Binus Business Review, 15(2), July 2024, 107−117
DOI: 10.21512/bbr.v15i2.10429
P-ISSN: 2087-1228
E-ISSN: 2476-9053

Creative Industries' Risk Appetite in East Java and Its Impact on Dynamic Capability and Competitive Advantage

Agus Purnomo Sidi[1]*; Risa Santoso[2]

[1,2]Management Study Program, Faculty of Economic and Business,
Institut Teknologi dan Bisnis Asia Malang
Kota Malang 65142, Indonesia
[1]agusps@asia.ac.id; [2]risasantoso@asia.ac.id

Received: 24th August 2023/ **Revised:** 8th January 2024/ **Accepted:** 8th January 2024

How to Cite: Sidi, A. P., & Santoso, R. (2024). Creative Industries' Risk Appetite in East Java and Its Impact on Dynamic Capability and Competitive Advantage. *Binus Business Review, 15*(2), 107−117. https://doi.org/10.21512/bbr.v15i2.10429

ABSTRACT

Studies related to risk appetite, which plays an important role in risk management in the creative economy sector, still need to be made available, so relating it with dynamic capabilities and competitive advantage is the main novelty of the research. The research aimed to understand the risk appetite of the creative Small and Medium-Sized Enterprises (SMEs) in East Java, Indonesia, and analyze the impact of the risk appetite on their dynamic capabilities and competitive advantages. Primary data was obtained through a quantitative research method with a Likert-sized online questionnaire instrument and distributed to 300 creative industries in East Java, with the unit of analysis being the creative business owner. The data were analyzed using Partial Least Square - Structural Equation Modelling (PLS-SEM) weight analysis with SmartPLS version 4 software. After passing the external test and inner model, hypothesis testing was carried out by reviewing the t-statistics and p-values. The analysis results provide a surprise, showing that not all types of risk appetite significantly impact dynamic capabilities and competitive advantage. Avoiding the discovery of detrimental risks to dynamic capabilities and competitive advantage emphasizes that in this era, every creative SME must face risks. Avoiding risks makes the business unable to face dynamic changes in conditions and will not have a competitive advantage. However, risk and revenue sharing do not significantly impact competitive advantage. It has a strong impact through dynamic capabilities. Creative SMEs can choose to transfer risks or reduce them. Future research can examine different risk appetites for creative economy in each subsector.

Keywords: creative industry, risk appetite, dynamic capability, competitive advantage

INTRODUCTION

The challenge for most Small and Medium-Sized Enterprises (SMEs) based in today's non-digital creative economy is how to deal with technological disruption. Many SMEs still use traditional methods in their production processes because they still depend on the skills of each maker. There are still many SMEs that carry out traditional marketing and sales processes. The digital era provides much hope that SMEs will penetrate the global market. However, this era must be treated very carefully and treat risks appropriately or at least minimize existing risks. For example, knowing the customers must be a leading mindset.

The intensive application of advanced technology leading to the digital transition makes every SME in this era operate in a rapidly changing environment with increasingly tight competitive pressures (Anjaningrum, 2021; Anjaningrum & Moko, 2023). Moreover, the digital transformation accelerated by the COVID-19 pandemic has forced almost all SMEs worldwide to use digital technology to introduce products to achieve a wide market share and penetrate international markets. This condition makes business competition even tighter because consumers can easily learn about competing products.

There are many risks faced by SMEs, including (1) capital risk: lack of capital, and difficulties in

*Corresponding Author

accessing capital and capital assistance from banks; (2) human resource risk: lack of experts who support production and operational processes; (3) material risk: raw material, the price of raw materials which continues to rise, and the durability of raw materials is limited; (4) process/operational risk: limited supply of raw materials and lack of development innovation, and (5) technological risk: the equipment/machinery/ technology used is not yet optimal (Jikrillah et al., 2021) and is the most worrying thing in the era of disruptive technology (Samuel & Shauki, 2020).

The risks that SMEs face in the digital era include new crimes under the guise of being online, such as showing evidence of fake transfers or fictitious consumers, data breaches, phishing, and other cyber threat risks. The digital era has also spawned new crimes under the guise of online, such as showing evidence of fake transfers or fictitious consumers. According to Qazi and Al-Mhdawi, (2023), risk management is needed to respond to technological disruptions because technological advances have inherent risks. This phenomenon is referred to as the risk of technology disruption (Fox, 2020) or digital risk (Lee, 2021), or digital transformation risk, especially in asset-intensive organizations (Buck et al., 2023). Negative consequences or possible consequences of technology must be explored and mitigated, including data quality risks resulting from digitalism (Caballero et al., 2022). On the other hand, technology, especially digital, makes it easier for SMEs to go international.

Multinational companies must face several regional risks (Alday, 2022). SMEs that have gone international cannot view risk only as an external factor but also as a complex result of external factors and how they engage with them. Companies also have optimal exposure to cyber risks and cyberattacks, especially if successful attacks involve losing financial information. There will be a significant loss of shareholder wealth, and those losses become higher when attacks reduce sales growth (Kamiya et al., 2021). So, financial risks are unavoidable in every change in the business environment (Gong et al., 2021; Liu et al., 2023), including risks related to leverage, liquidity, and cash flow (Qadan & Jacob, 2022). Also, the risk of financial markets continues to fluctuate (Eskandari et al., 2022). Another risk that MSMEs must face is the COVID-19 pandemic, which disrupts the supply chain (Behl et al., 2022), as well as the risk of every policy taken by the government and the CEO (Çolak & Korkeamäki, 2021).

Government policies during the pandemic had a real impact on East Java's economic performance in the second quarter of 2020 compared to the second quarter of 2019, which experienced a contraction of 5.9%. Even so, East Java was the second largest economic contributor to Java, contributing 24.93% (Anwar, 2020). Therefore, to restore East Java's economy, the government has high hopes that the creative economy sector will be able to compete in the global market.

