

ASSESSING THE IMPLEMENTATION AND MATURITY LEVEL OF COSO-BASED ENTERPRISE RISK MANAGEMENT: CASE STUDY IN TELCO'S INTERNATIONAL DIVISION IN INDONESIA (TID)

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ABSTRACT

The international business development program conducted by TID in 2007-2014 has spawned 10 subsidiaries in 10 different countries. The establishment of each subsidiary is conducted through business feasibility review, which projects future benefits for the growth of the group's performance. But as with any business potential in general, the international strategic business development program has its own business risk.

The strategy implemented by management in the development of each subsidiary is adjusted to the environmental conditions of each entity. The success of the strategy implementation must be supported by the performance of all organizational units in TID including the company's unit which in charge for risk management.

The purpose of this study is to explore the alignment of the implementation of risk management in TID with the objectives of the company. Furthermore, the author assessed the maturity level of risk management implementation using Risk Maturity model published by RIMS. This study is a qualitative research with data collection conducted through literature study and interview to risk management unit in TID related to risk management implementation during year 2017-2018.

The results of data analysis indicate that the implementation of risk management in TID had been conducted in accordance with the guidelines of COSO's Enterprise Risk Management framework, and inline with the strategic objectives of the company. Using the Risk Maturity model of RIMS, the author concludes that the maturity level of risk management implementation in TID has almost reached the Managed level (referring to the definition of RIMS). It indicates that in general the implementation of risk management in TID has been implemented adequately.

Keywords: International Expansion, Risk Management, COSO, Risk Maturity, RIMS

INTRODUCTION

As an effort to expand its business abroad, in period 2007-2014 the International Expansion program conducted by TID which located in Jakarta has spawned 10 footprints in 10 different countries. Establishment of each footprint is done after having passed the process of comprehensive business feasibility analysis, as outlined in the document business plan, which then becomes the initial guide for the footprint manager in running its business operations. Within 3 to 5 years of establishment, the footprint is expected to contribute positively to the growth of the parent company's performance (Yahya, 2013). In fact, until 2017 TID's overall footprint performance has not been able to contribute significantly to lift the contribution of international business revenue.

In general, any business initiative will create new risks for the company. Risk management from multinational corporations is relatively more complex than corporate risk management

that only runs its business in the domestic (David, 2011). This is because multinational companies such as TID must consider more variables that affect the company's operations, such as demographics, regulation, technology, culture, politics, economy and global competition. According to David (2011: 332), things that need to be considered by multinational companies such as TID when planning or managing overseas footprint operations include:

1. Companies are facing new things that are different and not yet fully understood, such as social culture, demography, environment, politics and government, and other business practices;
2. Overseas operations can not compete with domestic companies;
3. Lack of access to valid information about competitors' strengths and weaknesses;
4. Gaps in communication (language, culture and local values);
5. There is an additional complexity of the use of different currencies.

Risks that arise might cause the failure of the organization in achieving its objectives. Therefore, strong efforts are needed from the organization to identify risks that have a significant effect on the achievement of its objectives and subsequently needs to be responded to reduce the risks to the acceptable levels. This is where the effective risk management plays an important role to the company. According to Frigo and Anderson in Soltanizadeh (2016), the effectiveness of the implementation of risk management in a company depends heavily on alignment between management strategies and the implemented risk management framework. The policies of risk management, risk management unit and the operation of risk management need to be aligned with the company's strategic objectives, so that the implementation of risk management can help the organization to achieve its objectives.

Those are strong reasons for TID to adopt a comprehensive risk management framework and apply them adequately to assist the company in achieving its business objectives. Implementing an effective risk management framework allows companies to thoroughly evaluate and control their business risks. The evaluation of the maturity of risk management implementation is important because it allows the organization to identify the strengths and weaknesses of ongoing risk management, from which it can identify points for future improvements (Ciorciari, 2008).

The adoption of a risk management framework, risk management alignment with the organization's objectives are parts of the indicators related to the maturity level of risk management implementation in a corporation (RIMS, 2015). Risk and Insurance Management Society, Inc. (RIMS), an organization engaged in risk management, in 2006 has issued a model of risk maturity model. The RIMS model is equipped with 68 indicators to measure the maturity level of risk management implementation in a company.

RESEARCH OBJECTIVES

The purposes of this study are:

1. To understand what is the framework of risk management which adopted by TID and how it is implemented in it's business operation;
2. To assess the alignment of the application of the company's risk management to strategic objectives of TID;
3. To measure the effectiveness of risk management in TID in term of maturity level of its application.

