

# Why Companies Need to Adopt a Strategic Approach to Project Management

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## Background

According to the conventional project management approach, projects are successful if they meet time, budget, and performance goals. Yet studies show that most projects are late, over budget, and do not deliver their expected objectives. Furthermore, even after completion, many projects do not contribute to their company's business success. We hypothesize that additional focus on the strategic aspects of projects will greatly contribute to the improvement of project performance. This research, which was funded by the Howe School Alliance for Technology Management, relates to the following questions: (a) To what extent do projects focus on their strategic and business aspects during project execution? (b) Does a higher strategic focus improve the chances of project success?

Using a combination of qualitative and quantitative research methods, we found that while project teams often recognize the strategic value of projects, they still manage their projects according to the conventional approach. We used a new three-dimensional strategic project management maturity model, which assesses projects according to their focus on operational excellence, strategic focus, and inspired leadership. We tested how the level of maturity of the project on each dimension related to project success. Among other things, we found that higher strategic focus is associated with better impact on the customer, better business results, and better preparation for the future.

## Introduction

Organizations initiate projects to create new, unique products, services or process-

es, or to provide improvements in existing ones. Thus, companies typically initiate projects to create new value that is impossible to achieve within the framework of

research used a combination of qualitative and quantitative methods, employing first a case study research approach, followed by an empirical statistical field study.

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ongoing operations. In a paradoxical way, however, since the establishment of modern project management as a formal discipline, it has focused primarily on the operational aspects, namely on executing processes in the most efficient way.

Many surveys show that most projects do not meet their expected goals. For example, a Standish Group study showed that over 70% of projects were either total or partial failures, failing to deliver on time, budget, or specifications. Moreover, out of the projects that successfully met their time, budget and requirements goals, many did not deliver the expected business results to their parent companies. It appears that traditional project management processes and tools are not sufficient for guaranteeing modern project success.

In this research, we hypothesized that while most projects focus on efficiency, they at the same time ignore the strategic aspects of the business. Furthermore, we also hypothesized that an increased strategic focus may be associated with better business success as well as success in other dimensions. Our

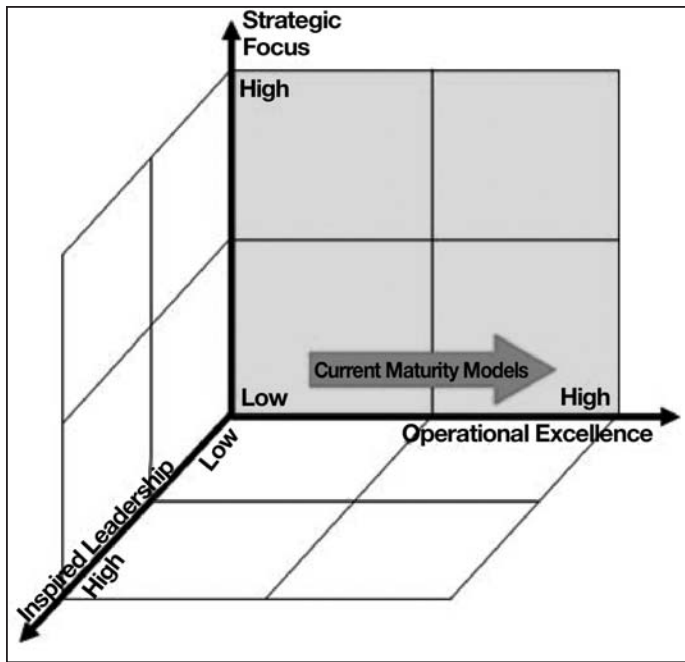
## Research Description

Expanding on previous research on strategy in project management, we embarked on questions about the recognition of strategic value of projects, and the consequences of project management style. We were looking for evidence that projects of high-strategic value are recognized as such and are managed differently from other projects. In particular, we asked whether there are practices, behaviors, and considerations present in project management that can be associated with strategy implementation, and whether strategy-related behavior in a project helps improve the project's success. Moreover, if the answer to the last question is yes, we sought to learn what other conditions influence this relationship.

