

The Role of Transformational Leadership and HR Governance in Shaping Enterprise Risk Management and Corporate Performance

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Abstract

This study aims to examine the relationship between Transformational Leadership, Human Resource (HR) Governance, and the implementation of Enterprise Risk Management (ERM), as well as their contribution to firm performance. Using a quantitative approach and multiple linear regression models that satisfy classical assumptions, the study finds that Transformational Leadership and HR Governance do not have a significant effect on ERM implementation. This indicates that in large organizations such as state-owned enterprises, risk management systems are more influenced by regulations, oversight mechanisms, and institutional structures than by individual initiatives. Furthermore, Transformational Leadership significantly improves firm performance when tested without mediating variables; however, its effect becomes insignificant when ERM is included, highlighting the dominant role of ERM in determining performance. HR Governance also shows no significant effect on performance, suggesting the need to shift the HR function from administrative to strategic roles. On the other hand, ERM has a significant and independent effect on firm performance without mediating the influence of leadership or HR Governance. These findings imply that strengthening ERM implementation can sustainably enhance firm performance, while the development of leadership quality and HR strategies remains essential to support the organization's long-term objectives.

Keywords: transformational leadership, HR governance, enterprise risk management, firm performance.

INTRODUCTION

In the era of global volatility, firm performance increasingly depends on an organization's ability to manage risks proactively and comprehensively. Rapid changes in the business environment, including digital disruption, regulatory pressures, and geopolitical uncertainties have significant implications for operational stability. In this context, Enterprise Risk Management (ERM) has evolved into a strategic framework that not only focuses on risk control but also integrates risk considerations into decision-making, innovation, and long-term strategic planning. The updated COSO ERM framework by the Committee of Sponsoring Organizations (2017) emphasizes that the effectiveness of ERM implementation is highly influenced by internal organizational factors, particularly leadership quality, organizational culture, and human resource management. Therefore, a deep understanding of the determinants of ERM success becomes increasingly relevant in enhancing corporate

governance and performance, especially in large state-owned enterprises (SOEs) that face high public expectations and accountability demands.

Regarding internal organizational factors, transformational leadership is a critical element in driving effective risk management. Bass and Avolio (1994) explain that transformational leadership promotes change through inspiration, intellectual stimulation, individualized consideration, and idealized influence. This model underscores the leader's direct role in fostering a risk-aware culture, enhancing employee perception of risk mitigation importance, and mobilizing the organization to integrate risk into daily operational behaviors. Recent studies further demonstrate that transformational leaders significantly influence a firm's capacity to adopt integrated risk management systems. For example, Khan, Qian, and Sandhu (2020) show that transformational leadership accelerates ERM adoption through the creation of a shared vision. Moreover, Nair and Salleh (2023) emphasize that risk culture transformation often begins with top leadership capable of building commitment, participation, and ownership in risk management processes. These findings reinforce the view that ERM implementation success cannot be separated from leadership quality that aligns strategic direction with organizational risk culture.

In addition to leadership, human resource (HR) governance plays a pivotal role in supporting successful ERM implementation. Wright and McMahan (1992) argue that modern HR governance extends beyond administrative processes to treating humans as strategic assets that enable firms to achieve competitive advantage. Strategically designed HR practices, including merit-based recruitment, risk-related training, reward systems aligned with risk mitigation behavior, and compliance-based evaluations can significantly enhance ERM implementation quality. This is supported by Rehman and Hashim (2021), who found that adaptive HR practices are crucial for organizational readiness in facing emerging and unforeseen risks. Similarly, Zhang and Chen (2022) demonstrate that consistent and competency-based HR governance fosters an internal structure conducive to strategic risk integration. In other words, ERM is not merely a matter of documents and procedures, but the outcome of the organization's capacity to manage humans as core risk process executors.

To bridge the relationship between leadership, HR governance, and ERM, the Resource-Based View (RBV) provides a robust theoretical framework. RBV posits that firms can achieve sustainable competitive advantage when they possess resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). In the context of ERM implementation, transformational leadership and high-quality HR governance represent intangible capabilities that meet VRIN criteria. Transformational leaders create a risk vision that is difficult for competitors to replicate, while strong HR governance produces competent human capital committed to sustainable risk practices. Thus, RBV not only explains the theoretical relationships among variables but also provides a conceptual basis that leadership and HR governance are strategic resources influencing organizational performance through ERM.

