GOVERNING PROJECTS FOR CORPORATE EXCELLENCE

Lynn H. Crawford DBA MTCP BArch Grad Dip HRM AdipC FRAIA FAIPM MAPM
Managing Director, Human Systems Asia Pacific Pty Ltd
Professor of Project Management, ESC Lille, France
Director, PM Research Group, University of Technology, Sydney

Terence J. Cooke-Davies PhD BA FAPM FCMI FRSA
Executive Chairman, Human Systems International Limited
Adjunct professor, University of Technology, Sydney
Honorary Research Fellow, University College, London

INTRODUCTION

Corporate governance has come under intense scrutiny in recent years, following numerous high profile corporate collapses. Shareholders and other stakeholders are demanding increased accountability, transparency and ability to implement strategy. As projects and programs are the vehicles for delivery of corporate strategies, effective project governance, within the corporate governance framework, has become a serious concern for organisations, offering company directors clear visibility and control of non-routine corporate operations and delivery capability.

The executive sponsor of a project or program is the pivotal link between corporate and project governance. This is the role that articulates the relationship between three crucial elements of an organization: top management who set the strategic direction, business and line managers who deliver the day-to-day profit, services and resources, and the manager and team seeking to deliver the project successfully. Clear definition and effective performance of the role of the executive sponsor is a vital aspect of both corporate and project governance and is demonstrably crucial to the success of programmes and projects.

Against a background of forces that are driving an increasing focus on corporate governance, this paper provides a definition of project governance relative to corporate governance. The role of the executive sponsor within both corporate and project governance is described and the importance of the role in contributing to project success is demonstrated by reference to research on the capability of organisations in consistently defining, initiating and managing a complex portfolio of projects.

CORPORATE AND PROJECT GOVERNANCE

The Corporate Governance Imperative

An increasing focus on corporate governance can be traced back to the stockmarket collapse of the late 1980's which precipitated numerous corporate failures through the early 1990's. Examples of attempts by governments to improve corporate governance practices were the Cadbury Code of Practice (Cadbury, 1992) in the UK, and Strictly Boardroom: Improving: Governance to Enhance Company Performance, Australia, first published in 1993(Hilmer, 1998). Despite these attempts at regulation, further pressure on corporations resulted from the Japanese deflation crisis, from the early 1990's through to recent times, the Asian crisis of finance and governance in the late 1990's and the bursting of the dot.com bubble in 2000-2001. Weill Gothshal & Manges (Gregory and Simmelkjaer, 2002) report for the OECD specifically cites as catalysts for change in corporate governance practices the collapse of Enron, Worldcom and Tyco in USA because of the impact of those events on international financial markets. However, the OECD also refers to local corporate failures in UK, Australia, Germany, France, Japan, Korea and Switzerland, indicating the problems were widespread.

Allied with executive management excesses and in some cases outright fraud (OECD, 2004) the various failures have had widespread impact. Since the OECD released its "Principles of Corporate Governance" in 1999 approximately 35 codes or statements of principles on corporate governance have been issued in OECD countries (Gregory and Simmelkjaer, 2002). The most significant of these has been the Sarbanes Oxley Act, 2002. While the jurisdiction of this Act is the USA, the influence of this Act is being felt worldwide as many global corporations with USA connections are forced to undergo major Sarbanes Oxley compliance audits. Organisations in the financial sector are experiencing heightened regulatory pressures including but not limited to Basel II.

In the past, many senior managers had little interest in project management, considering it to be tactical rather than strategic. Others disliked or were suspicious of project management because it fosters visibility, transparency and accountability and this can make it difficult to hide mistakes. As legislation such as the Sarbanes Oxley Act now requires company directors to take personal responsibility for ensuring 'accuracy and reliability of corporate disclosures' their attitude to transparency is changing and project management can be seen as directly assisting senior management in meeting and fulfilling their legislated obligations.

