Full Length Research Paper

The Influence of Company Strategy towards Enterprise Risk Management, Organizational Culture, Supply Chain Management and Company Performance

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This research was focused on Company Strategy as the exogenous variables, Enterprise Risk Management, Organizational Culture, Supply Chain Management and Company Performance as the endogenous variables on Coal Mining Companies at East and South Kalimantan. This research used explanatory research, by using the Enterprise Risk Management instruments from KPMG Australia (2001), strategy quality instrument from Tilles (1983), Organizational Culture instruments from Hofstede (1994), and Supply Chain Management instrument from Partiwi (2009). ROA and ROE of the coal mining companies were collected from a public company as a secondary data. The effect of those variables on five coalmining companies in East and South Kalimantan was tested by Partial Least Square (PLS). The total samples were 20 out of 96 coal mining companies in East and South Kalimantan Province. The research Showed that Company Strategy has a significant effect on Enterprise Risk Management, Company Strategy has a significant effect on Organizational Culture, Company Strategy has an insignificant effect on Supply Chain Management, Company Strategy has a significant effect on Company Performance, Enterprise Risk Management has a significant effect on Supply Chain Management, Enterprise Risk Management has a significant effect on Company Performance, Organizational Culture has a significant effect on Supply Chain Management, Organizational Culture has a significant effect on Company Performance, and Supply Chain Management has an insignificant effect on Company Performance. Based on the limited research, it is found that: (1) model fit is not sufficient because lack of data collected and (2) business environment on ROA and ROE of the coal mining companies was not analyzed. The world coal demands declined in 2008 and 2012, and this has made the company performance declining at those periods. In conclusion, this research showed that empirical studies support the importance of Company Strategy, Enterprise Risk Management, Organizational Culture, Supply Chain Management and Company Performance on Coal Mining Companies at East and South Kalimantan.

Keywords: Company Strategy, Enterprise Risk Management, Organizational Culture, Supply Chain Management and Company Performance.

INTRODUCTION

It is mentioned in a study by Hult et al. (2010) that in an organization or company, the company strategy play an important role in the success of Supply Chain Management (SCM). Supply Chain Management (SCM) increasingly gets attention in the recent management literature. Hamel and Breen (2007) states that the complexity of business competition has caused interdependence among firms that are members of a supply chain network gets stronger. Ramalhinho and Soto (2002) states a company must have a good and efficient Supply Chain Management (SCM). Aside from

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Supply Chain Management (SCM), since 2003 the Enterprise Risk Management (ERM) has begun to receive a big attention from companies to manage risks which include identification of events relevant with opportunities and risks in achieving the company's objectives, assessing risks in the form of possibility to occur and the magnitude of the impact, determining response plan, and monitoring progress toward achieving that goal (Hopkin, 2012). The success of Supply Chain Management (SCM) will be heavily influenced by the culture of the organization. The researchers even suggest that Enterprise Risk Management (ERM) be used as a tool to change the organizational culture so that Supply Chain Management (SCM) can be applied effectively in an organization. Supply Chain Management (SCM) cannot be effectively implemented without a change in organizational culture (Tang et al., 2009).

In a further development, Enterprise Risk Management (ERM) in Supply Chain Management (SCM) is one of the important things in improving the performance of the company. Enterprise Risk Management (ERM) itself, as has been explained, is the process of measuring or assessing risk for developing risk management strategies later. This strategy may involve transferring risks to another party, avoiding risk (mitigation), or risk sharing. Assessing risk in Supply Chain Management (SCM) requires balancing the probability of demand, supply possibilities, the most effective allocation of resources, the likelihood of success of new product launch, market condition, and costs in maximizing the opportunities of a decision alternative pathway (Hopkins, 2012). The risks could disrupt production and degrade company performance. How well company performance in handling the threat will depend on the readiness level and type of risk. Any risk of Supply Chain Management (SCM) has its own causes and solutions. Company leaders need to implement a strategy of Enterprise Risk Management (ERM), whereas Supply Chain Management (SCM) in the organization is needed to avoid lost sales, increasing costs, and failure in improving company performance.

Research object is coalmining companies. Historically, coal is one of the primary energy sources that has a very long history of utilization. Entering the 20th century, the use of coal is reduced along with the increase in the use of oil. Yet, coal is still a viable alternative energy source. South Kalimantan and East Kalimantan are provinces that have quite a lot of coal as their natural resources. There are quite many coal companies that have been conducting operations in those provinces. This study investigates the influence of Company Strategy against *Enterprise Risk Management* (ERM), Organizational Culture, *Supply Chain Management* (SCM) and Company Performance, especially in the coal mining companies.