However, to compete in the digital era, creative industries must face challenges and risks (Struwe & Slepniov, 2023). Previously, it is suggested that competitive advantage could be optimized by strengthening Enterprise Risk Management (ERM) or through Enterprise Resource Planning (ERP) (Stratopoulos & Wang, 2022). Organizations in Iran are currently faced with many risks from various sources, such as globalization, deregulation, environmental changes, technological changes, governance changes, and complex financial models (Saeidi et al., 2019). So, increasing competitive advantage in a dynamic context becomes a big challenge. Only organizations with strong control and risk management systems can overcome this complexity.

ERM is a capability. It can be a culture and a practice integrated with a strategy for managing risks related to value creation (Kurniasih & Tobing, 2022). According to the results of bibliometric and cluster analysis conducted by Crovini et al. (2021) on 48 scientific articles discussing the use of risk management by SMEs, ERM still needs to be widely implemented. Likewise, the ERM system has yet to be widely implemented by SMEs in the UK, as per the results of qualitative research (Alaskari et al., 2021). Meanwhile, ERP is one solution to respond flexibly when SMEs face global challenges, ongoing changes in demand, and conditions such as the COVID-19 and SARS outbreaks, which produce even more devastating challenges. ERM is reflected in eight dimensions: internal environment, objective setting, event identification, risk assessment, risk response, control activity, information and communication, and monitoring (Saeidi et al., 2019).

ERM still needs to be widely implemented by SMEs (Crovini et al., 2021), as well as ERP systems are also not widely implemented by SMEs (Alaskari et al., 2021). Meanwhile, risk appetite plays a key role in ERM (Zhang et al., 2019). Risk appetite is visible in every policy or management decision for creative industries, even though they may not formally implement ERM or ERP. Meanwhile, risk appetite is divided into five: risk avoidance, risk sharing, risk transfer, risk reduction, and risk acceptance (Fennelly & Perry, 2017). Therefore, the research is carried out by highlighting the risk appetite of SMEs in Indonesia, especially East Java, about competitive advantage. Risk appetite has an important role in ERM and in producing high novelty. In such a way, several hypotheses can be formed as follows:

H1: Risk avoidance has a strong positive impact on competitive advantage,

H2: Risk sharing has a strong positive impact on competitive advantage,

H3: Risk transfer has a strong positive impact on competitive advantage,

H4: Risk reduction has a strong positive impact on competitive advantage,

H5: Risk acceptance has a strong positive impact on competitive advantage.

There is a positive relationship between risk management and dynamic capabilities (Yatskovskaya & Srai, 2019). However, further research aims to identify, assess, and manage air-related risks due to natural resource scarcity. Thus, the research develops a dynamic framework of integrated network capabilities for air scarcity risk mitigation. Meanwhile, previous research on different objects also reveals the influence of ERP on dynamic capabilities (Júnior et al., 2020). It investigates risk perception and its impact on agricultural and livestock performance based on the view of gaining dynamic capabilities with the implementation of ERP technology. The dimensions to measure farmers' perceptions of ERP implementation are technology, organization, environment, and distribution, and the impact measured on dynamic capabilities is on internal operations, costs, sales, and natural resources. It is still very rare to find research that discusses the relationship between ERP/ERM and the dynamic capabilities of SMEs. So, the research has high novelty by relating risk appetite as part of the ERM process with dynamic capabilities, which every SME needs in this era of closure. Thus, several hypotheses can be formed, including:

H6: Risk avoidance has a strong positive impact on dynamic capability,
H7: Risk sharing has a strong positive impact on dynamic capability,
H8: Risk transfer has a strong positive impact on dynamic capability,
H9: Risk reduction has a strong positive impact on dynamic capability,
H10: Risk acceptance has a strong positive impact on dynamic capability.

Meanwhile, dynamic capabilities greatly influence competitive advantage (Naguib et al., 2017). Previously, it has been revealed that in an atmosphere of crisis, risk management can be one of the company's dynamic capabilities to survive and be competitive (Nair et al., 2014). The dynamic capabilities framework seeks to explain how and why companies successfully adapt to changes in a constantly changing environment. Companies may require different dynamic capabilities to react and respond to different environmental dimensions and types of change.

That finding is corroborated by Lin et al. (2020) and Wang and Gao (2021). According to Maijanen and Jantunen (2016), dynamic capabilities can be in the form of sensing, seizing, and reconfiguring. Meanwhile, competitive advantage, according to Anjaningrum and Rudamaga (2019), can be in the form of competitive prices, value benefits, differentiation, and innovation. Previously, it is also stated that there is a relationship between risk appetite, dynamic capability, and competitive advantage. Hence, several research hypotheses can be formed, including:

H11: Dynamic capability has a strong positive impact on competitive advantage,
H12: Dynamic capability mediates the strong impact of risk avoidance on competitive advantage,
H13: Dynamic capability mediates the strong impact of risk sharing on competitive advantage,
H14: Dynamic capability mediates the strong impact of risk transfer on competitive advantage,
H15: Dynamic capability mediates the strong impact of risk reduction on competitive advantage,
H16: Dynamic capability mediates the strong impact of risk acceptance on competitive advantage.

The novelty of the research is that it raises risk appetite as an antecedent of dynamic capability and competitive advantage that has never been revealed in previous studies. Previous studies focus more on discussing the influence of risk management or ERP practices on dynamic capabilities and competitive advantage. Going deeper, risk appetite, which consists of five dimensions: risk avoidance, risk sharing, risk transfer, risk reduction, and risk acceptance, is partially analyzed for its influence on dynamic capabilities and competitive advantage so that the risk appetite of creative economy-based SMEs in Java can be identified. The indicators used have also been developed and adapted to the conditions of creative economy-based SMEs in East Java.

