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EFFECT OF PROJECT RISK MANAGEMENT PRACTICES ON PROJECT PERFORMANCE IN CEMENT MANUFACTURING FIRMS IN KENYA

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ABSTRACT

The main objective of this study was to establish the effect of project risk management practices on project performance in cement manufacturing firms in Kenya. The study adopted purposive sampling. The study used primary data which was collected using structured questionnaires which was pre-tested before being administered. The respondents were the Chief Operations Officer (COO), Chief Finance Officer (CFO), Project Manager (PM) and the Business Development Officer. The population was 162 and the sample was 62 officers from the cement manufacturing companies in Kenya. The study achieved a response rate of 71% which was deemed fit. Reliability and validity of the research instrument was conducted. For reliability, the questionnaire was found to a reliable tool for the study and it had the internal consistency required. On validity, Kaiser-Meyer-Olkin measure of sampling adequacy was found to acceptable. On the other side, the Bartlett's test of Sphericity was within range. The study concluded that there are project risk management practices which affect project performance of cement manufacturing companies in Kenya which are project risk avoidance, project risk retention, project risk transfer and project risk control. The relationship between the dependent and independent variables of the study was significant. There are also other factors that affect project performance as the project management practices constituted only 19.6%. The study recommended that there is need to find the 80.4% of the factors which affect project performance but were not shown in this model. This will determine all the factors conclusively

KEYWORDS

project performance, project risk management practices, cement manufacturing firms.

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1.0 INTRODUCTION

Project risk management has a prominent position in the framework of project management theory and methodology. Project risk management is a continuous process needing an integral risk management system in all the phases that the construction project passes through, which is accomplished by developing a framework for process-driven risk management. Risk taking, gambling and the desire to manage risks (that is, to insure against them, avoid them, or take advantage of them) have existed in human society for millennia.

Project risks may be defined as undesired events that can range from delay, excessive expenditures, and unsatisfactory project results for the organization, society, or environment (Longnecker & Pringle, 2013). According to Project Management Institute's (PMI) Project Management Body of Knowledge a project risk is an event or uncertain condition that, if it occurs, produces positive or negative effects on at least one aspect of the project, such as cost, scope, quality, and so on. Project management includes the processes concerned with conducting project risk management planning, identification, analysis, responses, monitoring and control on a project (PMI, 2015).

Achieving project performance forms the basis to adoption and implementation of effective project risk management strategies. Project risk management strategy is embedded to organizational internal control and audit, a condition necessary for effective project risk management measures in the project (Krugmann. 2013). This hence influences the enterprise management focus on project control and technological control which supports project requirements and governance to attain the success in project performance. Project risk management strategies essentially influences the success of project performance. This is so because effective project risk management strategies and successful project performance has an intimate relationship.

2.0 LITERATURE REVIEW

2.1 OVERVIEW OF THE CEMENT INDUSTRY IN KENYA

There are six (6) cement manufacturing firms in Kenya namely; Bamburi Cement, Athi River Mining Cement, East African Portland Cement, Mombasa Cement, National Cement and Savannah Cement Limited. Bamburi Cement Company derives tremendous advantages from being part of the Lafarge group, including access to cutting edge technologies for cement manufacture, management and technical support. The second largest player in the industry is Athi River Mining Limited, which is separated into two distinct divisions; AthiRiver Mining Cement Ltd which concentrates on cement, lime and related products and AthiRiver Mining Minerals and Chemicals for the manufacture and sale of minerals and specialty building and related products. East African Portland Cement Company Ltd is the third largest cement manufacturer which concentrates on cement only. It is effectively government controlled through a direct government stake and indirectly through National Social Security Fund.

In pursuit of efficiency and effectiveness, the cement manufacturing firms outsourcing various non-core activities which include, transport services, staff recruitment services, provision of stationaries, security services among others This has made the cement firms to concentrate on the core business of cement production to meet the ever rising demand in the construction industry locally and regionally.

