

29th World Congress International Project Management Association (IPMA) 2015, IPMA WC
2015, 28-30 September – 1 October 2015, Westin Playa Bonita, Panama

Offering a framework for evaluating the performance of project risk management system

Amir-Hossein Khameneh^a, Alireza Taheri^{*a}, Mahmood Ershadi^a

^aMAPNA Group, Tehran, Iran

Abstract

Risk management is the key function of project-based organizations, and its ultimate objective is to create value for the corporation. In recent years, many project-based organizations have implemented project risk management systems to measure and manage all complex risks of their projects. Previous studies in project risk management were limited to designing and implementing risk management systems. Some research has been conducted about evaluating the performance of enterprise risk management systems and disaster risk management systems. But there is a research gap in evaluating the performance of project risk management system. The purpose of this research is to fill the gap by conducting an in-depth research in identifying the key performance indicators of project risk management system and offering a framework for evaluating the performance of this system. The research methodology is based on literature review and case study in a project based organization. The validity of the framework was evaluated by interviewing risk management experts and revising and incorporating their ideas. This study offers advances on the performance evaluation of a project risk management system and provides a strong theoretical basis for future researches in this field of study.

© 2016 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the organizing committee of IPMA WC 2015.

Keywords: project risk; management; performance management; performance indicator

* Corresponding author. Tel.: +98 21 23154568; fax: +98 21 22925028.
E-mail address: taheri_a@mapnagroup.com

1. Introduction

The roles and contributions of risk management within organizations have evolved and grown over the years. Because of challenges that impact supply chains, assets, earnings and operations, more enterprises have recognized the importance and value of firm wide risk management, and risk managers have both fueled and responded to the rising expectations. Increased expectations generally bring new challenges. Because organizations are increasing their overall expectations of the risk management function, it's important that a framework for measuring the performance of risk management is explicitly defined, agreed upon, and measured.

Regarding the speed of changes associated with the external environment and the processes of the organization, many risks and unforeseen issues arise that may threaten the business of the organization. Risk is inherent to functions of a business and can affect them to a large extent (Acharyya, 2008). The Casualty Actuarial Society defines enterprise risk as the combination of hazard, financial, operational and strategic risks, But the Committee of Sponsoring Organizations of the Tread way Commission's (COSO) definition includes four risk categories (strategic, operations, reporting and compliance). These definitions suggest that ERM essentially needs an integrated view across all risk types and all segments (Acharyya, 2008). The risk management system is considered as an efficient tool to manage all risk categories in an integrated fashion (Cooper et al, 2005). A risk management system can be an effective management response to a dynamic business environment and acceleration of technological development. This system measures and manages all risks of the business systematically irrespective of types and nature. The main objective of the risk management system is to make the personnel plan and carry out their tasks in terms of risks and the consequences to manage the risks and uncertainties appropriately. One important aspect of the performance of the risk management system is the effective and efficient mitigation of risks. Because the inappropriate risk response process waste time and organizational resources and the targets on risk mitigation will also become meaningless (Basova & Mitselsky, 2011). According to AIRMIC¹ very few organizations manage all categories of risk in an integrated fashion, RM Software used by many organizations but many also use spreadsheets, risk policies influence consistency but as a rule have little direct influence on amount of risk accepted and there is scope for improving the quality of risk identification, even in some of those organizations that are best at risk management (John Knott, 2009).

On the whole, the risk management system should provide a basis for the effective and efficient management of risks. In this regard, it is obvious the successful performance of the risk management system is crucial for its value to the organization (Basova & Mitselsky, 2011). The risk management system creates value at both enterprise-wide and business-unit levels. At the enterprise-wide level, this system creates value by enabling senior management to quantify and manage the risks affecting the entire organization and other resources necessary to implement its strategy and business plan (Nocco, 2006). The execution of the risk management system requires the introduction of value based management, and provide a basis for the organization to prioritize decisions based on their impact on corporate value (Young, 2000).

It is clear that the type of performance measures required for this system should directly be related to organizations' strategic goals. Moreover, the outcomes of the risk management system should provide information in determining corporate objectives and corporate strategies. Since the risk management system is a management system, its performance should provide feedback for the cognitive and behavioral learning processes of the firm in addition to delivering tangible value (Feurer, 1995). Basically, a performance measurement framework for risk management system seems inadequate since it ignores critical aspects of organizational strategic goals (Acharyya, 2008).

In project-based organizations which face with very dynamic business environments, establishment of a proper risk management system is of crucial significance. In this regard, an appropriate performance assessment framework is needed. However, due to the lack of research in this field, this important subject has been unclear for both the academics and executives. Therefore, the objective of this study is to propose a conceptual framework of measuring the performance of project risk management system through a field study.

¹ Association of Insurance & Risk Managers

Download English Version:

<https://daneshyari.com/en/article/1107473>

Download Persian Version:

<https://daneshyari.com/article/1107473>

[Daneshyari.com](https://daneshyari.com)