ORIGINAL ARTICLES

Risk Project Alignment to Strategic Objective Business at Contractor Industry in Indonesia

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ABSTRACT

Contractors’ industrial project risk management competencies in Indonesia are still classified in lower levels. It is proven from many projects’ failure due to some causal factors, such as among other the inappropriate project risk management. The consequence of this failure influences the aim intended to be achieved by the company. To reduce such risk, it is required the alignment of project risk management with business objective strategy. This research is aiming to determine the influencing indicators towards project risks, business objective strategies, and alignment. The business entity analysis approach applies the statistical description method, while alignment applies the scoring method. Project risks identification is conducted through questionnaire of contractor industrial stakeholders of 200 respondents. From the survey results there are 13 variables influencing project management risks. The said variables are applied as the risk matrix to be aligned with business objective strategies. Alignment method is conducted by scoring of each variable reviewed from the influencing score of each variable towards the objective strategy. Scoring is provided by 1 (one) for the non-influencing variable, by 3 (three) for fairly influencing variable, and by 9 (nine) for significantly influencing variable. Alignment results tested to several companies at some projects represent that the highest risk factors according to their rank are the risks on procurement control, financial and inflation risks. The applicable strategies are to perform joint operation, joint venture, and governmental inflation policy.

Key words: Project management, project risks, objective strategies, alignment.

Introduction

It is undeniable that project organization management becomes the company’s trend and also requirements to achieve good performance. The fluctuation of business performances are reflected by the fluctuation of resources management satisfaction in the whole project performed, including project risk management. However, satisfaction of a project is frequently less providing optimal contribution towards organization’s business performance. It is frequently occurred that project satisfaction is only for short term character, while not supporting the long term business performance. This matter occurs since the initial failure of risk management and of priority scale determination. There are three main obstructing subjects for so long in performing project risk management, namely (1) whether or not the organization has chosen the right project strategy in its risk management; (2) whether or not the organization has performed the accurate implementation of project risk management; and (3) how to align project risks with business objective strategy.

The accurate selection of strategy and risk management is the securing key of investment. Precise terminology should be construed in the definition that project risks must anticipate the company’s strategy, comprising the external factors (market demand, competitive factors, etc.), and the internal factors 5M (man, money, method, material, machine) availability and ability, etc.). Organization’s strategy becomes the main reference in calculating resources management including its risks. Good strategies are those having long term character, measurable, and realistic: concerning the external and the internal balance. The most important thing to be concerned is that strategy should be adjusted to the ability and capability rank of the internal resources, so as to avoid the over-or underestimated-target determination. In addition, precise strategic selection is not everything, if its implementation does not meet the5M (man, money, method, material, and machine) resources application, including any future possible risks. Correct conceptual implementation and project management methodology are the dominant factors besides competency factor of the project manager in understanding the knowledge of project management, and of advanced project management tools and software.

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A project is aiming to appoint and coordinate any non-addressable activities in an organization’s operational limits, and is frequently applied as any efforts to achieve one organization’s strategy planning (Project Management Institute, 2004). “Project management” is illustrated as a management supporting the decision making of an organization competitive strategy to obtain the intended results, such as: vast market growth, high quality and cheap products, when one of the key business processes empowering the company to implement the scoring system (Milosevic and Srivannaboon, 2006). The project itself is defined as a complex, non-routine business as limited by time, budgeting, and resources, and also performance specification designed to meet customers’ need. As in many businesses, the main purpose of a project is customers’ satisfaction. Characteristic of a project assists in differentiating the project from various other businesses carried out by the organization. The main characteristics of a project are as follows:

1. Having target.
2. Having time interval, initial and final project.
3. Involving some expertise areas.
4. Performing any non-performed job previously.
5. Having specific time, costs, and performance requirements.

In its implementation, project’s uniqueness is defined in a life cycle project. Due to its uniqueness, while involving so many expertise areas, project management therefore involves several knowledge scopes, namely; project integration, scope, schedule, costs, quality, resources, communication, procurement, risks, environment, and conflict.