METHODS

The approach used in the research is quantitative. The research subjects are creative economy-based SMEs in East Java, with the unit of analysis in the form of the SME owner, CEO, or manager, where only one respondent represents each SME. SMEs are selected using an accidental-purposive sampling technique. Those who accidentally receive an online or offline questionnaire are willing to be respondents and based on the creative economy (SMEs included are in 17 creative economy subsectors). The targeted minimum sample size is calculated based on the theory of Hair et al. (2014), namely, five up to ten times the number of statement items in the questionnaire that measure research variables. The researchers choose the minimum sample size of $10 \times 30 = 300$ SMEs.

Quantitative data are collected through online and offline questionnaires on a five-point Likert scale. The online questionnaire is distributed via a Google Form link and sent to WhatsApp and Telegram groups of the creative economy community, assisted by several practitioners who have collaborated with the researchers. Meanwhile, the offline questionnaire is distributed directly by researchers to several SMEs, especially those in Malang and Surabaya. Researchers also survey the Malang Creative Center (MCC) and leave some questionnaires in creative industry communities and networks which are easily accessible to researchers, such as the Pelanusa community and the Malang Creative Fusion (MCF) network.

After collecting quantitative data from 300 respondents, the data are analyzed using Partial Least Square - Structural Equation Modeling (PLS-SEM) analysis with SmartPLS version 4 software. The first stage of PLS-SEM analysis is an outer model measurement to test the validity and reliability of the research instrument. The validity test in the research is carried out by reviewing the loading factor and Average Variance Extracted (AVE) values. In contrast, the reliability test is carried out by reviewing Cronbach's alpha and composite reliability values. If the outer model measurement passes, an inner model measurement will be carried out to test the feasibility of the model formed by reviewing the R-squared value. Then, hypothesis testing is carried out by reviewing the path coefficients to show the direction of the influence of the exogenous construct on the endogenous construct, in a positive or negative direction, as well as reviewing the t-statistic and p-value to determine whether the influence of the exogenous construct on the endogenous construct is significant or not and whether the influence is direct or indirectly.

Risk appetite (X) consists of several factors, according to (Fennelly & Perry, 2017). First, risk avoidance (X1) has four indicators: not carrying out activities that pose risks (X11), the risks that far exceed the benefits (X12), SMEs having options to avoid (X13), and avoiding risks that eliminate opportunities (X14). Second, risk sharing (X2) has four indicators: breaking the process into stages (X21), conducting joint financing (X22), conducting joint ventures (X23), and preliminary analysis to determine whether risks can be shared (X24). Third, risk transfer (X3) has four indicators: buying insurance/reinsurance (X31), hedging (X32), ascertaining whether the risk has been transferred (X33), and transferring risk creates new risks (X34). Fourth, risk reduction (X4) has four indicators: making procedures and internal control (X41), training and internal outreach (X42), contingency plans and provision of reserve funds (X43), and improving public relations (X44). Fifth, risk acceptance (X5) has five indicators: risk accepted at the company level (X51), risk accepted at the management level (X52), risk accepted at the individual level (X53), absolutely unavoidable risk (X54), and government regulations that force SMEs to accept certain risks (X55).

Endogenous latent variables consist of dynamic capability (Y1) and competitive advantage (Y2). Dynamic capability (Y1) is developed from indicators used by Maijanen and Jantunen, (2016). It includes sensing capability (Y11), seizing capability (Y12), and reconfiguring (Y13). According to Anjaningrum and Rudamaga, (2019), competitive advantage (Y2) consists of four indicators: competitive price (Y21), benefits value (Y22), differentiation (Y23), and innovation (Y24).

RESULTS AND DISCUSSIONS

The questionnaire has been distributed to 300 SMEs as the respondents. It reveals relatively equal male and female respondents, aged between 35 to 50 years, with bachelor's degrees. The majority of respondents have 3 to 6 years of business experience. Table 1 (see Appendices) provides a more comprehensive breakdown of the respondents' demographic information.

The loading factor value is expected to be more than 0.70. It indicates that the items that measure the latent construct are valid (Hair et al., 2014). Figure 1 shows the external model measurement using PLS-SEM. In particular, the number printed on the connection line between the latent construct and the items is the loading factor value. The result reflects that each item is valid because the value of each loading factor is more than 0.7.

All loading factor values for each item measuring the latent construct are greater than 0.7, indicating that each statement item in the research can truly reflect the variables studied. Meanwhile, the t-statistics value of each indicator (the number in brackets on the connecting line between the latent construct and the indicator in Figure 1 (see Appendices)) shows how strongly each indicator reflects its latent construct. It appears that X13 about SMEs having the choice to avoid risk has the highest loading factor and t-statistics values in reflecting risk avoidance. The result shows that SMEs can avoid possible risks because they have the choice to do so. Then, X23 about conducting a joint venture has the highest loading factor and t-statistics values in reflecting risk sharing. The main thing that enables SMEs to carry out risk sharing is that the business they own is a joint venture.

Moreover, X31, regarding buying insurance/reinsurance, has the highest loading factor and t-statistics values in reflecting risk transfer. The result implies that SMEs can carry out risk transfer mainly because they have insurance. The next indicator (X43), the provision of reserve funds, has the highest loading factor value and t-statistic value in reflecting risk reduction. It shows that having reserve funds is the main factor that allows SMEs to reduce risk. Finally, the indicator (X54), unavoidable risk, has the highest loading factor value and the t-statistic value in risk acceptance. This result shows that SMEs accept risks because these risks are truly unavoidable.

