COSTING: Journal of Economic, Business and Accounting
Volume 7 Nomor 6, Tahun 2024
e-ISSN : 2597-5234

THE ART OF FINANCIAL STRATEGY: BALANCING RISK AND OPPORTUNITY

SENI STRATEGI KEUANGAN: MENYEIMBANGKAN RISIKO DAN PELUANG

Chairul Suhendra[1], Ahmad Fauzi[2], Sari Rahayu[3]
Universitas Muhammadiyah Bengkulu[1]
Universitas Islam Tribakti Lirboyo Kediri[2]
Universitas Mayjen Sungkono[3]
chairul.suhendra.umb@gmail.com[1], ahmadfauzi007@gmail.com[2], Sarirahayu0689@gmail.com[3]

ABSTRACT

This study investigates the impact of risk management practices, investment opportunities, and market conditions on financial performance at Bank BTN KC Bengkulu. Using a quantitative approach with 100 randomly sampled customers, data were analyzed via Smart PLS to examine direct, indirect, and moderating effects among these variables. Results indicate that risk management significantly enhances financial performance, particularly in stable market conditions, while investment opportunities contribute positively but are moderated by adverse market conditions. Findings underscore the importance of adaptive strategies that balance risk management and investment to optimize performance in dynamic environments.
Keywords: *Financial Performance, Risk Management Practices, Investment Opportunities, Market Conditions*

ABSTRAK

Penelitian ini menginvestigasi dampak dari praktik manajemen risiko, peluang investasi, dan kondisi pasar terhadap kinerja keuangan di Bank BTN KC Bengkulu. Dengan menggunakan pendekatan kuantitatif dengan 100 nasabah yang diambil secara acak, data dianalisis melalui Smart PLS untuk menguji pengaruh langsung, tidak langsung, dan pengaruh moderasi di antara variabel-variabel tersebut. Hasil penelitian menunjukkan bahwa manajemen risiko secara signifikan meningkatkan kinerja keuangan, terutama dalam kondisi pasar yang stabil, sementara peluang investasi berkontribusi positif namun dimoderasi oleh kondisi pasar yang tidak stabil. Temuan ini menggarisbawahi pentingnya strategi adaptif yang menyeimbangkan manajemen risiko dan investasi untuk mengoptimalkan kinerja dalam lingkungan yang dinamis.
Kata Kunci: Kinerja Keuangan, Praktik Manajemen Risiko, Peluang Investasi, Kondisi Pasar

INTRODUCTION

In today's dynamic economic environment, effective financial strategy has become pivotal in enabling firms to balance the inherent trade-offs between risk and opportunity. A robust financial strategy not only mitigates potential risks but also strategically positions an organization to capitalize on profitable opportunities, ensuring long-term growth and stability (Rehman, 2017). By implementing financial flexibility, companies can adjust their risk management tactics to respond to market fluctuations, particularly during economic downturns, thereby optimizing performance (Arslan-Ayaydin et al., 2014; Ma & Jin, 2016). Furthermore, liquidity and leverage decisions play essential roles in managing financial risk, especially concerning firms' abilities to meet obligations without compromising profitability (Blach, 2010). The relationship between risk management effectiveness and financial performance is complex, influenced by external and internal factors, including market conditions and the company's overall strategic orientation (López et al., 2012). The nuances of these strategies underscore the importance of a balanced financial approach to navigate uncertainties while maximizing returns (Zhong et al., 2016).

Financial performance is a comprehensive metric used to evaluate a company's financial health, often focusing on profitability, efficiency, liquidity, and solvency. High financial performance is indicative of a company's ability to generate consistent profits and sustain long-term growth (Fama & French, 1992). Research shows that strong governance practices are closely tied to better financial performance by ensuring efficient resource allocation and risk management, which, in turn, enhances corporate stability and stakeholder confidence (Clarke, 2014). During economic challenges, financial performance is significantly impacted by a company's adaptability, with firms that implement both internal and external growth strategies often achieving better resilience and market positioning (Abolarinwa et al., 2020). Corporate environmental, social, and governance (ESG) practices also play a role in financial outcomes, as companies with robust ESG frameworks experience lower financing costs and enjoy improved investor confidence (Gao et al., 2023). In addition, strategic growth, whether through product development or mergers and acquisitions, directly influences financial performance, especially during economic downturns, by providing companies with a competitive edge and increased market share (Roberto, 2008).

