GOVERNANCE IS IMPORTANT TO PROJECT SUCCESS – A CONCEPTUAL PAPER

ABSTRACT

What do we mean by governance and by project success? Most projects, even non-complex projects require some form of governing - it can be as simple as having a project manager, as the person responsible for the delivery the project. In addition, there could be more a question of what structural processes are in place, to allow for good governance; such as ensuring that there is regular and systematic reporting to the 'project owner' on the progress of the project. In the more complex project situations, a project board is put in place and reporting occurs there. A project charter could also be drafted. A project charter is a guide for project board, establishing the authority and financial responsibilities of the board's oversight of the project which includes the level of financial delegations that a project manager has over the particular project and the deliverables the project is to achieve. Project success, however, is not so simple, as there are four different views.

GOVERNANCE

Scenario	*You are about to start a new complex project, the biggest one you have ever run. And you have a strong track record in delivering projects. It is no surprise that you know your industry well, and you know about the current practices and trends, and have been to conferences on project management to keep up to date. It is because of this knowledge; you have heard the recent issues being raised about governance. In particular that there is a problem and it is not being done very well. The trouble is – no one can actually tell you what project governance is or what it does!*

Trends in project management are still uncertain because it is a relatively young discipline. Project Governance is one of the newest additions to the language used in project management, and it is a rapidly evolving topic. In most cases, the term governance is being used in relation to describing process - the 'governing' issues that surround the initial establishment and operation of a Project Board. However, a problem being faced by every project manager is the elusive idea of 'good' governance - and what is it, and what should a project manager be doing or not in respect to their project?

PROJECT GOVERNANCE: WHAT AND WHERE IS IT?

The word governance is not new - it has been around longer than the word 'project', but it has only been recently used relating to projects. In particular it is now being identified as one of the root causes for project failure. In the last ten years or so some commentators have defined it in terms such as 'interest in the governance of projects'; or the governance of large public projects; or in more general the 'project governance movement' (Patel, 2007).

Governance has increased in importance recently due to the difficulties faced by many firms and organisations, including for example, failures of hierarchical coordination, as demonstrated by the collapse of several large institutions (Miller, Lessard 2000). Governance can have many different meanings: ranging from the complex process of steering multiple firms and agencies, through to including the responsibilities for defining project success (or more often, avoiding failure).

Nick Pelham, Head of Gateway at Department of Treasury & Finance. Victorian Government.

Dr. Chris Flaherty, Senior Risk Consultant at Greymans Limited, London U.K.

GOVERNANCE IS IMPORTANT TO PROJECT SUCCESS – A CONCEPTUAL PAPER

Lawyers, policy makers and boards of directors seem to understand governance. However, project governance does not have any universally agreed boundaries. For instance, the Association of Project Managers (APM) provides a definition of project governance as the extension of principles of governance in to the management of individual projects. This is a very broad description, and incorporates many of the elements of a typical project management role, such as reporting. So what then, is new about governance, or are we just re-badging the old? From 2003 to 2007, the APM produced guidance for project managers under the banner of 'governance of project management'. The guidance also provided the project management body of knowledge with 42 questions which project boards should ask of projects (APM, 2004). This in essence, seems little different from the normal fiduciary responsibilities associated with good project board practices.

ORIGIN FOR PROJECT GOVERNANCE

One origin for project governance has been Corporations, and Corporate Law, where legal concepts such authority of making a decision, what facts were used in the decision process, have crept into the realm of Project Board management. Much of the time these bodies are either statutory or company incorporated, and as such have to observe legal requirements such as 'Directors Duties', and the fiduciary responsibility of board decision-makers . More general meanings of governance have also appeared in project management, these include:

- Regulations, proscriptions, injunctions, prescriptions, orders;
- Economic means, sanctions or incentives; and
- Information, advice or warnings.

