

Evaluation of Risk Culture Implementation at PT XYZ Financing Company

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ABSTRACT

This research evaluates the implementation of risk culture at PT XYZ, focusing on the IRM Framework 2012. Despite its significance, PT XYZ's risk culture remains suboptimal, primarily due to low employee risk awareness. This has led to a three-year surge in the Allowance for Doubtful Accounts, potentially impacting profitability. A mixed method study combining surveys and interviews, was conducted to investigate underlying causes. Results reveal an "adventurous" decision-making style among employees, which while fostering innovation, can lead to impulsive choices. Furthermore, the analysis of eight risk culture aspects identified four areas for improvement: Responding to Bad News by encouraging open communication and recognizing risk reporting, Rewarding Appropriate Risk Taking by aligning incentives with responsible risk-taking behaviors, Risk Resources by strengthening the risk management department's independence and capacity and Risk Competence by enhancing employee risk knowledge and skills through training and certification. By addressing these areas, PT XYZ can bolster its risk culture and mitigate potential future losses.

Keywords: Evaluation; Risk Culture; Financial Company

Evaluasi Penerapan Budaya Risiko Pada Perusahaan Pembiayaan PT XYZ

ABSTRAK

Penelitian ini mengevaluasi implementasi budaya risiko di PT XYZ, dengan mengacu pada Kerangka IRM 2012. Meskipun penting, budaya risiko PT XYZ masih belum optimal, terutama karena rendahnya kesadaran risiko karyawan. Hal ini telah menyebabkan peningkatan tiga tahunan dalam Cadangan Kerugian Penurunan Nilai (CKPN), yang berpotensi berdampak pada profitabilitas perusahaan. Penelitian kualitatif dengan studi kasus, yang menggabungkan survei dan wawancara, dilakukan untuk menyelidiki penyebab mendasar. Hasilnya menunjukkan gaya pengambilan keputusan yang "adventurous" di antara karyawan, yang meskipun mendorong inovasi, dapat menyebabkan pilihan impulsif. Selain itu, analisis delapan aspek budaya risiko mengidentifikasi empat area untuk perbaikan: **Responding to Bad News** dengan cara mendorong komunikasi terbuka dan mengakui pelaporan risiko, **Rewarding Appropriate Risk Taking** dengan cara menyejajarkan insentif dengan perilaku pengambilan risiko yang bertanggung jawab, **Risk Resources** dengan cara memperkuat kemandirian dan kapasitas departemen manajemen risiko, **Risk Competence** dengan cara meningkatkan pengetahuan dan keterampilan risiko karyawan melalui pelatihan dan sertifikasi. Dengan mengatasi area-area ini, PT XYZ dapat memperkuat budaya risikonya dan mengurangi potensi kerugian di masa depan.

Kata Kunci: Evaluasi; Budaya Risiko; Perusahaan Pembiayaan

Artikel dapat diakses : <https://ojs.unud.ac.id/index.php/Akuntansi/index>



e-ISSN 2302-8556

Vol. 35 No. 2
Denpasar, 28 Februari 2025
Hal. 537-547

DOI:
10.24843/EJA.2025.v35.i02.p16

PENGUTIPAN:

Tarigan, N. P., & Khudri, T.
M. Y. (2025). Evaluation of
Risk Culture Implementation
at PT XYZ Financing
Company.
E-Jurnal Akuntansi,
35(2), 537-547

RIWAYAT ARTIKEL:

Artikel Masuk:
16 Desember 2024
Artikel Diterima:
12 Januari 2025

INTRODUCTION

Previous study by Karosekali evaluated the implementation of risk culture in Financial Company ABC from individual and organizational perspectives using surveys and interviews, guided by the IRM Risk Culture framework. Findings revealed that employees tend to exhibit a deliberate and composed risk perspective with ethical decision-making rooted in empathy, and the organizational culture is largely communal with high solidarity. However, an evaluation of eight IRM risk culture aspects from a social and solidarity standpoint identified four areas needing improvement: Risk Decision, Risk Resource, Responding To Bad News, and Reward.

