

The role of risk management on HR team effectiveness: The moderating effect of leadership style

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ABSTRACT

The fast-changing business landscape poses challenges for Human Resource (HR) teams in Small and Medium Enterprises (SMEs) in terms of risk and performance and maintaining stability in uncertain times. Continuity and team performance depend on effective risk management. Managing risks in the literature has involved HR teams with performance and operational continuity in the business with little or no citations on the HR leadership style, which has been the primary focus of this study. This gap in understanding limits the extent to which businesses can help HR teams improve their operational performance. This study attempts to fill this gap by measuring the effect of risk management on the effectiveness of HR teams and how leadership affects this relationship. For this purpose, a quantitative survey research based on PLS-SEM was conducted on 200 HR employees and Balinese frontline operational workers in SMEs in teams oriented toward the collection of PLS-SEM data in specified domains of operational risk management. The data was collected by means of a survey employing standardized questionnaires and analyzed through focused area PLS-SEM and customized bootstrapping techniques for testing moderation through interaction terms. The results showed that the effectiveness of HR teams can be significantly enhanced through the adoption of appropriate risk management strategies. Furthermore, leadership styles that are more active in a hierarchy not only directly increase team performance but also strengthen the impact of risk management. This integration of perspectives demonstrates the practical applicability of the Resource-Based View alongside Contingency Theory: the context of leadership and organizational resources shapes team output. Looking ahead, the extension of this research could focus on longitudinal designs, additional organizational culture, and employee motivation variables for moderation or mediation, and research on a context larger than SMEs to test the breadth of this conclusion.

Keywords: Risk Management, HR Team Effectiveness, Leadership Style, SMEs

1. INTRODUCTION

With the modern business landscape evolving quickly, companies are experiencing diverse types of risks associated with shifts in the economy, technology, regulations, and competitors. Consequently, risk management has become significant for sustaining operations and improving the performance and resilience of the entire organization. Among the core functions of any organization, Human Resource Management (HRM) is especially at risk because of the consequences of unmanaged risks (Malik, 2020). Ineffective risk management impedes HR functions related to the integration of disparate tasks, development of strategies, retention of employees, and attainment of goals, thereby affecting organizational effectiveness (Hariyani et al., 2024).

Interestingly, although most organizations formalized systems of risk management, they still experienced ineffectiveness in their HR teams. Understanding risk management does not explain why organizations still struggle with the ineffectiveness of their HR teams. This highlights the critical role of leadership style in shaping HR teams' approach to risk. How leaders choose to apply risk management practices will, in turn, determine the effectiveness of HR teams (Littrell & Valentin, 2017). For instance, transformational leaders are more likely to empower HR teams to take the initiative in the risk management process and create adaptive risk strategies, whereas more autocratic leaders tend to inhibit risk adaptive management. The connection between risk management and its effect on HR teams is not straightforward. It is primarily determined by the leadership style used (Hao et al., 2025).

This study offers a great opportunity to provide insights geared toward improving the performance of HR teams in organizations by using an integrated approach to risk management and leadership. In a highly competitive and unstable setting, the influence of a manager's leadership approach on the effectiveness of risk management practices is needed to maintain the performance of HR units (Garrido-Moreno et al., 2024). This simultaneously impacts the achievement of the organization's overall goals. Furthermore, given that HR is expected to drive innovation and perform effective talent management, the lack of leadership influence directly impacts the organizational and human resource potential of the organization (Kessi et al., 2025).

While many authors have researched risk management and HR effectiveness separately, research on the combination of risk management and its influence on the effectiveness of HR teams and leadership style as a moderating variable is virtually non-existent, particularly in the case of organizations in Indonesia. This relational gap offers the opportunity to generate new theoretical and practical insights in the field, as strategic HRM and organizational risk management are currently under-researched areas. Empirical research will close the gap by examining leadership style as a moderating variable.

Furthermore, exploring this subject is important for HR practitioners and organizational leaders. Understanding the circumstances in which risk management positively impacts HR unit results helps align leadership training, risk management, and team management frameworks. This information helps organizations remain flexible, engaged, and efficient in complex operational environments.

