

# Dealing with legitimacy: A key challenge for Project Portfolio Management decision makers

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## Abstract

Previous research has considered combining different decision-making approaches to be critical to achieve flexibility in Project Portfolio Management (PPM). Lacking flexibility, i.e., making decisions only by rational and formal approaches, might lead to a deficient balance between different types of ideas and projects, and this may lead to innovation opportunities being missed. However, the challenges that decision makers might face in achieving that flexibility have not been investigated thoroughly. In an interview study of three industrial companies, we explored how different decision-making approaches are combined in PPM. We found that rational and formal decision-making processes are experienced as more legitimate than informal and non-rational ones. Decision makers deal with legitimacy by certain mechanisms that allow them to bypass high accepted approaches and legitimizing decisions made by low accepted ones. We discuss how these mechanisms, while contributing to achieving flexibility, might also cause a bias in decisions and destabilization in resource allocation.

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*Keywords:* Project Portfolio Management; Legitimacy; Flexibility; Decision making

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## 1. Introduction

Project Portfolio Management (PPM) aims to provide a coherent basis on which to judge the development projects that should be undertaken by an organisation (Jonas, 2010; Killen and Hunt, 2010; Tidd and Bessant, 2009). PPM can be seen as a decision-making process in which ideas for new products are evaluated and selected, development projects prioritised and resources allocated between development activities (Cooper et al., 1998). Since development projects that are run today are the products of tomorrow, PPM is considered to be central to implementing the business strategy (Meskendahl, 2010) and strongly influencing the future competitive position of companies (Cooper et al., 1998; Dawidson, 2006).

In their influential works, Cooper et al. (1998) and Wheelwright and Clark (1992,1999) stated that to implement

a business strategy companies needed to evaluate, select and commit resources to different types of development projects. This is because each type of project has a different role and provides a different competitive contribution. However, they also stated that different types of projects imply different challenges for decision making. For example, evaluating and selecting projects that aim to develop products based on new technological platforms or focusing on new markets is much more comprehensive, ambiguous and uncertain than projects that focus on improving existing products for existing markets (Wheelwright and Clark, 1992).

Accordingly, since Simon's classical contribution of "bounded rationality" (Simon, 1979), it has been widely accepted in decision-making theory that, because of cognitive limitations and the nature of the decision situations, it is not always possible for people to make decisions in a pure rational way (March, 1978; Sadler-Smith and Sparrow, 2008). It implies that, in some situations, alternative decision-making approaches that are non-rational could be considered to be appropriate (March, 1978). Thus, both studies of PPM practice and decision-making theory support the fact that, since different types of ideas and

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projects imply different challenges for decision making, PPM decision makers would benefit from combining formal and rational behaviour with other decision-making approaches in order to be able to cope with various decision situations.

However, while it has been generally accepted in PPM research that different decision situations require different decision making approaches it has not been thoroughly investigated how people in companies deal with managing simultaneously different decision-making approaches. Some authors have asserted that combining decision-making approaches that based on different logics might be difficult (Florice and Ibanescu, 2008) and it might lead to conflicts within the organisation (Bessant et al., 2011). Furthermore, it has been pointed out that more research is needed to fully understand the challenges of combining different approaches when evaluating and selecting ideas and projects (Aubry et al., 2007; Bessant et al., 2011; Florice and Ibanescu, 2008; Geraldi, 2008).

Therefore, the purpose of this paper is to explore how decision makers combine different decision-making approaches when facing different decision situations in PPM. It is aimed to investigate the process of evaluation and selection of ideas and projects from the perspective of the decision makers, focusing on how they combine formal and rational decision-making processes with alternative decision-making approaches.

This paper is based on an explorative study with interviews to people involved in the evaluation, selection and prioritization of ideas and projects. It focuses on the development of complex technological products, i.e. products that require qualified personnel in several technological areas, e.g. due to the integration of mechanical, electronic and software components. It implies that product development presents both technological and commercial challenges and requires the participation of several organisational functions such as engineering, financing, manufacturing, and marketing.

The results indicated that a crucial aspect for understanding PPM is the legitimacy of decision-making approaches, that is, the fact that different decision-making approaches encounter different levels of acceptance within an organisation. Therefore, the dynamics by which an idea or project evolves is affected by the way in which decision makers deal with the legitimacy of the decision-making approaches that they plan to put into practice. Furthermore, it is discussed how legitimacy and the way decision makers deal with it, can be seen as a key challenge for decision makers, influencing which ideas and projects are, actually, selected and further developed in companies.

First, we present a theoretical exposition from which research questions are drawn. Then, we introduce the research methodology. Further, we present the results of the empirical study and the analysis that answers the research questions. Finally, we discuss the empirical analysis in relation to previous studies, and implications for the practice of PPM are considered.

## 2. Theoretical framework and research questions

We first present a brief description of how decision making processes have been considered in PPM literature. Then we present some studies that discuss the need for flexibility in PPM

decision making. Next, the concept of legitimacy is exposed based on insights from decision theory, and institutional theory. Finally, we take our research questions from a synthesis of the theoretical exposition.

### 2.1. PPM in theory

It is generally accepted in PPM literature that it can be viewed as a dynamic decision-making process in which the list of active projects is constantly updated and revised (Martinsuo and Lehtonen, 2006). However, it is necessary to point out that different authors give different meanings to the concept of PPM, especially when it is related to the scope of processes that are supposed to be encompassed in it. In the present paper, is going to be addressed the definition of PPM suggested by Cooper et al. (1998), because it is considered to be commonly used by many authors contributing to the field (Dawidson, 2006). PPM is defined as follows: “*Project Portfolio Management is a dynamic decision process wherein a list of active development projects is constantly revised. In this process, new projects are evaluated, selected and prioritised; existing projects may be accelerated, killed or reprioritised, and resources are allocated and reallocated among the projects in the portfolio*” (Cooper et al., 1998; Dawidson, 2006).

PPM is considered to be a decision-making process with three main objectives: maximising the return on the investment made in product development, managing risk by diversifying the types of projects in the portfolio (along certain dimensions, such as probability of success, types of technology, amount of investment etc.) and assuring that the selected group of projects contributes to realizing the firm’s business strategy in terms of product lines, markets, technological platforms etc. (Archer and Ghasemzadeh, 1999; Cooper et al., 1998; Jonas, 2010; Reyck et al., 2005).

In the largely prescriptive literature of PPM, the processes, methods and tools that are suggested, are mainly based on rational decision making. (Brun et al., 2009; Christiansen and Varnes, 2008; Engwall and Jerbrant, 2003; Kester et al., 2011; Stilling Blichfeldt and Eskerod, 2008). That is, formal and hierarchical decision-making processes in which decision makers are assumed to make consistent choices that maximise the value of the firm, through systematic assessments of alternatives in comparison to predetermined criteria. Strategies are considered to be a given input of the decision-making process and resources are managed with a planning and scheduling logic. As a result, decisions are made regarding which project proposals are approved, which running processes are cancelled and which projects are prioritised. These decisions are consistently realized in a resource allocation process, in which people and other resources are distributed between projects.

### 2.2. PPM in practice

Although the rational approach is widely applied by companies that actively work with PPM (Christiansen and Varnes, 2008), empirical studies of PPM practice have reported patterns of decision making which are different from those prescribed in PPM theory. Steffens et al. (2007) found that

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