

## Relationship Between Organizational Strategy and Project Strategy. Case Studies at German-Hungarian Affiliated Firms

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**Abstract.** *The paper focuses on German-Hungarian international companies. It aims at investigating the relationship between organizational strategy and strategy of projects executed at the Hungarian affiliations as well as at analyzing how decisions on these projects are made. Four German-Hungarian companies were selected and interviews with CEOs and Heads of PMO were carried out. The selected companies represent four different industries German-Hungarian firms predominantly operate in Hungary: automotive (manufacturing), automotive (supplier), mobile (operation and service), mobile (IT R&D). The results show that the project strategy is strongly aligned with the strategic orientation of the investigated firms. In order to determine a firm's strategy, the extended EPRG model of Perlmutter was used. The project strategy was identified on the basis of Artto's typology of project strategies. At projects characterized by the obedient servant strategy, the parent organization is the most important stakeholder in the environment. The project purpose is defined by the parent organization. Project success depends on the extent of meeting the parent organization's expectations. Ethnocentrism as a strategic orientation enhances this obedient servant project strategy. Projects with independent innovator strategy prefer innovative and independent operations. The success of such projects can be measured through the number and newness of products and the degree of increase in organizational efficiency. Polycentrism as strategic orientation is a typical frame for independent innovator project strategy. Projects characterized by the flexible mediator strategy define their purposes taking into account several strong stakeholders' goals. The expectations of these stakeholders have to be taken into consideration when defining the project purposes. Egocentrism as a strategic orientation prefers to apply the flexible mediator project strategy. Projects with a strong leader strategy create a culture characterized by strong independence and a feeling of the importance of making successful projects. This means that the goals are established by the project in its stakeholder network. The ultimate success of the project is measured by the overall impact of the project on its environment and society. Geocentrism as strategic orientation is aligned with a strong leader project strategy. The results highlight the importance of the relationship between organizational strategy and project strategy. Although they are limited to the selected four cases of German-Hungarian international companies, understanding the connection between firms' strategic orientation and determination of project strategy helps decision-makers to create the strategic project portfolio that is fully aligned with the firm's strategy.*

**Keywords:** *international company; organizational strategy; project strategy; decision.*

### Introduction

Strategic management and project management have been subject to scientific analysis and practical application in the last decades. However, these fields have been treated separately. Top managers and strategic management scientists have focused on strategic planning processes and strategic management systems shifting from one paradigm of strategic management to another, and on strategic management tools that support strategy development of firms.

Project management is one of the most dynamic fields of management science and practice. Previous studies on project management highlighted the importance of completing projects on time, budget and meeting the qualitative and quantitative requirements (Baker et al., 1988; Pinto & Slevin, 1988; Belassi & Tukel, 1996; Gemünden & Lechler, 1997; Turner, 2000; Cook-Davis, 2002; Judgev & Müller, 2005; Agarwal & Rathod, 2006; Fortune & White, 2006). But nowadays project management and strategic management should be aligned and the main challenge of project management is not just how to complete projects successfully, but how these projects contribute to the successful realization of organizational strategic goals as well (Artto et al., 2008; Szabó, 2012; Görög, 2013; Cserhádi & Szabó 2014; Blaskovics, 2016; Pinto, 2016;

Kaszás et al., 2017; Deák & Kiss, 2017; Kerzner, 2017; Martens et al., 2018). These different approaches led to the gap between strategic planning and project planning. This matter is all the more relevant in the case of international companies where decision making on projects executed at the affiliations highly depends on the parent organization – affiliation relation.

The paper focuses on German-Hungarian international companies. German-Hungarian economic relationships have been subject to many investigations for several reasons. Historical, cultural, geographical, managerial perspectives have been the most frequent approaches in this context. “Germany has been and still remains Hungary’s largest trading partner – the country continued to account for more than one-quarter of Hungary’s exports as well as imports in recent years in euro terms” according to data from the Hungarian Central Statistical Office (Végh, 2017). The paper aims at investigating the relationship between organizational strategy and strategy of projects executed at the Hungarian affiliations as well as at analyzing how decisions on these projects are made in the case of German-Hungarian international companies.

