apm KNOWLEDGE

Directing Change

A guide to **governance** of project management

Foreword

Over 60,000 copies of the first edition of this guide are in use internationally by boards of directors, public sector governing bodies, their advisers, academics, trainers and the next generation of senior management currently studying management and business studies.

This second edition of *'Directing Change'* has been updated to reflect the terminology and structure of more recently published APM guidance, such as *'Co-Directing Change'*, *'Sponsoring Change'*, feedback from users and changes to regulations such as the new *'UK Corporate Governance Code'* which has replaced the previous *'Combined Code'*. The increased awareness of the importance of corporate risk management, sustainable development and ethical practice is recognised.

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"How should organisations oversee the management of projects? This guide provides the answer.

The guide explains how good governance requirements apply to the direction and management of your organisation's project portfolio, whether in the public, private or third sector. It lists principles which directors or their equivalents should adopt and questions that they should ask. It is short and to the point. It will help improve your corporate performance, reduce shocks at boardroom level and avoid hardship to stakeholders."

Dr. Neville Bain, Chairman, Institute of Directors

1. Purpose

The purpose of the guide is to influence directors and others with corporate governance roles to adopt optimal practices regarding the governance of programme and project management activities. This involves aligning the interests of directors, programme and project teams and wider stakeholders.

Adherence to this guide will help boards of directors to:

- assure themselves and others that robust governance requirements are applied across the projects managed in their organisation,
- optimise their portfolio of projects,
- avoid many of the common failures in project and programme performance,
- improve relationships with staff, customers and suppliers,
- minimise risks to the organisation arising from projects,
- maximise the benefits realised from projects,
- assure the continued development of the organisation.

As the focus of this document is the achievement of coherence between corporate governance and project management processes, it is necessary to clarify activities not specifically covered by this guide. This document does NOT seek to:

- duplicate or replace existing guidance and standards on corporate governance,
- provide guidance related to non-project areas of business,
- provide guidance on project management methods, other than those directly related to the purposes of sound corporate governance,
- provide guidance on detailed methods that can be used to manage individual projects,
- prescribe how to implement this guidance – that will depend on factors specific to each organisation.

This document's sub-title 'A guide to governance of project management' has been carefully chosen to distinguish it from other works concerning the management of individual projects in the sense of their contractual and organisational arrangements.

"Change is everywhere, and nowadays changes have to be made quickly. Professional guidance can help top management get the best results from change by understanding how to govern project management well. The 'Directing Change' booklet from the Association for Project Management provides such advice in a short and pithy format that is readily useable."

Ian Watmore, Government's Chief Operating Officer, Permanent Secretary at the Cabinet Office, Chair Major Projects Authority

2. Introduction

'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined'

Organisation for Economic Co-operation and Development
OECD Principles of Corporate Governance 2004
www.oecd.org

Projects, programmes and portfolios and their management are defined in the APM 'Body of Knowledge', BS6079-1 (2010) and in the Cabinet Office's *'Managing Successful Programmes'* (2011).

For brevity, this guide uses the term project management as inclusive of the management of programmes of projects.

Whilst codes of corporate governance have been developed primarily for listed companies, in preparing this guide, the requirements of all medium to large organisations, listed and private companies, government organisations and charities have been considered. We have concluded that the principles underlying the governance of project management apply to all such entities. Hence, in this guide we refer to 'the organisation' rather than 'the company'. Our use of the term 'board' applies to management boards and their equivalents in the public sector and to councils in companies limited by guarantee. It does not refer to project boards.

The governance of project management concerns those areas of corporate governance that are specifically related to project activities. Effective governance of project management ensures that an organisation's project portfolio is aligned to the organisation's objectives, is delivered efficiently and is sustainable. Governance of project management also supports the means by which the board and other major project stakeholders exchange timely, relevant and reliable information.

