Risk Tolerance, Risk Propensity, and Risk Practice on State-Owned Enterprise Bank in Indonesia

Andhika Purnama Yudha dan Farah Margaretha Leon
Faculty of Economics and Business Universitas Trisakti Indonesia

Email: farahmargaretha@trisakti.ac.id

ABSTRACT

The purpose of this research is to know the effect of risk tolerance, risk propensity, and risk practices on financial performance at State-Owned Enterprises in Indonesia. The sample in this research is Bank employee of State-Owned Enterprises. Sampling technique in this research is a purposive sampling. This method uses certain criteria for selecting respondents; the criteria are all staff of credit department, Credit Management Committee of State-Owned Enterprises Bank. The data were obtained through the distribution of questionnaires with the likert scale and from the annual financial statements. The results of this study indicate that risk tolerance has a positive effect on risk propensity, the higher the risk tolerance the higher the risk propensity. Risk propensity has a significant effect on risk Practices. Risk tolerance has no direct effect on risk practices but must be through a mediating variable that is the risk propensity variable. That is, the increased risk tolerance, risk propensity increases, risk practices will increase as well, and automatic financial performance will increase. For this tolerance management can be used as a consideration in making decisions for the Company, the higher the risk tolerance, the higher the tendency of managers to take risks, so the company's performance will increase.

Keywords: *risk tolerance, risk tendency, risk practice, state-owned enterprises bank, financial performance*

ABSTRAK

Tujuan dari penelitian ini untuk mengetahui pengaruh r*isk tolerance, risk propensity,* dan *risk practices* terhadap kinerja keuangan pada Bank BUMN di Indonesia. Metode Penelitian adalah analisis SEM *(Structural Equation Models)*. Sampel pada penelitian ini adalah pegawai Bank BUMN. Teknik pengambilan sampel dalam penelitian ini menggunakan *purposive sampling*. Metode ini menggunakan kriteria tertentu untuk memilih responden, kriterianya adalah seluruh staf dari bagian kredit, Komite Manajemen Kredit dari Bank BUMN. Data diperoleh melalui penyebaran kuesioner dengan skala *likert* dan dari laporan keuangan tahunan. Hasil penelitian ini menunjukkan bahwa *risk tolerance* berpengaruh positif terhadap *risk propensity*, semakin tinggi *risk tolerance* maka semakin tinggi juga *risk propensity*. *Risk propensity* berpengaruh signifikan terhadap *risk Practices*. *Risk tolerance* tidak berpengaruh secara langsung terhasap *risk practices* tetapi harus melalui variabel perantara (*mediating*) yaitu variabel *risk propensity*. Artinya, semakin meningkat toleransi resiko*, risk propensity* semakin meningkat, praktek resiko akan semakin meningkat juga, otomatis kinerja keuangan akan meningkat. Bagi manejemen toleransi ini dapat dijadikan sebagai bahan pertimbangan dalam mengambil keputusan untuk Perusahaan, semakin tinggi *risk tolerance*, maka semakin tinggi juga kecenderungan manejer untuk mengambil risiko, sehingga kinerja perusahaan akan meningkat.

Kata kunci: toleransi resiko, kecenderungan resiko, praktek resiko, Bank BUMN, kinerja keuangan

1. Introduction

Today's business environment grows and evolves very dynamically, requiring effective and efficient management systems that can easily change or adapt and can accommodate any changes that are both current and fast, precise and directed and at a low cost. Thus, the organization is no longer viewed as a closed system, but the organization is an open system that must be able to respond and accommodate external changes quickly and efficiently.

The economic crisis that has an impact on the sluggishness of the business climate leads many banks to make efforts to downsize or other internal consolidation as an effort to save money to maintain survival and achieve growth through effective and efficient performance. The survival and growth of a bank is not only determined by success in managing finances based on the strength of capital or money alone, but also determined by its success in managing human resources.

Identifying, measuring and analyzing risks is what a banker should be doing, but the results achieved are far from consistent; therefore, this is seen as a mandate to gain a clearer appreciation of the dynamic forces underlying good risk mitigation practices (Eastburn and Sharland, 2017). On the other hand, the role of risk management in a company is enormous. The success of the company is determined by the ability of the management to use various resources available to achieve the company's goals. With good risk handling all possible losses that can befall the company can be minimized so that the cost is smaller and in the end off company will get bigger profit.

A good understanding of risk management will reduce losses or will increase confidence levels for decision makers in reducing the risk of loss. Any company whether it is a bank or a non-bank company must pursue profitability. It is because the benchmark of a company's success can be seen through profitability (Sudiyatno, 2013). In achieving high profitability, the company should have a standard risk tolerance to implement the targets that have been set. The limit of risk tolerance that has been set is to benchmark the risk that the company can bear in achieving the target. Given the risk tolerance of a company, the tendency or risk tendency will increase as the risk practices undertaken by the company in pursuit of the profit.

What is important for every organization and their long-term survival is their ability to understand and reduce risk. But of course the risks have many sides, some of which are within the organization's ability to manage or control, often described as internal risk versus external risk that is largely beyond the organization's ability to control it (Cheese, 2016).