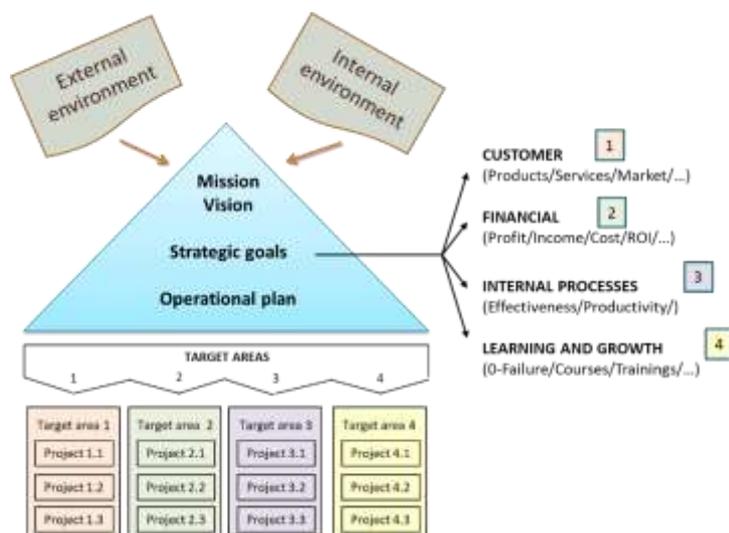
The first part of the paper gives an overview of the relevant theories. An integrated model for strategic project portfolio management demonstrates how projects are aligned with organizational strategic goals. In order to determine a firm’s strategy, the extended EPRG model of Perlmutter (Perlmutter, 1969; Wind, Douglas, and Perlmutter, 1973) is used. The project strategy is identified on the basis of Artto’s typology of project strategies (Artto, 2008).

In the practical part, four German-Hungarian companies were selected and interviews with CEOs and Heads of PMO were carried out. The selected companies represent four different industries German-Hungarian firms predominantly operate in Hungary: automotive (manufacturing), automotive (supplier), mobile (operation and service), mobile (IT R&D).

Content analysis was made to reveal the characteristic feature of strategic decision making and of project strategy at these companies. Results show that the strategic orientation of the investigated firms is strongly aligned with the project strategy.

### Integration of project management into strategic management

Despite all of scientific articles and research results, there is still a lack of investigations on how project management can be integrated into strategic management. To fill this gap, based on the model of Kessler and Winkelhofer (1997), an integrated model was developed by the author of this article. Figure 1 shows how the organizational strategic goals can be successfully achieved by the successful accomplishment of the projects conducted in the same target areas (Szabó, 2012; Szabó & Csepregi, 2016).



**Figure 1.** An integrated model for strategic project portfolio management (based on the model of Kessler and Winkelhofer, 1997)

Projects are platforms for innovation, renewal, change, and exploration and the strategic project portfolio is the interface between strategic management and project management.

### Strategic management and project management in international context

International companies face a dual challenge when designing organizational and project strategies. The first challenge relates to the strategic orientation of the company which can be approached by the EPRG model of Wind, Douglas, and Perlmutter (1973). The second challenge concerns the parent organization – affiliated firm relation in aligning project strategies to the organizational strategy.