The term of “project strategy” is focused on “project’s perspective, direction, and instruction to carry out, and how to perform, to achieve the highest competitive benefit and the best project results’” (Shenhar, 2002). The most important infrastructures, and few resources in leading project management evolution from one methodology, based on the limitation of budgeting and scheduling for one key business process play the role in establishing strategy (Andersen, et al., 2007; Anderson and Merna, 2003; Dietrich and Lehtonen, 2005; Graham and Longman, 2006; Jugdev, 2006; Kenny, 2003; Longman and Mullins, 2004; Milosevic and Srivannaboon, 2006; Patton and white, 2002; Shenhar, 2002; Srivannaboon, 2006).

Currently, risk management refers to the most concerned matter. (Gray, 2007), states that managing potential and possibly, unpredictable issues as of project implementation refers to an important matter to be concerned. Risk management is conducted by minimizing the impact prior to the implementation of the project. (Ling, 2009), state the elements that capable of minimizing the risks as must be inherited in a project, such as among others:

- Ability to control natural disaster (force majeure) risk
- Ability to control policies and law risk
- Ability to control political risks dealing
- Ability to control financial risk
- Ability to control taxation different risk
- Ability to control resources procurement risk
- Ability to control inflation risk
- Ability to control cultural risk
- Ability to control employment and management issues risk
- Ability to control technology developmental risk
- Ability to control structural failure risk
- Ability to control corruption risk
- Ability to control local job relations risk

(Luftman, 2003) illustrated the term of “alignment” as an integrated, meaningful creativity of both external and internal environment, to encourage the ability of human resources, business process, structure of organization, technology, capability, and industrial direction to change the format of ownership characteristic at interactive competition. Further, “alignment” is a consequence of processes; alignment, practices, and human developmental relations mutually related with the aim, values, capability, and culture. The said criterion shall enhance strategic development, as finally may change the condition.

The developed strategy alignment models, such as among others: (Heerkens Model, 2007): Strategic alignment at project, project portfolio management, management program coordination, and project’s business result. Combining financial, and non-financial (customers’ satisfaction, innovation, etc.) elements, project’s priority, organization portfolio, and decision making by the manager towards portfolio. Strategic resources based overview (Resource based value, (RBV)) assesses competitive benefit in the context of the unique organization internal power (Pettigrew, et al., 2002; Wessels Model, 2007): alignment at investment service, management resources, alignment between short, moderate-, and long-term strategic organization; and combining between strategic planning and management with the project. (Naughton, 2006) describes strategic
management project as project management of important meaning to entirely empower organization up to its achievement of competitive benefit.

Method:

The applied method to respond the influencing factors of project risks with objective strategic business is through questioner distribution. The questioner is addressed to companies, projects, and other parties involved in project management. The questioned companies are those of contractor services possessing large classification in Surabaya area and its vicinity. Respondents are classified in their method to determine the applied objective strategy of the company and of different projects. The company’s strategy is the objective strategy as becoming each of companies’ aim. The research track is completely illustrated in the following Figure 1.

Fig. 1: Project risks alignment design with business objective strategy.

Determining Steps in Business Objective Strategy:

Steps in determining business objective strategy refer to a secondary data possessed by each of the companies. The reason of this objective strategy application is due to each company has different business objective strategies and ratio for a project operation. The said strategies will be configured to the project risks’ elements. This configuration is observed from its influencing rank between business objective strategy of the company towards project risks’ element. The samples applied to those projects applying different objective strategy management are further ranked based on the largest contribution score.

Alignment Steps:

Alignment is performed in scoring of each relation influencing score between project risks with business objective strategy. Relational scoring is described in the following Table 1.

Table1: Relational Scoring (Source: Cohen 1995).

<table>
<thead>
<tr>
<th>Code</th>
<th>Score</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>☑</td>
<td>1</td>
<td>Not influencing</td>
</tr>
<tr>
<td>☡</td>
<td>3</td>
<td>Fairly influencing</td>
</tr>
<tr>
<td>☢</td>
<td>9</td>
<td>Significantly influencing</td>
</tr>
</tbody>
</table>
Results and Discussion

As previously described, alignment process applies the scoring method. Alignment is established from two matrices, namely risk element matrix and business objective strategy matrix. Relation scoring of each matrix is calculated based on the score of:

Weight x relational score.

Weight score is obtained from the result of average score of interest level divided with total number of average score of the interest value. Alignment result may be entirely observed in the following Table 2.

Table 2: Project risks relation with business objective strategy.

