Project Portfolio Management Practices for Innovation – A Case Study at ABN AMRO - Brazil
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‘If I have seen further, it is by standing on the shoulders of giants’

- Isaac Newton

I dedicate this Masters thesis to my beloved parents, Igor and Mercedes, who have made every effort to show me the important value that education holds. They have taught me to constantly look for the ‘road less travelled by’ and I believe that today and always, this will ‘make all the difference.’ Eu amo voces!

Additionally, I wish to devote my work to Themis, the light and love of my life. I am blessed because today he is part of who I am. Efharisto Agapi Mou!

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Finally, I thank my supervisor, Tomas Blomquist, for all the direction and feedback during this research process.
**Abstract**

Project Portfolio Management is a tool for effective resource allocation, for the selection of those projects with the highest potential to become tomorrow’s new product and service winners. The accurate implementation of project portfolio methodology is ultimately linked to sound innovation management practices. This paper aims to research a financial firm, ABN AMRO – Brazil, to uncover its project portfolio management practices and their role in fostering innovation. This study set out to define how project portfolio management methodology at the organization ultimately contributes to innovation, and to highlight some of the difficulties and challenges in picking the right projects. Thus, the focus of this paper is to understand how project portfolio management aids ABN AMRO Bank – Brazil in making strategic choices that will ultimately lead to innovation. A total of 11 semi-structured interviews were conducted with managers at the institution in order to assess the project portfolio management practices and their focus on innovation. The results indicate an organizational shift from a lack of formal project selection to the implementation of a sound project portfolio methodology that aims at selecting those projects aligned with business strategy. The results also indicated that innovation has a significant role in the process, by functioning as criteria in the recently defined explicit method for portfolio management.

**Keywords:** Project portfolio management, innovation, financial industry
1. Introduction & Background

The most dangerous time for an organization is when the old strategies are discarded and new ones are developed to respond to competitive opportunities. The changes that are appearing in the global marketplace have no precedence; survival in today’s unforgiving marketplace requires extraordinary changes in organizational products, services, and the organizational processes needed to identify, conceptualize, develop, produce, and market something of value to customers. Projects, as building blocks in the design and execution of organizational strategies, provide the means for bringing about realizable changes in products and processes.

(Cleland, 1999: p. 91)

Portfolio management for product innovation has emerged as a significant management function in today’s unforgiving global economy (Cooper and Kleinschmidt, 1996; Miller and Morris, 1999; Roussel et al., 1991; as cited in Cooper et al., 2001). The impact of information technology, new systems and improvements in distribution and services has changed the environment in which organizations compete. Companies now face shorter product life cycles and shifts in consumer taste that compel them to review their existing products and to launch new ones. Projects provide the means for an enterprise to respond to rapid change and to gain competitive advantage, helping in the design and execution of organizational strategies that yield innovative products and services. Cleland (1999: p.3) argues that today, competition is characterized by the appearance of ‘unknown, uncertain, not obvious products and services’, which requires ‘project-driven strategic planning’.

Projects function as ‘building blocks of strategy’ (Cleland 1999: p.4) allowing organizations to pool their financial and human resources towards the achievement of new products and processes that can win significant market share and strengthen the company’s positioning. Companies that are most successful have been found to have a continuous flow of projects in which ideas are generated, evaluated and implemented. These multiple projects, when consolidated and integrated for analysis and decision-making become part of the firm’s project portfolio. Project portfolio management can be defined as the management of multiple projects with a focus on single project contribution to the success of the enterprise (Dye and Pennypacker, 1999). A portfolio of projects, when managed in a coordinated way can deliver benefits which would not be possible were the projects managed independently (Turner and Speiser, 1992). It is suggested that in portfolio management, the determination of the strategic fit of a project based on the integration of the senior manager and the project manager, together with an adequate allocation of resources through a project selection framework, result on benefits that are aligned with the company’s mission and market focus. This in turn, enables the organization to compete on the basis of strategic performance, rather than on operational improvements, treating its product or process development projects as a business venture.
Levine (2005) argues that project portfolio management functions as a tool for enterprising positioning in a scenario of fierce competition. It sets projects for proper evaluation and analysis based on their potential for value creation. Project portfolio management for product innovation enables companies to optimize their R&D investments in order to create value for customers. Cooper et al. (2001) state that portfolio management treats the financial resources of the company with a focus on return on investment, appropriate balance of the portfolio and strategic alignment of the portfolio with the business objectives. This allows for a better mix of projects and more efficiency in the creation of new products. It is crucial that companies adopt project portfolio management when dealing with new product initiatives. Project portfolio management creates a funnelling process that selects and prioritizes those projects that can be the most profitable and sustainable in the long term. This scrutinized methodology creates an environment in which the weaker projects are eliminated and the stronger prioritized, contributing to the overall health and sustainability of the organization.

Although management research confirms that firms that are able to use innovation to improve their processes or to differentiate their products and services are ultimately able to outperform their competitors (Bessant et al., 2005), little is said about the role of project portfolio management in this process; Levine (2001) describes project portfolio management as an ‘emerging concept’ in the implementation of business strategy and B.D. Reyck et al. (2005) refer to the role of project portfolio management as ‘unclear’. This research attempts to further study this area by investigating the contribution of project portfolio management to the implementation of product innovation.

1.1 Research Question

*How does ABN Bank Brazil manage its project portfolio to foster product and service innovation?*

1.2 Aims and Objectives of the Study

The main objective of the study is to investigate how project portfolio management contributes to product innovation. The sub aims within the study are:

- To describe the features of project portfolio management and its applications;
- To present the reasons why project portfolio management is important for product innovation;
- To show how project portfolio management allows for the effective prioritization of projects and to identify most popular techniques;
- To investigate the difficulties associated with the implementation of project portfolio management;
- To investigate the extent to which project portfolio management is implemented for product and service innovation at ABN AMRO Bank – Brazil. This will contribute to a better understanding of how much of what is advocated by project portfolio management (PPM) theory is actually put into practice at a large organization.
1.3 Scope and Underlying Assumptions

The scope of this research is limited to answering the research question and to providing input for the achievement of the aims and objectives of the study. The analysis will be based upon the results obtained from interviews with middle managers at ABN AMRO Bank – Brazil about the process of project portfolio management. Assumptions of this report are that all managers are involved in project portfolio management and are aware of the tools and techniques used in the field as well as that candid responses will be given at all times regarding the level of utilization of PPM for innovation.

1.4 Research Schedule

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Completion Date</th>
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<tbody>
<tr>
<td>Definition of research topic and question</td>
<td>August 28, 2007</td>
</tr>
<tr>
<td>Selection of articles</td>
<td>September 30, 2007</td>
</tr>
<tr>
<td>Design of background problem</td>
<td>October 05, 2007</td>
</tr>
<tr>
<td>Literature Review</td>
<td>November 05, 2007</td>
</tr>
<tr>
<td>Methodology</td>
<td>November 14, 2007</td>
</tr>
<tr>
<td>Design and approval of interview questions</td>
<td>November 15, 2007</td>
</tr>
<tr>
<td>Interviews</td>
<td>December 12-14, 2007</td>
</tr>
<tr>
<td>Analysis of interviews</td>
<td>December 15-22, 2007</td>
</tr>
<tr>
<td>Conclusion</td>
<td>December 28, 2007</td>
</tr>
<tr>
<td>Review and final adjustments</td>
<td>January 05, 2008</td>
</tr>
<tr>
<td>Submission of work</td>
<td>January 08, 2008</td>
</tr>
</tbody>
</table>

1.5 Research Methods

Selection of Secondary Sources

The research started with readings in the field of project portfolio management and innovation. Both theoretical and practitioner literature was found through online databases such as EBSCO, Science Direct and Blackwell Synergy. Articles were selected through keywords as project portfolio management; innovation; project management; strategy; competitive advantage; and new product development in journals such as Project Management Journal, International Journal of Project Management, Journal of Product Innovation Management, European Journal of Innovation Management and R&D Management Journal. Since the field of project portfolio management has surfaced as an important management function in the past decade, the articles researched were generally from the year 2000 onwards. Furthermore, when researching for innovation concepts and process, many of the articles found focused on research and development in the pharmaceutical industry or on information technology. For the sake of the research, those were only considered as a source of key definitions.
**Theory and Research**

According to Collis and Hussey (2003), some of the objectives of research are to contribute to the existing body of knowledge through the review of established theories and the creation of new ones, to understand and explain new phenomenon and to present a problem and possible solutions. Furthermore, research is a systematic process that entails several different considerations in the presentation and interpretation of data. This specific research is exploratory in nature, and it aims at looking at ‘patterns, hypotheses or ideas’ that will be studied to form the platform for further work.

The process of business research is made up of deductive and inductive theory. *Deductive* theory presents a reverse process that formulates a hypothesis based on already existing observations and findings whereas in the *inductive* process, observation and findings form the theory and the outcome of research. Both processes are illustrated below:

![Deductive and inductive processes](image)

*Figure 1.1:* Deductive and inductive processes

*Source:* Neville, 2005: p. 4

This case study is based on an inductive approach which intends to generate ideas out of data collected at ABN AMRO – Brazil. The goal is to make considerations on how the process of portfolio management is carried out in the bank in respect to what has been learned in theory. In order to do so, semi-structured interviews with managers at ABN AMRO – Brazil will be carried out in order to provide qualitative data in the form of detailed answers to questions on how project portfolio management contributes to product innovation. Underlying themes in the interviews will include the popularity of portfolio management tools and techniques and their implementation in the financial institution. Although the process in inductive, it will not necessarily generate theory. Bryman and Bell (2003: p.13) argue that ‘inductive strategy as associated with qualitative research is not entirely straightforward (…) and often uses theory as a background to qualitative investigations’. This means that the inductive process carried out in this research will be based on existing theories and its conclusion aims at supporting them.

Other issues affecting business research are the epistemological and ontological considerations regarding the field of study. Bryman and Bell (2003, p. 13) state that ‘an epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline’. Epistemological considerations make up a formal structure which can be divided into two sciences called positivism and interpretivism. Positivism encourages the use of methods common to the studies of
natural sciences to the investigation of social phenomena and for the explanation of human behaviour. It argues the objective nature of research, which is dependent upon the explanation of behaviours through facts and observations. Interpretivism opposes that theory by arguing that these methods diverge because of the ‘fundamentally different nature’ of people and institutions, encouraging the understanding of human behaviour (Bryman and Bell, 2003). Interpretivism, or critical interpretive research, argues the world is socially constructed and subjective, and that there is ‘no reality outside of people’s perceptions’ (Veal and Ticehurst, 1999: p. 20). The nature of this research lies in interpretivism because of the impossibility of disregarding the human interaction in the environment and the impact of such relation in the results obtained in the data collection phase. Human action in this study plays a major role in the adoption of the necessary tools and techniques required to generate innovative products and in the support for the implementation of project portfolio management. Some of the advantages of using interpretivism in the approach of research design is that enables the understanding of important social processes (Saunders, 2000).

