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How Project Failures Threatens the Board Room. Some Prevention Strategies - An Australian Perspective

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The presentation topics

Introduction
Looking at Professional Corporate Governance firstly, and then Professional Project Controls
The Need for a Corporate Governance Charter
What is a Corporate Governance Charter?
Assessment of Existing Corporate Governance Culture
Typical Board Level Governance Elements
Establishing Corporate Project Governance
  Composition of the Project Steering Group
  The Project Steering Group provides governance
  The Project Steering Group provides direction
  The Project Steering Group makes decisions
  The Project Steering Group Approves Spending
Project Governance Issues
Professional Project Controls
The Value of Project Controls:
Peer Review
  Establishing the review
Impact of Failure to Implement Proper Project Controls
Conclusion

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Preamble

As Machiavelli wrote "*nothing is more difficult than to initiate a new order of things, for the reformer has enemies in all those who profit from the old order and only lukewarm defenders in those who benefit from the new*"

Machiavelli whilst not talking about project governance, might have well have been when currently observing the execution and management of projects

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- *Project Governance in the Construction and other industries should not be confused with Project Management*

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Professional Corporate Governance and Professional Project Controls

- According to Professor Geoffrey Kiel:
- *Today, many directors are posing the following question:*
- *"We know the theory of good governance - the issue is how we can apply many of these concepts to our particular board. In short, we want to link the theory to the practice of good governance."*

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Introduction

Good Project Management Governance

This presentation contains information provided from

The Corporate Governance Charter™
Bridging the Theory and Practice of Good Directorship
By

Geoffrey Kiel & Gavin Nicholson

Under an agreement given by Professor Geoffrey Kiel

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Good Project Management Governance

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The Need for a Corporate Governance Charter

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The point that is emphasised throughout is that both the content and the process of your Corporate Governance Charter that is important. Compiling such a resource has valuable content outcomes such as:

- *Setting a system in place for board processes*
- *Clearly signalling to the business community the emphasis your organisation places on corporate governance*
- *Providing a useful reference guide for areas of ambiguity; and*
- *Providing a handy tool when inducting new directors*

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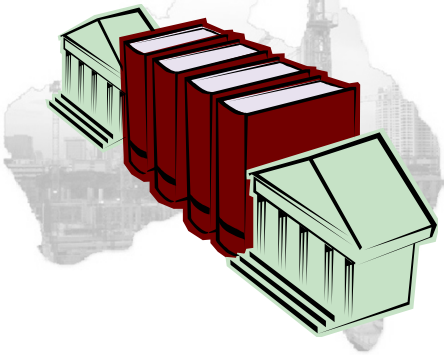
What is a Corporate Governance Charter ?



