

Project Governance

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PMG 424

Lecture 06



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Towards an Integrated Governance Model

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Chapter
06

Learning Outcomes

- Explain the need for different governance structures within organizations.
- Develop a model of projects, programs, portfolios governance.
- Provide a practical perspective of the various governance institutions.
- Understand how different governance institutions impact organizations.

Linking Governance of Projects, Programs, and Portfolios

- Governance of projects, programs, and portfolios must be looked at in terms of the macro level to see how their respective roles are linked together in the context of the wider organization.
- As there is a huge variety of organizational structures, governance orientations and objectives can vary within different companies.
- One example can be as following:

Organization	Responsibility	Objectives	Metrics	Tools	Outcomes
Portfolio Mgt.	Selection and prioritization of projects and programs	Achievement of strategic objectives	Measures of strategic goal achievement	Profit and Loss	List of prioritized projects
				Utilization	Resource requirements for line mgt.
Line Mgt.	Provide skills and resources for programs and projects	Organizations annual plan achievement	Budgets	Utilization reports	Skills available in sufficient quantity and quality
			Availability of skill sets	Resource database	
			Staff development	Resource management tools	
Steering Group	Achieving business case	Program and project success as contributor to business case	Business case measures	Business case	Resources in place
			Planned benefits	Project/program status report	Governance and support for project/ programs
				Governance policies	
Program Mgt.	Benefits creation	Delivery of Benefits	Measures of How Well Benefits were Delivered		Governance framework
	Stakeholder management			Electronic tools	Stakeholder management
	Project governance			Status reports	Benefits delivery
Project Mgt.	Delivery of project outcomes	Time, cost, quality plus other success factors	As specified in contract (for example, performance or specifications)	Electronic tools	Project results as required
				Status reports	
Strategic PMO	Improve effectiveness achieving strategic objectives	Portfolio optimization	Measures of corporate strategy	Consolidated status reports and their analysis	Portfolio analysis and decision preparation for portfolio managers
		Organizational project management maturity	Maturity levels		Increasing organizational maturity
Tactical PMO	Control compliance with existing standards and best-practices	Supporting projects to become more efficient and effective	R-Y-G status of projects.	Project and program management methods, techniques and tools	Applied best- practices in projects
		Train project managers	Percentage of 'red' projects against total number of projects		Better project results
			Organizational wide acceptance of methods and techniques		

No One-Size-Governance-Fits-All

- The previous example shows how the responsibilities of the organizations are broken down hierarchically, as are the associated objectives and their metrics.
- Since governance orientations and objectives can vary not only based on industry, but also between different companies in the same industry and their metrics, it is thus not possible to identify a one size fits all standard.

The Governance Model

- A governance model focuses on three main components:
- Governance paradigm (transaction).
- Governance institutions (agency).
- Institutional theory (legitimacy).

Governance Paradigm

- A typical prerequisite for the model is a governance paradigm that defines the corporate perspective in relation to project management needs.
- The paradigm may vary by different organizations within the corporation due to:
 - A particular organization's specific objectives.
 - The management culture instilled by the leaders of that organization.
 - Contextual requirements when networking with other firms.

Importance of Governance Paradigm

- Circumstances may cause organizations to override their default paradigm on a temporary basis.
- The default paradigm is often not communicated explicitly but set implicitly by the board of directors or other managers if delegated to them.
- The paradigm of choice controls the processes, policies and control mechanisms used by the corporation.