Complementing RBV, systems theory offers additional insights into the interactions among these variables. Systems theory views organizations as entities composed of interconnected elements, where changes in one subsystem can affect others (Bertalanffy, 1968). ERM implementation is a systemic process involving cross-unit coordination, risk communication, authority allocation, and operational response. Transformational leadership acts as a system driver, creating coherence in direction and unifying risk interpretation across organizational units. Meanwhile, HR governance functions as a system enabler, ensuring that employees possess the competence, motivation, and structural support necessary for ERM success. Ali and Anwar (2022) support this perspective, showing that synergy among organizational elements is a primary determinant of risk integration effectiveness. Therefore,

systems theory clarifies how leadership and HR governance influence ERM not only individually but also interactively as a cohesive system.

The state-of-the-art research indicates that the relationships among leadership, HR governance, and ERM have been studied in various contexts, yet gaps remain. Most studies examine the direct link between transformational leadership and ERM without considering other internal factors. For instance, Khan et al. (2020) highlight leadership as a primary determinant of ERM but do not integrate HR governance as a mediating or moderating factor. Conversely, HR governance research often focuses on its impact on work behavior, productivity, and innovation but does not explicitly explore its relation to corporate risk management. While ERM's effect on firm performance has been studied extensively (Hoyt & Liebenberg, 2011; Farrell & Gallagher, 2019), most research targets the financial sector or private companies rather than SOEs. Consequently, studies that integrate transformational leadership, HR governance, and ERM into a comprehensive model and link them to firm performance remain limited an important research gap addressed by this study.

Conceptually, a thorough understanding of leadership, HR governance, ERM, and performance is crucial because ERM is no longer merely a compliance mechanism but a strategic instrument to enhance corporate stability and competitiveness. Drobetz and Wanzenried (2021) indicate that firms with high ERM maturity demonstrate more stable long-term financial performance. Farrell and Gallagher (2019) assert that ERM strengthens strategic processes and improves decision-making efficiency. Nevertheless, ERM success is highly dependent on leadership quality and HR governance, making the integration of these variables critical for further study.

The research questions emerge from fundamental inquiries regarding how transformational leadership drives ERM implementation, how HR governance contributes to ERM effectiveness, and how ERM impacts firm performance. This study also explores whether the combination of leadership and HR governance forms a foundational basis for ERM success. Accordingly, the study aims to analyze the influence of transformational leadership on ERM implementation, examine HR governance's contribution to ERM, and assess how ERM affects firm performance. Additionally, it develops an integrative model based on RBV and systems theory to enrich academic literature while providing practical implications for SOEs in enhancing risk governance effectiveness.

METHOD

This study employs a quantitative approach with an explanatory research design to examine the causal relationships among transformational leadership, human resource (HR) governance, Enterprise Risk Management (ERM) implementation, and firm performance in state-owned enterprises (SOEs). An explanatory approach was chosen because the study not only aims to describe phenomena but also seeks to explain the direct and indirect mechanisms among variables based on the Resource-Based View (RBV), systems theory, and modern ERM frameworks.

The research population comprised 7,700 SOE employees involved in managerial functions, HR, internal auditing, and risk management. The sample size was determined using Slovin's formula with a 5% margin of error. Slovin's formula was considered appropriate due to the relatively homogeneous population regarding job functions, similar positional characteristics, and distribution across operational units directly responsible for ERM implementation. The calculated sample size was 380 respondents. Purposive sampling was applied to ensure respondents met the research criteria, including a minimum tenure of one year and direct involvement in work processes related to risk management, leadership, or HR administration.

The research instrument consisted of a five-point Likert questionnaire developed based on indicators for each variable. Transformational leadership (X1) was measured following Bass and Avolio, encompassing four main indicators: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. HR governance (X2) referred to OECD principles for public sector HR management, with indicators including merit-based recruitment, continuous competency development, objective performance evaluation, transparency and accountability in HR processes, and alignment of compensation policies with organizational goals. ERM implementation (Y1) was based on the 2017 COSO ERM framework, covering governance and culture, strategy and objective-setting, performance (risk identification, risk assessment, risk prioritization, risk response), review and revision, and information, communication, and reporting. Firm performance (Y2) was evaluated using indicators relevant to SOEs: operational effectiveness, process efficiency, regulatory compliance, strategic target achievement, and public service quality. These detailed indicators ensure all variables were comprehensively and consistently measured according to contemporary theoretical standards.

The research model consists of two main pathways: the direct effects of transformational leadership and HR governance on ERM implementation and firm performance, and the indirect effect via ERM as a mediator. Although Structural Equation Modeling (SEM) could be applied, multiple linear regression was employed for two primary reasons. First, the model involves linear causal relationships without requiring simultaneous estimation of latent constructs, making regression analysis clear, parsimonious, and easy to interpret. Second, the study emphasizes testing direct and mediating paths using the classical Baron and Kenny approach, which is methodologically compatible with regression, especially when variables are observable rather than purely latent as in SEM. Therefore, multiple linear regression was deemed appropriate, efficient, and aligned with the research objectives.