Banking has a strategic role in supporting the running of the wheels of the economy and national development. Banking services are generally divided into two purposes. Firstly as a provider who provide efficient payment instrument mechanisms

for customers. For this, banks provide cash, savings, and credit cards. This is the most important bank role in economic life. Without the provision of this efficient means of payment, goods can only be traded in a time-consuming barter. Secondly, accepting savings from customers and lending them to those in need of funds means that banks increase the flow of funds for investment and more productive use. From this it can be seen that the bank has a very big share of the traffic of the funds, how not he bank in addition to receiving savings which means collecting funds from the community, then lend it to other communities in need. This of course must have the basic and provisions in accordance with applicable regulations. This is where the role of risk management in an indispensable bank is no exception to the State-Owned Enterprises Bank. Giving credit is not just a pursuit of profitability, but also there is little mandate given by the government to increase the country's economy. Given the role of risk management, banks can mitigate risks that may occur earlier. So it can set the strategy in carrying out its duties as a pool of funds and dive back into the community. When this role goes well, the economy of a country will increase.

From the things that have been described above, then the need for research on the level of corporate performance on decision-making by the company / management and mitigate risk. Because decision-making by management of a company, not only pay attention to the risks to be faced by the company, but also pay attention to the comfort and welfare of employees. This of course will also affect the State-Owned Enterprises Bank.

The purpose of this research is as follows:

1. To know how the effect of risk tolerance against Risk Propensity in a bank to achieve desired bank performance?
2. To investigate whether there is a significant influence between Risk Tolerance and Risk Practices on bank performance?
3. To find out whether there is a significant influence between Risk Tendency and Risk Practices on Bank Performance?
4. To investigate whether the Risk Practices Effect on Risk Performance on a bank in achieving the desired results.

2. Literature Review

According to Lokobol et al (2014), Risk is something that leads to uncertainty over the occurrence of an event over a certain period of time which the event caused a loss whether it is a minor loss that is not so meaningful or big losses that affect the survival of a company.

According to Margaretha (2014), there are 3 types of project risk analysis, as follows:

1. Risk of Self-Reliance (Stand Alone Risk) Specific risk of a project without involving other projects may be owned by the Company. This risk is measured

by the expected rate of return variability on the project's assets.

2. Corporate Risk / Business Risk (Corporate / within-firm Risk)
   Risks measured without portfolio diversification from shareholders. This risk is measured by profit variability. Company caused by a particular project.
3. Market Risk (Beta Market Risk)
   Part of project risk that can not be eliminated through diversification. This risk is measured by the project beta coefficient. Market risk is important because it directly affects the stock price.

Risk Tolerance

Risk tolerance is one of the important factors that investors consider in determining their stock investment preference (Putri et al, 2017). Risk tolerance consists of various aspects, including the characteristics of the investor's personality.

Risk tolerance is the organizational or stakeholder's willingness to bear a risk - after risk treatment - in order to achieve their goals (IRMAPA, 2015). Most individuals are conservative investors. They tend not to take extra risks that they do not really think they need. In this case a bold level of risk is taken will greatly affect the potential profit desired. Risk tolerance is expressed quantitatively which can be monitored and often expressed in an acceptable or unacceptable outcome or level of risk.

Risk Propensity

Two important measures of behavioral risk are risk perception and risk propensity. Risk tendency is the tendency of a decision maker whether to take or avoid risk (Lestari, 2013). This risk trend is one of the main factors for investors to make decisions before investing. Because risk trends and risk perceptions are individual factors, they are shaped by cultural background of decision makers (Lestari, 2013). The cultural factor that is associated with risk tendencies and risk perceptions is to avoid uncertainty, defined as the extent to which people are cultured feel threatened by unknown situations.

Risk Practices

Risk management practices within the company will greatly assist management in executing policies and strategies. Risk management is integrated into the organizational process and becomes an inherent practice. Risks that potentially undermine achievement and reduce company value are controlled appropriately.

Risk management is the management and technique for systematically managing risk in the midst of alignment and adjusting the ability to seek market opportunities, meaning increased risk practices, performance risks will also increase (Eastburn and Sharland, 2017). Basically, a manager will dare to risk, when he already has experience of the field that they do.

The nature and behavior of managers

The attitude and behavior of managers are as follows: Curiosity, Attention (mindfulness), and Optimism. Optimists in running things plan is holding positive

expectations and more confident about them for the future (Eastburn and Sharland, 2017). Those who think positively have an optimistic attitude in looking at the future. A person who thinks positively will always fight negative thoughts by developing an optimistic attitude.

Every manager is required to have good attention (mindfulness) for his staff, so as to establish togetherness. Mindfulness is a psychological process to attract a person's attention to the current experience (Wikipedia, 2018). Curiosity is a feeling that occurs when we really want to know something. Usually curiosity occur when we see something strange or something new or something that makes us curious. Curiosity is defined as the motivation of bankers and investors to understand how things work.

Bank Performance

According to Astuti (2015), financial performance is a picture of every economic result that can be achieved by banking companies in a certain period through the company's activities to generate profits efficiently and effectively, which can be measured progress by conducting an analysis of financial data that is reflected in the financial statement. Assessment of the performance of a particular bank can be done by analyzing the financial statements. Bank financial statements in the form of balance sheet provide information to parties outside the bank. The information provided on the description of its financial position, which can be further used by external parties to assess the extent of the existing risk in a bank. In improving bank performance, one of the decisive variables is the contribution of innovation variable is very decisive, it shows that the improvement of business performance can be done by increasing the innovation supported by achievement motivation, risk propensity and self-efficacy (Macmud, 2017) .

Return on Assets (ROA) is a ratio that describes the level of profit (profit) obtained bank compared with the total assets (Astuti, 2015). ROA is used to measure management's ability to gain overall profitability and managerial efficiency. The Bank Indonesia standard for this ratio based on Bank Indonesia Regulation Number: 6/10/PBI/2004 is 0.5% -1.25%.

