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Communication between the project manager and project sponsor

by **Professor J. Rodney Turner**

Over the past few months I have discussed governance structures on projects, and in project-based organizations. Underpinning those governance structures are leadership and communication (Figure 1):

1. Top management provides leadership to the project manager and project team, communicating requirements and providing support for the project
2. The project manager provides leadership to all project participants
   - leading downwards, communicating to the project team and motivating them to achieve the project's objectives
   - leading upwards, maintaining top management support
   - leading outwards, winning the support of resource providers
3. The project manager and top management (project sponsor) together provide leadership to other project stakeholders, communicating the project vision and winning their support.

This month I want to describe communication between the project manager and top management, particularly the project sponsor. I discuss:

- how the project sponsor and project manager are in a principal–agent relationship, and how that leads to a lack of comfort, and even mistrust, on behalf of the project sponsor
- the questions the sponsor wants answering to help maintain their comfort and trust, and hence maintain their support
- communication from the project manager to the project sponsor to answer those questions
- communication from the project sponsor to the project manager to help the project manager do what is best for the project.

Figure 1: Leadership and communication to give and maintain top management support

The principal–agency relationship

Jensen and Meckling (2004) say that a principal–agent relationship exists when one party (the principal) engages another (the agent) to perform some service on their behalf that involves delegating some decision-making authority to the agent. Although in their article they are primarily talking about the relationship between the shareholders of a company and the board of directors, they say that principal–agent relationships exist throughout firms and organizations. Clearly such a relationship exists between the owners of a project (represented by the sponsor) and the project manager appointed to execute the project on their behalf. There are four problems behind such a relationship, which can create the sense of discomfort or mistrust for the principal:

1. The principal is not certain that the agent is competent to do the job. The principal (sponsor) will have had criteria for appointing the agent (project manager) but they may have made a mistake; the agent may not be competent to do the job. This is known as the adverse selection problem.

2. The project manager is making choices on behalf of the sponsor, but the sponsor does not have access to all the information available to the project manager, so will often not know why the project manager is making these choices. This leads onto the moral hazard problem.

3. The principal does not know whether the project manager is making choices in their (the principal's) best interest, or in his or her own (the project manager's) best interest. Standard economic theory assumes that, in a given situation, a rational person will take a decision to optimize their economic outcome from the decision. Thus the project manager will manage the project in such a way so as to optimize the project outcome for his- or herself. They will only optimize the outcome for the principal (project owner or project sponsor) if their objectives happen to be aligned. Now, if the project manager expects to do more projects for the sponsor, they will want to keep the sponsor happy, and so delivering the sponsor's objectives will keep the sponsor happy, and will be in the project manager's best interest. Their objectives will be aligned. If this is a one-off project, and the project manager never expects to work for the sponsor or owner again, then the project manager will try to maximize profit from this one project. In this case the client should make sure, before the project starts, that the project manager's objective are aligned with their own. Even so, the project manager may behave opportunistically, or even unethically, to maximize his or her own outcome from the project at the expense of the client. This is known as the moral hazard problem.
4. Finally, the project manager may want to act in the client's best interest, but because of human frailty may not do so perfectly. This is know as bounded rationality, and occurs because, when the project manager (agent) is faced with making a decision:
   - they may not have all the information they need to make the best decision
   - they may not be able to process perfectly the information they have
   - they cannot foretell the future, and so will not be able to forecast all the risks that will stop them achieving the best outcome from the decision.

Faced with this situation many people satisfice[1], that is, they do something that is adequate rather than something that is perfect. Indeed, sometimes it is best to satisfice. Since you cannot take the perfect decision, faced with the above three problems of human frailty, it is better to take a good decision quickly, and then improve it through experience, than become paralyzed through indecision. The perfect is the enemy of the good: striving for the perfect stops you achieving something that is adequate.
So is it any wonder that, faced with this uncertainly about what the project manager is doing, and the reasons for his or her decisions, the project sponsor begins to feel uncomfortable about the situation, and because of the moral hazard problem may even mistrust the project manager. If the project manager wants to maintain the sponsor's support, the sponsor must be kept informed about what is going on. The project manager must lead upwards to maintain top management support.
The client's response to the principal–agency problem will almost certainly increase the cost of the project over and above the strict cost of works. There are several additional costs of the project, sometimes known as agency costs, the cost of managing the principal agency relationship; or sometimes known as transaction costs, the cost of managing the transaction between the client and contractor (project manager). These include:

