Building enterprise project management capability 7

Governance in the project-based organisation

by **Professor J. Rodney Turner**

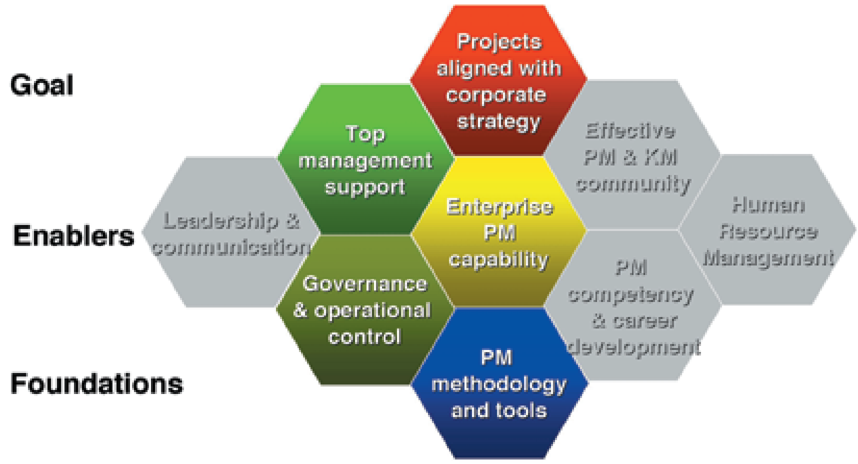

Figure 1: Providing governance structures to support the management of projects, programmes and portfolios

Over the last few months I have considered how project-based organisations learn how to do projects right, that is, how they develop project management competence to become better and better and delivering their projects. Over the next couple of months, I want to turn my attention to how organisations ensure that they are doing the right projects; that is, they are doing the best projects to achieve the best business results.

When talking about project management, we tend to focus on the management of the individual project. That was the sole focus of project management until the mid-1990s. Since then we have also come to focus on programme and portfolio management. Over the past couple of years we have widened the perspective further, considering projects, programmes and portfolios holistically within the organisation.

It is essential, within the organisation, to provide a context within which projects, programmes and portfolios can flourish. Part of that is providing appropriate competencies, as I have discussed over the past few months, but another, essential part is providing governance structures to support the management of projects, programmes and portfolios (see Figure 1).

Governance is becoming the 'in' word but what does it mean for projects and programmes? This month I will describe:

- the three levels of governance in the project-based organisation
- the governance mechanisms required at each of those three levels.

Three levels of governance in project-based organisations

The governance of projects takes place at three levels (see Figure 2):

1. At the level of corporate governance, where corporate governance supports project, programme and portfolio management (PPPM) and they support corporate governance, and where the right portfolios, programmes and projects are defined to deliver corporate strategic objectives
2. Between corporate governance and the individual project, where appropriate portfolio and programme governance and management structures (including the project office) are put in place to support individual projects, and where competencies are developed to enable projects, programmes and portfolios to thrive
3. At the level of the individual project, where governance mechanisms are required to ensure that the project will deliver the right product and that product will deliver the desired business benefits.

At the level of corporate governance

The first level of the governance of projects occurs at the level where PPPM overlaps with corporate governance. The Organisation for Economic Cooperation and Development (OECD, at www.oecd.org) defines corporate governance as follows:

Corporate governance involves a set of relationships between a company's management, its board (or management team), its shareholders and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Thus corporate governance should be concerned with PPPM:

- people working on projects, programmes and portfolios are stakeholders in the organisation, whether they are internal staff or external contractors
- the governance and management structures adopted by PPPM are part of the means of obtaining the company's objectives
- PPPM is part of the process of monitoring the performance of the whole organisation, especially on large projects, programmes and portfolios that have a significant impact on corporate cash flow.