THEORITICAL DESCRIPTION

Framework of Risk Management

Corporate risk management is closely related to the design, implementation of internal control within a company.

Internal control is a process, influenced by a range of directors, management, and other personnel, designed to provide sufficient confidence about the achievement of company objectives in the following categories: effectiveness and efficiency of operations, reliability of financial statements, compliance with laws and regulations (Moeller, 2015).

Committee of Sponsoring Organizations (COSO) developed a widely accepted internal control model, which in turn became the basis for the development of a broader range of models in risk management ie Enterprise Risk Management (ERM).

Enterprise-wide risk management allows to map potential impacts of all risks on all processes, activities, stakeholders, products and services within an enterprise. It is very important for a company to have ERM implemented with reference to international standards. One of the most widely accepted corporate risk management standards is the standards issued by the COSO.

The COSO ERM Framework (Figure 1) helps companies understand the risks of each activity at each level of their organizational structure, and at the same time assist in risk management, where risk management processes are grouped into 8 components:

1. Internal Environment;
2. Objective Setting;
3. Event Identification;
4. Risk Assessment;
5. Risk Response;
6. Control Activities;
7. Information & Communication;
8. Monitoring.

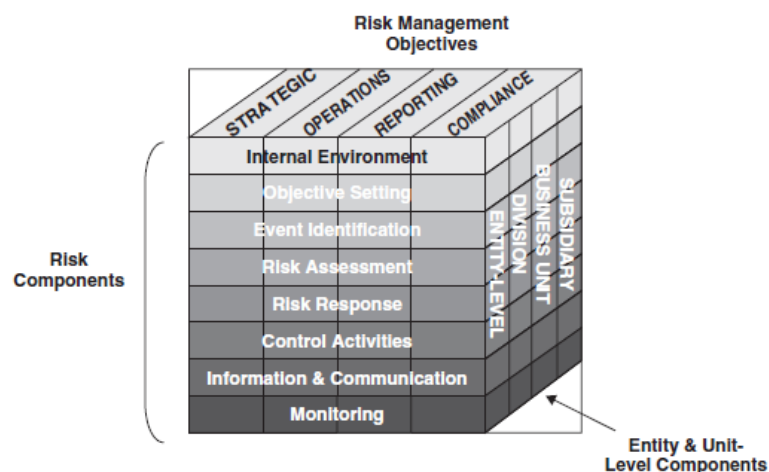


Figure 1. COSO ERM Framework

Risk Maturity Model

Risk Maturity Model (RMM) is not a risk management standard. RMM is a tool used to evaluate the effectiveness of ERM in a company. RMM is a general framework, which can be

used to evaluate ERM implementation using any standard, whether referring to ISO 31000 standards, COSO standards or other standards.

RMM is divided into 7 sections, each of which focuses on evaluating one core attribute of ERM, namely:

1. Adoption of ERM-based Approach;
2. ERM Process Management;
3. Performance Management;
4. Resilience and Sustainability;
5. Risk Appetite Management;
6. Root Cause Discipline;
7. Uncovering Risks

These seven key attributes are further detailed into 25 success factors and 68 readiness indicators, which are used to measure the level of maturity of a company's ERM. For each attribute, assessment results can be grouped into five levels of maturity: Non-Existent, Ad Hoc, Initial, Repeatable, Managed and Leadership (figure 2).

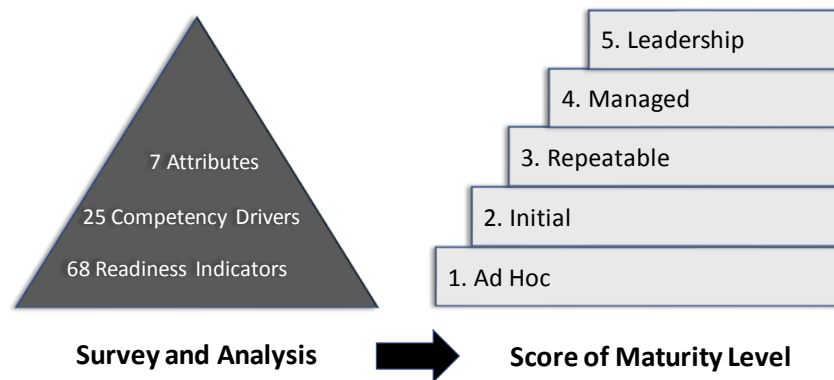


Figure 2. Risk Maturity Level based on RIMS RMM

The framework used for measuring this level of risk maturity refers to the model released by the Risk and Insurance Management Society (RIMS, 2015).