The Kenyan cement industry has seen the entry of four new foreign investors who have established cement plants in the country in the recent past. One of this is Mombasa Cement which is a subsidiary of Tororo Cement Company in Uganda and is producing with the help of Taiheiyo Cement Corporation, the largest cement producer in Japan. This foreign based company is equipped with advanced technology which enables it to produce more efficiently hence offering lower prices Several challenges confront the cement industry which include high cost of electricity due to high tariffs as well as inadequate power supply, costly imported coal, small capacities for clinker and cement production, lobbying for the introduction of concrete roads in Kenya that will require plenty of cement and inadequate support from the government on policy issues The industry is also confronted by poor quality of power due to interruptions/outages leading to inefficiencies in production systems and breakdowns and high cost of transport caused by dilapidated roads.

2.2 RISK MANAGEMENT AND PROJECT PERFORMANCE

There is growing recognition that different types of projects require different approaches to their management, requiring management procedures tailored to the needs of the project and project managers selected with appropriate competencies (Carvalho & Junior, 2013). With today's dynamic change and increase in competition, it is not enough for enterprises to have a good project plan or have a good monitoring and control systems in achieving project success but they should focus on constituting effective project risk management strategies including project risk avoidance, project risk reduction, project risk transfer and project risk retention strategy to contribute to the success of the project. Studies on project risk management strategies on project performance has indicated that effective project risk management strategies improve project performance by enhancing productivity.

Project risk management strategies must be carried out throughout the life cycle of the project, from initiation stage until the decommissioning of the project. Failure to manage the project risks throughout the life cycle of projects will lead to poor project performance. The use of effective risk management strategies for instance is increasing and has been the center of focus recently in order to achieve project performance and also have emphasize on contractual obligations (Hong and Pavlou, 2014). Low implementation of project risk management strategies in practice causes the projects failure such as meeting deadlines, cost targets and quality performance. However, it is still inconclusive as to what extent does the risk management strategies improve performance of projects in Kenya thus the need to determine the effects of risk management strategies on project performance in cement manufacturing firms Kenya.

Achieving project performance forms the basis to adoption and implementation of effective project risk management strategies. Project risk management strategy is embedded to organizational internal control and audit, a condition necessary for effective project risk management measures in the project. This hence influences the enterprise management focus on project control and technological control which supports project requirements and governance to attain the success in project performance. Project risk management strategies essentially influences the success of project performance (Hong & Pavlou, 2014).

3.0 IMPORTANCE OF STUDY

Cement manufacturing firms in Kenya are going through changing times and are experiencing fundamental changes and other environmental dynamics which are having huge impacts on how they are managed, governed and their performance. These companies are now having to not only keep abreast of these emerging local and global issues, but more importantly how to adapt to achieve growth in better performance in managing their project risks. In line with this situation, the companies have been grappling with ideas and efforts on how to remain relevant and competitive in the turbulent and competitive cement manufacturing industry. The findings of the study may be useful to policy makers by informing them on the project risk management factors and by applying the findings and recommendations so as to improve the performance of this industry. To practitioners, the findings may be useful in identifying the project risk management factors affecting their performance. Project management policy makers would benefit from understanding the effective project risk management relationships that exist between different stakeholders in the industry. To scholars, the results would contribute to the existing knowledge on project risk management as a key component in the project management process cycle. It would also assist in providing sources of information for further research.

4.0 STATEMENT OF THE PROBLEM

Uncertainties can be seen as the center of project management concerns. In this respect, the entire project risk management should focus on administering uncertainties, since risk is always associated with threats (or opportunities) of uncertain events to the projects. Despite the importance of the Cement manufacturing sector to the economy, it is beset by a number of challenges that require introspection and understanding of the inherent risks management practices. In recent years, poor performance of construction projects has provoked an increased interest into the nature and mechanism of risk management and analysis. Projects have a very poor reputation for coping with the adverse effects of change, with many projects failing to meet deadlines and cost and quality targets. The Risk Management Practices and Performance of Construction Projects in Nairobi City County Government, Kenya were studied and it was found out that the risk management practices; legal risk management, construction risk and contract risk management had an inverse relationship with the construction project performance while design risk management had a positive one (Ngugi & Mwangi, 2018). Although a number of scholars have explored project risk management in projects, as yet, there does not appear to be any study that has considered the influence of Project Risk Management on the success of projects in Kenya.