LITERATURE REVIEW

As explained in the introduction the variables in this study consists of Company Strategy, *Enterprise Risk Management* (ERM), *Supply Chain Management* (SCM), Organizational Culture, and Company Performance.

Company Strategy

Company strategy is an overall *game plan* of diversified company. This strategy becomes guidelines for business units of the company. The methods to evaluate a strategy are derived from Tilles (1983) which states that a good strategy should have 6 (six) requirements:
  a. Internal consistency, which is expressed as the cumulative impact of various policies on company target. In a well-developed strategy, each policy "enter" into a unified pattern. Those policies must not be judged partially, but should also be assessed in the form of relationship among each other.
  b. External consistency, which is expressed as the degree of suitability of various company policies with the interests of related parties outside the company, such as customers, governments, and suppliers. Again, those policies must not be judged partially, but in the form of relationship among each other.
  c. Resource availability, expressed as a variety of things that are owned by a company and that can be used to achieve company target. In general, these resources consist of capital, expertise, and facilities, but the type will vary depending on the type of industry in which it operates.
  d. The degree of risk that can be tolerated, which states the degree of risk that a company will face in implementing the strategy concerning the available resources in order to achieve the target that have been set previously. In relation to the available resources, the company will always be dealing with the uncertainty caused by the uncertainty of the actors in the business environment. This uncertainty can have a negative impact on the existing resources if environmental change leads to a negative development. Has the company set up a good risk management strategy to prevent loss of resources that are vital to the survival of the company, along with a strategy to achieve the target? If the answer is yes, then the strategy developed by the company is a good one.
  e. Realistic Planning Period, stating the degree of achievement of a realistic target from the viewpoint of the members in the organization. A strategy is said to be unrealistic if the planning period is too optimistic, in the sense that it exceeds the capacity of existing members of

Table 1 Pre-Audit Assessment of Enterprise Risk Management (ERM) of KPMG Australia (2001)

Key Actions to Help Embed a Risk Structure in an Organization

Board activities
- Provide ERM education at the board level
- Establish buy-in at board level of risk appetite and risk strategy
- Develop "ownership" of risk management oversight by the board
- Review a risk report of the enterprise

Management Activities
- Create a high-level risk strategy (policy) aligned with strategic business objectives
- Create a risk management organization structure and ensure clear reporting lines
- Develop and assign responsibilities for risk management
- Communicate board vision, strategy, policy, responsibility and reporting lines to all employees across the organization

Establish a common risk culture
- Use comment risk language and concept
- Communicate about risk using appropriate channel and technology
- Develop training programs for risk management
- Identify and train "risk champions"
- Provide success stories and identify quick wins
- Align risk management techniques with company culture
- Develop a knowledge-sharing system

Create risk accountability/responsibility
- Include risk management activities/responsibilities in job descriptions
- Incorporate ERM concepts into personal goals
- Empower managers with defined risk boundaries

Embed Risk Activities into Ongoing Business Processes
- Align and integrated risk management activities within business processes
- Embed real-time controls related to risk into digital systems as appropriate
- Develop continuous improvement processes related to risk

Measure and monitor risk
- Identify key performance indicators and critical success factors related to risk
- Establish success measures for risk strategy and activities
- Provide a periodic process for measuring the risk/return
- Identify and implement monitoring processes and methods of feedback

the organizations.

f. Capacity for Running the Strategy, which states the degree of self competency of the members of the organization to achieve realistic targets and to achieve the final targets of the company as set out in their strategic plan. The two most important things that determine the capacity to implement the strategy are the existence of quantitative targets and competence of the members of the organization in pursuing these targets.

Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) by Standard and Poor's (2013) is "The degree of execution of risk management practices in a way that is systematic, consistent, and strategic in any company which can effectively suppress the potential loss in the future within

the framework of benefit-risk optimization analysis". The researchers used indicators of KPMG Australia (2001). The indicators used by KPMG Australia (2001) can be seen in Table 1 above.