Importance of Governance Paradigm

A Paradigm of Choice Reflects the Underlying Assumptions About
Communication and Interaction That Takes Place Within the
Organization, Thus Determines How the Organization Can Be
Governed

Governance Institutions

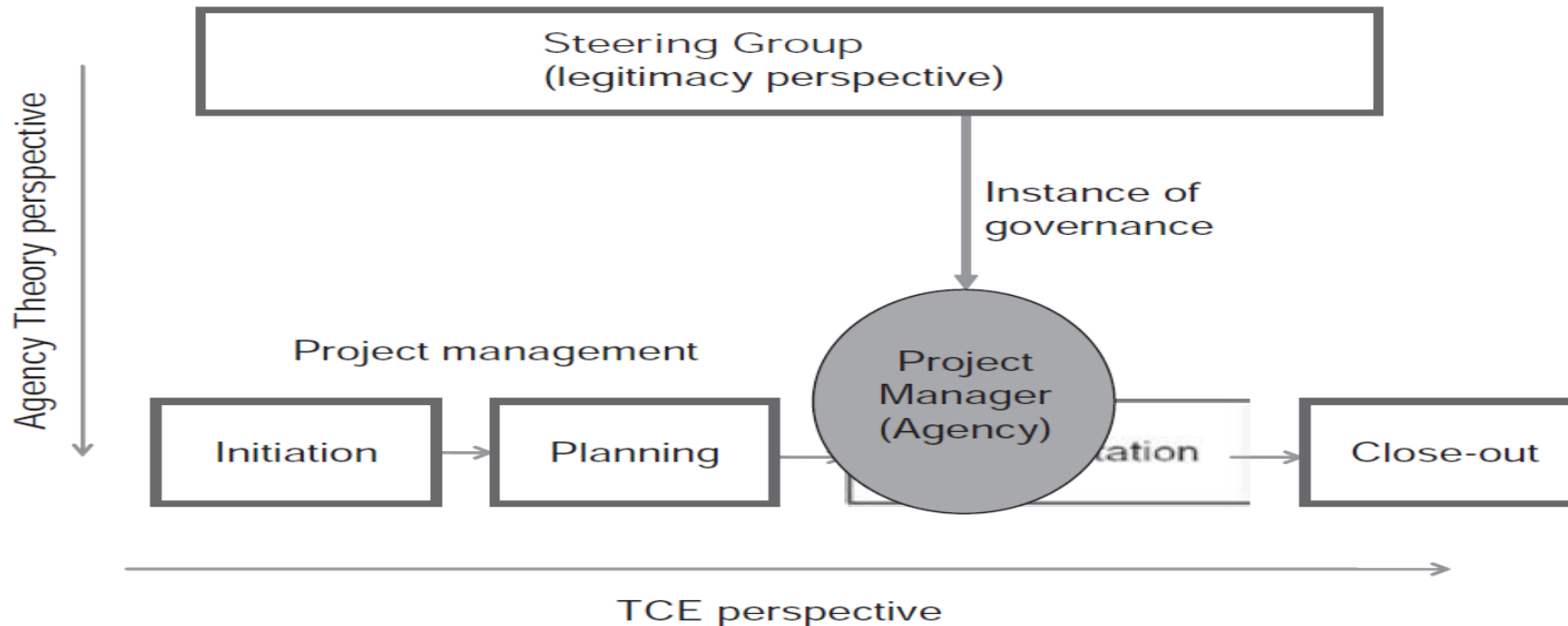
- The principal institutions in the governance model are the board of directors, steering groups, and PMOs.
- Governance at each node in the hierarchy aims to accomplish its own objectives within the wider context of the organization; this is done by:

The Macro View of Governance

1. Governing the 'transaction' of the next lower node by looking at the process and tasks they use to achieve their goals (contract).
2. Governing the next lower node as an agency to accomplish change, utilize resources in the best possible way and minimize risks.
 - This is done by aligning objectives and balancing information between the governing organization and its agency.

Example of Project Governance Hierarchy

- The principal governance hierarchy of a project with its Transaction Costs Economics (TCE) and Agency Theory perspectives.



Institutional Theory (Legitimacy)

- Institutional theory is the third and final component of the theoretical model for governance of projects.
- Institutional theory uses legitimacy to emphasize conformance with society and stakeholder values and expectations.
- It complements the primary determinants of organizational success; the rational perspectives of efficiency and effectiveness, and links governance to the more subjective aspects of management.