5.0 OBJECTIVES

Studies have shown that risk management practices that affect performance of projects are; legal risk management, construction risk and contract risk management. These studies sought to establish the effect of risk management practices on the performance of construction projects. This study however sought to determine the effect of project risk management practices on project performance of cement manufacturing firms in Kenya. The independent variables were; project risk avoidance, project risk retention, project risk transfer and project risk retention.

6.0 HYPOTHESES

Project risk management practices have been found to affect the performance of projects. However, there was no study on record that investigated the relationship of the said variables for the cement manufacturing firms in Kenya. It was therefore necessary to conduct this study to determine the effect of project risk management practices on project performance of cement manufacturing firms in Kenya.

7.0 METHODOLOGY

This study adopted a cross sectional survey research design. A cross section survey allows the researcher to collect a wide range of information without interfering the environment (i.e. nothing is manipulated) thus it enables a researcher obtain large amounts of data from a sizeable population in a highly effective, easy and in an economical way using questionnaires. In addition, the study used both qualitative and quantitative analysis methods. The study purposely concentrated on the cement manufacturing firms in Kenya because it was expected the players would have the relevant and accurate information required to address the topical issue for the study. There 6 cement manufacturing firms in Kenya operating both as public and private entities The population of the study comprised of the Chief Operations Officers (COO), Chief Finance Officers (CFO), Project Managers (PM) and the Business Development Officers in the 6 Cement firms who were 162. Slovin's formula was used to get the sample for the study which was 62 respondents.

This study used primary data. According to Kothari (2012) primary data is original information collected for the first time. As this study is clearly of a non-experimental nature, the focus was on methods of data collection. The researcher used questionnaires which had both closed ended questions and also open ended questions where the respondents were required to explain briefly. The reason for using a questionnaire is that the opinions of respondents can be obtained in both unstructured and structured manner. The questionnaires were self-administered to all 62 sampled respondents in the cement manufacturing firms in Kenya. Multiple regression analysis was used to measure the effects of multiple independent variables (project risk management practices) on one dependent variable (performance of cement manufacturing firms).

8.0 RESULTS AND DISCUSSION

8.1 RELATIONSHIP BETWEEN PROJECT RISK MANAGEMENT PRACTICES AND PERFORMANCE OF CEMENT MANUFACTURING FIRMS

The dependent variable (project performance) was regressed against the independent variables (risk control, risk retention, risk transfer and risk avoidance).The model summary for the study variables was as here below. The following tables show the findings.

TABLE 8.1: CO-EFFICIENT OF THE MODEL

Model	Unstandardized Coefficients	Standardized Coefficients		t	Sig.
	B	Std. Error	Beta		
(Constant)	5.250	.754		6.965	.000
Risk Avoidance(x_1)	.026	.099	.049	.259	.797
Risk Retention(x_2)	-.187	.170	-.207	-1.102	.277
Risk Transfer(x_3)	-.195	.089	-.317	-2.202	.034
Risk Control(x_4)	.159	.091	.252	1.742	.089

From the Table 8.1, the Regression Model is given below:

$$\text{Project Performance} = 5.250 + 0.026X_1 - 0.187X_2 - 0.195X_3 + 0.159X_4$$

From this model it can be deduced that risk avoidance and risk control related positively with project performance whilst risk retention and risk transfer related negatively with project performance. The Y intercept (project performance) 5.250 is the predicted value of the intensity of project performance when all the other variables are 0, implying that without inputs of independent variables the intensity project performance in the cement manufacturing companies in Kenya would be 5.520. The other coefficients tell about the relationship between independent and the dependent variable. When project risk avoidance increases by one unit project performance increases by 0.026. When project risk retention increases by one-unit project performance decreases by 0.187 units. When project risk transfer increases by one unit, project performance decreases by 0.195 and finally when project risk control increases by one unit, project performance increases by 0.159 units.