Corporate governance can be considered to encompass relationships between a company's management, its Board (or management team), its shareholders and other stakeholders and to provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). Corporate governance is concerned with

1. roles and responsibilities,
2. accountability
3. disclosure and transparency
4. risk management and control
5. decision-making
6. ethics
7. performance and effectiveness
8. implementation of strategy

A definition of project governance

Project governance is initiated under the umbrella of corporate governance and makes a significant contribution to addressing of the eight concerns of corporate governance listed above. Projects and programs as instruments of change are fundamental to the implementation of strategy. Project management is specifically concerned with risk management, control, performance and effectiveness. A project governance framework will clearly identify roles, responsibilities and accountabilities and this in itself provides a basis for decision-making. As mentioned above, disclosure and transparency are characteristics of good project management.

Project governance can be defined 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' (Hazard and Crawford, 2004)..

THE PIVOTAL ROLE OF THE EXECUTIVE SPONSOR

From the definition of project governance given above, the pivotal role of the executive sponsor becomes immediately apparent. The executive sponsor is the governor for a project and therefore provides the link between corporate and project governance. The executive sponsor, in keeping with the term, should be a member of the corporate executive. The Association for Project Management, in a guide to governance of project management, states that, "Project sponsors are 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." (Association for Project Management, 2004 page 9)

The Sponsor's Roles

In most cases, the role of the executive sponsor is not well defined and there is considerable variation in the role across organisations (Crawford and Brett, 2001). In a forthcoming book, Dinsmore and Cooke-Davies (2005) draw upon their combined observations of enterprisewide project management in organisations to suggest that there are five separate but inter-related roles that an executive sponsor needs to play:

1. Governor of the project;
2. Owner of the business case;
3. Harvester of benefits;
4. "Friend in high places" to the programme- or project manager; and
5. Champion of the project.

Before examining the results of some recent research, it is perhaps valuable to examine each of these five roles in a little more depth.

1 Governor of the project.

In the context of project governance, this is the most obvious role of the sponsor, but it is not necessarily straightforward. There are fundamentally two kinds of work undertaken by any enterprise: more or less repetitive tasks or processes that recur regularly and which make up its usual sphere of operations (business as usual) and more or less unique activities that are undertaken once, by a temporary team to achieve some form of beneficial change (projects or programmes). In this paper, the term "projects" has been used generally for the latter kind of work, regardless of whether programmes or projects. Nevertheless, the two kinds of work are fundamentally dissimilar, requiring quite different forms of management and governance (Turner and Keegan, 1999). In practice, this means that the task of governing individual projects is likely to prove challenging for sponsors who have risen to the top of their organisations through successfully managing business as usual. The extremes of Scylla and

Charybdis are represented by tendencies to either abdicate and leave things to the project manager and team or alternatively, to micro-manage and deflect the project teams from their proper focus on managing progress towards providing more and more information to the governance committee.

2 Owner of the business case

The business case is important, because it encapsulates the basic reason that the project is being undertaken in the first place. Very few organisations undertake projects simply for the sake of doing projects – they are means to an end. Perhaps to improve the performance of current activities, or to develop new business, new products, new markets, or to introduce new technology, new processes, new ways of working , or even to build new infrastructure, new physical assets. In each of these cases, the nature and extent of benefits will differ, and it is the purpose of the business case to spell out precisely how the benefits will add value to the enterprise.

A sound business case is essential to good corporate and project governance as it makes transparent the value expected by the business from the project. It underpins a sound project charter – itself an essential pre-requisite to sound scope planning and risk management. It is the sponsor's job to ensure, on behalf of the enterprise, that the business case is accurately articulated and also, on behalf of the project, to ensure that the project plan is developed so as to meet the business case.

3 Harvester of benefits.

Important as the business case is, it is simply a piece of paper that delivers no value to the enterprise until it has been transformed into real benefits. Such benefits can be said to be "harvested" or "realized" when the products or services delivered by the projects are used effectively by the enterprise to create the benefits foreseen by the business case. It is a matter of preference as to whether one thinks of the benefits being "harvested" (with its connotations of seeds being planted, crops ripening and eventually the yield being reaped) or "realized" (with its connotations of ideas gradually being converted to something that is real).

In either case, the benefits can not be harvested until after the project has been completed, its product or service handed over to its ultimate users, and then used by them for the benefit of the enterprise. The sponsor, being part of the permanent organisation, is better placed to influence the behaviour of the users than the project team, which is unlikely to be in existence when the benefits come through. On the other hand, the project itself can influence the benefits by the extent to which the product or service fulfils the real user requirements and technical performance specifications, so once again the sponsor is in a position to ensure the co-operation of the project team and the permanent organisation during the life of the project.

