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The influence of business strategy on project portfolio management and its success — A conceptual framework

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Abstract

Firms are facing more difficulties with the implementation of strategies than with its formulation. Therefore, this paper examines the linkage between business strategy, project portfolio management, and business success to close the gap between strategy formulation and implementation. Earlier research has found some supporting evidence of a positive relationship between isolated concepts, but so far there is no coherent and integral framework covering the whole cycle from strategy to success. Therefore, the existing research on project portfolio management is extended by the concept of strategic orientation. Based on a literature review, a comprehensive conceptual model considering strategic orientation, project portfolio structuring, project portfolio success, and business success is developed. This model can be used for future empirical research on the influence of strategy on project portfolio management and its success. Furthermore, it can easily be extended e.g. by contextual factors.

Keywords: Project portfolio management; Strategic orientation; Strategy implementation; Project portfolio success

1. Introduction

According to Mankins and Steele (2005), firms realize only 63% of their strategies' potential value and Johnson (2004) reports that 66% of corporate strategy is never implemented. While strategy implementation – frequently considered as the graveyard of strategy (Grundy, 1998) – was neglected, the main emphasis in strategy research has been on the formulation side of strategies (Grundy, 1998; Morris and Jamieson, 2005). But as Hrebiniak (2006) states, it is more difficult to make strategy work than to make strategy. This is where project portfolio management comes into play. Shenhar et al. (2001) emphasize that projects and especially project portfolios are "powerful strategic weapons" as they can be considered as a central building block in implementing the intended strategy (Cleland, 1999; Dietrich and Lehtonen, 2005; Grundy, 2000).

Project portfolio management – defined as the simultaneous management of the whole collection of projects as one large entity – is therefore gaining more and more importance in theory and practice (Artto and Dietrich, 2004; Dietrich and Lehtonen, 2005; Patanakul and Milosevic, 2009). A project portfolio is a set of projects that share and compete for scarce resources and are carried out under the sponsorship and management of a particular organisation (Archer and Ghasemzadeh, 1999). The coordinated management of a portfolio delivers increased benefits to the organisation (Platje et al., 1994). Current literature highlights the importance of project portfolio management in evaluating, prioritizing, and selecting projects in line with strategy (e.g. Archer and Ghasemzadeh, 2004; Cooper et al., 2001; Englund and Graham, 1999). It is pre-eminent in choosing the "right projects" and therefore an important part of strategic management in organisations (Morris and Jamieson, 2005; Shenhar et al., 2001).

So far, there are a few studies exploring single aspects of the linkage between strategy, project portfolio management, and business success. Müller et al. (2008) show the positive relation between strategy conform portfolio selection and project portfolio performance. A few other studies found project prioritization as part of the portfolio management process to be a key success factor (e.g. Cooper et al., 1999; Elonen and Artto, 2003; Fricke et al., 2000). Again, other studies observed a

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positive influence of project portfolio performance on business-level results (e.g. Cooper et al., 2000, 2004a,b; Killen et al., 2008). However, there exists no study on an overall framework covering the whole cycle from strategic planning via project portfolio management to business success. Consequently, I suggest a general framework consisting of strategic orientation, project portfolio structuring, project portfolio success, and business success. Here, the object of analysis is the project portfolios with a focus on internally sponsored projects, e.g. R&D or IT projects (Archer and Ghasemzadeh, 1999). Project portfolios under external sponsorship like customer delivery projects are out of the scope of this article as their management has different characteristics and limitations.

Business strategy describes the way in which a firm decides to compete in the market compared to its competitors (Varadarajan and Clark, 1994; Walker and Ruekert, 1987). This paper builds on the strategic orientation concept originally proposed by Venkatraman (1989) to evaluate business strategy. The strategic orientation describes a firm's general posture towards corporate behaviour and performance (Talke, 2007). The concept overcomes the empirical limitations of the widely applied classificatory approaches (e.g. Miles and Snow, 1978; Porter, 1980; Wright et al., 1995) as it assesses strategy along multiple traits or dimensions general to all firms (Morgan and Strong, 2003). Project portfolio structuring is the periodical process of evaluation and selection of new project proposals and ongoing projects under strategic and other given restrictions (Archer and Ghasemzadeh, 1999). To assess project portfolio management and its effects the results have to be made measureable and have to cover a wider perspective than the isolated project (Dietrich and Lehtonen, 2005; Martinsuo and Lehtonen, 2007). Consequently, project portfolio success is evaluated based on the widely agreed multi-dimensional objectives suggested by Cooper et al. (2002). As it is no end on itself, successful project portfolio management needs to contribute to the overall business objectives. Therefore the business success is considered on the basis of the concept from Shenhar et al. (2001) regarding immediate and long-term results from project portfolio management.

Fig. 1 shows the general framework of this paper. It suggests that the effect of strategic orientation on business success is mediated by portfolio structuring and project portfolio success. At the same time, a moderating effect of strategic orientation on the relationship between project portfolio structuring and project portfolio success is suggested.

Addressing the call for more and extended research in project portfolio management to understand modern firms (e.g. Söderlund, 2004) as well as to close the gap between strategy formulation and strategy implementation (Morris and Jamieson, 2005) this paper makes two contributions to the literature. First, I apply the concept of strategic orientation to the context of project portfolio management and its success. Secondly, I develop a comprehensive conceptual model on the relationship between strategic orientation, project portfolio management, and business success.

In the following, the general framework is described in detail. Starting from right side, the relation between project portfolio success and business success is analysed in Section 2 and the conceptual model is introduced. Further, the influence of project portfolio structuring on project portfolio success is described in Section 3. In Section 4, the influence of strategic orientation on project portfolio structuring as well as the moderating effect of strategic orientation on the relationship between project-portfolio structuring and project portfolio success is explored. The paper closes with a discussion of the results and an avenue for further research.

2. Influence of project portfolio success on business success

2.1. Definition of project portfolio success

The objectives of project portfolio management suggested by Cooper et al. (2002) are well established in the project management literature (Coulon et al., 2009; Elonen and Artto, 2003; Killen et al., 2008; Martinsuo and Lehtonen, 2007). The main goals are: maximization of the financial value of the portfolio, linking the portfolio to the firm's strategy, and balancing the projects within the portfolio in consideration of the firm's capacities. The study follows this notion in the definition of the project portfolio success. However, several studies criticize that projects and their success are usually analyzed as independent objects that are isolated in their execution and evaluation (Dietrich and Lehtonen, 2005; Martinsuo and Lehtonen, 2007). Martinsuo and Lehtonen (2007) show that successful single project management is a necessary but not sufficient condition for successful project portfolio management. Hence, the first objective of Cooper et al. (2002) is divided into two separate dimensions: (1) the average single project success of the portfolio regarding the fulfilment of time, budget, quality, and customer satisfaction objectives, as well as (2) the use of synergies between projects within the portfolio, which covers the interdependences between projects. The portfolio's (3) overall fit with the firm's business strategy and (4) the portfolio's balance are the third and fourth dimensions on project portfolio success as suggested by Cooper et al. (2002).

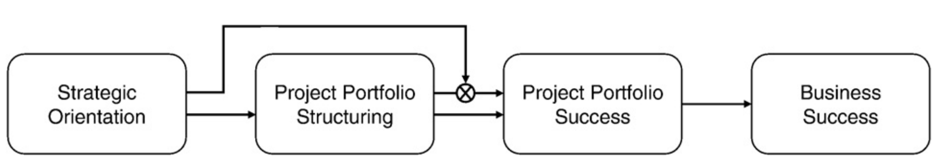

Fig. 1. General framework.