

Business Strategy, ISO 31000 and Bankruptcy Risk

Lu'lu'ul Jannah^{1*}, Ridho Muhammad Purnomosidi²

¹ Sekolah Tinggi Ilmu Ekonomi Media Nusantara Citra.
<luluul.jannah@stiemnc.ac.id>

² Sekolah Tinggi Ilmu Ekonomi Media Nusantara Citra.
<ridho.muhammad@stiemnc.ac.id>

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ABSTRACT

The purpose of this study is to examine the effect of business strategy to bankruptcy risk and the effect moderate of ISO 31000 to business strategy and bankruptcy. The sample of this study is 50 firms listed on the Indonesia Stock Exchange (IDX). the results support that business strategy has a significant effect on bankruptcy risk. Firms which implement either one of two generic business strategies of cost leadership or differentiation, sig-nificantly effect to the risk of bankruptcy. the second result is ISO 31000 has not effect moderated to business strategy and bankruptcy risk

Keywords: Business Strategy, ISO 31000, Bankruptcy Risk

1. Introduction

Every company in the business is not separable from risks. Risk can not be avoided and eliminated, but risk can be managed by Management. One of the risks faced by a company is the bankruptcy risk. The bankruptcy risk is a "hot topic" in the business management and accounting literature (Lukason, 2019). This risk is a risk for company that can not fulfill its obligations, can not carry out its operations, company need legal action to reset its debt or liquidates to assets (Bryan, 2013)

A business strategy is one way that companies can survive in a competitive environment so that the bankruptcy risk can be minimized. Business strategies makes the company more productive and profitable, reducing the bankruptcy risk in the future (Bryan, 2013). Business strategies can be divided into two, there are cost leadership strategy and differentiation strategy. Companies can implement one of two business strategy. The cost leadership strategy is a strategy chosen by the company by means of cost efficiency and asset savings. Southwest Airlines is one company that uses a cost leadership strategy because the company minimizes its operating cost (Chishty, 2017). The differentiation strategy is a strategy that can be carried out by a company by producing uniqueness in its business. For example, Garuda Indonesia, which was rated as a 5-star Indonesian Airline according to a review by Skytrax in 2018. This company focusses on the segmentation of middle to upper class passengers to develop brand loyalty by offering in-

flight entertainment and priority passenger program (MP, 2016).

In addition to the business strategies that can be implemented by the company. Companies need a mechanism for managing risk. Risk management is Management's way of managing, measuring, assessing and mitigating emerging risks. Basically, risk management is used to integrate and coordinate all types of corporate risk (Obalola, 2014). Companies that implement risk management can reduce the possibility of bankruptcy (Bohnert, 2019). The latest standard in risk management is the International Standard for Risk Management ISO 31000: 2018. This standard is an updated standard from ISO 31000: 2009. Several aspects in this standard are changed and adapted to the latest conditions. Researchers use the latest measurements in measuring company risk management so that it is hoped that the results of this study can have a positive impact on the business environment.

Based on the explanation above, the researcher wants to research the research entitled "Business Strategy, ISO 31000 and Bankruptcy Risk". This research is important to do, because there is no research linking these three topics and this topic is an important topic that must be understood by business people.

2. Literature Review

Bankruptcy Risk

Bankruptcy risk is a series of sequential events starting with a company experiencing a decrease in cash flow to negative cash flow, then reducing dividend payments, followed by filing for bankruptcy. The proxy for bankruptcy risk used in this study was the Altman-Z score. Altman Z-score is a measuring tool that can be used to see the possibility of bankruptcy experienced by a company by combining profitability, leverage, liquidity, solvency, and activity (Wu, 2015). The reason the Altman-Z score was chosen as a proxy is because it has been shown to be one of the most powerful bankruptcy prediction models, which have been used in various studies.