The main concern of ontology goes beyond the ‘bare existence of individuals’ and focuses on their ‘forms of being’ (Guarino, 1995: p. 629). Ontological issues surround the nature of social entities and closely relate to epistemological considerations. Main aspects in ontology lie in propositions by objectivism and constructionism. According to Bryman and Bell (2003) the first term implies that ‘social phenomena do not depend upon social actors’ whereas the latter asserts exactly the opposite, or that ‘social phenomena are produced through social interaction’. In the case of the research undertaken at a large financial institution, it is important to understand how the understanding, knowledge and perceptions of individuals impact the implementation of certain important processes required for competitive advantage. Table 1.1 presents the fundamental differences between quantitative and qualitative approaches and indicates the specific area of knowledge creation in which this research is based.

<table>
<thead>
<tr>
<th>Principal orientation to the role of theory in relation to research</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epistemological orientation</td>
<td>Deductive; testing theory</td>
<td>Inductive; generation of theory</td>
</tr>
<tr>
<td>Ontological orientation</td>
<td>Natural science model; positivism</td>
<td>Interpretivism</td>
</tr>
<tr>
<td></td>
<td>Objectivism</td>
<td>Constructionism</td>
</tr>
</tbody>
</table>

Table 1.1: Fundamental differences between quantitative and qualitative research strategies
Source: Bryman and Bell 2003, p. 25

The table above shows the epistemological and ontological considerations involved in the formation of knowledge acquired through business research; the circle indicates where this case study lies. The first includes positivism and interpretivism whereas the latter is made up by objectivism and constructionism. In terms of research strategy, is possible to list both quantitative and qualitative approaches, which according to Byman and Bell (2003), relate to both epistemological and ontological considerations.
Chapter 2

2. Literature Review

2.1 Similar Studies

Solid academic work cannot be created without a thorough investigation of the existing body of knowledge in the area of the chosen studies. Knowledge is built upon existing theories, which help develop further understanding and support new findings. This section will discuss some of the previous studies done in the field of innovation, portfolio management, product development and strategy, which are topics and subtopics of this particular research. Most of the research discussed below has been used as the foundation for this case study, particularly the interview questions used by the authors to identify ‘issues, goals, concerns, metrics, and types of portfolio methods used’ (Cooper et al. 2001: p. 363).

Cooper (1984) and Cooper et al. (1999, 2000, 2001 and 2007) have extensively researched portfolio management practices for product innovation in large number of companies from different industries. Cooper (1984) explored the link between new product performance and strategy based on product programs from different firms. In the background study, the author argued that ‘product innovation is the route to growth and prosperity’, and found that companies with a better competitive edge had stronger market orientation in their innovation efforts. Cooper et al. (1999) argued that project portfolio management is vital for product innovation, listing some of the attributes that make it a priority for management. Among the most used methods for portfolio selection, financial was identified as the number one. The research was done in 205 businesses, segmented among high technology, processed materials, consumer goods industrial product and others. Managers were given detailed survey questionnaires with questions that included perceptions of portfolio methods, approaches used and overall performance. Cooper et al. (2000) explored the topic of new product development by connecting it to portfolio management. The authors argued that succeeding with a new product strategy depended upon doing projects right and doing the right projects. Portfolio management appeared as the tool for selection of ‘new product winners’ and of strategic alignment between the firm’s market effort and new product development. In this study, the reasons of importance of project portfolio management for innovation in firms were investigated, along with the effectiveness of project portfolio selection methods and challenges and problems in the area of project portfolio management. In another exploratory study of thirty firms, Cooper et al. (2001) sought to learn about the level of support of senior management to portfolio management, the most common techniques implemented along with their popularity and what distinguishes the best firms from the worst. Cooper et al. (2007) also investigated why some firms are successful at product innovation and identified portfolio management and resource allocation as one of the four major performance drivers. These drivers were depicted as a diamond, which at its center laid a business’s new product performance.
Although most research in the field of project portfolio management regarding innovation has its foundation in R&D, it is possible to list some studies on the topic undertaken in the financial industry (Scuilli, 1998; Montes et al., 2003; Gardiner and Gallo, 2007). Scuilli (1998) studied the adoption of incremental innovation in the banking/financial industry and found that smaller companies with fewer levels of hierarchy and formalization were able to achieve better results. Scuilli (1998) also linked investment banking to innovation, studying it as a product that undergoes constant changes. At the end of her research, she also signalled that radical innovation was more likely to be found at larger companies, with greater availability of resources. Montes et al. (2003) explored how quality and innovation relate to each other in bank branches through empirical research with a sample of employees from eighty different bank offices. The study also sought to investigate the relationship between organizational climate (work satisfaction, commitment and motivation) to the achievement of innovation goals. Gardiner and Gallo (2007) researched the UK financial sector and the need for strategic change through ‘projects or project portfolios’. The authors argued that innovation was among one of the challenges of financial organizations, and said that high levels of uncertainty dictated the need for a flexible approach to project management.

Important research has also been done in the field of innovation and competitive advantage. Studies confirmed that innovation leads to competitive advantage, and that innovative firms outperform their competitors in terms of market share, profitability, growth or market capitalization (Tidd et al., 2005). Another example that demonstrates the need to innovate in order to compete was the study conducted by Peters and Waterman (1982) quoted in Kandampully and Duddy (1999) that included forty-three of the best run companies in the USA, but by the time they finished their book, only two years later, fourteen companies were in financial trouble. A Business Week study later reported that those companies had failed to anticipate, react and respond to changes in the market place (Kandampully and Duddy, 1999). These authors also demonstrated in their research how continuous improvement does not guarantee competitive advantage, emphasizing the need for market knowledge and strategic planning in the innovation process.

2.2 Background of Project Portfolio Management

The development of project portfolio theory in this section will be presented in the following way:

![Development of portfolio management theory](image)

*Figure 2.1: Development of portfolio management theory*

*Source: Adapted from Müller (2005)*

Each framework will be discussed along with its background: project management and post-WWII engineering; program management and integration; project portfolio management and high-level multi-project management.
Project Management

The beginning of project management can be traced to a report published by the UK Institution of Civil Engineers on post WWII national development. The document pointed out the need for a ‘systemic approach’ with a planned break down of activities to achieve a fixed objective (Wideman, 1995). To answer to that demand, construction projects such as the Polaris program by the U.S. Navy and the Apollo Program by NASA were initiated. These projects were managed on an ad-hoc basis with the aid of tools such as the WBS, Gantt Charts and Critical Path Method.

Cleland (1999: p. 91) refers to ‘projects, as building blocks in the design and execution of organizational strategies, with the means for bringing about realizable changes in products and processes.’ Similarly, the Project Management Institute states that a project is a ‘temporary endeavour to create a unique product, service, or result’. Projects have constraints such as ‘scope, time and cost’; ‘quality’ is ultimately affected by the balance between these three elements. The process of project management is explained by stages such as project initiation, planning, execution, control and closure. (PMBOK 2004: pp.5-8). The figure below illustrates this process:

![Figure 2.2: The project management process](source: PMBOK (2000))

In the initiation phase, the project is reviewed for organizational fit and overall contribution to strategic objectives. This step includes a feasibility study, market research and the organization of the PMO. In the planning phase, people across the organization pool their knowledge to define the scope and the project’s roadmap. At this stage, different types of plans are defined, such as financial, resource, quality and communications. The following step comprises the definition of deliverables based on the various work packages. In controlling, the project’s deliverables, scope, risk and resources are monitored to ensure minimum or zero deviations, as well as overall success. The final stage, called closing, includes decommissioning of resources, handing over of project documentation and releasing final deliverables.

Finally, as part of the analysis of project management, it is important to list some of the elements that affect project success (Leintz and Rea, 1995):

- The clarity of project objectives
- The integration of project objectives and scope
- The interaction between the project and the organization’s strategy
- The skills of the project management team in implementing the project’s objectives
**Program Management**

In the 1960s, the concept of program management emerged from a need of a systemic view of all the organization’s projects. According to Morris and Jamielson (2005) program management is a powerful tool for implementing strategy because it includes all projects and programs undertaken by the organization. Most definitions of the term refer to the coordinated management of a collection of interrelated projects. The PMBOK (2004) adds that through a program an organization is able to achieve benefits that cannot be reached through managing projects individually. Gardiner (2005) also emphasizes that program management helps the firm to introduce a wider organizational context into their project management culture. Gardiner (2005) notes that program management (or management by projects) consists of a portfolio of projects, carefully prioritized and selected to implement the organization’s strategic plan, with phases such as ‘initiation, planning, delivery, renewal and dissolution’ (Pellegrinelli, 1997). Program management is strategic in nature, with ongoing operations for a given business unit that help an organization retain a strong customer focus (Boznak, 1996). Such organisation-wide programme governance framework has risen from the need of companies to respond the challenges of their competitive markets. The differences between project management and program management are listed below:

<table>
<thead>
<tr>
<th><strong>Programme</strong></th>
<th><strong>Project</strong></th>
</tr>
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<tbody>
<tr>
<td>An organising framework</td>
<td>A process for delivering a specific outcome</td>
</tr>
<tr>
<td>May have an indefinite time horizon</td>
<td>Will have a fixed duration</td>
</tr>
<tr>
<td>Evolves in line with business needs</td>
<td>Has set objectives</td>
</tr>
<tr>
<td>May involve the management of multiple, related deliveries</td>
<td>Involves the management of a single delivery</td>
</tr>
<tr>
<td>Focused on meeting strategic or extra-project objectives</td>
<td>Focused on delivery of an asset or change</td>
</tr>
<tr>
<td>Programme manager facilitates the interaction of numerous managers</td>
<td>Project manager has single point responsibility for project’s success</td>
</tr>
</tbody>
</table>

**Table 2.1:** Comparison of program and project management  
**Source:** Pellegrinelli (1997: p. 142)

The differences presented in *table 2.1* reinforce the idea that as organizations began to face increased pressures stemming from globalization, rapidly changing levels of technology and inconsistent consumer tastes, program management became a necessity. Program management helped organize both potential and approved projects and activities, and presented an integrated approach to project management. It answered to the need of working with higher level objectives that helped implement business strategy. It made important projects visible to top management and prioritized those with the highest potential for stakeholder value maximization.
Project Portfolio Management

1952, Harry Markowitz published a paper on modern portfolio theory (MPT), suggesting that a specific mix of investments, with carefully weighed risk levels could yield higher financial returns. Although the theory had a focus on the field of finance, it set the ground for research into its application in critically analyzing multiple projects. It signalled to companies that, when grouped for evaluation and prioritization under a set of criteria, projects could deliver better results. Figure 2.3 shows the evolution of Markowitz theory into concepts relevant to PPM.

Markowitz and the evolution of PPM

<table>
<thead>
<tr>
<th>MPM</th>
<th>PPM</th>
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<tbody>
<tr>
<td>1. Maximize return for a given risk</td>
<td></td>
</tr>
<tr>
<td>2. Minimize risk for a given return</td>
<td></td>
</tr>
<tr>
<td>3. Avoid high correlation</td>
<td></td>
</tr>
<tr>
<td>4. Are tailored to the individual company</td>
<td></td>
</tr>
<tr>
<td>1. Maximization</td>
<td></td>
</tr>
<tr>
<td>2. Balance</td>
<td></td>
</tr>
<tr>
<td>3. Strategic Alignment</td>
<td></td>
</tr>
<tr>
<td>4. Resource balancing</td>
<td></td>
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</tbody>
</table>

Figure 2.3: Selection and prioritization criteria for financial and project portfolios
Source: Bonham, 2004

MPT theory focused on the evaluation of the financial portfolio based on risk management techniques aiming at balance among investments. It used an ‘expected returns-variance of returns rule’ for choosing the investments in the portfolio (Markowitz, 1952). Markowitz’ principles in MPT theory were translated into a criterion for project prioritization that aids in the success of project portfolio management. In modern project portfolio management, other than risk and return, there are elements such as benefits maximization, balance, strategic alignment and resource levelling.

