

DOES ENTERPRISE RISK MANAGEMENT AND HYBRID STRATEGY AFFECT TO ORGANIZATIONAL PERFORMANCE?

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ABSTRACT

Many factors play a role in company managerial performance, including the chosen business strategy, performance measurement system, risk management, customer satisfaction, and many other factors. In order to investigate any possible relationship between many important aspects of performance, the objective for this study is to investigate two factors as suggested by the literature, Enterprise Risk Management and Hybrid Strategies to identify the most influential barrier towards organization performance. This study uses the population of all companies listed on the Indonesia Stock Exchange during the 2017-2018 period that publishes Financial Statements. The research sample was obtained using a purposive sampling method with the criteria of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2018 and the listed companies have implemented ERM. The result show that the Implementation of a hybrid strategy will have a significant positive impact on company and the application of ERM has no significant effect on organizational performance. The researcher argues that the adoption of ERM is not related to financial performance and the adoption of ERM alone is not enough to achieve financial benefits as hypothesized in the ERM literature. This research shows that ERM can effectively reduce risk for companies that are willing to invest the resources needed for a mature ERM process, which found that the level of ERM implementation is still low in manufacturing companies in the consumer goods sector on the Indonesia Stock Exchange.

Key words: Enterprise Risk Management, Hybrid Strategies, Organizational Performance, Risk Management, Profitability

INTRODUCTION

In running their business, organizational performance is always driven to be better, so that the company can win the competition in its industry. Organizational performance is the final result, and is the lag indicator of the efforts made by all human resources in business organizations. Many factors play a role in its success (company managerial performance), including the chosen business strategy, performance measurement system, risk management, customer satisfaction, and many other factors. Market dynamics and the business environment present many challenges for companies in mapping the right direction for their continued success. One of the fundamental concerns of business dynamics is the selection of business strategies and the application of risk management.

For decades, risk management has been ignored from strategic tasks, and valuations depend on individual manager's perceptions and risk experience. The focus is on individual risks in the organization. However, this perspective has evolved where many organizations view risk management as a more holistic approach. This new approach to risk management is often referred to as enterprise risk management (ERM). At ERM, all possible risks are identified, and appropriate risk responses are chosen in the company's risk appetite. In recent years, the benefits of ERM have helped organizations to: reduce capital costs; reduce earnings volatility, which results in an increase in shareholder value; reduce share price volatility, which results in an increase in shareholder value; gain competitive advantage through identification of exploitable risks; improve decision-making capabilities based on information; build trust for investors.

The level of risk is certainly different from one industry to another. In general, companies that are classified as high profile type companies have characteristics that have a high level of sensitivity to competition. High profile companies have a higher risk potential than low profile companies (Hackston & Milne, 1996). In this study, companies categorized as high profile include oil and other mining companies, chemical, forest, paper, automotive, aviation, agribusiness, tobacco and cigarettes, food and beverage products, media and communication, energy (electricity), engineering, health and transportation and tourism. While the low-profile industry group consists of buildings, finance and banking, medical equipment suppliers, property, retailers, textiles and textile products, personal products, and household products (Utomo, 2000 and Sembiring, 2006).

Enterprise Risk Management support to improve organizational performance will be maximized if it is supported by a business strategy in order to win the competition in the industry. The company prepares strategies for the short, medium and long term along with its evaluation plans. In a competitive industry, companies will not be able to survive unless they adopt two corporate strategies, including the cost strategy, to process the value chain in the most efficient way, to produce products or services at the lowest price without jeopardizing quality, and a differentiation strategy, to produce a product or service that is unique compared to its competitors, such as better quality.

The Porter Generic Competitive Strategies (Porter, 1980) postulate what is called a 'hybrid', 'mixed', 'integrated', or 'combination' strategy (Kim, Nam, & Stimpert, 2004), this 'hybrid' strategy is a strategy which combines elements of low cost and differentiation. A combination of competitive strategies that involve a high level of emphasis on both cost leadership and differentiation strategies simultaneously. A combination strategy has proven to be beneficial (Kim et al., 2004). Because cost-based advantages and differentiation-based are difficult to maintain, companies that pursue a combination strategy can achieve higher performance than companies that pursue a single strategy.