Conventionally, company boards have not taken an interest in project management. Projects were something that took place in the back room, in the skunk works, out of site and out of mind. The Project Management Institute (PMI) has sponsored research into how to sell project management and what it can do to senior executives. The results of that project have been published and information about it can be found at PMI's web page: www.pmi.org/prod/groups/public/documents/info/PP_CompletedResearchProjects.asp

Someone suggested to me once that company boards don't like project management because it tries to deal in certainties, and make forecast outcomes clear, whereas boards of directors would often like to make things less clear so they can manipulate outcomes. However, under recent legislation all that is changing.

In the United States, the Sarbanes-Oxley Act of 2002 (SOX) has made it a legal requirement for CEOs and boards of directors to be able to accurately forecast future cash flows, with the possible sanction of prison terms if they cannot. This legislation has been passed in response to scandals including Enron and WorldCom. Suddenly CEOs and boards of directors are taking notice of large projects and programmes because they can have an impact on cash flows for several years into the future, both in terms of their cost and the benefits they will deliver.

CEOs and boards of directors now want clarity and accurate forecasts, and so mechanisms of management and governance of large projects and programmes are now important to them.

The impact of SOX is not limited to the United States, because cash flows in overseas subsidiaries and projects will impact on the cash flow of the American parent, and so the same reporting requirements are being imposed on projects and programmes undertaken by

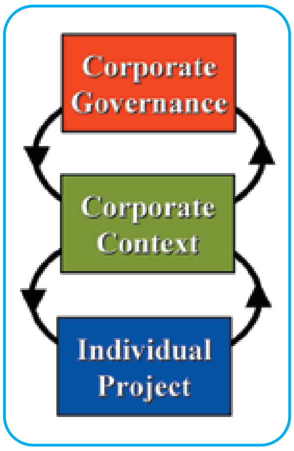

Figure 2: Three levels of the governance of project management (GoPM)

Figure 3: Governance of project management at the overlap of projects, programmes and portfolios and corporate governance

American companies worldwide. Similar legislation is also being passed by the European Union, the UK and Australia.

The UK's Association for Project Management (APM) has a Special Interest Group (SIG) looking at the governance of project management (GoPM). They state quite clearly that they are mainly focusing on the governance of projects at this level, though they also encompass the governance of projects at my second level. They have produced a very timely report on the GoPM, which can be downloaded from APM's website:

www.apm.org.uk/resources/sigs/governance.htm

This document outlines four main components of the governance of projects:

1. portfolio – direction effectiveness and efficiency
2. project sponsorship – effectiveness and efficiency
3. project management – effectiveness and efficiency
4. disclosure and reporting.

Many authors, including me, sweep these into the overall heading of enterprise-wide project management capability (EPM). Driven by the SOX legislation, this concept is taking hold very quickly.

APM's guide also sets out 11 principles of the governance of projects:

1. the board has overall responsibility for GoPM
2. roles, responsibility and performance criteria of GoPM are clearly defined
3. disciplined governance arrangements are applied throughout the project life cycle
4. there is a coherent relationship between business strategy and the project portfolio
5. all projects have authorisation points at which the business case is approved, and the results of those authorisation points are clearly communicated
6. members of delegated authorisation bodies have sufficient representation, competence, authority and resources to take empowered decisions
7. the project business case is supported by accurate and relevant information
8. the board or its delegated agents are able to identify when external scrutiny of projects is required and will act accordingly
9. .there are clearly defined criteria for reporting project status and escalating risks and issues
10. the organisation fosters a culture of improvement and frank disclosure of project status
11. project stakeholders are engaged at a level that reflects their importance to the organisations and in a way which fosters trust.

On this last point, I once worked with a company making defence equipment that was trying to move from a functional focus to a project focus. I said that the reward structure could sometimes work against a project focus. My contact said: 'Funny you should say that', and went on to say that salaries in the company were determined by the number of subordinates a manager had. So the manager of the Engineering Department, with 1,000 subordinates, was very senior. The manager of a project, worth £5 million, with a forecast profit of £0.5 million, and critical to the defence of the UK, might only have one or two direct subordinates, and so would be very junior. So junior, in fact, that he or she might not have the procurement authority to order coffee for a client meeting. That does not foster appropriate governance of projects.

