OTC
Owner Team Consultation

Project Governance

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Introduction

Ed Merrow (2011), in his book *Industrial Megaprojects,* maintains that much of the pathology we see in megaprojects today reflects the nature and problems of the modern industrial firm and the way in which it is governed. This results in schedule and cost overruns, as well as projects not realising their intended purpose.

Governance is a system that provides a framework for managing organisations. Governance is about the accountability of management for the health and performance of the corporation, the health and safety of their employees and the communities in which they operate. There is no recognised universal system of governance. Instead, governance principles are supported by laws, standards, and regulations and are used by organisations to define how the board and management team should operate.

Many organisations have the accountabilities and responsibilities associated with their business-as-usual activities captured in their organisational governance arrangements. Far fewer have an equivalent framework to govern the development of its capital projects. There are many definitions for project governance, ranging from simple non-descriptive statements to more elaborate and meaningful definitions. According to Wikipedia (2022), project governance is the management framework within which project decisions are made. However, Bekker and Steyn (2009) define project governance more clearly as a set of management systems, rules, protocols, relationships, and structures that provide the framework within which decisions are made for project development and implementation to achieve the intended business or strategic motivation. The framework must be logical, robust, and repeatable to govern an organisation's capital investments.

In this article, we take a closer look at project governance frameworks and discuss what we believe should form part of such a framework. Note that there is no standardised approach to project governance that can be universally applied to all organisations.

Project governance frameworks

Much has been written about the need for and the way to effect proper project governance in recent years (APM, 2018a; PMI, 2016; ISO, 2017). Although there is a fair amount similarity in the approaches to project governance described, two issues always remain constant. Firstly, the company board has overall responsibility for governance of projects. Secondly, no two projects and/or companies are the same and therefore there is no universally applicable approach to project governance.

The authors of this article propose that any project governance framework should at least consider the six components as listed in Figure 1. Note that many authors separate the box entitled 'Functions, roles & responsibilities' into 'Functions' and 'Roles & responsibilities.'

The components that comprise the project governance framework as shown in Figure 1 correspond well to the definition on project governance as proposed by Bekker and Steyn (2009).

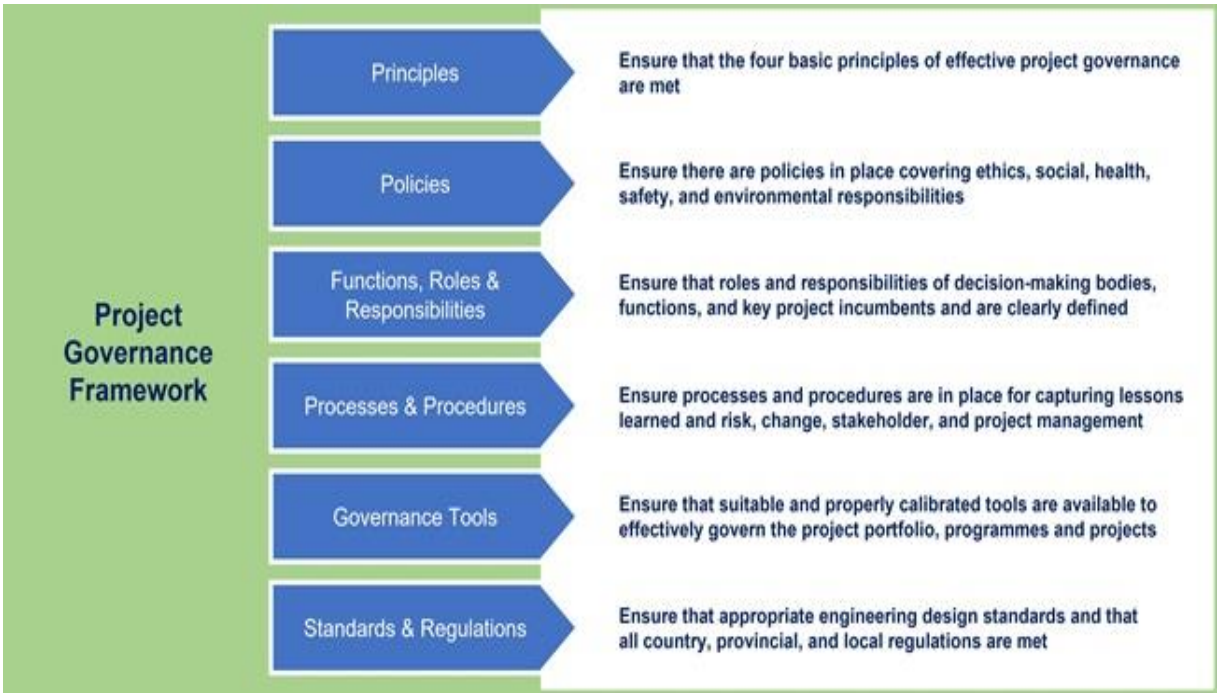

Figure 1: Components of a project governance framework

Each of the components of project governance as listed in Figure 1 is described in detail in sections that follow.