PT XYZ, a financing company specializing in four-wheeled vehicles and heavy equipment, has an established risk management department. However, a notable lack of risk culture permeates the organization, affecting both new employees and senior management.

Initial interviews with key personnel at PT XYZ revealed a perceived lack of emphasis on risk awareness across all employee levels, potentially contributing to a culture of insufficient risk consciousness. Factors identified include a scarcity of head-level employees with risk management backgrounds and infrequent risk-related training and seminars. Furthermore, inconsistencies in training application and a reward system incentivizing credit approval volumes were reported to potentially overshadow risk considerations among credit approval staff. Notably, a significant portion of the company's allowance for impairment losses originated from credit applications approved through an appeal committee, highlighting potentially low risk awareness at the committee member level, with a reported inclination towards prioritizing sales and credit exposure over risk mitigation. This deficiency has led to a limited understanding of the risks inherent in the company's financing operations and caused the increasing allowance for impairment losses value for past three years.

One consequence of this shortfall is a significant increase in credit loss provisions from 2021 to 2023. Credit loss provisions represent an estimate of the losses a company may incur on financial assets due to default and a decline in credit quality. As mandated by PSAK 109, the company is required to calculate these provisions for all loans, regardless of their status.

As an example of a current credit benchmark, companies are required to calculate the estimated value of CKPN based on Expected Credit Loss (ECL) to obtain an estimate of the decline in the value of financial assets and the company's net profit (loss) (Syahroni, 2023).

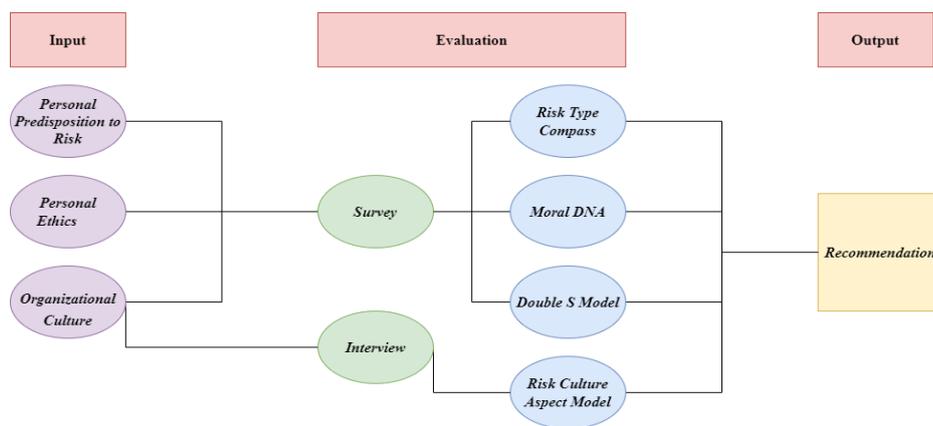
Table 1. Receivables and Allowance for Impairment Losses

	2021		2022		2023	
	Finance Lease	Consumer Financing	Finance Lease	Consumer Financing	Finance Lease	Consumer Financing
Receivables (in Million Rupiah)	Rp872.818	Rp2.395.309	Rp1.003.141	Rp2.990.988	Rp993.936	Rp4.267.353
Total Receivables (in Million Rupiah)	Rp3.268.127,00		Rp3.994.129,00		Rp5.261.289,00	
Allowance for Impairment Losses of Receivables (in Million Rupiah)	Rp14.778	Rp50.517	Rp21.821	Rp61.833	Rp24.081	Rp102.755
Total Allowance for Impairment Losses of Receivables (in Million Rupiah)	Rp65.295,00		Rp83.654,00		Rp126.836,00	
Percentage of Allowance for Impairment Losses from Receivables	1,693%	2,109%	2,175%	2,067%	2,423%	2,408%
Total Percentage of Allowance for Impairment Losses from Receivables	3,802%		4,243%		4,831%	