Later on, in the 1970s, the Boston Consulting Group developed a model for the analysis of different projects that aided companies in their investment decisions. It consisted of a matrix containing four different quadrants, where projects were placed according to two dimensions – business growth and market share:

BCG Growth-share Matrix

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Stars</td>
<td>Problem Child (?)</td>
</tr>
<tr>
<td>Cash Cows $</td>
<td>Dog (X)</td>
</tr>
</tbody>
</table>

Market Share

Figure 2.4: BCG growth-share matrix
Source: Adapted from Henderson (1979)
The method showed companies a different approach in selecting projects, clarifying that ‘one size fits all’ and generic strategies little contributed to the company’s long term competitive advantage. Henderson (1979), the founder of BCG, emphasized that a ‘portfolio of projects that generated products with different growth rates and market shares’ helped a business succeed. The matrix aids in strategic decisions because it sets products in a systemic framework consisting of:

★ ‘stars’, whose high share and high growth assure the future
★ ‘cash cows’, that supply funds for future growth
★ ‘problem children’, to be converted into ‘stars’ with the added funds
★ ‘dogs’, which are not necessary; they are evidence of failure either to obtain a leadership position during the growth phase, or to get out and cut the losses.

(Henderson, 1979: pp.163-166)

From a BCG matrix perspective, a business should have a balanced portfolio of projects, in which the cash flow generated by the created cash cows are high enough to develop ‘question mark’ and ‘star products’ to replace them in the future (Blomquist and Müller, 2006).

2.3 Findings of Background Study

‘Contrary to project management which focuses on single projects and program management, which concerns the management of a set of projects that are related by sharing common objectives or client, or that are related through interdependencies and common resources, PPM considers the entire portfolio of projects a company is engaged in, in order to make decisions in terms of which projects are to be given priority, and which projects are to be added to or removed from the portfolio.’

(Reyck et al. 2005: p.524)

Some important conclusions can be drawn after the analysis of project and programme management in relation to project portfolio management. Projects within program share a common, overarching objective and projects in portfolio share the same set of resources (Blomquist & Müller, 2006). Gardiner (2005) also suggests that in the case of conflict (e.g., in selecting projects within a limited budget) it is the role of the program manager to prioritize those projects that ensure the best overall results for the organization. Program management strategic nature aids in identifying the projects according to their interrelationships and to the new opportunities and capabilities it can deliver. Although program management has benefits such as alignment of business strategy and operational execution, greater visibility of projects to senior management, explicit recognition and understanding of dependencies, it still operates at a lower level than project portfolio management.
Figure 2.5: Linking corporate and project strategy


Figure 2.5 illustrates the argument that although many definitions of portfolio management derive from elements in project and program management, the former is at an advantage when it comes to the achievement of higher level business objectives and organizational strategy. It is important to emphasize, however, that program and portfolio management are ‘aggregates of project success’ (Müller and Jugdev, 2005: p. 2). Some of the differences between programs, portfolio and projects are listed below:

<table>
<thead>
<tr>
<th>Programs</th>
<th>Portfolio</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>Group of projects with shared resources</td>
<td>Individual undertakings</td>
</tr>
<tr>
<td>Focus</td>
<td>Time focus</td>
<td>Cost focus</td>
</tr>
<tr>
<td>Aim</td>
<td>Maximizing customer benefits</td>
<td>Maximizing economic resources usage</td>
</tr>
<tr>
<td>Perspective</td>
<td>Integrated temporary and permanent organization perspective</td>
<td>Permanent organization</td>
</tr>
</tbody>
</table>

Table 2.2: Comparison between programs, portfolio and projects

Source: Blomquist and Müller, 2006

After explaining project management, which is about ‘doing projects right’ and its transitions into program management and multiple projects, it is important to better understand why PPM is about ‘doing the right projects’ through the important definitions and techniques discussed in the relevant literature (Cooper et al. 2000).

2.4 Project Portfolio Management Definitions and Selection Processes

Kimmons and Loweree (1989) describe project management as an organizational approach to the accomplishment of objectives in an efficient manner. What usually exists after an enterprise has experimented with project management for a while is that several and perhaps many projects are under way, each having its own life-cycle
phases (Cleland, 2001). Roberts and Gardiner (1998) define project portfolio management as a tool for strategy implementation. Dye and Pennypacker (2002) complement this argument by stating that it does so through the alignment of projects with organizational strategy, values and culture, as well as with a focus on long term positive financial results. Bonham (2004) states that project portfolio management is periodic, and ultimately includes projects that are aligned with the organization’s objectives without exceeding available resources or overlooking constraints.

Taking into consideration what the authors have stated about project portfolio management, it is possible to define it as a platform for access and evaluation of multiple projects at different stages of completion, which can be prioritized, reviewed or killed during the dynamic decision process. This process is characterized by a high degree of uncertainty and by a need for strategic considerations that will allocate the necessary resources to those projects that can contribute to the sustainability of the firm. Most of the theories in project portfolio selection tools and techniques originated in research and development literature (Hall et al. 1992; Schmidt and Freeland, 1992; Chien 2002) and were further developed in other areas. Table 2.3 presents a summary of the main studies in project portfolio management that will be discussed in this section.

<table>
<thead>
<tr>
<th>Authors (year)</th>
<th>Main contributions/Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheelwright and Clark (1992)</td>
<td>Studied manufacturing firms and classified portfolios according to their degree of change. Formulated the ‘aggregate project plan’.</td>
</tr>
<tr>
<td>Englund and Graham (1999)</td>
<td>Designed a model for linking projects to strategy and emphasized the importance of upper management support for project success.</td>
</tr>
<tr>
<td>Archer and Ghasemzadeh (1999)</td>
<td>Presented an integrated framework for the project selection process</td>
</tr>
<tr>
<td>Dye and Pennypacker (1999)</td>
<td>Presented a collection of PPM selection techniques, tools, methods and applications</td>
</tr>
<tr>
<td>Cleland (1999)</td>
<td>Linked strategy to projects</td>
</tr>
<tr>
<td>Cooper et al. (2000)</td>
<td>Created the ‘Stage-Gate’: a roadmap for moving NPD projects from idea to launch</td>
</tr>
<tr>
<td>Cooper et al. (1997, 1998, 2000, 2002, 2004a, 2004b, 2004c)</td>
<td>Developed a widely used model for PPM definition and divided PPM into three main decision areas</td>
</tr>
<tr>
<td>Chien (2002)</td>
<td>Reviewed some of the existing project portfolio selection methods in R&amp;D and suggested a new taxonomy of attributes</td>
</tr>
<tr>
<td>Levine (2005)</td>
<td>Reviewed a series of best practices in PPM as well as the challenges facing organizations in the implementation of PPM. Coined the term ‘pipeline’ in PPM.</td>
</tr>
</tbody>
</table>

**Table 2.3:** Main studies in project portfolio management

Chien (2002) reviewed some of the existing project portfolio selection methods in R&D and suggested a new approach for establishing portfolio measurements with consideration of project interrelation. The study proposed a new taxonomy of attributes, named *independent, interrelated* and *synergistic* that help consider portfolio attributes in terms of portfolio objectives. According to Chien (2002), the
The first attribute relates to a project that makes contributions to the portfolio independently from other projects; the second is characterized by interrelated contributions of the projects; and the final is defined by the holistic contribution of the selected projects. Chien (2002) argues that since a combination of individually strong projects does not necessarily make up a good portfolio, it is necessary to design an ‘optimal’ mix based on the degree of interrelation among projects.

Similarly to Chien (2002), Loch and Bode-Greuel (2001) researched practices on R&D portfolios. The authors found that financial analysis in R&D projects were not fit to understand the intricacies of the business, and it was important to take a ‘real options approach’ that considered the high levels of uncertainty and risk involved in research and development projects. The suggested approach consisted of ‘decision trees’ with decision points that helped analyze the projects in terms of their importance and strategic alignment.

Wheelwright and Clark (1992) studied manufacturing firms and illustrated their findings through the case of a large scientific firm, PreQuip, that experienced serious problems in choosing and managing its projects. The researchers argued that PreQuip’s problems were common to many firms engaged in new product development. Some of the issues are listed below (Wheelwright and Clark, 1992: pp.71-72)

- Rising budgets and low levels of project completion
- Projects that reflected poor market knowledge
- More projects than anticipated, strain on human resources
- Lack of strategic focus and lack of formal process for project selection

Wheelwright and Clark (1992) suggested an ‘aggregate project plan’ to address these issues. The project map consisted of classifying the organization’s projects into five categories according to their degree of change.

![Figure 2.6: Five types of development projects](source: Wheelwright and Clark, 1992: p. 74)

Derivative, breakthrough and platform projects are commercial in nature, R&D projects are the foundation for future product commercialization and alliances can be either commercial or basic research. Because derivative projects generate incremental changes, they require little resources and research. Breakthrough projects create new
product ranges and categories, revolutionizing the existing market. These projects are more sophisticated, and require a bigger share of resources. Platform projects yield improvements in an existing line of products, to make it more efficient and attractive to specific target markets. Such projects require the involvement of a cross-functional team which can bring in the necessary knowledge to design products that yield competitive advantage. R&D projects are responsible for creating the know-how and know-why of new materials and technologies that will be used in the commercialization of all the firm’s initiatives. Finally, alliances and partnerships relate to any of the previously described projects, supporting them for overall success. Critically evaluating the ‘aggregate project plan’ it is possible to conclude that it allows for focus in the projects that have the highest potential for value creation.

Similarly to Wheelwright and Clark (1992), who created the ‘aggregate plan’ after studying the difficulties of manufacturing firms in selecting projects, Archer and Ghasemzadeh (1999) also proposed an integrated framework for selection based on the physical and financial constraints of the firm. Figure 2.7 illustrates the organized approach for project selection:

![Figure 2.7: Framework for project portfolio selection](image)

*Source:* Archer and Ghasemzadeh, 1999: p. 211

All the main stages in the framework (dark outlined boxes) are directly aligned with the firm’s strategy. At the pre-screening stage, project proposals that do not meet minimum requirements in strategic focus and content are eliminated. The reduced number of projects is then considered individually based on the level of risk, net present worth, resource requirements and feasibility at the individual project analysis stage. The screening of the remaining projects is done based on an agreed methodology, which includes organizational culture, problem solving style and project environment of the firm. The projects selected at this stage are those that are mandatory for the organization, because of the vital improvements in products and processes that are able to implement. At the optimal portfolio selection stage, qualitative and quantitative methods are used in the analysis of the projects. Other factors such as interdependencies, competition for resources and timing are also scrutinized so that only the most important projects are left in the final portfolio. At the final stage, decision makers define the final adjustments to the portfolio with the aid of graphic visualizations of the critical variables in the individual projects. If the
resulting process greatly differs from the optimal portfolio presented in the previous stage, it is necessary to return to the previous stages in the model to make adjustments in parameters and requirements. In the case the portfolio meets the objectives of the organization the post-process stages (project development, evaluation and completion) are followed.

