

THE CONTEXT OF INTERNATIONAL PROJECTS IN TERMS OF ORGANIZATIONAL STRATEGY AND CULTURE

2

LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- explain the concept of strategy and strategic management
- discuss the relationship between strategy and international projects
- describe program management and its relevance for international project management
- understand the concept of project portfolio management
- explain the tasks of a project management office
- discuss project management maturity models
- characterize organizational cultures conducive to effective international project management
- explain the concept 'managing by projects'.

INTRODUCTION

2.1 In Chapter 1 I have stated that international projects have to be seen as open systems embedded in an international context. The context consists of elements outside the organization and inside the organization. In this chapter, the focus is on the institutional context of international projects inside the organization, focusing on corporate strategy and organizational culture.

We know that international projects are steadily gaining importance with organizations worldwide. However, this does not mean that organizations are satisfied with the results of projects. There are many prominent examples of international projects that have failed, such as the merger between German Daimler-Benz and US-American Chrysler in 1998 that ended in the sale of Chrysler to the private equity investor Cerberus in 2007. Whether the Iraq war can be regarded as a successful international project is highly disputed even within the political party of the government responsible for it. The British company Royal Dutch Shell saw a cost leap from 10 to 20 billion US\$ in its project of developing liquefied gas facilities on the Siberian island Sakhalin (Stanleigh, 2006). Many more organizations active in the exploitation of raw materials face similar difficulties in their international projects.

The root cause of this dissatisfying situation goes beyond a single project. To understand why projects fail, we have to look at them from a broader organizational perspective. A faulty strategy of the organization is usually a fundamental reason for many projects not obtaining successful results.

Even if a single project is managed efficiently, it still can have inadequate objectives which will not contribute to overall business success as reflected in the organization's strategic intent. To make sure that the initiation of projects is done in line with the overarching strategy of an organization, projects need to be co-ordinated and managed as one large entity.

This is what we will discuss in this chapter. Based on an introduction into strategic management, we will look at methods to co-ordinate single projects, namely program management and project portfolio management. We will draw on the similarities between these approaches, and work on the differences compared to project management. We will also look at the organization of programs and project portfolios with special emphasis on the project management office.

To ensure that projects sustainably contribute to organizational success, the organization has to develop skills regarding project, program, and project portfolio management. Based on the discussion of project management maturity models, you will see the link between strategy and skills as I have explained it at the end of Chapter 1 in Figure 1.8. Projects, programs, and project portfolios pursue strategic objectives. They are implemented in the context of the organization which not only has a strategy but also a culture to support its vision. Therefore, we will discuss at the end of this chapter which kind of organizational culture is conducive to the successful management of international projects. We will wrapup this chapter on organizational context with a look into a managerial approach called 'managing by projects'. It focuses on projects as the main organizational form. In other words, such an organization's strategy, culture

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and structure are solely implemented by projects. With the discussion of project-based organizations, we close the loop from strategy to projects.

STRATEGY AND STRATEGIC MANAGEMENT

2.2 Over the last 40 years the views on the focus of strategy have evolved. In the 1960s, strategy mainly meant corporate planning with figures based on the past. In the 1970s it changed to the optimization of the overall portfolio of strategic business units within a given organization. In the 1980s, Michael Porter drew attention to the nature of the industry. In other words, the external strategic positioning based on industry and competitors' analysis became an important element of strategy creation. This view was followed in the early 1990s by the shift to the internal resources of an organization. Stress was put on the analysis and development of so-called strategic competences or strategic capabilities (Ghemawat, 2006). Today the focus is more on strategic innovation. Organizations aim at obtaining competitive advantage through superior knowledge management and the development of an effective learning organization (see also Chapter 11).

Whatever was the focus of strategy over the last four decades, Chandler's definition of strategy is used until today: 'Strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals' (Moore, 2001: 33). The strategy usually is reflected in an organization's mission or vision (see also the companion website).

The term strategic management is defined by Digman as a '*continuous* process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible. It clearly includes adapting the organization itself (via internal changes) to fit the external environment' (Moore, 2001: 204). In contrast to strategy itself, strategic management is even more complex and mainly concerned with the understanding of the strategic position of an organization, the strategic choices for the future, continuous change and fine-tuning of strategy, and strategy implementation.

For the purposes of this book, a model of strategic management which is based on Kaplan and Norton's (1996) four phases of strategic management will be used, as depicted in Figure 2.1. Please note that the terms 'process' and 'cycle' will be used interchangeably in this chapter, as the processes discussed are iterative forming a series of cycles.

Let me briefly explain the strategic management cycle (Kaplan/Norton 1996):

Phase 1: The senior executives formulate the vision and mission of the organization. They all need to have a clear understanding of the critical performance drivers which can be allocated to four major areas: finance, external customer, internal business processes, and learning and growth (related to the capabilities of the employees).

Phase 2: In the communicating and high-level aligning phase, the upper-level managers need to buy into the vision, and transform it into goals of their respective organizational entities. The vision along with high-level objectives needs to be communicated through the rank and file of the organization using the whole range of communication modes (see also Chapter 9). In parallel, all employees should try to link their individual

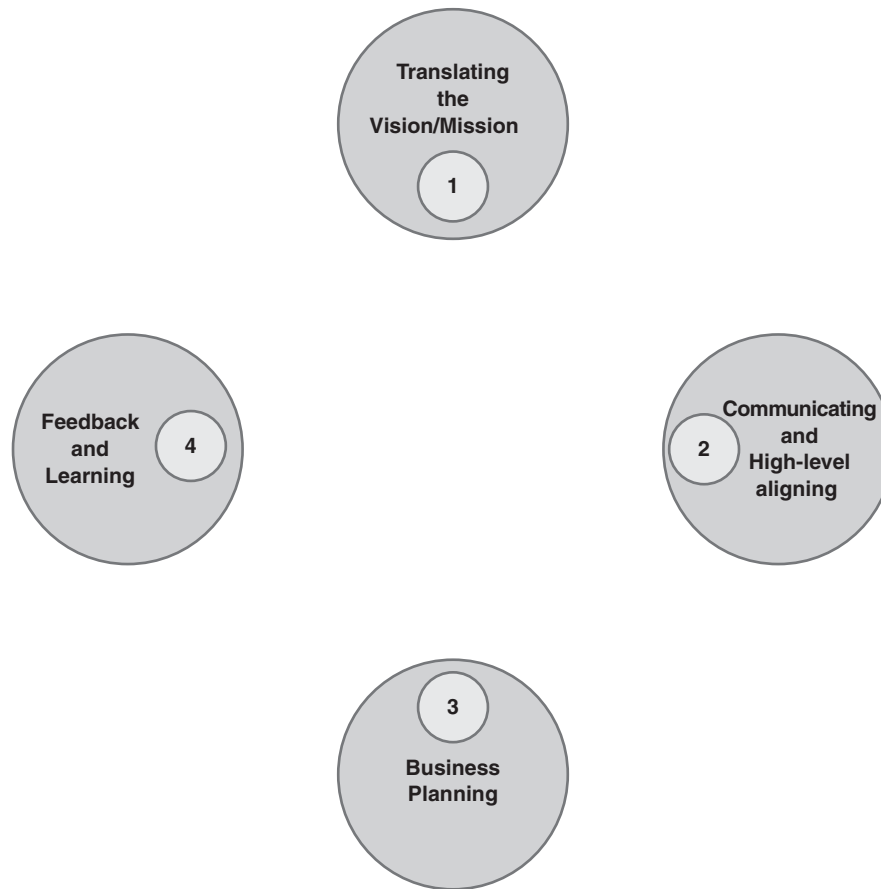


FIGURE 2.1 The strategic management cycle

Source: Based on Kaplan/Norton (1996)

goals to the objectives of the organizational unit they belong to, and formulate those goals in a way that makes them measurable.

Phase 3: In the so-called business planning phase the set of objectives is broken down into concrete activities which could be (international) projects. The same organizational group that formulated and disseminated the vision now also is involved in resource allocation to make sure that the organization's activities will reflect its overall strategy. Measures are decided to monitor the implementation of the activities.