The analysis was conducted through two regression equations. The first model tested the influence of transformational leadership and HR governance on ERM implementation. The second model examined the effects of transformational leadership, HR governance, and ERM implementation on firm performance. Prior to regression analysis, instrument validity was assessed using Pearson correlation, while reliability was tested using Cronbach's Alpha. Classical assumption tests were performed to ensure no violations of normality, multicollinearity, heteroscedasticity, or autocorrelation, with the Durbin-Watson statistic as a reference.

To test the mediating role of ERM implementation, the study applied the Baron and Kenny approach, consisting of three stages of significance testing among paths. Additionally, the strength and significance of mediation were confirmed using the Sobel Test. These combined approaches enhanced the robustness of the findings and ensured accurate identification of indirect effects, whether full or partial mediation.

Overall, the research methodology is designed to generate strong and measurable empirical evidence, addressing the research gap regarding the role of transformational leadership and HR governance in shaping ERM effectiveness and its impact on firm performance. By clarifying instruments, sampling procedures, analytical methods, and mediation testing, this study provides a methodologically sound foundation suitable for publication in reputable scientific journals, including Scopus-indexed outlets.

RESULT AND DISCUSSION

The study began with instrument quality testing, which indicated that all measurement items for transformational leadership, HR governance, Enterprise Risk Management (ERM), and firm performance met strong validity and reliability requirements. Construct validity was confirmed through item-total correlations consistently exceeding the minimum thresholds recommended by Hair et al. (2020), ensuring that all indicators adequately represented their respective constructs. Instrument reliability was also excellent, as evidenced by Cronbach's Alpha values above 0.80, indicating acceptable internal consistency for social and management research (Sekaran & Bougie, 2020). Therefore, the instruments used in this study were deemed appropriate for measurement purposes.

Classical assumption tests conducted prior to regression analysis showed that the research model met statistical requirements. Residuals were normally distributed, no heteroscedasticity was detected, and multicollinearity was absent among independent variables, with VIF values within safe limits as recommended by Gujarati & Porter (2019). Additionally, the Durbin-Watson statistic of 1.902 indicated no autocorrelation. This comprehensive assumption testing provided confidence that the regression model could yield valid interpretations.

The results of Model 1 indicated that transformational leadership and HR governance had no significant effect on ERM. This finding contrasts with several studies suggesting that transformational leadership can strengthen risk management practices by fostering a shared vision, promoting risk communication, and empowering teams (Aldea et al., 2020; Kim & Lee, 2021). However, in public organizations or SOEs, ERM implementation is often more influenced by formal regulations, internal standards, and structural control systems rather than leadership behavior. For instance, Wicaksono & Utami (2022) found that ERM maturity in public organizations was largely determined by structural compliance with government guidelines rather than by leadership initiatives. This context likely explains why transformational leadership did not significantly impact ERM in this study.

HR governance was also found not to influence ERM, indicating that HR functions in the studied organization have not yet played a strategic role in risk management processes. Previous research has shown that HR governance can support risk implementation by enhancing employee competence and risk awareness (Farooq & Abid, 2019; Yuniarti & Setiawan, 2021), but the current findings suggest otherwise. This may reflect that HR functions in the studied organization remain largely administrative and have not been fully integrated into formal risk governance. In large-scale SOEs, bureaucratic complexity often limits HR's effectiveness in supporting risk management.

In contrast, Model 2 results showed that transformational leadership significantly affected firm performance. This finding aligns with management literature indicating that transformational leaders can enhance employee motivation, commitment, and creativity, thereby improving organizational performance (Bass & Riggio, 2018; Yahaya & Ebrahim, 2020). In this study, although leaders did not influence ERM, they still played a crucial role in guiding employee behavior, enhancing work quality, and facilitating a work environment conducive to high performance. Conversely, HR governance did not significantly affect performance, consistent with Suharto et al. (2021), who found that HR functions impact organizational performance only when strategically integrated rather than merely administrative.

Model 3 provided a more comprehensive view of the relationships among variables. ERM significantly influenced firm performance, confirming prior research that structured risk management enhances operational effectiveness, reduces uncertainty, and strengthens decision-making processes, ultimately improving performance (Florio & Leoni, 2017; Baxter

et al., 2020). In public organizations and SOEs, ERM acts as an internal control instrument that directs stability and operational efficiency, explaining its strong impact on performance.

Within the same model, the effect of transformational leadership on performance became non-significant when ERM was included as a mediator. This shift indicates that when risk management becomes the dominant factor, the influence of leadership behavior on performance may diminish, particularly in organizations with strong control mechanisms and regulations. This finding is consistent with Power (2022), who asserts that in highly structured organizations, performance is determined more by formal systems than by leadership dynamics.

