Chapter VIII

Strategic IT Portfolio Management for Development of Innovative Competences

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ABSTRACT

This chapter presents the concept of strategic information technology portfolio management for development of innovation competences in a project-oriented company. It is a specific type of portfolio management, called project portfolio management. The chapter begins with a strategic basis of project-oriented company, links it to the modern portfolio theory and then expands it into the IT project portfolio management (IT PPM). The role of the IT PPM is to ensure that the group of IT projects supports the achievement of the goals of the corporate strategy. The chapter takes into consideration the key aspects of IT – innovation relationship, and introduces the organizational support to the IT PPM – the Portfolio Management Office. An established PMO that is actively supported at the executive level can help solve problems with project auditing and initiative approval.
INTRODUCTION

The market is constantly forcing the product or service line to change. Extremely dynamic technology changes bringing radical innovations with domination of information technology (IT), are said to have produced new and almost entirely different means of communication and doing business, especially having in mind e-business and Internet. Together with globalization processes, the high-tech reality and information society coming from the end of the 20th century gained the powerful possibility to create new industries and to transform the existing ones. Such pressures to decrease the life cycle and increase the quality of products and services directly affected how the executives want from IT to improve the efficiencies of their units. Also, today executives want to have tools that would help them to prioritize the projects so they would know which ones were healthy contributors to the corporate strategy and which ones could be cancelled. Today market is slowing down, and they want to centralize corporate governance and cut unnecessary IT projects. They also knew that some IT projects are critical to the growth and ongoing operations of the company, and they couldn’t simply eliminate any project.

This paper presents the concept of strategic information technology portfolio management for development of innovation competences, which are said to be the key driver of a long-term competitiveness, profitability and business success of the company, national and global economy. In European Commission’s Green Paper on Innovation (1995), innovation is defined as the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of production, supply and distribution; the introduction of changes in management, work organization, and the working conditions and skills of the workforce. In that sense, the relation between strategic information technology portfolio management and innovative competencies should be aimed at development and improvement of the capability of the firm to innovate - create new products, services, processes, organization, marketing, i.e. to manage innovation process from idea to implementation and achieving market superiority. Information technology portfolio management is examined in a project-oriented company and because of that paper presents project portfolio management as a specific type of portfolio management.

BACKGROUND: STRATEGIC BASIS OF PROJECT-ORIENTED COMPANY

Generally, strategy is defined as a means to achieve individual or organizational goals (Grant, 2007). In this definition, means is defined as a plan or policy determining concrete actions. Ansoff (2007) finds that, regardless of the complexity of the managerial problem, it is possible to identify a number of strategic variables that will determine the solution to this problem. According to him, strategy means a set of decision rules as well as guide to achieve organizational goals in the future (Ansoff, 1987). On the other hand, Porter (1996) maintains that the essence of the strategy is a clever selection of varied sets of activities that will ensure a unique combination of values for the organization. In other words, the basis of the strategy is a difference in comparison to the competitors. Chandler (1962) defines strategy as a process of determining the long-term goals of the company, defining the direction of activities and allocating resources necessary in achieving these goals. The definition is supported by Grant’s (1991) attitude that strategy is the choice the organization makes between the resources and competence on one hand and opportunities and differences in the environment, on the other.

Globalization, the technological development and the geopolitical changes in this century call for the change in the organization’s strategic orientation as well. Growth in profits, as one of
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