



Project managers and risk management: A comparative study between Japanese and Korean firms



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ARTICLE INFO

Article history:

Received 31 May 2012

Accepted 12 July 2013

Available online 20 July 2013

Keywords:

Project managers

Risk management

Risk managers

Korean firms

Japanese firms

ABSTRACT

In the course of managing businesses, executives constantly face challenging circumstances. For instance, the market reality does not necessarily reflect the intent of a company's management. Disruptive business events may occur that are quite contrary to what the senior management expected. Firms that are ill prepared to deal with risk pay a stiff price. The intensely competitive global business reality calls for aggressive and integrative enterprise-wide risk management. Risk management is a critical strategic and operational priority. It is crucial for firms to define effective risk management practices in the context of volatile competitive landscapes with rapidly changing customer expectations.

This article compares the complex risk management practices of Japanese and Korean firms. Specifically, we examine the following questions: (1) How do firms manage overall organizational-level risks as well as project-level risks in the areas of product planning and process design? (2) Are there differences between how Japanese and Korean firms effectively manage risk (e.g. Do they use risk managers or risk management departments or not?), and if so, what are their impacts on management?

We find that Korean companies grant their project managers significant authority in risk management in contrast to their Japanese counterparts. We also find that Korean firms adopt a flexible approach to risk management, while Japanese firms adopt a systematic approach, suggesting that Japanese companies tend to focus on the 'prevention' of product-related accidents, while Korean companies tend to focus on the 'response' to such accidents.

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1. Introduction

In the course of managing businesses, executives constantly face challenging circumstances. For instance, the market reality does not necessarily reflect the intent of a company's management. Disruptive business events may occur that are quite contrary to what the senior management expected. The Toyota vehicle recalls in 2009–2011, which involved more than 8,540,000 defective vehicles, is one such example (Hong et al., 2012; Shimizu et al., 2013). Another example is the 2011 Tōhoku earthquake and tsunami in Japan, which significantly disrupted supply chains throughout the country. Firms that are ill prepared to deal with such risks pay a stiff price (Tang, 2006; Park and Hong, 2012). The intensely competitive global business reality calls for aggressive and integrative enterprise-wide

risk management. Risk management is a critical strategic and operational priority. It is crucial for firms to define effective risk management practices in the context of volatile competitive landscapes with rapidly changing customer expectations.

Based on a previous study on Japanese firms, this article compares the complex risk management practices of Japanese and Korean firms. The specific research questions of the article are as follows: (1) How do firms manage their overall organizational-level risks as well as project-level risks in the areas of product planning and process design? (2) Are there differences between how Japanese and Korean firms effectively manage risk (e.g. Do they use risk managers and/or risk management departments or not?), and if so, what are their impacts on management?

This study reports the differences between the risk management practices of Japanese and Korean firms. The study contributes to the academic literature and provides implications for practitioners by identifying and examining key aspects of risk management practices through a research model and statistical analysis.

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2. Literature review

2.1. Japanese and Korean business contexts

Both Japan and Korea have achieved global business successes in a relatively short period. Key Japanese firms have attained global prominence since the 1960s, while several Korean firms have demonstrated their global market presence since the 1990s (Lee and Lim, 2001; Hobday et al., 2004; Eom and Lee, 2010; Shimizutani and Todo, 2008). In examining the complementary and competitive natures of Japanese and Korean global firms, many studies compare these firms in terms of their industrial policies, technological capabilities, and corporate strategies (Sakakibara and Cho, 2002; Archibugi and Coco, 2005; Park and Hong, 2012). They found that while Japanese and Korean firms are quite similar in their global business strategies, the nature and scope of their business practices show enormous differences (Song et al., 2011).

Furthermore, some of these studies indicate that the differences between Japanese and Korean firms may be mainly attributed to differences in organizational capabilities, especially those regarding project and process management. For example, Fujimoto et al. (2006), in a case study on the steel industries in Japan and Korea, illustrate that Japanese steel producers have accumulated organizational capabilities matching the requirements of integral processing architecture. On the other hand, a Korean steelmaker, POSCO, has focused on relatively general-purpose products with more modular processing architecture, since the brand-new facilities it introduced improved its technological capabilities regarding elemental technologies within a relatively short term. These show that differences in process architecture and path of accumulating organizational capabilities influenced the different positions of the companies in the East Asian region.