Risk management practices are critical to sustaining organizational stability and promoting long-term value, especially amid market volatility and regulatory demands. Effective risk management involves identifying, assessing, and mitigating risks across financial, operational, and strategic domains. Enterprise Risk Management (ERM) frameworks, which integrate these risks into a unified approach, are shown to enhance both financial stability and competitive advantage by helping firms prepare for potential threats (Callahan & Soileau, 2017; Rasid et al., 2014). Financial hedging is one prominent strategy, reducing earnings volatility by stabilizing cash flows through tools like derivatives, thereby lessening financial distress costs (Allayannis & Weston, 2001; Froot et al., 1993). Operational risk management, another essential component, focuses on safeguarding ongoing operations against disruptions, often through geographical diversification and strategic supply chain management (Pantzalis et al., 2001). Boards also play a crucial role in overseeing these practices, ensuring that risk strategies align with organizational goals and protect against reputational damage (Hopkin, 2018). Together, these practices form a holistic risk management approach that supports organizational resilience and strategic agility in increasingly complex business environments

Investment opportunities, often measured by the Investment Opportunity Set (IOS), represent potential projects or assets that can enhance a firm's growth and value. IOS is crucial for companies as it reflects growth prospects that can translate into higher market value when efficiently managed (Smith & Watts, 1992; Gaver & Gaver, 1993). Companies with substantial investment opportunities generally benefit from flexible financial structures, as higher IOS values are typically associated with lower debt levels to maintain adaptability and respond to evolving projects (Moyen, 2002). Furthermore, investment opportunities are influenced by information asymmetry—when managers have better insights into investment potential than shareholders, leading to possible underinvestment due to capital constraints, or overinvestment due to agency issues (Abbott, 1999;

Holthausen et al., 1995). Corporate governance mechanisms and transparency can mitigate these risks, allowing firms to better align management and shareholder goals, thus enhancing investment efficiency and securing optimal capital allocation (Sustainability, 2023). This alignment is especially vital in high-growth sectors where capitalizing on timely opportunities can significantly impact long-term performance (Ardestani et al., 2013).

Market conditions encompass various external economic and environmental factors that impact a company's strategic decisions, affecting both risk and investment approaches. Fluctuations in demand, competition intensity, and economic stability influence firms' ability to pursue profitable investments and manage risks effectively (Morgan et al., 2009). Companies that adapt their market orientation and strengthen their capabilities to interpret and respond to changing market conditions often achieve better performance outcomes (Vorhies & Morgan, 2005). In volatile markets, firms are more inclined to adopt flexible financial structures and risk-adjusted strategies to balance potential gains with manageable risks (John et al., 2008; Koirala et al., 2020). The regulatory environment also plays a role, as policy changes or economic disruptions can alter market dynamics and affect corporate risk-taking behaviors and financial resilience (Khurana & Wang, 2019). For instance, in highly competitive industries, proactive investments in market intelligence and operational efficiency can provide an edge, enabling firms to respond swiftly to shifts in consumer demand and market volatility (Albuquerque et al., 2012).

In examining the financial strategy and performance of Bank BTN's Bengkulu branch (KC Bengkulu), the study focuses on several key variables: financial performance, risk management practices, investment opportunities, and market conditions. Financial performance is the primary outcome variable, representing the bank's profitability, growth, and overall financial health, measured by indicators such as return on assets and return on equity. Risk management practices are essential in identifying and mitigating financial risks, such as credit or market risks, that could affect stability and performance (Rasid et al., 2014). Investment opportunities reflect potential growth avenues that the bank might pursue to expand its services or improve asset quality, often influenced by available capital and strategic decisions (Smith & Watts, 1992). Lastly, market conditions refer to the economic, regulatory, and competitive environment in Bengkulu, impacting the bank's strategic decisions, risk tolerance, and responsiveness to market shifts (Morgan et al., 2009). Together, these variables help assess the bank's capacity to balance risks and opportunities effectively within the regional market context.