#### The EPRG model

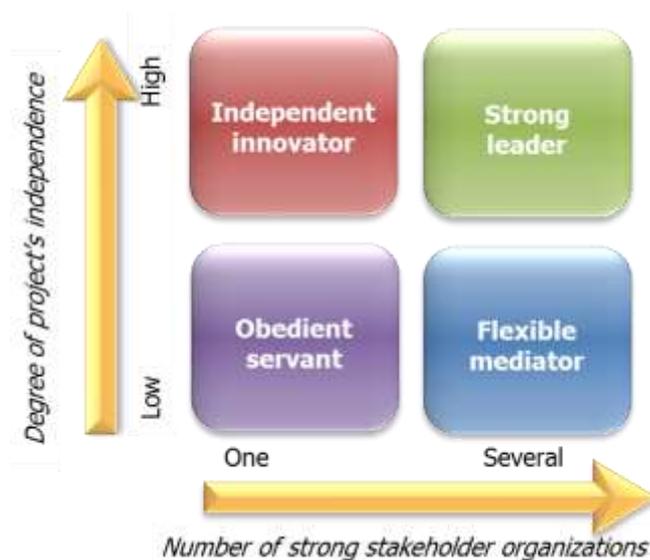
The EPRG model was developed by Wind, Douglas, and Perlmutter (1973) focusing on strategic decision making in an international context. Although the original model was strongly marketing-oriented and was interpreted as “successive stages in the evolution of international operations” (Wind et al., 1973, p.14), nowadays it is used to identify four types of strategic orientation towards firms’ internationalization: Ethnocentrism; Polycentrism; Regiocentricism; Geocentrism.

Ethnocentrism represents a strong home country orientation, meanwhile, the polycentric attitude is host country oriented. Regiocentricism takes into consideration the regional characteristics of the firm and its environment, meanwhile, the geocentric organization has got global orientation.

#### Project strategies

The application of the model described by Figure 1. enables companies to do the right projects when deciding on a new project initiative. In the case of international companies, the following question arises: where a decision on launching a new project is made? Whether is it made by the parent organization where strategic decisions are also made or is this right delegated to the affiliated firm where the project is executed? This leads to different interpretations of project strategies.

Artto et al. (2008, p.9) stress that project strategy highly depends on the position of the project in its environment. The project’s position is determined on the one hand by the extent of independence the project has within the organization, and on the other hand on the number and extent of the influence of strong stakeholders who are related to the project (Artto et al., 2008). Figure 2 shows the four project strategies based on the degree of the project’s independence and the number of strong stakeholder organizations.



**Figure 2.** Types of project strategy (Artto et al., 2008, p.9)

At projects characterized by the obedient servant strategy, the parent organization is the most important stakeholder in the environment. These projects exist for their parent organization and their primary goal is to fulfill the parent organization's will.

Projects with independent innovator strategy prefer innovative and independent operations. Project purposes are defined within the project but are independent of the parent organization. The project's success as the result of the innovation has an effect on the parent organization's business strategy.

Projects characterized by the flexible mediator strategy define their project purposes based on several strong stakeholders' goals and their achievement. Projects have to contribute to the organizational strategic goals, furthermore, the project success is also measured by the stakeholder's satisfaction.

Projects with a strong leader strategy create a culture characterized by strong independence and a feeling of the importance of making successful projects. This means that the goals and objectives are established by the project in its stakeholder network. The ultimate success of the project is measured by the overall impact of the project on its environment and society (Artto et al., 2008).

## **Empirical research on strategic orientation and project strategies at German-Hungarian firms**

### ***Aim of the research and research questions***

Empirical research was applied among German-Hungarian international companies to investigate how strategies of projects executed at the Hungarian affiliated firms are determined.

Based on the theories introduced in the previous chapter, the following research questions were formulated:

- *How decisions on projects executed at German-Hungarian affiliated firms are made?*
- *Is there any relationship between a firm's strategic orientation and the project strategy of German-Hungarian companies?*
- *What are the advantages of different project strategies applied at German-Hungarian affiliated firms?*

Investigations addressing German-Hungarian international firms are of high importance given that Germany has been the most determining investor in Hungary in the last 25 years. Automotive and mobile industries play the most significant role in this regard.

### ***Methodology***

Four German-Hungarian companies were selected and interviews with CEOs and Heads of PMO were carried out. The selected companies represent different industries German-Hungarian firms predominantly operate in Hungary: automotive (supplier), automotive (manufacturing), telecom (operation and service), telecom (IT R&D). The interviews were carried out based on a semi-structured questionnaire.

