

Implementation of Enterprise Risk Management (ERM) to Improve Risk Culture Awareness in Alienco Photo

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ABSTRACT

This research is a report of business coaching conducted on Alienco Photo. The researcher will discuss the implementation of Enterprise Risk Management (ERM) to improve risk culture awareness in Alienco Photo. The absence of risk awareness will cause a lot of problems to the business, such as operational disruptions, potential losses, and even bankruptcy. Therefore, risk awareness is essential not only for the business owner, but also his employees. This research uses a qualitative method by using a risk matrix in mapping the company risks and formulating its risk mitigation. The results of this research show that the most frequent risks are operational risks and business risks, in which both of them are in the red zone. This research aims to help the business owner and his employees to be aware of and try to mitigate the risks. The recommendation on risk mitigation in this research can also be used to reduce the negative impacts that have occurred and will occur in Small and Medium Enterprises (SMEs).

Keywords: SMEs, Enterprise Risk Management, ERM, Risk, Business Coaching.

1. INTRODUCTION

In Indonesia, there are many new Small and Medium Enterprises (SMEs) every year. According to BPS (Indonesia Statistic Agency) data in 2018, there were 1,032,642 SMEs in Indonesia, increasing by 9.6% compared to 2017. SMEs are divided into two major groups, namely agriculture and non-agriculture groups [1]. Alienco Photo is an SME engaged in the field of documentation services located in Depok. The service offered by Alienco Photo is a premium quality photograph. It guarantees punctuality by having employees who are very capable in the production process. As a result, the price of documentation services is at a premium price level. The revenue of the Alienco was high. On the contrary, the profit was low. The profit was low because there were many expenses incurred by Alienco such as maintenance expense, error payment because of human error, and buying new devices. Furthermore, Alienco was using many electrical devices at their workshop. After direct observation in the field, a safety system was not found if a fire will occur. If the events happen repeatedly, the

company might suffer and become bankrupt. The lack of awareness of the risks in carrying out business causes the company to be exposed to risks that can cause operational disruptions, potential losses and even bankruptcy [2]. Almost all employees' decisions were made without considering the risks because the employees can not clearly identify the risks that have existed or will exist. This can cause losses to the SME since the resource management is ineffective and inefficient.

Risk management was first studied after World War II [3, 4]. Bank Indonesia, the Financial Service Authority (OJK) and business owners suppose that the financial and banking sector have high risk levels [5]. Even so, Small Medium Enterprises (SMEs) have the same risk level. Based on empirical evidence, 50% of SMEs close down before the fifth year after their establishment [6]. Some previous studies stated the implementation of Enterprise Risk Management (ERM) might reduce costs and increase company performance [7, 8]. Implementation of the ERM framework which was published by ISO 31000:2018 is suitable to be

applied at Alienco to improve risk awareness and responsibility. Moreover, owners and employees would improve their knowledge of the company and of the risk appetite framework [6].

The purpose of this research is to raise risk awareness, determine the causes of risk, assess the risk, and formulate risk mitigation for existing cases and potential cases in Alienco Photo. This research was carried out following ISO 31000: 2018 framework including communication and consultation, establishment of context, risk assessment, risk treatment, and monitoring [9]. Also, the business owner’s intention to make his business run on autopilot will require a strong system with a reliable risk mitigation system to create a strategy in order to achieve such objectives.

2. LITERATURE REVIEW

2.1. Enterprise Risk Management

Sadgrove [10] says that risks are opportunities, threats, and uncertainties faced by organizations or companies. Business and risk are two inseparable things. In any business activity, there are always risks originating from internal and external factors [5]. Risks can be identified in advance by managing threats, opportunities, and uncertainties. From the identification of causes, mitigation of the risks can be formulated and the mitigation strategy can be implemented.