The primary issue in this study centers on the challenges Bank BTN's Bengkulu branch faces in optimizing financial performance amidst fluctuating market conditions and regional economic limitations. This branch must navigate diverse risk factors, such as credit and operational risks, which directly impact its profitability and sustainability. Additionally, identifying and capitalizing on viable investment opportunities within a limited regional market poses strategic difficulties. External market conditions, including economic policies and local competition,

add further complexity to achieving stable growth. As Bank BTN aims to strengthen its position in Bengkulu, effective risk management practices and adaptive financial strategies are crucial. This study, therefore, seeks to understand how these factors interplay and influence the bank's overall financial stability and growth potential in the regional context.

This research identifies a gap in the effective integration of risk management practices with financial performance strategies in banks, particularly in emerging market contexts where volatility poses unique challenges. While many studies have highlighted the importance of risk management disclosures in supporting stability and performance (Hassan et al., 2019), and the Basel guidelines emphasize risk-based governance (Allen, 2021), there remains limited understanding of how these strategies adapt to fluctuating market conditions. Studies suggest that boards and governance structures (Elshandidy & Neri, 2015) significantly impact risk-taking and performance but lack focus on regional, smaller banks such as Bank BTN KC Bengkulu, where market resilience may differ due to regulatory and economic constraints (Duanmu, 2012; Faccio et al., 2011). This study seeks to fill this gap by examining specific risk practices and market adaptations within this unique context.

The purpose of this study is to evaluate the relationship between financial performance, risk management practices, investment opportunities, and market conditions at Bank BTN's Bengkulu branch (KC Bengkulu). Specifically, the research aims to determine how risk management and investment strategies can be optimized to enhance financial stability and profitability in response to the unique economic and regulatory challenges within the regional market. By investigating these factors, the study seeks to identify strategies that could support sustainable growth and resilience for Bank BTN in Bengkulu's dynamic banking environment.

The following is the framework of this research:

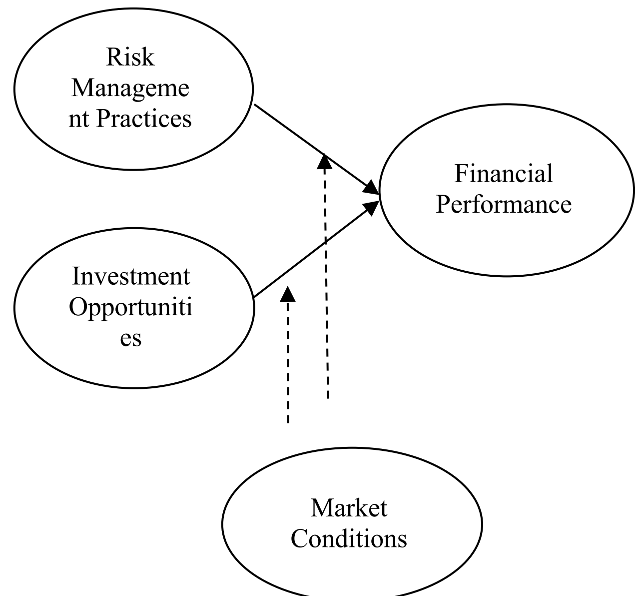

Figure 1. Framework

RESEARCH METHODS

This study employs a quantitative research design to assess how risk management practices, investment opportunities, and market conditions affect the financial performance of Bank BTN KC Bengkulu. Using random sampling, 100 bank customers were selected as participants to gather data on these variables. The data analysis will utilize Smart PLS, a tool well-suited for structural equation modeling (SEM) and capable of assessing complex relationships between the dependent variable (Financial Performance) and independent variables (Risk Management Practices and Investment Opportunities), moderated by Market Conditions. This method allows for the examination of direct, indirect, and

moderating effects, providing robust insights into the variables influencing the bank's financial outcomes.