Organizational Culture

Hofstede (1994) states that culture is an "overall pattern of thought, feeling, and action from a social group, which distinguishes other social groups". He also stated that the collective mental programming or software of the mind is used to refer to the entire pattern in cultural studies. Mental programs or culture of a group is formed by the social environment, (such as country, region, workplace, school and home) and the events experienced in the lives of the members of the group concerned. Then, the formation process of patterns of thought, feelings and
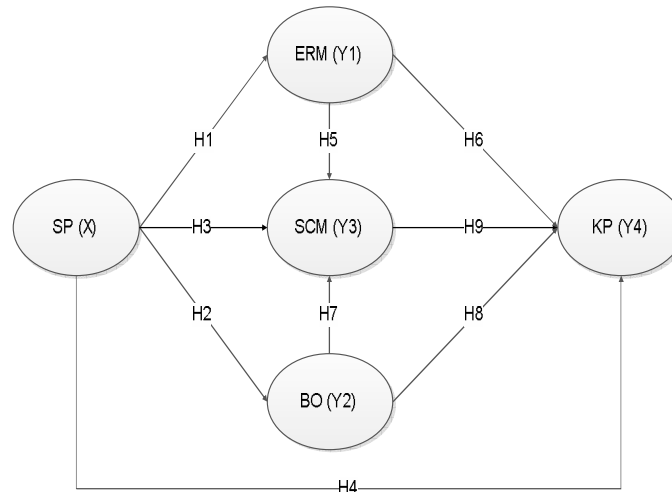
Figure 1 Research Model

actions is analogous to the process of computer programming. Culture can be grouped into various levels such as: national, regional, gender, generation, social class, organization or company.

Hofstede (1994) divides organizational culture into six dimensional practices: (1) Process-Oriented vs. Results Oriented, (2) Employee-Oriented vs. Job-Oriented, (3) Parochial vs. Professional, (4) Open System vs. Closed System, (5) Loose Control vs. Tight Control, and (6) Normative vs. Pragmatic. Hofstede further stated that the national culture and organizational culture are difficult to distinguish and are identical phenomena. The differences between them are reflected in the cultural manifestations of values and practices. In the organization, the culture is reflected in the level of practice, while at the state level culture is reflected in the difference of values. In fact, different organizational culture also occurs at the level of sub-organizations or sub-units of the organization.

Supply Chain Management (SCM)

According to Aitken (1998) Supply Chain Management (SCM) is the "Network organizations that are connected and need each other, and cooperate to regulate, supervise and improve the flow of commodities and information from supplier to the end user. The research of Partiwi, et.al (2009) used the criteria of transport costs and port services, response speed, reliability, accuracy in the number of delivery based ono Order, time needed to fulfill an order, flexibility, and change in order that can be handled. This study uses one of the research criteria of Partiwi, et.al (2009), namely flexibility in production facilities, flexibility in logistics process, and flexibility of supplier network. Those criteria are chosen because it is easy to make an applicable questionnaire with Likert scale and it can easily be filled by the respondents in the coal mines.

Company Performance

Company performance according to Kusdi (2009) is "The degree of companies in achieving various targets (short-term) and goals (long-term) which have been set, where the establishment of targets and goals reflect the subjective interests of the assessors, strategic constituent, and the growth of the company". Company performance measurement, which is conducted in this dissertation refers to Maliszewska (2013), with *Balanced Scorecard* as indicators in assessing company performance with a Financial Perspective using *Return on Assets* (ROA) and *Return on Equity* (ROE).

RESEARCH METHODS

This research is a quantitative study using survey methods for data retrieval. The data variables: Company Strategy, *Enterprise Risk Management* (ERM), Organizational Culture, and Supply Chain Management (SCM) are obtained from the respondents, while the variable data of Company Performance is secondary data from mining companies in East and South Kalimantan.

The determination of the location in the province of East Kalimantan and South Kalimantan is due to the reason of the level of difficulty to reach the remote coal mine that it requires long transport time in the data collection phase. The period of data collection is 1 (one) month in December 2013.

The population of this study is parts of coal mining companies in South Kalimantan and East Kalimantan as many as 96 companies in order to reach a representative number of samples, 20 (twenty) coal mining companies which are willing to become the research sample, while the sampling technique used is saturated sample or so-called census. The methods of analysis used in this study is *Partial Least Squares* (PLS), which can be used not