We defined a strategic project management maturity (SPMM) model at the project level, which consists of three dimensions: operational excellence, strategic focus, and inspired leadership (see Figure 1). We employed the following definitions:

- Operational excellence: the extent to

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**Figure 1:** Operational excellence, strategic focus, and inspired leadership

which project management activities (such as planning, execution, monitoring, and control) focus on completing the project within time, budget, and specification goals.

- Strategic focus: the extent to which project management activities that relate to planning, execution, monitoring, and control, focus on the expected business results from the project outcome.
- Inspired leadership: the ability of a project manager to inspire the project team, to induce team bonding, and to ensure team effectiveness.

Finally, we defined the project's strategic value as the project's potential contribution to long-term organizational goals.

The research had two phases. The first phase employed a qualitative case study approach on 35 documented cases, and its goal was to confirm the theory and prepare for the second phase. The second phase was quantitative, and involved statistical data on 164 projects from different countries. The goal of this phase was to test the strategic project management maturity (SPMM) model on a large number of projects and assess the relationships among the three dimensions of the model and project success dimensions. We expected that this examination would help us examine our major research hypothesis.

## The Findings

### Phase 1—Case Study

On the operational focus dimension, about half of the cases ranked high, and half ranked low (Figure 2).

However, on the strategic focus dimension, only 20% ranked high. Interestingly, the correlation between the operational and strategic dimensions was virtually zero. This supported our initial assumption that these two dimensions are independent.

Fourteen of the projects had high strategic importance to their organizations. Out of these, only five exhibited a high degree of strategic focus. On the operational dimension, about two thirds of the projects ranked low.

Among the 21 projects whose goal was not highly strategic, two-thirds ranked high on the operational dimension, whereas only one was assessed as having high strategic focus.

When correlation coefficients were calculated between project goal (coded as highly strategic or not) and the project management style dimensions, the only significant positive correlation was found between project goal and the strategic dimension of project management style. This result suggests that a strategic approach is present more often in projects where strategic value is recognized.

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### Phase 2—Empirical Research

Our database included 164 project questionnaires, which were analyzed statistically. We calculated standard statistical

descriptive for all items, correlations between SPMM dimensions and project success items, confirmatory factor analysis, as well as regression calculations.

We first calculated the SPMM scales' means (Figure 3). As expected, operational excellence had the highest score of 2.67, followed by strategic focus (2.33), and inspired leadership received the lowest score (2.05).

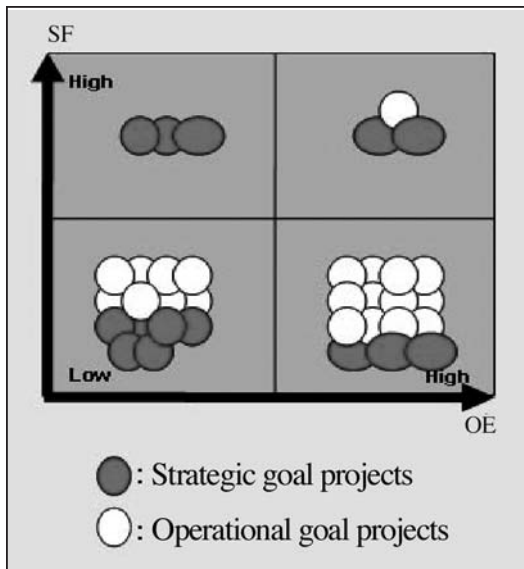
The averages are industry-wide and worldwide.

We next looked at the correlation between these dimensions of maturity and project project efficiency, customer satisfaction, teamwork effectiveness, business success, preparing for the future, and overall success. Correlation analysis showed many significant correlations. For example, teamwork effectiveness correlated with all other project success dimensions, supporting the conventional wisdom that teamwork success goes hand-in-hand with other aspects of project success.

The identified significant SPMM scale associations of project success factors were (Figure 4):

- Operational excellence is associated with efficiency
- Strategic focus is associated with business success
- Strategic focus is associated with customer satisfaction
- Strategic focus is associated with future prospects
- Strategic focus is associated with overall success
- Inspired leadership is associated with teamwork effectiveness

Overall, we found that in most projects goals were typically identified as either operational or strategic. This demonstrated awareness of what projects mean to their



**Figure 2:** Strategic vs. operational goal projects

organizations, and what the expected project outcomes are. In addition, most of the respondents clearly identified and described their firm's strategy, and explained how it is connected to their project goals.