LITERATURE REVIEW

Resource-Based View Theory

In the early decades of the 1990s, there was a change in perspective that put organizations closer to the organization's resource factor as a competitive advantage in Resource-Based View (RBV). The RBV aims at the importance of presenting specific organizational resources in achieving supportive competitive advantages (Nurlela, 2008). The main substance of resource-based view is resources that are able to produce sustainable competitive advantages, namely resources that are valuable, rare or unique, difficult to imitate, and have no substitutes (Jahromi, 2014). Starting from the strategy management literature, Knowledge-Based View (KBV) builds on this perspective and expands an organization's resource-based view (RBV).

Stakeholder Theory

Donaldson & Preston (1995) argues that stakeholder theory is a matter of management or management that recommends attitudes, structures, and practices that when implemented together form a stakeholder management philosophy. Stakeholder theory is a theory which states that all stakeholders have the right to obtain information about company activities that can influence their decision making. Stakeholder theory says that companies are not entities that only operate for their own interests, but must provide benefits to stakeholders. Thus, the existence of a company is strongly influenced by the support given by stakeholders to the company (Ghozali and Chariri, 2007).

(Freeman, 2010) develops stakeholder theory and introduces the concept in two models, namely the policy and business planning model and the corporate social responsibility and stakeholder management model. Freeman (1983) explains that the first model focuses on developing and evaluating the approval of corporate strategic decisions with groups whose support is needed for the company's business continuity. Whereas in the second model, company planning and analysis is expanded to include external influences that may be opposite for the company. These opposing groups include regulatory bodies (government), the environment and / or groups (communities) with special interests who have a concern for social problems (Freeman, 1983).

The definition of stakeholders, the goals and character of the organization and the role of the manager are very unclear and contested in the literature and have changed over the years. Even Freeman's "father of the concept of stakeholder" changed his definition from time to time. In one of its newest definitions, Freeman (2004) defines stakeholders as "groups that are vital for the survival and success of a corporation". All thoughts and principles mentioned above are stakeholder concepts in the literature known as normative stakeholder theory. Normative stakeholder theory contains theories about how managers or stakeholders must act and must look at organizational goals, based on several ethical principles.

In situations like this, when an agent's actions affect other agents, the company must establish ethical principles. Decisions made without considering the impact of their occurrence are usually considered unethical. Donaldson and Preston (1995) state that stakeholder interests have intrinsic value not indirectly related to company interests. The company must not disregard stakeholder claims. The company must establish principles or rules about how it must operate contracts with stakeholders.

Regarding the types of strategies that can be carried out by companies, Freeman distinguishes four main strategies that depend on the type of stakeholder:

1. Offensive strategy: Must be adopted when a group supports. This includes how to try to change stakeholder goals or perceptions, to adopt stakeholder positions or to link the program to something else that stakeholder views are better.
2. Defensive strategy: Must be adopted when the group does not support. The aim is to prevent the threat of competition on the part of these stakeholders. That means strengthening current beliefs about the company, maintaining existing programs or letting stakeholders drive the integration process.
3. Swing strategy: Must be adopted when an interest group consists of mixed groups. Companies must make decisions such as changing rules, forum decisions, transaction processes.
4. Hold strategies: Must be adopted when a stakeholder group is a marginal group. The company must hold its current position and continue with its current strategic program.

Business Strategy

Every organization has a vision and mission. Vision is the specific goals and conditions that the organization wants to achieve in the allotted time. The mission is the reason why the organization was founded and, in that mission, the main processes of the organization can be identified in meeting the needs of its main customers. Strategy is a way to achieve an organization's vision that is better than its competitors (KNKG, 2012).

Hybrid Strategy (Combination Strategy)

Today's business world is changing faster than ever before. Given the increasing market pressures, dynamic technology and global competition, companies from the energy sector increasingly face the need for strategic level transformation.

This transformation covers all parts of the business, structure, resources, technology, processes, and culture. Technological developments, market expansion, financial constraints, new business models, restructuring and mergers, and government regulations put pressure on change and organizational dynamics. Success will come to companies that can visualize how markets change, identify new configurations of service or delivery, and change "game rules." However, the process of change is far from easy, and the application of it in order to succeed makes considerable demands on the managers involved.

Organizations have various types of change practices, namely, process changes, technological changes, strategic changes, and structural changes (Ceptureanu, 2017). In the process of change, effectiveness in implementing change strategies becomes more important. There are many factors that might influence the change process, namely, organization, employee perceptions about change, and communication strategies.