The first company (company "A") was established as a Hungarian family firm at the beginning of the 1990s. Ten years later it was acquired by a German company since then it operates as a key supplier by producing components of electronic devices for cars.

The second company (company "B") established its Hungarian manufacturing affiliation more than 25 years ago. The company has gone through some significant improvements and expanded its operation with research and development. Cost reduction and increase of productivity have been the most important goals of projects initiated at the Hungarian affiliated firms. Looking at the actual project portfolio, it is stated that even more and more projects addressing product development are launched.

The third selected company (company "C") is a regional telecom service provider. Its main goal is to maintain and increase the reliability and the quality of its operation and services. The company was

established at the end of the 90s when concentrated only on the Hungarian domestic market. In the last ten years, its scope has been expanded into the regional market.

The fourth company (company "D") is a large international company operating in the telecom industry. In its almost 25 years of operation in Hungary, the focus of its functioning shifted from the low-cost operation to IT research and development and nowadays the Hungarian affiliation is one of the biggest R&D centers, the products, and services of which are utilized in the company's global network.

### **Research results**

Base on the interviews with CEOs and heads of PMO at the four selected companies, the following results have been generated.

### **Company "A"**

#### *Strategic orientation*

The strategic planning process is very centralized at the company "A". The CEO of the affiliated firm is delegated directly by the parent organization from the headquarter. There is regular consultation with the CEO, but it is limited to report on the achievements and to set up the new goals of the affiliation. The parent organization expects the affiliation to provide the predefined results, which is issued in form of Balanced Scorecard, supports the operation at the affiliation through middle managers delegated from the headquarter to the affiliation and controls both the operation and the results. The company "A" represents a clear ethnocentric strategic orientation. Table 1 summarizes the characteristic feature of strategic decision making at Company "A".

**Table 1.** A characteristic feature of strategic decision making at Company "A"

Strategic decision	Involvement of the CEO into the strategic decision	Strategic management tool	Control by the headquarter	CEO	Strategic orientation
Very centralized, in the headquarter	Regular consultation with CEO, regular report to the headquarter	Balanced ScoreCard	Very strong, at the top and at the middle management level	German, delegated by the parent organization	Ethnocentric

#### *Project strategy*

The project purpose and the project triangle are defined by the parent organization, which also provides the human, financial, and physical resources to enforce vigorous monitoring and require reports at regular intervals of the project progress. Project success depends on the extent of meeting the parent organization's expectations. The parent organization is the most important project stakeholder. The degree of project independence is very low, according to which the primary goal is to fulfill the parent organization's will. The company follows the obedient servant project strategy. Table 2 shows the characteristic feature of the project strategy at Company "A".

**Table 2.** The characteristic feature of project strategy at Company "A"

Decision on Projects	Degree of project's independence	Project success criteria	Stakeholder	Project strategy
In the headquarter	Very low	Project triangle (time, cost, quality, and quantity)	Parent organization	Obedient servant

## **Company “B”**

### *Strategic orientation*

The strategic planning process is very balanced at the company “B”. The CEO of the affiliated firm is appointed by the parent organization. The core philosophy is that a CEO with local origin understands better local people’s behavior and attitude, sets up the most appropriate structure, processes, and motivation system and leads the affiliation in a very effective and efficient manner. The CEO is involved in the strategic planning process and receives a high degree of freedom regarding the execution of the strategy at the affiliation as long as the affiliation provides the expected achievements. The realization of strategic goals is controlled and reports focus on the fulfillment of key strategic objectives. The application of Balanced ScoreCard is reasonable in this way. Table 3 summarizes the characteristic feature of strategic decision making at Company “A”.