Next, the AVE value is expected to be more than 0.5 to indicate a valid research instrument. Meanwhile, Cronbach's alpha value is expected to be 0.6, and the composite reliability is more than 0.8 to indicate a reliable instrument (Garson, 2016). Table 2 (see Appendices) shows the validity and reliability of the instrument. The AVE values of each latent construct appearing in Table 2 (see Appendices) are more than 0.5. Cronbach's alpha is over 0.6, and a composite reliability value of 0.8. Hence, the instruments are valid and reliable.

The research considers the inner model test a determination test (R-squared). The R-squared value indicates the percentage contribution of exogenous latent constructs to endogenous ones. As shown in

Figure 1 (see Appendices), the number in the shape of a blue circle at Y1 indicates a value of 0.726. It means that about 72.6% of dynamic capability can explained by risk appetite. Likewise, the number in the shape of a blue circle in Y2 is 0.871. Around 87.1% of competitive advantage can be explained by risk appetite and dynamic capability. The R-squared value of 67% is interpreted by Chin 1998 in Hair et al. (2014) as the strong influence of exogenous constructs on endogenous constructs.

The research aims to analyze the impact of exogenous latent constructs on endogenous variables using t-tests, focusing on significance and direction. A positive t-statistic value over 1.96 or a p-value below 0.05 indicates significance. Positive path coefficient values imply a positive relationship, while negative values indicate a negative relationship.

The direct effect of risk avoidance (X1) on competitive advantage (Y2) is negative yet not statistically significant (path coefficient = -0.281, t-statistic = 1.027, p-value = 0.305), leading to the rejection of H1. Similarly, the direct effect of risk sharing (X2) on competitive advantage (Y2) is positive but not significant (path coefficient = 0.240, t-statistic = 0.349, p-value = 0.349), resulting in the rejection of H2. Conversely, risk transfer (X3) exhibits a positive and significant impact on competitive advantage (Y2) (path coefficient = 0.248, t-statistic = 2.379, p-value = 0.017), supporting H3. Similarly, risk reduction (X4) shows a positive and significant effect (path coefficient = 0.199, t-statistic = 2.315, p-value = 0.021), which is in line with the H4. However, risk acceptance (X5) displays a positive but insignificant effect (path coefficient = 0.051, t-statistic = 0.874, p-value = 0.382), leading to the rejection of H5.

Moving to dynamic capability (Y1), the effect of risk avoidance (X1) is significantly negative (path coefficient = -0.644, t-statistic = 2.051, p-value = 0.040), rejecting H6. Risk sharing (X2) has a significantly positive impact (path coefficient = 0.719, t-statistic = 2.195, p-value = 0.028), supporting H7. Similarly, risk transfer (X3) and risk reduction (X4) positively and significantly influence dynamic capability (Y1), supporting H8 and H9, respectively. Risk acceptance (X5) also has a significant positive impact (path coefficient = 0.321, t-statistic = 4.361, p-value = 0.000), supporting H10. Moreover, dynamic capability (Y1) has a significant positive effect on competitive advantage (Y2) (path coefficient = 0.527, t-statistic = 5.708, p-value = 0.000), supporting H11.

Next, exploring indirect effects through dynamic capability (Y1) as a mediator, the specific indirect effect of risk avoidance (X1) on competitive advantage (Y2) is negative but not significant (path coefficient = -0.339, t-statistic = 1.905, p-value = 0.057), leading to the rejection of H12. In contrast, the specific indirect effect of risk sharing (X2) on competitive advantage (Y2) through dynamic capability (Y1) is significant (path coefficient = 0.379, t-statistic = 2.022, p-value = 0.043), supporting H13.

Complete mediation is observed when the direct effect of risk sharing (X2) on competitive advantage (Y2) is insignificant, suggesting that the mediating variable fully explains this relationship. In the case of risk transfer (X3) on competitive advantage (Y2) through dynamic capability (Y1), the specific indirect effect is positively significant (path coefficient = 0.131, t-statistic = 2.058, p-value = 0.040), confirming H14. This result implies that the mediating variable plays a significant role, although the direct effect of risk transfer on competitive advantage remains significant.

Partial mediation is present when the direct effect of risk transfer (X3) on competitive advantage (Y2) is significant despite the mediation effect. Similarly, for risk reduction (X4) on competitive advantage (Y2) through dynamic capability (Y1), the specific indirect effect is positively significant (path coefficient = 0.123, t-statistic = 2.439, p-value = 0.015), supporting H15. Again, this result suggests the presence of mediation, even with a significant direct effect of risk reduction on competitive advantage. For risk acceptance (X5) on competitive advantage (Y2) through dynamic capability (Y1), the specific indirect effect is positively significant (path coefficient = 0.169, t-statistic = 2.912, p-value = 0.000), aligning with the sixteenth hypothesis (H16). It signifies that mediation is present despite a significant direct effect of risk acceptance on competitive advantage.

The high R-squared value shows that the risk appetite of creative economy-based SMEs in East Java strongly influences their dynamic capabilities in facing the rapidly changing business environment in the digital era. It can ultimately determine the achievement of competitive advantage in competing in local and international markets. If examined based on the direction of influence and level of significance of each type of risk appetite, SMEs should not avoid risk because avoiding risk will reduce dynamic capabilities and competitive advantage. SMEs can carry out risk transfer, risk sharing, or risk reduction. These three risk appetites positively and significantly influence both dynamic capabilities and competitive advantage. The positive influence of risk acceptance has more impact on dynamic capabilities than competitive advantage.