Finally, in addressing this gap, this study contributes to the integration of risk management, HRM effectiveness, and leadership studies, which improves the understanding of the substantive elements of organizations. This study is expected to contribute to the development of theory in the organizational research area, particularly on the tension between moderating variables and discussing leadership as an influential effectiveness factor of risk management as a strategic resource.

Thus, the study objectives are as follows: (1) to assess the direct relationship between risk management and influencing factor on the effectiveness of the HR team, and (2) to identify the moderating effect of leadership style in either strengthening or weakening the direct effect of risk management on the HR team's effectiveness. With these objectives, this study is expected to contribute academically and practically to the growing body of knowledge in human resource management, particularly in understanding risk management as a leadership tool.

2. LITERATURE REVIEW

2.1 Grand Theories Foundation

This research uses the Resource-Based View (RBV) and Contingency Theory (CT) as the foundational pillars of understanding the interplay of organizational resources and contextual dynamics within the scope of organizational effectiveness of HR teams in the case of risks and organizational effectiveness of HR teams in the case of risks.

In the case of RBV, organizational resources, including human capital and organizational capabilities, are fundamental to generating and sustaining competitive advantages (Lubis, 2022). Managing risks is an exceptionally needed skill in HRM and is foundational for teams to maximize human and organizational resources, anticipate risks, reduce operational losses, and manage risks (Apascaritei & Elvira, 2022). Better risk management enhances the facilitation of task interdependence for HR teams and improves the quality of decisions made and performance toward organizational objectives. In contrast, inadequate risk management hampers the utilization of resources by HR teams to optimize the primary organizational goal, thus increasing inefficiencies and decreasing effectiveness (Becker & Smidt, 2016). This is why risk management from an RBV perspective focuses on resource-based processes in RBV to improve the performance of HR teams.

From this viewpoint, situational contexts and the balance of practices and contextual factors in the environment determine the effectiveness of an organization (M. T. Lee & Suh, 2022). In this context, leadership style is directly related to the different ways HR teams are expected to implement and execute the risk management framework. Transformational or supportive leaders, for example, are likely to create an atmosphere that allows innovative risk management, teamwork, and proactive enthusiasm around knowledge dissemination, thereby amplifying team effectiveness (C.-C. Lee et al., 2023). In contrast, risk management benefits may be undermined under authoritarian leadership, which is likely to constrain autonomy, communication, and psychological safety in the team. Therefore, contingency theory places leadership style as an influencing factor that can either strengthen or diminish the effect of risk management on the outcomes achieved by HR teams.

2.2 Logical Reasoning for Hypotheses

Risk management is effective when uncertainty is reduced and provided to an HR team structure, process definitions, and workflows. Improved coordination and decision-making culminate in an increase in performance, as provided for in the structure of competitive resources by the organization (Kinyua & Akone, 2025). When team members are operative and risk management practices are appropriate and integrated into everyday processes, the benefits of psychological safety, motivation, and cohesion in the overall performance are realized.

Leadership style impacts the degree to which risk management improves team outcomes. According to Contingency Theory, leadership controls how employees view and act in relation to organizational practices. Supportive or transformational leaders permit greater autonomy, cooperation, and initiative, allowing HR teams to fully realize the benefits of risk management. Restrictive or unsupportive leadership, on the other hand, may create barriers, disengagement, and ineffective risk management. As such, leadership style acts as a moderator because it determines whether risk management can act as an enabler or a constraining resource to HR teams' effectiveness.

2.3 Hypotheses Development

H1: Risk management positively influences HR team effectiveness.

Appropriately designed systems can help HR teams gain clarity, minimize ambiguity, and enable feelings of fairness, which leads to psychological safety that fosters joint participation, informed

collaboration, and overall improved effectiveness of the team (Al Daboub et al., 2024). When risks are foreseen and properly handled, HR teams can save time and resources, which ultimately helps the organization's operational functions run smoothly. Furthermore, the absence of ambiguity within risk protocols helps avert disputes, enhance responsibility, and enable the team to concentrate on high-level goals rather than being trapped in extinguishing firefighting modes. Therefore, protective risk management fosters value-added HR processes while ensuring continuous teamwork.