Profitability is the ability of a company to generate profit over a certain period with total assets or capital it has (Agustiningrum, 2013). Credit risk received by the bank is one of the bank's business risks, resulting from uncertainty in return or resulting from non-repayment of loans granted by the bank to the debtor.

3. Conceptual Framework

Today, banks compete with each other to issue certain tricks to attract customers. A bank will survive when harmonizing the rules and performance criteria of a bank (owners of capital, loans / deposits, peer performance) with the nature and behavior of its management in making decisions, because with such alloys it can mitigate risks, such as in decision-making lower interest rates, policies in lending and so on.

Ideally a bank should have knowledge in risk management, especially in marketing its core business that is collecting funds from the community in the form of savings and channeling funds to the community in the form of credit. In the era of competition in this increasingly tight banking world, a bank in conducting its business is required to take risks while still within the limits of risk tolerance, so as to improve the financial performance of these banks. The bank's performance in improving the value of its business through increased profits, assets and future prospects, but the focus of its evaluation is still based on earnings or profitability and risk. The profitability aspect in this study is proxied with Return on Assets (ROA), while the risk aspect can be projected with credit risk, liquidity risk, interest risk and operational risk capital (Purwoko and Sudiyatno, 2013). Company performance reported by each company reflects the actual company condition in the company's performance report contains information of each business unit or service that the company can reach within a certain period.

The effect of risk tolerance and risk trends is a reference for risk assessment and to provide flexibility in managing risk (Eastburn and Sharland, 2017). Ultimately, this is considered a predicted risk management designed to optimize earnings performance. Based on the above, the following picture is the framework of this study. It is a framework for thinking about the relationship of financial performance to decision making in mitigating the risks that will occur in the Company.

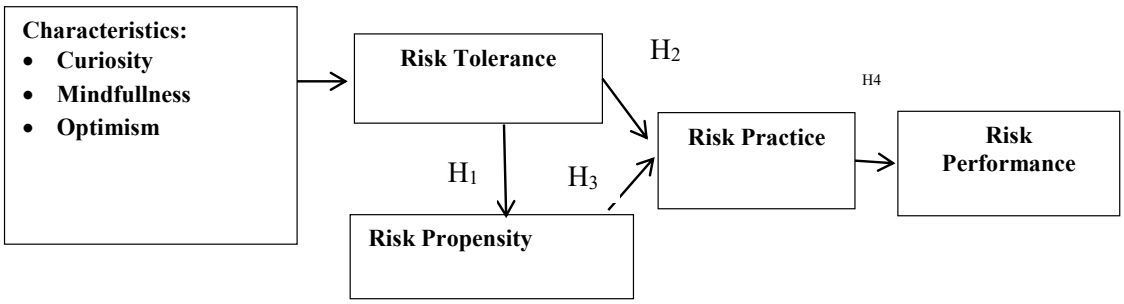

Figure 1. Conceptual Framework

Hypothesis Development

Risk Tolerance

Managing the tolerated risk is very important, because in setting objectives to be achieved it must take into account the tolerance of risk taken to achieve the desired results (Eastburn and Sharland, 2017). In conducting its business, banks are required to be brave and tend to take risks as long as within certain risk tolerance limits, in order to achieve goals.

Understanding the risk tolerance and how to manage risk tolerance factors so that it tends to take this risk is very important, this is to improve the ability to make investment decisions despite the risks but has a tendency still within reasonable limits that increase economic growth (Rahmawati et al, 2015).

The higher the risk tolerance level held by the investor, the higher the investor's tendency to invest (Putri et al, 2017).

The tendency of a manager to make risky decisions must take into account the limits of his tolerance, so that as managers increasingly understand the limits of risk tolerance, there is also a tendency to make risky decisions but still within reasonable limits (Amsal, et al, 2014). From the results of previous research, the following hypotheses can be taken:

H_1. Risk Tolerance has a positive influence on risk trends (Risk Propensity).

Increased knowledge of risk tolerance for a manager, the tendency to take on the risks is increasing and the risk of rising practice also increases the chances of the company's financial performance (Eastburn and Sharland, 2017).

There are factors that encourage regulators to give priority to improving risk practices regardless of risk tendencies, so understanding of risk tolerance is also not taken into account (Mokni et al, 2014). From the above description, it can be concluded the second hypothesis as follows:

H_2. Risk Tolerance has a positive effect on risk practice.

Risk Propensity

The risk trend is an assessment of the risks posed to a particular situational problem based on the probability of risk itself, thus taking both the uncertainty, control and management beliefs in decision-making (Eastburn and Sharland, 2017). Two important measures of behavioral risk are risk perception and risk propensity, explaining that risk perceptions and risk tendencies influence the behavior of individual investment decision-making in the face of uncertainty.

The risk trend is the tendency of a person to make a decision whether to take or avoid risks, the more likely that a manager to risk automatic risk practice increases (Lestari, 2013). Traditionally, risk tendencies are conceptualized as stable, dispositional attributes, but may change as circumstances change so that they are considered as the result of accumulated risk trends due to experience.

Making decisions has a significant effect on risk trends, the historical significance of something that was once a success in the past can be a boost for decision makers to take risks when bidding, automatic risk-boosting practices (Chen et al 2015). Based on the above research, it can be concluded the hypothesis as follows:

H_3. Risk Propensity has a positive influence on risk practice.