Source: Research Data, 2025

The increasing percentage of allowance for loan losses (ALL) at PT XYZ from 2021 to 2023 is a direct consequence of the company's inadequate understanding of risk. ALL, an estimate of potential losses on financial assets due to non-payment and declining credit quality, is a mandatory calculation under PSAK 71. Despite the significant increase in ALL – from Rp65.295 billion in 2021 to Rp126.836 billion in 2023 – the company continues to extend credit without adequately considering the risk of default. Interviews with Collection Division Head in 22th July 2024 “The number of credit applications approved through the appeal to credit committee was the largest contributor to the value of allowance for impairment losses process in the company. Another thing that is also of concern is the low risk awareness at the committee member level during the credit approval process and tends to ignore the risk of credit failure because it prioritizes sales and credit exposure”. Senior management, including legal and compliance heads, acknowledged that insufficient risk management training and a lack of risk management expertise at the managerial level have contributed to this problem. Moreover, the incentive structure, which rewards employees for approving a high volume of credit applications, has further exacerbated the issue by encouraging short-term gains at the expense of long-term risk considerations.

Based on the initial findings obtained from the initial interview, research related to risk culture in PT XYZ can be carried out by evaluation using the IRM 2012 framework. IRM (Integrated Risk Management) 2012 is a framework that can be used to evaluate companies related to the possibility of risks so as to facilitate management in the decision-making process based on the possibility of risks arising from company activities (AMT-IT, 2023). Using IRM 2012, companies can identify strengths and weaknesses in their risk culture, as well as develop strategies to increase risk awareness. The use of the IRM 2012 framework as a research medium for the implementation of risk culture in organizations has been



used in previous research conducted by Karosekali in 2023. According to Jankensgård, H., Kapstad, P. (2021), the culture of risk arises starting from the behavior of each individual and organization in daily activities.

Figure 1. Conceptual Framework

Source: Research Data, 2024

RESEARCH METHOD

The data collection methods used in this study included interviews and surveys targeting employees and management at PT XYZ. The semi-structured interviews were conducted face-to-face with the informants to gain in-depth information about the company's risk culture. The interview questions were related to risk culture and were directed at five informants: the first informant from the Risk Management Department, the second from the Compliance Department, the third from the Corporate Secretary Department, the fourth from the Financial Control and Reporting Division, and the fifth from the Human Resources and Development Department.

The survey method utilized respondent information collected through a questionnaire distributed via Google Forms. A total of 16 questions regarding the Risk Type Compass were designed as multiple-choice items with five options on a scale from 1 to 5. The smallest value indicated the lowest score, while the largest value represented the highest score. All questions were categorized into eight risk types based on the Risk Type Compass framework from IRM 2012, which aims to identify the risk tolerance type of each respondent.

The study also examined 14 ethical categories based on the Double S Model. Respondents selected one of three options – Low, Medium, or High – that best represented their perspective. The value of 1 represented the "Low" option, 2 represented "Medium," and 3 represented "High." The 14 categories were grouped into three decision-making ethics types.

Lastly, the study included 18 questions based on the Moral DNA method, which respondents answered to evaluate the organizational culture. The multiple-choice answers were provided in five levels: Not at All, A Little, Somewhat, Very, and Totally. The responses were scored on a scale of 1 to 5, where 1 represented "Not at All," 2 represented "A Little," 3 represented "Somewhat," 4 represented "Very," and 5 represented "Totally."

