

CHAPTER I

INTRODUCTION

BACKGROUND OF THE STUDY

In today's environment, there are loads of uncertainties or unexpected situations which are beyond control. Uncertainties and unexpected events are two hard things to prevent, both in our personal lives and our business. There are also times when uncertainties and unforeseen events bring huge damage to companies. Some events happen in business when we least expect them to, in which they are hard to be controlled by companies and could even lead towards financial loss. In this case, companies need to either prevent or prepare for those events through enterprise risk management.

There is growing recognition for the significance of enterprise risk management in companies. The risk that occurs in the company may be a driver of strategic decision, which, on the other hand, might be caused by different drivers such as uncertainty or it could be purely because of the activities on the company itself. Enterprise risk management is significant in a company in order to mitigate risks that might occur. Many companies implement enterprise risk management in order to generate higher profits and achieve a better level of performance. Furthermore, there are many reasons why organizations strive for a high level of performance, such as to have a solid firm culture, profitability, and adaptability. Company's success could be seen through the company's own performance after a particular time frame.

In order to evaluate the impact of enterprise risk management on the company's performance, the writer chose PT. Salim Ivomas Pratama Tbk as the research company. PT Salim Ivomas Pratama Tbk, or also known SIMP, is a subsidiary company of PT Indofood Sukses Makmur Tbk. It is one of the largest-scale agribusiness groups in Indonesia,

engaging in the whole supply chain, starting from their research and development, seed breeding, oil palm cultivation, and milling, not to forget production and marketing of cooking oil, margarine and also the shortening products (SIMP, 2019).

As to keep up with the global market, PT Salim Ivomas Pratama Tbk applies enterprise risk management with the purpose of having greater cognition and higher accuracy in addressing martial risks. The implementation of enterprise risk management at PT Salim Ivomas Pratama Tbk can increase their risk control efforts so as to support all the critical strategic, compliance and governance initiatives. Moreover, enterprise risk management allows the company itself to be able to facilitate their resource allocation decisions and increase their operational efficiency.

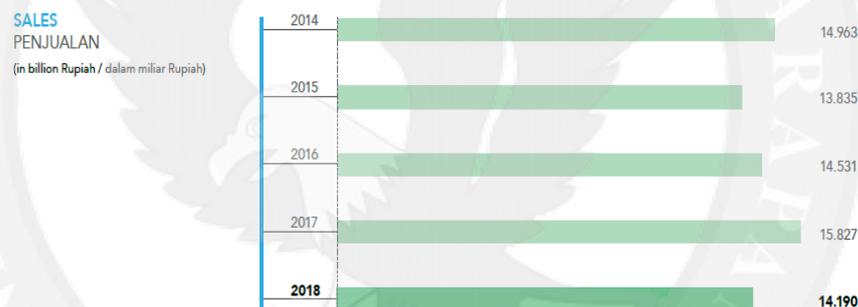


Figure 1.1 Sales for The Year 2018 at PT Salim Ivomas Pratama Tbk
Source: SIMP (2019)

The performance at PT Salim Ivomas Pratama could be seen through the sales graphics shown on the figure above. It shows that the sales are inconsistent for a big manufacturing company such as PT Salim Ivomas Pratama, where the fluctuation on the sales is negative indicator. In order to prove that enterprise risk management could affect company's performance and find out whether enterprise risk management contributes to this inconsistency, the writer has decided to carry the research at PT Salim Ivomas Pratama Tbk about how enterprise risk management helps generating higher level of performance in the company.

The writer has decided to precede this research in the form of an applied research project with the title of “**The Impact of Enterprise Risk Management towards Company’s Performance at PT Salim Ivomas Pratama Tbk Lubuk Pakam**”.

PROBLEM LIMITATION

This research is held and cultivated in accordance with the scientific procedure however, there are some limitations due to the limited source and knowledge.

In this research, enterprise risk management acts as the independent variable, in which the indicators are limited to information and communication, risk assessment, monitoring, control activities, and internal environment. Moreover, the company’s performance acts as the dependent variable, in which the indicators are profitability, technology efficiency, growth, market share, and productivity. This research is conducted at PT Salim Ivomas Pratama Tbk, Lubuk Pakam, Sumatera Utara.

PROBLEM FORMULATION

In regard to the description in the background of the study, the formulated research questions will be:

1. How is the enterprise risk management strategy implemented at PT Salim Ivomas Pratama Tbk?
2. How is the performance at PT Salim Ivomas Pratama Tbk?
3. How does enterprise risk management impact the performance of PT Salim Ivomas Pratama Tbk?

OBJECTIVE OF THE RESEARCH

In regard to the problem formulation, the objectives of the research are as follows:

1. To inspect the enterprise risk management strategy being implemented by PT Salim Ivomas Pratama Tbk.
2. To evaluate the performance of PT Salim Ivomas Pratama Tbk.
3. To analyze the impact of enterprise risk management towards the performance of PT Salim Ivomas Pratama Tbk.

BENEFIT OF THE RESEARCH

The researcher believes that this study could be a guide for society. There are two benefits in this study, which are practical benefit and theoretical benefit.

Theoretical Benefit

This research is made to expand the knowledge on enterprise risk management, company's performance, and also the relation between enterprise risk management and performance in a company.

Practical Benefit

This study consists of information where the author hopes could be useful for some parties as follows:

1. For the writer, this research will enrich the understanding concerning the company's risk management and performance, either theoretically or in the actual life situation.
2. For the company, this research could be a recommendation and guidance regarding enterprise risk management, so as to boost the company's performance.
3. For other researchers, this research is expected to contribute as their reference for researches on similar area.

SYSTEM OF WRITING

Chapter I : Introduction

This chapter explains about background of the study, problem limitation, problem formulation, objective of the research, benefit of the research and systems of writing.

Chapter II : Literature Review and Hypothesis Development

This chapter explains about theoretical background, previous research, hypothesis development, research model and framework of thinking.

Chapter III : Research Methodology

This chapter explains about research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

Chapter IV : Data Analysis and Discussion

This chapter explains about general view of research object, data analysis and discussion.

Chapter V : Conclusion

This chapter explains about conclusion, implication and recommendation.