Phase 4: This phase is dedicated to feedback and learning. It provides the organization with an opportunity to verify its strategies, which might be obsolete after 12 months in a fast changing and unpredictable world. Correlations between different elements of the strategies can be observed and used to improve the formulation of the vision based on the selection of a certain set of strategies. By conducting periodic performance reviews, the senior executives learn about their strategies and can improve them.

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The whole process of strategic management revolves around a tool to monitor and balance different business objectives, the Balanced Score Card (BSC) which will be further discussed in Chapter 7.

THE RELATION BETWEEN STRATEGIC MANAGEMENT AND PROJECTS

2.3 'Projects are ad hoc, resource-consuming activities used to implement organizational strategies, achieve enterprise goals and objectives, and contribute to the realization of the enterprise's mission' (Cleland and Ireland, 2002: 10) How can an organization ensure that projects indeed contribute to the realization of its vision and mission, and not to its failure?

A crucial prerequisite is the co-ordination between strategy creation and project approval. According to Christensen (2000), many organizations operate their processes to formulate strategies autonomously from their processes in which projects are approved and resources are allocated. In other words, the strategic management cycle as depicted in Figure 2.2 needs to incorporate projects as part of the business planning as well as the feedback and learning processes. In the business planning phase, the top management allocates resources to corporate activities, largely projects, or eliminates certain projects which are not in line with the overall strategy of the company, thus synchronizing the process of resource allocation with the strategy formulation process. An organization needs to allow for senior executives to be involved in both processes running simultaneously.

Snapshot 2.1 illustrates how international projects are linked with the corporate strategy.

SNAPSHOT 2.1

McDonald's

The US-based fast food chain McDonald's has adopted an aggressive growth strategy in Europe. In order to implement this strategy, it will invest up to 800 million US\$ in the year 2007 into projects in Europe. The idea is to adapt its products and restaurants in Europe to local habits and customs. Hence, McDonald's has established development teams to create local dishes and to work on a more European restaurant design. These international projects are targeted at increasing the attractiveness and acceptance of the brand with European customers. New soups and coffee specialties have been launched. Chairs in a classical Danish design have been introduced. Other projects like the alliance with a Germany-based organic soft drink producer have been initiated. All these projects should help the company to achieve its growth targets.

Source: Dengel (2007a); Dengel (2007b)

To facilitate the alignment of the strategic management process with the resource allocation process, projects should be clustered according to pre-defined criteria. These clusters can be called programs (see also Chapter 1) or project portfolios.

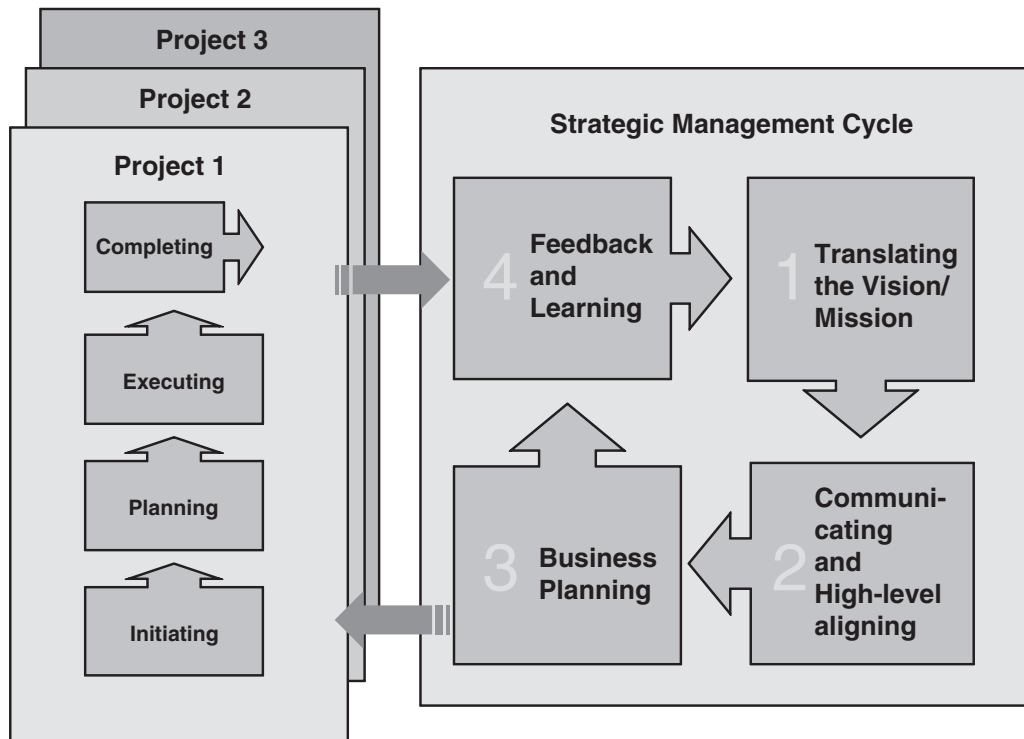


FIGURE 2.2 Extended strategic management cycle

Source: (Adapted from Norton and Kaplan, 1996)

PROGRAM MANAGEMENT

2.4 Let us first clarify how a program is defined. According to Gareis (2006a: 7–3) ‘a program is a temporary organization to fulfil a unique business process of large scope. It is of great strategic importance for the company performing the program, and it is limited in time. The projects that are part of the program serve to realize common program objectives.’ The program is not limited to projects, though. It can also include non-project actions (Thiry, 2004).

Projects in a program are interdependent. They share the same objectives and scarce resources. They typically have a common infrastructure and share a certain set of risks. The program’s objective, though, can be more vague and wider than the rather specific objectives of a single project.

Programs have the following advantages:

- ensuring strategic alignment through interdependency of objectives
- reducing the complexity of ‘large projects’, by clearly breaking them down into smaller, easy-to-control projects, contributes to clearer responsibilities,

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minimizes risks, and boosts morale and motivation. It also improves the quality of the results.

Programs are essentially managed in the same way as projects (see also Chapter 1). As is true for complex international projects with a long duration, program objectives might need to be adapted over time. The whole direction and parts of the content of a program might need adjustments because of environmental changes. Thiry (2004) refers to this change requirement as a learning loop. It is also a part of the general strategic management process as depicted in Figure 2.1 in phase four.

THE PROGRAM MANAGEMENT LIFE CYCLE

Both, overall strategic management and program management are cyclic processes. The program management life cycle consists of five phases (Thiry, 2004) and strongly resembles the project management life cycle:

- 1 Formulation:** The objective of the program is defined. The main purpose of this stage is to identify opportunities and to decide on the most efficient course of action. This phase is equivalent to the initiating phase of the project life cycle.
- 2 Organization:** The different projects within a program are selected and prioritized. The project teams and structures are set up. Procedures are installed to enable the management of interdependencies and interrelationships of projects in the program. This phase coincides with the planning phase of the project management life cycle.
- 3 Deployment:** It involves the initiation of the different projects (and non-project actions if required). The projects are monitored and controlled in terms of benefit delivery. Necessary changes are made, including the realignment and reprioritization of the projects. This phase is comparable to the implementation and monitoring phase of the project management life cycle.
- 4 Appraisal:** This stage is mainly related to an assessment at program level. It looks at critical success criteria and measures the performance of the program with regard to its impact on the organization. This task is subsumed under the third phase of the project management life cycle.
- 5 Dissolution:** When the rationale of the program ceases to exist, the program is stopped and all resources get allocated to other activities. At the end of the program, feedback sessions are carried out. Due to the bigger scope and scale of the program, this phase is longer than a completion phase of a project which would be the equivalent in the project management life cycle.

Figure 2.3 provides you with an overview of the program management cycle.

