Governing Projects using Flexible Formal Systems (FFS)

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The scope of this paper is to examine project governance through the lens of corporate governance structures. The Australian National Audit Office defines governance as 'the set of responsibilities and practices, policies and procedures, exercised by an agency's executive, to provide strategic direction, ensure objectives are achieved, manage risks and use resources responsibly and with accountability.' This prescriptive approach to managing an organisation is in response to major corporate collapses which has created the need to govern using a highly structured and regulated framework. However, according to the CEO of the Business Council of Australia, Katie Lahey 'good corporate governance cannot be regulated. Good governance is about company culture, ethics, and behavioural change.' In addition, governance structures must be flexible so they can adapt to allow organisations to meet the needs of shareholders and stakeholders in an ever-changing internal and external environment. The project manager must be cognisant of these challenging environments, using both formal governance structures and informal, dynamic approaches to deliver project outcomes.

Governance

The development of National Constitutions in democratic environments and the social and political revolutions in Europe and America in the 1800's saw the evolution of governance. Governance principles can be evaluated according to the level of predictability transparency accountability and participation that will ensure the effective management of the organisation. The interaction of these principles sets a stable framework for governing within a participatory and accountable framework.

The recent Federal Government 2020 summit had a working group address how governance modulates democracy. In the context of the economic, environmental and social fabric of society, the issue of governance in the public sector deals with similar issues that organisations face, that is analysing whether the appropriate structures are in place to ensure 'decisions are made in the interest of the Nation, not just in the interest of political victory?' (Federal Government 2020 Summit, 2008).

1. Corporate Governance

The emergence of corporate governance can be traced to the Industrial Revolution when the Robber Barons amassed personal wealth at the expense of customers, workers and shareholders. In response to this unchecked behaviour, the governments at the time created laws and regulations to limit the excesses and abuses of the free and unrestrained markets. To be defined as a legal entity, an organisation has an 'unlimited life, limited liability of the owners and the divisibility of ownership that permits transfer of ownership interest without disrupting the structure of the organisation' (Colley et al, 2005, p.3). The shareholders of these legal entities elect representatives in the form of Directors who manage the business to agreed goals using a system of authoritative direction, known as corporate governance.

The Australian Stock Exchange defines corporate governance as 'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised' (ASX, 2007, p.3).

Transnational Corporations have network relationships that define how an organisation is governed. These include the processes by which activities are directed across different fields and geographical locations. The patterns and character of the connections between various relations in networks constitute their structure because 'such structures are conditioned by technical and cultural factors, but, primarily, they are interactive, that is, they are formed and modified through interaction among the actors. The network structure is a result of history' (Hakansson and Johanson, 1988, p. 42).

When governing an organisation, the Board of Directors are responsible to the "owners" of that organisation – the Shareholders. Directors must ensure the organisation is managed to constantly improve and enhance shareholder investment and meet their obligation to stakeholders. The way in which an organisation is governed should adopt practices that suit both the operational needs of the organisation and the needs of the shareholders within an often highly regulated environment. Therefore, 'the essence of any system of good corporate governance is to allow the Board and management the freedom to drive their company forward but to exercise that freedom within a framework of effective accountability' (Bosch p.7).

1.1 Shareholders

The role of Shareholders in the effective management of their organisation requires the development of principles of good practice. This is particularly relevant if the organisation has institutional Shareholders who, due to their size and influence can have a major impact on the organisation. Shareholders need to be aware that they are not just investors and their active involvement, which often increases with the size of their shareholding, should be encouraged. Bosch suggests that shareholders take responsibility to be informed but not get involved in the operational activities of the organisation and take a positive interest in the composition of the Board, appointment of appropriate Committees, Board performance, Auditor selection and performance and not seek sensitive or commercially confidential information. Clarke and Ram describe measures of success of shareholder involvement in terms of the number of votes for proposals they support and negotiated withdrawals of those they are not in favour of.

1.2 Boards

A Board of Directors is an entity that establishes and maintains an appropriate structure in which to manage the organisation. The artefacts used by the Board to manage the organisation can include Articles of Association, Bylaws, Shareholder Agreements and a Constitution which can then be translated into a supporting Governance Charter. An example of what can be included in a Charter is included in Appendix 1, noting that these will vary between organisations.