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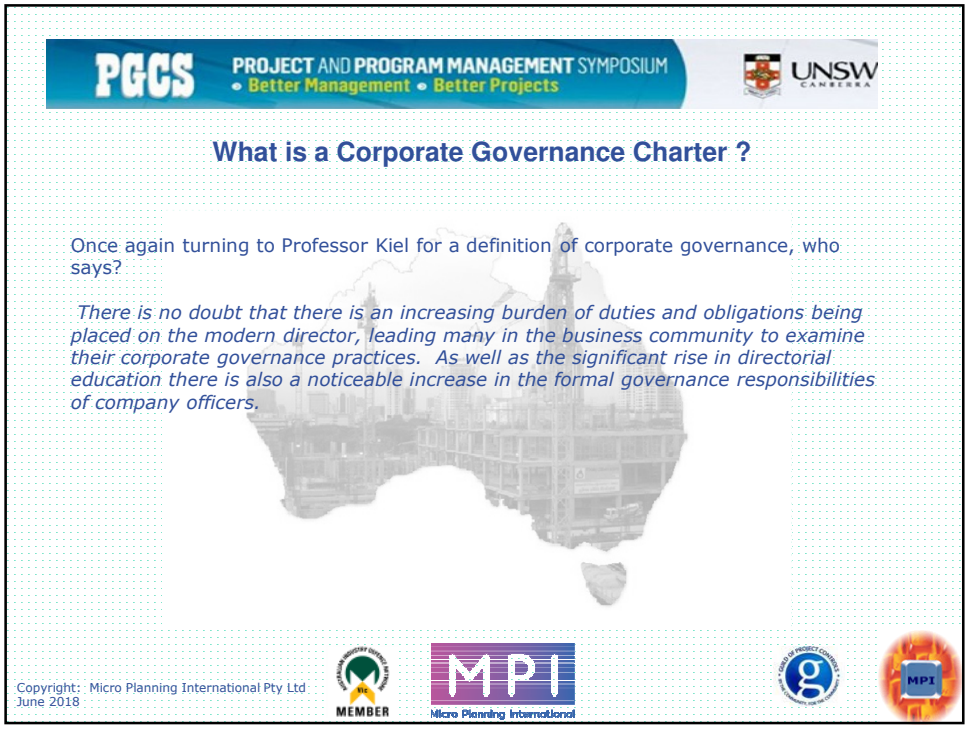
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What is a Corporate Governance Charter ?
Once again turning to Professor Kiel for a definition of corporate governance, who says?
There is no doubt that there is an increasing burden of duties and obligations being placed on the modern director, leading many in the business community to examine their corporate governance practices. As well as the significant rise in directorial education there is also a noticeable increase in the formal governance responsibilities of company officers.
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What is a Corporate Governance Charter ?
Corporate governance itself can be defined as "the relationship among various participants in determining the direction and performance of corporations" or an "umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders".
Monks and Minow, 1995:1
Cochran and Wartick, 1994:9
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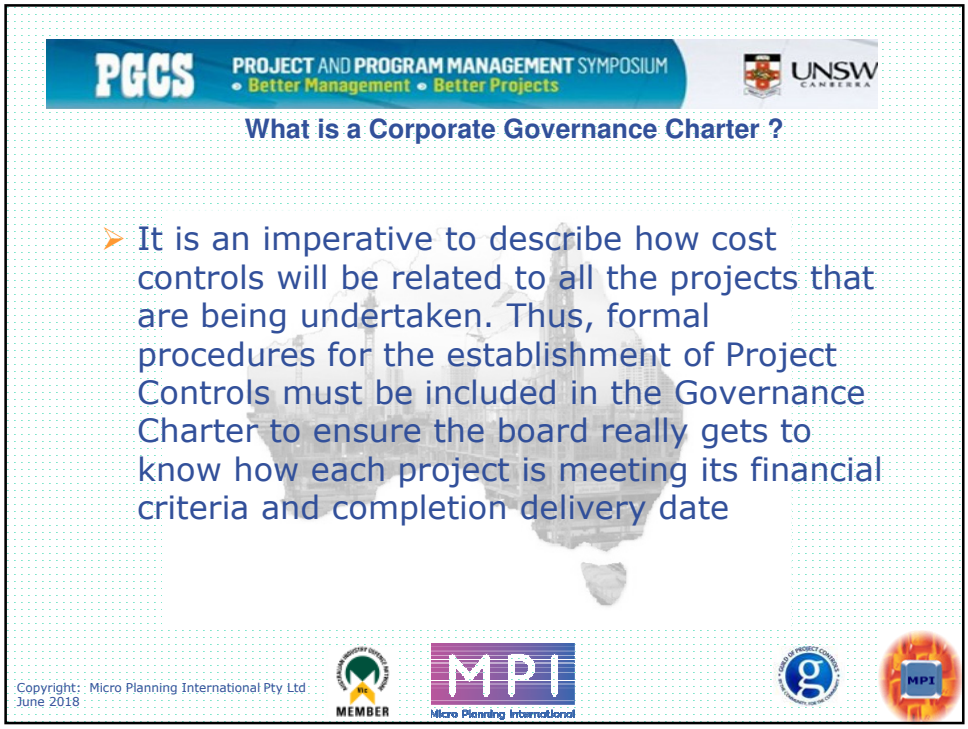
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What is a Corporate Governance Charter ?
It is an imperative to describe how cost controls will be related to all the projects that are being undertaken. Thus, formal procedures for the establishment of Project Controls must be included in the Governance Charter to ensure the board really gets to know how each project is meeting its financial criteria and completion delivery date
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What is a Corporate Governance Charter ?
According to the Governance Institute of Australia there are a number of useful practitioner documents which make up the Governance Charter and amongst them are:-
Audit and Compliance Committee Charter
Audit and Risk Committee Terms of Reference
Audit and Risk Management Committee Charter
Audit Committee Charter
Audit Committee Terms of Reference
Board and Chairman Evaluation Questionnaire
Board Charter
Corporate Governance Policy
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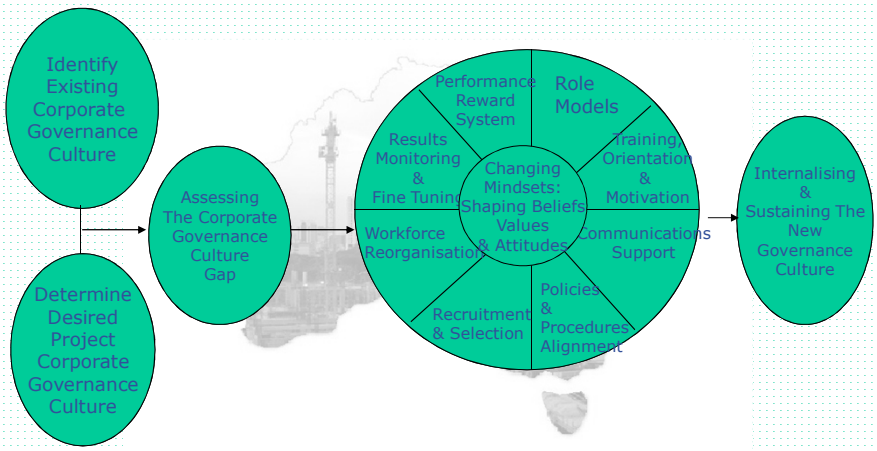
Assessment of Existing Corporate Governance Culture