RESEARCH METHODOLOGY

This research was conducted by using a qualitative approach to understand various conditions which are: (1) the risk management framework used as a guideline for the implementation of risk management in TID, (2) the reasons behind the selection of the framework, (3) to what extent the standard of risk management has been applied, (4) how far the organization matures in applying risk management, and other matters requiring deep interaction with the managers at TID to obtain the required information.

Data Collection

Data collection methods used are interview and literature study. The interview process is carried out to the risk management unit and other departments associated with risk management in TID to obtain a viewpoint from the risk management users (risk owners). The user is a working unit or department which deal with risks on their daily operations and actively involved in risk management process but not responsible for controlling the overall risk management of a company. For instances: department that is in charge for enterprise planning, accounting department, and infrastructure management.

RIMS (2015) provides 68 risk management readiness indicators that can be used to extract detailed information from each interviewee. RIMS compiled 68 indicators of ERM implementation readiness in the company to map the operational risk management conditions into expected conditions, grouped into 7 core ERM attributes. The expected conditions include the adoption of a systematic risk management framework and the ability of the organization to manage risk over the achievement of the company's objectives. By utilizing all these indicators as the main guide for the author in conducting interviews, the authors expect to obtain all the information needed to accomplish research objectives.

In addition to maintaining objectivity by obtaining information from different departments, the authors also collect information by studying company's formal documents.

Data Validation

In this research, the validity of data is tested by using data triangulation approach and method triangulation approach. Triangulation of data is done by comparing information collected from different interviewees. Interviewees are selected from the company's risk management departments and personnel from other departments who involved in managing risk management processes in their respective department.

Validation test with triangulation method approach is done by comparing the primary information obtained from the interview process with secondary information obtained from the literature study. The literature study is conducted by collecting company documents relevant to the risk management process in year 2017-2018. The documents covering the risk management policy, company's risk profile, the risk management reports. As formal documents, these documents will have an important role in the validation process of the primary information obtained through the interview process.

Data Analysis

In this study, the data collected through interviews and literature study, going through the process of data reduction, data validation, and data presentation iteratively. Validated informations are presented in the form of diagrams and/or tables to be able to be analyzed using the risk management standard used (i.e ISO 31000 or COSO 2004).

Furthermore, the obtained informations are analyzed to assess its conformity with the characteristics of each level of risk maturity according to the guidance defined in the risk maturity model of RIMS. Based on the results of conformity analysis, the authors can draw conclusions about the level of risk maturity in TID in year 2017.

RESULT

Adoption of Risk Management Framework

Based on the result of interview and literature study, framework of Enterprise Risk Management (ERM) adopted by TID is COSO ERM. The use of COSO framework is clearly stipulated in company's policy. All entities incorporated in the company's group are directed to use the same ERM, so that its implementation can run more coordinated and integrated.

Alignment of Risk Management and Company's Strategic Objectives

In addition to regulating the ERM framework used, the Policy also specifies the purpose of ERM implementation, where it is stated that the main objective of ERM implementation is to provide reasonable assurance of achieving the Company's objectives and objectives to stakeholders.

In more detail, the Policy describes that ERM implementation should be able to support the Company in the following aspects:

- a) Strategic is the achievement of vision, mission, and strategic goals;
- b) Operations are the effectiveness and efficiency of the Company's operational activities;
- c) Reporting of data and information accuracy, timeliness of submission, disclosure appropriate and complete in accordance with the principles generally accepted in the Company's report, both financial and non-financial reports;
- d) Compliance is the compliance and compliance of all policies and activities of the Company to the applicable law.

Implementation of risk management alignment with corporate objectives is demonstrated in document of Company's Risk Profile. The Risk Profile 2017 document lists the risks that are prioritized for mitigation because it is seen as potentially hampering the achievement of the company objectives. Of the company's strategic objectives, all objectives with significant risks are incorporated into the Risk Profile to ensure that the mitigation process is optimally implemented.

The results of the study also show that TID has capability in applying all components of the COSO ERM framework into the company's risk management operations.

Risk Maturity Level

With reference to the RMM RIMS framework, the maturity level of risk management implementation in TID is evaluated against 7 (seven) attributes.