The Board is usually comprised of a Chairman and Directors – both executive (senior management employees) and non-executive (independent). The appointment of Board members is undertaken against a membership criteria with appropriate review and nomination procedures according to clearly defines duty statements Codes of Conduct are an additional tool used to ensure Board members meet not only their legal but also their moral obligations to the organisation and the community at large.

Committees of the Board can be established to assist with sharing the Board's workload. These can increase the effectiveness of the Board, however, the responsibility of all decisions rests with the Board. To function effectively, these committees require written terms of reference, reporting procedures and resource support to provide the Board and shareholders with information to evaluate new corporate initiatives.

An organisation can govern its operations in a variety of ways, however, to be effective and have oversight of the whole entity at a strategic level, a Board needs 'knowledge, information, power, motivation and time' (Harvard Business Review, 2000, p.111). It is not acceptable to have a well-intentioned, honest Director who is ignorant and therefore unable to fulfil their obligations. They must understand the relevant laws, the organisations governance artefacts and the industry within which the organisation operates to ensure they are able to fulfil their role as a Director.

1.3 Regulations

To assist organisations to ensure an appropriate framework has been established in which to manage, governments and organisations have established a range of regulatory requirements. In the wake of the major corporate collapses in the United States, the Sarbanes-Oxley Act of 2002, also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX or Sarbox, was introduced in 2002. The legislation established new or enhanced standards for all U.S. public company boards, management, and public accounting firms. Prior to this, in 1996 the Australian Stock Exchange (ASX) introduced Listing Rule 3C(3)(j). This rule requires listed companies to include in their annual reports 'a statement of the main corporate governance practices that the company has had in place during the reporting period.' Further reporting regulations have been introduced in Australia under the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (also known as CLERP 9). This requires organisations to have adequate measures, processes and procedures to meet the required reporting obligations. As shareholders become more aware of their organisations' responsibilities, they are demanding that Boards meet their obligations according to the internal and external regulations. However, it can be argued that the addition of what may appear to be onerous reporting requirements could inhibit innovation and increase the operating costs of the organisation.

1.4 Reporting

Clear reporting guidelines are required for a Board and ultimately the organisation to manage the operations. These guidelines will establish the period of time, content and audience of the information. The reporting requirements may be dictated by external agencies such as the ASX, ASIC or internal groups to meet pre-agreed deadlines like Board Meetings, Annual General Meetings and performance review cycles. To act proactively, Board members need to be focused 'on debating new decisions, strategies and polices, not just on reviewing past performance' (Harvard Business Review, 2000, p91). If the organisation is performing well, it is assumed that more information will be shared and therefore better decisions will be made that will increase performance (Adams, 2001).

Audits can be used as a reporting tool to document past and future performance of an organisation. These are often the responsibility of the Chief Executive Officer (CEO), however the Board can request a strategic audit to determine if the long term strategy and contributing decisions meet or exceed the organisations anticipated investment performance. The reviews nee to 'focus on the sustainable rate of return on shareholder investment produced by the corporate income stream [and the] objective comparisons among the company's separable income streams and with alternative investments in other companies inside or outside the industry' (Harvard Business Review, 2000, p. 67).

Therefore, to make effective decisions, the Board must rely on accurate historical and predictive data and a management team that behaves appropriately. The former can be highly regulated, that latter requires interpretation based on Codes of Conduct and an awareness of the culture of the organisation.

1.5 Behaviour

It can be argued that the behaviour of the Directors of an organisation reflect the ability of the whole organisation to behave appropriately. Even in 1776 concerns have been noted 'that Directors of such companies, however, being the managers rather of other people's money than of their own, cannot well be expected that they did watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own' (Smith, 1952, p. 324).This suggests that a clear, well articulated governance structure that meets both legal and organisational criteria will require a third dimension to be included – the fiduciary duty. This introduces the concept of a socially responsible Board where 'higher standards of behaviour [are expected] on businessmen than on citizens at large' (Votaw, 1972, p.25) to meet their fiduciary duty. The Board will therefore need to manage in a politically complex environment that requires them to determine whether decisions that have been made are 'good' or 'bad'. This will require the investigation into organisational politics and personal agendas which some Board members will not undertake for fear of damaging relationships or their reputation (Harvard Business Review, 2000).