The APM Guide goes on to describe how to achieve the four principles, and under the last shows how it supports response to the SOX legislation. I leave it to you to read the guide.

At the organisational context level

The governance of project management (GoPM) at the corporate level just described involves decisions taken by the CEO and board of directors to create the context in the organisation supportive of projects, and which satisfies their reporting requirements under SOX and related legislation. The next two levels of GoPM are at the level of the organisation and the individual project (see Figure 4).

The second level, that of the organisational context, covers the first of the components defined by APM's guide to GoPM. It also covers the wider concept of developing enterprise-wide project management capability. It can be said to be about doing the right project and doing projects right:

- Under doing projects right, key issues are: developing organisation competence, developing individual competence, human resource management and leadership and communication. Supporting issues are: the project management community and knowledge management. I have dealt with all but one of these in this series of articles over the past few months. Leadership and communication will come later.
- Under doing the right projects, key issues are aligning project objectives with corporate strategy through programmes and portfolios, and leadership and communication. Again, this will be covered in a future article.

Later, I will describe the categorization of projects, which links these two sets of issues.

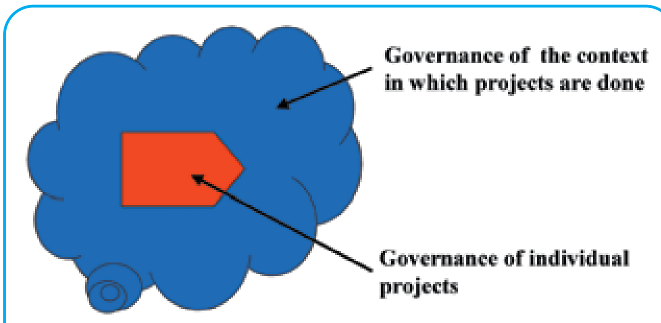

Figure 4: GoPM at the level of the context and individual projects

At the individual project level

Finally, there is governance at the level of the individual project. To define what we mean by governance of the individual project I took the OECD definition of corporate governance and replaced the word 'corporate' with 'project' and made other relevant changes. That gave the following definition for the governance of the individual project:

Project governance involves a set of relationships between a project's management, its steering committee (or management team), its parent organisation or client and other stakeholders. Project governance provides the structure through which the objectives of the project are set, and the means of attaining those objectives and monitoring performance are determined.

This definition identifies three roles for the governance of the individual project:

1. Setting the project's objectives, which involves:

- setting the business objectives to be delivered by the project and ensuring that those are linked to corporate strategy

- defining what outputs (or deliverables) the project should produce which, when operated post-project, will deliver those business objectives.

I have labelled the person fulfilling this role as the Broker.

2. Defining how the project's outputs will be produced, which involves:

- identifying the process required to deliver the project
- identifying the competencies required
- assembling a team with those competencies, (which may include the project manager)

I have labelled the person fulfilling this role as the Steward.

3. Managing and monitoring the process to deliver the project's outcomes to time, cost and quality. This is the role of the Project Manager.

The project manager can fulfil the steward role, and will often do so on larger projects. However, on smaller projects the steward role will be fulfilled at the programme or portfolio level, and the project manager appointed along with the rest of the project team.

I believe that the broker and steward roles should be fulfilled by different people. There are two reasons for this:

1. The broker needs to have a much greater understanding of the business requirements, and the steward needs to have a much greater understanding of what the technology can deliver. These are not usually found in the same person.

2. There is an essential conflict of interest in the two roles. The broker should be pushing hard to achieve the client's ideal business requirements. The steward should act as a brake on his or her optimism, ameliorating what is promised within the light of what the technology can deliver. Separating the two roles creates a tension that helps achieve a balance between the need and what is possible.