Business Strategy

Business strategy is a way for a company to compete, pursue, achieve, and maintain its competitive advantage in the industrial sector (Chen and Keung, 2019). Business strategy focuses on cost leadership and differentiation strategies (Wu, 2015). The cost leadership strategy focuses on cost efficiency and asset savings. This strategy emphasizes the lowest cost in the industry at a certain quality level. The proxy for the cost leadership business strategy used in this study is the Asset Turnover of Operations (ATO). ATO is a critical measurement of cost leadership, the higher the ratio between output and input, the better the company uses its resources to achieve operational excellence (Wu, 2015). The differentiation strategy focuses on creating value and producing uniqueness in the business. These uniqueness can be unique to products, services and marketing. So that the company hopes to be the only company that has this uniqueness and controls market share. The profit margin is used as a proxy to measure the differentiation strategy (Wu, 2015). The strategy chosen and implemented by the company is expected to reduce the bankruptcy risk. Companies that have the right business strategy will be able to be competitive and dominate the market

H1 The cost leadership strategy has a significant effect on the bankruptcy risk

H2 The differentiation strategy has a significant effect on the bankruptcy risk

ISO 31000: 2018

Risk management is a process that involves the board of directors, management and company members, which is implemented in strategic settings throughout the company. One of the

standards in carrying out risk management is ISO 31000: 2018. The International Standards Organization published ISO 31000: 2018 Risk Management - Guidelines. ISO 31000 is a risk application guide that consists of three elements: principles, frameworks and processes. The principles of risk management are the basis of the practice or philosophy of risk management. The framework is the structured and systematic arrangement of risk management systems throughout the organization. Processes are sequential and interrelated risk management activities (ISO, 2018). The objectives of ISO 31000 are to improve performance, encourage innovation and support the achievement of targets or goals. ISO 31000 can be used by companies in managing, assessing and mitigating risks that arise so that risks can be minimized. implementation of risk management requires commitment from the leadership of the company and the involvement of all parts of the company. Proxy for measuring ISO 31000: 2018 by means of a content checklist related to ISO 31000

H3 ISO 31000 moderates the effect of cost leadership strategy on the bankruptcy risk

H4 ISO 31000 moderates the effect of differentiation strategy on the bankruptcy risk

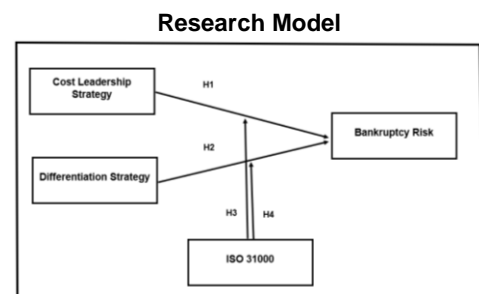


Figure 1. Research Model

3. Research Method

The population in this study are all companies listed on the Indonesian Stock Exchange (IDX) (IDX, 2019). The sampling technique used purposive side that is based on certain criteria. The criteria for determining the sample are non-financial companies listed on the IDX in 2019 and these companies use ISO 311000: 2018 based risk management. Total sample in the study is 50 firms. The data source used in this study is secondary data. This research is a quantitative research. The dependent variable in this study is the bankruptcy risk. The independent variables in this study are the cost leadership strategy and differentiation strategy. The moderating variable in this study is ISO 31000: 2018. The analytical method used in this study follows the structural

equation modeling (SEM) pattern. Data analysis tools using STATA (Statistics and Data). Data analysis using SEM was carried out to thoroughly explain the relationship between the variables in the study.

The models used in testing business strategy, ISO 31000 and Bankruptcy Risk are as follows:

Model 1:

$$BR = \alpha + \beta_1 CL + e$$

Model 2:

$$BR = \alpha + \beta_1 DF + e$$

Model 3:

$$BR = \alpha + \beta_1 CL + \beta_2 ISO + \beta_3 CL * ISO + e$$

Model 4:

$$BR = \alpha + \beta_1 DF + \beta_2 ISO + \beta_3 DF * ISO + e$$

Explanation

- BR : Bankruptcy Risk
- CL : Cost Leadership Strategy
- DF : Differentiation Strategy
- ISO : ISO 31000
- CL*ISO : Interaction between Cost Leadership Strategy and ISO 31000
- DF*ISO : Interaction between Differentiation Strategy and ISO 31000

4. Result and Discussion

Descriptive Statistics

Descriptive statistics are used to see an overview of the data used. The table below shows the descriptive statistics of the variables used in this study.