4 Friend in high places.

This is, perhaps, the role that is most intuitive for sponsors to carry out. By virtue of their credibility and status, sponsors are ideally situated to assist with the management of high-ranking stakeholders. Whether this involves obtaining adequate resources from hard-pressed line managers, or winning the hearts and minds of influential people who are opposed to or disinterested in the project.

5 Visible champion of the project.

The last of the five primary roles of the sponsor is actually an amalgam of the first four – it amounts to emotional leadership of the project so that people at all levels in the organisation understand that it is committed to the project and requires the benefits that will flow from it. It is, perhaps, the most demanding of the roles, requiring mastery of three quite distinct worlds: the world of external reality (focusing on the task), the world of interpersonal relationships (managing relationships) and the world of their own behavior, attitudes and values (sponsor self management).

Although much of the focus of the first four roles has been on the task, the other two worlds are equally important. The management of relationships requires the sponsor to ask himself or herself questions such as:

- Are all parties involved clear about their roles?
- Do the right people make the right decisions about the programme in the right way?
- Is everyone doing what needs to be done for the desired change to be accomplished?

Similarly, sponsor self management involves such questions as:

- Am I devoting sufficient time to the programme?
- Do I passionately portray a congruent belief in the business case?
- Do my behaviour and attitudes encourage the project manager and team to "think outside of the box" and look for solutions that will address the overall project goals?

How does the sponsor contribute to project success?

The research that will be reported in this paper was not directed primarily towards project sponsors, although unlike much other research it recognized the importance of governance and sponsorship right from its design stages. The research design was developed from earlier research reported elsewhere (Cooke-Davies, 2001; Cooke-Davies, 2002a; Cooke-Davies, 2002b; Cooke-Davies, 2004c) and which is summarised in Figure 1 below.

Conversation about:	*Involves*	*Criteria for Success*	*Critical Success Factors*
The right combination of ...	*Senior management.*	*Strategy implemented; Productivity improved; Right projects done; Projects done right..*	*Portfolio management; Continual improvement; Comprehensive & reliable metrics..*
... the right projects ...	*Project governance. Executive sponsor. "Client", "owner", "operator".*	*All benefits realized. Stakeholders satisfied.*	*Clear & doable goals. Stakeholder commitment. Benefits processes. Project strategy.*
... done right.	*Project manager. Project team..*	*Time, cost, quality, scope, technical performance, safety etc.*	*Clear & doable goals. Capable & effective team. Adequate resources. Clear technical requirement. Effective planning & control. Risk management.*

Figure 1: Conceptual Research Design

A self-scored questionnaire was developed with questions probing both the presence or absence of specific capability areas at each level, and the degree of success accomplished for each criterion at each level. Clearly such a method suffers from some weaknesses: the sample is self-selected and may not be representative of all projects and all organisations; respondents are answering from the point of view of completed projects, which can lead to "post hoc" bias in their answers (if it was successful, we must have had good capability and vice versa); and because the questions have been carefully selected from previous research, it is to be expected that many variables will correlate with each other (high collinearity).

The instrument contains 44 questions about capabilities: 21 at the organisational level, 10 governance/sponsor and 13 at the project level. Each question is in the form of a statement that is answered using a four point Likert scale ranging from Completely Untrue (1) to Completely True (4). In addition there are 21 questions about success achieved: 10 organisational; 6 governance/sponsor and 5 project. The answer to each question is divided into 4 bands (scored 1 to 4) with an "unknown" option. In general a score of 3 implies a result in accordance with expectations, 4 somewhat better, 2 somewhat worse and 1 much worse.

Many of the methodological weaknesses will be compensated with sufficient data, and at present, there are 168 valid data records in the analysis reported here at the project level, 117 at governance level and 30 at organisational level. Respondents answering at a higher level generally answered at lower levels as well.

The data was distributed 121 from USA, 38 from UK and 9 from other countries.

A wide variety of industries was represented.

Respondents were senior managers (12), project sponsors or members of governance committees (87), people responsible for project processes (19), project managers (31) and project team members (19).

Comparison between results at the three levels.