**Table 3.** *Characteristic feature of strategic decision making at Company “B”*

Strategic decision	Involvement of the CEO into the strategic decision	Strategic management tool	Control by the headquarter	CEO	Strategic orientation
Balanced, in strong cooperation with the affiliation	Regular consultation with CEO	Balanced ScoreCard	Control on the results and achievements	Hungarian, appointed by the headquarter	Polycentric

### *Project strategy*

Projects are generated and executed at the affiliation. The aim of the projects is to create projects with significant added value for both the parent organization and the affiliation. Projects prefer innovative solutions. Project purposes are defined within the project but are independent of the parent organization. These projects should contribute to the successful realization of strategic goals of the affiliation, therefore project goals are directly linked to the objectives of the Balanced ScoreCard. Certain project parts link with the parent organization (e.g. when the parent organization is the sponsor), but simultaneously they also compete or fight against other units of the parent organization. The success of such projects can be measured through the number and newness of products or services, the project triangle, the degree of carrying out organizational changes and the degree of increase in organizational efficiency. The company applies the independent innovator project strategy. Table 4 shows the characteristic feature of the project strategy at Company “B”.

**Table 4.** *The characteristic feature of project strategy at Company “B”*

Decision on Projects	Degree of project’s independence	Project success criteria	Stakeholder	Project strategy
At the affiliation	Very high	Number and newness of products or services; Project triangle (time, cost, quality, and quantity); Increase of organizational efficiency; Satisfaction of the parent organization	Parent organization	Independent innovator

## **Company “C”**

### *Strategic orientation*

The strategic planning process is centralized at the company “C”. The CEO of the affiliated firm is delegated directly by the parent organization from the headquarter. The goals set up for the affiliation rely on stakeholder needs and expectations collected mainly by the affiliation. For this reason, Customer Relationship Management is the most preferred strategic management tool decision-makers use when deciding on the strategic goals. The affiliated firm plays an important role in collecting, compiling, and sharing information about the regional market. The company “C” demonstrates a clear regiocentric strategic orientation. Table 5 summarizes the characteristic feature of strategic decision making at Company “C”.

**Table 5.** *The characteristic feature of strategic decision making at Company “C”*

<b>Strategic decision</b>	<b>Involvement of the CEO into the strategic decision</b>	<b>Strategic management tool</b>	<b>Control by the headquarter</b>	<b>CEO</b>	<b>Strategic orientation</b>
Centralized, with the involvement of CEO	Frequent consultation with CEO, regular report to the headquarter	Customer Relationship Management	Very strong, at the top and at the middle management level	German, delegated by the headquarter	Regiocentric

### *Project strategy*

Projects are initiated based on regional stakeholders’ needs and expectations. Decisions on projects are made in the headquarter. The basis for determining the project strategy is the creation of the project stakeholder matrix. The project needs to exploit the positive synergy the project creates among stakeholders’ participation since its success depends on these synergies. The project success is evaluated taking into account the project triangle, the satisfaction of the regional stakeholders and the satisfaction of the parent organization as well. The company follows the flexible mediator project strategy. Table 6 shows the characteristic feature of the project strategy at Company “C”.

**Table 6.** *The characteristic feature of project strategy at Company “C”*

<b>Decision on Projects</b>	<b>Degree of project’s independence</b>	<b>Project success criteria</b>	<b>Stakeholder</b>	<b>Project strategy</b>
In the headquarter	Low	Project triangle (time, cost, quality, and quantity); Satisfaction of the regional stakeholders; Satisfaction of the parent organization	Regional customers; Parent organization	Flexible mediator

## **Company “D”**

### *Strategic orientation*

The strategic planning process is very decentralized. The affiliated firms in the global network design their own strategies with effective coordination by the parent organization. Big data analysis, Balanced ScoreCard and Disruptive innovation labs are the most used strategic management tools. The affiliation operates as an important but mostly independent firm in the global network, by competing to some extent with other affiliations in the same network. The company “D” demonstrates a clear geocentric strategic orientation. Table 7 summarizes the characteristic feature of strategic decision making at Company “D”.