However, most of the project teams considered project strategy to be simply an alignment of the project's operational goals with the firm's strategy by ensuring that the project's triple constraint (time, budget, and performance goals) is in agreement with the organizational goals. In these cases, carrying out the company's strategy had been reduced to effectively executing a project within the specified triple constraint. Strategic focus is generally not recognized, and usually there is no strategic alignment in monitoring and controlling activities.

### Conclusions and Implications for Managers

Our case study analysis indicates that most projects are still managed today in an operational manner. Furthermore, the majority of projects with high strategic values are also managed operationally, while almost all projects with operational goals are managed operationally. This, we believe, indicates that in spite of the strategic importance placed on projects, the traditional approach still dominates the field.

The analysis shows that most project managers and organizations recognize the strategic importance of a project and can distinguish between projects with opera-

tional goals and projects with strategic goals. It is much less clear, however, whether this recognition materializes during the project execution process. As we found, striving to achieve strategic goals through projects is in most cases reduced to aligning initial project goals with organizational strategy and maintaining the project's execution within the triple constraint. In this manner, strategy-related behaviors are mostly expressed by operational behaviors.

This approach may work for projects with short-term operational goals. In these cases, it may be possible to focus project management on operational

goals. Inspired leadership relates to the project manager's activity to enable teamwork processes, team bonding and effective cohesion.

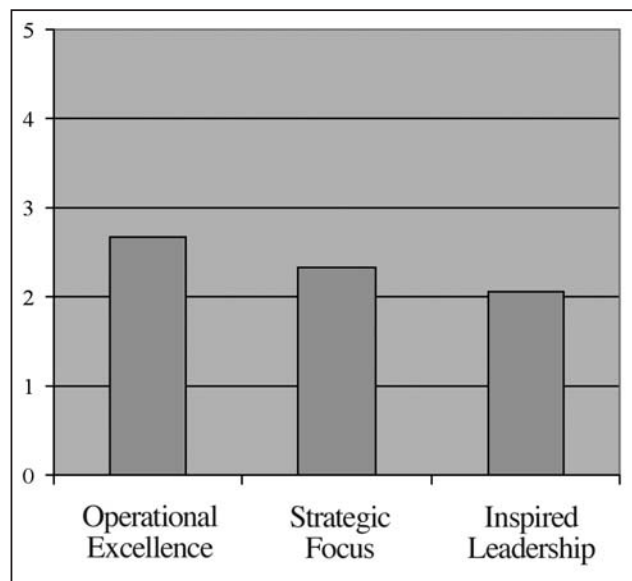
It comes as no surprise that operational excellence predicts project efficiency. However, operational excellence predicts neither one of the other project success dimensions; e.g. operational excellence will not translate to customer satisfaction or business success. This finding makes it necessary to focus attention on other project management maturity dimensions as well, unlike what is assumed in current project management practices.

Strategic focus seems to be a key element in achieving customer satisfaction, business

success, future prospects, and overall success. Practically, all lasting, post-project, effects are predicted by strategic focus.

Inspired leadership predicts teamwork effectiveness. We expected it to influence other success elements as well, especially customer satisfaction, but it seems that the effect is only indirect, through teamwork effectiveness.

The implications of these findings to management are clear. Having project goals initially aligned with business strategy and hoping that this will guarantee