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Typical Board Level Governance Elements

Governance: Ensure corporate alignment of strategy, execution and results meets Corporate Law 2001, Section 674

CORPORATIONS ACT 2001 - SECT 674
Continuous disclosure--listed disclosing entity bound by a disclosure requirement in market listing rules

Obligation to disclose in accordance with listing rules

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Typical Board Level Governance Elements
Resource Management: Make sure resource requests and labour processes are supported both top-down and bottom-up and simplified for project and resource managers to communicate their requirements and decisions throughout a project's lifecycle until contract completion.
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Typical Board Level Governance Elements
Communication and Collaboration: Rapidly record, access, and review elements (use of time-lapse photography) to determine the successful consequences of project performance.
Reporting and Analytics: Collect all actual project information on a regular basis (e.g. weekly, fortnightly or monthly) and deliver it in a timely way for the information to be analysed for accurate decision making by using Earned Value Performance Management techniques
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Typical Board Level Governance Elements
Cost Management: All costs should be rolled up to a central cost spreadsheet normalised by a robust cost code structure, where project cost information is available for drilldown by work package or for the entire project. Develop S-Curves from baselines and statused on a regular basis
Cash Flow Management: Reliably forecast project final costs by taking into account actuals to date, changes, trends, approved variations and risks throughout the project duration.
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Typical Board Level Governance Elements
Funds Management: Develop a funds management capability that is fully integrated with the cost sheet, ensuring visibility of funding against project budgets, actual spend, and forecasted spend to ensure compliance with Continuous Financial Disclosure requirements
Document Management: Using systems such as Aconex or SharePoint to centralise all the project management documents ensures that all project staff is always working on the most-current versions, for storage of attachments, file control access, e-mail alerts, and version control.
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Typical Board Level Governance Elements

Contract Management: All of your contracts regardless of type must be managed and kept up-to-date to reflect all changes, variations and original omissions, from basic material procurement to complex construction contracts and so capture all relevant contract details.

Attention must be made to all contractual delivery dates and the potential impact to corporate profits and margins of liquidated damages

Change Management: All project transactions leading up to and resulting in a schedule or cost change must be managed using corporate approval workflows.

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Establish Board Papers Content

According to James Beck of Executive Governance - directors in order to fulfil their fiduciary duties should have appropriate answers to the following questions about their board packs. If they don't, they need to make sure changes are made immediately:-

- Can the data be trusted?
- Does it cover the critical issues?
- Is it sufficiently up-to-date?
- Is it presented in such a way that it can be digested quickly?
- Is the information purely historic or does it assess future risks?
- Is only summarised information or data?