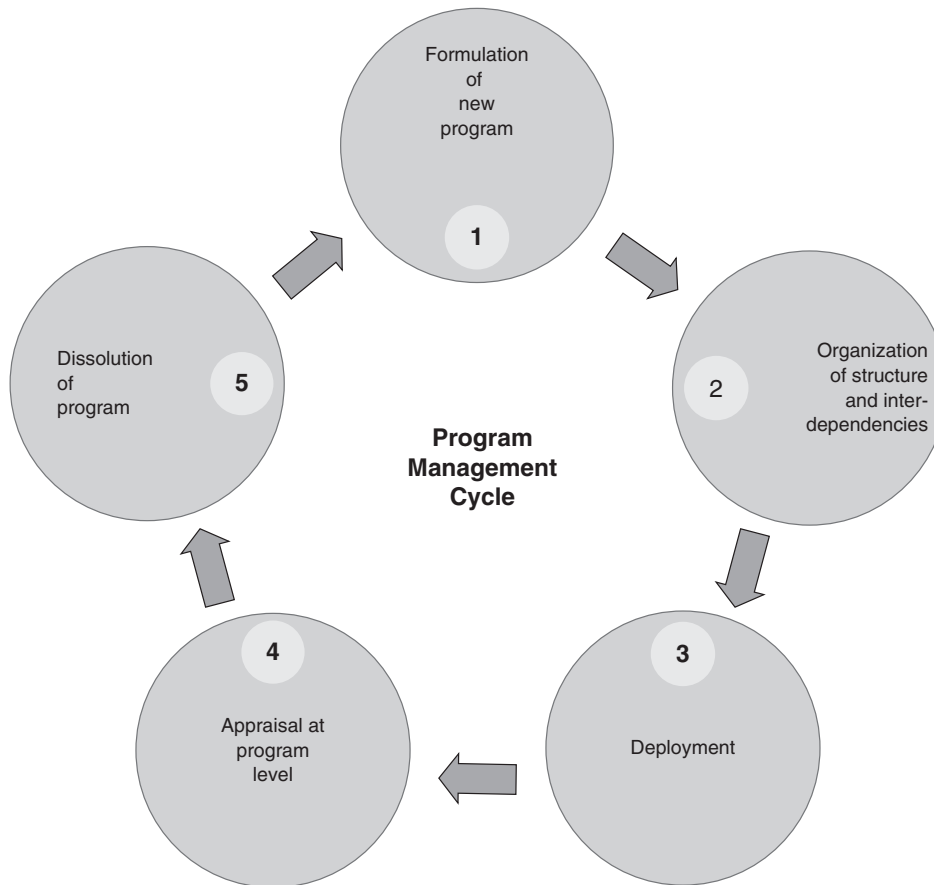


FIGURE 2.3 The program management cycle

Source: Thiry 2004

Mini Case 2.1 illustrates the content of a huge program initiated by the European Union.

Mini Case

Mini Case 2.1: The European Union's 6th Framework Program

Since 1984, the European Union has launched so-called Framework Programs on regular intervals (3–4 years) pursuing two overarching objectives:

- 1 Strengthening the scientific and technological bases of industry in the European Union
- 2 Ensuring the international competitiveness of European organizations.

While all programs are tailored towards attaining those objectives, priorities shift over time, reflecting changes in the global environment. At the end of each program cycle the program is evaluated. Based on the assessment of the results, the priorities, budget, and methodology of the programs are modified. The first Framework Program concentrated

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on the need to develop alternative energy sources and allocated 50 per cent of its funds to research and development in energy. The subsequent Framework Programs addressed other Europe-level needs, for instance stimulating advances in information technology and communications technology.

For the 6th Framework Program (FP6), the European Commission together with external consultants (technical advisers) selected the projects which would be funded according to their strategic fit and ethical standards.

Strategic fit is given if the project contributes to the strategic objectives of the EU as outlined above and belongs to the following thematic areas:

- 1 Life sciences, genomics, and biotechnology for health
- 2 Information society technologies
- 3 Nano-technologies and nano-sciences, knowledge-based functional materials, new production processes and devices
- 4 Aeronautics and space
- 5 Food quality and safety
- 6 Sustainable development, global change and ecosystems
- 7 Citizens and governance in a knowledge-based society.

In each of those thematic areas, the 6th Framework Program consists of different international projects. In the nano-technologies, for instance, there is a project called IMPULSE. The objective of IMPULSE is to create a new approach for the design and operation of production systems for the chemical (and related) process industries. Thus, the project contributes to foster knowledge-based manufacturing industry, capable of maintaining substantial production capacity (and highly qualified employment) in Europe.

All the projects in FP6 have to be transnational, which means the projects need to be run by consortia with partners from different EU countries or even from countries outside the EU. In the case of IMPULSE, the main companies co-operating in the project are GlaxoSmithKline from the UK (pharmaceutical), Degussa from Germany (specialty chemicals), and Procter & Gamble from the US (consumer products).

Source: EU (2002a); EU (2002b); IMPULSE (2005a); IMPULSE (2005b); National Science Foundation (1999)

Task

Identify program management elements in the Framework Programs of the EU.

To manage a program in the way depicted above, the organization needs an adequate structure and dedicated people responsible for program management.

PROGRAM ORGANIZATION

2.5 Looking at the key players in program management, you will notice strong similarities with section 1.4. The biggest difference is an increase in complexity. The following roles and structures are recommended by the British Office of Government Commerce (OGC) (2007).

PROGRAM OWNER AND SPONSOR

The program owner is an individual responsible for ensuring that a program meets its objectives and delivers the projected benefits to the customer (internal or external). This individual should be high ranking. He or she should take personal responsibility for the success of the program and should be acknowledged as the program owner throughout the organization. The program owner is also in charge of periodic program reviews and adaptations if necessary, as well as program controlling, formal program completion and problem solution.

PROGRAM HEADSHIP

The program director provides overall leadership and has the ultimate responsibility for successful implementation of the program. The program manager is responsible, on behalf of the owner or sponsor, for successful delivery of the program. In contrast to the program director, the program manager is in charge for the operational day-to-day activities which are necessary for program delivery. This requires the effective co-ordination of the different projects which are part of the program, especially the management of their interdependencies. Typically the program manager works full-time on the program.

In addition, there could also be a business change manager who is responsible for defining the benefits of the program, assessing the progress towards program realization, and achieving improvements.

PROGRAM SUPPORT

Due to the huge spectrum of responsibilities, the individuals at the program management level usually are supported by a so-called Program Support Office (PSO) or Project Management Office (PMO) (section 2.7).

Now that we know how to co-ordinate projects with the program management approach, let us turn to another concept helping the organization to align projects with its overall strategy, namely project portfolio management.

PROJECT PORTFOLIO MANAGEMENT

2.6 In contrast to the projects in a program which pursue all the same objective, projects in a portfolio can be related to a common objective, but they can also attain different goals. Project Portfolio Management (PPM) typically is bigger in scope than program management, targeting for increased competitive edge of the entire organization. Following the principle of transparency, project portfolio management aims at relating all project and program management cycles to strategic goals, rather than to political power plays or emotional attachments.

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WHAT IS PROJECT PORTFOLIO MANAGEMENT?

Let us first clarify what is understood by a project portfolio, in this book also simply referred to as 'portfolio'. It is a collection of projects managed under one umbrella. These projects may be interrelated or not (Thiry, 2004). Project portfolio management is 'the management of the project portfolio so as to maximize the contribution of projects to the overall welfare and success of the enterprise' (Levine, 2005: 22).

The set of all projects and programs an organization runs is called a project portfolio. If an organization has many projects (e.g. 50–60) in its portfolio, it might make sense to create project portfolio networks for projects with certain commonalities, for instance projects which cover the same geographic region, or projects that use the same technology (Gareis, 2006a).

Project portfolios and project networks are clusters. The purpose of those clusters is to ensure an optimal composition of the projects or programs in the light of the overall business objectives of the organization. Potentially, conflicts between the objective of a single project or program within the cluster's objective can come to light (Harms et al., 2006).

PROCESSES AND TECHNIQUES OF PROJECT PORTFOLIO MANAGEMENT

Two main management processes within project portfolio management can be distinguished:

- 1 Selection and prioritization of projects
- 2 Management of the projects within the portfolio by monitoring target achievement.

Let us first consider the selection and prioritization process. It has to assess which projects or programs are conducive to the organization's overall business objectives. To accomplish this task, the organization has to determine evaluation criteria. Given the complexity of most strategies, financial success of a project or program, although of paramount importance, does not suffice. Other criteria such as contribution to innovation or to further internationalization need to be included depending on the foci of the strategy. In addition, the constraints of the organization's resources need to be taken into account.