Perhaps the first noteworthy result is that only 3% of organisations said that their overall portfolio of projects meets or exceeds expectations, and although the picture is somewhat better at governance/sponsor level (8%) and at project level (nearly 20%), the majority of projects still fail to meet expectations and this is still not a picture to be proud of. (Figure 2)

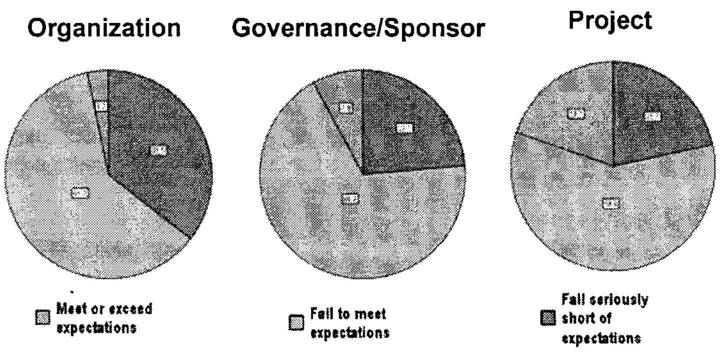

Figure 2: Success Achieved at 3 Levels

The picture for capabilities mirrors this to some extent, although the capabilities appear to be greater in all cases than the success that they lead to. The pattern shows that at the project management level, most organisations are well on the way to having the basic project management capabilities in place to a greater or lesser extent, although this is less true at the governance/sponsor level, and definitely untrue at the organisational level, where more than a quarter of all respondents believe the necessary capabilities to be largely or fully absent. (Figure 3)

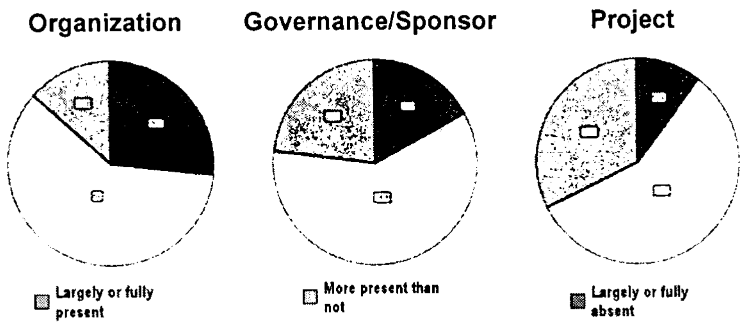

Figure 3: Capabilities at 3 Levels

At the organisational level, this is about as far as it makes sense to perform analysis, with only 30 sets of data. At the two lower levels, however, there are some very interesting conclusions that can be drawn.

Governance/Sponsor Level Capabilities and Success (Effectiveness)

The data shows that projects are not good at delivering the benefits for which they are undertaken.

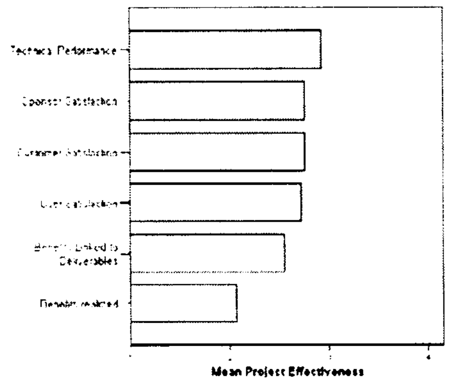

Figure 4: Degrees of Project Success Achieved.

Only 7% of all projects deliver 100% or more of the benefits expected of them, while more than two thirds deliver less than 75% of the expected benefits. And these figures apply only to those 75% of projects that are able to make an estimate – the remaining quarter are unable to assess the extent to which any benefits were delivered. And yet, sponsors are not too dissatisfied with their projects (See figure 4).

In terms of governance/sponsor capabilities, there is considerable variation between the worst (integrated financial systems) which are more absent than present and the best (goal clarity about projects and presence of a business case) which are more present than absent. (see figure 5)

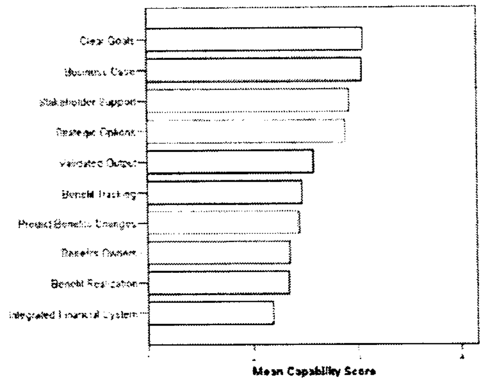

Figure 5: Governance/sponsor Capabilities (Ranked).