- the cost of setting up and managing the contract between the client and project

manager, by which the project manager is appointed, his or her roles and responsibilities are defined and the method of monitoring the projects is also defined. Even on an internal project, where there will not be a formal, legal contract, this cost still exists
- the cost of the reporting mechanisms by which the client monitors project performance
- what are known as bonding costs, the costs of actions the project manager takes to win and maintain the client's support
- and what is known as residual loss, the difference between the value of the project outcome that would be in the client's best interest and the project outcome the project manager actual delivers. We have seen before that the project manager may not deliver the perfect outcome for the client, either because (through the moral hazard problem) he or she does what is in his or her own best interest and not the client's best interest, or because (through bounded rationality) he or she cannot work out the best solution for the client and so does what is adequate. The facility or asset delivered by the project will not be the perfect solution for the client, and the resultant loss of performance is residual loss.

So, it is clear that the project manager must communicate well with the client to maintain the client's comfort, trust and support.
Before I leave the principal–agent relationship I want to touch on two further issues.

Cooperation on projects

We saw earlier that it is in the client's best interest if their objectives and those of the project manager are aligned. So the client's objectives need to be well defined and the project manager needs to be motivated to achieve them. This is best achieved by having a cooperative working relationship with the project manager.
The client must work to make sure that they and the project manager view the project as a partnership, where they are working to achieve mutually consistent results. Unfortunately this has not always happened in the past. Through mistrust, the client and the project manager often treated the project as a competition, where they each tried to optimize their own outcome at the other's expense. They treated the project as a fixed sum gain, where one will win at the other's expense. They treat the project as a win-or-lose game.
Projects are not like this. They are coupled systems. If one party loses, they both lose; if one party wins, they both win. The project is either win–win or lose–lose. If you play a win–lose game then both parties will lose; it's just that one will just lose more than the other.
You must treat the project as a partnership, where the client and project manager work to achieve the best outcome for both. A doctoral student of mine, Ralf Müller, showed that achieving a cooperative working relationship between client and project manager is a necessary condition for project success (see Turner and Müller, 2004).
If you treat the project as a competition between client and project manager, conflict will result and the project will fail.

Bonding and project management as a profession

I sometimes wonder why professionalism is so important to project managers. The professional associations, like IPMA and PMI (PMRC in China), offer popular certification programmes and people talk about whether project management is a profession.
Professionalism is a bonding cost. The project manager is in a short-term relationship with the client and, because of the principal–agency relationship, that relationship is subject to the adverse selection and moral hazard problems:
- the client is not certain about the project manager's competence
- the project manager may behave opportunistically, or even unethically

Professionalism and certification reduce both problems. If project managers are certificated they are more likely to be competent. If they belong to a professional association they are more likely to behave professionally and ethically, because they will lose their membership if they do not.

Communication from the project manager to client

So how can the project manager communicate with the project sponsor, or client, to maintain their comfort and trust and maintain their support? To answer that question we need to ask ourselves what questions the client wants answering and what should be the mode and frequency of communication.

Questions the client wants answering

Graham (2003) says that when thinking about communication we often ask ourselves what data people want. He says it is better to think about what questions the client wants answering. To improve their comfort and trust, clients want several questions answering:
1. Will the end deliverable meet their functional requirements?
2. Is the right project process being followed to deliver the required end deliverables successfully and in the optimum way?
3. Will the project meet the required quality, budget and schedule requirements?
4. Is the project manager behaving in a professional and trustworthy manner?
5. Are appropriate control mechanisms in place to achieve all the above?

These can be summarized as questions of product and process, project performance and surprise avoidance.

Questions of product and process:
- Will the project's product as designed have the desired functionality?
- Has the optimum project process been adopted to achieve that?