Usually, there are so-called investment proposals which should facilitate the assessment of the suggested project or program in the light of the overall business objectives. It goes without saying that the content of such a proposal needs to be adapted to the respective set of strategies of the organization. A typical investment proposal would comprise the following items:

- field of investment:
 - functional, e.g. R&D, Purchasing, Manufacturing, Marketing, Sales, IT, HR
 - cross-functional, e.g. Supply Chain
 - intra-organization or inter-organizational.

- reasons for the investment
- description of the investment
- goal to be obtained with the investment in terms of:
 - financial objectives, measured for instance in net present value, ROI, amortization period
 - customer-related objectives
 - environment-related objectives
 - innovation-related objectives.
- Business case or cost benefit analysis for investment proposal.

In reference to a portfolio of project and programs, the investment proposals need to be compared with each other. A good structure for such a comparison is an investment portfolio score card which would be based on the Balanced Score Card. As pointed out earlier, the Balanced Score Card can not only be used to compare different projects and programs, but it can be used to drive the whole strategic management process in the organization. Thus the loop is closed and the link between projects and strategy well established.

Let us now turn to the second main process within project portfolio management, namely, monitoring the projects and programs within the portfolio. This process should provide answers to the following questions:

- 1 Do the single projects meet their respective objectives? This is related to classical project management as discussed in Chapter 1.
- 2 Does the execution of the single projects meet the overall portfolio objective? This task implies the regular monitoring of the global environment to cross-check whether the prerequisites for project selection are still valid. If not, the projects may need to be terminated. In Chapter 1, we discussed the fast changing environment organizations of today are operating in. Hence, professional project portfolio management is extremely important for organizations with many international projects.

The tools and techniques suitable to monitor the project portfolios are the same as for project management and will be discussed in Chapter 7.

Figure 2.4 gives an overview of the project portfolio management process.

ROLES AND STRUCTURE OF PROJECT PORTFOLIO MANAGEMENT

As project portfolio management aims at aligning organizational strategy with resource allocation and strategy execution in the form of programs and projects, the managers in charge need to be the executives responsible for strategy and finance. Typically, this would be the Chief Executive Officer (CEO), the Chief Operations Officer (COO), and the Chief Financial Officer (CFO). Some organizations also have a Chief Project Officer (CPO) on board. In an organization where information systems play a strategic role, the Chief Information Officer would be part of the project portfolio management team as well. If the resources are mainly owned and managed by the various functions, their

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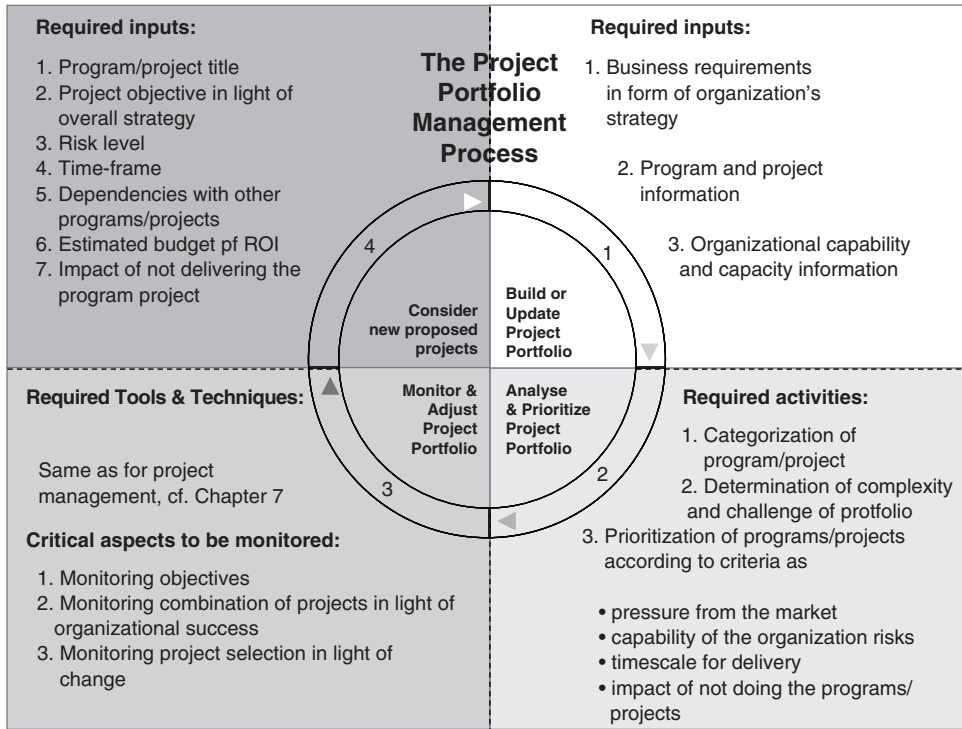


FIGURE 2.4 The project portfolio management process

Source: Adapted from Levine (2005); OGC (2004)

heads need to be included in the team. Marketing needs to provide market forecasts. The whole process of managing and directing the project portfolio is also called ‘governance’. The term ‘governance’ also applies to the management of single programs. To assure consistency, the governance systems for project portfolio management and single programs should be the same.

As you can see from the paragraph above, no new roles are necessary with the project portfolio management approach. The responsibilities of the executive team remain the same. However, they are carried out in the frame of project portfolio management.

Typically, organizations that practise project portfolio management have a function to support the project portfolio management processes, the aforementioned Project Management Office (PMO). It can also support the programs mentioned under program management.

THE PROJECT MANAGEMENT OFFICE

2.7 The project management office is ‘a systematic co-ordination and unified handling of key project-related tasks, as an enterprise-wide responsibility’ (Andersen et al., 2006: 32). In other words, a PMO provides the infrastructure

and the input to centrally support the work of the project portfolio management team or the program management team.

The main purposes of a project management office are (Englund et al., 2003):

- to develop and deploy predictable, reusable project management methodology and processes (often based on a project model), including tools and techniques as defined in Chapter 1
- to support ongoing projects with advice as internal consultants
- to increase staff professionalism in project management through training and competence development (internal or external trainings)
- to assure the quality of projects in form of recommendations based on the evaluation of decision basis or other documents.
- to support the senior executives in administrating the project portfolio. Typically, the PMO conducts monitoring at certain intervals and provides the senior executives with a go/no-go recommendation. Usually, the PMO lacks decision-making power.
- to help to build a project management oriented culture (see section 2.9)
- to retain knowledge (see Chapter 11).

According to Stanleigh (2006) many organizations fail to see added value in the support infrastructure of a project management office: 75 per cent of 750 global organizations surveyed closed down their PMO only three years after they had set it up. The root cause for failure is seen again in the misalignment between project management and the strategies of an organization. Frequently, the project management offices are positioned at a hierarchy level which is too low. In order to function successfully, a PMO needs to have sufficient authority reflected in direct top management support.

Mini Case 2.2: Project management offices at BHP Billiton and LEGO

BHP Billiton, headquartered in Australia, is one of the world's largest diversified resource enterprises. With 41,000 employees working in over 25 countries, BHP Billiton is an industry or near industry leader in major commodity businesses, such as aluminium, energy coal, copper, iron ore, and uranium. Net profits in 2007 amounted to 24.14 billion US\$.

As of 2008, BHP has 28 projects in its development pipeline which are either in the planning phase (feasibility) or in the execution phase. Those projects represent a total investment of 24.8 billion US\$. All projects are concerned with the exploration and use of natural resources, for instance the development and operation of one of the world's most cost-efficient aluminium smelters in Mozambique. Health and safety of the employees and the communities affected by BHP's projects is paramount, especially in the light of increased competition for production licences.

Following a series of poorly managed projects BHP has established a Project Management Office, staffed with 16 people. The PMO is organized as support units distributed across the different subsidiaries. The main tasks of the PMO consist of

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controlling the project governance process, reviewing projects, conducting trainings in project management, and providing project management software.