Approximately 26% of the variation in success is accounted for by variation in the governance/sponsor capabilities, and there is a clear correlation between the success achieved and the capabilities possessed (see Figure 6). There can be no doubt that a compelling business case can be made for raising the capabilities of sponsors.

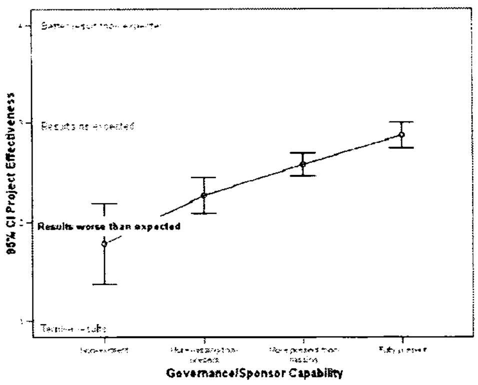

Figure 6: Relationship of Capability to Success

But are all capabilities equally important? What should be the focus of a programme to improve sponsor capability? That is where an additional form of analysis proves to be helpful

Which Capabilities Matter Most?

A technique known as Classification and Regression Trees can be used to examine data in order to find which is the best predictor of a given result – in the case of this paper, effectiveness (project success at the governance/sponsor level) and efficiency (project management success at the project level, using the classic measures of time, cost, scope, quality and HSE). This method has the benefit of not only identifying which factor out of all those that correlate to success is the best predictor of success, but then to go deeper into the data looking for the next best predictor and so on. It can also give a quantitative prediction of the improvement in success that can be expected.

The results for effectiveness are shown in figure 7, and for effectiveness in figure 8.

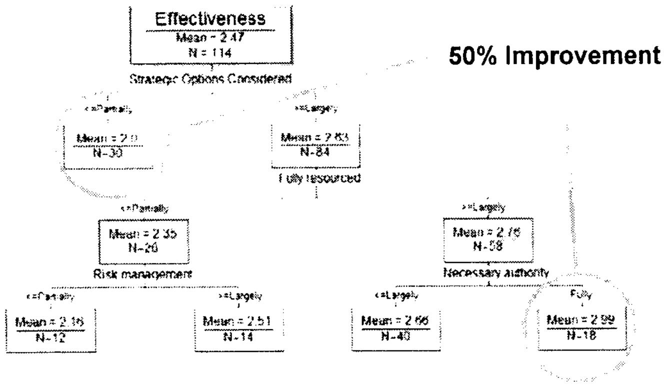

Figure 7: Most Significant Predictors of Effectiveness

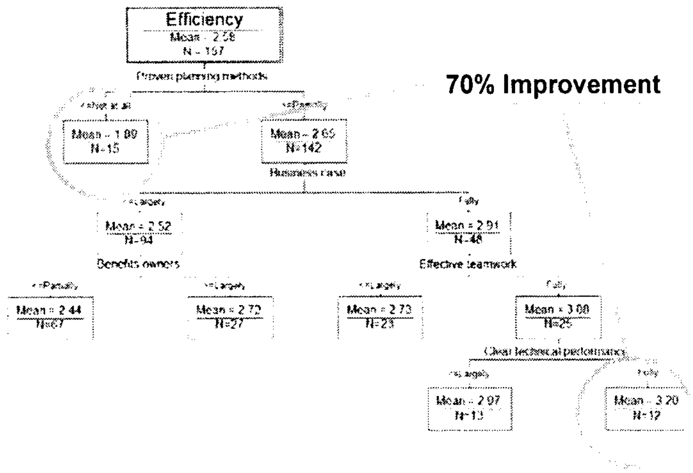

Figure 8: Most Significant Predictors of Efficiency

All in all, of the nine capabilities that most strongly correlate to improved effectiveness (as measured by benefits delivered, technical performance achieved and satisfied stakeholders) and improved efficiency (as measured by time, cost, scope, quality and HSE) no fewer than six are dependent to a greater or lesser extent on the capabilities and efforts of the project sponsor.