Mediation analysis revealed that ERM did not function as a mediator between transformational leadership or HR governance and firm performance. The absence of mediation, mainly due to the non-significant effects of leadership and HR governance on ERM, indicates that ERM operates independently in explaining performance. This finding supports Rehman et al. (2020), which showed that in public organizations, ERM often functions as an institutional factor standing alone and is not necessarily influenced by individual behavior or HR practices. Therefore, while ERM remains a key determinant of performance, it cannot be positioned as a mediating mechanism between leadership and HR governance and performance.

The implications of these findings are significant both theoretically and practically. Theoretically, the study enriches the risk management literature by providing evidence that ERM can serve as a performance determinant even when not influenced by behavioral or HR governance variables. It also confirms risk management integration theory, which posits that ERM holds strategic value for large organizations operating under strict regulatory conditions. Practically, the findings recommend that organizations, especially SOEs, prioritize strengthening risk management systems over relying solely on leadership behavior. Nevertheless, transformational leadership still contributes to performance, highlighting the importance of developing leadership competencies across organizational levels. HR governance should also be revitalized to become more strategic and capable of supporting organizational objectives rather than merely performing administrative functions.

CONCLUSION

This study aimed to comprehensively understand the relationships among transformational leadership, human resource (HR) governance, and Enterprise Risk Management (ERM) implementation, as well as their contributions to firm performance. Additionally, the study explored the potential mediating role of ERM in bridging the influence of leadership and HR governance on organizational performance. Using a quantitative approach with validated and reliable instruments, and multiple linear regression models that met classical assumptions, the study produced several key findings with both theoretical and practical implications for large organizations, particularly state-owned enterprises (SOEs).

The first conclusion indicates that transformational leadership does not significantly influence ERM implementation. This finding contrasts with much of the literature emphasizing the critical role of leaders in shaping risk culture, enhancing risk communication, and promoting organizational awareness and compliance with risk management procedures. However, the current study provides a contextual perspective, showing that risk control structures in the observed organizations are more determined by systems, regulations, and formal oversight mechanisms than by individual leadership initiatives or qualities. In SOEs, decision-making regarding risk is largely institutional rather than personal, reflecting an organizational structure where ERM functions as a compliance-driven system rather than as an outcome of leadership style.

The second conclusion reveals that HR governance also does not significantly affect ERM. This suggests that the HR function in the studied organizations has not yet played a strategic role in risk management processes. HR is often regarded as an enabler that fosters organizational competencies, risk awareness, and managerial capabilities needed to manage risk effectively. Nevertheless, the findings indicate that HR functions remain primarily administrative and are not fully integrated into the risk management system, highlighting the need for a strategic revitalization of HR roles.

The third conclusion shows that transformational leadership significantly affects firm performance when tested without mediating variables. This aligns with leadership theory, which suggests that transformational leaders can enhance performance through motivation, inspiration, and the ability to mobilize individuals toward organizational goals. However, when ERM is included in the model, the effect of transformational leadership on performance becomes insignificant, indicating that ERM's dominance in explaining performance can overshadow leadership influence. This underscores that while leaders shape work behavior, overall organizational performance is largely determined by effective ERM as part of the governance mechanism.

The fourth conclusion relates to HR governance's effect on firm performance. The study found no significant impact, supporting previous findings that HR may not yet serve a strategic function in the studied organizations. HR can drive performance if focused on competency development, long-term workforce planning, talent management, and employee empowerment. However, when HR remains administrative, its contribution to organizational performance is statistically minimal. This suggests a need for organizations to shift HR from administrative to strategic functions to create tangible performance impacts.

The fifth and most central conclusion is that ERM significantly influences firm performance. This finding supports empirical literature suggesting that organizations with robust ERM systems manage risks more effectively, reduce uncertainty, and improve decision-making quality. Effective ERM implementation contributes to operational stability and creates organizational value. In public organizations like SOEs, where operational, financial, and reputational risks are highly probable, risk management is not only a matter of compliance but also central to achieving overall organizational objectives.

Finally, the study shows that ERM does not mediate the effects of transformational leadership or HR governance on firm performance. Since neither leadership nor HR significantly influences ERM, it cannot serve as a bridging mechanism. Thus, ERM operates independently as a factor contributing to organizational performance. This indicates that performance enhancement strategies can focus on strengthening ERM without necessarily relying on leadership transformation or HR governance improvements, although both remain important for organizational success.

Overall, the study concludes that ERM is the most dominant factor affecting firm performance, while transformational leadership and HR governance remain important but are not always directly linked to risk management. Organizations should strengthen ERM implementation to sustainably enhance performance while continuing to develop leadership quality and strategic HR practices to support long-term organizational objectives.

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