LEGO, headquartered in Denmark (Scandinavia), is the sixth largest toy manufacturer worldwide. Established in 1934, it became famous for its LEGO bricks. In 2007, it had around 4,100 employees worldwide, with manufacturing facilities in Denmark and the Czech Republic (Eastern Europe). In 2007, the net profit was approximately 183 million US\$. LEGO needed to initiate projects to react to the following changes:

- 1 Competition from electronic toys has been increasing dramatically
- 2 Competition from East Asian manufacturers
- 3 New product developments need to be launched to market much quicker as consumers get more demanding
- 4 Pressure from the retailers for better service and delivery liability.

LEGO closed its production facilities in Switzerland and South Korea. It transferred parts of the production to its facility in the Czech Republic, and outsourced most of its production to OEMs in low-wage countries. LEGO carried out a project to improve the efficiency of purchases, and to reduce the complexity of its product portfolio. It initiated projects to cut its new product development cycle from 36 months to 12 months.

In order to achieve these radical changes, the company established a Project Management Office. It is staffed with 20 project managers, and has the following tasks:

- defining and improving business processes across the organization
- providing project managers to projects
- supporting the planning phases of projects
- training new project managers.

Sources: Andersen et al. (2006); BHP (2008); Lego (2008)

Task

Discuss the differences between the project management offices of both organizations and assess the effectiveness of each approach.

To sum up sections 2.3 to 2.7, there are a bundle of measures an organization should take in order to ensure the alignment of its projects with its overall strategy (examples based on Keller Johnson, 2004):

- **Stock-taking:** First, the organization has to have an overview of the projects it is running. This may sound like stating the obvious. However, especially big multinationals tend to lose control over their project landscape across organizational and geographical boundaries. A California-based business intelligences services firm discovered that it had 400 projects solely in the area of process improvement.
- **Project clustering:** Second, the organization has to structure the projects it has mapped into clusters. The COO of that company clustered those 400 projects

into eight strategic categories and rated each project in terms of how strongly it contributed to corporate objectives, such as enhancing customer services delivery, boosting revenues, or reducing cost.

- **Prioritization by senior executives:** Then, a process team for each cluster was assigned the task to prioritize projects together with senior management.
- **Establish supportive infrastructure:** This could be a project-portfolio steering committee. Program managers should be responsible for continuous control of the clustered projects. A Project Support Office would also belong to supportive infrastructure.
- **Communication processes:** To make the project portfolio management cycle and the program management cycles work, well-functioning communication channels across functions and geographical borders need to be established.
- **Software:** Project portfolio management software can facilitate the process.
- **Change management:** This means continuous screening of external environment and adaptation of portfolio.

At the beginning of this chapter, I have said that organizations need to build up strategic capabilities in project management for sustainable success. To measure and control the development of such capabilities, there are so-called project management maturity models that we will discuss in the next section.

PROJECT MANAGEMENT MATURITY MODELS

2.8 An organization gains experience about project management over time. Usually, the organization starts with single projects. It will cluster them into programs which will be summarized in portfolios over time in order to increase professionalism and to link projects better to its set of strategies. This could be called a life cycle as discussed for a single project in Chapter 1. The organization gets more mature. First, it develops an efficient way of project management. Then, it reaches the stage in which projects perform well as an entirety and are successful in terms of business performance. The final stage is a continuous selection of projects which contribute to a sustainable competitive edge for the organization. The prerequisite for the last stage is a well implemented and smoothly working project portfolio management as outlined in section 2.6.

There are numerous project maturity models, also called capability maturity models or abbreviated to CMM. They are frequently used in the software industry to improve project management efficacy (Cleland and Ireland, 2002). Figure 2.5 outlines the model created by Project Management Solutions, Inc. as a representative of similar models. It is based on five maturity levels.

The existence and activities of a project management office is an indicator of the project management maturity level of an organization.

A project management office goes through the following stages reflecting the increasing maturity of the organization. First, it mainly supports single projects with

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**FIGURE 2.5** Project management maturity levels

Source: Callahan/Brooks (2004)

the development of common tools for project management. This type of PMO is rather an administrative support type with the organization being at level one or two. With rising organizational maturity, it develops into a centre of excellence for project management related issues, reflecting maturity level three. When the project management office intensively supports the executive management with strategy implementation by helping to manage the project portfolio, the organization has reached maturity levels four or five.

Mini Case 2.3: Enhancing project maturity at Ericsson

Founded in 1876, Ericsson is a global telecommunications company, headquartered in Sweden (Scandinavia) with approximately 63,000 employees, and customers in more than 175 countries. Ericsson's strategy is based on technology leadership, for instance in mobile broadband or scalable radio base stations, and simultaneously strengthening operational efficiency.

Ericsson bases the implementation of its strategy on projects. For more than 15 years it has developed a company-internal project management methodology known as PROPS.

Since 2000, Ericsson has paid special attention to increasing the efficiency of their project management approach across their market units in 25 countries using a benchmark model to measure project management maturity in all parts of the organization. The model supports the internal benchmark of all Ericsson units internationally against Ericsson-wide standards as well as against external best practice. It is called Project Environment Maturity Assessment PEMA. External benchmarking is realized by the involvement of an external consultancy that runs a global benchmarking network of which Ericsson is a member. A Project Environment Maturity Assessment is carried out at each market unit once a year. Based on the assessment results, recommendations to improve project efficiency are given to increase the maturity of each market unit. The highly visualized results of the assessments are presented to the top management and contribute to a stronger project management focus of the senior executives. The assessment tool fosters project thinking and project management awareness throughout the entire organization.

Source: Bergman (2006); Ericsson (2006)

Task

- 1 Identify the project management maturity level against the 5-level maturity model introduced above. Give reasons for your categorization.
- 2 Discuss the special challenges a multinational corporation like Ericsson faces with developing towards greater project management maturity.

In sections 2.3 to 2.8 we have learned how an organization can use project management on various aggregation levels to successfully implement its strategy. The path from single projects to project portfolio management is an ongoing development in an organization which can be measured by maturity stages. A high maturity level in project management constitutes a strategic capability making the organization more competitive in a global environment. Given the high degree of complexity of international projects as depicted in Figure 1.4, more efforts are needed to manage each single project. This is, of course, even more applicable for a whole bundle of international projects. Hence, well-established program management and project portfolio management are vital for an organization handling numerous international projects. It is a prerequisite to sustainably manage international projects towards overall organizational success. Strategy is part of the project context, as is organizational culture. Strategy and organizational culture are interdependent elements of an organization which cannot reach a high maturity level in project management without the underpinning mindset. This leads us to our next topic, organizational culture, or project culture in the context of international project management.

ORGANIZATIONAL CULTURE

2.9 In Chapter 1, I mentioned a project culture rooted in ethno-relativism, based on values as open-mindedness, respect, and trust as one of the key success criteria for international projects. The same is true for the whole

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organization applying program management or project portfolio management on an international level. All members of the organization need to have a special set of values and attitudes which will be explained below. Let us first clarify the term organizational culture.

WHAT IS ORGANIZATIONAL CULTURE?

According to Schein (1992: 12), organizational culture can be defined as ‘a pattern of shared basic assumptions [...] that has worked well enough to be considered valid and, therefore, to be taught to new members [of the organization] as the correct way to perceive, think, and feel [...]’. A more simple definition would be the way things are done in a certain organization, like ‘the Nokia way’.

WHERE IS ORGANIZATIONAL CULTURE?

According to Schein (1992), we have to distinguish between three levels of organizational culture:

- 1 Artefacts:** These are visible organizational structures and processes. In a project environment, it can be project logos, language like acronyms, special terms for milestones, the behaviour of employees like hoarding or sharing of information in project teams, ethical codes for project procurement guidelines, the project structure, the authority level of project managers, etc.
- 2 Espoused values:** These are organizational strategies, goals and philosophies which are not necessarily based on the basic assumptions of the workforce. Hence, espoused values often contradict each other or are not suitable to explain behaviours of employees. In a project environment, project management standards can be an artefact based on espoused values, if the standards are filed somewhere, but not implemented. The organization says it has company-wide standards, but they are not applied. The same could be true for project portfolio management. A management system could exist on paper without being executed.
- 3 Basic underlying assumptions:** These are unconscious beliefs that are taken for granted, perceptions and feelings. They are the ultimate source of action in the organization. In an international project environment, basic underlying assumptions can differ greatly between geographically dispersed organizational entities as they are influenced by national culture values. Examples of basic underlying assumptions are open-mindedness, parochialism, autonomous working style, accountability, or valuing diversity.

