**THE EFFECT OF RISK MANAGEMENT ON ORGANIZATIONAL PERFORMANCE**

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**Abstract**

Pension Fund as a legal entity that manages wealth and runs a pension program that promises pension benefits to maintain sustainable income for its participants, in the retirement period, is very vulnerable to risk. In the context of Pension Fund management, the risk faced is the problem of insufficient funds which in turn can interfere with the fulfillment of the Pension Fund's obligations to pay participants' rights to receive pension benefits. Implementing risk management in the Pension Fund, can assist the Pension Fund Management in improving organizational performance in the Pension Fund This study aims to examine the effect of the application of risk management on organizational performance. This study measures the extent to which the application of risk management helps carry out important managerial functions so as to improve organizational performance. The results show that: the application of risk management has a significant effect on organizational performance at the Employer Pension Fund which organizes the Defined Benefit Pension Program throughout West Java-Banten This research was conducted on a Pension Fund with a Defined Benefit Pension Program in the West Java-Banten region, so the results cannot be generalized to other contexts. The findings of this study reinforce the importance of implementing risk management in improving organizational performance. This study contributes to the very little literature review that examines the significant relationship between the implementation of risk management and organizational performance.

***Key Word: Risk Managemen, Organizatonal Perfoemance***

**PRELIMINARY**

The Pension Fund Law No. 11 of 1992 states that the existence of a Pension Fund is intended to ensure continuity of income for workers after retirement (entering retirement age). Basically, the law of establishing a Pension Fund is not mandatory, meaning that every Individual or Institution (Employer) that employs people is not required to form a Pension Fund. However, if you have established a Pension Fund, the founder's obligations must be met, especially funding issues in accordance with applicable regulations

Pension Fund as a legal entity that manages wealth and runs a pension program that promises pension benefits to maintain sustainable income for its participants, in the retirement period, is very vulnerable to risk. In general, risk can be interpreted as the possibility of material and immaterial losses that arise either directly or indirectly that have an impact on the company's current and future financials. In the context of Pension Fund management, the risk faced is the problem of insufficient funds which in turn can interfere with the fulfillment of Pension Fund obligations to pay participants' rights to receive pension benefits[[1]](#footnote-1).

One of the risks that may be related to the management of Pension Fund assets is investment risk, because investment is the most important activity of Pension Funds for fund development and fulfillment of fund adequacy. Investment risk can occur due to market risk, namely the risk arising from the movement of market variables from the investment portfolio owned by the Pension Fund which will reduce the Difference in Investment Valuation (SPI) and Return on Investment (ROI). What is meant by market variables include interest rates, exchange rates, and market prices. Considering that every investment has risks, it is necessary to develop an effort to manage risk in such a way that the Pension Fund can avoid unwanted risks, known as risk management[[2]](#footnote-2).

Risk management can be defined as a set of procedures and methodologies used to identify, measure, monitor and control risks arising from business or business activities. One of the objectives of risk management is to improve the performance of an organization/company (ADPI, 2003). In the context of wealth management or the administration of Pension Funds, performance can be measured from the level of Return on Investment, Return on Assets, Operating Cost Ratios, Funding Ratios, Investment Instrument Portfolio Complexity and Complience (ADPI, 2006). The wealth of the PPMP DPPK is invested in investment alternatives that are allowed with the maximum amount of wealth allocation for each type of investment in accordance with the Regulation of the Minister of Finance and the Investment Direction of the PPMP DPPK[[3]](#footnote-3).

Investment returns on the assets of the Pension Fund which add to the value of the Pension Fund of the Employer of the Defined Benefit Pension Program (DPPK PPMP) after being deducted by investment costs and operational costs, become a source of funds for DPPK PPMP to fulfill the obligation to fulfill pension benefits for pension program participants or parties who entitled to receive pension benefits. Furthermore, increased investment returns can basically improve the financial performance of Pension Funds, one of which is the Return on Investment indicator

During 2010 it was found that ROI as an indicator of the financial performance of the Pension Fund in the DPPK PPMP decreased compared to the previous year. This is due to a decrease in the level of investment returns in several investment instruments (Pension Fund Bureau, 2011). The decline in the level of investment returns, which can have a negative impact on the financial performance of this Pension Fund, can be due to: 1). lack of awareness of Pension Fund Management in managing risk, 2). implementation of risk management that is not serious and comprehensive, and 3). the low implementation of good Pension Fund governance guidelines as it should be The above is in line with the results of the study shown by Jafari M, et al. (2011) that there is a positive and significant relationship between risk management and company performance. It can be said that if risk management is carried out properly, the company's performance is expected to increase. The company's performance here can be measured based on financial performance and non-financial performance.

