Projects Governance & Controls Symposium 2015

The project governance model:

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Purpose of session

- This talk seeks to:
  - Highlight some fundamental issues in conventional models of project governance.
  - Outline an approach to address those issues.

Foundation for the session

- This talk draws heavily on a research program in which the author is engaged with Dr Ofer Zwikael (Associate Professor in the ANU College of Business and Economics).
- Relevant output from that program can be found in two publications:
  - Zwikael, O.Y. & Smyrk, J.R. 2011. *Project Management for the Creation of Organisational Value.* London: Springer.
  - Zwikael, O., Smyrk, J. Project governance: Balancing control and trust in dealing with risk. *International Journal of Project Management* 33 (2015) 852–862.

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Session coverage

- Why are project undertaken?
- The conventional *outputs*-oriented view.
- A new *outcomes*-oriented view.
- Implications of the new model.
- An outcomes-oriented model of Project Governance.

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THE RATIONALE FOR UNDERTAKING PROJECTS REVISITED

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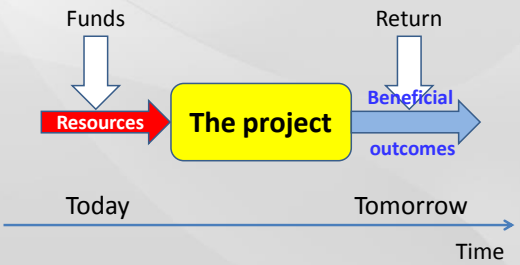
Project funding is a form of investment



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Project returns

- The desirable end effects of a project:
  - Are called *target outcomes*.
  - Need **not** take the form of financial flows.
- Example?
- The Child Sex offenders project was undertaken:
  - To generate the end effect of *reduced child abuse.*
  - Not to generate some *desired economic impact*.

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The concept of *Worth*

- Worth:
  - Is a generalisation of cost-benefit analysis to accommodate effects that have no meaningful dollar measure.
  - May well involve the use of *multiple criteria valuation models*.
- Worth = Fn(Benefits, Disbenefits, Costs)
- Less formally: W "=" B-D-C.

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The determinants of *Worth*

- **Benefits** are driven by *target outcomes*.
- **Disbenefits** are driven by *undesirable outcomes*.
- **Costs** are driven by a project's *outputs*.
- Outcomes are **not** required to have a financial measure.

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Worth and project success

- Project *funding decisions* are *investment decisions*.
- The investment decision is based on an **expected** overall value of eventual *Worth*.
- The success of the project must, therefore, be judged on the **achieved** value of Worth.
- Loosely:
  - If Actual Worth >= Expected Worth, the project must be judged a success.
  - Otherwise it is a failure.

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THE CONVENTIONAL VIEW OF A PROJECT

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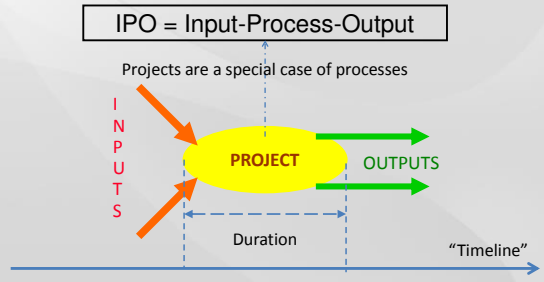
The IPO model: the traditional view

IPO = Input-Process-Output



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Structural implications of the IPO model

- The project finishes *when its outputs have been delivered*.
- A project progresses thorough *three* substantive global phases:
  - Initiation: to seek funding
  - Planning: to prepare a project script.
  - Execution: to produce, deliver and implement outputs.

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Success implications of the IPO model

- Judgements of success are limited to the elements of the IPO model:
  - Outputs (scope).
  - Duration (timeframe).
  - Budget (cost of resources).
- Thus the infamous “iron triangle”.

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Governance implications of the IPO model

- A governance model must:
  - Accept the iron triangle as the **ultimate** test of success.
  - Support the management of a project across **three** global phases—especially execution.

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The conventional view: a fundamental flaw

- A project is a form of investment.
- The success of the investment must be judged on the *achieved value* of Worth.
- Worth is a function of target outcomes (amongst other things).
- The conventional governance model ignores the need to generate target outcomes.

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A NEW VIEW OF A PROJECT: THE ITO MODEL

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Case study: The Sydney Cross City Tunnel

- Background:
  - 2 km vehicular tunnel connecting Darling Harbour in the West with Woolloomooloo in the East.
  - Built in early 2000s, opened in 2005.
- Target outcome:
  - Reduced traffic congestion on the surface streets of Sydney's CBD (by 90,000 vehicles/day).
  - Was not achieved within anticipated timeframe—operators were declared bankrupt in 2006.

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Target outcomes &"states of the world"

The "**Now**" scenario describes the way the world is shaped today.

Now

The "**Now**" scenario is characterised by:
•Congestion = c_1
•Pollution = p_1

Business case for vehicular tunnel

Funding decision

N → **No**

Y → **Yes**

The "**No**" scenario is characterised by:
•Congestion = c_2
•Pollution = p_2

Target outcomes ***in relative form*** are represented by the differences in these parameters.