H2: Leadership style moderates the relationship between risk management and HR team effectiveness

Based on this hypothesis, HR team members who report to supportive and transformational leaders will view the practices in the management of organizational risk as empowering and energizing, thereby reinforcing the positive effect on the effectiveness of the team. Conversely, team members who operate under inflexible and authoritarian leaders may view the impact of risk management practices more negatively because of limited autonomy, which may lead to diminished motivation and communication (Liu et al., 2024). Thus, the influence of different leadership styles determines the extent to which risk management affects team performance (Figure 1).

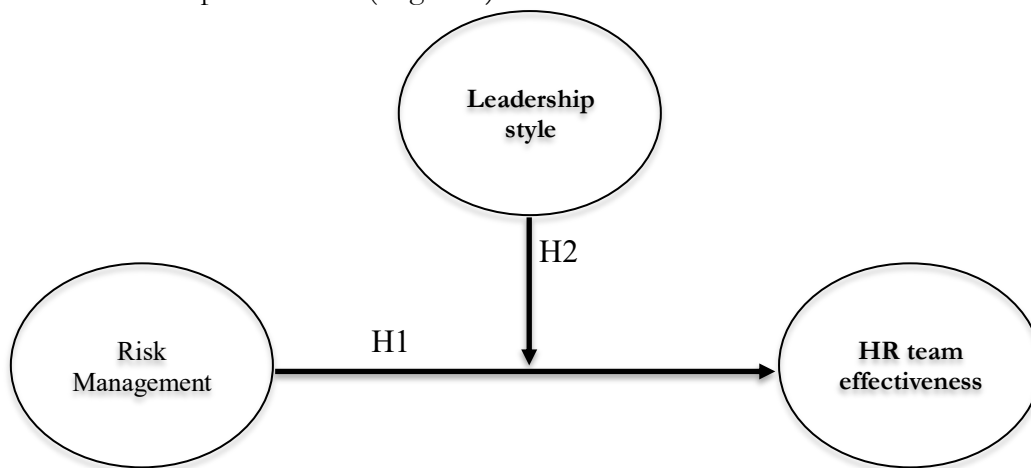


Figure 1. Theoretical Framework

3. METHOD

This study undertakes a quantitative approach to research using surveys to evaluate the research objectives and understand the interrelation between risk management, the effectiveness of HR Teams, and leadership style as a moderating variable in the context of Small and Medium Enterprises in Bali Province. SMEs are chosen as the research setting because they play a vital role in the regional economy, but also have extremely limited resources, unpredictable staffing, and underperformance, making gaps in risk management and HR functions significantly jeopardizing the sustainable objectives of the organization.

The individuals surveyed in this study worked within human resources or closely with human resources and risk management systems in legally established SMEs. For this research, purposive sampling was designed according to the following criteria: (1) SMEs with documented legal businesses and formal or semi-formal procedures of risk management; (2) employees in human resources and in collaborative work of the specified teams for a minimum of six months to facilitate adequate understanding of the work processes; and (3) individuals who were voluntarily available to respond to the surveys. Using the sample size estimation methods of Hair (2022), a minimum of 200 employees was set as the sample size to provide enough statistical power for PLS-SEM analysis, which considers each respondent as a separate unit of analysis.

Data were collected using structured questionnaires that were distributed online and offline. All variables were evaluated using a five-item Likert scale that ranged from 1 signifying 'strongly disagree' to 5 indicating 'strongly agree.' To measure the variable 'risk management,' we used indicators such as identifying risks, communicating risks, mitigating risks, and cultivating behaviors of awareness toward risks. The effectiveness of the HR team was operationalized using the dimensions of quality of coordination, clarity of roles and responsibilities, efficiency of decision-making, collaboration, and achievement of goals. For self-efficacy, we used indicators such as employees' confidence in the execution of tasks, overcoming obstacles, managing uncertainties, and their contribution to responsibilities in a team.