Principles

Opening comments

According to Wikipedia (2022), project governance frameworks should be based around four core principles in order to ensure their effectiveness. These principles cover the aspects of project accountability, project ownership, stakeholder management, and the project governance structure, as illustrated in Figure 2.

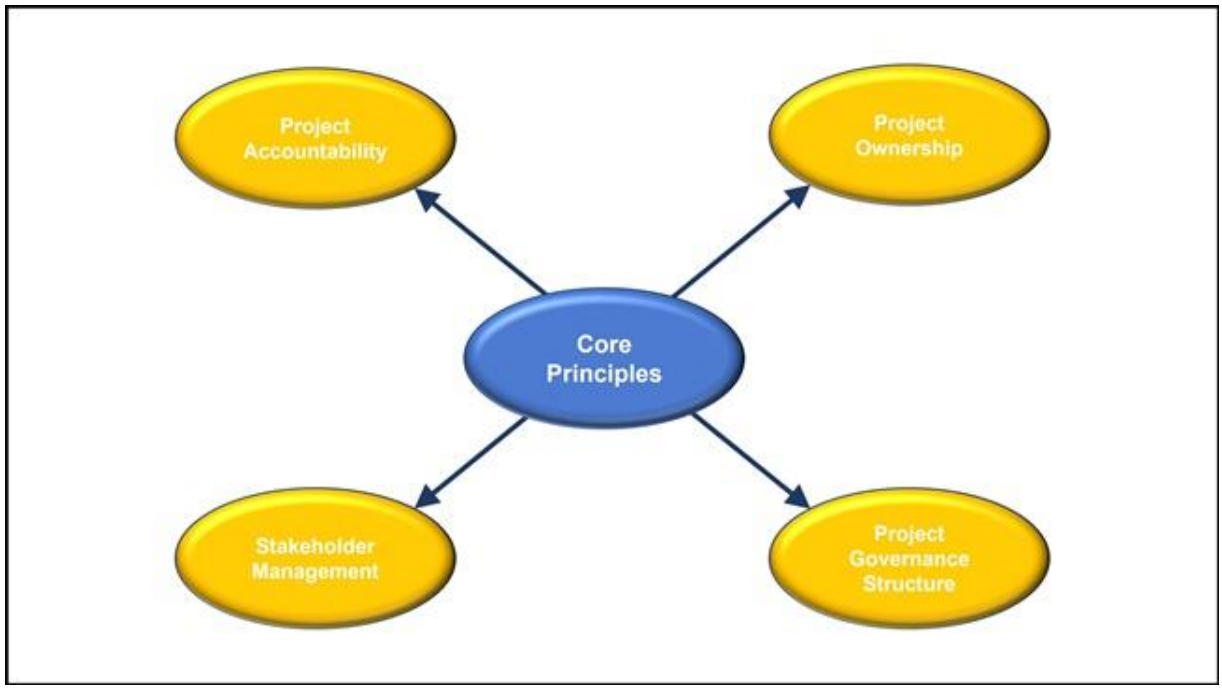

Figure 2: Core principles of project governance

Each of these four principles is described in more detail in the sections that follow.

Project accountability

The concept of a single point of accountability for the success of a project is the first principle of effective project governance. A project without a clear understanding of who assumes accountability for its success has no leadership. With no clear accountability for project success, there is no one person driving the solution of the difficult issues that beset all projects at some point in their life cycle. It also slows the project during the crucial project initiation phase since there is no one person to take the important decisions necessary to place the project on a firm footing.

In practice this role is mostly allocated to a project owner or sponsor. In contrast to a project manager being accountable for delivering a project within a specific set of project objectives, the sponsor should have overall insight into and interrelationship with the company's top management and understand the company objectives as well as any external influences that may require adjusting the project objectives. The sponsor is the decision executive for the project and is ultimately accountable for project success.

Project ownership

The second principle is that project ownership must be independent of asset ownership, service ownership or other stakeholder groups.

Organisations often appoint the future asset or service owner as the project owner, with the objective of providing more certainty that the project will meet their fundamental needs. However, the result of this approach can involve wasteful scope inclusions and failure to identify and meet all necessary stakeholder and customer requirements. Different skill sets surround project ownership versus asset ownership, which places sound project decision-making at risk.

Project ownership must be decided early in a project's life cycle. The project owner is engaged under clear terms as defined in a Project Charter. The Project Charter outlines the project's key result areas, the key project stakeholders, and boundaries within which the project is to be developed and implemented.

Stakeholder management

The third principle states that stakeholder management and project decision-making activities must be separated. The effectiveness of decision-making by a committee can be considered as being inversely proportional to its size. Large committees frequently fail to make timeous decisions, or group dynamics can cause those decisions it does make to be sub-optimal.