  (Vedung, 1998)

More recently, one of the wisest modern uses of governance is given by Sir Adrian Cadbury (Cadbury, 2002) who developed the UK government's approach to corporate governance:

> *"Governance is a word with a pedigree that dates back to the Chaucer and in his day the word carried with it the connotation wise and responsible which is appropriate. It means either the action of governing or the method of governing and it is in the latter sense it is used with reference to companies....a quotation which is worth keeping in mind in this context is: 'he that sits quietly at the stern and scarce is seen to stir".*

The Cadbury definition is interesting because one of the key issues seems to be that the 'movement' in project management, toward better governance seems to be implicitly linked with the idea that managing projects is something akin to managing a company. In short, it is taking a business-like approach. As well, at the same time it acknowledges that to govern an activity is to visibly exercise authority over it. Perhaps then, the true reason for the governance movement in project management has been the uneasy feeling that somehow, projects are un-business like, and no one seems to want to take responsibility!

INTERNATIONAL APPLICATION

At the international level, 'International Governance', has been introduced by several institutions, to settle matters at a state-level including the United Nations, the World Bank, the Organisation for Economic Co-operation and Development (OECD), the World Trade Organization, and the European Union. Finally, most countries have their own governance

Nick Pelham, Head of Gateway at Department of Treasury & Finance. Victorian Government.

Dr. Chris Flaherty, Senior Risk Consultant at Greymans Limited, London U.K.

guidelines; these are considered to be the world-better practices in relation to publically listed companies. This means that the idea of governance, more generally, may combine several different levels and sources: statutory, government, international, legislation and best practices. The impact therefore for project managers, especially those being delivered across borders, is the multiple and often conflicting guidance, legislative requirements and practices that are expected of project governance.

THE BASICS FOR PROJECTS

What does Project Governance mean for a new project then? Here are a few basics:

- The OECD defines 'Governance' as the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country's constitutional values in the face of changing problems, actors and environments (OECD, 2005).
- The Association of Project Managers defines the 'Governance of projects' as those areas of governance (public or corporate) that are specifically related to project activities. Secondly, good project governance ensures relevant, sustainable alternatives are chosen and delivered efficiently (APM, 2005).
- A Project Charter is a guide to the authority and financial regulation of the Project Board's oversight of the project this includes the level of financial delegations that a project manager has over the particular project.
- Project success, from the classical project management perspective focuses on transaction costs being minimised and quantified in terms of cost and time. Whereas 'time and costs' are usually seen as the cornerstone of project management, the delivery of benefits as well as public acceptance and sustainability are all factors that are now impacting on notions of success, which are not usually the responsibility of the project manager.

However, even with these basics clarified, the question still remains: what do I (as a project manager) need to do for my project to not join the long list of those displaying bad governance behaviours?

A SPECIFIC PROJECT GOVERNANCE ISSUE - SUCCESS

One of the main benchmarks for delivering any size of project is using measures to define its success. These success factors are typically defined by a project owner prior to the project commencing, and is assessed only once the project is completed. The use of project management is the typical vehicle to deliver the success – so where then, is the relationship between management of the project, and its eventual output? Is this success tied to 'good' governance or simply good project management?

The most well know measures are also the most basic - time and cost. Let us explore four main views of success and outline the differences that are occurring with each view, which is adding to the problem of defining success.

Firstly, what the project thinks:

The project's view - this is the assessment from within the project, usually by the individuals associated with having the delivery responsibility. Their view will normally be that, because the project was actually delivered, it was therefore a success. The usual indicators for the project view of success is that it was delivered on the expected date and for the expected cost. These indicators however are difficult to tie down – in particular, which indictor is used? For example, are the original dates and costs used, as these may have been merely an estimate for planning purposes, or were the indicators once a contract was signed used,or those that were developed when the project was last benchmarked?

An example:	A project is estimated to cost $130m and take three years to deliver. Exactly three years later, the project was delivered for $132.1m. Is this project a failure? Without knowing any more details, the project view of success could go two ways: • Success – the project was delivered! • Failure – the project was not delivered for the expected cost (1.6% cost overrun).

Secondly, the owner's view:

The view of the project sponsor or owner, could be from the project board's view, or that of a senior responsible owner or similar. Usually this view considers the project success from an effects point of view - I played 'x' to achieve 'y'. Success is assessed differently from the project view, and is dependent on the effect the project was planned to have, and is having.