The characteristics of the application of risk management in TID for each RMM RIMS attribute can be described as follows:

1. Attribute-1 Characteristics ERM-Based Approach: Risk culture has been considered in career development. Risk management is understood and implemented across all business units. Risk management is not only quantitative but also includes qualitative analysis of significant project risks.
2. Attribute-2 Characteristics ERM Process Management: Risk management is clearly defined and applied at all levels. Business opportunities are presented along with risk analysis. Management's responsibility in risk management is set forth in company policy. Risk management reporting is done periodically.
3. Attribute Characteristics-3 Risk Appetite Management: Risk appetite is considered in every ERM process. The allocation of resources into a business area is carried out by considering risk evaluation. The organization calculates the estimated impact of mitigation, and then associates the impact with risk tolerance in the ERM process.
4. Attribute Characteristics-4 Root Cause Discipline: Terminology and grouping in the risk information gathering have been fully implemented. Risk information and achievements are collected from all units for identification of the root-cause indicator.
5. Characteristics of Attributes-5 Uncovering Risks: Each unit can develop a specific risk register for its unit to create context on ERM process. Criteria for evaluation of impact, likelihood, mitigation, and risk priority have been standardized.
6. Attribute Characteristics-6 Performance Management: The ERM process is an integral part of corporate strategic planning. Risk management is part of goal setting and performance measurement. Employees use a risk-based approach to manage target achievements.

7. Characteristics of Attributes-7 Resilience and Sustainability: The Company has a comprehensive approach to resilience and sustainability by considering aspects of business processes, human resources, external, systems and partnerships. Quarterly, semester and yearly business performance are managed properly.

CONCLUSION AND DISCUSSION

Based on the results of research on the implementation of corporate risk management in PT TID as described above, the author draws the following conclusions:

1. The risk management framework which used as a reference by TID in implementing its enterprise risk management is the COSO ERM framework. The selection of the framework is inseparable from company's policy to establish COSO ERM as a corporate risk management framework throughout the company's group. The policy is taken to standardize the enterprise risk management implementation framework in its group so the overall risk management becomes more coordinated and integrated.
2. The implementation of corporate risk management in TID according to the author's perspective is aligned with the company's strategic objectives. This assessment is based on the following considerations:
 - a. In TID's risk management policy stated that the main purpose of the implementation of risk management is to support the company's objectives. This support is provided in the form of efforts to identify risks that threaten the achievement of corporate objectives and to plan and oversee the procedures necessary to exercise control of those risks.
 - b. The risk management unit together with other departments have made a good risk identification effort, where risk is grouped into four risk categories: strategic, operational, financial or reporting and compliance.
 - c. The operation of risk management in TID is structured and systematic in conducting risk analysis and identifying significant risks. In 2017's risk profile and risk profile 2018, significant risks are dominated by strategic risks, and the types of risks are dynamic according to the company's strategic plan for the year.
 - d. TID monitors risk mitigation processes properly, through weekly reporting for ongoing issues, and comprehensive monitoring reports on a quarterly basis.
3. Based on the analysis of research information, from 5 levels of risk management maturity according to RIMS RMM, the authors assess TID has almost reached the 4th level (Managed). This assessment is based on the author's conclusion that TID's management implements a culture that strongly supports the implementation of enterprise risk management. Risk management unit has performed its role well in coordinating the implementation of COSO Enterprise Risk Management (ERM) and communicating risk management results to management regularly. Majority of departments have already implemented COSO's ERM processes properly which includes planning, assessment, mitigation and reporting of risk management results in their respective units on a regular basis. The risk management process is inherent with the company's strategic management, where objectives are properly measured, and the unit performance indicators are directly related to the company's objectives. It shows that accountability and risk implications to corporate goals are well understood by company management.

Regardless of the adequate application of risk management in TID, the performance of international business TID has not shown satisfactory results.

In order to improve this condition, some improvements on the implementation of risk management in TID that can be done are as follows:

- a. Designing different Risk Acceptance Criteria (RAC) between Headquarter and subsidiaries. Considering business scale of TID's subsidiaries which in average much smaller than headquarter, it is necessary to set different threshold for RAC, so the risk identification process and risk analysis become more accurate and relevant;
- b. Improve risk management roles and responsibilities to the individual level by linking risk management skills to performance appraisal to the individual level;
- c. Coordinate the risk management in TID intensively with other risk management processes in the company's group, so the strategic objectives of international business expansion of TID can be synergically linked with the objectives of other companies in the group.

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