In other words, organizational culture entails visible and invisible, conscious and unconscious elements. The unconscious, invisible underlying assumptions are the most difficult to manage and change, as you can easily imagine. It is out of scope of this book to dwell

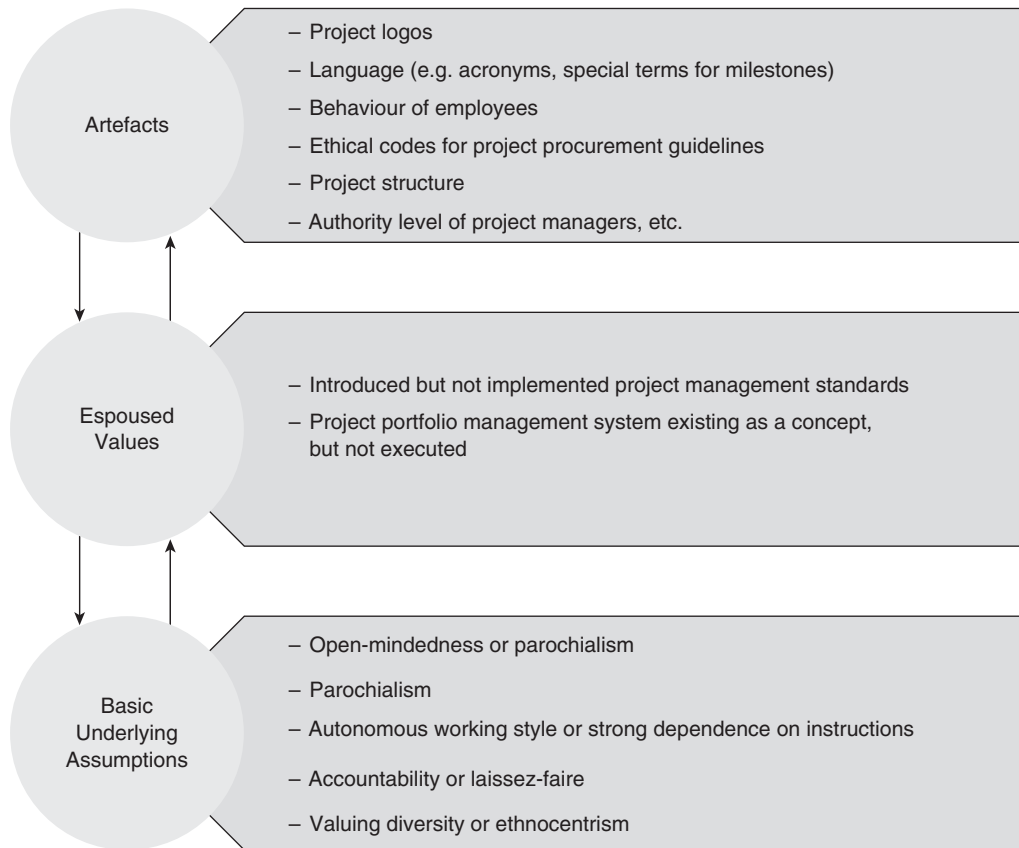


FIGURE 2.6 Levels of culture in a project environment

Source: Culture concept based on Schein (1992), project management examples added by author, Permission pending

on cultural change strategies and measures that might be necessary in organizations as a prerequisite to establish an efficient project management approach.

WHAT KIND OF CULTURE DOES SUPPORT EFFICIENT AND EFFECTIVE PROJECT MANAGEMENT?

There are extensive academic debates about whether an organizational culture is manageable or not. In this book, it is assumed that an organizational culture can be influenced by the executives of an organization and can be changed. It is also assumed that organizational culture is an effective tool to support the implementation of strategies, as are the project management processes mentioned above. It can also support the efficient use of project management, program management, and portfolio management.

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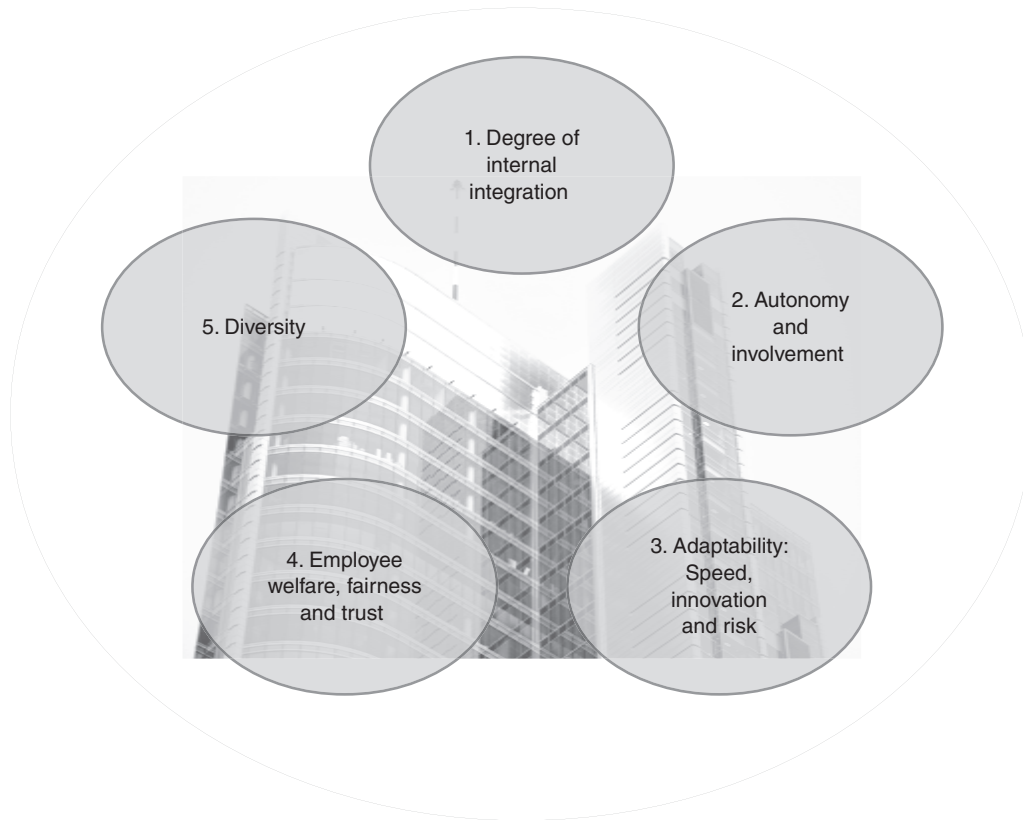


FIGURE 2.7 Five dimensions of organizational culture

Source: Cartwright/McCarthy (2005)

But how can we capture organizational cultures in more detail? There are numerous models on how to classify organizational cultures (Harrison, 1972; Handy, 1991; Cameron and Quinn, 2006). In this book, I will introduce Cartwright and McCarthy's model which is very suitable for the context of international project management, although it has emerged from context of mergers and acquisitions. Cartwright and McCarthy (2005) distinguish between the following five organizational dimensions as depicted in Figure 2.7.

Let me explain the dimensions in more detail interpreting them in the light of international projects.

1 Degree of internal integration

This is the extent to which relationships within an organization are co-operative and well co-ordinated. It is the extent to which the sharing of information and ideas is promoted

and achievement of common objectives and goals is supported. A lack or low level of internal integration is conducive to the proliferation of strong sub-cultures and competitive relationships between functional and departmental groups leading to organizational tensions and conflict. This is especially counter-productive for international projects which span geographically widespread subsidiaries and numerous functions.

2 Autonomy and involvement

This is the extent to which individuals have the authority and freedom to exercise control. The dimension also touches on the degree of authority the organizational members have to make decisions about the way in which they perform their jobs. Project managers with their management team need to have sufficient autonomy to react flexibly to changing circumstances, which is often the case in international projects. Project managers also need to have sufficient authority to decide on resources allocation and performance rewards.