Japan, which mainly concentrates on coordination-oriented organizational capabilities owing to its historical trajectory in the late 20th century, tends to export coordination-intensive goods or products with integral architecture (Fujimoto, 2008; see also Clark and Fujimoto, 1991). On the other hand, Korea's export capabilities mainly concentrate on capital-intensive modular architecture goods produced by large firms. The most distinctive feature of the postwar Korean economy is the emergence of a small number of large conglomerates, called *chaebols* (e.g. Hyundai and Samsung), which are similar to the *zaibatsus* in Japan before WWII (both the terms—*chaebol* and *zaibatsu*—share the same Chinese characters) (Amsden and Hikino, 1994). Korean *chaebols* are defined as diversified, family-owned business groups (Cho, 1990; Song and Cho, 1998). They are also described as highly state-protected creations of a government committed to expansion (Amsden, 1997; Mathews, 1998; Ahn, 2001). With the control of the banking sector, the Korean government reigned over the direction of capital flows in various industries (Cho, 1990; Amsden, 1995). Through loans, long-term investment credits, tax concessions, and other fiscal incentives, *chaebols* were able to enter new markets and a wide array of industries (Cho, 1990; Amsden, 1995; Kim, 1997; Mathews, 1998, 2002; Mathews and Cho, 2000; Choe and Pattnaik, 2007). For instance, Samsung, LG, Hyundai, and Daewoo were involved in the consumer electronics, semiconductors, shipbuilding, construction, trading services, and automotive industries.

Each *chaebol* is controlled by its founder-owner and family. Because of the strong top-down control by the founder-owners, Korean *chaebols* tend to excel in quick decision-making and invest in capital-intensive processes (Cho et al., 1998). Thus, large Korean firms tend to have advantages in standard capital-intensive goods such as general-purpose steel, dynamic random-access memory (DRAM) chips, and liquid crystal displays (LCDs) (Cho et al., 1998; Park and Hong, 2012).

In a closed integral architecture, product development patterns still use analog elements. In contrast, an open modular architecture has a very short product life cycle, and speed is quite critical in product development. Korean firms develop organizational and decision-making processes that fit open modular and speed-based products and processes (Park et al., 2010).

In summary, one of the differences between Japanese and Korean firms are their project and process management capabilities, which lead to differences in product architectures and competitive advantages. Based on these differences, we also expect differences in their risk management at the project level, since risk management at this level is strongly related to the management of projects and processes.

2.2. Project manager and risk management

Risks are involved in every business, and most project management issues arise from uncertainties associated with risks (Subramanyan et al., 2012). Recently, risks in projects have become larger in terms of number and impact, requiring stakeholders of a firm to have well-developed risk management to protect themselves against financial or legal consequences (Fang and Marle, 2012). According to the ISO/IEC Guide 51:1999 (ISO and IEC, 1999), risk is defined as a 'combination of the probability of occurrence of harm and the severity of that harm' (Section 3.2). In the context of project management, risk can be defined as something that may happen, and if it does, may have either a positive or a negative impact on the project. It has become increasingly important to manage project risks effectively and efficiently in accordance with the increasing problems in managing projects.

Risk management involves organizational preventive activities, responsive activities associated with actual product accidents, and system improvement activities after product accidents (Mitroff, 2001). As such, risk management at the project level emphasizes the importance of organizational process and the role of project managers (Kleindorfer and Saad, 2005; Tang, 2006; Ahmed et al., 2007; Dillon and Tinsley, 2008; Keizer and Halman, 2007, 2009; Eckhause et al., 2009; Geraldi et al., 2010; Liu et al., 2010; Kutsch and Hall, 2010; Kwan and Leung, 2011; Jani, 2011; Steffey and Anantatmula, 2011; Fang and Marle, 2012; Fu et al., 2012; Subramanyan et al., 2012; Krane et al., 2012; Salmeron and Lopez, 2012; Wang and Yang, 2012; Shimizu et al., 2012, 2013).

There have been several studies on risk management in projects (Kutsch and Hall, 2010; Jani, 2011; Steffey and Anantatmula, 2011; Fang and Marle, 2012; Fu et al., 2012; Subramanyan et al., 2012; Krane et al., 2012; Salmeron and Lopez, 2012). For example, Fang and Marle (2012) and Jani (2011) implemented a computer simulation to analyze project risk management. In particular, Jani (2011) implemented an experiment using the scenario of a failing IT project to investigate the influence of individual self-efficacy and project risk factors on the perception of risk. The results of the experiment suggest that project managers are likely to underestimate the risks of a project with endogenous risk factors compared to a project with exogenous risk factors, and that a 'self-efficacy bias' exists where project managers with higher self-efficacy may underestimate the risks of a troubled IT project compared to project managers with lower self-efficacy.

To determine the existence of barriers to optimal project risk management such as the disregard of risk-by-risk actors, Kutsch and Hall (2010) performed a qualitative study of IT project managers, investigating their reasons for disregarding certain known risks. The results of their study suggest that coping with 'irrelevance' requires defense mechanisms, effective management of relevance, and setting and sticking to priorities.

With regard to innovation projects, Keizer and Halman (2009) investigated which risks characterize radical innovation projects.

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