Risk Practices

Risk management is the management and technique for systematically managing risk in the midst of alignment and adjusting the ability to seek market opportunities, meaning that declining risk practices, performance risks will increase (Eastburn and Sharland, 2017). Basically banking

is more understanding of risk and better prepared in practicing risk management. The technique of recognizing risk can detect the dangers that lurk and can know the relationship between events or events, thus achieving greater control. Furthermore, the company is better at mitigating the adverse effects of those risks.

The practice of risk management is determined by the extent to which a manager or employee understands risk management, efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis, so that increasing risk practices affect better bank performance (Hussain and Al-ajmi, 2012) . Then we can take the hypothesis as follows:

H_4. Risk Practice directly affects the size of bank performance (Risk Performance).

4. Research Methods

Variables and Measurements

Dependent Variables

The dependent variable is the risk performance (bank performance) generated by using the coefficient of variation (COV) methodology. The coefficient of variation is calculated by using the standard deviation ROA (Return on Assets) of each state-owned bank during the period 2010-2016 divided by the average ROA of each bank during the period 2010-2016.

Independent Variables

The independent variable used in this study consists of 3 variables:

1. Risk Tolerance
2. Risk Propensity
3. Risk Practice

Population and Sample

The populations in this research are bank employees who are in credit department or credit analyst at state-owned banks that go public are Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Mandiri, and Bank Tabungan Negara (BTN). The sample is part of the population to be investigated; the samples in this study are all staff from the credit administration department of the bank, Credit Management Committee. The method to be used in sampling is purposive sampling that is taken by using certain criteria. The criteria used in this sampling are:

1. Samples are taken from employees of state-owned banks which are part of credit analysts where the selected criteria are 4 state-owned banks whose employees are used as research samples, Bank Negara Indonesia (BNI) employees, Bank Rakyat Indonesia (BRI) employees, Bank Mandiri employees and Bank Tabungan Negara (BTN) and examine the Return on Assets (ROA) of annual reports of each bank.
2. Unit of analysis of this research is the employees of the state-owned banks that are part of credit.

The number of samples used in the study refers to Hair et al. (2014) that the minimum sample used in the study using the questionnaire is at least 5 times the number of measurement indicators used. In this study the number of indicators used as many as 32 indicators so that the minimum sample size

used is 32 x 5 = 160 respondents. From 199 respondents who gave responses consisted of 30 respondents gave responses offline and the rest online. From 199 respondents only 190 respondents can be researched, because the other 9 respondents did not complete the questionnaire, so the response given can not be processed.

Data analysis method

The data obtained will be processed using AMOS by using descriptive statistic and SEM with one independent variable risk performance (ROACOV) and three independent variables are risk tolerance, risk propensity and risk practices and 3 antecedent variables of risk tolerance are Curiosity, Individual Mindfulness and Optimism. The explanation in this section consists of descriptive statistics and SEM model analysis.

Descriptive Analysis

This analysis is explanatory description by making tables, grouping, analyzing data based on the results of questionnaire answers obtained from the responses of respondents by using tabulation data. Descriptive statistics used to process data consist of mean, standard deviation, minimum value, and maximum value. Descriptive statistics included in data analysis methods are included, organizing, collecting, and decrypting data in an informative way, and used to describe variables that exist in the study.

The mean value is used to see the mean of each variable. Standard deviation is used to view the data is heterogeneous or homogeneous. The minimum value is used to see the lowest value of each variable. The maximum value is used to see the highest value of each variable.

Structural Equation Model (SEM)

The analytical method used to answer this research hypothesis is Structural Equation Modeling (SEM) which is one multivariate analysis technique that can analyze relation among variables more complex (Hair et al., 2014). SEM allows testing relationships between Antecedent variables and manifest variables, the relationship between Antecedent variables with the other Antecedent variables (structural equations), and exposing measurement errors.

In the study there are 3 structural equations expressed by the equation as follows:

$$RP = \alpha_1 RT + \varepsilon_1$$

$$RPC = \beta_1 RT + \beta_2 RP + \varepsilon_2$$

$$RF = \gamma_1 RT + \varepsilon_2$$

Note:

RT = *Risk Tolerance*

RP = *Risk Propensity*

RPC = *Risk Practices*

RF = *Risk Performance*

5. Results And Discussion

Table 1 shows that the results of respondent profile processing based on place of work showed from total 190 respondents that used as many as 49 respondents with percentage of 25.8% are respondents from employees of bank BNI, while for

respondents Mandiri bank employees as much as 53 respondents with a percentage of 27.9% of the total respondents, BRI respondents as much as 45 respondents with 23.7% of the total respondents while the number of respondents from the bank BTN as many as 243 respondents with a percentage of 22.6% of total 190 respondents.

Table 1
Profile of Respondents by Place of Work

Place of Work	Total	Percentage
BNI	49	25.8
Mandiri	53	27.9
BRI	45	23.7
BTN	43	22.6
Total	190	100

Source: data processed

From table 2 profile of respondents by gender can be seen that there is no significant difference between male respondents with female respondents as indicated by the number of male respondents as much as 96 respondents with a percentage of 50.5% of total 190 respondents and while the profile of female respondents as many as 94 respondents with a percentage of 49.5%.

Table 2
Profile of Respondents by Gender

Gender	Total	Percentage
Male	96	50.5
Female	94	49.5
Total	190	100

Source: data processed

From table 3 it can be seen that the respondents' profile based on the education level of the majority are those who have S1 education level as many as 141 respondents with the percentage of 74.2% of total 190 respondents, followed by respondents DIII education level as many as 20 respondents with percentage of 10.5%, followed by respondents with education level S2 which is as much as 16 respondents with percentage equal to 8.4% from total whole, then respondent with education level D1 that is as much 9 people with percentage equal to 4,7% and the least is responder with high school education level 2,1%.