3 Adaptability: speed, innovation and risk

Adaptability and innovation inevitably involve risk. Like autonomy, a willingness towards risk taking involving decision-making under pressure are conducive to project management performance.

4 Employee welfare, fairness and trust

The employee perceptions of justice or fairness concerning how they are treated with regard to pay, promotions and individual consideration have important consequences for organizational performance. This is particularly important in international projects where employees from different national cultures, different educational backgrounds, different organizational entities, and different functions tend to have different views on adequate employee treatment and fairness. As I will discuss in Chapter 10, trust is the prerequisite for efficient co-operation in international projects.

5 Diversity

Ethnocentricity, i.e. the belief that one's own national culture is superior to those of other employees or team members, has been consistently identified as a barrier to efficient management of international projects. The tendency to judge 'what is different is wrong' is counter-productive to building trust, as it strongly shows disrespect regarding diversity and heterogeneity. An international project culture needs to be built on ethno-relativism. What is different has to be considered and evaluated openly. Ideally, organizational members value diversity to the extent that they fuse differences to something new, more creative, and more effective.

To summarize, an organizational culture which has a strong degree of internal integration offers autonomy to organizational members, is highly adaptable and open towards

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risk, is built on fairness and trust between employees, and manages to cope with diversity is highly conducive to the successful management of international projects. Let me emphasize that there is not one single best or most suitable organizational culture to support efficient project management. It needs to fit into the environment the organization is working in.

The Finnish telecommunication company, Nokia is a good example of an organizational culture which has a high degree of internal integration, is strong in autonomy and involvement, and scores high on employee welfare, fairness and trust. This is also reflected in the project portfolio process between the Nokia Research Center and the Business Units of the Nokia Group (Kilpi et al., 2001).

I conclude this section with a special remark on the link between organizational culture and national culture. Hofstede (1997) found in his empirical studies that organizational culture and national culture are closely intertwined. He discovered that the subsidiaries of one multinational corporation in different countries had sub-cultures which showed traits similar to the national culture the subsidiary was located in. It is important to know about this relation when dealing with international projects. Even within one organization, there might be differences in sub-cultures from location to location, which need to be taken into account when transferring management practices, for instance from the Headquarters of a multinational organization to its subsidiaries.

In the next section I will introduce a type of organization that solely is driven by projects. This is the most radical form of using projects to implement strategy. The approach is called 'management by projects'.

MANAGEMENT BY PROJECTS

2.10 According to the Project Management Institute (2004), 'management by projects' is a managerial approach adopted by an increasing number of organizations. It extends project management to activities in the area of ongoing operations which are redefined as projects using the same definitions as in Chapter 1. Management by projects incorporates the confluence of the strategy implementation part of strategic management, organization behaviour and project management.

If applied to the extreme, management by projects goes beyond project management, program management, and project portfolio management as discussed in the sections above. In fact, the entire organization is seen as one big projects or project portfolio. It is an approach that enables the organization to adapt to a fast changing, global environment. Organizations practising this approach also are called project-based organizations (PBO). Whitley (2006) distinguishes between different types of project-based organizations, depending on the number and similarity of projects they consist of. The extreme is an organization consisting of one large project that dissolves itself after project completion. If we consider innovativeness and organizational learning as the competitive edge of organizations (section 2.2), we wonder how and when organizational

TABLE 2.1 Differences between project management, program management, PPM, and management by projects

	Project Management	Program Management	Project Portfolio Management	Management by Projects
Main Content of Concept	Managing a single project efficiently within given organizational constraints and context.	Clustering projects pursuing the same objectives into a program to support alignment with overall organization's strategy and to increase flexibility	Clustering projects into portfolios to ensure alignment with organization's strategy. PPM supports coordinated resource allocation, increases flexibility of the whole organization and leads to sustainable project success	Managing the whole organization as a bundle of projects based on a supportive organizational culture. At the extreme, the organization consists of one complex project.
Scope	Limited to a set of objectives linked to one single project	Business-unit or organization-wide, depending on content of program	An organization-wide management system	A management approach affecting the whole organization, also inter-organizational
Required Project Maturity Level	Level 1–3: Minimum level 1, ideal level 3	Level 3–4	Level 4–5	Level 4–5

learning takes place if the organization only has a limited life cycle, such as a project. Future research will look into this obvious dilemma.

Let me conclude this chapter here. We have discussed what an organization needs to do in order not only to efficiently manage single (international) projects, but to have successful projects in a sustainable way. The conclusion is that organizations have to go beyond project management. An organization has to embark on a path towards program management, portfolio management, and might want to develop towards a project-based organization. Of course, this is a simplified normative view which needs to be put in perspective. There is no single best solution that fits all situations. However, I want to highlight the importance of consistency regarding strategy implementation and the benefits of a holistic managerial approach towards project management.

As all expressions and main concepts used in this chapter sound quite similar, Table 2.1 will provide you with an overview of the main differences between project management, program management, portfolio management, and management by projects.

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SUMMARY

To be successful in a sustainable way, an organization needs to make sure that its projects are aligned with its strategy. This can be done by clustering projects into programs which help the organization using synergies between the projects and making a large number of projects more manageable. Programs are initiated by program owners and have sponsors. Programs typically are part of project portfolios. They help the executives of an organization to select the right projects in the light of resource constraints. They also are a tool to adapt swiftly to environmental changes. Project portfolio management, which fulfils the same purpose as program management, is especially important in organizations with numerous, risky, and complex projects. This is the case for many organizations operating on an international level. An organization competing globally needs to build up skills in project, program, and project portfolio management. Project management maturity models measure the degree to which the organization has developed these skills and progressed towards sustainably successful projects. An organizational culture emphasizing achievement, involvement, autonomy, flexibility, openness towards risk and diversity, fairness and trust between its members is most suitable for successfully managing international projects in a sustainable way. Ideally, such an organizational culture concurs with the project culture. The extreme alignment of organizational strategy and projects is given in a project-based organization, where strategy, organizational culture and structure are implemented solely by (international) projects.



KEY TERMS

Strategy, strategic management cycle, program management, program management cycle, program owner, program director, program manager, project portfolio management, governance, project management office, project management maturity model, organizational culture, project culture, management by projects, project-based organization.

REVIEW TASKS

Questions

- 1 Where do you see challenges for international organizations to introduce program and project portfolio management?
- 2 What kind of organizational culture is conducive to efficient project management, especially in an international context?
- 3 In your opinion, does it make sense to strive for a project-based organization?

EXERCISE 1

Go to the website of an organization active in the area of commodities, e.g. BP for oil. First have a look at their strategy. Then, search for information about ongoing projects. Identify the link between the strategy and the projects.

EXERCISE 2

Think of an organization you are familiar with. This can be either your current or former employer, or an organization a family member or friend is working for. Now try to analyse this organization's culture using the five dimensions introduced in section 2.9. Would you assess this organization as having a supportive culture for managing international projects successfully?

You will find two more comprehensive cases to test your knowledge on the content of Chapter 2 on the companion website.

CHAPTER END CASE: RAIFFEISEN INTERNATIONAL GOES EAST

The Austrian Bank Raiffeisen International is a member of the RZB group. With a market capitalization of 16 billion Euros in 2006, the full service bank RZB is listed among the top 100 banks worldwide.

In 1986, Raiffeisen International was established as a spin off of the RZB group which still holds 70 per cent of its shares. Raiffeisen International should boost the growth of the whole group by taking advantage of strong economic growth in the regions of Central and Eastern Europe (CEE), South-East Europe (SEE), and the Commonwealth of Independent States (CIS). This is a loose confederation of states which was created in 1991 following the dissolution of the Soviet Union. The ten original member states were Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Azerbaijan and Georgia joined later. The economies in the region all are so-called transition economies moving away from a centrally planned economy, opening up their markets for foreign investments and liberalizing their financial markets. The whole region with approximately 320 million inhabitants shows strong growth potential.

The move East started in 1986 when Raiffeisen International became a member of an international Joint Venture establishing the first foreign bank in Eastern Europe, namely in Hungary. This was regarded as a

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pilot project to find out more about the Eastern European markets. As business opportunities in Hungary were promising, and the project went on smoothly, top management set out the strategic objective to expand fast into Central and Eastern as well as South-Eastern Europe in order to become the market leader in the regions as a foreign bank.