In terms of effectiveness, the sponsor is best positioned (1) to ensure that all strategic options are considered before the project is approved, (2) to ensure that the project is assured of receiving the resources and that (3) the project team has the authority necessary to accomplish the projects goals. In terms of efficiency, the sponsor plays a large part in (4) assuring the quality of the business case on which the project is authorised, in (5) ensuring that responsibility for realising benefits rests with the right people in the organisation and (6) that the technical performance requirements of the project are such that if achieved, then the business case will be achievable.

Conclusion

The executive sponsor plays a vital role in linking corporate and project governance. As the governor of the project, the executive sponsor is the bridge between the executive team who set strategy for the corporation and the project team that implements strategy. The executive sponsor is responsible for ensuring that the benefits identified in the business case are delivered and that the program or project can be considered as successful. In doing this, the sponsor must not only act as governor but as owner of the business case, harvestor of benefits, a friend in high places and visible champion of the project. Research demonstrates a clear correlation between governance and sponsor capabilities and project effectiveness or success achieved.

Reference List

Association for Project Management. (2004). *Directing Change. A guide to governance of project management.* High Wycombe, UK.: Association for Project Management.

Cadbury, A. (1992) *Report of the Committee on the Financial Aspects of Corporate Governance: The Code of Best Practice (Cadbury Code)*, London: Gee & Co.

Cooke-Davies, T. J. (2001) *Towards improved project management practice: Uncovering the evidence for effective practices through empirical research.* USA: Dissertation.com.

———. (2002a). Establishing the Link Between Project Management Practices and Project Success. *PMI Research Conference, 2002.* Philadelphia: Project Management Institute.

———. (2002b). The "Real" Success Factors on Projects. *International Journal of Project Management* 20, no. 3: 185-90.

———. (2004a) Measurement of Organisational Maturity. In *Innovations - Project Management Research 2004.* Philadelphia, PA: Project Management Institute.

———. (2004b) Project Management Maturity Models. In *The Wiley Guide to Managing Projects.* Hoboken, New Jersey: J. Wiley & Sons.

———. (2004c) Project Success. In *The Wiley Guide to Managing Projects.* Hoboken, New Jersey: J. Wiley & Sons.

Cooke-Davies, T. J., Schlichter, F. J. and Bredillet C.. (2001). Beyond the PMBOK Guide. *Proceedings of the 32nd Annual project Management Institute 2001 Seminars and Symposium.* Philadelphia, PA: Project Management Institute.

Crawford, L., Brett C. (2001). Exploring the role of the project sponsor. *Proceedings of the PMI New Zealand Annual Conference.*

Dinsmore, P. C. and Cooke-Davies, T. J. (2005) *The Right Projects Done Right. From business strategy to successful project implementation.* San Francisco: Jossey Bass.

Gregory, H.J. and Simmelkjaer, R.T. (2002) *Comparative Study of Corporate Governance Codes Relevant to the European Union And Its Members States on Behalf of the European Commission*, New York: Weil, Gotshal & Manges, LLP.

Hilmer, F. (1998) *Strictly Boardroom: Improving governance to enhance company performance*, 2nd edn. Melbourne: Information Australia.

Ibbs, W. C., Reginato, J. and Kwak, Y. H. (2004) Developing Project Management Capability: Benchmarking, Maturity, Modeling, Gap Analysis and ROI Studies. In *The Wiley Guide to Managing Projects*. Hoboken, New Jersey: J. Wiley & Sons.

Kerzner, H. (1998) *Project Management. A Systems Approach to Planning, Scheduling and Controlling*. Sixth ed. New York: Van Nostrand Reinhold.

OECD (2004) *OECD Principles of Corporate Governance*, Revised edn. Paris, France: OECD.

Pinto, J. K. (1996) *Power & politics in project management*. Philadelphia, PA: Project Management Institute.

Turner, J. R., and Keegan, A. (1999). The Versatile Project-based Organisation: Governance and Operational Control. *European Management Journal* 17, no. 3: 296-309.