The model suggested by Archer and Ghasemzadeh (1999) has the benefit of integrating widely used techniques in project portfolio management, so that managers in the organization can make informed decisions about which projects to select. The model also emphasizes the importance of linking projects to strategy, of integrating decision makers in the entire process and of eliminating complexities by formulating a system that takes into consideration the organization’s capabilities.

Dye and Pennypacker (1999) presented multiple project portfolio management selection techniques, tools, methods and applications in a collection of articles from different authors. The papers discussed the need for establishing the objectives for the overall portfolio in terms of strategy and alignment with the master project plan; it emphasized the need for support and agreement by the organization’s senior management team and it discussed the definition of clear measures for the portfolio’s objectives and the analysis of pertinent data on each project (risk, resources, schedule, deliverables, objectives).

Levine (2005) also compiled and reviewed a series of best practices in project portfolio management, as well as the challenges facing organizations in the implementation of PPM. Levine (2005) argued that the function of project portfolio management is to ‘integrate all of the firm’s projects for universal access and evaluation’ and defined project portfolio management as ‘a set of business practices that brings the world of projects into tight integration with other business operations’ (Levine, 2001: p.15). The author also stated that project portfolio management goes beyond ‘the management of multiple projects’ because its ultimate objective is to contribute to the ‘overall welfare and success of the enterprise’. Levine (2005) emphasized the importance of ranking and selecting projects for the ‘pipeline’ and pointed out the need for periodic evaluation of project status and performance for the success of the portfolio.

The technique highlighted by Levine (2005) was developed by Cooper et al. ((1997, 1998, 2000, 2002, 2004a, 2004b, 2004c), after empirically researching product development portfolios. The Stage Gate approach (Cooper et al., 2000) consisted of providing management with different types of information at different project stages so that Go/Kill decisions could be made at main decision points. Cooper et al. (2001) investigated popular methods of project selection and identified the dominance of financial methods such as NPV. Other methods included business strategy, bubble diagrams or portfolio maps, scoring models, checklists and others. Cooper et al. (2004a, 2004b, 2004c) also benchmarked new product development practices in order to better identify what distinguished top performers. Some of the results identified were support for innovation, a systemic process for project evaluation, tough gates at Go/Kill decision points and effective ranking of projects based on strategy. Cooper et al. (1999) also emphasized that project portfolio management is about making strategic choices.
Cleland (1999) discussed the strategic context of projects and argued that successful companies have a *stream of projects*. This entails the careful analysis of which projects are entitled to continued assignment of resources and which are not. This can be done through a project selection framework, with weighted criteria that establishes the relative importance of all the characteristics in the projects. The critical element of the evaluation approach is that ensures that the project selection process will be integrated with the organization’s ‘mission, objectives, strategy and goals’ (Pisano et al., 1997). This way, a firm can take its pathway to change through the use of projects which support organizational strategies. The role of strategy can be simply put as a set of decision rules which guide a company’s resource allocation process, taking into account both the short and the long term, with emphasis on allocating resources in uncertain conditions to achieve future objectives (Scott, 1997). The implementation of such decisions is done through multiple projects, or a project portfolio, that ‘bridges the gap’ between ‘the art of strategic planning and the science of project management’ (Gardiner and Carden, 2004). Because projects have such a vital role in the long-term survival of the firm, it is important to choose the ones that will yield the most benefits in the future.

Englund and Graham (1999) suggested a funnelling process that linked projects to strategy:

*Figure 2.8:* Funnelling process for strategic fit  
*Source:* Englund and Graham (1999: p.58)

Englund and Graham (1999) argued that project portfolio management is at the top of the management agenda because of its ability to generate successful new products and services. This is done through a funnelling process that eliminates the trivial many projects from the critical few that the organization can realistically complete. The process is made of screens that filter the whole range of proposed projects based on both quantitative and qualitative criteria, answering to questions such as strategic fit, market ability, financial returns and level of innovation.

### 2.5 Innovation

Over the last decade, a company’s ability to respond to its environment began to determine its success or failure. Companies can also not rely on passed success eternally. The only way to maintain success is by innovating and changing strategically, leading the organization to be ahead of its competitors (Bolton and Thompson 2005). The *innovation era* requires efficiency, creativity and growth. It
creates a new organizational context characterized by ‘intense competition, diverse markets, powerful end-customers, and rapidly changing technologies’ (Clark and Fujimoto, 1989). The intensity of rivalry among firms results from deregulation, fast time-to-market times, high levels of customization, knowledge accessibility and strategic focus. Diverse markets are composed by both international and product diversification of the firm. Thus, cross-border operations that generate higher levels of local and international competition and new product ranges that tackle new market segments (Porter, 1985). The ‘rapid obsolescence of products and services’ result of customers’ power in dictating how much they are willing to pay for more innovative substitute products (Cordero, 1991). Those firms that are not able to match the demand, or that do not supply products faster than competitors risk their survival. Finally, rapid changes in technology have improved the efficiency and effectiveness of the creation of products and services, and it has reconfigured processes that add significant value to customers. Never has the concept of innovation been so closely linked to competitive advantage, which is ability to serve customer’s present and future needs creating customer loyalty (Porter, 1980; Kandampully and Duddy, 1999).

There are many definitions to the term ‘innovation’ (Galbraith 1984, Smith and Tushman 2002, Cleland 2001 and Drucker 1985). Galbraith (1984) defines innovation as the application of a new idea to create a new process or product that can differentiate a company and maintain it fit as environmental forces and competitors’ strategies change. Cleland (2001) defines innovation as the creation of something that does not currently exist. Similarly, Drucker (1985) sees innovation as the process that creates ‘markets that nobody before even imagined’. Hall (1994) relates innovation to the company’s commercialization of a new ‘good, service or production method’ whereas Pinchot (1996) enlarges the scope of the term by relating it to the ‘methods, relationships and processes of the organization’. Generally speaking innovation is the process of having new ideas and converting them into reality; it goes from idea generation to implementation. Successful innovation is more than just ‘hatching ideas`, the ideas need to be implemented so they can bring specific results that create tangible customer value, improve process, and build new opportunities (Tucker, 1998). That is why innovation and projects are strongly related, every innovation will lead to a project, even if it is not formally treated as one.

There are several types of innovation described in the literature. According to (Cooper, 1998:p.8), innovation can be multidimensional with considerations on ‘product versus process, radical versus incremental and technological versus administrative’. Tidd et al. (2005) describe innovation by dividing it into four categories:

1. Product innovation – changes in the things (products/services) which an organization offers. These innovations can be incremental (less risky) or radical breakthroughs (more risky);
2. Process innovation – changes in the ways in which they are created and delivered;
3. Position innovation – changes in the context in which the products/services are introduced; and
4. Paradigm innovation – changes in the underlying mental models which frame what the organization does.
Smith and Tushman (2002) further explore this idea stating that organizations that ‘proactively shift the bases of competition’ do so by developing incremental innovation, as well as innovations that ‘alter industry standards and substitute existing products’. These two types of innovation are classified into incremental and radical, respectively:

**Figure 2.9:** Two types of innovation  
*Source:* Adapted from O’Connor (1998)

Incremental innovation introduces relatively minor changes to the existing product, often applied to existing markets and customers. This type of innovation occurs when companies gain input from customers, who ‘based on their own product usage and dissatisfaction with current technologies’ suggest important improvements (O’Connor, 1998). On the other hand, radical innovation establishes ‘new sets of core design concepts, and is driven by technological, market, and regulatory forces’ (Mikkola, 2001: p.425). The process of radical innovation involves the creation of completely new products, based on ‘opportunity recognition and evaluation’ to ‘explore the commercial potential of a new insight or discovery’ (O’Connor et al. 2001). In short, innovation in products can come in two basic ways:

- A discovery is made which leads to a new product. In this case, the market may not be perceived at the time the invention is made, or if a market is foreseen it may eventually turn out different from that originally envisaged; or
- A market need is foreseen and inventive, developmental work is done to create a product that will satisfy it.

(Webb, 2000: p.19)

Innovation has been linked to a variety of disciplines including entrepreneurship (Kanter, 1989; Zhao, 2005; Schumpeter 1942, 1985, Drucker 2006), organizational structure in terms of intrapreneurship and the learning organization (Gopalakrishnan and Damanpour, 1992; Kimberly and Evanisko; 1981; Drucker 1998; Pinchot and Pinchot 1978, 1996; Corso and Pavesi 2000), organizational performance and best practices (Cooper et al., Voelpel et al. 2005) and project portfolio management (Cooper et al., Cleland 1999).

It was not until Schumpeter (1942) discussed the role of innovation and the innovator in economic development that the topic gained momentum. First, the author argued against a proposed dependency of innovation on invention, stating that ‘innovation is possible without invention, and invention does not necessarily induce innovation’ (Schumpeter, 1939: p. 86). Later he discussed innovation as the essential role of the entrepreneur. Drucker (2006) explored innovation in the form of new ventures in today’s economy. However, the classical definition of the entrepreneur as someone
who ‘captures ideas, converts them into products and then builds a venture to take the product to market’ is giving away to the broader meaning of corporate entrepreneurship, or intrapreneurship (Johnson, 2001: p.138). Corporate entrepreneurship can leverage a firm’s financial resources, market knowledge, and managerial expertise to introduce a new or improved product, feature, or process to market. Innovation results from the work of intrapreneurs, people with initiative, talent and creativity within organizations (Pinchot, 1985). These individuals are highly capable of going into a business venture on their own, but choose to ‘build a venture within the walls of an established corporation’¹, bringing in a personalized, single-minded leadership in organizations” (Mintzberg et al. 1998). Intrapreneurs are usually found in corporations with a culture that embraces and encourages innovation and change, and their roles is to ‘modify the way [they] are run instead of creating them’ (Burns, 2005). Such organizations have less formal systems and controls, few layers of hierarchy, and their management styles are far more flexible than average. The policy is to ‘be tolerant of initiative and tolerant of the mistakes that occur because of that initiative’ (Coyne, 1996). These companies’ cultures reinforce the merit in Bernard Shaw’s theory that ‘organizations must respond to their environments instead of trying to adapt the world to their realities’ (Thompson, 2001). They do not believe that change in disruptive; instead, they find it necessary to respond to market demand and also to anticipate it. These learning organizations empower their employees by giving them the necessary authority to make decisions, to make improvements and to learn from the decision-making process. Such companies follow intrapreneurism as a form of management because they believe it ultimately results in significant levels of innovation through re-invention and launch of new products and brands. Examples are 3M, HP and General Electric. 3M’s ‘tradition of innovation’ is deeply routed in its flexible management structure and processes, quickly adaptability to its environment; HP has high levels of synergy between marketing and R&D that creates products that meet customer demands promptly; finally, General Electric counts on strong leadership styles to undergo constant transformation that enables it to frequently surprise its customers and to acquire new ones.

