



The project-oriented organization and its contribution to innovation

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Abstract

This paper presents a new conceptualization of the project-oriented organization. The project-oriented organization is conceptualized as an entrepreneurial, future- and stakeholder-oriented innovating organization, which uses projects as temporary, task-focused organizations, to define, develop, and implement its strategies, to transform its structure, culture and behavior, and to define and develop new products, services, and business models. The concept of the project-oriented organization consists of the three segments (1) values, (2) structures, and (3) people. For each segment three important areas are described, which characterize a project-oriented organization. The model is theoretically based on a wide spectrum of management disciplines: (1) The orientations in the value segment have been developed in entrepreneurship, strategic management and technology and innovation management; (2) The foundations for the design of the socio-technical artefacts in the structure segment of derived from organizational design, planning and controlling, and ICT systems theory; (3) The foundations for the elements of the human side come from organizational behavior, human resource management, and knowledge management theories. Our model shows a clear linkage to these theories, references key articles, and gives special consideration to empirical studies in the realm of projects, programs, project portfolios, and project-based or project-oriented organizations. Thus, our assumption that the elements of our model are supposed to increase project success, innovation success, and business success is based on empirical evidence.

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1. Executive summary

In Germany's manufacturing industries, 46% of sales in 2013 were generated by commissioned external projects (Wald et al., 2015b). Personnel expenses for projects reached 41% of their sales. The same study showed: The share of work-time in a firm spent on projects correlates positively with the innovation success of a firm, and the innovation success correlates positively with the business success of a firm. However, the share of work-time does not correlate significantly with the business success. *What is*

different with innovation leaders? Why and how do innovative projects increase business success?

The model developed in this article allows a systematic analysis.

(1) Innovation leaders build better *structures and processes* for project portfolio management, which give them a higher transparency, allow them to more clearly recognize opportunities and threats, as well as the available and required resources to pursue their project options.

(2) Innovation leaders are more future-oriented and pro-active. Therefore, they lay more stress on the *front end* of their innovation pipeline and use a variety of methods to generate better and more ideas, and processes how to select the best ones. Thus, they can choose among higher valued projects with more mature and better tested business plans.

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(3) Innovation leaders are more *people-oriented*—on average they reach a higher level of maturity and professionalization in leadership, teamwork, and bespoke HRM- and knowledge management systems, which fit the needs of project management. Finally, innovation leaders are more open to voice behavior by their project managers, they recognize the opportunities for change, and take them as impulses for potential *emerging* strategic options.

(4) The *impact* of the measures to create strategic and operative clarity is higher for innovation leaders, because they respond more quickly and more consequently to the information they receive. They are more responsive to react upon unexpected risks and opportunities, and they do this more consequently.

(5) The project managers and team members are more motivated and experienced in executing highly innovative projects and in coping with more ambiguity. They embrace uncertainty as an opportunity and experience unknown solution paths as a positive challenge and use other practices, which fit to such projects. Their team members have a preference for a higher autonomy, more shared leadership and self-management, and a greater fluidity and variability of knowledge and skills.

2. Introduction

Projects and innovations are ubiquitous in our professional and private life—we live in a project society (Lundin et al., 2015) and in an innovation society (Rammert et al., 2015). For example, the share of work-time spent in projects has increased in Germany from 29.3% in 2009 to 34.7% in 2013, and it is expected to grow to 41.3% in 2019 (Wald et al., 2015a, Fig. 5, p. 31.). Projects have become a ubiquitous means of organizing work not only within industrial firms (Midler, 1995) and professional sectors—such as research, education, health care, culture, sports, politics and public administration—rather the methods of project management are also used in our private life. An implication of this trend is that we spend more time in projects and that more value is created or destroyed by projects (Schoper et al., 2016).

Wald et al. (2015b, p. 27) report an interesting finding: The share of work-time of a firm spent in projects correlates positively with the innovation success of a firm, and the innovation success correlates positively with the business success of a firm. However, the share of work-time does *not* correlate significantly with the business success. This finding shows that the relationship between project organizing, innovation and business success is not an easy one, and we need to specify which type of project-oriented organization we investigate. Obviously, some organizations use projects to develop innovations and are successful in doing this, whereas others do not use projects for this purpose, or they are not successful in doing this. For organizations of the first group we may expect that a causal chain increasing project intensity and maturity leads to higher innovation success, which in turn leads to a higher business success. *We are interested in this first group, and we want to develop an organizational model that improves our understanding of how and why project-oriented organizations contribute to a higher innovation and business success.*

Many contributions in the project management literature focus on firms, which offer complex and individualized solutions for their customers that get contracted before the development, construction and delivery starts. In these firms, projects are the form to organize their operations. They may deliver innovative products, but this is not the distinguishing characteristic of these firms. These *project-based organizations* are project-based *perforce* because of the customized nature of the demand from its customers (Turner and Keegan, 2001). On the other hand, the *project-oriented organization* is such by strategic choice, based on the organizational strategy of Management by Projects (Huemann, 2014).

Our contribution aims at the project-oriented organization, more specifically at organizations that organize their *innovation function* by means of projects, programs, and portfolios of projects. Although such firms create an increasing share of value in our economy, they have not yet been analyzed as project-oriented firms. We already have several contributions how innovative projects and portfolios of them should be organized, and which features a successfully innovating firm should possess, but we lack a coherent conceptual model. *The design of such an innovating project-oriented organization is the focus of this paper.*

The three parts of our model of the innovative project-oriented organization (*structures, people, and values*) are derived from three sources: (1) a literature review of project and innovation management, (2) an unpublished longitudinal multi-case study showing how organizations have become more project-oriented, and (3) the collective findings from seven quantitative multi-project management studies, which have revealed features of a project-oriented organization that distinguish successful and innovative ones from the rest. Together these studies have analyzed more than 1200 project portfolios in various industries and countries. Data of these multi-informant, multi-level studies was gathered from more than 3000 respondents who answered to more than 700,000 questions. The project portfolios covered more than 100,000 projects and more than 120 billion Euros budget.

3. Project-based and project-oriented organization

Several attempts have been made to conceptualize project-based organizations. We concentrate on the more influential ones, and give more weight on conceptualizations that try to explain innovation success.

The organizational model of a project-based organization designed by Hobday (2000) was based on research about *innovation of complex product systems* (Hobday, 1998). Such systems are characterized by a *singularity* of goals and outcomes (Whitley, 2006). The innovative solution is offered to a major client by a network of supplier organizations and the delivery is based on a web of coordinated contracts. According to Hobday (2000, p. 871), the *project-based organization* “is able to cope with emerging properties in production and respond flexibly to changing client needs. It is also effective at integrating different types of knowledge and skill and coping with the project risks and

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