The next steps were a Joint Venture in Poland in 1991 and a Joint Venture in the Slovak Republic in the same year. Whilst the partners in the Hungarian Joint Venture and the Polish Joint Venture were international banks, the partner of the Slovak Joint Venture was a local bank. In 1993, Raiffeisen International established a wholly foreign-owned enterprise as a 100 per cent subsidiary in the Czech Republic, followed by its own subsidiaries in Bulgaria and Croatia in 1994, Russia in 1995, Ukraine and Romania in 1996, and Serbia in 2001.

Establishing Raiffeisen International as a new foreign bank in each of the above mentioned countries took 12 months on average, depending mainly on the approval process in the respective economies. The fastest project was the establishment of Raiffeisen International in Serbia. There was a lot of pressure to finalize the foundation of the subsidiary in Serbia due to the planned introduction of the Euro in January 2002. It was expected that many Serbian guest workers in Austria or other Euro-countries would need to convert their savings to Euros. This would be a good opportunity for Raiffeisen International to position itself as the bank of choice for those private customers, also mobilizing savings hoarded at home due to latent mistrust in the (local) banking sector.

In 1999, the organization's strategic focus was redefined, with the second growth pillar shifting from big corporations to 'Small and Medium Sized Enterprises' with annual revenues of more than 5 million Euros, in addition to 'private customers'. This adjustment was due to the fact that the market segment for corporate customers had become increasingly competitive. Hence, margins were shrinking and new growth markets had to be conquered. Speed had become a factor critical to growth in the market. Moreover, the second strategic pillar 'private customers' required a tight net of bank branches across the target markets which also would benefit small and medium sized enterprises.

The new requirements led to a change in the portfolio of international projects. In 2003, the first acquisition of a foreign bank, the Priorbank of Belarus, took place, followed by the purchase of Ukraine's Bank Aval in 2005, Russia's Impexbank, and the Czech Republic's eBanka in 2006.

The Figure 2.8 illustrates the timeline of the projects described above.

Today, Raiffeisen International is considered as one of the pioneers and leaders in the Eastern European and CIS region. In June 2007, it had approximately 12.7 million customers in the region with nearly 3,000 outlets employing 55,000 staff. It is the foreign bank with the biggest sales network in the region. The company has grown from total assets of 11.5 billion Euros in 2001 to 62.7 billion Euros in the first half of 2007. Consolidated profits jumped from 104 million Euros in 2002 to 594 million Euros in 2006.

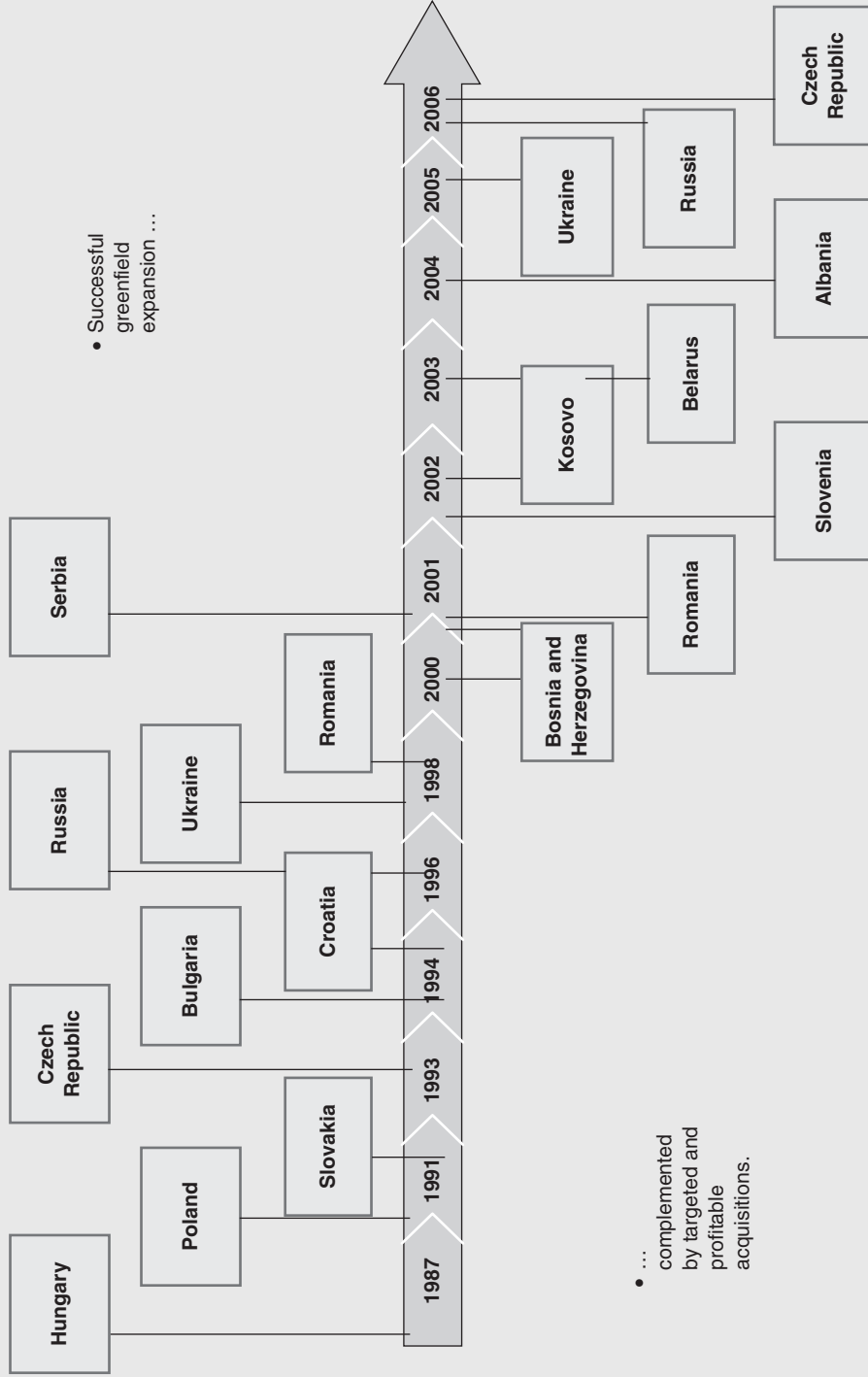
Source: Raiffeisen International (2007a); Raiffeisen International (2007b); Palzer (2007); CIS (2007)

Task

Apply the extended strategic management cycle to Raiffeisen International's go east initiative.

Note: The text does not cover all stages of the cycle.

Dynamic and continuous expansion



- Successful greenfield expansion ...

- ... complemented by targeted and profitable acquisitions.

Raiffeisen expansion case

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FURTHER READING

- Dinsmore, Paul C. and Cooke-Davies, Terence J. (2006) *The Right Projects Done Right! From Business Strategy to Successful Project Implementation*. San Francisco: Jossey-Bass. (This book emphasises the need to align projects with corporate strategy. It is written in a hands-on style and provides numerous ideas on how to align projects with corporate strategy.)
- Englund, Randall L., Graham, Robert and Dinsmore, Paul C. (2003) *Creating the Project Office. A Manager's Guide to Leading Organizational Change*. San-Francisco: Jossey-Bass. (This text focuses on improving organizational performance by implementing a project management office system. It gives a lot of details on how to manage change related towards a more project-oriented corporation.)
- Phillips, Jack J., Bothell, Timothy W. and Snead, Lynne G. (2002) *The Project Management Scorecard. Measuring the Success of Project Management Solutions*. Amsterdam et al.: Butterworth Heinemann. (The authors provide valuable details on how to effectively use the tool of a balanced score card in relation to project management. It includes explanations on how to build business cases for projects.)
- Sahlin-Andersson, Kerstin and Söderholm, Anders (eds) (2002) *Beyond Project Management. New Perspectives on the Temporary – Permanent Dilemma*. Copenhagen: Copenhagen Business School Press. (The authors of this reader all belong to the so-called Scandinavian School of Project Studies. They provide out-of-the-box thinking about project management with a lot of empirical examples.)