

Impact of customer integration on project portfolio management and its success—Developing a conceptual framework

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Abstract

The growing number of company projects requires comprehensive management, project portfolio management (PPM), for strategic alignment and efficient use of resources. In parallel, companies face customers demanding higher value, and joint value creation with customers is considered a key success factor in the future. Project portfolios delivering products and services for customers implicate a link between PPM and an increased customer focus. Combining the research fields of marketing and PPM for the first time, this study proposes customer integration into PPM. I develop a framework describing the impact of customer integration into PPM on project portfolio success mediated through relationship value. Furthermore, the study describes relevant aspects for customer integration on the project portfolio level and identifies interfaces for cross-functional integration of a customer portfolio representative within the PPM process. The findings and limitations of this study are discussed, and further research is suggested. © 2012 Elsevier Ltd. APM and IPMA. All rights reserved.

Keywords: Project portfolios; Project portfolio management; Customer integration; Project portfolio success; Customer relationship management

1. Introduction

Projects are ubiquitous in today's business environment and include various objectives: develop and market new products and services, change internal processes, or implement business strategy. Project work has gained larger shares of companies' activities and budgets, and project landscapes are becoming more complex. An effective and efficient *single* project management is no longer sufficient for success, but rather a structured and proactive management of the project landscape becomes necessary to stay competitive (Elonen and Arto, 2003). The task of project *portfolio* management (PPM) is to carry out a set of projects under the sponsorship of a specific organization, whereby the projects share and compete for scarce resources (Archer and Ghasemzadeh, 1999). PPM can be considered to be a set of business practices that integrates projects with other business operations (Levine, 2005) and that includes key activities such as decision making on which pro-

jects are to be given priority, which projects are to be added to or taken out of the portfolio, and how to allocate resources (Archer and Ghasemzadeh, 2004; Dammer and Gemünden, 2006).

In parallel, companies are confronted with customers demanding value-adding activities, such as joint product development, financing, or consulting services (Homburg et al., 2002). Companies introduce concepts and processes such as customer relationship management (CRM) or key account management for a closer customer relationship and better service (Ernst et al., 2011; Frow and Payne, 2009), aiming to create value both for the customer and for the company (Boulding et al., 2005). Furthermore, customer prioritization and the management of customer portfolios have received more attention in research and practice (Homburg et al., 2008, 2009; Terho, 2009). A customer portfolio should be managed along the customers' value contributions to the relationship portfolio, not just the customers' value contributions to the firm alone (Homburg et al., 2009). However, optimization of individual portfolios does not necessarily optimize the overall business performance; an alignment between the different portfolios is needed (Tikkanen et al., 2007).

Researchers and practitioners consider customer integration a crucial success factor on the single project level. Particularly

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in new product development (NPD) projects, this factor has received much attention (Cooper et al., 2004; Thomke and von Hippel, 2002). In addition, the literature suggests the co-creation of value, i.e., the consideration of the customer in the value creation process, prioritization of customers' points of view and the enhanced identification of customer wants and needs (Lusch and Vargo, 2006; Payne et al., 2008). Despite these propositions to shift the focus to the customer, customer integration has so far not been a focus at the project portfolio level.

There is a missing link between the growing importance of PPM and the increasing focus on the customer. Implicitly, the customer is mirrored in single projects' objectives. However, the questions of whether the customer should play a role in the project portfolio setting, and if so, what kind of role the customer should play, have not yet been extensively examined. Existing PPM research focuses on processes, tasks, tools, and instruments for PPM, or defines the role of project portfolio managers (Jonas, 2010). PPM can be considered to be a hub of an intra-company system that connects projects and operations (Levine, 2005). Thus, academia must ask whether to include other company functions into PPM, and if so, which functions to include and how. A combination of relationship and project management approaches are needed (Tikkanen et al., 2007). The missing link between PPM and customer relationships calls for an investigation of whether customer integration into PPM can increase project portfolio success. This central question provokes the following subquestions: Should customers be considered in decisions on which projects to be given priority, which projects to be added or taken out of the portfolio, and how to allocate resources between the projects? Can customer integration into PPM create value for all involved parties? How can PPM as a hub be connected to the customer?