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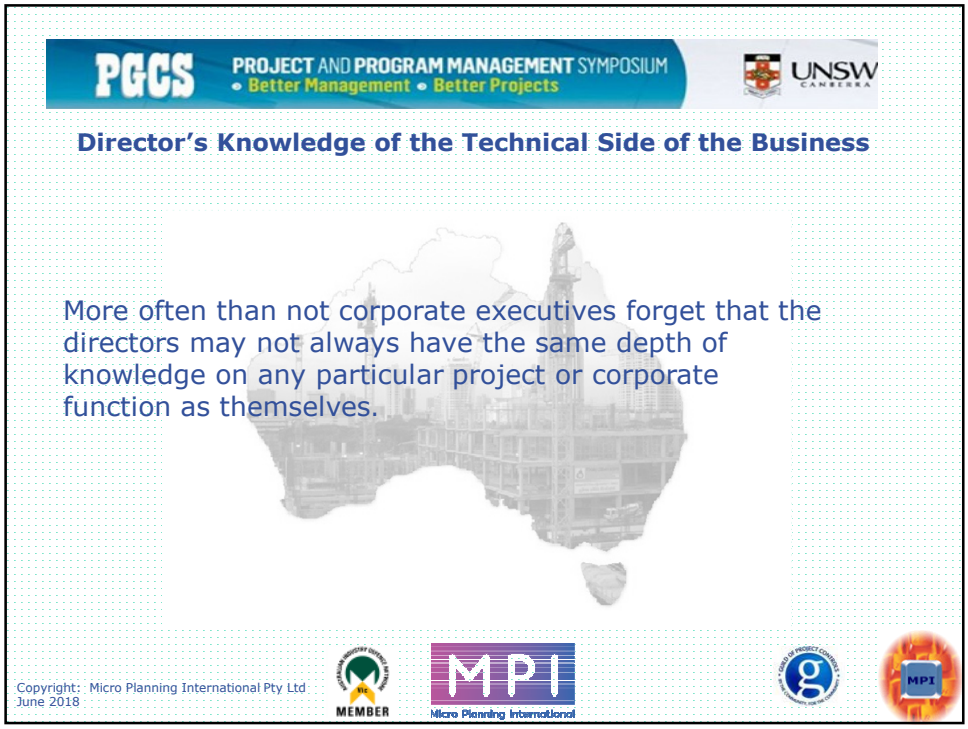
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Director's Knowledge of the Technical Side of the Business
More often than not corporate executives forget that the directors may not always have the same depth of knowledge on any particular project or corporate function as themselves.
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Establishing Corporate Project Governance
Composition of the Project Steering Group
The Project Steering Group provides governance
The Project Steering Group provides direction
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Project Governance Issues

It must be remembered that the project and its associated Capital expenditure are the decisive long-term success factor of organisations. Industry studies have shown over the past few years that many projects fail to provide the expected value and outcomes. In certain cases, some projects may even bring the organisation to the brink of failure.

The most likely cause is that the

- Organization does not understand the specifics of Project Management
- Ineffective Governance organization
- Inadequate decision-making framework
- Inadequate reporting / information from Project

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Project Governance Issues

Governance must be effective – Be clear about scope of governance so as not to intrude into Project Manager's remit (governance charter)

- Make decisions effectively and quickly
- With a single voice give clear guidance to the Project Manager
- Ensure alignment with organization's strategy
- Provide an avenue for difficult, deep, frank conversations that really address the issues
- Provide an avenue for resolving conflicts with external stakeholder above project level to preserve momentum and relations

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The Case for Project Controls

The view that is now becoming more prevalent is that directors should become aware of the advantages of Project Controls and take the time to learn these advantages, and in fact it should become a new course given by the Australian Institute of Company Directors and the Governance Institute of Australia

Professional Project Controls

Definition of Project Controls :

According to Pat Weaver:

Managing Director, Mosaic Project Services Pty Ltd – expertise in Project Time Management and PMI credential training

Project controls are the data gathering, management and analytical processes used to predict, understand and constructively influence the time and cost outcomes of a project or program…..