Furthermore, other researchers also suggested that the company's competitive advantage is stated as a mediator in the effectiveness of risk management to improve company performance From the observations of researchers in several PPMP DPPKs, it appears that investment performance as measured by ROI in 2011 there is also a decline, especially in stock investment instruments. The decline in ROI on stock investment instruments is generally due to the occurrence of market risk which is marked by a decrease in the Investment Valuation Difference (SPI). For example, in DPPK PPMP "A" with a total wealth of more than 1 trillion, the Pension Fund has carried out risk management which can be said to be quite adequate, but to manage market risk, the Pension Fund Management must work even harder so that investment performance does not decrease[[4]](#footnote-4).

Based on the Audited Investment Portfolio Report in 2011 for Pension Fund "A", it can be seen that their investment performance from stock instruments experienced a drastic decline in SPI exceeding 100% compared to the previous year, this is the main cause of uncertainty in the value of investment returns as a result of price fluctuations. in the market. This contributes to the lower level of ROI they get, and the quality of the Pension Fund funding is still at level two, in the sense that the Employer still has to pay obligations in the form of additional contributions in 2011 and beyond according to actuarial reports[[5]](#footnote-5).

The decline in investment performance due to market risk in stock investment instruments in the Pension Fund was mitigated by implementing a cut loss policy on stocks whose market price was far below the acquisition price, continuing to carry out investment plans every two weeks, to anticipate the impact of the European debt crisis. which is expected to take a relatively long time, switching from export-based stocks to stocks oriented to domestic demand[[6]](#footnote-6), paying attention to the timing for entering/buying and exiting/selling stocks, diversifying for risk spread, and evaluating daily risk by competent workforce

Management's awareness of risk management in this Pension Fund is still lacking, because they only rely on the Investment Manager. In fact, the pension fund has carried out several processes of risk management, but they have not done it thoroughly and have not been assisted by a computer-based risk management system. The Pension Fund should carry out good control and management of these risks

Risk management is carried out to improve the performance of the organization or company in this case pension funds. Collier (2006), stated that risk management encourages improvements in organizational performance, especially in terms of risk awareness that will affect the low capital market risk profile. This study aims to explain the effect of the application of risk management on organizational performance in this case the financial performance of the Pension Fund. Financial performance will be measured by the criteria that exist in the Association of Indonesian Pension Funds, which is abbreviated as ADPI. For this study, the research was limited to the West Java-Banten area, which amounted to 28 Pension Funds in 2010[[7]](#footnote-7).

**Problem Identification and Formulation**

The phenomenon of a decrease in the level of ROI obtained by DPPK PPMP throughout Indonesia in the last few years, which is due to a decrease in the level of investment returns in several investment instruments. This also happened to several PPMP DPPKs in the West Java-Banten region. The decline in the level of investment returns in several PPMP DPPKs occurred mainly in stock and mutual fund instruments on the Indonesia Stock Exchange, which was due to investment risk, especially market risk. The decline in the level of return on investment results in the financial performance of the Pension Fund also declining, thus creating an obligation for the Employer to pay a number of additional contributions in accordance with the actuarial valuation.

Based on the identification of the problems stated above, the formulation of the problem proposed in this study is as follows: "How does risk management affect organizational performance?"

**Risk management**

Risk management can be defined as: “risk management is a rational attempt to reduce or avoid the consequences of loss or injury” (William et al., 1998). While CIMA in Collier et al. (2007) define risk management as: "The process of understanding and managing the risk that the organization is inevitability subject to trying to achieve its corporate objectives". Furthermore, the Institute of Risk Management (2002) in Collier et al. (2007) defines risk management as: "The process which organizations methodically address the risk to their activities with the goal of achieving sustained benefit within and across the portfolio of all activities"[[8]](#footnote-8).

The risk management framework for bank financial institutions generally includes four components of risk management – ​​risk identification, risk measurement, risk mitigation, and risk monitoring and reporting (Bessis, 2002). Elements of risk management according to the Institute of Risk management (2002) in Collier et al. (2007) include Risk Assessment, a process of identifying, describing and estimating; Risk Evaluation, making decisions about significant risks that must be treated depending on risk appetite; Risk Treatment, risk apetite response or treatment which is a process of selection and implementation[[9]](#footnote-9).

COSO (2004) in Collier & Ampomah (2006) and Moeller (2007) provides a risk management model that has 8 components, namely: Internal environment; Objective setting; Event identification; Risk assessment; Risk Response; Control activities; Information and Communication; Monitoring.