As project decision-making forums grow in size, they tend to become stakeholder management groups. When numbers increase, the detailed understanding of each attendee of the critical project issues reduces. Many of those present attend not to make decisions but to find out what is happening on the project.

Hence, large project committees perform more like stakeholder management forums than project decision-making Both activities are essential to the success of the project, but they are separate activities and need to be treated as such.

Project governance structure

The fourth principle is that separate structures should be in place for project governance and organisational governance. Project governance structures are established precisely because it is recognised that organisation structures do not provide the necessary framework to deliver a project successfully.

Projects require flexibility and speed of decision-making and the hierarchical mechanisms associated with organisation charts do not enable this. Project governance structures overcome this by drawing the key decision-makers out of the organisation structure and placing them in a forum thereby avoiding the serial decision-making process associated with hierarchies.

The project steering committee is responsible for approving, reviewing progress, and delivering the project outcomes and its intended benefits. They must be authorised and have capacity to make decisions, which may commit resources and funding outside the original plan.

Policies

Opening comments

Effective project governance requires organisations to have a series of policies in place to describe the organisation's approach to business.

Policies can include a code of ethics, an environmental policy, a health and safety policy, and basic human resources policies as shown in Figure 3. Several of these are a legal requirement in many countries.

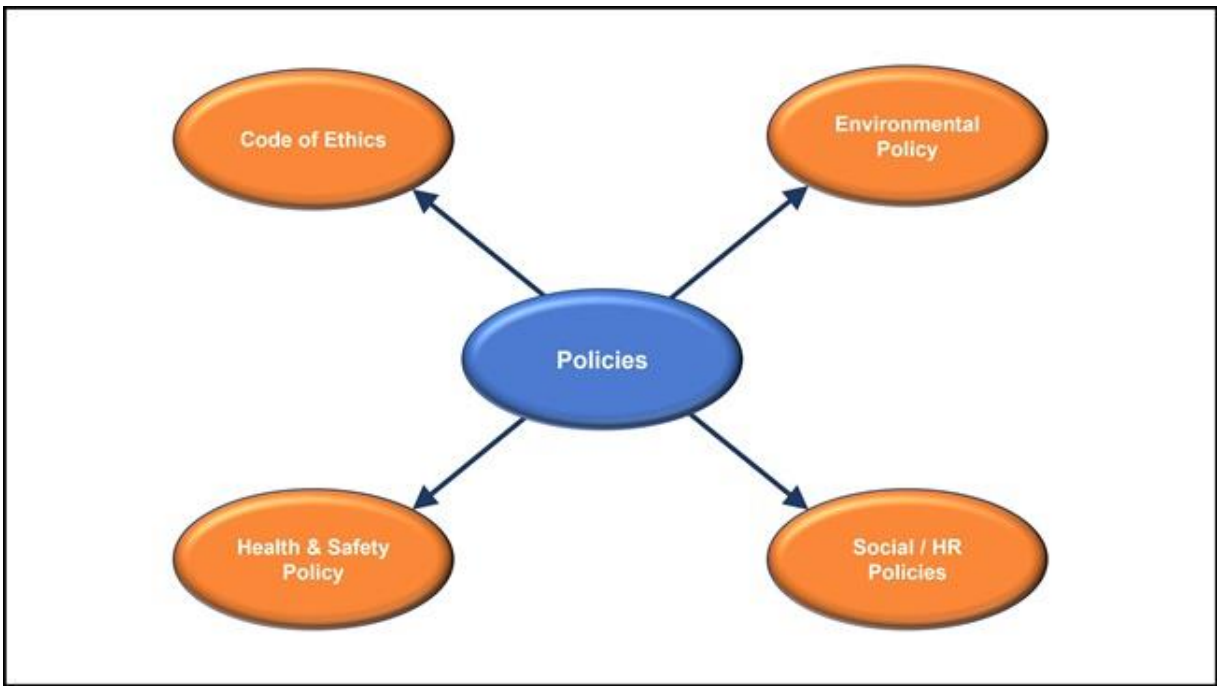

Figure 3: Essential policies for project governance

Policies allow an employer to clearly state the company's values and mission, and set standards of behaviour, conduct, and performance for employees. Each of these policies is described in more detail in the sections that follow.

Code of ethics

A code of ethics is beneficial for any organisation because it allows employees to understand what is expected of them as acceptable behaviour. It provides guidelines on making decisions that are in line with the objectives of the organisation. A formal, well-communicated code of ethics can also help to protect a company's reputation and legal standing in the event of a breach of ethics by an individual employee.

Project teams have to make decisions, usually under pressure of time, and a code of ethics can help to determine what is right and what is wrong, especially when it is necessary to balance different interests. Codes of ethics allow project teams to operate with honesty, respect, discretion, and integrity.