The research model was tested using Partial Least Squares Structural Equation Modeling (PLS-SEM) within the SmartPLS 4.0 software. This approach was strategically chosen because it best handles intricate models with direct and moderating relationships, as well as smaller sample sizes with non-normal distributions. The measurement model was assessed using convergent validity, discriminant validity, and reliability. To assess the moderating effect of self-efficacy on the relationship between risk management and HR team effectiveness, an interaction term was used and tested using a bootstrapping technique with 5,000 resamples.

4. RESULT AND DISCUSSION

4.1 Result

Table 1. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
HR team effectiveness	0.646	0.943	0.791	0.545
Leadership style	0.785	0.929	0.853	0.583
Risk Management	0.633	0.926	0.778	0.517

Source: Author (2025)

Based on the results of the reliability and validity testing in Table 1, the constructs of HR team effectiveness, leadership style, and risk management generally demonstrate acceptable instrument quality. The ranges of 0.63 to 0.78 of the Cronbach values show how and why it is being used for exploratory research instead of determinative research. This indicates that the constructs are becoming reliable and consistent owing to the values of the composite reliability, and even more conclusive since the values of rho_a are even higher. Additionally, the Average Variance Extracted (AVE) values for all variables are above 0.50 (0.545; 0.583; and 0.517), indicating that more than 50% of the variance of the indicators is explained by the latent constructs. Thus, the measurement instruments in this study are deemed sufficiently reliable and valid to proceed to the structural analysis stage using PLS-SEM.

Table 2. R-Square

	R-square	R-square adjusted
HR team effectiveness	0.949	0.948

Source: Author (2025)

From Table 2, the R-square value of 0.949 indicates R-square of 0.949 indicates that 94.9% of the variance in HR team effectiveness can be explained by the independent variables included in the model. This suggests an exceptionally strong explanatory value; thus, the predictors used—risk management, leadership style, and the other variables included—successfully account for the differentiating determinants of HR team effectiveness. The adjusted R-squared of 0.948, which is only slightly lower, also confirms that the model is highly robust, even with respect to the number of predictors, and thus, no overfitting occurs to any meaningful extent. In summary, the results indicate that the model’s predictive capability is robust and highly reliable for any interpretation or decision-making.

Table 3. Regression Weight Structural Equational Model

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Leadership style -> HR team effectiveness	0.334	0.308	0.108	3.079	0.002
Risk Management -> HR team effectiveness	0.649	0.675	0.108	6.023	0.000
Leadership style x Risk Management -> HR team effectiveness	0.034	0.031	0.013	2.733	0.006

Source: Author (2025)

The results from the path coefficient analysis indicate that leadership style positively and significantly affects HR team effectiveness, with a value of 0.334, a T-statistic of 3.079 (>1.96), and a p-value of 0.002. High-quality leadership greatly enhances the performance of the HR team. Additionally, with a 0.649 score, a 6.023 T-statistic, and a p-value of 0.000, the positive and meaningful influence of risk management on HR team effectiveness shows that efficient risk management enhances the HR team’s clarity, coordination, and effectiveness. Furthermore, the interaction term between leadership style and risk management has a coefficient of 0.034, a t-statistic of 2.733, and a p-value of 0.006, suggesting that risk management significantly influences the connection between leadership style and HR team effectiveness. This indicates that the effect of a leader’s style on the effectiveness of the HR team

strengthens when efficient risk management is utilized. Hence, all proposed causal links are confirmed, illustrating the direct and moderating effect which is embedded in the framework.

4.2 Discussion

The conclusions of this study provide strong support for the hypotheses, along with the theoretical tenets of the Resource-Based View (RBV) and Contingency Theory. Initially, the support for H1 is confirmed with the possible and impactful influence that risk management holds on HR team effectiveness (path coefficient = 0.649, $p < 0.001$). This also holds with the RBV of the Resource-Based View, wherein organizational capabilities, which include effective and responsive risk management, are a source of competitive advantage. When HR teams implement and follow structured organizational risk management systems, they obtain clarity, which decreases ambiguity in operations, and enhance task coordination to manage the operational workload. This enables teams to manage human and organizational resources more efficiently. This allows HR functions to respond more effectively to organizational needs, which, in turn, supports the organization in achieving sustainable results. In addition, the strong value of R-squared (0.949) indicates that risk management is an important variable in explaining HR team effectiveness, which reflects the positive strategic value of risk management within the RBV.