An example:	Using the $130m /three year project example, the investor would consider the following in determining an assessment of success: • Is the final product fit for purpose (ie doing what I required it to do)? • Is the effects ('benefits') being delivered? • Was it a good investment (meeting a demand sufficient ROI, opportunity cost)? • Did it deliver value for money (from the original investment case)?

Thirdly, the stakeholder view:

This group are generally directly impacted by the project being implemented. The issues in assessing success that this group would consider include:

- Did the project deliver what I needed?
- Did it deliver what was promised?
- Are my expectations met i.e. are my core needs, non-core and the 'nice-to-have' needs been met?

This later set of considerations tend to fall outside of the traditional transactional view of project success – the 'time and costs' formula, and more represent the delivery of benefits as well as public acceptance and sustainability, which are all factors that can impact on contemporary notions of success.

Fourthly, the indirectly affected stakeholders:

This group can be thought of as a shareholder, for which the project has no direct impact but may impact indirectly on the shareholder through company value. This group may have a financial interest in the company, but not directly in any particular project. In public projects, the indirectly affected stakeholders could be the people who will use, say a new rail service, or generally as the tax payers. This group may or may not have an opinion of the project success, and any such opinion will be dependent on distance sources of information to form an opinion. This view again returns us to the ‘benefits-view’; as well as public acceptance and sustainability, which are all factors that can impact on contemporary notions of success above and beyond time and cost.

FINAL OBSERVATIONS: A GOOD GOVERNANCE STATEMENT

Looking at the four group views: the project, the owner, the stakeholder, and the indirectly affected, how would a project manager therefore design a good governance statement which can effectively compel a project board, which is thinking about the project’s progress but is ultimately focusing on the project success? Typically, governance seems to cover the following elements.

- Systems of structuring, operating and controlling.
- Achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers.
- Compliance with the legal and regulatory requirements; includes meeting environmental and local community needs.
- Any specific considerations for specific organisations and sectors.
- Processes and evaluation criteria to deliver value.

The relationship between governance and project success is a new field, however one issue seems to be coming to the fore is the element of ‘quality’. It is asserted that it seems to be closely equated with a ‘benefits-view’ - a basic question about a project’s success or otherwise, is becoming more important than the ‘time and cost’ dimensions. That being the case, it may well be that a new definition of project success needs to be built into basic governance requirements of producing a project charter. This would need to be tailored to compel project boards to keep in mind that the quality of the project is sufficiently being considered, to justify confidence that these effects will be delivered. As well, are the broader effects that projects are trying to achieve – the ‘benefits-view’; as well as public acceptance and sustainability, are factors that are worked into the basic definition of success, which is guiding the project’s ultimate missions or goals.

REFERENCES

APM: GoPM (Specific Interest Group). Directing Change: A Guide to Governance of Project Management, 2nd Edn, Association for Project Management (High Wycombe, 2005).

Association for Project Management. Directing Change: A Guide to Governance of Project Management (2004).

Nick Pelham, Head of Gateway at Department of Treasury & Finance. Victorian Government.

Dr. Chris Flaherty, Senior Risk Consultant at Greymans Limited, London U.K.

Cadbury, A. Corporate Governance and Chairmanship (Oxford University Press, 2002).

Miller, R. and Lessard, D.R. The strategic Management of Large Engineering Projects: Shaping institutions, Risk and Governance. Cambridge Mass.: MIT Press, 2000.

OECD Guidelines on Corporate Governance of State-owned Enterprises (OEDC Publishing, 2005).

Patel, D. Why Executives Should Care About Project Governance: What Your Peers Are Doing About It. PM World Today (April 2007, Vol. IX, Issue IV).

Vedung, E. Policy Instruments: typologies and theories. In Bemelmans-Videc, M-L, Rist, R. C. Vedung, E. *Carrots, Sticks, and Sermons* (New Brunswick, NJ and London: Transation Publishers, 1998): 21-58.

Nick Pelham, Head of Gateway at Department of Treasury & Finance. Victorian Government.

Dr. Chris Flaherty, Senior Risk Consultant at Greymans Limited, London U.K.