The risk management process according to ISO 31000: 2018 as follows:

- **Communication and consultation**
Communication is needed to ensure that all parties are responsible in carrying out the risk management process.
- **Establishment of context**
Two context criteria can be used by companies in determining internal and external contexts. The internal contexts are corporate culture, organizational structure, resources, corporate strategy, and information systems. On the other hand, the external contexts are cultural, political, social, and legal.
- **Risk identification**
Risk assessment can be carried out using several techniques that can be selected in accordance with the company's necessity. These techniques can be used to find the causes and effects of risks. Some examples are brainstorming, Delphi technique, depth interviews, business impact analysis (BIA), Monte Carlo simulation, and Bayesian statistics.
- **Risk analysis**
Risk analysis can be employed by calculating the possibilities of risk occurrences, and the severity of its effect to the SME. The likelihood can be defined

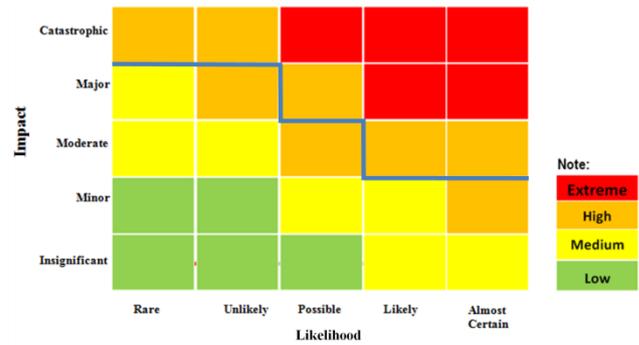


Figure 1 Risk Matrix

by how many risks occurred. On the other hand, the severity can be defined by how much of the SMEs profits were lost, how many times the SMEs operation was stopped, and how bad SMEs reputation was impacted. The multiplication between likelihood and severity would produce the level of risk in the SME by categorizing it into extreme, high, medium, or low. Figure 1, the risk matrix can show the total risk.

- **Risk evaluation**
Based on the risk analysis, risk evaluation is used to make business decisions.
- **Risk treatment**
In consideration of the emerging risks, the business owners can eliminate or avoid the risks. Eliminating the risks means minimizing the impact of such risk to the business, and avoiding the risks means minimizing the possibility of the risks to occur, and to be transferred to other parties [9].

3. MODEL AND METHODOLOGY

3.1. SWOT & TOWS Analysis

Pearce and Robinson [11] explain that SWOT analysis is a tool to determine organizational weaknesses and strengths that include company internal factors. Based on Alienco Photo's SWOT analysis, the TOWS matrix is created to develop a strategy by considering the relationship between Strengths, Weaknesses, Opportunities, and Threats [12].

From the TOWS matrix analysis, the WT strategy is chosen to anticipate the risk in the documentation services. Implementation of Enterprise Risk Management is needed to manage risks in business activities.

3.2 Data collection

The implementation of ERM is divided into several stages. The stages are preparation, data collection using interviews and focus group discussions (FGD) with business owners and SME employees, data processing,

Table 1. SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • The products have premium quality • Modern product content • Fast response • Accuracy and quickness in producing the final product 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Can not define structure cost • High level of employee turnover • There is no standard operating procedure • Not precisely in determining the price of the product • Location is less strategic • There is no risk awareness
<p>Opportunities</p> <ul style="list-style-type: none"> • Documentation plays an important role in the wedding industry in Indonesia • There are many weddings, pre-weddings and engagement events 	<p>Threats</p> <ul style="list-style-type: none"> • Increasing production cost from printing vendor • The emergence of existing competitors

Table 2. TOWS Analysis

	<p>Strength</p> <ul style="list-style-type: none"> • The products have premium quality • Modern product content • Fast response • Accuracy and quickness in producing the final product 	<p>Weakness</p> <ul style="list-style-type: none"> • High level of employee turnover • Not precisely in determining the price of the product • Location is less strategic • There is no risk awareness
<p>Opportunity</p> <ul style="list-style-type: none"> • Documentation plays an important role in the wedding industry in Indonesia • There are many weddings, pre-weddings and engagement events 	<p>SO</p> <ul style="list-style-type: none"> • Conduct marketing channel approach to new wedding vendors 	<p>WO</p> <ul style="list-style-type: none"> • Moving to a new location • Recruiting and retaining employees
<p>Threats</p> <ul style="list-style-type: none"> • Increasing production cost from printing vendor • The emergence of existing competitors 	<p>ST</p> <ul style="list-style-type: none"> • Maintaining the quality of products and services so that consumers do not turn away to competitors • Mapping potential printing vendor 	<p>WT</p> <ul style="list-style-type: none"> • Recreating a cost of sales • Determining new price of products • Implementing ERM

data analysis, and conclusion. In general, data collection was carried out in several ways as follows:

- **Focus Group Discussion (FGD)**
FGDs were held repeatedly for gathering information and similarity vision with stakeholders. In this section, there are 6 of 13 employees who participated in the FGD. The participants are from low level employees and head division for each department whose mastery of the problems in the field include the risks have occurred.
- **In-depth interviews**
Interviews were held with each division head and the business owner to obtain more accurate information in identifying risks. In this section, the steps include: identifying risk events, risk causes, risks category, and risks mitigation have existed and will exist.
- **Direct observation**
The author conducted observations to understand the operational activities of Alienco. Therefore, the author could capture the real phenomena-related risks. From direct observation, the author found the job and function of each employee. Direct

observation was done with all departments, including the marketing department, human resource department, production department and finance department.