What is Legitimacy?

- Legitimacy aims to ensure that actions carried out and decisions taken during governance are performed in way that achieves legitimacy within its context.

Legitimacy is A Generalized Perception Or Assumption That the Actions of An Entity Are Desirable, Proper, Or Appropriate Within Some Socially Constructed System of Norms, Values, Beliefs, and

Definitions

The Importance of Legitimacy

- Legitimacy as a perception or assumption, which represents a reaction of the environment to the organization as they see it.
- Legitimacy reflects the extent of congruence between the behaviors of the legitimated entity (for example, the governance institutions) and the shared beliefs of some social group (for example, stakeholders and society-at-large).
- Legitimacy is the outcome of an effective, ethical governance system.

The Importance of Legitimacy

- Legitimacy enables us to frame (and measure) the appropriateness with which a (social) enterprise is governed.
- The governance system and processes must be repeatable over time, to continue meeting the needs of primary stakeholders, hence maintaining legitimacy.
- Legitimacy includes the idea that the ultimate aim for the (social) enterprise is long-term sustainability.

How To Achieve Legitimacy

- Organizations will need to seek legitimacy to justify their existence.
- Governance institutions achieve legitimacy by making decisions based on their legitimacy within a given context (society, company culture etc.).

Legitimacy Forms

- Legitimacy is an umbrella term which is the combination of the three lower-level specific forms:
 - Pragmatic Legitimacy.
 - Moral Legitimacy.
 - Cognitive Legitimacy.

Pragmatic Legitimacy

- Pragmatic legitimacy is based on self-interest.
- It legitimizes actions that achieve highest benefit or utility in the eyes of the stakeholders or society in general.

Moral Legitimacy

- Moral legitimacy is based on ethical approval of actions.
- It legitimizes activities undertaken within the boundaries of the broader norms of society, no matter what the outcome may be.

