnerable to the risks faced and are very dangerous when making inappropriate decisions. Some of the solutions offered to overcome this are to understand the importance of risk management so that everything that might destroy a startup can be anticipated properly.

Identify and quantify risks through careful evaluation. This step is done to identify the risks that the startup may face. This involves recognizing and assessing the various types of risks that may arise (Lisnawati et al., 2023). Once the risks are identified, the next step is to measure the level of risk. Careful evaluation will help the company understand the potential impact of each risk and determine priorities in overcoming risks that become obstacles to the company.

Control risks by implementing effective mitigation strategies. After the risks have been identified and carefully measured, the next step is to control the risks by implementing effective mitigation strategies. This includes the development and implementation of policies, procedures and actions designed to reduce the impact of risks and increase the chances of success (Lubis & Mutthaqin, 2024). For example, companies allocate resources to reduce or avoid identified risks or allocate financial reserves to deal with unavoidable risks.

Regular risk monitoring and evaluation. The process of implementing risk management does not end once the risks are identified and controlled but it is necessary to conduct regular monitoring and evaluation of risks. This allows companies to monitor changes in the business environment and internal conditions that can affect risk. Lisnawati et al (2023) Through periodic monitoring, companies can identify new risks or changes in previously identified risks, and take the necessary actions to reduce or overcome these risks.

Some of the recommendations that have been described can be taken into consideration to design a good risk management strategy so that the company's strategic performance remains in the right flow according to predetermined expectations. Maintaining or being consistent in monitoring risks can increase future vigilance so as to maintain and improve the performance of the strategy that has been set. This is often a problem for startup founders who are generally millennials with an age range of 30-40 years. Consistency in maintaining strategic performance is expected to bring benefits that can maintain the sustainability of the company.

Risk management in startups is vital in the fast-paced digital economy. The demand for understanding risk management is very high to overcome various obstacles and challenges that can come at any time.

CONCLUSION

The main risk that often arises in a startup environment is the inability to consistently maintain the plans that have been set with the various risks faced. Therefore, the main requirement as a startup founder is to understand risk management well, starting from identifying to evaluating risks that are likely to occur in the future.

Understanding risk management in maintaining strategic performance must be able to become a culture in a startup. Like a building, this culture will be a strong foundation in facing every obstacle and obstacle in the digital economy era.

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