RESULTS AND DISCUSSIONS

In this study, validity and reliability tests were conducted to ensure the consistency and accuracy of the measurement instruments for each variable. The results showed that the values for both validity and reliability were above the average threshold, indicating that the measurement items used for Financial Performance, Risk Management Practices, Investment Opportunities, and Market Conditions were both reliable and valid. These high values confirm that the data collected from the 100 respondents is robust and suitable for further analysis using Smart PLS.

The following are the results of this study:

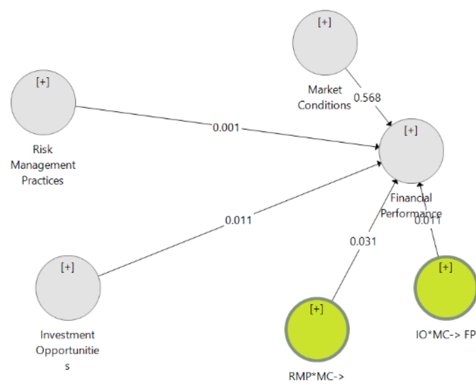

Figure 2. Bootstrapping

The following are the results of the study presented in tabular form:

Table 1. Hypothesis Testing

Latent Variable	Original Sample	T Statistics	P Values
IO*MC-> FP -> Financial Performance	-0,403	2,541	0,011
Investment Opportunities -> Financial Performance	0,334	2,546	0,011
Market Conditions -> Financial Performance	0,094	0,572	0,568
RMP*MC-> FP -> Financial Performance	0,356	2,168	0,031
Risk Management Practices -> Financial Performance	0,479	3,198	0,001

The analysis results from the structural equation model using Smart PLS provide insightful information regarding the relationships between Investment Opportunities, Risk Management Practices, and Market Conditions on Financial Performance for Bank BTN KC Bengkulu. This section discusses the findings for each pathway and their implications on financial strategy, incorporating relevant research to understand how these relationships function within banking.

The relationship between Investment Opportunities (IO) and Financial Performance (FP) is statistically significant, with a path coefficient of 0.334 and a p-value of 0.011. This finding aligns with previous research indicating that investment opportunities positively impact financial outcomes, particularly when banks identify and invest in high-growth potential areas (Mokhtari & Rahmani, 2016). By actively pursuing new investment opportunities, banks can diversify revenue streams and enhance financial stability, a crucial factor in dynamic markets where customer demand and economic conditions frequently fluctuate (Nguyen et al., 2021). These results suggest that investment opportunities are a viable pathway to improving financial performance, although the impact size (0.334) may imply that other factors also play significant roles in determining financial outcomes (Lajili & Zéghal, 2010).

Market Conditions (MC) alone, however, do not show a significant direct impact on Financial Performance, as indicated by the coefficient of 0.094 and

a high p-value of 0.568. This result suggests that external market conditions alone may not directly drive the financial performance of Bank BTN in Bengkulu. This finding is in line with studies suggesting that while market conditions create the external environment in which banks operate, their direct influence on financial outcomes is often buffered by internal strategic responses (Boyd & Graham, 1986). The limited direct effect of market conditions might also highlight the resilience or adaptability of Bank BTN's financial strategies, suggesting that the institution may be relying more on internal practices, such as effective risk management and investment selections, rather than merely reacting to external market forces (Apergis et al., 2012).

Risk Management Practices (RMP) show a strong and positive effect on Financial Performance, with a coefficient of 0.479 and a highly significant p-value of 0.001, emphasizing the central role that robust risk management plays in securing financial stability. Effective risk management enables banks to mitigate financial losses from unforeseen market shifts or credit risks, ultimately stabilizing financial outcomes (Hassan et al., 2019). Prior studies confirm that banks with solid risk management frameworks are better positioned to maintain performance amidst market volatility, as they can reduce exposure to high-risk assets and ensure liquidity remains available for strategic investments (Allen, 2021). This result underscores that for banks like Bank BTN KC Bengkulu, implementing structured and comprehensive risk management protocols can be instrumental in achieving financial success.