Table 3
Profile of Respondents by the Education Level

Education	Total	Percentage
SMA	4	2.1
D I	9	4.7
D III	20	10.5
S1	141	7.2
S2	16	8.4
Total	190	100

Source: data processed

Table 3 shows that respondents' profiles by age indicate the number of respondents with age group between 31 and 40 is 95% of respondents with percentage of 50% of total 190 respondents, followed by respondents with age range between 20 to 30 years i.e. 84 respondents with percentage of 44.2%, followed by respondents with age group between 41 to 50 years as many as 10 respondents with a percentage of 5.3% and the least are respondents with age group above 51 years as many as 1 respondent with a percentage of 0.5% of total 190 respondents.

Table 4
Profile of Respondents by Age

Age	Total	Percentage
20 – 30 years	84	44.2
31 – 40 years	95	50.0
41 – 50 years	10	5.3
>50 years	1	0.5
Total	190	100

Source: data processed

From table 4 it can be seen that respondent profile based on employee status shows that majority have status as permanent employee that is 154 respondent with percentage equal to 81.1% from total 190 responder, followed by respondent with contract employee status that is 34 respondent with percentage equal to 17.9% and the least is respondents with outsourcing employee status that is as much as 2 respondents with percentage 1.1% of total respondents 190 respondents.

Table 5
Profile of Respondents by the Employee Status

Employee Status	Total	Percentage
Permanent	154	81.1
Contract	34	17.9
Outsourcing	2	1.1
Total	190	100

Source: data processed

From table 5 shows that the profile of respondents based on position in the work place showed from total 190 respondents, as many as 151 respondents with percentage of 79.5% have positions as ARM and the rest as many as 39 respondents with 20.5% percentage are those who have the position of RM.

Table 6
Profile of Respondents by Job Position

Job Position	Total	Percentage
Asisten Relation Manager (ARM)	151	79.5
Relation Manager (RM)	39	20.5
Total	190	100

Source: data processed

From table 6 shows the respondent profile based on the length of work, the majority of respondents work between 6-10 years as many as 99 respondents with 52.1% percentage, then between 1-5 years as many as 76 respondents with a percentage of 40.0%, followed by 11-15 years span as much as 11 percentage of respondents as much as 5.8%, and last more than 15 years as many as 4 respondents with a percentage of 2.1% of the total respondent overall.

Table 7
Profile of Respondents by Length of Work

Length of Work	Total	Percentage
1 – 5 years	76	40.0
6 – 10 years	99	52.1
11 – 15 years	11	5.8
> 15 years	4	2.1
Total	190	100

Source: data processed

Descriptive Statistics Perception Variable Risk Performance

Descriptive statistics for the variable risk performance measured by the coefficient of variation of ROA for 4 state-owned banks that went public during the period 2010-2016 indicates that Bank Mandiri has the highest risk performance with the coefficient of variation of 0.1828, followed by the bank BTN with coefficient value variation of 0.1792. Bank BRI ranks third with the value of risk performance of 0.1580 and the lowest value of its risk performance is a bank BNI with coefficient variation of 0.1318 as shown in Figure 2.

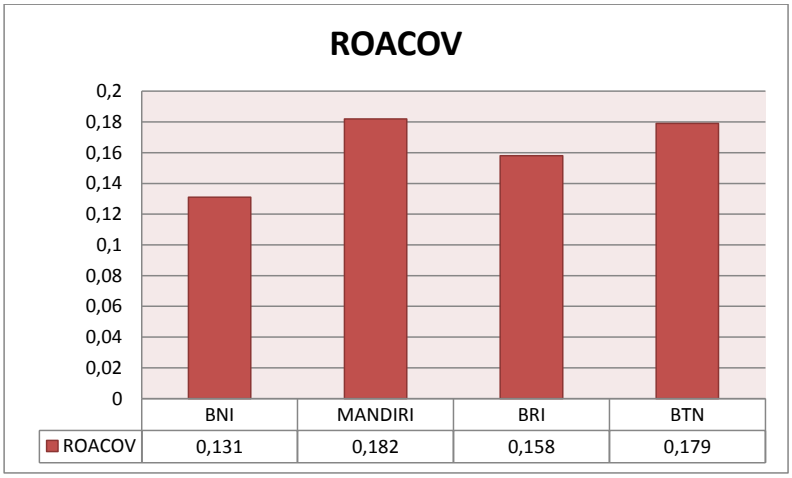

Figure 2. Riks Performance Bank BNI, MANDIRI, BRI, BTN

The data Return on Assets (ROA) and coefficient of variation can be seen from the following table:

Table 8
Data of *Return on Assets* (ROA) State Owned-Enterprise Banks

Tahun	BBNI	BBRI	BBTN	BMRI
2010	2.5	4.64	2.05	3.4
2011	2.9	3.21	2.03	3.4
2012	2.9	3.39	1.94	3.55
2013	3.4	3.41	1.79	3.66
2014	3.5	4.73	1.14	3.57
2015	2.6	4.19	1.61	3.15
2016	2.7	3.84	1.76	1.95
MEAN	2.9286	3.9157	1.7600	3.2400
STDEV	0.3861	0.6190	0.3155	0.5923
ROACOV	0.1318	0.1581	0.1793	0.1828

Source: Annual report State-Owned Enterprises Bank 2010-2016

Descriptive Statistics of Variable Risk Tolerance Perception

The results of statistical descriptive analysis for risk tolerance variables produce a fairly good response as shown by the average value of answers from respondents of 5.8947. The standard deviation score of 0.929 indicates that the variation of the respondent's answer to this variable lies in the range of answer choices between 4 and 7. Perceptions of the response of each measurement indicator also yield a good answer where the average value of the answers of 7 measurement indicators lies in the range of values between 5.43 to 6.22 with a standard deviation value in the range of numbers of 1.187 and 1.277.