The economics of ethical decision making require thoughtful consideration as to the identification and resolution of any issues. Breaches according to the law or a Code of Conduct or Ethics can be referred to a corporate ombudsman and as a result, procedural principles may need to be developed. Francis (2000,) proposes criteria to consistently manage this challenge according to dignity, equitability, prudence, honesty, openness, goodwill and suffering (prevention and alleviation).

The behaviour of members of the Board has been observed to have a direct correlation to performance of the organisation. Personal attributes reflect an individual's values and attitudes and can be defined as their style of personal governance which will have a direct impact on the quality of their own and other's lives. This introspective view can be translated to the external environment to be described as interpersonal governance, that is the way in which individuals create an environment where relationships with various parties can be improved. McGregor notes that 'leaders who combine wisdom, intelligence, compassion and effective leadership processes are the ones that enable others to produce outstanding results' (McGregor, 2000, p. 199).

2. Project Governance

When tasked with managing projects to deliver benefits to an organisation, a project manager is often working in a dynamic environment that does not have a corporate governance mechanism to support operational processes and manage the relationships between shareholders and stakeholders.

Sankaran describes project governance as 'the framework that enables the project management function to deliver the benefits of the project; and an assessment of the project performance leads to an understanding of the effectiveness of project management' (Sankaran, Remington, Turner, 2008, p. 3). This can be expanded to describe project governance as 'a set of formal principles, structures and processes for the undertaking and management of projects, applicable in the context of individual projects, programs or portfolios of projects which:

- Appoint a governor (or governing body) for a project
- Define and regulate roles, accountabilities, decision making and boundary management and
- Coordinate project relationships, planning and control' (Crawford, Cook-Davies, 2004, p.2)

The project manager must ensure the project governance framework is not assumed to be a substitute for management or operational control and is relevant to the organisational goals and strategies. In the Project Based Organisation (PBO) a governance approach provides the structure to develop 'strong interrelationships between its projects and both its business and corporate strategies to create and realize value' (Thiry, 2008, p.1). This is best illustrated in the diagram below where Thiry links programs and projects to organisational strategy whilst meeting the obligations of delivering outcomes according to accepted processes and procedures.

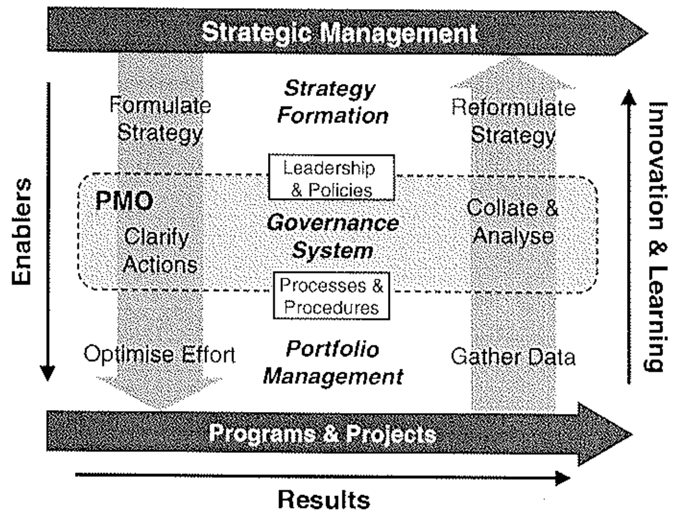

Figure 1: The PMO as a Governance System in the PBO, Thiry, 2008)

Working within the boundaries of the organisational strategy, Morris and Jamieson observe that 'project and program strategy is not always managed as a formal process. Often it is developed and maintained by project or program leadership teams and governance through business case processes and not exclusively through project management processes' (Morris and Jamieson, 2005, p. 16). Another emerging area where governance structures are essential is in Enterprise Architecture which provides a vehicle for the 'translation of the corporate strategy, and provides tools for implementation of corporate strategy, rather than just being in alignment with corporate strategy as portfolio management is' (Ireland, 2007 p. 6). It also advised that in global projects, a well developed and articulated governance structure is essential to ensure project participants from disparate locations, both geographical and organisational, are accountable and responsible to deliver an agreed outcome (Smith and Thatcher, AIPM, 2007). However, as Artto et al warn, one must guard against the organisation's desire to enforce control over projects through highly structured governance mechanisms. An example is included in Appendix 2.