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Effective Project Controls

An effective Project Controls process can be applied in a collaboration of its various sub-disciplines which have been defined in the PMBOK, such as:

1) Planning, Scheduling & Project Reporting
- Scope management;
- Project deliverables:
- Work breakdown / Cost breakdown structures;
- Schedule management;
- Status measurement / reporting;
- Status Analysis & Calculation;
- Schedule forecasting;
- Corrective action;

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Effective Project Controls
2) Earned Value Analysis & Management
• Baseline Scheduling
• S-Curves
3) Cost Engineering & Estimating
• Estimating;
• Cost management;
• Cost control;
• Cost forecasting
4) Change Management & Controls
• Change order control;
• Trend Analysis;
5) Risk and Delay Claims
• Risk Assessment & management;
• Delay Claims Quantification
• Forensic Schedule Analysis
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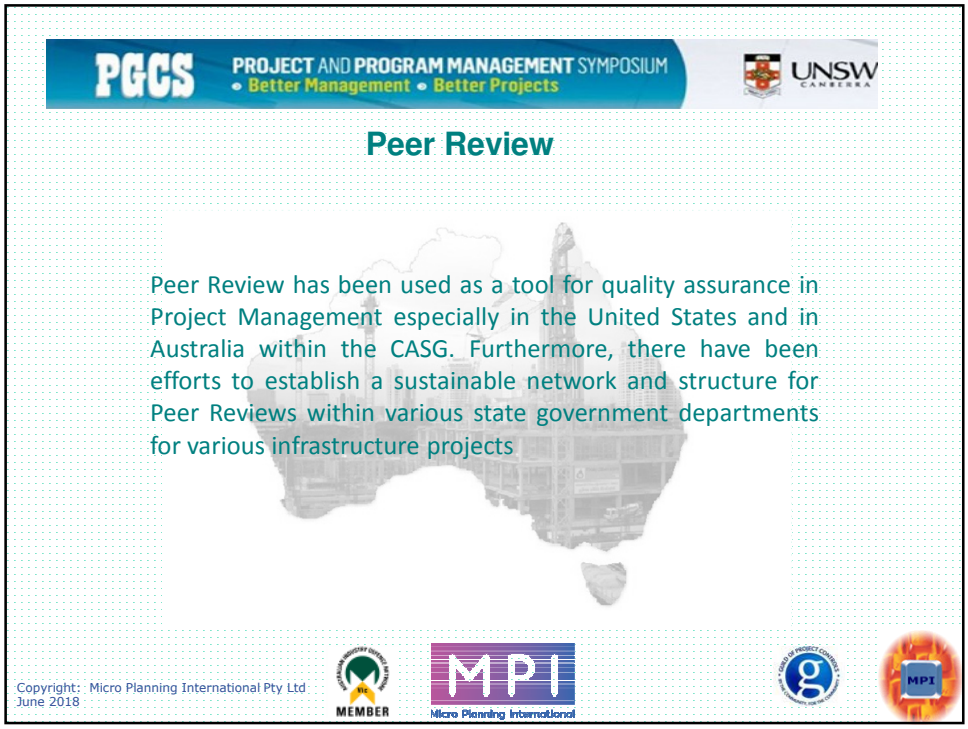
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Peer Review
Peer Review has been used as a tool for quality assurance in Project Management especially in the United States and in Australia within the CASG. Furthermore, there have been efforts to establish a sustainable network and structure for Peer Reviews within various state government departments for various infrastructure projects
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Peer Review

Establishing the review

- Examine and review the contract documents for both the contractor and sub-contractors to ensure that the program produced complies
- Examine and Confirm that the schedule is reasonable and attainable
- Determine that the Contractor's Means and Methods understandable
- Establish a good baseline for monitoring
- Verify and Validate durations
- Verify and validate logic and sequencing
- Identify claims positioning issues
- Identify risks in schedule and assumptions
- Ensure program delivers the contracted outcomes and expectations in terms of time and budget
- Document any variations, noncompliance and concerns found

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Impact of Failure to Implement Proper Project Controls

The impact of failing to ensure that the board has proper information to keep the market informed is that the prospect of a class action by the shareholders is quite likely if profit results are not what were expected as a result of major project failure, in order to get financial compensation.