The process of organizational change also has different phases, namely, changes in initiation, pre-implementation, execution, and post-execution. Each phase of change requires a specific type of understanding for appropriate achievement. Change initiation requires basic knowledge, pre-implementation requires knowledge to reduce cynicism, the execution phase requires core knowledge, and post-implementation involves various understandings to be dealt with post-implementation problems. These types of knowledge can be captured through the mechanism of organizational learning

The Porter Generic Competitive Strategies (1980, 1985) postulate what is called 'hybrid', 'mixed', 'integrated', or 'combination' strategy (Kim et al., 2004; Spanos et al., 2004), Strategy ' This hybrid 'is a strategy that combines elements of low cost and differentiation (Subramaniam, Wahyuni, Cooper, Leung, & Wines, 2014).

The combination of competitive strategies that involve a high level of emphasis on both cost leadership and differentiation strategies simultaneously must be distinguished from a "stuck-in-the middle" strategy where companies fail to successfully pursue leadership strategies and cost differentiation (Acquaah & Yasai-Ardekani, 2008). A combination strategy has proven to be profitable and profitable (Kim et al., 2004) Because cost-based advantages and differentiation-based are difficult to maintain, companies that pursue combination strategies can achieve higher performance than companies that pursue a single strategy.

This new hybrid strategy might become more important and more popular in increasing global competition. Compared with companies that rely on one general strategy, companies that integrate generic strategies can position themselves to improve their ability to adapt quickly to changing environments and learn new skills and technologies. This will be more effective in utilizing core competencies across business units and product lines and will also help produce products with different customer value features or characteristics and provide these different products at low cost, compared to competing products. This is due to several additive benefits that have successfully adopted a cost leadership strategy and a differentiation strategy simultaneously.

Organizational Performance

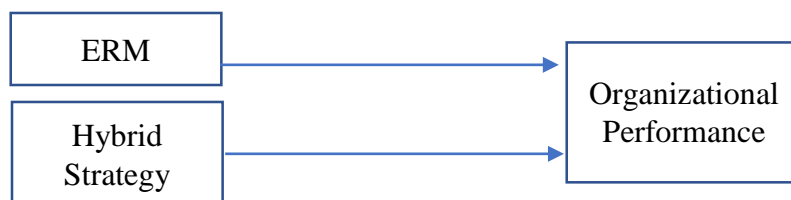
Richard, Devinney, Yip, & Johnson (2009) identified 207 different performance variables in their review of 213 papers published from 2006 to 2009. They stated that organizational performance consisted of the actual output of an organization measured against intended output, which includes Financial performance (Profitability).

Profitability is the level of the company's ability to generate revenue or revenue that is reflected in the company's profit, the management as the executor of a company has the responsibility for the company's operations. In addition, the management has the responsibility that is the responsibility to obtain funds to finance the assets and responsibility for using the assets owned by the company in order to obtain income. The level of profitability produced by companies is often taken into consideration by investors in their investment choices. How much profit can be generated by the company is an important factor in measuring the success of management performance.

ROA (Return on Assets) is the rate of return or profit generated from the management of assets and investment companies. This ratio is commonly used as an indicator of company profitability by comparing net income with overall total assets in the company. ROA can provide an adequate measurement of the overall effectiveness of the company because ROA takes into account the use of assets and profitability in sales. Thus, ROA can be used as an indicator in making investor decisions in choosing companies to invest. Then the higher this ratio, the higher the investor's confidence and interest to invest.

CONCEPTUAL FRAMEWORK

The purpose of this research is to find out how the relationship between the three variables are Organizational Performance, Enterprise Risk Management, and Hybrid Strategy. The relationship is described in Figure 1.1:



HYPOTHESIS DEVELOPMENT

Enterprise Risk Management on Organizational Performance

Despite the increasing trend of ERM adoption, there is debate about its benefits, Arora (2011) and Florio (2016) recognize that ERM can improve Organizational Performance in different industries. ERM can help companies add value to shareholders and maximize their wealth as the ultimate goal of each company entity. On the other hand, Pagach and Warr (2011), in their study of 106 companies with CRO, found a small impact from the implementation of ERM on various company variables and that ERM failed to create value. Because of these various results, it is important to examine the effect of ERM on Organizational Performance, and the following hypotheses are proposed:

H1: Enterprise Risk Management has a positive influence on organizational performance.

Hybrid Business Strategies on Organizational Performance

Organizational performance is a picture of the level of adjustment of the implementation of an activity in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of an organization.

