Governance

Corporate and organisational governance and the sub-set of governance focused on governing portfolio, program and projects is attracting a lot of attention. However, far too many authors of articles and papers, portfolio and PMO managers, and project auditors are focused on the wrong aspects of governance. Developing and strictly adhering to complex procedures is not synonymous with good governance.

One of the best definitions of corporate governance was developed by Sir Adrian Cadbury as part of his work for the London Stock Exchange and OECD[1]. Cadbury defined the aim of governance as: ***to align as nearly as possible the interests of individuals, organisations and society***. The ethical framework needed to achieve this level of governance requires the organisation's leadership to be operating at levels 5 and 6 on the Kohlberg scale of moral development[2] but is consistent with emerging views of corporate social responsibility within society (CSR).

Cadbury's two key definitions are:

- Cadbury (2002) *"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."*
- OECD definition: *"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."*

Based on these definitions, the key elements of good governance can be seen as:

- Setting the right objectives for the organisation
- Then working to attain them by the efficient use of resources.

Whilst this is achieved by developing effective management structures, rules and procedures; then ensuring accountability at all levels. The structures and processes are only the necessary mechanisms needed to achieve good governance; they do not represent good governance in themselves. The objective of good governance should remain to align as nearly as possible the interests of individuals, organisations and society. Any process, procedure or rule that is not designed to support these overriding objectives is diminishing governance rather then enhancing governance.

The art is designing systems that offer sufficient checks and balances to ensure accountability without diminishing the ability of managers and elements within the organisation to deliver the objectives.

Governance at the Organisation Level

The directors of an organisation owe their primary duty to the organisation itself. Apart from creditors when the organisation is insolvent, no stakeholder is entitled to preferential treatment and in discharging their

[1] OECD = Organisation for Economic Co-operation and Development: http://www.oecd.org

[2] See WP1001 Ethics and Leadership: http://www.mosaicprojects.com.au/WhitePapers/WP1001_Ethics.pdf

fiduciary duties directors must disregard their own interests. The key to effective governance is a properly functioning board where mutual trust and respect lead to open informed and timely debate on any an all aspects of the organisation's affairs.

Good governance is good business! The directors need to balance the organisation's short, medium and long-term interests and strike a complex balance between many competing interest groups that are involved in the organisation's activities or are affected by its activities. A "one-size-fits-all" approach to governance is usually counterproductive. The governance processes should be a tool that helps the organisation achieve its objectives, not an obstacle. Positive governance strategies should represent the best way of doing *good business* (ethical, effective, strategically aligned) and are therefore a good way to do business.

Governance at the Portfolio Level

Portfolio management is primarily a governance process[3]. Portfolio management focuses on selecting the right projects and programs to maintain or start and which to defer or cancel. These decisions have to be based on what's the best mix to achieve the organisations longer term strategies whilst maintaining current operations. Balancing the workload against the organisations capability and capacity to undertake the work is critical, as is the need to ensure an appropriate mix of high risk high return projects that create the 'future organisation' compared to safe projects with a short payback period.

Governance within the PMO

PMOs have a critical governance role[4]. The need to ensure accurate information is available to executive management on the performance and trends of the projects and programs under their control without being unduly prescriptive and restrictive. Every minute a person spends working on reports and processes required by the PMO that is not required for the effective management of the project; and every time a project team is prevented from innovating because of the PMO's policies, the PMO is preventing the achievement of good governance as defined above, achieving the alignment of ***interests of individuals, organisations and society.***

This is a difficult balancing act for PMO management to achieve, ensuring sufficient discipline and rigour to achieve the reporting accuracy needed whilst allowing development and innovation to achieve the strategic objectives of the organisation.

Governance at the Program and Project Level

Projects and programs are created by the organisation to deliver the change needed to achieve its objectives. The obligation of project and program managers is to create the outputs and outcomes as efficiently as possible, working ethically and in accord with the organisations practices and procedures[5].

One important principle in managing governance is summed up in the legal doctrine *'delegatus non potest delegare'*… unless expressly authorised a delegate cannot delegate to someone else. Project and Portfolio governance fit within the overall governance of the organisation which is the ultimate responsibility of the Board of Directors (or similar). Part of their responsibility is to ensure appropriate delegations of authority and responsibility are made to develop an effective system of governance that meets the needs of the organisation.

[3] See WP1017 Portfolio Management: http://www.mosaicprojects.com.au/WhitePapers/WP1017_Portfolios.pdf

[4] For more on PMOs see WP1034 PMOs: http://www.mosaicprojects.com.au/WhitePapers/WP1034_PMOs.pdf

[5] For more papers, references and booklets on corporate and project governance see: http://www.mosaicprojects.com.au/Resources_Papers.html#Governance

PMI's *Code of Ethics and Professional Conduct*[6] provides a good foundation for project and program managers operating within this structure working to achieve the organisations overall objectives.

Summary

Governance is not about dotting every 'i' and crossing every 't'; far too many people place far too much emphasis on compliance and ignore the benefits of good governance. The art of good governance is having sufficient processes in place to prevent malfeasance, whilst encouraging effective growth and innovation to achieve the strategic objectives of the organisation.

Processes, procedures and rules are important and useful as long as they assist in the overall objectives defined in the definitions above. When the rules start detracting from these objectives, they quickly become obstructions on the path to good governance.

Determining the best balance for an organisation is the art of good governance!

[6] Download a copy of the code from: http://www.mosaicprojects.com.au/PDF/PMICodeofEthics.pdf