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Impact of relationship value on project portfolio success — Investigating the moderating effects of portfolio characteristics and external turbulence

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Abstract

Companies today need project portfolio management (PPM) to cope with the increasing number of projects and use it to ensure comprehensive management, strategic alignment, and efficient use of resources. Moreover, customers are demanding more value from their suppliers. The management of a project portfolio and the corresponding customer relationship portfolio implies a link between PPM and relationship management. By combining the fields of PPM and marketing, this study hypothesizes a connection between relationship value and project portfolio success. Because both parties need to extract value from a relationship, relationship value is divided into relationship value for the customer and relationship value from the customer. The results are based on a cross-industry sample of 174 German, Swiss, and Austrian medium-sized and large companies and rely on two informants from each firm. We find a significant relationship between relationship value and project portfolio success as well as moderating effects of portfolio interdependency, portfolio size, and technological turbulence.

Keywords: Project portfolio management; Relationship value; Customer integration; Project portfolio success

1. Introduction

Today's business activities are increasingly being dominated by projects. Projects are set up to develop and market new products and services, change internal structures or processes, or implement business strategies. Project landscapes are becoming more complex. In addition to effective and efficient single project management, companies require structured and proactive management of the project landscape to stay competitive (Elonen and Artto, 2003). Project portfolio management (PPM) aims to complete a combination of projects under the sponsorship of a particular organization in which the projects share scarce resources (Archer and Ghasemzadeh, 1999; Jonas et al., 2012). It includes various activities, such as decision making on which projects are to be given priority, which projects are to be added to or abandoned from the portfolio, and how to allocate resources (Archer and Ghasemzadeh, 2004).

In addition, companies currently face customers who demand high value and value-adding activities such as joint product development, financial or consulting services (Homburg et al., 2002). Companies sharpen their customer focus by introducing concepts such as customer relationship management to generate better relationships with customers and better service (Ernst et al., 2011) to increase value both for the customer and for the company (Boulding et al., 2005). Moreover, the management of customer relationship portfolios is receiving more attention in practice and in research (Homburg et al., 2009; Terho, 2009). However, in relation to the project portfolio of a company, the optimization of individual portfolios does not essentially optimize overall business performance; hence the portfolios need to be aligned (Tikkanen et al., 2007).

The alignment between project portfolios and customer relationship portfolios has not been empirically investigated thus far. There is a missing link between the increasing

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importance of PPM and the growing importance of the customer (Voss, 2012). Customers are implicitly reflected in the objectives of single projects because their results should satisfy customer needs. The question of the role that customers should play in a project portfolio setting has not yet been examined. PPM can be understood as the hub of an intra-company system that connects projects and operations (Levine, 2005). Which other company functions should be included in PPM and how? Tikkanen et al. (2007) call for a combination of relationship management and project management approaches. How can customer relationship portfolios be linked to project portfolios? How can PPM as a hub be connected to the customer?

The present study addresses these questions by investigating the link between relationship management and PPM. The customers related to a project portfolio form a customer portfolio. We develop a measure to identify the relationship value of a project portfolio and empirically analyze whether this measure is related to project portfolio success. Interactions between marketing and PPM measures would demonstrate the connection between these two fields and emphasize its importance.

Based on literature from both the marketing and PPM domains, our study links the concept of relationship value, which includes both relationship value for the customer (Menon et al., 2005; Ulaga and Eggert, 2006) as well from the customer to the company (Lindgreen and Wynstra, 2005; Walter and Ritter, 2003), with project portfolio success (Jonas et al., 2012; Martinsuo and Lehtonen, 2007; Meskendahl, 2010). We further enhance the rapidly growing body of knowledge in the PPM field. For the first time, we combine the PPM and marketing approaches in an empirical study to investigate a cross-functional perspective on PPM. The study also further develops the marketing research by linking customer relationship portfolios to PPM. We also test interaction and moderation effects as implied by the contingency theory. Our study offers practitioners useful starting points from which to improve the link between customer portfolios and PPM. Consequently, we answer the following research questions:

1. What are the relevant aspects of relationship value?
2. Is there an empirical connection between relationship value and project portfolio success?
3. Which factors influence the strength of the relationship?

In the next section, we provide a theoretical background on PPM, the measurement of its success, the management of a customer portfolio, and the concept of relationship value. The model presented in the subsequent section hypothesizes the influence of relationship value on project portfolio success. Our empirical investigation is based on a cross-industry sample of 174 German, Swiss, and Austrian medium-sized and large firms. We interview two informants in each firm using a standardized questionnaire. After a description of the research setting and employed methods, we present our empirical results. The study concludes with a discussion of the findings and further avenues of research.

2. Theoretical background: project portfolio management and relationship value

2.1. Project portfolio management

PPM is receiving increasing attention both in practice and as a field of academic research (Hobbs, 2012; Jonas et al., 2012; Teller et al., 2012). A project portfolio is defined as a set of projects that are executed and managed under the management and sponsorship of a particular organization (Archer and Ghasemzadeh, 1999). A coordinated project portfolio reflects an organization's investment strategy (Dye and Pennypacker, 1999), adds value beyond the results of individually managed projects (Meskendahl, 2010), optimizes available resources and should represent a balance between associated risks and short- and long-term goals (Archer and Ghasemzadeh, 1999; Petit and Hobbs, 2010).

2.2. Project portfolio success

Many studies have shown that financial criteria alone are insufficient for a sustainable view of success. Scholars have developed multi-dimensional project-, portfolio-, and company-level concepts (Jonas et al., 2012; Martinsuo and Lehtonen, 2007; Meskendahl, 2010; Voss, 2012) that consider project performance during execution, future preparedness (Shenhar, 2001), alignment of the portfolio to the business strategy, portfolio balance according to the company's resources and capabilities (Cooper et al., 2002) and the use of synergies (Meskendahl, 2010). *Overall business success* incorporates market performance, reflecting the fulfillment of sales objectives and the commercial performance of project results derived from standard financial performance measures (Shenhar et al., 2001). *Average project success* reflects the fulfillment of project performance criteria, such as budget, schedule and quality (Levine, 2005), as well as customer satisfaction (Lechler and Dvir, 2010; Martinsuo and Lehtonen, 2007). *Future preparedness* reflects the preparedness of the organization and its technological infrastructure for future needs (Levine, 2005; Shenhar et al., 2001) and evaluates the long-term benefits and opportunities offered by the projects (e.g., creation of new markets, development of new/improved technologies or processes). Comprehensive management of all projects within a portfolio enables the *use of synergies* by creating additional value beyond managing the projects individually (Meskendahl, 2010). The *strategic fit* of a project portfolio represents the degree to which the project portfolio reflects the company's strategy (Unger et al., 2012). The project management literature states that *portfolio balance*, along numerous dimensions, such as associated risk, project size, balance between short-term and long-term projects (Archer and Ghasemzadeh, 1999), project type, risk level, and resource adequacy (Killen et al., 2008), maximizes the value of the portfolio (Cooper et al., 2002).