To my knowledge, this study develops the first conceptual framework to provide avenues to answer these questions. The framework links customer integration with portfolio success. I introduce relationship value as a mediator between customer integration and portfolio success. This framework enhances the rapidly developing body of knowledge in the PPM field and addresses the call for extended research in PPM to understand modern companies (Söderlund, 2004). For the first time, I combine PPM and marketing approaches to establish a cross-functional view on PPM. The study also further enhances marketing research by connecting customer relationships to PPM. The potential of customer integration has only been described for *single* projects, but not for project *portfolios*. In addition, the potential of customer relationships for value creation has only been investigated in the context of existing *product* portfolios, not *project* portfolios. Furthermore, I propose a construct to measure relationship value both for the customer and for the supplier. Finally, I identify links and interfaces between PPM and marketing by analyzing typical PPM and customer relationship management processes. In addition to theory contribution, this study serves as a foundation for future empirical research on the influence of customer integration on PPM, and it offers practitioners useful starting points to put this approach into practice.

Project portfolios can contain different types of projects, such as research and development (R&D) projects, IT projects,

organizational change projects, or infrastructure projects. This study focuses on project portfolios with relevance for external customers, such as R&D projects for specific customers or other projects, which deliver a specific offering to external customers through contractual agreements. Projects with internal customers (departments or business units) also need an orientation toward the internal customer or user, respectively (Ives and Olson, 1984; Maguire and Ojiako, 2008; Mento et al., 2002; Sirkin et al., 2005). However, these types of projects are outside of the scope of the framework presented here.

In the next section, I provide a theoretical overview of PPM and customer integration on the single project level. This section is completed by transforming customer integration into the customer portfolio on the project portfolio level. Customer relationship management is suggested as an approach to manage a portfolio of customer relationships and as a means for customer integration on the portfolio level. In the subsequent section, a conceptual framework will be developed. This framework proposes a relationship between customer integration into PPM and portfolio success mediated through relationship value. The study concludes with a discussion of the findings.

2. Project portfolio management and customer integration

2.1. Project portfolio management

PPM has gained importance in practice and has consequently received attention as a field of academic research (Arto and Dietrich, 2004; Dammer and Gemünden, 2006; Patanakul and Milosevic, 2009). Archer and Ghasemzadeh (1999) define project portfolios as a set of projects that is executed and managed under the sponsorship and management of a specific organization. A coordinated PPM represents an organization's investment strategy (Dye and Pennypacker, 1999) and delivers increased benefits to the organization beyond the results of projects managed independently by leveraging synergies (Loch and Kavadias, 2002; Platje et al., 1994; Project Management Institute, 2008). Evaluation, prioritization, and selection of projects are important in aligning the portfolio with the company's strategy (Archer and Ghasemzadeh, 2004; Cooper et al., 2001; Dammer and Gemünden, 2006; Martinsuo, 2001). Moreover, a well-selected portfolio should optimize utilized resources and should represent a balance between associated risks, size of projects, and short- and long-term goals (Archer and Ghasemzadeh, 1999; Petit and Hobbs, 2010).

Several institutions have defined standards for PPM suggesting a wide range of tasks spread over multiple phases (Association for Project Management, 2006; Gaupin, 2006; Project Management Institute, 2008). This study follows Jonas' (2010) approach to structure the managerial tasks into one PPM process with a chronological sequence of four strongly interdependent phases: portfolio structuring, resource management, portfolio steering, and value capturing. This approach offers a comprehensive view of all PPM activities and does not only focus on specific tasks (Killen et al., 2008; Martinsuo and Lehtonen, 2007). The whole process should be considered a cycle, as the portfolio is being reassessed and readjusted continuously with a cycle

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