Figure 2 shows the process in conducting this research. Enterprise risk management will be implemented in Alienco Photo to help the owners and their employees to be aware of and try to mitigate the risks. Furthermore, monitoring of risks will be conducted using a risk matrix heating map and risk register form.

4. RESULT

Enterprise risk management in Alienco Photo was conducted in the management of Alienco Photo. The objective of this research is to manage risks in Alienco Photo and help the owners and his employees to be aware of the risks. Thus, the owners and his employees can identify and mitigate risks. Moreover, management can also reduce the negative impacts that have occurred and will occur in the SME.

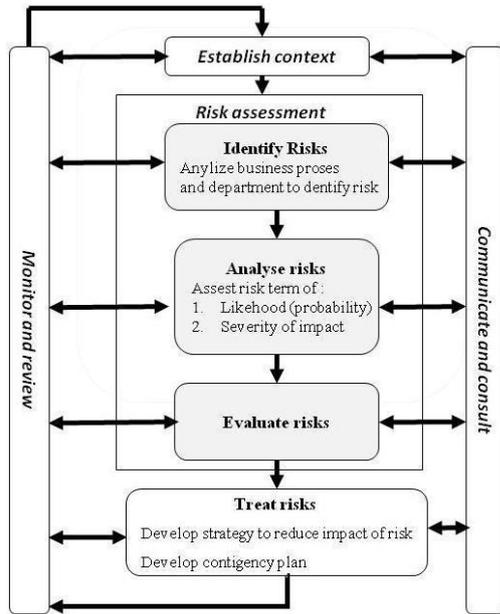


Figure 2 Risk Management Process

5. DISCUSSION

5.1. Communication and consultation ERM Implementation

The first stage of ERM was to socialize the ERM concept to all employees and the business owners. Socialization is the most important stage for increasing employees' awareness on ERM which aims to create ERM culture. Moreover, the researcher helped in making a new vision and mission for the company. Creating a new vision and mission is aimed so that the implementation of ERM is in accordance with the company's vision and mission.

5.2 Implementation of Risk Identification

The risk identification was conducted by in-depth-interviews with the employees in each working

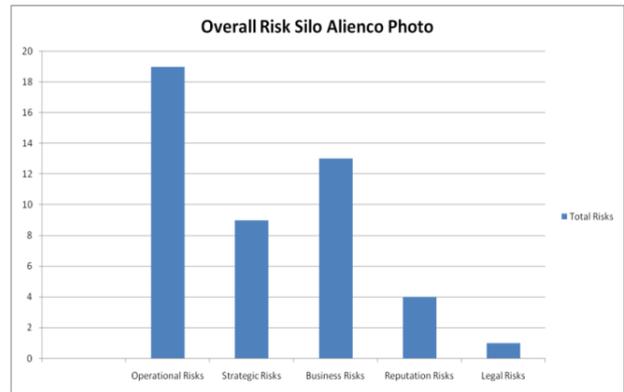


Figure 3 Accumulation of risks

department. Based on the result of the interviews, there are 46 risk events in Alienco Photo. In conclusion, the most significant risk in Alienco Photo is operational risks. The business risk is in the second position, and the strategic risk is in the third position. We can see the big picture concerning these risks in Figure 3, which describes the accumulation of risk based on the type of risks, which the researcher classified into 5 groups.

5.3 Risk Analysis Implementation

After gathering all information about risk events and causes of risk events, the author calculated the total risk based on the likelihood (probability) and severity of risks.

Figure 4 shows that there are 5 top risks in the SME. The blue line is the company's risk tolerance based on the owners' risk appetite. There are 4 risks listed above the risk tolerance and one risk listed below the risk tolerance. The highest risks are natural disaster risk, tax penalties risk, management made wrong for taking financial decision risk, increasing employee costs risk, and un-updated organization structure risk. Table 3 shows the 5 top risk events, including its causes and impact.