When viewed from the responses of respondents to risk tolerance indicators, there are 3 indicators that have a value higher than the average value of risk tolerance, among others:

1. Managing those risks is critical to the bank's performance and success.
2. Banks should be able to identify risk changes and identify the roles and responsibilities of banks.
3. Banks should always develop applications and look for sophisticated techniques to mitigate risks.

In addition, the other three indicators, although below the average value, but still produce a positive response that is the value still above 4.

The above, can be seen from the table 9 below:

Table 9
Descriptive Statistics against Risk Tolerance Variables

Indicator	N	Minimum	Maximum	Mean	Deviation Std.
1) Managing risks is critical to the bank's performance and success.	190	1.00	7.00	6.2211	1.205
2) It is important to apply the most advanced risk management techniques	190	1.00	7.00	5.8316	1.187
3) The Bank should always develop applications and look for sophisticated techniques to mitigate risks	190	1.00	7,.0	5.9263	1.206
4) There is difficulty of bank employees in prioritizing the main risk	190	1.00	7.00	5.4316	1.350
5) Banks should be able to identify risk changes and identify the roles and responsibilities of banks	190	1.00	7.00	6.0789	1.158
6) Responsive Banks in seeking the strengths and weaknesses of any other bank risks.	190	1.00	7.00	5.8789	1.277
Risk Tolerance	190	1.67	7.00	5.8947	0.929

Source: data processed

Descriptive Statistics of Variable Perception Risk Propensity

For variable risk propensity, respondents gave good responses as indicated by the average of respondents' answers of 5.994. The standard deviation score of 1.03 indicates that the variation of the respondent's answer for this variable lies in the range of answer choices is between 4 and 7.

When viewed from table 10, respondents' response to indicators of risk propensity, there is 1 indicator that has a value higher than the average value of risk propensity, i.e. every employee of the bank must have an understanding of risk management both in credit disbursement and in customer development. In addition, all three other indicators, though below average, still produce a positive response.

Table 10
Descriptive Statistics against Risk Propensity Variables

Indicator	N	Minimum	Maximum	Mean	Deviation Std.
1) Every bank employee must have an understanding of risk management both in credit disbursement and in customer development	190	2.00	7.00	6.2684	1.17133
2) Risk management is a formal practice in a bank	190	1.00	7.00	5.9684	1.22542
3) Every bank employee should conduct risk identification comprehensively and systematically to achieve risk objectives	190	1.00	7.00	5.8053	1.29262
4) The Bank has implemented procedures to systematically identify	190	1.00	7.00	5.7368	1.24900
Risk Propensity	190	1.25	7.00	5.9447	1.03585

Source: data processed

Descriptive Statistics of Variable Perception Risk Practices

For variable risk practices, respondents gave good responses as indicated by the average respondent's answer of 5.8561. The standard deviation score of 1,046 indicates that the variation of the respondent's answer for this variable lies in the range of answer choices between 4 and 7.

The results of descriptive statistical processing for variable risk practices are shown by table 11.

Table 11
Descriptive Statistics against Risk Practices Variables

Indicator	N	Minimum	Maximum	Mean	Deviation Std.
1) The Bank's Executive Management regularly reviews the organization's performance in managing its risks	190	1.00	7.00	5.9684	1.102
2) The Bank shall continually review its risk performance	190	1.00	7.00	6.0368	1.080
3) Bank risk management provides documents and guidance to staff on managing risk	190	1.00	7.00	5.8579	1.299
4) The Bank issues policies for training programs in risk management	190	1.00	7.00	5.9579	1.259
5) In employee recruitment, banks should recruit qualified employees in risk management	190	1.00	7.00	5.5053	1.479
6) Efficient Risk Management is one of the Bank's objectives	190	1.00	7.00	5.8105	1.295
Risk Practices	190	1.33	7.00	5.8561	1.046

Source: data processed

Respondents' answers when viewed according to measurement indicators of risk practices consisting of 6 measurement indicators also produced a good response as indicated by the average value of answers that are in the range of numbers between 5.05 to 6,036 with a standard deviation value in the range of numbers between 1.08 up to 1.479.

Data analysis for hypothesis testing by using Structural Equation Model (SEM) consist of 2 phases that is fit model test and hypothesis theory test.

Testing goodness of fit model

The results of processing for testing the goodness of fit model there is only 1 criteria that resulted in the conclusion of the fit model is the RMSEA indicator. For the criteria of chi-square and GFI tests yield conclusion model is not fit while the other fit model testing criteria of IFI, NFI, TLI and CFI produce the conclusion of the marginal fit model. To improve the quality of the model is to produce a better fit model performed model improvement by using the criteria of modification indices.

The result of model improvement shows that 3 indicators of fit model produce conclusion of fit model that is RMSEA, IFI and CFI indicator, as many as 2 indicators produce the conclusion of marginal fit model that is NFI and TLI indicator and there are 2 indicators that produce conclusion of unfit model chi-square and GFI. From the results of the improvement can be concluded that the majority of testing criteria fit the fit model so that the hypothesis testing theory can be continued.