From Table 3 (see Appendices), the research results are very interesting because variations in the results have never been found in previous studies. As emphasized in the research, the five dimensions of risk appetite for creative entrepreneurs running their industry are directly related to dynamic capability and competitive advantage. So, it can be known which risk appetite produces the strongest and most positive impact. A very surprising finding is that from five types of risk appetite, which are thought to have a positive impact on dynamic capability and competitive advantage, there is one type of risk appetite with a negative impact (risk avoidance). Suppose creative industry entrepreneurs have a taste for risk avoidance. In that case, business actors will avoid activities that pose risks or even choose to avoid possible risks and ultimately lose opportunities. This trait is very contrary to the character of a creative entrepreneur who should

dare to face risks to achieve what is desired or targeted (Anjaningrum et al., 2021).

If creative industry entrepreneurs do not dare to face risks, they will not be able to achieve dynamic capabilities. The more they are afraid of facing the risk, the lower their dynamic ability is. They will not be able to perform sensing capability, such as doubt or unwillingness to be active in monitoring competing companies. The responsiveness to customer feedback is also weak. Then, they do not actively deal with stakeholders, follow changes in customer behavior and needs, or even monitor digital technological developments. This phenomenon does not match the conditions of the business environment in the digital era, which is characterized by very fast changes. In addition, creative industry entrepreneurs will also not be able to carry out seizing such as making fast and precise decisions in facing the digital era, nor will they be able to perform configurations such as sharing knowledge and learning new things, especially related to digital technology. There is no interest in developing professional skills and personnel expertise. If this situation happens, in the end, it will not be easy to achieve a competitive advantage in the form of competitive prices, higher value benefits, differentiation, or innovation.

The research results support the findings of Struwe and Slepniov (2023), who emphasized the importance of facing risks to compete in today's digital era. However, the research cannot find formal ERM practices (Saeidi et al., 2019) or ERP systems, as stated by Stratopoulos and Wang (2022). However, risk appetite shows informal ERM that creative industry entrepreneurs have a strategy for managing risks related to value creation (Kurniasih & Tobing, 2022). ERM or ERP still needs to be widely introduced and implemented by creative industries in East Java (Alaskari et al., 2021; Crovini et al., 2021). This result must be distinct from the role of creative economy stakeholders, often referred to as the penta-helix or hexa-helix (if added to the role of financial institutions and banking).

The results are also in line with Yatskovskaya and Srai (2019) and Júnior et al. (2020), revealing the effect of ERM/ERP on dynamic capabilities. Furthermore, dynamic capabilities greatly affect competitive advantage (Lin et al., 2020; Naguib et al., 2017; Wang & Gao, 2021). Regarding the indirect relationship between risk appetite and competitive advantage through dynamic capabilities, it is evident that the role of dynamic capabilities does not pass for the relationship between risk aversion and competitive advantage.

Last, risk sharing and acceptance do not significantly affect competitive advantage but have a strong impact through dynamic capabilities. In this connection, dynamic capability has a complete mediation role, in which risk sharing and acceptance will positively impact dynamic capability, ultimately creating a competitive advantage. Another alternative is to increase competitive advantage so that entrepreneurs can transfer risk, such as through participation in insurance, or reduce it (Schuh & Noth, 2022).

CONCLUSIONS

The research reveals the relationship between risk appetite and dynamic capabilities and competitive advantage, which is very difficult to find in previous studies, giving rise to a conceptual framework. It is the main novelty of the research. Risk aversion has been proven detrimental to dynamic capabilities and competitive advantage, emphasizing that every entrepreneur must face risks in this era because avoiding risks makes the business unable to face changing dynamic conditions and will not have a competitive advantage. Sharing and accepting risks do not significantly influence competitive advantage but have a strong impact through dynamic capabilities.

The research contributes to understanding the risk appetite of creative entrepreneurs in East Java, Indonesia, and its impact on dynamic capabilities and competitive advantage. By understanding the risk appetite of creative economy-based SMEs, the government can formulate policies to increase the creative economy's competitive capabilities by considering the risk appetite of SMEs. The research results also contribute to the development and limitations of strategic management science, especially dynamic capability theory. It shows empirical evidence of the application of risk appetite in determining the strength of dynamic capability of SMEs in developing countries.

The managerial implication of the research results is that creative economy-based SMEs in East Java are advised to have the courage to accept risks and face them by choosing to transfer risks to insurance, especially business insurance. They can try to reduce them by providing special reserve funds if undesirable things happen. For example, the COVID-19 pandemic can go beyond predictions but greatly impacts business life. SMEs should not avoid risks because by avoiding risks, they will not be able to seize opportunities in every existing challenge and will further reduce the dynamic capabilities of SMEs in every change in the turbulent business environment.

Nevertheless, the research has yet to differentiate the risk appetite for each sub-sector of the creative economy. Apart from that, the research is only conducted on creative economy-based SMEs in East Java, which have different characteristics from SMEs in other regions. In this way, further research can examine differences in the risk appetite of creative entrepreneurs in each subsector and conduct research in other areas.

ACKNOWLEDGMENT

The research was supported by a grant from Institut Teknologi dan Bisnis Asia Malang in 2023. The authors are indebted to the Lembaga Penelitian dan Pengabdian Masyarakat Institut Asia Malang,

which provided a grant to assist with the research reported.

REFERENCES

Alaskari, O., Pinedo-Cuenca, R., & Ahmad, M. M. (2021). Framework for implementation of Enterprise Resource Planning (ERP) systems in Small and Medium Enterprises (SMEs): A case study. *Procedia Manufacturing*, *55*, 424–430. https://doi.org/10.1016/j.promfg.2021.10.058

Alday, S. S. (2022). Regional integration and the regional risk paradox. *European Management Journal*, *40*(5), 793–808. https://doi.org/10.1016/j.emj.2021.10.006

Anjaningrum, W. D. (2021). Strengthening creative economy capabilities in East Java through digital transformation and networks. In *The 3th International Conference on Economics and Business (ICEB 2021)* (pp. 38–45).