Cognitive Legitimacy

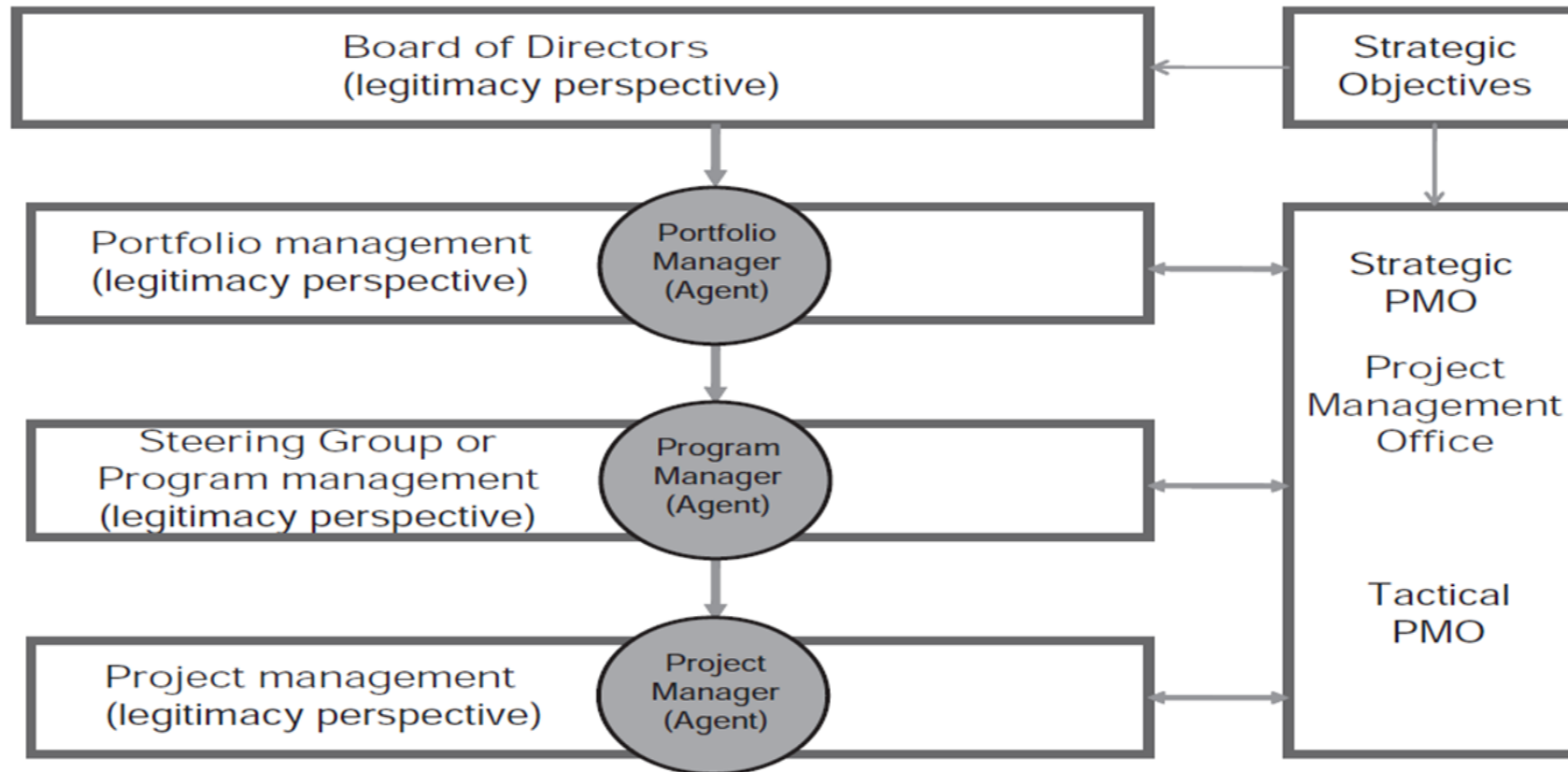
- Cognitive legitimacy is based on comprehensibility and taken-forgrantedness.
- It legitimizes actions that are predictable, meaningful and self-evident by the perceiver.

Legitimacy and Institutions

- Governance institutions make decisions that balance benefit maximization, moral appropriateness and ease of understanding in the wider organizational context.
- Strong technical environments (technology companies) foster the need for pragmatic and moral legitimacy.
- Strong institutional environments (schools) favor sense-making, which fosters the need for cognitive and moral legitimacy even at the expense of their constituents.

Project Governance Hierarchy

- This model for project governance summarizes the transaction, agency and legitimacy perspectives.



All components of the governance model are linked by a PMO to provide appropriate information flow through the organization

Implications of Legitimacy

- The legitimacy perspective enables governance actions, including the project and its management, to gain social acceptance.
- Balancing pragmatic, moral and cognitive legitimacy for a given project context increases acceptance and 'social value' of a project.
- While this balance has the very real measurable benefit of reducing overhead costs, it also has the not insignificant 'soft' benefit of legitimizing the governance institution in the eye of the stakeholder and potentially society at large.