**Risk Management Process that can be implemented in Pension Funds**

Several stages in the risk management process that can be implemented in the Pension Fund can be explained as follows:

1. Determination of acceptable risk level (risk tolerance)

Risk tolerance is basically a level of comfort over risk. The level of comfort over risk can be expressed qualitatively, such as conservative (tend to be risk averse), aggressive (tend to accept risk), or midway between the two. Measurement of risk tolerance can be done using a questionnaire or a specially designed test.

1. Risk identification and measurement

Risk identification should be carried out periodically or in the event of a risk trigger. In this process, all areas that have the potential to cause harm are carefully identified. All identified risks are then measured. The size of the risk in the Pension Fund generally refers to two measures, namely: Probability and Impact Probability.

1. Response to risk

The results of the identification and measurement of risk are then used as the basis for determining the response to risk, whether the risk will be accepted, transferred, minimized, or avoided.

1. Monitoring and adjustment
2. Monitoring and adjustments need to be carried out continuously to assess the success of risk management. In the monitoring process, there should be an early warning mechanism for the management so that the management can take necessary actions so that the management of the Pension Fund remains in accordance with the established framework.

Risk management is a continuous process, carried out as long as pension fund management activities are carried out. It is undeniable that risk management costs money. It is important to consider costs in risk management to match the benefits obtained. Management needs to find a cost-benefit balance in risk management[[10]](#footnote-10).

**Organizational Performance**

Robertson (2002) in Mahmudi (2007) explains that performance measurement is a process of assessing work progress towards the achievement of predetermined goals and objectives. Jones (2004) states that organizations must constantly change to develop their effectiveness, the change is shown to find or develop ways to use existing resources and capabilities to increase the ability to create value and improve performance[[11]](#footnote-11).

Rue and Byars (1981) define performance as the achievement of results (degree of accomplishment). The higher the organizational performance, the higher the level of achievement of organizational goals. So an organization is said to have optimal performance, if it produces something that is profitable for the stakeholders (Hessel, 2003). Based on Law No. 11 of 1992 concerning Pension Funds, the stakeholders of the Pension Fund are the Founders, Supervisory Board, Management, and Participants[[12]](#footnote-12).

To assess the performance of the organization, indicators (criteria) are needed to measure it and adjusted to the purpose or reason for the formation of the organization. Bastian (2006), states that performance indicators are quantitative and qualitative measures that describe the level of achievement of a predetermined goal.

**Types of Pension Funds**

Based on Law No. 11 of 1992 concerning Pension Funds, Article 1 points 2,3, and 4 there are three types of Pension Funds. First, Employer Pension Fund (DPPK) is a Pension Fund established by a person or entity that employs employees, as founders, to organize a Defined Benefit Pension Program (PPMP) or defined benefit or Defined Contribution Pension Program (PPIP) or defined contribution for the benefit of some. or all of its employees as participants, and creates obligations to the employer.

PPMP is a pension program whose benefits are stipulated in the Pension Fund regulations, while PPIP is a pension program whose contributions are stipulated in the Pension Fund regulations and all contributions and the results of their development are recorded in the account of each participant as pension benefits. The DPPK that organizes PPMP receives contributions from participants and employers. Meanwhile, the DPPK that organizes PPIP may receive contributions from the employer only, from participants only or contributions from the employer and participants.

Second, the Profit-Based Pension Fund (DPBK), namely the Employer Pension Fund that organizes the Defined Contribution Pension Program, with contributions only from the employer based on a formula linked to the employer's profits. The third type of Pension Fund is the Financial Institution Pension Fund (DPLK), namely the Pension Fund established by a bank or life insurance company to organize a Defined Contribution Pension Program for individuals, both employees and independent workers, which is separate from the employer's Pension Fund for bank employees. or the life insurance company concerned (Law No. 11 of 1992)[[13]](#footnote-13).

**CONCLUSION**

Based on the problem formulation, hypothesis formulation and research results, the authors conclude that risk management has a significant effect on organizational performance at the Employer Pension Fund which organizes the Defined Benefit Pension Program throughout West Java-Banten. However, the magnitude of the effect is not high, this shows that there are other variables that affect organizational performance such as strategy, quality and manager commitment.Management's awareness of risk management in this Pension Fund is still lacking, because they only rely on the Investment Manager. In fact, the pension fund has carried out several processes of risk management, but they have not done it thoroughly and have not been assisted by a computer-based risk management system. The Pension Fund should carry out good control and management of these risksRisk management is a continuous process, carried out as long as pension fund management activities are carried out. It is undeniable that risk management costs money. It is important to consider costs in risk management to match the benefits obtained. Management needs to find a cost-benefit balance in risk management.

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