2.1 Shareholders

A similar framework for the role of Shareholders within the corporate governance framework can be applied to Shareholders in the project governance environment with one significant difference. Hazzard and Crawford note that 'project governance stakeholders generally do not have legally enforceable "rights" as shareholders do [and that] the identity and range of the formally recognised project governance stakeholders will depend on the context and culture of the operating environment of each project/program but is a wider range of stakeholders than for corporate governance' (Hazzard and Crawford, 2004, p. 5).

2.2 Boards
To effectively manage a project, a governance structure will rely on establishing a project board supported by various sub-committees or groups. Key stakeholders will need to be represented through these vehicles to ensure engagement in the project. The interrelationships between these various entities will need to take into consideration the organisational board structure and direction, portfolio and program direction and the organisational shareholders and stakeholders. As with organisational boards, projects boards require clearly mandated terms of reference including unambiguous reporting lines and duty statements. The Project Sponsor can act as Chair of the project board and is 'the route through which project managers directly report and from which project managers obtain their formal authority, remit and decisions. Sponsors own the project business case. Competent project sponsorship is of great benefit to even the best project managers' (APM, 2004, page 9). Having the Sponsor so intimately involved with the Principle may be problematic.

2.3 Regulations
The project governance framework does not in itself need to meet any legally binding regulations. It will however, need a documented framework in which to govern the project that will reflect the nature and intent of the regulations that the organisation must adhere to. In the normal course of managing the project, the responsibility of the project manager will be to abide by such regulations as they have deemed appropriate for the delivery of the agreed project benefits and outcomes. In meeting these forms of regulatory and fiduciary responsibility, one can consider if project management can be defined as a profession. To do so, the project work 'must demonstrate that it is not only regulated by the representative associations but also the laws governing the country in which the practitioners undertake their business' (Twyford, 1999, p. 122).

2.4 Reporting
Reporting on project activity according to a predetermined framework will form part of the governance structure for the project. The reporting cycle may also follow a structured system such as the Office of Government and Commerce (OGC)'s Gateway Review. This process examines projects at critical stages in their lifecycle to provide assurance that they can progress successfully to the next stage. The various gateway policies outline specific governance criteria, such as asking if the governance framework is fit for purpose and in particular is there commitment to key roles and responsibilities for this programme within current corporate priorities and whether there are appropriate management controls in place.

2.5 Behaviour
Behaviour of the project team can be formalised according to standards of competency and Codes of Conduct specific for the project and within organisational frameworks. The Australian National Competency Standards for Project Management currently have several measures of the capability of a project manager to effectively govern a project or program. These include the ability to manage conflicting priorities between projects with higher project authority support, in this case project governance committees or senior management; forwarding program progress report to higher projects governance authority; project selection and prioritisation are conducted within guidelines provided by, or under direction of, a higher project (governance) authority; projects' objectives, major deliverables and resource requirements are defined at the project and program level, and are confirmed with the governance group or a higher project authority.

Summary
A project manager can establish formal and informal governance structures to deliver project outcomes and benefits within an organisational context. This process is evolutionary due to the dynamic environment in which projects are delivered. To be effective, the project governance structure must be robustly flexible, document the shareholder and stakeholder needs, instigate appropriate board arrangements, identify or develop relevant regulations, map the reporting requirements and provide a guideline as to the behavioural expectations of those involved on the project. The influence of the corporate governance structure cannot be ignored. It will dictate the foundations of the project governance structure and may reflect legal requirements that the Project Sponsor and Project Manager must be aware of and who in turn must translate into meaningful guidelines for the project team and stakeholders. In conclusion, governance structures will need to be adaptable to ensure that decisions are made to meet increasing public expectations to ensure that economic, environmental and social 'governance modulates our democracy' (Federal Government 2020 Summit, 2008).

