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Behavior of internal stakeholders in project portfolio management and its impact on success

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Abstract

Stakeholder behavior and stakeholder management are key success factors within project portfolio management (PPM). This empirical study of 197 project portfolios investigates the effect of the intensity of engagement (IoE) of portfolio-internal stakeholders on project portfolio success. We show that the effect of stakeholders is phase-specific and that role clarity as a measure of PPM maturity affects the nature of the relationship between the IoE of stakeholders and portfolio success. The effects of the IoE of senior managers on success are not clearly positive with regard to strategic portfolio structuring and are even negative in operative portfolio steering in established PPM systems. In immature PPM systems, line managers tend to take advantage of their position in resource management. Surprisingly, the influence of portfolio managers in portfolio steering is insignificant. Altogether, this paper shows the diverse effect of the IoE of stakeholders on portfolio success. This study enriches project research by applying stakeholder theory to the project portfolio context and offers practical guidance for further professionalizing PPM.

Keywords: Project portfolio management; Stakeholder management; Stakeholder behavior; Project portfolio success

1. Introduction

Increasingly, companies have driven the projectification of their activities, which has been reflected in substantially increasing shares of spending for project-organized ventures (Dahlgren and Söderlund, 2010; Lundin, 2011). However, the assumed advantage in the controllability of single projects comes along with a loss of transparency and thus the effectiveness of the entire collection of projects in a firm (Elonen and Artto, 2003). Therefore, companies that handle numerous projects simultaneously require a structured management approach for project portfolios, and project portfolio management (PPM) thus becomes a key competence to implement strategies and remain competitive (Dietrich and Lehtonen, 2005; Killen et al., 2008; Martinsuo and Lehtonen, 2007).

Both research and practice suggest that stakeholders with the ability to influence projects play a crucial role in the successful management of projects (Aaltonen, 2011; Assudani and Kloppenborg, 2010; Wang and Huang, 2006). Moreover, in the professional and academic management literature, a common view is that stakeholder management and performance are strongly related (Donaldson and Preston, 1995). Additionally, stakeholders and their interests may be affected by projects or project outcomes; thus, from an ethics and sustainable management perspective, they must not be ignored in project management, which is reflected in some definitions of project success (Freeman et al., 2007; Turner, 2009).

For programs of projects, which can be understood as a specific type of project portfolio (Artto and Dietrich, 2004, rephrased from OGC, 2003), the crucial relevance of stakeholders in successful management has been discussed in the literature (Lycett et al., 2004; Pellegrinelli et al., 2007). In fact, Lycett et al. (2004) view stakeholder management as the basis of effective program management. Stakeholder management as

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a discipline has been integrated into program management guidelines (e.g., Pellegrinelli, 2008; PMI, 2008b), although research on the topic remains relatively scarce.

Building on the literature on project, program, and general management, we argue that the relevance of stakeholders for success also applies to project portfolio management, which is supported by the work of several scholars (Levine, 2005; Turner, 2009). The management of an entire portfolio of projects is a distributed process (Jonas, 2010) that is often located in more than one organizational unit and thus directly or indirectly involves, affects, and is affected by several groups and individuals. Hence, not only stakeholders of single projects affect the success of a portfolio but also stakeholders of the portfolio as a whole who are either directly involved in the PPM process, can influence the success of the portfolio otherwise, or are affected by the portfolio.

Scholars in stakeholder research have developed various conceptualizations and definitions of stakeholders (for an overview, see Mitchell et al., 1997). However, the pioneer work of Freeman (1984) defined a stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (p. 46; similar wording in Freeman et al., 2010), and this definition is still widely used and forms the basis for many other definitions. Thus, drawing on stakeholder theory, we define *project portfolio stakeholders* as any group or individual in a relationship with a project portfolio, such that the group or individual can affect or is affected by the achievement of the portfolio’s objectives (similar definition for program management in PMI, 2006). Because PPM is a distributed process (Jonas, 2010), in one context related parties can be part of the management of “the organization” (in Freeman’s, 1984, hub and spoke definition) that manages (for) stakeholders. In another context, those related parties can be stakeholders. Therefore, the portfolio (and its objectives and decision making) that is represented by different players in the PPM process could be perceived as being in the middle of this hub and spoke system. Hence, our stakeholder definition includes all groups that “have a stake in” such a portfolio acknowledging that these groups may also be part of the organization that is managing (for) stakeholders (Evan and Freeman, 1988, pp. 75–76). Goodpaster (1991) has noted that Freeman’s definition (1984) implies the notion of two types of stakeholders: strategic (affecting) and moral (being affected). Further, Freeman (1984) differentiated with respect to organizational aspects between firm internal and external stakeholders.

The focus of this paper is on strategic stakeholders (i.e., those affecting project portfolios) while acknowledging that moral stakeholders can also become strategic over time (Goodpaster, 1991) and that, from a normative perspective, management actions should follow ethical guidelines and also serve moral stakeholders (Freeman et al., 2007). Further, we focus on portfolio-internal strategic stakeholders (i.e., those who are directly involved in the PPM process) because they constitute the core of PPM. As such, we expect these stakeholders to be a major source of influence with respect to project portfolio success. Thus, we define four strategic internal stakeholders of PPM: senior managers, mid-level line managers, project portfolio managers, and project managers.

The fairly new area of project portfolio management research has thus far focused on formalization. The extant literature focuses on describing what project portfolio management comprises or should comprise. Numerous scholars address the processes, tasks, and instruments of PPM (e.g., Cooper et al., 2001; Levine, 2005; PMI, 2008a; Teller et al., 2012). This rather technocratic view provides valuable and necessary yet insufficient knowledge for the successful management of project portfolios. As scholars have discussed in the strategic management domain (Freeman et al., 2007) and for program management (Lycett et al., 2004), also in PPM we must obtain a better understanding of stakeholders, their behavior, and its effect on success to be able to manage project portfolios effectively and efficiently. As a first step, this requires an assessment of stakeholder behavior and its consequences. As a second step, we must explain the choices of specific behavior by identifying the antecedents of stakeholder behavior.

Surprisingly little research addresses organizational stakeholder behavior in a strategic management or project context (Aaltonen and Kujala, 2010; Frooman, 1999; Rowley and Moldoveanu, 2003), and almost no studies specifically address the PPM context with very few exceptions that cover only single aspects of stakeholder behavior and PPM (e.g., Unger et al., 2012). Furthermore, the current stakeholder research provides only a limited number of empirical analyses. The described research deficits are consistent with the recommendation of Freeman and McVea (2001) to apply the insights of stakeholder theory to “real-world problems” rather than focusing entirely on the development of theory.

To address this deficit in stakeholder and project portfolio research, this article takes the first step in understanding stakeholder behavior by analyzing its consequences and posing the following general research question: *How does the behavior of internal stakeholders influence project portfolio success?* To reduce the complexity of our analysis, we divide the research question into three more specific questions.

Describing stakeholder behavior in greater detail with respect to PPM, the most basic question addresses the extent to which stakeholders engage themselves in PPM activities.

Q1. How does the intensity of engagement of stakeholders influence project portfolio success?

In this question and in the overall paper, the engagement of stakeholders refers to the involvement and activity of stakeholders themselves and not to the often used understanding as management actions to increase stakeholder involvement.

Project portfolio management definitions are often based on a process with several activity clusters, steps, or phases (e.g., Thiry, 2007). For example, Levine (2005) noted that the right stakeholders should be involved in the right PPM process steps. Thus, we ask:

Q2. How does stakeholders’ influence on success vary across different PPM phases?

Because PPM is a fairly new management system that involves several internal stakeholders, we expect that stakeholder