Based on the strategy chosen by the company, the decision makers / leaders of the company must be able to plan, rank priorities and manage so that the strategies that have been set can be implemented properly and achieve targeted organizational performance. The alignment process with business strategies can be carried out with socialization to all employees in each line of the business organization, and also through various kinds of training after the strategy is completed.

With a clear understanding, it is expected that all parts of the organization can implement the strategy so that in the end it will achieve the objectives and influence the organization's performance as measured by financial performance, market performance and performance to shareholders.

H2. Hybrid Strategy has a positive influence on Organizational Performance

RESEARCH METHODOLOGY

Research Design

To achieve the research goals that have been formulated, this research was conducted with an explanatory research approach that provides an explanation of the influence of business strategy and enterprise risk management on organizational performance.

Population and Sampling

This study uses the population of all companies listed on the Indonesia Stock Exchange during the 2017-2018 period that publishes Financial Statements. The research sample was obtained using a purposive sampling method with the criteria of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2018 and the listed companies have implemented ERM.

Operationalization of Variables

Research variables are anything in the form of what is determined by researchers to be studied, so that information obtained about it is then drawn conclusions (Sugiyono, 2009). The type of variable used in this study is the independent variable or independent variable and the dependent variable or dependent variable.

Independent Variables

According to Sugiyono (2009), the independent variable is a variable that influences or causes the change or emergence of the dependent variable. The independent variable used in this study is the business strategy which is seen from the hybrid strategy and Enterprise Risk Management.

Hybrid Business Strategy

The Porter Generic Competitive Strategies (1980, 1985) postulate what is called 'hybrid', 'mixed', 'integrated', or 'combination' of strategies (Kim et al., 2004; Spanos et al., 2004). Strategies' This hybrid 'is a strategy that combines elements of low cost and differentiation (Gopalakrishna & Subramanian, 2001; Proff, 2000).

The combination of competitive strategies that involve a high level of emphasis on both cost leadership and differentiation strategies simultaneously must be distinguished from a "stuck-in-the middle" strategy where companies fail to successfully pursue leadership strategies and cost differentiation (Acquaah & Ardekani, 2006). Companies that pursue a combination strategy can achieve higher performance than companies that pursue a single strategy. This is due to several additive benefits that have successfully adopted a cost leadership strategy and a differentiation strategy simultaneously

Enterprise Risk Management

ERM disclosure is an illustration of the application of corporate risk management. More and more items are revealed, which are expected to reflect the effective application of risk management. In this study, ERM disclosure uses 20 disclosure criteria based on the COSO ERM Framework dimension which includes eight dimensions namely internal environment, goal setting, event identification, risk assessment, risk response, monitoring activities, information and communication, and monitoring in accordance with Desender's research (2010). In addition, the calculation of items using the dichotomous approach is that every ERM item disclosed is given a value of 1, and a value of 0 if not disclosed. Each item will be added together to obtain the overall ERM index of each company by calculating the number of disclosures and divided by total disclosure items by 20 indicators according to COSO Enterprise Risk Management Integrating with Strategy and Performance 2016. Information about ERM disclosure is obtained from annual reports (annual report) and company website.

Dependent Variable

According to Sugiyono (2009), the dependent variable is a variable that is affected or that is the result due to the presence of an independent variable. The dependent variable used in this study is the company's financial performance.

Performance is a condition that has been achieved by a company as an illustration of public trust in the company (Nurhasanah, 2011). In this study, the company value variable is measured by Return on Assets (ROA) which is formulated as follows:

$$ROA = \frac{\text{Net Income after Tax}}{\text{Total Asset}}$$

Data analysis methods

The hypothesis in this study was tested by multiple linear regression tests. This interaction test is used to determine the extent of Enterprise Risk Management on Organizational Performance. The MRA equation model used:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where:

Y = Organizational Performance

a = constant

b = regression coefficient

X1 = Enterprise Risk Management Variable

X2 = Hybrid Strategy Variable

TEST RESULT

Description of Research Objects

The sample used in this study is manufacturing companies in the consumer goods industry sector which are listed on the Indonesia Stock Exchange in the period 2016 to 2017, which contains complete information needed in the study. The selection of the range of years of the study was taken with consideration to produce the latest data related to this research.

The selection of this industry was carried out because the consumer goods industry company was the industry that had the greatest possibility to develop. The consumer goods industry sector is divided into several sub-sectors consisting of companies offering shares to the public so there is high competition between companies. Therefore, every company must strive to improve the performance of the company so that it can attract investors to invest their capital by buying the company's shares.