I used to get frustrated with project managers who seemed to me like the character Rumplestiltskin in the children's fairy tale. (For those who don't know the fairy tale see the box.) All they wanted was to be put in a room, with a pile of straw and a spinning wheel, and to be left for the night, achieving the impossible, converting the straw to gold with constraints of time, cost and quality imposed from outside. They didn't want to be involved in decisions, such as what the business needed; or was gold the right product to achieve that need (and not silver or platinum); or was a spinning wheel the right process; or was straw the right raw material. They just wanted to be left alone to get on with it, to achieve impossible objectives set elsewhere.

I used to say: 'No! No! No!' The project manager should be involved in all those decisions. But having studied project governance I have changed my mind. Project management can be difficult and the project manager needs to be focused on the task at hand, leaving it to other people fulfilling other governance roles to:

- identify the business objectives
- identify the required project outputs
- identify the appropriate process to deliver those
- identify the competencies required
- assemble a team with those competencies.

The project manager's governance roles are:

- ensuring that the project team are motivated to achieve the outcomes
- ensuring that risks and uncertainties are dealt with flexibly to achieve the outcomes
- monitoring performance on the project and communicating progress to the client.

However, the broker and steward also have governance roles to ensure that the project manager is suitably empowered to achieve those roles. I will deal in a later article with how the project manager should communicate progress and how the client, broker or steward can empower the project manager.

The project manager should be aware of what the business need is, and what the desired project outcomes are, and why they are appropriate; but does not need to be involved in defining them, or agreeing changes to them. And, indeed, I now think that they should not be involved.

The UK Government in their PRINCE2 process (OGC) define four governance roles, not three. These are:

- The Project Executive, responsible for defining and delivering the required business outcomes (essentially the Broker)
- The Senior User, responsible for defining and the required project outputs and ensuring the are delivered (part of the Broker role)
- The Senior Supplier, responsible for identifying the process and technology to be used in delivering the project outcomes (essentially the Steward)
- The Project Manager.

I will describe these roles further when I describe the operational control and governance of individual projects in a later article.

References

OGC, 2002, *Managing Successful Projects with PRINCE 2*, 3rd edition, The Stationery Office, London.

Rumplestiltskin, a Children's Fairy Tale

There was a peasant with a very beautiful daughter who would boast about his daughter's abilities. He would often say she could spin straw into gold. The king of the country heard about this and married the daughter. On the first night of the marriage the king put his now wife, the queen, in a room, with a pile of straw and a spinning wheel, and told her she was to convert it all to gold by the next morning. If she didn't she would be put to death. Well, all she could do was sit there and cry. But a little man turned up and said he could do it, and asked what she would give him. She said her necklace. He agreed, so that constituted a contract and he set to work. By morning all the straw was converted to gold. The next night the king put the queen in the room with another pile of straw. The little man turned up again and the queen offered her ring. The little man accepted and again completed the task to time, cost and quality. The third night the same thing happened. This time the queen had nothing left to give, so she offered her first born baby. The little man accepted, so that constituted a contract. He set to work and again completed the project to time, cost and quality. The king was now satisfied and never asked his wife to do it again.

Nine or ten months later a baby was born. The queen had forgotten all about her promise to (contract with) the little man, but he turned up demanding the baby. The queen pleaded with him to be relieved of her promise (contract). Moved by her pleading he said if she could guess his name in three nights she could keep the baby. She immediately sent spies out to scour the land to list every possible name. The little man came the first night, and she went through hundreds of names, but none was right. The same thing happened the second night. Just before he was due to turn up on the third night one of her spies came back and said he had observed a little man in a dark forest, dancing around a fire saying his name was Rumplestiltskin and the queen could never guess that. When the little man turned up she started going through more names. When the sun was about to rise, the little man said, "Right, you can try one more name, then I win." She said, "Is your name Rumplestiltskin?" and he disappeared never to be seen again.

I am not quite sure what the moral of this story is other than royalty can breach their contracts with impunity and politicians don't need to keep their promises. You might say the contract was changed by agreement, but there was no consideration for the change, so it wasn't. The queen should have offered Rumplestiltskin something for the change of contract, which of course he could accept or refuse.

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