Hypothesis Testing Theory

Results of SEM model processing for theoretical hypothesis testing can be seen in the following figure:

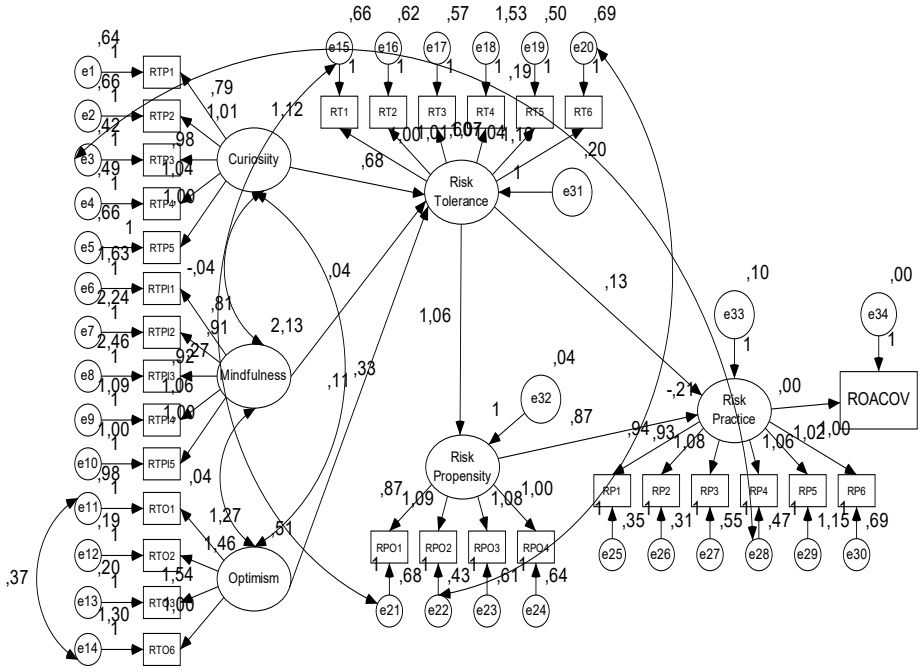

Figure 3. SEM model of research results with numbers

From Figure 3, it shows the relationship between independent variable risk tolerance, risk propensity and risk practices, with dependent variable dependence coefficient of Return on Assets (ROACOV) and the antecedent variable of risk tolerance (curiosity, mindfulness, optimism). From the picture shows that risk tolerance has a significant effect on risk propensity, and risk tolerance does not directly affect the risk practices but must go through risk propensity.

Results of SEM model processing for hypothesis testing theory can be seen in table 12. Explanation of hypothesis testing proposed in this research will be explained.

Table 12
Hypothesis Testing Research Model

HYPOTHESIS		Estimate	C.R.	P	Conclusion
H_1	Risk Tolerance has a positive influence on risk trends (Risk Propensity).	1.057	10.385	0.000	Hypothesis supported
H_2	Risk Tolerance has a positive effect on risk practice (Risk Practice).	0.125	0.233	0.816/2 = 0.408	Hypothesis not supported
H_3	Risk Propensity has a positive influence on risk practice (Risk Practice).	0.872	1.728	0.084/2 = 0.042	Hypothesis supported
H_4	Risk Practices directly affects positively the size of bank risk performance (Risk Performance)	-0.00029	-0.147	0.883/2 = 0.441	Hypothesis not supported

Source: data processed

Hypothesis 1

Hypothesis 1 aims to examine the effect of risk tolerance on risk propensity. From the results of the obtained coefficient of estimation of 1.057 which means increased risk tolerance will increase risk propensity and should decrease risk tolerance will reduce risk propensity. From table 12, it can be seen that the statistic value of 10,385 gives p-value equal to 0.000 < 0.05 which means Ho is rejected (Ha accepted) so it is proven that the positive effect of risk tolerance to risk propensity is significant. These findings support research conducted by Ronald William Eastburn, Alex Sharland (2017) that managing risk tolerance is a goal-setting process that relies on finding the right balance between the risks taken to achieve the desired outcome. From the results of hypothesis testing 1 can be seen that the increased risk tolerance will increase risk propensity and should decrease risk tolerance will reduce risk propensity. In Indonesia this is due to the culture of the community, that the more dare someone take the risk is also caused by the tendency or tendency in doing the risk.

Hypothesis 2

Hypothesis 2 was conducted in order to test the effect of risk tolerance on risk practice. Based on table 12 it can be seen that the data obtained from the processing results obtained statistical value of 0.233 p-value of 0.816 / 2 = 0.408 > 0.05 which means Ho accepted so it can be concluded that the influence of risk tolerance to risk practices is not significant. These findings do not support research by Eastburn and Sharland (2017), where risk tolerance increases, the better the risk propensity and the increased risk practices to improve the chances of financial performance. But the findings support research conducted by Mokni et al (2014) which explains that there are internal or external factors that encourage regulators to engage in risk practices directly and allow beyond the risk tolerance limits. So it can be concluded that when the emergency conditions, managers can perform risk practices beyond the risk tolerance limits for the continuity of banking.