" To put Project Controls into perspective, it is known that a major project failing could wipe out put a corporate's entire annual profits" Just ask the shareholders of Newcrest Gold Mine and Fletcher in New Zealand

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CORPORATIONS ACT 2001 - SECT 674
Continuous disclosure--listed disclosing entity bound by a disclosure requirement in market listing rules
Obligation to disclose in accordance with list
(1) Subsection (2) applies to a listed disclosing entity if provisions of the listing rules of a listing market in relation to that entity require the entity to notify the market operator of information about specified events or matters as they arise for the purpose of the operator making that information available to participants in the market.
ing rules
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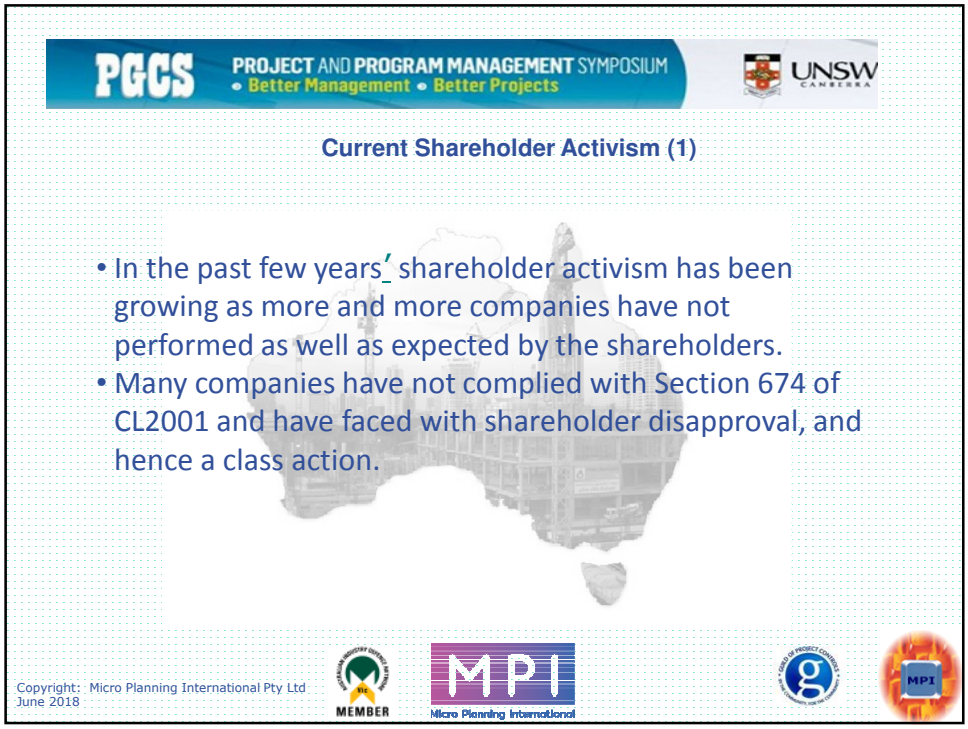
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Current Shareholder Activism (1)
• In the past few years, shareholder activism has been growing as more and more companies have not performed as well as expected by the shareholders.
• Many companies have not complied with Section 674 of CL2001 and have faced with shareholder disapproval, and hence a class action.
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Current Shareholder Activism (2)

- One of Australia's largest litigation funders has raised approximately $AUD1.5 billion in gross income since it started several years ago as a result of being very successful in class actions and is a very profitable business, unlike some of the companies that are being sued.
- This funder has mounted 159 cases for prosecution and have only lost 6, which would indicate how unprepared the boards and directors of those winners must have been, and 35 cases were withdrawn which left 104 settlements and 14 cases were won which generated $1.47 billion in revenue

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Current Shareholder Activism (3)

- In the year 2014 there were 8 new cases sent for prosecution, included amongst these are Treasury Wines, ANZ Bank, Citibank, Westpac as well as the Wivenhoe dam case following the 2011 floods in Queensland.
- In 2018 there are now another 53 claims across a wide range of industries, however the increased numbers are most likely due to the Royal Commission into Banking and Financial Services

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A Corporate Project Steering Group ???

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- Thank you -

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