RESULT AND DISCUSSION

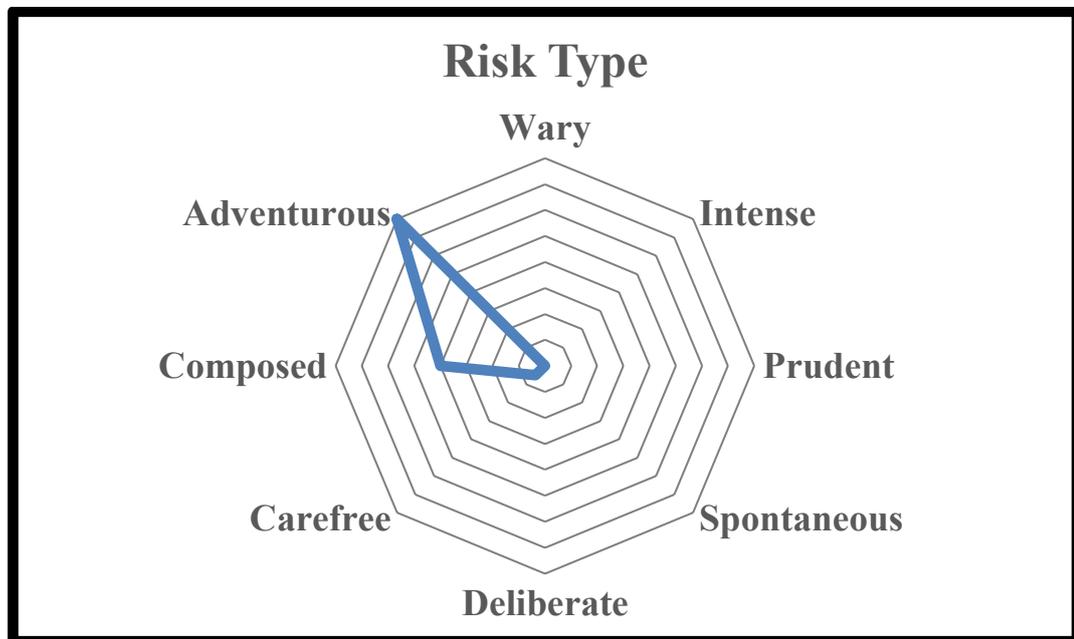


Figure 2. Risk Type

Source: Research Data, 2024

Figure 1 shows that the majority of employees at PT XYZ, a financing company, tend to exhibit an *adventurous* type in their risk-related decision-making. Individuals with this type are characterized by their confidence in taking risks on new endeavors, their carefree attitude, and their courage. However, this tendency can pose concerns for the company, as decision-making driven by a preference for novelty and experimentation may result in adverse outcomes.

The *adventurous* type also represents individuals who embrace new elements in their environment, viewing them as opportunities for excitement and enjoyment.

Based on data analysis, employees at PT XYZ, a financing company, exhibit a medium to high risk appetite in their decision-making processes. This indicates that PT XYZ employees demonstrate a high level of courage in taking risks and are capable of tolerating risks in their decision-making. The company's risk culture reflects the values, styles, and behaviors exhibited by its staff, as well as the

influence of senior employees. Additionally, the level of risk tolerance is shaped by the roles, responsibilities, and tasks carried out by the employees. Personal ethics were examined using the Moral DNA method to identify individual preferences in decision-making based on three ethical dimensions: Compliance Ethics, Conscience, and Logic. The Moral DNA method was applied using ethical value data collected through a survey conducted via Google Forms, involving 25 employee respondents. The data were analyzed based on demographics such as gender, age, tenure, and job level.

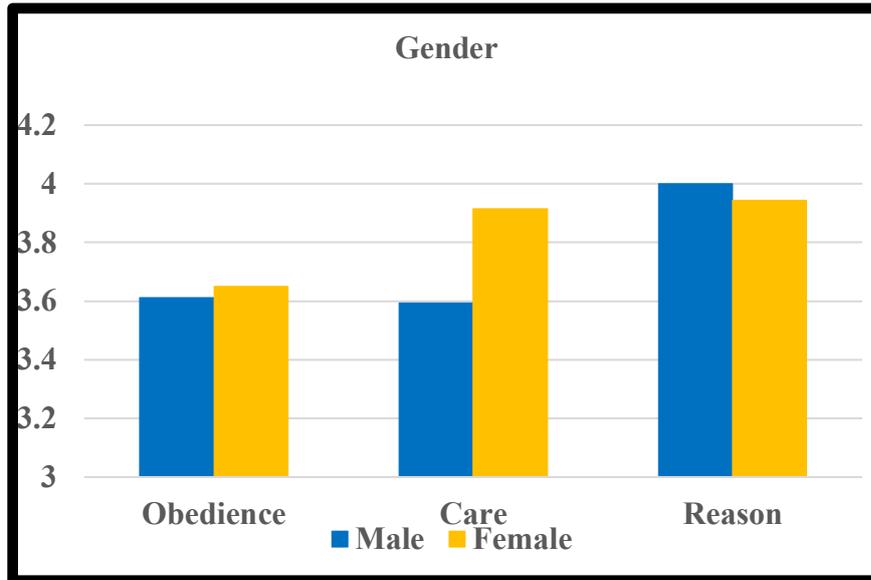


Figure 3. Personal Ethics by Gender

Source: Research Data, 2024

Figure 3 shows that based on gender, women tend to exhibit higher levels of compliance and are more likely to use their conscience in risk-related decision-making compared to men. On the other hand, men tend to have higher logical reasoning abilities when making risk-related decisions compared to women.