Hypothesis 3

Hypothesis 3 aims to examine the effects of risk propensity on risk practice. From table 12 seen the results of data processing is shown by the estimated coefficient of 0.872 which means increased risk propensity will increase risk practices and should decrease risk propensity will reduce risk practice. With the statistic value of 1,728 p-values of 0.084 / 2 = 0.042 > 0.05 which means Ho is rejected (Ha accepted) so it can be concluded that proven positive influence of risk propensity to significant risk practices. These findings support research conducted by Eastburn and Sharland (2017) where increasingly the risks tendency (risk propensity) the better and the meaning of risk practices increased to improve the chances of good financial performance. And in accordance with research conducted by Chen et al (2015) where in making

decisions have a significant effect on risk trends, in other words, something that was once successful can encourage risk decision makers when bidding so that risk practices increase. In Indonesia this is because the culture of Indonesian society in making decisions always compares with decisions that have been implemented before, so that risk tendency will increase risk practice.

Hypothesis 4

Hypothesis 4 was conducted in order to examine the effect of risk practices on performance risk (risk performance). From table 12 shows that the results of data processing obtained statistical value of -0.147 produce p-value of 0.883/2 = 0.441 > 0.05 which means Ho accepted so it can be concluded that the influence of risk practices on risk performance is not significant. These findings do not support the research conducted by Eastburn and Sharland (2017) that with reduced risk practice, firm performance will increase. But these findings support research by Hussain and Al-ajmi (2012) which concludes that risk management practices are determined by the extent to which a manager or employee understands risk management, efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis, increased risk of influence on bank performance. In Indonesia this happens especially in STATE-OWNED ENTERPRISE Banks, that apart from factors as Government Banks, but the more dare to take risks such as credit disbursement and so on, the financial performance will be better as well, but also must pay attention to applicable procedures.

Mediating Variables

From table 12, the research findings show that risk tolerance has no direct effect on Risk Practices. This can be seen from the result of hypothesis 2 that p value 0.816 / 2 > 0.05 which means Ho accepted so that it can be concluded that the influence of risk tolerance to risk practices is not significant. The influence of risk tolerance on risk practices will be seen that must be through the intermediary variable (mediating) that is Risk Propensity variable. This is evident from the results of hypothesis 1 testing that the statistic of 10385 produces p-value of 0.000 < 0.05 which means Ho is rejected (Ha accepted) so it is proven that the positive effect of risk tolerance to risk propensity is significant. This means that risk tolerance proved to have a significant positive effect on risk propensity and risk propensity have a significant effect on positive risk practices so that indirectly proved to have a significant positive effect of risk tolerance to risk practices through risk propensity. These findings support research from Eastburn and Sharland (2017) which proves that risk tolerance affects risk propensity, and risk propensity affects risk practices.

Antecedent Variables

Based on table 13, we can see the findings of SEM model to antecedent of risk tolerance that is influenced by three variables, namely Curiosity, Individual

Mindfulness and Optimism. From the results of testing of antecede dent variables of risk tolerance can be seen variables that proved to have a positive significant effect is Curiosity and Optimism as indicated by the positive estimation coefficient value of each of 0.676 for Curiosity and 0.111 for Optimism with p-value of 0.000 each and 0.049. For Individual Mindfulness variables produce findings even if they have an effect on risk tolerance but not significant influence as indicated by p-value of t statistic is 0100 > 0.05. The following table results of testing the variable antecedent of risk tolerance. This supports the findings of Eastburn and Sharland (2017) that optimism and curiosity, and the attention of managers will affect the performance to be achieved.

Table 13
Variable Testing of Antecedent Model from Risk Tolerance

Antecedent Variable – *Risk Tolerance*		**Estimate**	**C.R.**	**P**	**Conclusion**
V_1	Curiosity has a positive effect on Risk Tolerance	0.676	9.169	0,000	Supported
V_2	Individual Mindfulness has a positive effect on Risk Tolerance	0.038	1.281	0.200/2 = 0,100	Not Supported
V_3	Optimism has a positive effect on Risk Tolerance	0.111	1.649	0.099/2 = 0,049	Supported

Source: data processed

6. Conclusion

Based on the results of the research that has been done, that is analyzing the effect of risk tolerance, risk propensity, and risk practices on financial performance at STATE-OWNED ENTERPRISE Banks by using STATE-OWNED ENTERPRISE Financial Report 2010-2016 period, it can be concluded as follows:

1. The risk tolerance proved to be statistically significant has a positive influence on the risk propensity. Increased risk tolerance will increase risk propensity.
2. Risk propensity proved to have a significant positive effect to risk practices. Increased risk propensity then risk practices will increase as well.
3. Risk tolerance does not affect directly to risk practices, but will influence through the intermediary variable (mediating) that is risk propensity.
4. The influence of risk practices on risk performance where rising risk practices will decrease the risk performance is not proven significant, so it can be concluded that the increased risk practices will improve the risk performance.

5. An antecedent variable of risk tolerance for curiosity has been shown to have a positive effect on risk tolerance, so optimistic attitude from managers has been shown to have an effect on managing risk tolerance.
6. An antecedent variable of risk tolerance for mindfulness results in findings, but no significant effect on risk tolerance.
7. The antecedent variable of risk tolerance for optimism proved to have a positive effect on risk tolerance, so the optimistic attitude of the managers proved to have an effect on managing risk tolerance.

Based on the above conclusions, the results of this study should be used by the management of banking for consideration in mitigating the risks to be faced by the Banking. This can be seen from the effect of increased risk tolerance, will increase risk tendency, and automated risk practice increases. If risk management improves then the performance of the banking system will also increase but also must perform the risk management well in order to improve the performance can be sustainable. So managers can anticipate earlier risks that will arise at the time of decision making or policy to achieve the expected. Also can be used as a reference for banking management to choose a manager, because the nature and characteristics of managers is also very decisive, namely a manager who has curiosity to something and always optimistic attitude is very influential on banking performance.

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