Anjaningrum, W. D., Hermawati, A., Yogatama, A. N., Suci, A. R. P., & Sidi, A. P. (2021). Creative industry in the post-pandemic digital era: Meaningful incubation, customer focus, and high innovation as strategies to compete. In *Proceedings of the 4th International Conference of Economics, Business, and Entrepreneurship (ICEBE)*. European Alliance for Innovation. https://doi.org/10.4108/eai.7-10-2021.2316784

Anjaningrum, W. D., & Moko, W. (2023). Can holistic empowerment and digital platform arouse creative economy innovation? *Asia-Pacific Management and Business Application*, *12*(1), 1–18. https://doi.org/10.21776/ub.apmba.2023.012.01.1

Anjaningrum, W. D., & Rudamaga, H. (2019). Creative industry: Enhancing competitive advantage and performance. *Asia-Pacific Management and Business Application*, *7*(3), 123–146. https://doi.org/10.21776/ub.apmba.2019.007.03.1

Anwar, M. S. (2020, August 14). *Penyaluran bansos telat penyebab melemahnya pertumbuhan ekonomi Jatim*. KlikJatim.Com. https://klikjatim.com/penyaluran-bansos-telat-penyebab-melemahnya-pertumbuhan-ekonomi-jatim/

Behl, A., Gaur, J., Pereira, V., Yadav, R., & Laker, B. (2022). Role of big data analytics capabilities to improve sustainable competitive advantage of MSME service firms during COVID-19 – A multi-theoretical approach. *Journal of Business Research*, *148*, 378–389. https://doi.org/10.1016/j.jbusres.2022.05.009

Buck, C., Clarke, J., Torres de Oliveira, R., Desouza, K. C., & Maroufkhani, P. (2023). Digital transformation in asset-intensive organisations: The light and the dark side. *Journal of Innovation & Knowledge*, *8*(2), 1–12. https://doi.org/10.1016/j.jik.2023.100335

Caballero, I., Gualo, F., Rodríguez, M., & Piattini, M. (2022). BR4DQ: A methodology for grouping business rules for data quality evaluation. *Information Systems*, *109*, 1–18. https://doi.org/10.1016/j.is.2022.102058

Çolak, G., & Korkeamäki, T. (2021). CEO mobility and corporate policy risk. *Journal of Corporate Finance*, *69*, 1–28. https://doi.org/10.1016/j.jcorpfin.2021.102037

Crovini, C., Ossola, G., & Britzelmaier, B. (2021). How to reconsider risk management in SMEs? An advanced, reasoned and organised literature review. *European Management Journal*, *39*(1), 118–134. https://doi.org/10.1016/j.emj.2020.11.002

Eskandari, H., Sadegheih, A., Zare, H. K., & Lotfi, M. M. (2022). Developing a smart stock trading system equipped with a novel risk control mechanism for investors with different risk appetites. *Expert Systems with Applications*, *210*. https://doi.org/10.1016/j.eswa.2022.118614

Fennelly, L. J., & Perry, M. A. (2017). *Physical security: 150 things you should know*. Elsevier Inc. https://doi.org/10.1016/C2015-0-05410-7

Fox, S. J. (2020). The 'risk' of disruptive technology today (A case study of aviation – Enter the drone). *Technology in Society*, *62*. https://doi.org/10.1016/j.techsoc.2020.101304

Garson, G.D. (2016). *Partial least squares: Regression and structural equation models*. Statistical Associates Publishers.

Gong, X., Yu, C., & Min, L. (2021). A cloud theory-based multi-objective portfolio selection model with variable risk appetite. *Expert Systems with Applications*, *176*. https://doi.org/10.1016/j.eswa.2021.114911

Hair, J. F., Sarstedt, M., Hopkins, L., & Kuppelwiesier, V. G. (2014). Partial Least Squares Structural Equation Modeling (PLS-SEM): An emerging tool in business research. *European Business Review*, *26*(2), 106–121. https://doi.org/10.1108/EBR-10-2013-0128

Jikrillah, S., Ziyad, M., & Stiadi, D. (2021). Analisis manajemen risiko terhadap keberlangsungan usaha UMKM di Kota Banjarmasin. *JWM (Jurnal Wawasan Manajemen)*, *9*(2), 134–141. https://doi.org/10.20527/jwm.v9i2.24

Júnior, C. H., Spers, E. E., Oliveira, T., & Yanaze, M. (2020). Brazilian farmer perception of dynamic capability and performance over the adoption of enterprise resource planning technology. *International Food and Agribusiness Management Review*, *23*(4), 515–528. https://doi.org/10.22434/IFAMR2020.0029

Kamiya, S., Kang, J. K., Kim, J., Milidonis, A., & Stulz, R. M. (2021). Risk management, firm reputation, and the impact of successful cyberattacks on target firms. *Journal of Financial Economics*, *139*(3), 719–749. https://doi.org/10.1016/j.jfineco.2019.05.019

Kurniasih, F., & Tobing, A. N. L. (2022). Risk analysis in the business process management and recording electricity costs (Case study in an oil and gas company in Indonesia). *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, *5*(3), 21089–21104.