In addition, consumer goods industry companies are companies that are classified as high-profile type companies (Hackston and Milne, 1996). In general, companies that are classified as high-profile type companies have characteristics that have a high level of sensitivity to competition. High profile companies have a higher risk potential than low profile companies. This criterion is appropriate if related to research on Enterprise Risk Management.

Descriptive Statistics

Descriptive statistical analysis aims to provide an overview or description of a data that is seen from the minimum, maximum, average (mean) standard deviation of each research variable. Financial Organizational Performance as represented by the value of ROA shows the highest score of 0.527 and the lowest 0.0124 with a mean value of 0.125 and a standard deviation of 0.087970.

Panel Data Regression Test

Coefficient of Determination (Dependent Variable: ROA)

The coefficient of determination can measure the model in this study can explain variations of the dependent variable (Hybrid strategy and ERM) which can be seen from the adjusted R-squared value of 0.856223 indicating that this model can explain variations in ROA of 0.856223 the rest is 0.143777 explained by other influences outside the variable under study.

Model Accuracy Test (Test F)

F test is performed to determine the effect of simultaneous variables in research on the integrity of financial statements. Based on testing data obtained a Prob (F-statistic) value of 0.000000. This value is below the significance limit of 0.05. Therefore it can be interpreted that together or simultaneously the variables in this study have a significant effect on ROA.

Hypothesis Test (t-Test)

T test was conducted to determine the effect of independent variables on the dependent variable. If an independent variable has a p value below the significance level of 0.05 then the variable will be considered significant so that H_a is accepted. But if the p value is above 0.05 then H_a is rejected and H_0 is accepted.

Hypothesis 1: Enterprise Risk Management has a positive influence on company performance.

The p value of the ERM is 0.0932. Because the p value is more than 0.05, the Cost Leadership Strategy does not have a significant positive effect on organizational performance, so H_1 is rejected.

Hypothesis 2: Hybrid strategies have a positive influence on firm performance.

Hybrid strategy has a positive effect on ROA. This can be seen from the testing which shows that the probability value of 0.0001 is less than 0.05 and the value of the coefficient is positive. From the results of this test it can be concluded that H_2 is accepted.

DISCUSSION

Effect of Enterprise Risk Management (ERM) on company performance

Based on the test results above, it is known that the ERM variable testing has no significant effect on company performance. The lack of support for influence between ERM and company performance contradicts the theoretical literature but supports and expands a lot of empirical research. These results are in line with research conducted by (Quon, Zeghal, & Maingot, 2012) who stated in their research results that ERM information had no significant impact on company performance and was negatively correlated with company performance. Where the meaning of this direction is that the higher the risk reported by the company, the lower the company's performance.

The results of this study are also in line with research (Ballantyne, 2014) which suggests that ERM adoption is not related to financial performance and adoption of ERM alone is not enough to achieve financial benefits as hypothesized in the ERM

literature. This research shows that ERM can effectively reduce risk for companies that are willing to invest the resources needed for a mature ERM process.

Effect of Hybrid Strategy on company performance

From the results of testing the data gives the result that the Hybrid Strategy significantly influences organizational performance (ROA) but with a positive direction. From the results of previous research researchers also stated that the hybrid strategy is a new trend that was successfully implemented in achieving competitive advantage for the company (Ballantyne, 2014).

CONCLUSION

Based on the results and discussion conducted previously, the following conclusions can be drawn:

1. Implementation of a hybrid strategy will have a significant positive impact on company performance due to market competition that requires companies to innovate with their strategy, namely through a hybrid strategy.
2. The application of ERM has no significant effect on organizational performance. The researcher argues that the adoption of ERM is not related to financial performance and the adoption of ERM alone is not enough to achieve financial benefits as hypothesized in the ERM literature. This research shows that ERM can effectively reduce risk for companies that are willing to invest the resources needed for a mature ERM process, which found that the level of ERM implementation is still low in manufacturing companies in the consumer goods sector on the Indonesia Stock Exchange.

Research Limitations

There are several limitations in this study that can affect the results:

1. The sample only uses mining sector companies where the risk level is likely not too high so it is thought to have influenced the results of the significance of the ERM variable.
2. The time span used to assess the effectiveness of ERM implementation is only 2 (two) years, whereas to be able to assess the success of ERM implementation it may take longer or longer.

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