Environmental policy

An effective environment policy typically rests on the principles of precaution, prevention, and rectifying pollution at source, and on the 'polluter pays' principle. It is thus a written commitment by an organisation regarding their potential impacts on the environment and how they propose to deal with it. Issues typically addressed by an environmental policy include air and water pollution, waste management, ecosystem

management, biodiversity protection, and the management of these natural resources for future generations.

Environmental policies are required to ensure that environmental values are considered in organisational or project-related decision-making. This is necessary because environmental effects are economic externalities. Polluters do not usually bear the consequences of their actions because the negative effects mostly occur elsewhere or in the future.

Health & safety policy

An organisation can never guarantee the safety of its staff or the broader community, but it must do everything in its power to ensure the lowest possible risk of injury or ill-health. This all begins with a strong and clear health and safety policy.

A health and safety policy is a written commitment of an organisation's goals and approach to workplace health and safety and is an essential component of any health and safety management system. A good policy suggests how the organisation protects the workers and communities who may be affected by hazards, risks, or activities in their environment and how those issues should be dealt with.

Social / HR policies

There are an increasing number of human resources policies being used for effective governance of work relationships and social interaction. These are normally bound together in an employee handbook. Project teams typically work in a stressful environment, which emphasises the importance of such policies.

Social / HR policies which can directly impact the performance of the project team include the following:

- Equal opportunity policy.
- Harassment policy.
- Remote work / telecommuting policy.
- Social media policy.
- Leave and time off work policy.
- Job rotation policy.
- Dispute resolution procedures.
- Grievance procedures.

Functions, roles & responsibilities

Opening comments

We prefer to group functions, roles, and responsibilities as one component because roles and responsibilities are assigned to individuals as well as functions or groups. In terms of project governance, we must consider the role and responsibilities of the company board, the project sponsor, project steering committee, project owner, project manager, and the project management office, as reflected in Figure 4.

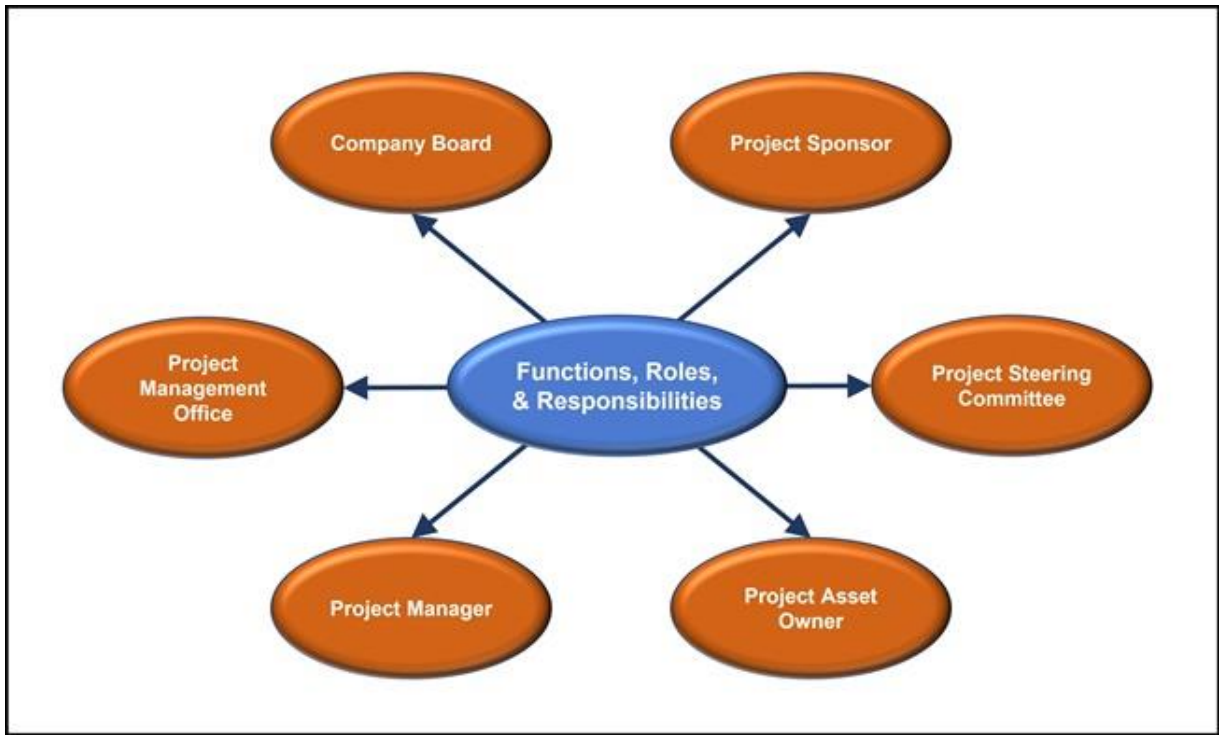

Figure 4: Functions, roles, and responsibilities for project governance

Each of these functions, roles, and responsibilities is described in more detail in the sections that follow.