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Australian National Competency Standards for Project Management:
www.aipm.com.au
Australian Public Service Code of Conduct:
http://www.apsc.gov.au/conduct/
Global Project Management Maturity Model:
http://www.prince2.org.uk/MaturityAssessment/PMMM.asp
International Project Management Association (IPMA):
http://www.ipma.ch/certification/standards/Pages/default.aspx
Project Management Institute (PMI) Code of Ethics and Professional Conduct:
http://www.pmi.org/PDF/ap_pmicodeofethics.pdf
Office of Government and Commerce (OGC), the OGC Gateway™ Process
file:///Volumes/DATA%20DRIVE/SD%20Toolkit%202005/deliveryteam/gateway/5_beneval.html

Appendix 1: Governance Charter

1. Defining Governance Roles

1.1 National council structure
1.2 Role of the national council
1.3 Role of national councillors
1.4 Role of national executive
1.5 Role of national president
1.6 Role of national vice president
1.7 Role of national secretary
1.8 Role of national treasurer
1.9 Role of chief executive officer
1.10 Role of committees
1.11 Industry councils
1.12 Duties and powers of national councillors and other national officer bearers
1.13 Delegation of authority

2. Governance Committee

2.1 Establishment of good governance committee
2.2 Composition of good governance committee
2.3 Access to records and resources of the Institute
2.4 Access to independent advice
2.5 Roles and responsibilities

3. Independence of National Councillors

3.1 Definition of independence
3.2 Assessment criteria for independence
3.3 Materiality thresholds
3.4 Declaration of independence by national councillors
3.5 Challenges to a national councillor's independence

4. Independent Decision Making

4.1 Policy
4.2 Access to company information
4.3 Requests for independent professional advice

5. Guidelines for Conflicts of Interest

5.1 Policy
5.2 Notification by a national councillor of a conflict of interest
5.3 A remaining conflict of interest

vi Pro Forma Project Plan

vii Model Proxy Form

viii Table Summarising the Roles of National Councillors and other Officer Bearers, together with their Method of Election or Appointment

ix National Council Self Evaluation Form

x Memorandum and Articles of Association

Appendix 2: Adaption of the Australian National Audit Office Policy Questionnaire

A project manager can establish formal guidelines for establishing an effective governance structure on a project. Once established, reporting against and adjusting the framework if appropriate is essential throughout the life cycle of the project. The Australian National Audit Office provides some key questions for CEO's to assure governance issues are addressed when implementing any initiatives. These have been adopted to suit a project environment and may be useful for project managers to reflect on when establishing a governance framework that will take into account informal networks and organisational culture:

- Is a single senior responsible officer accountable for the delivery of each package of work in the project?
- Does the senior responsible officer have the appropriate authority, skills and resources to deliver the project?
- Has sufficient consideration been given to the adequacy of governance arrangements in planning for implementation?
- Do arrangements reflect strong executive-level support? Do people in the organisation know that 'this matters'?
- Is there clarity of purpose, powers and relationships between all those involved in the implementation of the project?
- Are the governance arrangements between the various parties appropriately formalised and/or documented?
- Are there whole-of-organisation dimensions to the project? If so:
- Have the appropriate departments been adequately engaged?
- Has a lead department been identified and its role articulated and accepted by other relevant departments?
- Are the coordination and sharing arrangements of sufficient breadth and robustness?
- Is there clear recognition of accountability arrangements?
- Do the governance arrangements provide for adequate reporting and review mechanisms, including escalation of significant issues and 'bad news'?
- Where project development and its implementation involve negotiation and/or consultation with stakeholders, has significant attention been given to matters of conflict of interest?

Adapted from the Australian Government, Department of the Prime Minister and Cabinet, *Implementation of Programme and Policy Initiatives: Making Implementation Matter, A Better Practice Guide,* Australian National Audit Office, October 2006, p. 12.