Lee, I. (2021). Cybersecurity: Risk management

framework and investment cost analysis. *Business Horizons*, *64*(5), 659–671. https://doi.org/10.1016/j.bushor.2021.02.022

Lin, H. E., Hsu, I. C., Hsu, A. W., & Chung, H. M. (2020). Creating competitive advantages: Interactions between ambidextrous diversification strategy and contextual factors from a dynamic capability perspective. *Technological Forecasting and Social Change*, *154*. https://doi.org/10.1016/j.techfore.2020.119952

Liu, Q., Wang, S., & Sui, C. (2023). Risk appetite and option prices: Evidence from the Chinese SSE50 options market. *International Review of Financial Analysis*, *86*. https://doi.org/10.1016/j.irfa.2023.102541

Maijanen, P., & Jantunen, A. (2016). Dynamics of dynamic capabilities - The case of public broadcasting. *International Journal of Business Excellence*, *9*(2), 135–155. https://doi.org/10.1504/IJBEX.2016.074850

Naguib, A. N., Elsaid, E., & Elsaid, A. M. (2017). The impact of dynamic capabilities on sustainable competitive advantage in the pharmaceutical sector in Egypt. *Business and Management Research*, *6*(2), 1–16. https://doi.org/10.5430/bmr.v6n2p1

Nair, G. K., Purohit, H., & Choudhary, N. (2014). Influence of risk management on performance: An empirical study of international Islamic bank. *International Journal of Economics and Financial Issues*, *4*(3), 549–563.

Qadan, M., & Jacob, M. (2022). The value premium and investors' appetite for risk. *International Review of Economics & Finance*, *82*, 194–219. https://doi.org/10.1016/j.iref.2022.06.014

Qazi, A., & Al-Mhdawi, M. K. S. (2023). Exploring dependencies among global environmental, socioeconomic, and technological risks. *Environmental Impact Assessment Review*, *98*. https://doi.org/10.1016/j.eiar.2022.106912

Saeidi, P., Saeidi, S. P., Sofian, S., Saeidi, S. P., Nilashi, M., & Mardani, A. (2019). The impact of enterprise risk management on competitive advantage by moderating role of information technology. *Computer Standards & Interfaces*, *63*, 67–82. https://doi.org/10.1016/j.csi.2018.11.009

Samuel, G. W., & Shauki, E. R. (2020). Analisa dan evaluasi gangguan teknologi dalam operasional bisnis dan pengaruhnya terhadap penetapan harga pada UMKM perdagangan tekstil. *Jurnal ASET (Akuntansi Riset)*, *12*(1), 73–93. https://doi.org/10.17509/jaset.v12i1.24110

Schuh, F., & Noth, L. M. (2022). Ownership structures and risk taking in the German property-liability insurance market. *Journal of Co-Operative Organization and Management*, *10*(1). https://doi.org/10.1016/j.jcom.2022.100165

Stratopoulos, T. C., & Wang, V. X. (2022). Estimating the duration of competitive advantage from emerging technology adoption. *International Journal of Accounting Information Systems*, *47*. https://doi.org/10.1016/j.accinf.2022.100577

Struwe, S., & Slepniov, D. (2023). Unlocking digital servitization: A conceptualization of value co-creation capabilities. *Journal of Business Research*, *160*. https://doi.org/10.1016/j.jbusres.2023.113825

Wang, L. L., & Gao, Y. (2021). Competition network as a source of competitive advantage: The dynamic capability perspective and evidence from China. *Long Range Planning*, *54*(2). https://doi.org/10.1016/j.lrp.2020.102052

Yatskovskaya, E., & Srai, J. S. (2019). Developing a dynamic capabilities approach to risk mitigation strategies driven by water scarcity. In *The 24th EurOMA Conference*. https://doi.org/10.17863/CAM.35102

Zhang, N., Paraskevas, A., & Altinay, L. (2019). Factors that shape a hotel company's risk appetite. *International Journal of Hospitality Management*, *77*, 217–225. https://doi.org/10.1016/j.ijhm.2018.07.001

APPENDICES

Table 1 Respondents' Demographic

Category		Freq.	%
Gender	Male	156	52.00%
	Female	144	48.00%
Age	21−35 Years Old	81	27.00%
	35−50 Years Old	135	45.00%
	> 50 Years Old	84	28.00%
Education	Senior High School	84	28.00%
	Diploma	75	25.00%
	Bachelor's Degree	120	40.00%
	Postgraduate Degree	21	7.00%
Creative Economy Sector	Music	7	2.33%
	Interior Design	10	3.33%
	Visual Communication Design	14	4.67%
	Product Design	8	2.67%
	Art	7	2.33%
	Film Animation Video	9	3.00%
	Photography	11	3.67%
	Crafts	35	11.67%
	Publishing	18	6.00%
	Architecture	14	4.67%
	Application	27	9.00%
	Game Development	26	8.67%
	Culinary	54	18.00%
	Advertising	8	2.67%
	TV & Radio	7	2.33%
	Performing-Arts	7	2.33%
	Fashion	38	12.67%
Business Experience	< 3 years (Startup)	78	26.00%
	3−6 years	124	41.30%
	> 6 years	98	32.70%