Company board

As indicated previously, the company board has overall responsibility for governance of projects. It is the company board that approves projects for implementation, based on a formal project proposal, and with due regard to strategic initiatives and available resources.

The company board also appoints a senior manager as a project sponsor to take accountability for the project outcome. The sponsor keeps the project aligned with the organisation's strategy and portfolio direction, governs project risk, focuses on realisation of benefits, recommends opportunities to optimise cost/benefits, provides assurance, and provides feedback.

Project sponsor

The project sponsor is responsible for the realisation of project benefits and provides necessary guidance and resources to the project manager and team. Ideally, project sponsors provide high project sustainability, strategic planning, and successful implementation of the project’s objectives. The project sponsor has three main areas of responsibility namely to the company board, the project manager, and the project stakeholders.

The sponsor provides timely decisions, clarifies business priorities and strategy, communicates business issues, provides resources, engenders trust, manages relationships, promotes ethical working, and resolves issues outside the project manager’s control for the project manager.

For other project stakeholders, the project sponsor engages stakeholders, governs stakeholder communications, directs client relationship, directs governance of users, directs governance of suppliers, and arbitrates between stakeholders (APM, 2009).

Project steering committee

A project steering committee, also referred to as a project board, is a top-level project governing body formed at the beginning of the project and chaired by the project sponsor. The steering committee doesn't manage the project. It guides the project and provides strategic oversight and support for the project. The primary goal of a project steering committee is to ensure success, provide guidance, and ensure the project successfully reaches its goals.

Project asset owner

Project asset owners specify operational requirements and are the people who will take operational ownership of the product at completion of the project. The project asset owner is responsible to operate and maintain the project deliverable for the period of its design life.

Project manager

A project manager is the day-to-day project team leader. The role of the project manager is to organise, track, and ultimately lead their team to execute work within a project and according to the project execution plan. Their deliverable is the completed project, on time and within budget, and not the realisation of business benefits.

Project managers are responsible for monitoring resources and workload, overseeing task completion, and apprising stakeholders on project progress. If necessary, the project manager can request further support from the project sponsor. Their role is to keep an eye on the goals and expectations to alert the project sponsor when estimated dates cannot be achieved.

Project management office

A project management office (PMO) is a group or department that defines, maintains, and ensures project management standards and procedures across an organisation. A PMO may offer project support services for planning activities, auditing, risk management, project performance tracking, and similar activities (PMI, 2021). They can and should also fulfil the role of project portfolio management office.

Project governance is typically the accountability of the PMO. The PMO establishes the rules and provides the necessary tools and training to enable the project stakeholders to follow the project management process in a manner that is consistent with business interests. According to Hill (2008), the project governance function enables the PMO to:

- Develop, implement, and manage project management practices.
- Introduce standards, policies, and directives for project management.

- Confer responsibility for project performance to project managers.
- Facilitate executive/senior management involvement in project management.
- Convene management and technical advisory boards and committees to assist project management teams.

Processes and procedures

Opening comments

We saw in the previous paragraph that project support and the supply of project management processes and procedures is the function of the PMO. In this section we give a brief overview of the processes and procedures shown in Figure 5, and which are required to for project governance.