<table>
<thead>
<tr>
<th>Business objective strategy</th>
<th>Interest Level</th>
<th>Aver age</th>
<th>Weig ht</th>
<th>RSK1</th>
<th>RSK2</th>
<th>RSK3</th>
<th>RSK4</th>
<th>RSK6</th>
<th>RSK7</th>
<th>RSK8</th>
<th>RSK113</th>
<th>SOB contribution</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouraging company’s growth</td>
<td>4</td>
<td>3.913</td>
<td>0.170</td>
<td>0.737</td>
<td>1.53</td>
<td>1.53</td>
<td>1.53</td>
<td>3.1</td>
<td>0.51</td>
<td>0.51</td>
<td>0.51</td>
<td>9.8813</td>
<td>1</td>
</tr>
<tr>
<td>Strengthening Balance Sheet</td>
<td>4</td>
<td>3.732</td>
<td>0.162</td>
<td>0.499</td>
<td>0.16</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>9.4242</td>
<td>3</td>
</tr>
<tr>
<td>Expanding net working</td>
<td>4</td>
<td>3.646</td>
<td>0.158</td>
<td>0.74</td>
<td>1.42</td>
<td>1.42</td>
<td>1.42</td>
<td>0.47</td>
<td>0.47</td>
<td>0.47</td>
<td>0.15</td>
<td>5.7147</td>
<td>6</td>
</tr>
<tr>
<td>Decreasing non conformance product</td>
<td>4</td>
<td>3.732</td>
<td>0.162</td>
<td>0.499</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
<td>9.7492</td>
<td>2</td>
</tr>
<tr>
<td>Applying K3L system</td>
<td>3</td>
<td>3.732</td>
<td>0.162</td>
<td>0.499</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>7.7994</td>
<td>4</td>
</tr>
<tr>
<td>Developing Employees’ competency</td>
<td>4</td>
<td>4.213</td>
<td>0.183</td>
<td>0.43</td>
<td>0.18</td>
<td>0.18</td>
<td>0.18</td>
<td>0.18</td>
<td>0.55</td>
<td>0.55</td>
<td>0.55</td>
<td>7.3372</td>
<td>5</td>
</tr>
<tr>
<td>Contribution</td>
<td></td>
<td>22.96</td>
<td>1.87</td>
<td>5.60</td>
<td>1.99</td>
<td>7.89</td>
<td>4.30</td>
<td>8.04</td>
<td>5.65</td>
<td>5.07</td>
<td>4.10</td>
<td>2.35</td>
<td>49.900431</td>
</tr>
<tr>
<td>Ranking</td>
<td></td>
<td>6</td>
<td>4</td>
<td>10</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Alignment result between risk element and business objective strategy provides different contribution. Based on the highest score ranking, the largest contribution of risk element influencing business objective strategy are procurement risk, project resources, financial project, and inflation risk. Contribution analysis results of project risks relation with objective strategies are illustrated in the following Figure 2.

Fig. 2: Contribution of project risks alignment results with business objective strategy.

Where:
- Rsk 1 = Ability to control natural disaster (force majeure) risk
- Rsk 2 = Ability to control policies and law risks
- Rsk 3 = Ability to encounter political risk
● Rsk 4 = Ability to control financial risk
● Rsk 5 = Ability to control tax different risk
● Rsk 6 = Ability to control resources procurement risk
● Rsk 7 = Ability to control inflation risk
● Rsk 8 = Ability to control cultural risk
● Rsk 9 = Ability to control employment and management issues risk
● Rsk 13= Ability to control local work relation risk

The biggest contributions of project risks are project procurement management, and project finance, as the internal factors, whereas project external factor is the existence of inflation influence. The said risks have high influencing score weight towards the company’s strategic aims. The said company’s strategic aims, among other are the increase of the company's growth, the non conformance product decrease, and the balance sheet strengthening. The applicable risk management strategy is conducted through the implementation of joint operation, joint venture, and inflation policy determination of the local government.

Conclusion:

The alignment of project risks with business objective strategy is not only caused by the strategic aim, but also influenced by the applied variable unit as the measurement, integrity, conformity, system, and culture. The result obtained represents that up to this day, the priority is the financial issues, since it will influence all project activities.

In order to provide maximum alignment result, it is still required the more complex variable units, and the more case studies. This is intended to allow the alignment illustration to be satisfactorily interpretable and applicable to the entire projects’ elements.

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