2.6 Project Portfolio Management for Product Innovation

Given the necessity of innovation for a firm’s survival, companies today have a large number of projects on both incremental and radical innovation competing for scarce resources, and creating a pipeline gridlock (Cooper et al. 2000). In studies on the critical success factors in top-performing firms in new product development, Cooper et al. (1997) identified project portfolio management as a decisive factor in efficiency because it enables for the selection of ‘right projects and right investments’ that will win the ‘product innovation war’. In a similar study, Mikkola (2001) argued that portfolio management aids in leading with uncertainty and in estimating the best set of projects. Mikkola (2001) suggested the use of a R&D project portfolio matrix in which projects could be identified according to the benefits that could generate to customers and the levels of competitive advantage that could yield for the company. Kuczmarski (1996: p.8) also referred to ‘a balanced new product and technology portfolio as the recipe for successful product innovation’. Figure 2.10 depicts project portfolio management as a driver of product innovation.

¹ http://mba.tuck.dartmouth.edu/cgl/downloads/Corporate_Entrepreneurship.pdf, Retrieved 30.10.07
Although the product innovation process consists of drivers such as new product development, organizational culture and innovation strategy, for the sake of this research, the focus will be on the role of project portfolio management. The goals of project portfolio management (focus on right projects, balance and strategic alignment) provide a structured setting for the application of most of the tools and techniques of portfolio selection (financial methods, strategy, bubble diagrams, scoring models, etc.) that enables the selection of projects at ‘the right quality, for the right price and at the right time’ (Cooper et al., 2001).

In spite of the critical importance of project portfolio management for product innovation, several studies have revealed it as a weak area (Cooper et al., 2006). Reasons include lack of strong Go/Kill decision points, weak criteria for strategic decisions, poor project prioritization and limited number of resources (Cooper et al. 2006). Dooley and O’Sullivan (2003: p. 23), when discussing the main causes of failure of innovation portfolios within organisations, also highlight difficulties associated with portfolio management:

- poor leadership and direction
- poor alignment between goals and projects
- poor monitoring of holistic process results
- poor planning and control of action implementation

Given the scenario, this research will assess project portfolio management practices and their contribution to the creation of innovative products and services through the following question:

**How does ABN Bank Brazil manage its project portfolio to foster product and service innovation?**

The study’s methodology is included in the following chapter.
3. Research Methodology

3.1 The Nature of the Study

Collis and Hussey (2003) classified types of research as descriptive, analytical, predictive and exploratory and explained their meanings. Descriptive research uses ‘quantitative techniques to collect, analyze and summarize data’ and analytical complements it by providing an in-depth understanding of the identified phenomena; predictive research ‘speculates’ about future events based on available evidence and exploratory research is ‘undertaken when previous or no studies exist’. Case studies fall in this category, and yield ‘generalizations, concepts or hypotheses that emerge from examination of data in a specific context’ (Willis, 2007). Furthermore, a case study is a type of qualitative observation, and it is most commonly defined as the ‘examination of a particular event, institution or group’. Qualitative and quantitative research differ in that the first is concerned with the collection of ‘words’, whereas the latter acquires and analyzes numbers. This case study is undertaken at ABN AMRO Bank – Brazil, and it aims at understanding how project portfolio management contributes to product innovation in the organization, and how effectively it is used.

In order to obtain primary data through interviews, the researcher is faced with the choice between unstructured, semi-structured, and structured. According to Collis and Hussey (2003), in structured interviews, participants are read out a ‘pre-determined and identical set of questions’ in a specific tone of voice that avoids influencing the outcome of the results. In semi-structured interviews, the interviewer prepares a set of questions before hand, but the flow of the conversation ultimately determines which will be chosen. Finally, in unstructured interviews, informal conversations are carried out with the purpose of fully exploring a single topic. In this case study, semi-structured interviews were conducted with managers from key areas of the bank. The purpose of this type of interviews was to conduct ‘exploratory discussions to reveal and understand not only what and how, but also to place more emphasis on exploring the why’ (Saunders et al. 1997: p. 212). One of the objectives was to build on the explanations of phenomenon by the interviewees in order to formulate new knowledge on possible definitions and meanings for existing theory. An interview guide was previously prepared, with questions and topics that had to be covered. Because of the flexible nature of semi-structured interviews, respondents had the chance to provide insights according to the flow of the conversation. According to Saunders et al. (2000), semi-structured interviews have exploratory qualities that allow for the discussion of certain areas that can help better formulate and understand the nature of the research question. Saunders et al. (2000) also suggests that managers are more prone to being interviewed than to respond to long and complex questionnaires.
3.2 Ethical Considerations

Ethical considerations and access issues are vital parts of business research. In this research, ABN AMRO has granted access for field work and to the use of its name in the case study title. An email was sent to the Head of Brand Management at the bank (Appendix), who issued authorization for the research. Use of known contacts in the institution was made to select managers that were involved with portfolio management in the bank. Following that, an introductory e-mail was sent to the participants to inform them about the context and importance of the research activity that would be carried out. The e-mail contained a brief explanation of the research topic, the name of the academic institutions involved in supporting the research and the proposed date for the meeting:

Dear Sir/Madam,

As I finalize my Masters Degree in Strategic Project Management from Heriot Watt University (U.K), Politecnico di Milano (Italy) and Umea University (Sweden), I present and defend a case study on ABN AMRO – Brazil. I would greatly appreciate if I could count with approximately thirty minutes of your time for an interview, during which issues on project portfolio management in the organization could be discussed with you.

I would like to emphasize that your name will be treated confidentially and will not be published in my work.

Once the interview was scheduled, managers were assured about the confidentiality in the process and were asked if they could be recorded. The recordings were intended to provide stronger support for the data analysis. The interviewee was also informed of the purpose of the research, and the work undertaken until that date. Furthermore, the finalized dissertation was made available for those involved in the process. Saunders et al. (2000: p.131) summarized some of the ethical considerations of research:

- The rights of privacy of individuals
- Voluntary nature of participation – and the rights of individuals to withdraw partially or completely from the process
- Consent and possible deception of participants
- Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity
- Reactions of participants to the ways in which researchers seek to collect data
- Effects on participants of the way in which data is analysed and reported
- Behaviour and objectivity of the researcher

Most of the interviews, once transcribed, showed a significant level of confidential and strategic information about the bank. This data has been translated into more general input, in order to be described in the findings. All details on how the bank operates in terms of its long term goals and objectives were omitted.
3.3 Company Description

Company information on ABN AMRO – Brazil has been extracted from the ABN AMRO Annual Report 2006 (pp. 50-52). For more information please refer to the website address http://www.investor.abnamro.com/financials/annuals.cfm. ABN AMRO2 was established in Brazil in 1917. It has consolidated its market position by acquiring Banco Real, Bandepe, Paraiban and Banco Sudameris along the years. ABN AMRO operates as Banco Real, which is Brazil’s third-largest privately owned bank, with over 28,500 employees maintaining 5400 branches and mini-branches servicing 9.7 million retail clients and over 3,500 corporate clients, including 400 of the largest corporations in Brazil. In 2007, after a long battle for its acquisition, the consortium lead by The Royal Bank of Scotland and made up of Fortis, Santander and RFS Holdings took over 86% of worldwide operations3 of ABN AMRO.

ABN AMRO – Brazil (Banco Real) aims to differentiate itself by satisfying client needs through the offering of a focused range of financial products and services and by establishing close, long-term and sustainable relationships with its consumer, private and commercial clients. Van Gogh Preferred Banking Services, which Banco Real offers to its mass affluent clients across Brazil, reinforce the bank’s international identity and provide a key aspirational element within its consumer banking strategy. The commercial banking operation uses a single product platform and sophisticated segmentation to enhance its focus and efficiency – thereby enabling Banco Real to deliver a seamless product offering for multinational corporations and to capitalise on its large mid-market commercial client base, served by specialised regional and mid-market relationship management teams. This approach has enabled the bank to capture new business opportunities throughout the current economic cycle and increase its market share among commercial clients, strengthening its position as one of Brazil’s leading commercial banks.

The bank has a significant number of departments utilizing project portfolio management at different levels to achieve their individual product development goals. These units operate ‘independently’, each being responsible for a single product in the bank that generates its own financial indicators. Innovative products include social environmental loans, small business finance and an Ethical Fund (first Social Responsible Investment fund in Brazil). Nevertheless, the bank has created innovative and successful partnerships with NGOs, which help establish sound relationships with the social sector. ABN was the first commercial bank in the country to develop a loan portfolio for those with limited access to credit from financial institutions. Although chosen locations for the implementation of the microfinance project are usually some of the most impoverished and violent areas, they present potential for productive activities in commerce, manufacturing or services, increasing the bank’s loan portfolio from EUR 0.2 million in 2003 to some EUR 5.8 million in 20064 (ABN AMRO, 2006).

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3.4 Sample Description

A total of 11 interviews were conducted at ABN AMRO – Brazil during four scheduled days in the month of December. Respondents were selected from a range of departments, and held a wide range of organizational titles (Table 3.1). The respondents were also chosen according to their knowledge on project portfolio management practices at the organization.

<table>
<thead>
<tr>
<th>Respondent #</th>
<th>Department</th>
<th>Title of Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IT - Platform for Shared Services</td>
<td>Manager</td>
</tr>
<tr>
<td>2</td>
<td>IT - Platform for Shared Services</td>
<td>Manager</td>
</tr>
<tr>
<td>3</td>
<td>Project Management Office (PMO)</td>
<td>Project Manager</td>
</tr>
<tr>
<td>4</td>
<td>New Products/Services Office</td>
<td>Manager</td>
</tr>
<tr>
<td>5</td>
<td>Commercial Projects</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>6</td>
<td>Commercial Interface</td>
<td>Manager</td>
</tr>
<tr>
<td>7</td>
<td>Private Clients</td>
<td>Manager</td>
</tr>
<tr>
<td>8</td>
<td>Credit cards &amp; Innovation Office</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>9</td>
<td>Services Implementation</td>
<td>Manager</td>
</tr>
<tr>
<td>10</td>
<td>Credit cards &amp; Innovation Office</td>
<td>Manager</td>
</tr>
<tr>
<td>11</td>
<td>IT - Platform for Shared Services</td>
<td>Manager</td>
</tr>
</tbody>
</table>

Table 3.1: Respondent number, department and role.

3.5 Interview Questions

The main issues analyzed in this research have originated from previous studies in the field of project portfolio management. Investigations done by Cooper et al. (2000, 2001, 2002, 2004a, 2004b, 2004c) in a large number of firms in different industries have uncovered several issues that were useful in supporting most interview questions on product innovation efforts. In the literature, interview questions were generally in the following categories:

<table>
<thead>
<tr>
<th>General Concepts</th>
<th>Project Portfolio Tools &amp; Techniques</th>
<th>PPM Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• PPM definitions</td>
<td>• Identification of portfolio methods used</td>
<td>• Identification of principal goals that businesses are trying to achieve via PPM</td>
</tr>
<tr>
<td>• Reason for importance</td>
<td>• Effectiveness of project selection and portfolio methods</td>
<td>• Relationship between PPM and product innovation</td>
</tr>
<tr>
<td>• Perceived overall value</td>
<td>• Insights into industry’s use of portfolio methods</td>
<td></td>
</tr>
<tr>
<td>• Challenges and problems in the area of PPM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Various characteristics (formality and explicitness) of the portfolio management approach employed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Perception of models and methods by management and overall satisfaction with methods used.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.2: Categories of interview questions according to literature
The questions were designed after the identification of the common topics particular to this field of research. The objective was to formulate questions in simple wording that could maximize the level of information obtained from the interviewees. Although presented in sequence below, the interview questions did not follow a specific order, given that the flow of conversation dictated the logic of the interview. The application of the theoretical framework to the answers can be found in Chapters 4 and 5.