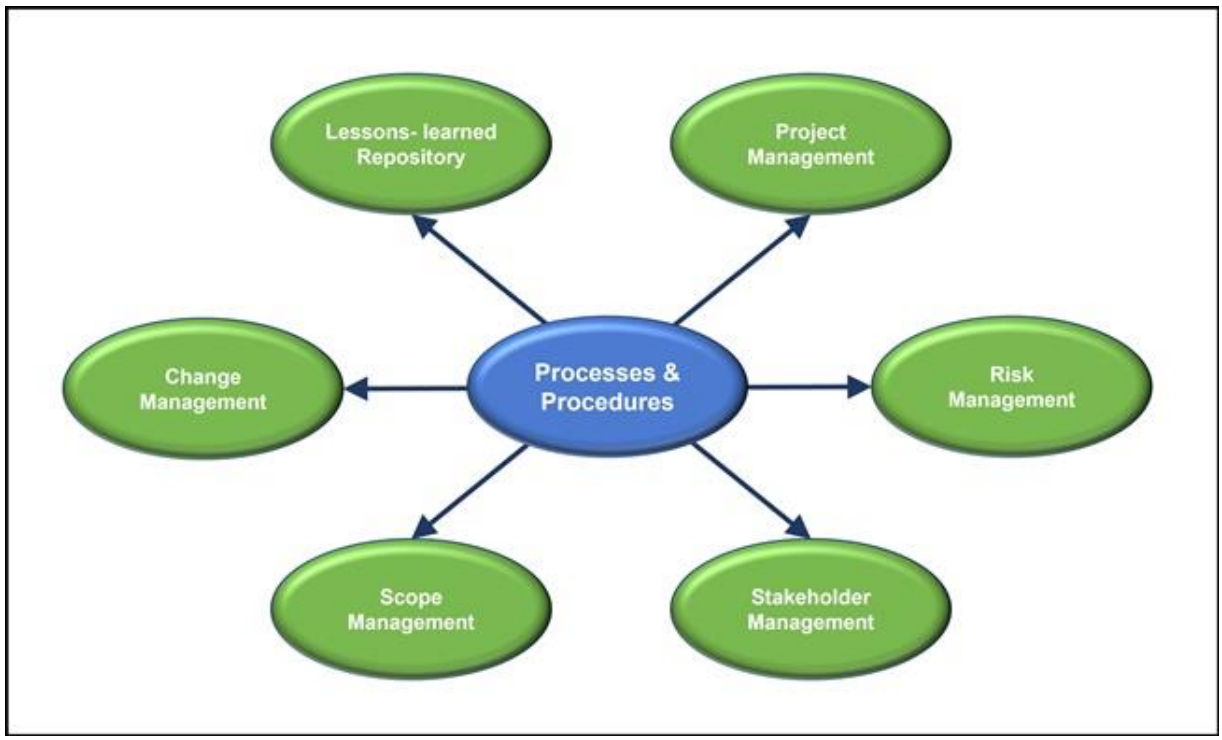

Figure 5: Essential processes and procedures for project governance

Each of these processes and procedures is described in more detail in the sections that follow.

Project management

The PMO is a Centre of Excellence for project execution. They must develop, maintain, and continuously improve a common set of project and programme management systems, methodologies, procedures, standards, governance principles, practices, and templates for managing projects in line with best practices and organisational requirements.

An essential component is the development of a suitable stage-gate model for the organisation. This will allow a staged approach to project implementation with decision gates at the end of each stage.

Risk management

Project risk management covers all the activities and processes of planning for risk management, identification and analysis of project risks, response planning and implementation, and risk monitoring on a project.

Risk management means not only minimising problems such as schedule and/or cost overruns, performance shortfall, or loss of reputation, but also the exploitation of opportunities. Opportunities that are exploited can lead to benefits such as schedule and/or cost reductions, improved overall project performance, or reputation enhancement.

Stakeholder management

Project sponsors are responsible for stakeholder management. Project stakeholder management is the process of organising communication with stakeholders and managing stakeholder expectations. Stakeholders usually have some type of interest in or influence on a project. They include project team members, business executives, customers, authorities, suppliers, and other interested and affected parties.

Scope management

Project scope management helps identify the minimum that needs to be done to meet the strategic business objectives. Scope management is essential to the successful execution of any project. Being able to clearly articulate a required scope that will meet a specific business objective such that project execution professionals can set up a project to deliver such scope is often not done effectively. Additionally, scope creep or poor scope management leads to costs and schedule increases during actual project execution.

Change management

Change management is the mechanism used to initiate, record, assess, approve, and resolve project changes. A change management procedure is required to ensure that unnecessary scope creep and nice-to-haves are eliminated, but that essential changes and/or additions to the project scope are carefully evaluated and considered.

Project changes are required when it is deemed necessary to change the scope, time, or cost of one or more previously approved project deliverables. Most changes will affect the budget and/or schedule of the project.

Lessons-learned management

Dolfing (2019) describes lessons learned as experiences distilled from a project that should be actively considered in future projects. Frequently, lessons learned highlight strengths or weaknesses in structure, procedures, preparation, design, and implementation that affect project performance, outcome, and impact.

The lessons learned process comprises five steps, and includes identification, documentation, analysis, storage, and retrieval of the lessons learned (PMI, 2021).

Project governance tools

Opening comments

In this section we take a brief look at some of the tools that can be used by the project sponsor or the project management office to ensure effective project governance. Select tools for project governance are reflected in Figure 6.