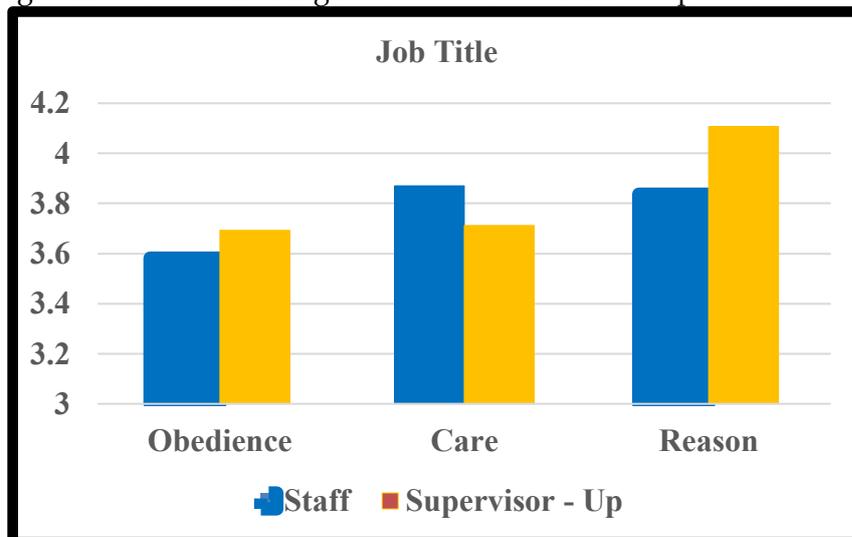


Figure 4. Personal Ethics by Job Level

Source: Research Data, 2024

Figure 4 shows that, based on job position, there are two aspects that show improvement as a result of the employee's position within the company. Employees in supervisor and higher positions exhibit better compliance and logical reasoning abilities compared to staff employees. However, staff employees tend to have a better sense of conscience when making risk-related decisions compared to those in supervisor or higher positions. Overall, the level of risk decision-making is not solely determined by the job level but is predominantly influenced by conscience in the decision-making process.

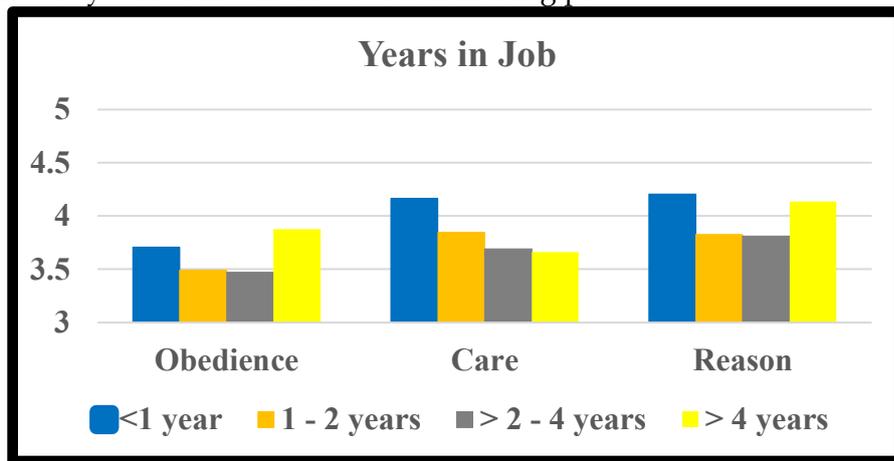


Figure 5. Personal Ethics by Working Tenure

Source: Research Data, 2024

Figure 5 shows that working tenure has an impact on employees' compliance levels in risk-related decision-making. The longer employees work at the company, the higher their level of compliance tends to be, as they gain more experience and age, along with an increased sense of moral responsibility to make decisions in line with the company's rules and policies. According to Ilham (2021), as work experience increases, so does the level of skill and ability to perform tasks and make decisions to address problems. Employees with longer tenure are more likely to have gained valuable experience and developed better problem-solving abilities within the company.