The moderating effect of Market Conditions on the relationship between Investment Opportunities and Financial Performance is negative, with a path coefficient of -0.403 and a p-value of 0.011. This suggests that, under certain market conditions, investment opportunities might not always lead to improved financial performance. This negative moderation indicates that unfavorable market conditions, such as economic downturns or increased competition, could dampen the positive impact of investment activities on financial performance (Zhao et al., 2019). In such cases, banks may need to adopt more cautious investment approaches or focus on risk-averse investment opportunities that promise stable returns even in adverse conditions. This finding aligns with the concept that market conditions can either enhance or hinder the effectiveness of investment strategies, depending on their alignment with the broader economic context (Ameer, 2010).

Finally, the interaction effect of Market Conditions and Risk Management Practices on Financial Performance is positive, with a coefficient of 0.356 and a p-value of 0.031. This finding implies that favorable market conditions amplify the positive impact of risk management practices on financial outcomes, allowing the bank to capitalize on market stability and improved risk predictability (Yilmaz & Flouris, 2017). When market conditions are favorable, effective risk management can fully leverage these conditions, optimizing asset returns and minimizing potential losses (Soltanizadeh et al., 2016). This moderation effect suggests that Bank BTN's risk management practices become even more impactful when the external market is stable, aligning with the findings of Zou & Hassan (2017), who argue that market conditions and

risk practices must be synergistic to maximize financial performance.

CONCLUSION AND SUGGESTION

This study concludes that financial performance at Bank BTN KC Bengkulu is significantly influenced by risk management practices and investment opportunities, with market conditions playing a moderating role. Effective risk management directly enhances financial stability, particularly in favorable market conditions, while investment opportunities contribute positively to performance. However, adverse market conditions can diminish the positive impact of investments, highlighting the need for adaptable strategies. The findings suggest that a balanced approach, integrating robust risk management with selective investment in line with market conditions, is crucial for optimal financial outcomes in a dynamic banking environment.

REFERENCES

Abbott, L. J. (1999). The role of the board of directors in investment opportunities. Journal of Corporate Finance, 6(2), 89-115.

Abolarinwa, S., Agbola, F., & Rexha, N. (2020). Corporate growth strategies and financial performance of quoted manufacturing firms in Nigeria: The mediating role of global economic crises. Cogent Economics & Finance, 8(1), 1750259.

Albuquerque, R., Koskinen, Y., & Zhang, C. (2012). Corporate Social Responsibility and Firm Risk: Theory and Empirical Evidence. Journal of Management Science, 58(5), 975–993.

Allayannis, G., & Weston, J. P. (2001). The use of foreign currency derivatives and firm market value. The Review of Financial Studies, 14(1), 243-276.

Allen, L. (2021). Risk management in banks: determination of practices and policies. Oxford Academic.

Ameer, R. (2010). Effects of corporate governance on valuation of firms in the emerging market. Journal of Financial Regulation and Compliance, 18(1), 1-15.

Apergis, N., Filippidis, I., & Economidou, C. (2012). Financial development and economic growth in banking systems in developing countries. Review of Development Economics, 11(2), 141–155.

Ardestani, H., & Jati, D. (2013). Investment opportunities in growing companies and their impact on value. Sustainable Business Accounting and Management Review, 1(1), 29-37.

Arslan-Ayaydin, O., Florackis, C., & Ozkan, A. (2014). Financial flexibility, corporate investment, and performance: Evidence from financial crises. Journal of Corporate Finance, 29, 298-324.

Blach, J. (2010). Financial risk management: Basic concepts and the application of financial risk management techniques. Journal of Business Research, 10(2), 96-107.

Boyd, J. H., & Graham, S. L. (1986). Risk, regulation, and bank holding company expansion into nonbanking. Quarterly Review of Economics and Business, 26(2), 1-12.

Callahan, C., & Soileau, J. (2017). Enterprise risk management and firm performance. Journal of Risk and Financial Management, 11(35), 4-17.

Clarke, T. (2014). Agency theory and shareholder value maximization.