The "**Yes**" scenario is characterised by:
•Congestion = c_3
•Pollution = p_3

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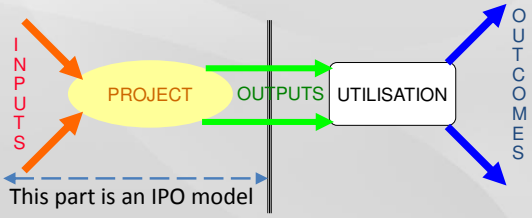
The ITO model of a project

ITO = Input-Transform-Outcome



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When does a project "end"

- The conventional (i.e. PMBoK) view: the project ends *when all outputs are delivered* (at the end of Execution).
- An emerging view claims:
  - The project ends when *its target outcomes are "secured".*
  - This demands a subsequent **fourth** global phase (*Outcome realisation).*

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The global phases of a project

- **Initiation:** Determines *Why* the project is being proposed and *What* it will produce.
- **Planning:** Determines *How* the outputs will be produced.
- **Execution:** Produces, delivers & implements outputs.
- **Outcome realisation:** Secures the target outcomes.
- These are completely generic and apply to all projects.

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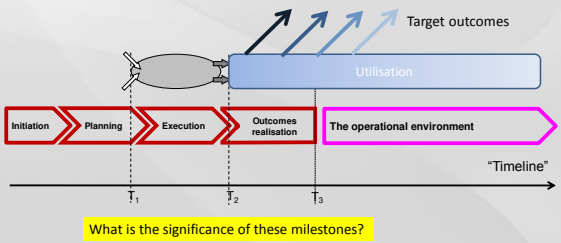
The ITO model and four global phases



What is the significance of these milestones?

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BUILDING AN OUTCOMES-ORIENTED MODEL OF PROJECT GOVERNANCE

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Approach

- A starting point—the ITO model.
- Recall that the ITO model has two *results*:
  - Outputs (deliverables)
  - Target outcomes (desired end-effects).
- Our entire PGM is based on the relationship between the two key players *to whom accountabilities are assigned* for these results.

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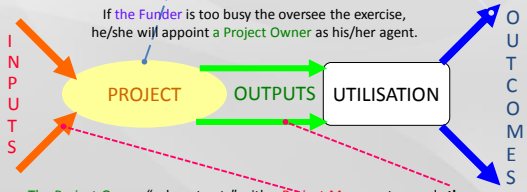
The ITO model as a transaction

A Funder will pay to have **this** work done now—in order to generate **these** later.
(The Funder is an investor)

If the Funder is too busy the oversee the exercise, he/she will appoint a Project Owner as his/her agent.



The Project Owner "subcontracts" with a Project Manager to supply **these** —for a price dictated by the cost of **these**.

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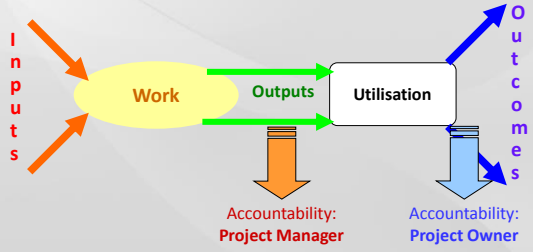
Accountability and the ITO model



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Layering of accountability: the Funder

- The **Funder has an *investment* focus**:
  - The **ultimate** stakeholder.
  - Self-accountable—as far as the project goes.

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Layering of accountability: the Project Owner

- The **Project Owner (PO)~ a Business case focus.**
- Held accountable by the *funder* for realising:
  - The business case in general.
  - Target outcomes in particular.

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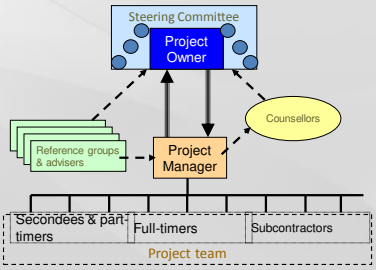
Layering of accountability: Project Manager

- The **Project Manager (PM)~ a Project plan focus.**
- Held accountable by the *Project Owner* for:
  - Achieving the project Plan in general.
  - Delivering all project outputs in particular.

A general governance model.



The role of the Steering Committee

- The steering committee:
  - Acts in the interests of the **funder**.
  - Ensures that the project is always pointed at its **business case**.
  - Is NOT a *project control group*—it DOES NOT run the project.

Some implications of the model

- The Business case belongs to the Project owner:
  - He/she presents it to the funder seeking approval to proceed.
  - The Project manager may well mange its development-but only as an *agent* of the project owner.
  - During execution, the Project manager reports progress to the Project Owner—during regular meetings of the Steering Committee.

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Our research results

- A study involving over 100 key players in projects.
- It was found that:
  - The acceptance of an accountability for outcome realisation significantly impacts project success.
  - *The role of the project owner is sensitive to the project context:*
    - *Trust of the project owner in the project manager* is more effective in a turbulent environment.
    - *Closer control by the project owner of the project management process* is a superior management approach.

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Summary

- The conventional view of a project is flawed—it does not recognise projects as investments.
- The conventional models of project governance:
  - Have an outputs-delivery focus.
  - Ignore the mechanism of outcomes generation.
- A new model of project governance is based on the separation of accountabilities for:
  - Output delivery
  - Target outcome generation.
- There is empirical support for the proposition that such an assignment of accountabilities enhances project performance.