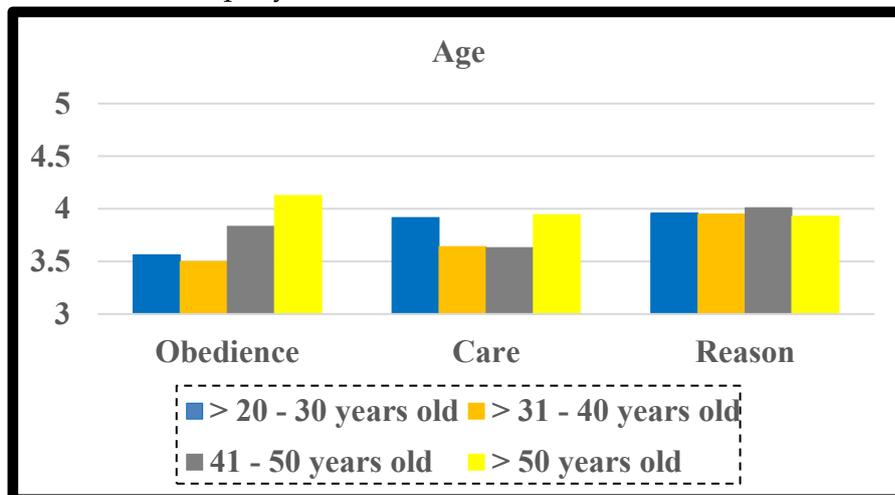


Figure 6. Personal Ethics by Age

Source: Research Data, 2024

Figure 6 shows that age has an impact on compliance levels in decision-making. The research shows that as employees age, their compliance in risk-related decision-making becomes more mature. With increasing age, experience, self-confidence, and mental resilience also improve. As age increases, so does the wisdom in decision-making. However, age does not affect logical reasoning and conscience in decision-making, as improvements in logical reasoning and conscience are not directly correlated with age.