Questions of performance:
- Have adequate resources been assigned to deliver the project on time?
- Will the project be delivered within the agreed budget?
- Is the project process working to deliver the product as designed (or better)?

Questions of surprise avoidance:
- Is the project manager competent?
- Is he or she behaving in the client's best interest?

Questions of performance

Ralf Müller (see Turner and Müller, 2004) discovered another necessary condition of project success: 'the client or sponsor must take an interest in project performance'.
He found that on high-performing projects, the client took an interest in progress. On those projects, the client had a pessimistic view of performance; it was usually doing better than they thought. On low-performing projects, the client did not take an interest in progress. On those projects the client had an optimistic view of progress; it was usually doing less well than they thought. This is a bit sad for project managers. You want your client to take an interest in progress to achieve a successful outcome, but then they probably won't give you full credit for how well the project is doing.

Frequency of communication

In choosing the frequency of communication, it can be calendar driven or event driven.
Calendar driven: Communication is made at regular intervals: daily, weekly, fortnightly, monthly.
Event driven: Communication is made at the achievement of project milestones.

Both are a good idea. But some project managers limit their communication to the achievement of project milestones. Remember that a necessary condition of project success is that the client should take an interest in progress, and if they are taking an interest they want regular reports.
I used to think that monthly, or even once every six weeks, was enough. But Ralf Müller found that, to maintain the client's comfort, trust and support, you need to communicate progress and performance information once every two weeks (fortnightly). However, enlightened clients don't just want the fortnightly performance data, they want a weekly verbal report from the project manager about project issues.

Mode of communication

There are two main modes of communication:
- written
- verbal

The project manager can make a written report.

Project performance data needs to be communicated as a written report, and clients on successful projects want this at least once every two weeks. They would actually like it once a week, but realize that this creates too much of a bureaucratic burden on the project manager, so accept it once every two weeks.

But clients also like verbal reports about project issues, and these they want at least once a week, and daily if possible. Ralf Müller found that clients were behaving in a slightly schizophrenic way.

They wanted the fortnightly written reports about project progress. They trusted these reports to give a valid picture of time, cost and functionality performance of the project. If the project manager lied, they would find out and that would be the last time the person worked as a project manager, so usually the written reports gave a valid picture of project performance. However, a project could be currently performing well, but with risks or issues about to blow up. Written performance reports don't give a picture of that. So clients also want regular, verbal reports from the project manager, so he or she can be questioned about issues and risks.

Clients want fortnightly written reports reporting project progress; and they want weekly verbal reports, reporting risks and issues.

Communication from the client to project manager

The client also needs to communicate with the project manager. The client cannot blame the project manager for not delivering requirements if the project manager does not know what they are. So the client is responsible for communicating requirements to the project manager and, given the risk of bounded rationality, the client must make sure the project manager understands them properly. One way of ensuring this process is by getting the project manager to communicate them back as part of the written project-performance reports.

Project managers' information needs actually vary throughout a project:

- At start-up they need to know the client's vision and mission for the project, and desired performance outcomes for time, cost and functionality of the project's deliverable.
- During implementation they want approval of the product as designed and the project process adopted to deliver that product. They also want to know that they have top management's support.
- Throughout the project they want to know that top management, or the client, trust them. They also need to know their scope for flexibility. Ralf Müller discovered a third necessary condition for project success: project managers should be suitably empowered to respond to project issues as they see fit. By 'empowered' I don't mean anarchy or laissez-faire management. The client, or top management, should clearly set objectives for the project, and indicate parameters and boundaries within which they expect the project manager to operate. But those boundaries should not be too narrow. The project manager needs some flexibility to deal with project risks. On successful projects, the project manager is required to follow flexible guidelines, but not required to follow rigid rules. The client delegated decision-making authority to the project manager, placing them in a principal–agent relationship…

And that takes us back to where we started.

1 Obtain an outcome that is good enough. Term introduced by H. A. Simon, Models of Man, 1957.

References

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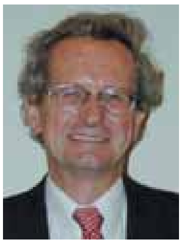

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