**Table 7.** The characteristic feature of strategic decision making at Company "D"

Strategic decision	Involvement of the CEO into the strategic decision	Strategic management tool	Control by the headquarter	CEO	Strategic orientation
Decentralized, in strong cooperation with the parent organization	Frequent consultation with the parent organization	Big data analysis; Balanced ScoreCard; Disruptive Innovation Lab	Result oriented	Third country	Geocentric

### Project strategy

Projects are organized from inside out. First, the project goals and the project triangle are determined, after which the governance umbrella is created in which some stakeholders are positioned in purposeful roles while others are deliberately excluded from this network. The success of this project strategy is measured by the internal capability of creating a unique view and using specific stakeholders as resources for achieving project purposes. The project's success largely depends on the extent of handling and changing stakeholders' influence and the power to support the realization of project purposes.

The company follows a strong leader project strategy. Table 8 shows the characteristic feature of the project strategy at Company "D".

**Table 8.** The characteristic feature of project strategy at Company "D"

Decision on Projects	Degree of project's independence	Project success criteria	Stakeholder	Project strategy
At the affiliation	Very high	Project triangle (time, cost, quality, and quantity); Satisfaction of the stakeholders in the global network; Satisfaction of the parent organization	Company's global network; Global customers; Parent organization	Strong leader

### Discussion

At the beginning of the investigation the following questions were formulated:

- *How decisions on projects executed at German-Hungarian affiliated firms are made?*
- *Is there any relationship between a firm's strategic orientation and the project strategy of German-Hungarian companies?*
- *What are the advantages of different project strategies applied at German-Hungarian affiliated firms?*

The selected organizations represent four different strategic orientations when taking into consideration the first question. Based on the EPRG-model, it can be stated that the Company "A" has got a very centralized strategic decision making (ethnocentric orientation), meanwhile, it is more balanced at Company "B", where strategic decisions are made in strong cooperation with the affiliation (polycentric orientation). The Company "C" focuses on the regional stakeholders (regiocentric orientation), and Company "D" has got its global strategic feature (geocentric orientation)

Regarding the second question, the results show that when focusing on the parent organization – affiliation relation, there is a clear connection between the strategic orientation of the selected international companies and the project strategies executed at the affiliations.

The company "A" prefers an ethnocentric strategic orientation with deciding on the strategy by the parent organization. Accordingly, the project strategy is also created by the parent organization. The affiliation has to supply components for bigger product units, the whole operation has to be standardized and the parent

organization has to apply a controlled leadership towards the affiliation. A most important advantage of this orientation is the high level of standardization, product compatibility, and cost-effectiveness.

The company “B” represents a clear polycentric strategic orientation. The parent organization gives the affiliation more leeway. This higher level of freedom enables the affiliation to initiate and carry out projects that directly contribute to the successful realization of the organization strategy. The driving force for the affiliation is to maintain or even increase its importance in the competitive network of the parent organization.

The company “C” focuses on the regional market. Its regiocentric orientation increases the importance of regional affiliation, especially in collecting, compiling and sharing knowledge about the regional stakeholders’ needs and expectations. Decision making is centralized, the project results are beneficial for both, the regional actors and the parent organization.

The company “D” demonstrates a geocentric organization with its global network. Successful completion of projects that are beneficial for the global network of the company is an absolute priority. Projects are generated and executed by international teams consisting of highly motivated, creative people committed to project success at the global level.

When taking into account the third question, we have to highlight the importance of the relationship between the project strategy and the organizational strategy. When the project strategy is aligned with the strategic orientation and therefore with the organizational strategy, projects successfully contribute to the realization of organizational strategic goals. Accordingly, misalignment leads either to projects that meet the project triangle but not capitalized at the strategic level or even to unsuccessful project realization.

### Limitations and further research direction

The result of the empirical study highlights the importance of different strategic orientations in parent organization – affiliation relations. The four cases demonstrate that strategic orientation and project strategy are aligned. The four cases represent four different strategies and four different parent organization – affiliation relations. The results are therefore limited to these four cases. For more generalization, a much broader quantitative data collection is needed.

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