Table 2 Direct Influence of PLS models

Hypothesis	Influence	*Original Sample* (O)	T Statistics (|O/Sterr|)	P-Value	Information
H1	Company Strategy -> *Enterprise Risk Management* (ERM)	0.6384	10.2735	0,000	Significant
H2	Company strategy -> Organizational Culture	0.7566	21.1168	0,000	Significant
H3	Company strategy -> *Supply Chain Management* (SCM)	0.0431	0.4829	0.635	Not Significant
H4	Corporate strategy -> Performance Company	0.0846	2.6679	0,015	Significant
H5	*Enterprise Risk Management* (ERM) -> *Supply Chain Management* (SCM)	0.4798	9.8595	0,000	Significant
H6	*Enterprise Risk Management* (ERM) -> Company Performance	0.6032	13.6215	0,000	Significant
H7	Organizational Culture -> *Supply Chain Management* (SCM)	0.6243	8.7079	0,000	Significant
H8	Organizational Culture -> Company Performance	0.3449	5.8647	0,000	Significant
H9	*Supply Chain Management* (SCM) -> Company Performance	0.1211	1.8445	0.081	Not Significant

only as a confirmation of the theory (hypothesis testing), but can also be used to establish a relationship which has no theoretical foundation for testing or propositions (Solimun, 2008). PLS can also be used for *structural* modeling reflective or formative indicator. To perform the PLS analysis, the researchers are aided by using a computer program SmartPLS version 2.0.

Hypotheses, which were tested using PLS are as follows:

H_1: Company strategy has a significant influence on *Enterprise Risk Management* (ERM)

H_2: Company strategy has a significant influence on Organizational Culture

H_3: Company strategy has a significant influence on *Supply Chain Management* (SCM)

H_4: Company strategy has a significant influence on Company Performance

H_5: *Enterprise Risk Management* (ERM) has a significant influence on *Supply Chain Management* (SCM)

H_6: *Enterprise Risk Management* (ERM) has a significant influence on Company Performance

H_7: Organizational culture has a significant influence on *Supply Chain Management* (SCM)

H_8: Organizational culture has a significant influence on the Company Performance

H_9: *Supply Chain Management* (SCM) has a significant influence on Company Performance

So, if it is made into an image, it will be as follows:

RESULTS

The result of test of influence among research variables is shown in Table 2 above:

H1: The coefficient of Company Strategy influence on Enterprise Risk Management (ERM) is estimated at 0.6384. Since the p-value (0) < 0.05, then it can be concluded that the influence of company strategy to *Enterprise Risk Management* (ERM) is significant. This means that the better the Company Strategy, the better the *Enterprise Risk Management* (ERM).

H2: The coefficient of Company Strategy influence on Organizational Cultures is estimated at of 0.7566. Since the p-value (0) < 0.05, then it can be concluded that the influence of company strategy to Organizational Culture is significant. It means the better the Company strategy, the better the Organizational Culture.

H3: The coefficient of Company Strategy influence on *Supply Chain Management* (SCM) is estimated at 0.0431. Since p-value (0.635) > 0.05, then it can be concluded that the influence of company strategy to *Supply Chain Management* (SCM) is not significant. It means a good or bad Company Strategy does not significantly affect *Supply Chain Management* (SCM).

H4: The coefficient of Company Strategy influence on

Company Performance is estimated at 0.0846. Since p-value (0,015) < 0.05, then it can be concluded that the influence of Company Strategy to Company Performance is significant. This means that the better Company Strategy, the better the Company Performance.

H5: The coefficient of *Enterprise Risk Management* (ERM) influence on *Supply Chain Management* (SCM) is estimated at 0.4798. Since p-value (0) < 0.05, then it can be concluded that the influence of *Enterprise Risk Management* (ERM) to *Supply Chain Management* (SCM) is significant. This means that the better the *Enterprise Risk Management* (ERM), the better the *Supply Chain Management* (SCM).

H6: The coefficient of *Enterprise Risk Management* (ERM) influence on Company Performance is estimated at 0.6032. Since p-value (0) < 0.05, then it can be concluded that the influence of *Enterprise Risk Management* (ERM) to the Company's performance is significant. This means that the better the *Enterprise Risk Management* (ERM), the better the Company Performance.

H7: The coefficient of Organizational Culture influence on *Supply Chain Management* (SCM) is estimated at 0.6243. Since p-value (0) < 0.05, then it can be concluded that the influence of organizational culture on *Supply Chain Management* (SCM) is significant. It means the better Organizational Culture, the better the *Supply Chain Management* (SCM).

H8: The coefficient of Organizational Culture influence on Company Performance is estimated at 0.3449. Since p-value (0) < 0.05, then it can be concluded that the influence of organizational culture on company performance is significant. It means the better Organizational Culture, the better the Company performance.