1. How do you select candidate projects? Are you using any criteria?
2. Is your project selection related to strategy? How is it related?
3. In the process of developing a new product or service, do you kill any projects? Why? How?
4. Do you believe financial considerations in selecting projects (NPV, ROI) to be more important than strategic alignment?
5. How many projects are run at the same time in your department? Are these projects different? How?
6. Are you working differently with your portfolios at different parts of the bank? (or) Do different departments handle their portfolios differently?
7. Is there any ‘internal marketing’ for projects? Is this done? (This means a person to champion a specific project by showing its value to others/putting on the intranet etc)
8. When you select candidate projects how often do you think in terms of ‘platforms’ or ‘real options’?
9. How would you describe the scale of projects in your department?
10. How many projects are you a project manager for today? Have you ever had a project killed ‘midway’? Why? Do you wish this was done at the screening process? Do you think the screening process is effective at your department?
4. Findings

4.1 Project Portfolio Management Practices: Two sides of the same coin

During the research, it appeared evident that the bank has different project portfolio management practices and levels of application depending on the projects it has under consideration. All respondents pointed out a distinction between project selection methods for large/institutional projects and smaller/internal projects.

Respondent 1 stated:

Consolidated criteria for project portfolio management can only be found in the analysis of large, expensive projects. Smaller projects, which are usually run in one department, are not chosen according to fixed criteria; in fact, it is more about having people saying ‘ah, ok, let’s do it, I guess’.

Respondent 7 added:

We are starting to see a strong methodology for screening and selection of projects in the portfolio. Unfortunately, this is only present at higher level portfolios (those including institutional/large projects). In my department, whoever screams louder, wins...

The interviews indicated a distinction between project selection practices in the bank. Whereas internal/smaller projects continue to be selected without a fixed set of criteria, larger/institutional projects have started to undergo well-defined decision forums, in which they are scrutinized and ultimately classified according to their priority level.

4.2 The Project Portfolio Management Forums

For many years, the bank worked without a formal process of project selection and many interviewees showed significant levels of dissatisfaction with it:

Respondent 1 stated:

Before the PPM Forums, any employee could register a project in the bank’s computer system. That project was immediately approved by the system, and went straight to execution. There were many problems with this procedure: some of the projects were very similar to other ongoing ones, people in the department suffered from long work hours and a loss of focus, IT requirements put a huge strain on the operational side of the bank, and employees were always frustrated with the lack of justification to why that specific project had been chosen. Now we are finally starting to see a strong methodology for
screening and selection of projects in the portfolio which clarifies the importance of chosen projects, winning overall support.

Respondent 5 added:

The established set of criteria for project selection is very close to many proved theoretical models, and that raises the level of confidence in the overall effectiveness of the process. We are starting to believe in the methodology, and in the filter applied in the project selection. These forums are new, but they are a huge effort to standardize and formalize the project selection process at this institution, making it more effective.

The standardized and formal process for project portfolio selection in the bank developed from an initiative with a large consulting firm in one of the bank’s departments. The process emphasized the need for strategy-based project selection, which entailed the definition of the department’s long term strategy, later to be used as selection criteria for candidate projects. The process proved efficient, and was later rolled out to the entire institution, in the shape of structured, standardized and formal forums. A summary of the objectives and characteristics of the PPM Forums can be seen below:

<table>
<thead>
<tr>
<th><strong>Definition</strong></th>
<th>Formal and standardized decision forums for the selection, prioritization and monitoring of institutional projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Participants</strong></td>
<td>Executive Committee (President, VPs and Ex. Managers)</td>
</tr>
<tr>
<td><strong>Project Classification</strong></td>
<td>High, Medium and Low (acc. to level of required financial investment)</td>
</tr>
<tr>
<td><strong>Type of Projects</strong></td>
<td>Maintenance, Regulatory, Innovation (New Prod/Service)</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Every 2-3 months</td>
</tr>
<tr>
<td><strong>Measures/Criteria</strong></td>
<td>Financial, Strategic, Operational (i.e. IT hours), Level of Risk</td>
</tr>
<tr>
<td><strong>Decision</strong></td>
<td>Reports Red/Yellow/Green</td>
</tr>
</tbody>
</table>

**Table 4.1: PPM Forums at ABN AMRO - Brazil: objectives and characteristics**

The main objective of the PPM Forums is to formalize and standardize the process of project portfolio selection in the institution. To reach this goal, the President of the bank, along with all the VPs and Executive Managers, set up regular meetings every 2 to 3 months, in which projects are presented, studied, selected, prioritized, and also monitored. In order to facilitate the process, projects are presented in the form of structured reports, which include detailed financial, strategic and operational information that the ‘sponsor department’ of the project must fill out. This information is carefully analyzed internally and decided in a consensus between the project sponsor and the future participants in the project before it reaches the Forums. Once in the committee, the projects are then classified into high, medium and low,
according to their levels of required investment. Each portfolio also presents a good balance and mix of projects, having different objectives such as the creation/improvement of products and services (Innovation projects), the implementation of new laws or regulations by the government (Regulatory projects) and the monitoring of existing technology/procedures (Maintenance projects). Once the projects are analyzed against a fixed set of criteria, they are classified as red (no Go), yellow (Further Study Required) or green (Go).

The selection criteria

Cooper et al. (1985) emphasize the need for a structured screening model, which applies the correct filters to the projects in the portfolio. The authors also state that organizations can ‘employ their own screening models’ as long as they use appropriate dimensions to review the project and its importance/potential for success. The interviews revealed that at ABN AMRO – Brazil, each of the evaluators at the PPM Forums assigns factor scores for a pre-determined set of criteria. Key factors or dimensions under consideration include ‘product superiority, quality and uniqueness’, ‘technological platform requirements’ and ‘client focus’.

In the literature, Cooper et al. (2001) studied popular methods of project selection and identified the dominance of financial methods such as NPV. Although other methods are present, such as bubble diagrams or portfolio maps, scoring models, checklists and others, business strategy seems to be one of the most studied in terms of its application and use in the project selection process. The debate lies in whether financial methods are more effective than strategic criteria in analyzing projects in the pipeline.

In order to determine which method is the most present at ABN AMRO – Brazil, respondents were asked which method of portfolio selection they believed to be the dominant one at the recently established PPM Forums. The results of the interviews reinforced the debate in the literature over which selection method is the most used.

Dominance of Portfolio Selection Methods

Graph 4.1: Dominance of Portfolio Selection Methods
Graph 4.1 indicates an even distribution of the portfolio selection methods at the bank. Although a higher percentage of respondents (37%) found that strategy is mostly used for allocating resources across different types of projects, financial methods are believed to be the most popular according to 27% of the respondents. This represents the same percentage of interviewees stated that financial and strategic criteria hold the exact same weights in project selection because of their interdependency. Finally, 9% of the interviewees were not able to say which method was the most dominant one.

During the interviews, different statements were recorded indicating that the selection methods would appear quite evenly distributed in the project portfolio selection process in the institution:

Respondent 7 stated:

In terms of selection criteria, I would definitely say that strategy holds a lot more weight in the decisions than the financial considerations…In the bank, all projects originate in strategic considerations to where it wants to be, what it wants to achieve. It would not make sense if it did not hold the biggest weight.

Respondent 6 argued:

Financial considerations have a much stronger role than strategic ones in project prioritization and approval. If we have a project that is of strategic nature, but does not show strong potential for financial returns, it will never be approved. Although the bank always searches for strategic alignment in its projects, the search for profit maximization always wins at the end.

Respondent 8 stated:

There is a good balance between the weights assigned for financial and strategic considerations. In fact, I believe they hold the same importance and the same weights in the project selection process.

The interviews could not clearly specify one dominant approach for portfolio selection at the bank. Instead, they reinforced the debate found in the literature to which methods are most employed.

Graph 4.2: Criteria used to rank projects
The results depicted in Graph 4.2 are in line with a study on portfolio management for new product development (Cooper et al., 2001: p. 11) that found that ‘at the top of the list is strategic fit and financial reward’. Also according to the study, ‘other important selection criteria include risk and probability of success, as well as the business technological and commercial capabilities to undertake the project’. The compilation presented in Graph 4.2 is of similar or correlated criteria found in the interviews with the correspondent frequency of mention. The results show that 100% of the respondents mentioned financial and strategic criteria in project selection. Innovation appears as the second most cited criteria among interviewees, with technology capacity ranking third.

**The Challenges**

One of the main challenges is to implement standardized project portfolio selection methods in an institution at this size. The bank also has a number of projects that were approved in the past and are still ongoing, which takes up some of the important resources of the institution.

Respondent 4 stated:

The new methodology is solid and good, and encourages the departments to think beyond when suggesting projects for the pipeline. For many years we were executing projects because we had time and resources to do so, not because they were really important for the bank. The challenge of this new methodology is to establish an overall perception of the importance of the new procedure for project selection, showing that its main objective is to make appropriate allocation decisions, maximizing benefits of the chosen projects.

Respondent 5 complemented:

We can already see some improvement in project prioritization. The challenge with the Forums is to make good and efficient allocation decisions. For many years the bank worked with *all projects on the same boat*, and that made it difficult for us to have an accurate perception of their overall alignment with strategy and the possible achievement of objectives.

Although one of the objectives of the PPM Forum is to make the project selection process more effective and clear, it still has to work out the problems generated by the lack of a strong and effective filter in the past. Moreover, the Forum has to take into consideration those projects that are regulatory or mandatory for the bank. Such projects ‘skip the line and the filter’ because without their execution, the bank cannot operate. Because these projects also demand human and financial resources, it is a challenge for those in the decision forum to best allocate the efforts between those projects and others waiting in the pipeline.

Another challenge is to roll out this standardized process to the entire organization. While ABN AMRO – Brazil has significantly improved its PPM practices, it has also segmented them in a way that to reach only those ventures that represent higher investments. The classification of projects according to the level of investment required (high, medium and low), still leaves behind those that are not as representative.
4.3 Innovation

According to the respondents, innovation is a strong factor in the selection of projects at ABN AMRO – Brazil. There is a strong understanding on the importance of innovation for competitive advantage (Porter, 1985). Innovation is a strong criteria in the project portfolio selection, being understood as highly strategic.

Respondent 1 stated:

The bank welcomes creativity and good ideas. If the project is innovative and feasible, it has great chances of being approved. In fact, if there are similar projects competing for resources, and one is more innovative than the other, the first wins.

Respondent 6 stated:

Banks today are perceived by customers as being quite similar to one another. This is what encourages us to overcome the barrier of similar technological platforms to create what is most innovative to our target market. We have the understanding that in this type of industry, product differentiation and good market positioning for new products and services are key to our long term success. Thus, innovation today is part of our DNA at ABN AMRO – Brazil.

Innovation has become part of the institutional culture, and has been translated into important initiatives. Not only has the bank launched several innovative products and services over the years, but it has also created an innovation cell inside the corporation.