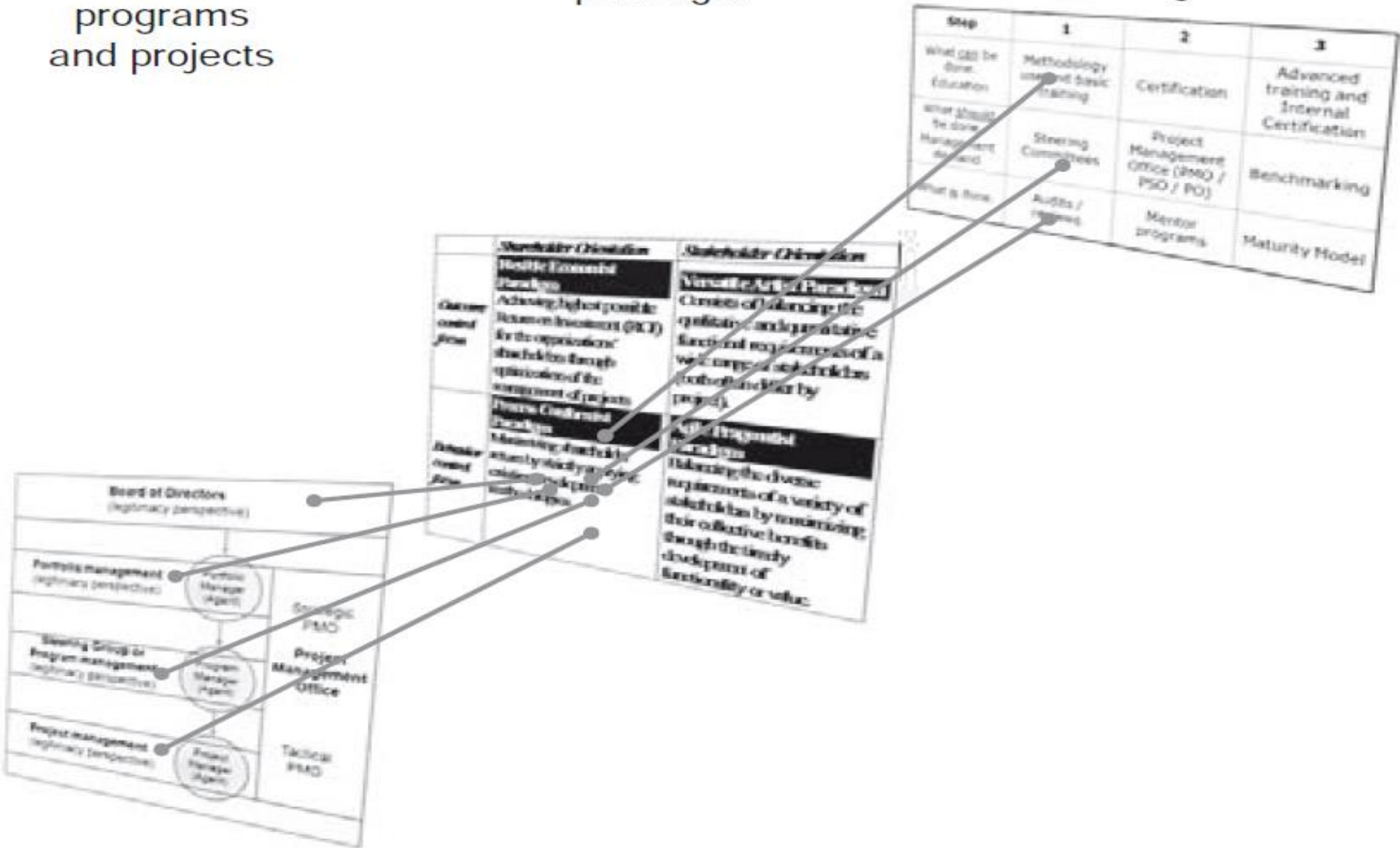
The Total Project Governance Model

- The governance model for projects is complemented by the governance framework for project management.
- The three steps of governance framework of project management (Chapter 4) can be seen as a third dimension for the governance paradigm and the governance of projects, programs, and portfolios.
- The governance paradigm provides the link between governance of projects and governance of project management.

Governance
of portfolios,
programs
and projects

Governance
paradigm

Governance
of project
management



The Role of Governance Paradigms

- A control paradigm such as the Conformist supports approaches as outlined in Step 1 of the project management governance framework; that is, methodology compliance, audits and steering group observation.
- Contrarily, a Versatile Artist paradigm fosters autonomy and trust in the project manager, aligning the entire organization (through the use of project management maturity models) to support the project-way-of-working the project manager has the flexibility and trust to balance requirements of various stakeholders.