H9: The coefficient of *Supply Chain Management* (SCM) influence on Company Performance is estimated at 0.1211. Since because the p-value (0.081) > 0.05, then it can be concluded that the influence *of Supply Chain Management* (SCM) is not significant to the Company performance. This means that whether *Supply Chain Management* (SCM) is good or not, it does not significantly influence the Company performance.

CONCLUSION

After going through the stages of data processing and analysis, the conclusions of this study can be stated as follows:

1. Company strategy has a significant influence on the Enterprise Risk Management (ERM) of coal mining companies in South and East Kalimantan. Although the variable of company strategy has quite high mean value, there are still a number of respondents who do not prioritize program activities in implementing the strategic plan and have not been able to take into account various obstacles in implementing it explicitly. Meanwhile, the variable of Enterprise Risk Management (ERM) has a high mean value from the respondents. Therefore, it can be concluded that the Enterprise Risk Management (ERM) is still not able to incorporate risk management activities at every stage of the business process.

2. Company strategy has a significant influence on Organizational Culture of coal mining companies in South and East Kalimantan. The variable of company strategy has quite high mean value, which means there are still a number of respondents who do not prioritize program activities in implementing the strategic plan and have not been able to take into account various obstacles in implementing it explicitly. Meanwhile, the variable of organizational culture has a high mean value, in which the respondents have not had the ability to keep themselves away from distractions that arise from the outside of the organization.

3. Company strategy has an insignificant influence on Supply Chain Management (SCM) of coal mining companies in South and East Kalimantan. The variable of Company Strategy has a quite high mean value where there are a number of respondents who do not prioritize program activities in implementing the strategic plan and have not been able to take into account various obstacles in implementing it explicitly. In the variable of Supply Chain Management (SCM), although the mean value high, there are some respondents who have not been able to improve the delivery as the network of supplier in order to meet customer demand.

4. Company strategy has a significant influence on company performance of coal mining companies in South and East Kalimantan. The better the quality of the coal mining company strategy in South and East Kalimantan, the better the company performance. Although the mean value of company strategy variable is high, there are a number of respondents who do not prioritize program activities in implementing the strategic plan and have not been able to take into account various obstacles in implementing it explicitly.

5. Enterprise Risk Management (ERM) has a significant influence on Supply Chain Management (SCM) of coal mining companies in South and East Kalimantan. The better the condition of Enterprise Risk Management (ERM), the better the condition of Supply Chain Management (SCM) in the mining companies. Although the mean value of the variable of Enterprise Risk Management (ERM) is quite high, ERM is still not able to incorporate risk management activities in every stage of the business process. Meanwhile, the variable Supply Chain Management (SCM) has a high mean value, but some respondents have not been able to improve the delivery as network of supplier in order to meet customer demand.

6. Enterprise Risk Management (ERM) has a significant influence on the performance of coal mining companies in South and East Kalimantan. Although the mean value

of Enterprise Risk Management (ERM) variable is quite high, a number of respondents are still not able to incorporate risk management activities at every stage of the business process.

*7.*Organizational culture has a significant influence on the Supply Chain Management (SCM) of coal mining companies in South and East Kalimantan. In this case, if the variable of organizational culture leads to the avoidance of uncertainty, togetherness, masculinity, and the proximity to authority, then Supply Chain Management (SCM) of coal mining companies in South and East Kalimantan is better. In the variable of organizational culture, the mean is high already, but still there are some respondents who do not have the ability to keep themselves away from the distractions that arise from the outside of the organization. Meanwhile, the variable of Supply Chain Management (SCM) has a quite high mean value, but there are a number of respondents who have not been able to improve the delivery as network of supplier in order to meet customer demand.

8.Organizational culture has a significant influence on the performance of coal mining companies in South and East Kalimantan. If the organizational culture leads to uncertainty avoidance, togetherness, masculinity, proximity to authority, then the performance of the coal mining companies in South and East Kalimantan is getting better. Although the variable of organizational culture has a quite high mean value, there are respondents who do not have the ability to keep themselves away from distractions that arise from the outside of the organization.

*9.*Supply Chain Management (SCM) has no significant influence on the performance of a coal mining companies in South and East Kalimantan. If the Supply Chain Management (SCM) of the companies is getting better, then it will increase the company performance. The results showed that the variable of Supply Chain Management (SCM) of the coal mining companies in South and East Kalimantan has a quite high mean value, but there are still a number of respondents who have not been able to improve the delivery as network of supplier in order to meet customer demand.

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