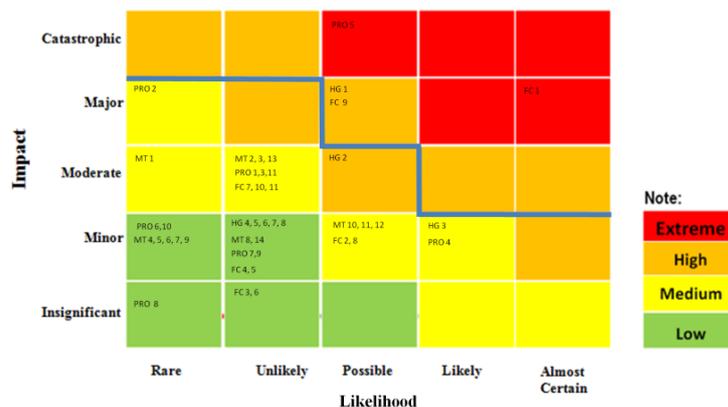


Figure 4. Risk Mapping of the SME.

Table 3. Identify and Analyzing Risk

Risk Description						
Risk Events	Causes	Risk Impact	Risk Category	Impact	Likelihood	Total Risk
Natural disaster causes operational disruption	1. Fire 2. Earthquake 3. Pandemic	Operational Disruption	Operational Risk	Catastrophic	Possible	Extreme
Tax Penalties	Unpaid Tax	Overstated Cost	Legal Risk	Major	Almost Certain	Extreme
Un-updated organization structure	Changing in business process	Operational Disruption	Strategic Risk	Moderate	Possible	High
Increasing employee costs	1. Inflation 2. Increasing manpower 3. High employee turnover	Increasing COGS	Business Risk	Major	Possible	High
Management make wrong for taking financial decision	1. Error in financial report. 2. Delayed for making financial report	1. Wrong financial decision making 2. Financial loss	Business Risk	Major	Possible	High

5.4 Risk treatment Implementation

The next stage was risk treatment implementation. In consideration of the emerging risks, the business owners can eliminate or avoid the risks. The SME needs to treat the existing risk events. The SME should treat the risk from the highest level to the lowest level. The top 5 risks are the priority risks that Alienco has to be done for reducing risks. We created many scenarios and strategies for the Business Continuity Plan (BCP) if the natural disaster will occur, such as appoint a critical employee in charge for each department, creating organization structure contingency plan, workflow of contingency plan if disaster will occur and level of parameters disaster. Furthermore, we bought fire extinguishers and distributed it near the equipment to be protected [13].

We updated the new organization structure according to the company's business process. Quality control emerged in the customer service division at the old organization structure. Job overload was founded in this division. Its condition made the process of quality control take a lot of time. We separated the quality control division from the customer service division and integrated the quality control division under the production department [14]. After dividing between customer service and quality control, the process is more efficient.

After identifying and analyzing the unpaid taxes risk, the author reported to the owners however, the owners still have not paid their taxes. The owner assumed that paying taxes will reduce their profit and also they are not aware about taxes obligation [15].

The author has created a timeline for other risks treatment implementation. This timeline has been divided into two quarters. This timeline can also be used to refer to successful risk treatment implementation.

The author also created a risk reporting form to document emerging risk into the risk register. In the risk reporting form, there is a column to record the name of the complainant, amount of losses and the action has been done.

The author had a problem related to time. The author is not able to evaluate the implementation of the ERM in the Alienco that has been implemented. Because ERM is going concern, implementation of ERM is needed to be re-analyzed to capture if the risk expectations are met in period time [16].

6. CONCLUSION

The application of ERM in the Alienco Photo to create risk awareness was carried out in 5 stages following the ISO 31000:2018 framework. The goal of implementing ERM in Alienco Photo is to help the business owner and employees to be aware of and try to mitigate the risks. The recommendation on risk mitigation can also reduce the negative impacts that have existed and will exist in the SME.

The expected continuation of ERM implementation at Alienco is to keep updating risks into the risk register and evaluation is needed in the time period. Monitoring of risk is done by using a risk matrix heating map. The owner can take the better strategy to reduce the level of risks by mitigating them. Risk reporting is done by using a risk reporting form. The risk reporting form can help employees and the owners to report emerging risk

into the risk register, in hopes of improving risk awareness and responsibility in the business activity.

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