**The Innovation Cell**

The innovation cell lies in the core of the organization, inside the bank’s Information Technology (IT) Department. The people hired for this specific cell have a history of working with radical and incremental innovation in different industries. Some of the objectives of the department are:

- To spread the culture of innovation among other sectors of the institution;
- To identify market trends & make project proposals;
- To generate new technology, and test it

![Figure 4.1: Innovation cell](image)

The innovation cell of ABN AMRO – Brazil gives support for its entire banking business by generating ideas and implementing them through different initiatives. Innovation is seen as directly related to financial results and it has become part of the institutional mission and overall strategy. Many of the respondents have stated that most of the projects that are prioritized at the decision forums have significant levels of innovation, and are chosen because of their potential for competitive advantage and market focus.
4.4 Types of projects and the balanced portfolio

It was possible to observe during the interviews that the bank is making an effort to achieve a balanced portfolio, with different types of projects that aim at achieving different strategic objectives.

Respondent 3 stated:

Today the bank has a much diversified project portfolio. In the PMO, where I work, we give support to regulatory, innovation, operational risk, maintenance and commercial projects. The PMO started five years ago, from the need to implement Basel II at ABN AMRO – Brazil, and today, it has a much bigger scope, and a wider project umbrella.

Distribution of Types of Projects

Graph 4.3: Distribution by project type

According to the respondents, the distribution of the types of projects can be depicted in the following manner:

Infrastructure projects are those that generate improvements in the business capacity of the bank; regulatory are mandatory projects, usually created by the government and to which the bank must abide to; innovation projects are those that create new products or services, or generate improvements in them; risk projects are of operational/financial or legal nature; commercial projects are those that create touch points between the client and the bank, and maintenance projects are those complementing existing projects in the institution.

It was also identified in the interviews that selected projects usually work as ‘platforms’ or ‘real options’ at the bank. The concern with efficiency and time to market at the institution is translated into approved projects that will be able to contribute to the development of other initiatives in the future i.e. ATM security technology that eventually will be used to avoid credit cards fraud as well.
Respondent 4 commented:

The bank has a good understanding about the importance of working with ‘platforms’ or ‘real options’. We can observe that most of the projects that are run today aim at maximizing and extending their achievements to other areas of the bank, to other projects. When the investments are high, it is almost certain that pieces of the original project will appear in other institutional ventures.

4.5 The PMO and project management practices

During the interviews, it was noted that the role of the PMO (Project Management Office) in the bank is quite recent, having originated from a need to improve the existing project management practices in the different departments. One of the roles of the PMO is to bring in the technical expertise to projects that make their management somehow standardized across the institution. Respondents said in the interviews that one of the main issues in project management efficiency derived from the different way that projects were managed in the various sectors of the bank.

Respondent 1 stated:

Different departments handle their projects differently. We do not work with a fixed and verified methodology, and we do not have a standardized procedure to work out the project demands. This creates endless problems, not only in achieving the desired project results, but also in being efficient when managing projects.

Application of Standardized PM Practices

![Pie chart showing the application of standardized project management practices with 73% Yes, 18% N/A, and 9% No.]

Graph 4.4: Application of standardized project management practices

When asked ‘Is there a fixed and standardized PM methodology across departments?’ Most of the respondents stated that different departments handle their projects differently. The results are displayed in figure 4.4. It can be inferred that one of the main objectives of the PMO at ABN AMRO – Brazil is to bring in the
necessary knowledge in project management tools and techniques not only to make it more effective, but to also create a unified view of the process.

Moreover, the PMO at ABN AMRO – Brazil appears to extend its role to other aspects of project management.

Respondent 2 said:

The PMO is a great help because it brings to the different departments the methodology of project management. It also helps because it creates an interface between the sponsor department of the project and the other areas that must be involved.

Respondent 4 said:

When there is no PMO involvement in projects, we notice that they are handled differently; they mirror the practice and experience of the people involved and of the project sponsor. I can say that with the lack of a PMO, project management becomes a social science, with absence of objectivity and excess of personal interests. When this happens, we all have a tremendous amount of work, and we usually see no results.

The respondents also argued the importance of the PMO in getting the project management team on board, and on selling the idea and importance of the project to other departments. The PMO helps in getting everyone’s noses pointing in the same direction, acting like marketing agents for the initiative. Below are some of the recognized roles of the PMO cited in the interviews and the frequency of mention.

**Graph 4.5:** Identified PMO roles and frequency of mention

Most of the project managers in the PMO at ABN AMRO – Brazil are PMI (Project Management Institute) certified, and have the appropriate methodology to manage different projects. Many respondents stated that this technical expertise helps not only in the project implementation stages, but it is crucial in the monitoring and control phases. Respondent 6 stated during the interview that ‘the
PMO is important because it ties the knowledge on project management techniques with the department’s market expertise.

The PMO also controls the demands of the project and monitors the results. The project managers in the departments make sure that stages of the project are being completed by performing constant follow-ups with involved parties. Respondent 5 stated that ‘when a project is not monitored, it is usually forgotten. When nobody remembers it exists, it invariably loses importance and dies’.

In terms of communication among all the involved parties in the project, the PMO functions as a focal point. It is the responsibility of the project manager to be the interface among departments, understanding new demands and identifying possible problems. The centralization of procedures in the hands of the project manager also brings a level of standardization of processes, bringing results faster and more efficiently.

Finally, Respondent 10 defined the PMO in the following way:

The PMO exists because it is not enough to have great ideas the whole time…Those great ideas must be implemented to become a reality.

4.6 When projects die…

In the literature, projects die for a number of reasons. Wheelwright and Clark (1992), in an investigation on project management practices at a large manufacturing firm, pointed out that a strain on human resources and a lack of focus were indications for projects that were at risk of failure. Based on this study, participants were asked to answer if they were ever involved or participated in a project that had been discontinued. Surprisingly, 100% of the respondents gave an affirmative answer. Following that, participants were asked about the number of projects that they are involved at the same time in their departments in order to understand if the situation described in theory was true for the context of ABN AMRO – Brazil.

**Number of Project/Employee**

![Graph 4.6: Number of projects managed simultaneously by each employee](image-url)
Since the number of simultaneous projects per employee did not indicate a reason for the ‘death’ of projects, other reasons were investigated. The table below shows some of the ones listed by the interviewees as to why projects are discontinued. Although some respondents linked project failure to lack of management support, lack of project buy-in, and inefficient monitoring and control, most participants argued that the main reason lied in strategic drift. Some projects in the organization have long durations, and it is frequent to encounter a significant change in technology, legislation or competitive forces that make an ongoing project to lose its meaning. Moreover, most of the respondents used the term timing to describe project death. Whenever mentioned, the word is linked to the market context in which banks are found, to describe the unprecedented forces that quickly make projects obsolete from one moment to the other.

Respondent 3 said:

I will tell you about my experience (…) I was the sponsor of a project two years ago when the team suddenly had to stop because the competition went one step beyond what it would be achieved by our project. Another bank, our direct competitor, gained access to new technology, and that changed the whole scenario for us. It did not make sense to continue our project because it had completely lost its strategic value. The strategic drift resulted from the rapid environment we work in…

Respondent 5 complemented:

Strategic drift results from a natural process of the institution to look its competitive environment, in order to analyze if the choices made at the beginning of the project are still justifiable. It is an important process, and we in the organization have learned how to accept that when the context changes, the project will invariably change.

The second most important reason for project death according to respondents was poor screening. Although it can be observed that the bank is improving its project portfolio management practices by establishing frequent forums for Go/No Go decisions, many employees believe that they will only reap the results of the recently implemented methodology for project selection in the future. For several years, the bank has failed at a rigorous and effective screening, invariably leaving behind a significant number of projects with little potential for success.

Respondent 6 said:

For a long time we suffered from a disease called excess prioritization. We had an overflow of projects in most of the departments at the bank, and we had to try to make room for all of them. It was complete chaos, and I truly believe
that this happened because of poor selection methods. There was no effective screening, which resulted in the failure and termination of countless initiatives.

The early termination of projects at the bank due to poor screening might be close to an end, according to interviewees. In fact, Respondent 7 emphasized that the recently approved projects by the portfolio decision forums had gone through unprecedented scrutiny in the initial filter, and that this has generated an overall level of confidence that the mistakes made in selection will dramatically decrease.

Respondent 8 commented:

One of the biggest and most important objectives of the PPM Forums is to avoid project termination. The ideal scenario is that in the initial stages of the project, much is known about its importance and goals, getting everyone on board for the initiative. The applied filter must be effective enough to approve only those projects have a clear value to the institution.

4.7 Summary of Findings

This section is a discussion and summary of the findings from the data previously presented. It aims at providing a deeper understanding of the project portfolio management process at ABN AMRO – Brazil and its level of application to product and service innovation.

After conducting the semi-structured interviews at ABN AMRO – Brazil, it was concluded that for many years, the bank has chosen its projects without a fixed or standardized methodology. Employees mentioned the difficulty in selecting and prioritizing projects by department, which lead to a loss of focus because of the large number of chosen initiatives. Recently, however, with the acquisition of ABN AMRO by the consortium lead by The Royal Bank of Scotland and made up of Fortis, Santander and RFS, several changes began to take place. The improvement of the project portfolio management practices in the bank indicates a concern with better allocation of human and financial resources by the institution. The recently established decision forums, where senior management periodically gathers to discuss, approve and prioritize projects are gaining momentum. There is an overall understanding of the importance of the new methodology, which according to employees ‘sets the beginning of a better project management era’. The challenge, however, still lies in extending the practices of the forums to smaller and less representative internal projects. The distinction between the approval processes of projects according to their level of investment does not bring together the efforts in the bank, and creates different portfolios across business areas. This in turn, generates difficulties in managing projects.

Another important issue raised in the interviews was the different project management practices of approved projects in the various departments of the bank. The concept of a PMO is fairly recent, so it is very common to encounter initiatives that are managed without the appropriate technical expertise. Whereas some projects appear to be flawless from initiation to closure, others experience problems because of the lack of knowledge in project management by its sponsor and project team.
In terms of selection criteria, projects appear to be chosen first based on strategy, followed closely by financial methods. Undoubtedly, product and service innovation appear as the strategic focus of the organization, having significant weight in project selection at the decision forums. It was also found that because the role of information technology in innovation projects is fundamental, ‘IT hours’ are looked upon as one of the factors in decision making.

Finally, the concern with differentiation in the financial services sector indicates a need for a balanced portfolio of projects. The decision forums must consider a variety of initiatives, made up of maintenance, regulatory and innovation projects. Organizational goals are most likely to be achieved through a balanced portfolio that can work as ‘platforms’ for other relevant ventures.
Chapter 5

5. Conclusion

5.1 Discussion of Findings

This qualitative study investigated project portfolio management practices at ABN AMRO - Brazil and their role in innovation.

The following research question was asked:

How does ABN Bank Brazil manage its project portfolio to foster product and service innovation?

Along with the research question, a set of research objectives were listed in the initial chapter of this paper to guide the theoretical and managerial frameworks encountered. This first section will review those objectives in terms of the findings in the case, linking them to the respective theories discussed in the literature review.