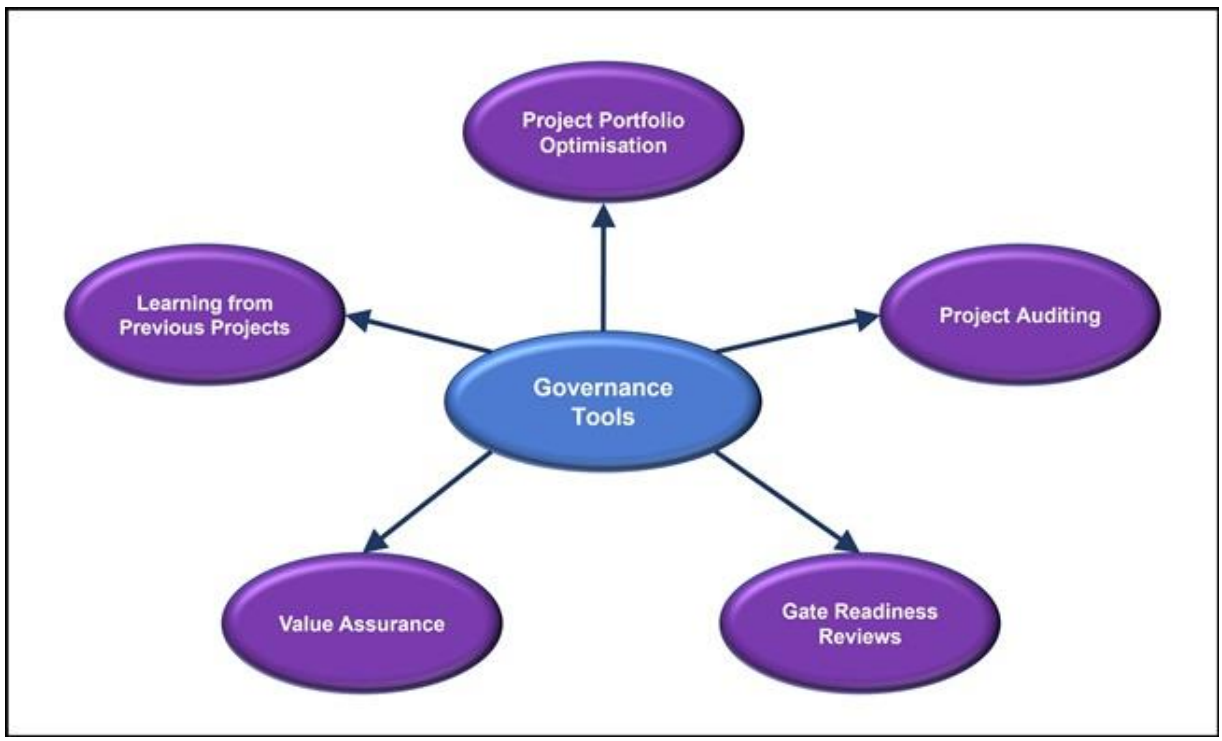

Figure 6: Tools for project governance

Each of these tools is discussed in the sections that follow.

Project portfolio optimisation

Project portfolio optimisation (PPO) involves the selection of the best combination of change initiatives (programmes and projects) to ensure that all mandatory needs are met and that the company generates the maximum return on investment for all shareholders under current resource constraints. PPO is done with a multi-year view, and aims to prioritise mandatory/compliance projects, current ongoing projects, and discretionary projects according to their strategic fit, profitability, and risk.

Project auditing

Project auditing is normally performed by the project management office or an independent auditor. It is a specialist skill and at least one leading member of the team should have knowledge and experience of project management.

Project auditing is the means to provide assurance that a project is effectively governed and managed as intended (APM, 2018b). A project audit ascertains that the project management satisfies the standards by assessing whether it complies with the organisation's policies, processes, and procedures. It evaluates the methodology used to help identify gaps in order to introduce the required improvements.

Gate readiness reviews

Stage-gate models of project implementation usually allow for major decision gates between project stages, as well as several smaller interim gates during a stage. These present ideal opportunity to check the project progress.

Gate readiness reviews are performed by project professionals at the end of any project stage using a formalised questionnaire. This gives an indication of the readiness to move on to the next project stage. Too low a score indicates that not enough has been done and that the project is not ready to progress. Too high a score means that too much has been done and that resources have probably been wasted.

Value assurance

Value assurance on individual projects is the process of checking that projects make the right commitments to the business and then deliver on those commitments. Value assurance gives confidence to project and business stakeholders that the right decisions are being made, and that projects are being delivered safely, on time and budget, and to the intended purpose.

Value assurance often takes the form of structured assessments prior to key stage gates. The focus of assurance changes throughout the project life cycle, but its underlying purpose is to determine whether projects are delivering on their objectives at each stage and are compliant with risk management controls and suggesting remedial steps where necessary.

Learning from previous projects

An essential aspect of a lessons learned repository is the ability to retrieve the valuable historical information stored in the repository to continually improve the organisation's ability to implement projects. The value of successful retrieval of relevant lessons learned data is two-fold: firstly, the value to the project manager and his/her ability to successfully complete the new project, and secondly, the value realised by the incorporation of best practices and process improvements into the corporate culture.

Standards & regulations

Opening comments

Projects must comply with a plethora of laws, regulations, standards, and codes, as shown in Figure 7. Project governance must ensure that all requirements are known, and that proof is readily available that all requirements are met.