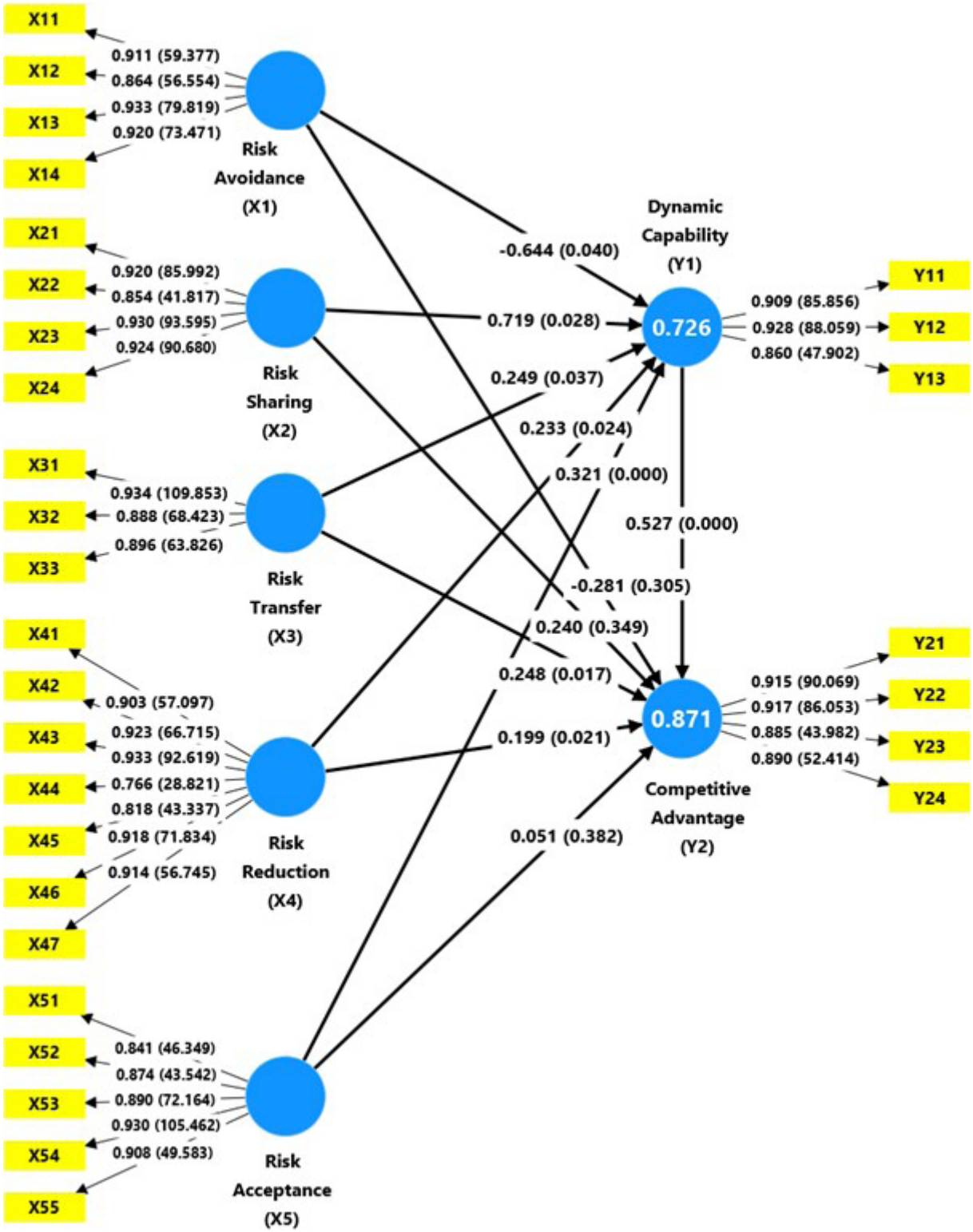

Figure 1 Structural Model

Table 2 Reliability and Validity Test

Latent Constructs	Cronbach's Alpha	Composite Reliability		AVE
		rho a	rho c	
Risk Avoidance (X1)	0.928	0.930	0.949	0.824
Risk Sharing (X2)	0.928	0.931	0.949	0.823
Risk Transfer (X3)	0.891	0.892	0.932	0.821
Risk Reduction (X4)	0.953	0.954	0.962	0.782
Risk Acceptance (X5)	0.933	0.934	0.950	0.791
Dynamic Capability (Y1)	0.882	0.886	0.927	0.809
Competitive Advantage (Y2)	0.923	0.925	0.946	0.813

Table 3 T-Test Results

Latent Construct Relationship	Original sample (O)	T statistics (|O/ STDEV|)	P-values	Inference	
Direct Effect					
Risk Avoidance (X1) → Competitive Advantage (Y2)	-0.281	1.027	0.305	Negative Not Significant	**H1 is rejected**
Risk Sharing (X2) → Competitive Advantage (Y2)	0.240	0.936	0.349	Positive Not Significant	**H2 is rejected**
Risk Transfer (X3) → Competitive Advantage (Y2)	0.248	2.379	0.017	Positive Significant	H3 is supported
Risk Reduction (X4) → Competitive Advantage (Y2)	0.199	2.315	0.021	Positive Significant	H4 is supported
Risk Acceptance (X5) → Competitive Advantage (Y2)	0.051	0.874	0.382	Positive Not Significant	**H5 is rejected**
Risk Avoidance (X1) → Dynamic Capability (Y1)	-0.644	2.051	0.040	Negative Significant	**H6 is rejected**
Risk Sharing (X2) → Dynamic Capability (Y1)	0.719	2.195	0.028	Positive Significant	H7 is supported
Risk Transfer (X3) → Dynamic Capability (Y1)	0.249	2.082	0.037	Positive Significant	H8 is supported
Risk Reduction (X4) → Dynamic Capability (Y1)	0.233	2.256	0.024	Positive Significant	H9 is supported
Risk Acceptance (X5) → Dynamic Capability (Y1)	0.321	4.361	0.000	Positive Significant	H10 is supported
Dynamic Capability (Y1) → Competitive Advantage (Y2)	0.527	5.708	0.000	Positive Significant	H11 is supported
Indirect Effects					
Risk Avoidance (X1) → Dynamic Capability (Y1) → Competitive Advantage (Y2)	-0.339	1.905	0.057	Negative Not Significant	**H12 is rejected**
Risk Sharing (X2) → Dynamic Capability (Y1) → Competitive Advantage (Y2)	0.379	2.022	0.043	Positive Significant	H13 is supported
Risk Transfer (X3) → Dynamic Capability (Y1) → Competitive Advantage (Y2)	0.131	2.058	0.040	Positive Significant	H14 is supported
Risk Reduction (X4) → Dynamic Capability (Y1) → Competitive Advantage (Y2)	0.123	2.439	0.015	Positive Significant	H15 is supported
Risk Acceptance (X5) → Dynamic Capability (Y1) → Competitive Advantage (Y2)	0.169	2.912	0.004	Positive Significant	H16 is supported