1. To describe the features of project portfolio management and its applications

Taking into consideration the literature on project portfolio management, it is possible to define it as a platform for access and evaluation of multiple projects at different stages of completion, which can be prioritized, reviewed or killed during the dynamic decision process. This process is characterized by a high degree of uncertainty and by a need for strategic considerations that will allocate the necessary resources to those projects that can contribute to the sustainability of the firm. Cooper et al. (1986, 2000, 2001 and 2004) investigated a number of organizations and benchmarked most common practices in new product development. In the research, the authors emphasized the importance of effective project selection and prioritization for the maximization of R&D dollars.

Recently, ABN AMRO – Brazil has started to implement some of the known and proved project portfolio management practices in the literature in the form of decision forums. The meetings consist of the analysis of every department’s portfolio under a fixed set of both quantitative and qualitative criteria. According to the data collected in the semi-structured interviews at the bank, portfolio management practices appear to be working in a moderately efficient fashion. Respondent 3 noted that the process has brought a better balance among approved projects, which in turn, generate a more complete portfolio. Today, approved projects have gained overall credibility and support because they are known to undergo a thorough analysis by the highest hierarchical group of the institution.

The recently established decision forums present a great potential for improvement and growth, since they show some of the characteristics of top performers cited by Cooper et al. (2001) on portfolio management for new product development research.
According to the authors, the best performers:

1. Have an explicit, established method of portfolio management;
2. Where management buys into the method, and supports it through its actions;
3. The method has clear rules and procedures;
4. It treats projects as a portfolio (considers all projects together and treats them as a portfolio), and
5. It is consistency applied across all appropriate projects.

(Cooper et al. 2001: p.14)

The data collected indicated that the process of project portfolio selection established at the bank is well-known and understood by its many employees. Management is able to support the initiative not only because it has clear rules and procedures, but also because they are involved in most of its stages. Furthermore, the balanced nature of the portfolio (regulatory, operational, commercial, innovative projects) allows for a holistic approach to project selection.

2. To show how project portfolio management allows for the effective prioritization of projects and to identify most popular techniques;

For many years, ABN AMRO – Bank has faced the challenge of developing effective project portfolio management practices. The bank has struggled mostly with the screening of projects, which according to Englund and Graham (1999), is the funnelling process that links projects to strategy. Such process was described in the practitioner literature of Levine (2005) as a project portfolio life span and is illustrated in the figure below.

![Figure 5.1: The project portfolio life-span](image)


In the interviews recently conducted at the organization, most participants indicated that departments suffered from an overflow of projects that did not show strong organizational fit. In the practitioner literature of Levine (2005), a compiled and reviewed a series of best practices in project portfolio management is presented, along with the challenges facing organizations in the implementation of PPM. Levine
(2005) argued that the function of project portfolio management is to ‘integrate all of the firm’s projects for universal access and evaluation’ and defined project portfolio management as ‘a set of business practices that brings the world of projects into tight integration with other business operations’ (Levine, 2001: p.15). The author also stated that project portfolio management goes beyond ‘the management of multiple projects’ because its ultimate objective is to contribute to the ‘overall welfare and success of the enterprise’. Levine (2005) emphasized the importance of ranking and selecting projects for the ‘pipeline’ and pointed out the need for periodic evaluation of project status and performance for the success of the portfolio.

In terms of selection methodology, Cooper et al. (2001) argues that top performers ‘rely much less on financial models’ for project portfolio selection. This has been observed at the bank, where strategy appears to be the dominant method for selection and prioritization. In fact, the concept of innovation is considered strategic by the institution, and it has been made strong criteria in the selection and prioritization of projects. Innovation has become part of the organizational culture, being treated as a high level objective on which competitive advantage depends upon.

3. To present the reasons why project portfolio management is important for product innovation;

Cooper et al. (2001) uncovered the reasons for the importance of project portfolio management among senior management in different firms.

- Financial – to maximize return, to maximize R&D productivity; to achieve financial goals;
- To maintain the competitive position of the business – to increase sales and market share;
- To properly and efficiently allocate scarce resources;
- To forge the link between project selection and business strategy;
- To achieve focus – not doing too many projects for the limited resources available, and to ‘resource’ the great projects;
- To achieve balance – the right balance between short term and long term, high risk and low risk ones, consistent with the business’ goals;
- To better communicate priorities within the organization, both vertically and horizontally;
- To provide better objectivity in project selection.

Cooper et al. (2001: p.364)

Innovation can be defined as the creation of new or improved products that are essential for the long term success of any firm. The innovation process is directly linked to project portfolio management in that the goals of project portfolio management (focus on right projects, balance and strategic alignment) provide a structured setting for the application of most of the tools and techniques of portfolio selection (financial methods, strategy, bubble diagrams, scoring models, etc.) that enables the selection of projects at ‘the right quality, for the right price and at the right time’ (Cooper et al., 2001). At ABN AMRO – Brazil, respondents emphasized that the decision forums recently established aim at applying the tools and techniques of project portfolio management to compare projects in terms of innovative potential, uniqueness, and difficulty to imitate. It was unanimous among the interviewees that
the organization has grasped the importance to continuously innovate in terms of products and services as a way to gain competitive advantage. It does so by implementing project portfolio techniques that can help select the most appropriate projects in terms of the business’ goals, strategy and vision.

4. To investigate the difficulties associated with the implementation of project portfolio management.

Cooper et al. (2001: p.363) revealed that ‘project portfolio management is typically poorly handled’. Among the difficulties associated with the implementation of effective PPM tools and techniques were the lack of strong gates for Go/No Go decisions and too many projects for the limited resources available.

In the specific case of ABN AMRO – Brazil, some of the problems with the creation of sound PPM practices encountered were:

   a. Lack of efficient project portfolio management history at the organization;
   b. Segmentation of the projects analyzed at the decision forums;
   c. Poor tracking record of implementation of approved projects;
   d. Missing information on project results.

The recent nature of the decision forums at the bank indicate that for many years, the organization has operated with no systematic form of project prioritization and selection of projects. Most respondents indicated that for a long time, each department had its ‘own project selection system’, based on its human and financial capacity and business objectives. There was no unified strategic vision for the different units of the bank, which created conflicting objectives and a confused approach to which projects were selected. Another issue surrounding the bank’s PPM practices is the decision to segment which projects are analyzed at the forums. In order to be scrutinized by senior management, the projects must be at a certain level of investment. Smaller/internal projects continue to be approved by their sponsor department, lacking more objectivity in project selection. Poor tracking record of implementation of approved projects was also raised as a problem by respondents in the semi-structured interviews at ABN AMRO – Brazil. The role of the PMO in the implementation of the approved projects in the institution has only now begun to be understood. For many years there was a lack of efficient management and controlling approved projects and departments lacked a PMO structure to bring in a technical approach to project management. Nonetheless, interviewees cited the lack of information on project results as a problem in the organization. Most respondents emphasized that a system holding all the important information about the approved projects and their achievements would bring wider acceptance of project portfolio practices at the bank.

It is important to highlight, however, that in spite of all the difficulties faced in implementing sound PPM practices at the bank, respondents did not attribute early project termination to poor screening. Instead, they indicated it as a consequence of strategic shift due to rapid changes in technology and high levels of competition.
5.2 Limitations

In order to validate the research, it is necessary to state some of the limitations of the conducted study. Regarding the interviewing competence of the researcher, it is necessary to consider the level of bias in the process given that the findings are mostly based on employees’ perceptions. The writer has worked for the institution discussed in the case study for over two years, and the perceptions during this period might interfere with the analysis of the acquired information during the interviews. Furthermore it is relevant to state that the data collected in the interviews was sensitive, and the researcher could not use some of the material due to a non-disclosure agreement previously signed with the company. Nonetheless, another limitation was the need to translate the questions that were formulated in English to Portuguese, in order to conduct the interviews in the local language. The collected material was then translated back to English, which can put the thoroughness of the information gathered in jeopardy.

Among the limitations of this research also lies the small sample size (11 semi-structured interviews). This can be attributed to the little time available to be at ABN AMRO – Brazil, as well as to the overall period to complete this research (from September to December 2008).

Finally, it is important to highlight that when investigating the project portfolio practices at the organization, the researcher was not given access to any of the members present at the Decision Forums described in this study. The data collected on the objectives, methods and results was gathered from parties not directly involved in the process.

5.3 Suggestions for further research

The main contribution of this study lies in the investigation of how the implementation of project portfolio management theory at a large financial services firm can foster product and service innovation. The paper provides insights into the initiatives and challenges of ABN AMRO – Brazil in generating innovative products and services through effective PPM tools and techniques. Furthermore, it shows the intertwined nature of strategy and innovation by uncovering their importance as criteria for project selection. Because of the intricacies of the field, this study suggests a deeper investigation through the research of a larger universe of firms and their respective PPM practices. Furthermore, in relation to the subject of investigation, it is recommended that a continuation of the study be made in 2-3 years from now, so that the results of the decision forums recently established at the organization can be more evident.

5.4 Final words

This work aimed at finding empirical evidence to support the theoretical framework of project portfolio management and innovation. The investigation set out to define the extent to which project portfolio management is implemented for product innovation at a large financial services organization.
ABN AMRO Bank – Brazil has a myriad of projects, each at different stages of completion. The challenge is to allocate the scarce resources to the projects with the highest potential for the creation and improvement of products and services which can generate competitive advantage. For many years, the bank has struggled with poor screening of projects and has experienced an overflow of projects which were managed with different methodology across its multiple departments. The lack of focus and efficiency created the need for the consolidation of its market efforts into more rigorous project portfolio management practices.

The research identified and described a recently established model for portfolio selection at the organization, along with its objectives, preferred methods and challenges. Next, the role of innovation in the process was discussed, followed by the types of projects present at the institution, the role of the PMO in managing those initiatives and the early termination/failure of some of them.

Furthermore, the study exemplified how the task of implementing efficient project portfolio management practices is challenging and daunting for a large organization. Although the bank is beginning to implement forums for portfolio selection, internal projects are still handled differently. Another point observed is the lack of project control in terms of the achievement of project objectives. Most of the respondents expressed dissatisfaction with the lack of information to whether some of the promised objectives of the approved projects had actually been delivered. There is no tool for verification of project success, something that tells the whole organization about the success or failure about approved projects in the decision forums. These are some of the issues facing the organization.

However, ABN AMRO – Brazil appears to be in the track of success to an efficient project portfolio process. Its effective screening and prioritization has created a welcoming environment for innovation, where projects that yield new products and services help it achieve its long term strategic objectives. This study verified that some project portfolio management practices discussed in the literature, when applied to firms can yield significant results through approved projects. ABN AMRO – Brazil, with its explicit project selection methods, support and involvement of senior management is aiming at long term survival in the unforgiving global marketplace.
References


December 19th, 2006

To Whom It May Concern:

Regarding Priscilla Stadnick

I, Jose Melchert, hereby the undersigned employee of Banco Real (ABN AMRO BRAZIL), hereby authorize Priscilla Stadnick to publish her Master thesis as a case study of the fore mentioned bank. I understand that Priscilla Stadnick will use the name of the bank solely for the purpose of non-commercial academic research at Heriot-Watt University (Scotland), Politecnico di Milano (Italy) and Umea University (Sweden).

Best Regards,

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