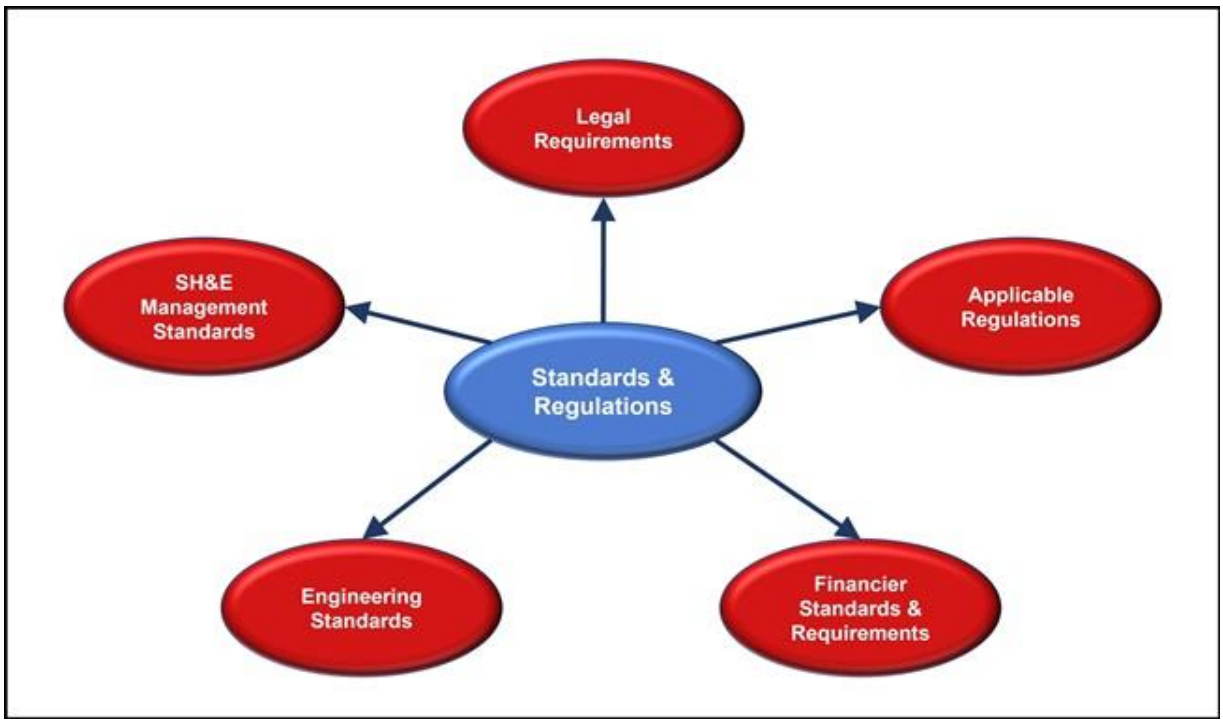

Figure 7: Standards and regulations for project governance

Each of these five categories of standards and regulations is described in more detail in the sections that follow.

Legal requirements

Governance of legal requirements in projects means that effective practices and procedures are in place to ensure that an organisation actually complies with the laws, regulations, and codes of practice relating to its projects. In effect this means that all the relevant laws, regulations, and codes specific to a project have been identified, and that these requirements have been incorporated in the project's work breakdown structure and planning.

Applicable regulations

Engineering regulations are government-defined practices to ensure the protection of the public as well as uphold certain ethical standards for professional engineers. Compliance to applicable country, provincial, regional, and local regulations go hand in hand with legal requirements.

Financier standards & requirements

If a project is fully or partially funded by a financier, these financiers may have specific standards and other requirements which must be met. The loan is conditional on these requirements being met throughout the life of an investment.

For instance, The International Finance Corporation's (IFC) eight Environmental and Social Performance Standards define IFC clients' responsibilities for managing their environmental and social risks (IFC, 2012). The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) are technical reference documents with general and industry-specific examples of good international industry practice. IFC uses the EHS Guidelines as a source of technical information during project appraisal.

Engineering codes and standards

Engineering codes and standards serve to ensure the quality and safety of equipment, materials, and processes. Codes clarify what needs to be done and standards specify how something should be done. Engineering codes are enforced by one or more governmental entities and are critical to developing industry practices. Engineering standards ensure that organisations adhere to accepted professional practices, including construction techniques, maintenance of equipment, personnel safety, and documentation.

Popular engineering standards and codes include:

- **ISO:** International Organization for Standardization
- **ANSI:** American National Standards Institute
- **ASME:** American Society of Mechanical Engineers
- **API:** American Petroleum Institute
- **ASTM:** American Society for Testing and Materials
- **AWS:** American Welding Society
- **EN:** European Standards/European Norm

Quality and SH&E management standards

If the organisation subscribes to any certified Quality and SH&E management systems like ISO 9001 (for quality management), ISO 14001 (for environmental management), ISO 45001 and/or OHSAS 18001 (for occupational health and safety management), new projects will also have to adhere to the continuous improvement requirements of the management systems.

Closing remarks

Projects are generated to realise an organisation's strategy. Effective project governance helps to ensure the probability of success for these endeavours.

The aim of project governance is a predictable delivery of projects and programmes in accordance with their planned contribution to corporate strategy and stakeholder expectations. This is achieved through a consistent and coherent execution of governance roles and responsibilities by the company board, the project sponsor, the project steering committee, the project manager, the project management office, and the project team.

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