Table 1. Descriptive Statistics

Variable	Mean	Median	SD	Min	Max
BR	2.123	1,536	2.893	-5.613	17.010
CL	12.749	13.002	1.941	0	14.289
DF	0.052	0.086	0.382	-2.425	0.512
ISO	0.373	0.346	0.251	0.076	1

CL: Cost Leadership Strategy, DF: Differentiation Strategy, ISO: ISO 31000: 2018

Result of Model Analysis

Table 2 below shows the results of hypothesis testing.

Table 2. Hypothesis Testing Results

Variable	Model 1	Model 2	Model 3	Model 4
	Prob	Prob	Prob	Prob
CL	0.000***		0.139	
DF		0.003***		0.094
ISO			0.781	0.268
CL*ISO			0.861	
DF*ISO				0.545
Observation	50	50	50	50
R-squared	0.6139	0.1656	0.6255	0.2028
Prob	0.000	0.003	0.000	0.014

***Significance at 1%, **Significance at 5%, *Significance at 10%.

Explanation:

CL: Cost Leadership Strategy, DF: Differentiation Strategy, ISO: ISO 31000: 2018, CL*ISO: Interaction between Cost Leadership Strategy and ISO 31000, DF*ISO: Interaction between Differentiation Strategy and ISO 31000

Discussion

Cost leadership Strategy and Bankruptcy Risk

From the results of hypothesis testing, hypothesis 1 is supported. The results of hypothesis testing show that the probability of 0.000 is smaller than the 1% significance. This shows that the cost leadership strategy affects the bankruptcy risk. This study supports the research of Agustia, (2020). Companies that implement a cost leadership strategy focus on cost efficiency and asset savings. This strategy emphasizes the lowest cost in the industry at a certain quality level. The higher the ratio between output and input, the better the company uses its resources to achieve operational excellence (Wu, 2015). Companies that implement a cost leadership strategy can mitigate the risk of bankruptcy through cost savings. Companies have a competitive advantage from their competitors.

Differentiation Strategy and Bankruptcy Risk

From the results of hypothesis testing, hypothesis 2 is supported. The results of hypothesis testing show a probability of 0.003 smaller than the 1% significance. This shows that the differentiation strategy affects the bankruptcy risk. This study supports the research of Agustia (2020). Companies that implement a differentiation strategy focus on creating value and generating uniqueness in their business. This uniqueness can be in the form of uniqueness in products, services and marketing. So that the company hopes to be the only company that has this uniqueness and controls market share. Companies that implement a differentiation strategy can mitigate the risk of bankruptcy

through the company's uniqueness. Companies have a competitive advantage from their competitors.

Cost leadership Strategy, Bankruptcy Risk, and ISO 31000

From the results of hypothesis testing, hypothesis 3 is not supported. The results of hypothesis testing show that the probability of 0.861 is greater than the 1% significance. This shows that ISO 31000 does not moderate the effect of the cost leadership strategy on the bankruptcy risk. Implementation and risk management carried out by the company can still be carried out by the company's management. But the risk of bankruptcy can still threaten the condition of the company.

Differentiation Strategy, Bankruptcy Risk, and ISO 31000

From the results of hypothesis testing, hypothesis 4 is not supported. The results of hypothesis testing show that the probability of 0.545 is greater than the 1% significance. This shows that ISO 31000 does not moderate the effect of differentiation strategies on the bankruptcy risk. Implementation and risk management carried out by the company can still be carried out by the company's management. But the risk of bankruptcy can still threaten the condition of the company.

Conclusion

This study examines whether business strategy has a effect to bankruptcy risk, and whether ISO 31000 variable strengthens or weakens that effect. Based on the results of data regression analysis on 50 companies in Indonesia in 2019, the results support that business strategy has a significant effect on bankruptcy risk and ISO 31000 has not effect moderated to business strategy and bankruptcy risk. This study has limitations, the companies that disclosure risk and manage risk by ISO 31000 is 50 firms. This study suggests the company must manage the risks with risk of standard. This study also suggests the companies make strategy for face a competitive enviroment. The next research can develop this model by other variables in this study.

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