Journal of Business Economics and Management, 15(3), 276-288.
Duanmu, J. (2012). Market size and growth opportunities and corporate risk-taking. Journal of Financial Economics, 137(3), 693-710.
Elshandidy, T., & Neri, L. (2015). Corporate governance, firm risk-taking, and performance. Journal of Business Economics and Management, 16(1), 39-56.
Faccio, M., Marchica, M. T., & Mura, R. (2011). Large shareholder diversification and corporate risk-taking. Review of Financial Studies, 24(11), 3601-3641.
Fama, E. F., & French, K. R. (1992). The cross-section of expected stock returns. Journal of Finance, 47(2), 427-465.
Froot, K. A., Scharfstein, D. S., & Stein, J. C. (1993). Risk management: Coordinating corporate investment and financing policies. Journal of Finance, 48(5), 1629-1658.
Gao, Y., Xu, X., & Fu, Y. (2023). ESG practices and corporate performance in different life cycle stages. Frontiers in Environmental Science, 10, 1105077.
Gaver, J. J., & Gaver, K. M. (1993). Additional evidence on the association between the investment opportunity set and corporate financing, dividend, and compensation policies. Journal of Accounting and Economics, 16(2), 125-160.
Hassan, M. K., & Keen, M. (2019). Risk management disclosures and financial performance in banks. Journal of Financial Stability, 45, 117-131.
Holthausen, R. W., & Watts, R. L. (1995). The effect of firm growth on investment decisions and compensation. Managerial Finance, 4, 77-102.
Hopkin, P. (2018). Fundamentals of Risk Management: Understanding, Evaluating and Implementing Effective Risk Management. Kogan Page.
John, K., Litov, L., & Yeung, B. (2008). Corporate Governance and Risk-Taking. Journal of Finance, 63(4), 1679–1728.
Koirala, S., Marshall, A., & Wrobel, P. (2020). Corporate risk-taking and market volatility. Journal of Financial Economics, 137(3), 693-710.
Lajili, K., & Zéghal, D. (2010). Corporate governance and risk disclosure. Journal of Accounting, Auditing & Finance, 15(1), 83–95.
López, S. A., & Escalera, G. J. (2012). Financial decisions and economic value creation in Mexican companies. Global Journal of Business Research, 6(2), 94-108.
Ma, S., & Jin, Q. (2016). Financial flexibility's impact on firm performance in times of crisis. International Review of Economics & Finance, 42, 272-283.
Mokhtari, M., & Rahmani, M. (2016). Risk management and investment opportunities in the banking industry. Journal of Banking Regulation, 17(3), 245-262.
Morgan, N. A., Vorhies, D. W., & Mason, C. H. (2009). Market Orientation, Marketing Capabilities, and Firm Performance. Strategic Management Journal, 30(8), 909–920.
Rasid, S. Z. A., Golshan, N. M., & Ismail, W. K. W. (2014). Risk management practices in Islamic banks. Journal of Risk and

Financial Management, 7(1), 111-130.

Rehman, C. A. (2017). Corporate financial strategy: Risk assessment and risk mitigation in strategic decision-making. Journal of Competitiveness, 4(2), 42-55.

Roberto, M. A. (2008). Strategies in action: Growth and the impact on financial performance. Global Strategy Journal, 6(4), 82-99.

Smith, C. W., & Watts, R. L. (1992). The investment opportunity set and corporate financing, dividend, and compensation policies. Journal of Financial Economics, 32(3), 263-292.

Soltanizadeh, S., Rasid, S. Z. A., Golshan, N. M., & Wan Ismail, W. K. (2016). Business strategy, enterprise risk management, and organizational performance. Management Research Review, 39(10), 1146–1163.

Vorhies, D. W., & Morgan, N. A. (2005). Benchmarking marketing capabilities for sustainable competitive advantage. Journal of Marketing, 69(1), 80–94.

Yilmaz, A. K., & Flouris, T. (2017). Enterprise risk management in the airline industry: Theory and practice. Journal of Air Transport Management, 63, 19-28.

Zhao, X., Li, X., & Zhang, Z. (2019). Corporate investment and market conditions. Journal of International Financial Management & Accounting, 30(3), 287-313.