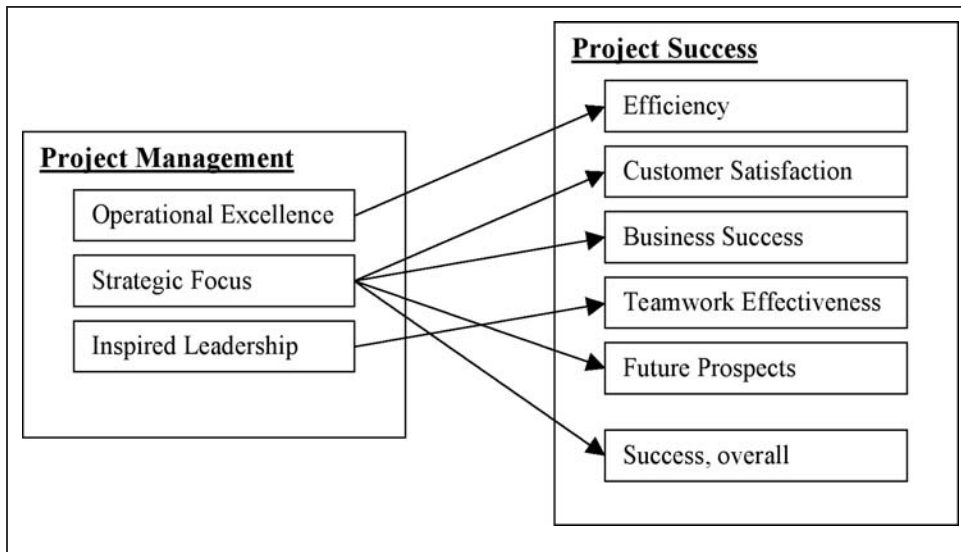
**Figure 3:** Means of SPMM dimensions: Industry- and world-wide

excellence and still achieve successful project outcomes. In projects of high-strategic importance, explicit focus of the project's strategic goals is necessary; neglecting it may have an adverse effect on project success.

The larger scale empirical findings confirmed that project management styles could be distinguished according to three dimensions: operational excellence, strategic focus, and inspired leadership. Operational excellence measures the degree to which a project manager manages the project efficiently and keeps it within the planned time and budget constraints. Strategic focus measures the degree to which a project is executed to fulfill the intended business

achieving the project's strategic goals is not enough. Instead, a conscious, on-going evaluation of project activities against its strategic goal alignment is necessary. Similarly, just managing the project's operations, without focusing on the team processes, is not enough either. Here too, a constant effort to enable team processes, team bonding, and team effectiveness is necessary.

We thus believe that a new form of project management standard is needed. In addition to the operationally focused approach, strategy- and teamwork-related focuses should be developed and included within the current practices. Project management needs to focus on business goals achievement and value creation, and not



**Figure 4:** Maturity dimensions and their impact on project success factors

just on achieving the triple constraint.

The major elements of this recommended approach can be summarized as follows:

- Projects should be seen as part of the strategic business processes in the organization; their goals should be to contribute to the business success of the organization and not just meeting time, budget, and performance goals.
- Project success should be defined up-front to set the expectations from the project. It should be assessed on several major dimensions such as efficiency, customer satisfaction, team effectiveness, business success and preparing for the future.
- Project managers should be accountable for achieving the business results and other success dimensions, and not just the triple constraint.
- Projects should be selected according to their contribution to the company's strategy and long term goals.

- When managing a project, project teams need to learn how to focus on the strategic and leadership aspects of the project, not just its operational efficiency. They need to develop a specific project strategy and focus the team's activity on creating competitive advantage as well as future prospects from the project.
- Project reviews by top managers should include examination of the strategic progress of projects, their expected success on all dimensions, and their relevance in the market given the changes and dynamics in the competitive environment.

Further research is clearly needed. Because operational excellence is well researched, new research directions could be on the strategic focus and inspired leadership dimensions. For example, one may ask whether strategic focus is more important for project success in high-uncertainty or high-technology projects, than it is in low-tech projects. Is inspired leadership more important in certain industries than in others? And is strategic focus more important for projects with external versus internal customers? ■



## About the Authors:



**Dr. Aaron J. Shenhar** ([ashenhar@stevens.edu](mailto:ashenhar@stevens.edu)) a world leader in project management and technology management scholarship, is Institute Professor of Management and founder of the Project Management Program at the Howe School of Technology Management at Stevens Institute of Technology. He was named "Engineering Manager of the Year" by the Engineering Management Society of IEEE in 2000, and was the first recipient of the Project Management Institute Research Achievement Award in 2003. Prior to his academic career, he was involved in managing projects, innovation, R&D, and high technology businesses for almost 20 years, participating in all phases of engineering and management, from project manager up through the highest executive posts.

Dr. Shenhar holds degrees in engineering, statistics, and management, including a Ph.D. in Electrical Engineering from Stanford University. His newly-published book, *Reinventing Project Management: The Diamond Approach to Successful Growth and Innovation*, is the first project management book published by Harvard Business School Press.

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