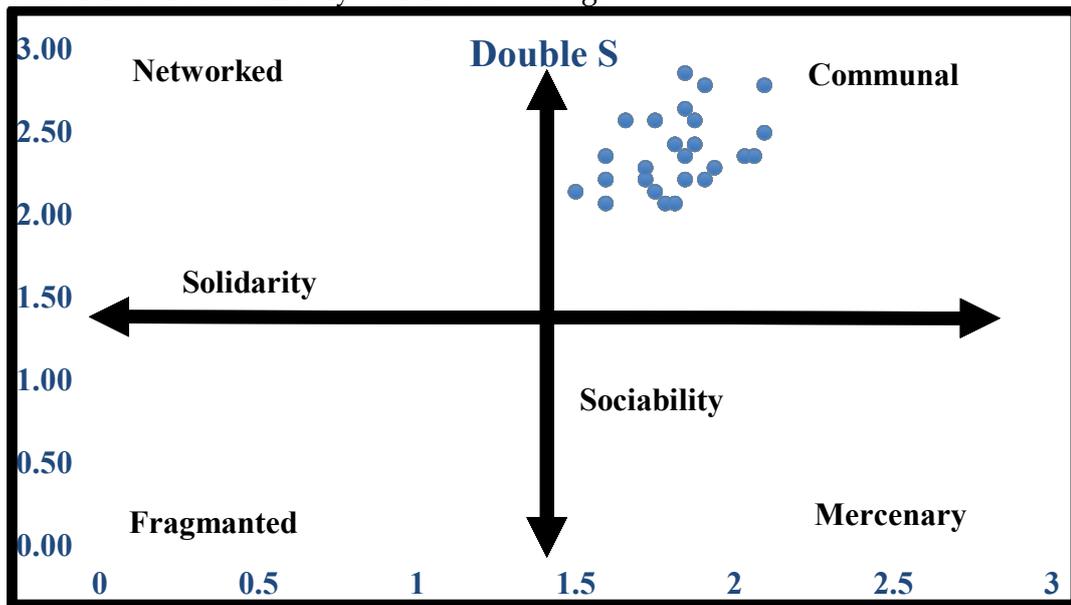


Figure 7. Double S

Source: Research Data, 2024

Figure 7 shows that the company has a *communal* culture, where employees exhibit high levels of solidarity and social interaction. According to research by Jayanti et al. (2024), communal culture can influence the formation of values, norms, work methods, and decision-making within an organization. This culture also has a positive impact on companies that require interdepartmental cooperation for their operational activities. The company involves multiple departments in its business operations, and as communication intensifies in fulfilling tasks among employees, social relationships and solidarity will continue to strengthen.

CONCLUSION

Based on the survey results from 25 respondents, the financing company PT XYZ exhibits an *adventurous* risk type, characterized by very high risk tolerance. Employees with this risk type tend to feel motivated to make decisions involving higher risks in pursuit of significantly greater rewards or expected returns (Rivan, 2024). Adventurous employees are commonly found in the sales and marketing departments, where a penchant for exploration and bold decision-making is

essential. In contrast, employees in accounting and compliance departments tend to adopt a more cautious approach to risk (IRM, 2012).

Using the Double S Model, PT XYZ demonstrates a *communal* culture that fosters high levels of solidarity and social interaction among employees. This communal culture promotes openness among employees, which can act as a trigger for enhancing employee qualities such as creativity, teamwork, and close relationships, all of which are built on shared interests and responsibilities. The communal culture encourages equitable task distribution based on each employee's departmental or divisional function. Moreover, this culture significantly influences the development of organizational values, attitudes, work models, and decision-making capabilities (Jayanti et al., 2024).

Based on the evaluation results obtained from the research, the author provides several recommendations that can be considered as options to enhance the risk culture within the company. These recommendations are categorized into short-term and long-term suggestions. In the short term, to enhance risk awareness across all employee levels, from junior to senior staff, in the financing company, regular risk management training sessions should be implemented at least every three to six months. According to Pasar Trainer (2023), such training provides a deeper understanding of potential organizational risks, enabling the company to identify critical risks and formulate appropriate mitigation strategies. Tucci (2024) also notes that successful risk management training programs benefit organizations by fostering a more diligent approach to identifying various encountered risks. Second, the company could enhance its Whistle Blowing System (WBS). According to Hertati & Puspitawati (2023), a WBS is a channel for individuals to report suspected workplace violations, crucial for maintaining organizational integrity. A key benefit of a well-implemented WBS is the reduction of operational misconduct risks that could lead to fraud within the company.

For long-term recommendations, the author suggests the following: First, by implementing a risk management certification program for employees at least at the Supervisor level, tailored to their specific duties and responsibilities in the company's risk management practices, is recommended. Risk management certification serves as formal recognition of competence and knowledge in risk management. According to Nagaveni (2023), it signifies proficiency in managing risks. By obtaining this certification, employees in strategic positions within the company are recognized as possessing not only theoretical knowledge but also practical skills in identifying, analyzing, and managing various types of risks. Second, by restructuring the organizational framework to establish the risk department as an independent entity, led by an individual not concurrently heading another division, is advisable. According to Brandenburg (2023), the independence and integrity of risk management are critical for enhancing the credibility of risk assessments and reports, thereby fostering trust among various stakeholders, including regulators, shareholders, and rating agencies. Finally, by establishing a reward scheme for individuals who proactively report or successfully manage risks is recommended. This can serve as an appreciation for the effective use of the Whistle Blowing System (WBS) by company employees. Rewards can include incentives or positive contributions to employee KPI calculations, while conversely, inappropriate risk management decisions could

result in reprimands or KPI point deductions. According to Faster Capital (2024), recognizing and rewarding employees for their contributions to risk management can enhance motivation and foster a proactive approach to risk, particularly when implemented through formal recognition programs and integrated into the performance evaluation process.

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