8.2 TESTS OF SIGNIFICANCE

TABLE 8.2: MODEL SUMMARY FOR PROJECT PERFORMANCE AND PROJECT RISK MANAGEMENT PRACTICES

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.442[a]	.196	.113	.2681264	1.732
a. Predictors: (Constant), Risk Control, Risk Retention, Risk Transfer, Risk Avoidance					
b. Dependent Variable: Project Performance					

The value of R (0.442) indicates a positive but weak relationship between project performance and project risk management practices. Table 8.2 indicates that predictor variables only influenced 19.6 % of variations in project performance as indicated by the R square statistic 0.196. The R-square value can be interpreted to mean that 12% of the variability in project performance can be explained by the project risk management variables. Overall, this means that project risk management practices do not explain very much of the project performance, given that 80.4% of the variability is unaccounted for. In other words, the variable project performance is better explained by the combination of different unobserved variables.

From Table 8.1 testing the significance of the coefficients, reveals coefficients of the variables are insignificant since the values 0.797, 0.277, 0.089 are all greater than 0.05 representing risk avoidance, risk retention and risk control respectively. However, risk transfer has a value of 0.034 which is significant since it's less than 0.05.

8.3 AUTOCORRELATION

Autocorrelation was tested using Durbin-Watson value. From table 8.2, the value of Durbin- Watson was 1.732 hence there was no existence of autocorrelation since the value was far below the threshold for autocorrelation of 7.

9.0 FINDINGS

The relationship between project risk avoidance was positive with a value of 0.026 and insignificant with a p-value of 0.797 on the significance of coefficients column. Increase in risk avoidance leads to decrease in project performance. The relationship between project risk retention was negative with a value of -0.187 and insignificant with a p-value of 0.277. Increase in risk retention leads to decrease in project performance.

The relationship between project risk transfer and project performance was negative at -0.195 and significant with a p-value of 0.034 on the significance of coefficients column. Increase in risk transfer leads to decrease in project performance. The relationship between project risk control and project performance was positive at 0.159 and insignificant with a p-value of 0.089. Increase in risk control leads to an increase in project performance. The study can attest to the fact that there are project risk management practices which affects project performance of cement manufacturing companies in Kenya which are project risk avoidance, project risk retention, project risk transfer and project risk control.

The study found that in the model, project risk management practices (project risk avoidance, project risk retention, project risk transfer and project risk control) influenced 19.6% of variations in project performance as depicted by the R square statistic of 0.196 (refer to table 8.2). The bulk of the variation (in project performance) being accounted for by residuals/ other exogenous factors (80.4%). The study, however, found project risk management practices to be insignificantly related to project performance.

10.0 RECOMMENDATIONS

The study recommends policy makers in the cement manufacturing industry to take note of the findings of this study. The project management practices affect project performance although the effect is insignificant. All aspects of the findings should be factored in, in policy manufacturing.

Due to the findings of the study, that increase in risk avoidance leads to decrease in project performance. The study recommends that project managers embrace risky projects as it is anticipated that they would yield better returns and thence project performance. The project managers therefore are recommended not to avoid risk.

On retention of risk, the study found out that increase in risk retention led to decrease in project performance. Project managers and the management in general are therefore recommended to do a proper risk analysis to be able to retain the risk that will not thwart the performance of the projects. Risks that cover on costs and project schedule should not be retained.

The study also found out that increase in risk transfer leads to decrease in project performance. This indicates that the project managers transferred the wrong risk types. The study recommends that after a proper risk analysis is done. The risk types that will aid in project performance should not be transferred, but those that inhibit performance should be transferred e.g performance risk, cost risk and schedule risk

Increase in project risk control was found to lead to an increase in project performance. The study therefore recommends that project managers and the overall management of the cement firms to continue in risk control as it would increase project performance. To policy makers the findings should also aid in policy formulation.

11.0 CONCLUSIONS

The study found out that, cement manufacturing companies practice project risk management in their undertakings which influences the performance of their respective companies. This cuts across all the cement manufacturing firms.

The study found out that there is a relationship between project risk management practices and project performance. This relationship was also found to be positive, weak and insignificant.

12.0 LIMITATIONS

The availability of the required data was a challenge since most respondents were reluctant to divulge sensitive information especially on the performance of projects. The study concentrated on the top management of the cement manufacturing firms.

13.0 SCOPE FOR FURTHER RESEARCH

Further research can be done by having a larger sample size. This would increase the coverage to more respondents. The study can also be replicated in other countries in Africa, especially in the East African region. Also more independent variables can be incorporated.

14.0 ACKNOWLEDGEMENT

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