In the second part of the study, the impact of leadership style on the relationship between risk management and effectiveness of HR teams (interaction coefficient = 0.034, $p = 0.006$) provides evidence for support of Hypothesis 2 as expected within the parameters of the Contingency Theory. The results showed that leadership style positively influenced the management of risk and effectiveness of HR teams. Transformational or supportive leaders provide the required direction, encouragement, and safety, allowing HR teams complete freedom to optimize risk management. This demonstrates the contingency perspective, where the impact of an organization does not rely simply on the availability of resources or processes, but the balance of situational components, especially leadership style. Under such conditions, effective leadership allows HR teams to work collaboratively and flexibly to exceed the risk threshold and perform exceptionally well.

It also follows that the significant direct effect of leadership style on HR team effectiveness (coefficient = 0.334, $p = 0.002$) suggests that the influence of leadership on HR outcomes 'remains positive and unidirectional, regardless of how risk is controlled.' Accordingly, this supports the Contingency Theory, whereby leadership comprises one of the situational elements influencing the configuration of team performance. The proposed moderating effect of leadership, which this research puts forth, is validated by the synergy of effective risk control with leadership and the resultant performance outcomes.

The findings demonstrate the integration of strategic risk management elements and the contextual aspects of leadership, highlighting their impact on HR function performance within teams. This research contributes the first theoretical synthesis of the Resource Based View and contingency theory by delineating the direct and contingent relationships of resources and leadership on the performance of a team. This suggests the balancing investment required in formal risk management systems and leadership systems to maximize the functionality of the HR role within teams.

5. CONCLUSION

This study investigated the interactions among risk management, leadership styles, and HR team effectiveness in Balinese SMEs. The results indicate the positive and significant effects of risk management practices on the effectiveness of HR teams, which further supports the strategic organizational capability of risk management from the RBV perspective. The results pertaining to leadership styles also indicated positive and direct effects on HR teams. Moreover, they extend the impact of risk management options, which aligns with the expectations of Contingency Theory. Hence, the effectiveness of HR teams relies on a combination of risk management and supportive transformational leadership. The research objectives

of this study were achieved by clarifying the direct and moderating relationships on the performance of HR teams operating within highly uncertain and under-resourced environments, particularly in SMEs.

Although this study contributes to the literature, it has some limitations. First, the study employed a cross-sectional design, which precluded the ability to examine associations in a causal framework. In addition, the use of self-administered questionnaires may produce response bias, and common method bias may also exist. Geographic limitations also apply, as this study only examined SMEs in Bali, Indonesia. Therefore, the findings are more likely to be generalizable to other industries, regions, or larger entities. Finally, the study examines only one moderating variable, leadership style, while other potentially important contextual factors such as organizational culture, employee engagement, or structure have been left out.

Future studies are likely to address these limitations more thoroughly, perhaps by adopting a longitudinal approach to the study design. Such an approach would allow for a more thorough examination of the causal relationships involving risk management, leadership, and teamwork variables included in the current study. Extending the scope of the study to include other organizational contexts, industries, or geographical locations would likely enhance the external validity of the findings. Finally, this study would benefit from the inclusion of other contextual factors, such as organizational culture, psychological safety, and employee motivation. This would enhance the understanding of moderating and mediating relationships within the field of HR and the general functionality of a team.

Ethical Approval

Ethical approval was not required for this study

Informed Consent Statement

Not Applicable

Authors' Contributions

NWL conceptualized the research, supervised the project, and led the writing of the manuscript. IGAAIDLJ contributed to data collection, quantitative analysis using PLS-SEM, and the preparation of tables and figures. KWSPP assisted in literature review, statistical validation, and final manuscript editing.

Disclosure statement

No potential conflict of interest was reported by the authors.

Data Availability Statement

The data presented in this study are available on request from the corresponding author due to privacy reasons

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