The Role of Governance Paradigms

- The four governance paradigms tie together and categorize:
 - the various ways of managing a project, given the implication stemming from Transaction Costs Economics (TCE), agency theory and legitimacy;
 - the corporate governance orientation chosen, either primarily stakeholder or primarily shareholder oriented;
 - the project management capabilities and practices deemed appropriate for all projects throughout the organization.

The Role of Governance Paradigms

- The Governance paradigm influences the extent to which a corporation implements Steps 1-3 of the governance model for project management.
- It then synchronizes these project management capabilities with the level of control and autonomy needed for projects throughout the organization.

In the Total Model of Project Governance, A Paradigm Represents the
Tool Used For Linking Project Management Capabilities With
Requirements In Accordance With the Wider Corporate Governance
Orientation

Conclusion

- As there is a huge variety of organizational structures, it is not possible to identify a one-size-fits-all in terms of how project, program, and portfolio governance are linked to the context of the wider organization.
- It is important to thoughtfully decide on the suitable governance paradigm for an organization as it controls the processes, policies and control mechanisms used by the corporation.

Conclusion

- A typical prerequisite for the model is a governance paradigm that defines the corporate perspective in relation to project management needs.
- The paradigm may vary by different organizations within the corporation due to a particular organization's specific objectives, the management culture instilled by the leaders of that organization, and the contextual requirements when networking with other firms.

Conclusion

- The principal organizations in the governance model are the board of directors, steering groups, and PMOs.
- Governance at each node in the hierarchy aims to accomplish its own objectives within the wider context of the organization.

Conclusion

- Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.
- Legitimacy aims to ensure that actions carried out and decisions taken during governance are performed in way that achieves legitimacy within its context.

Conclusion

- The project governance model links existing theories to model the way projects and project management are governed in project-based organizations.
- It gives insight into the interaction between the different governance organizations, their roles and tasks, as well as the link to the project management skills and capabilities required to achieve governance objectives.

Task 1

- Explain the benefits of linking the three components of project, program, and portfolio governance on the wider organization?

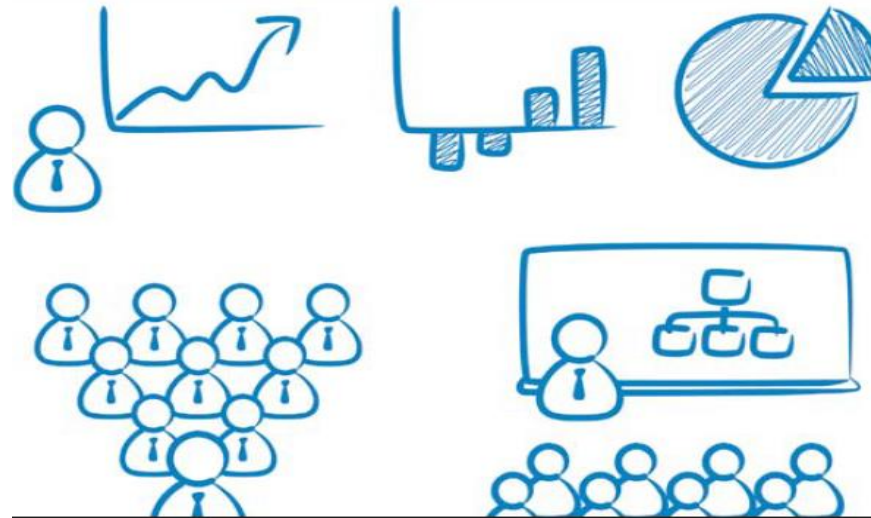
Task 2

- Explain how the responsibilities of the principal governance institutions are broken down hierarchically, as are the associated objectives and their metrics? You may develop a table?

Reference

Project Governance

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Thank You