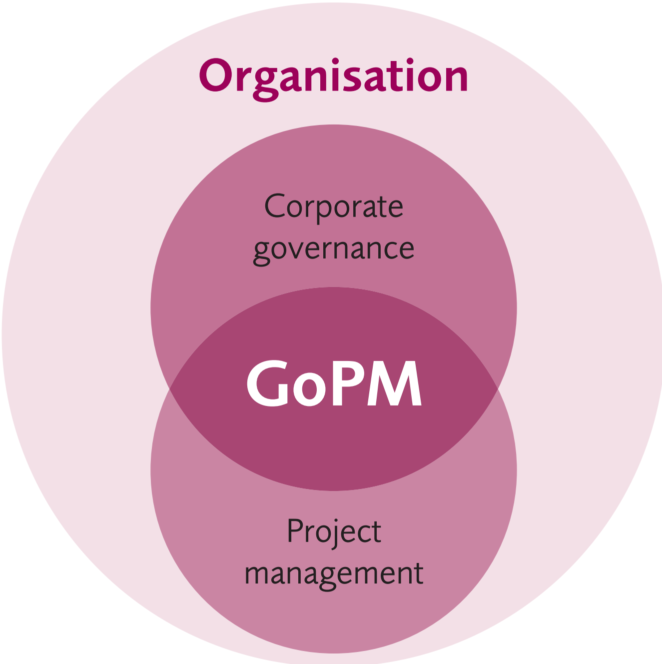

figure 1 **Governance of Project Management (GoPM) in context**

Figure 1 illustrates that the governance of project management is a subset of the activities involved with corporate governance. Most of the methodologies and activities involved with day-to-day project management lie outside the scope of this guide.

3. Principles

This guide seeks to help a board of directors check their organisation against four main components of the governance of project management:

- Portfolio direction;
- Project sponsorship;
- Project management capability;
- Disclosure and reporting.

These components are addressed in more detail in Section 4, where compliance checklists are provided.

Based on governance requirements and on the discipline of project management, the following 13 principles have been identified for governance of project management. These principles are cross-referenced to sections of two major corporate governance documents in Appendices 1 and 2.

No.	Governance of Project Management Principles
1	The board has overall responsibility for the governance of project management.
2	The organisation differentiates between projects and non project-based activities.
3	Roles and responsibilities for the governance of project management are defined clearly.
4	Disciplined governance arrangements, supported by appropriate methods, resources and controls are applied throughout the project life cycle. Every project has a sponsor.
5	There is a demonstrably coherent and supporting relationship between the overall business strategy and the project portfolio.
6	All projects have an approved plan containing authorisation points at which the business case, inclusive of cost, benefits and risk is reviewed. Decisions made at authorisation points are recorded and communicated.

No.	Governance of Project Management Principles
7	Members of delegated authorisation bodies have sufficient representation, competence, authority and resources to enable them to make appropriate decisions.
8	Project business cases are supported by relevant and realistic information that provides a reliable basis for making authorisation decisions.
9	The board or its delegated agents decide when independent scrutiny of projects or project management systems is required and implement such assurance accordingly.
10	There are clearly defined criteria for reporting project status and for the escalation of risks and issues to the levels required by the organisation.
11	The organisation fosters a culture of improvement and of frank internal disclosure of project management information.
12	Project stakeholders are engaged at a level that is commensurate with their importance to the organisation and in a manner that fosters trust.
13	Projects are closed when they are no longer justified as part of the organisation's portfolio.

Applying these principles would help avoid common causes of project failure, such as the seven noted below.

- Lack of a clear link with key strategic priorities.
- Lack of clear senior management and, in government projects, ministerial ownership and leadership.
- Lack of effective engagement with stakeholders.
- Lack of skills and proven approach to project and risk management.
- Lack of understanding of, or contact with, supply industry at senior levels.
- Evaluation of projects driven by initial price, rather than long-term value for money.
- Too little attention to breaking down development and implementation into manageable steps.

4. Core components

This section offers practical questions that should help decide what actions to take to comply with these principles.

Governance of project management is not the rigid application of a complex methodology. The best results will come from the intelligent application of principles combined with proportionate delegation of responsibility and the monitoring of internal control systems.

Sections 4.1 to 4.4 list questions relevant to the four components of governance of project management. Unlike the 13 GoPM principles, some aspects of these questions do not apply to every organisation. However, the answers indicate the extent to which practice fulfils the principles and meets the requirements of governance of project management.

4.1 Portfolio direction

This component seeks to ensure that all projects are identified within the one, sustainable portfolio. This portfolio should be evaluated and directed mindful of the organisation's aims, constraints, resources and capacity for change.

Key questions

PD1	Is the organisation's project portfolio aligned with its key business and organisational objectives, such as those of profitability, customer service, reputation, attitude to risk, corporate responsibility, sustainability and growth?
PD2	Are the organisation's financial controls, financial planning and expenditure review processes applied to both individual projects, and to the portfolio as a whole?
PD3	Is the project portfolio prioritised, refreshed, maintained and pruned in such a way that the mix of projects continues to support strategy and take account of external factors?
PD4	Does the organisation discriminate effectively between activities that should be managed as projects and other activities that should be managed as non-project operations?
PD5	Does the organisation assess and address the risks associated with the project portfolio, including the risk of corporate failure?
PD6	Is the project portfolio consistent with the organisation's capacity?
PD7	Does the organisation's engagement with project suppliers encourage a sustainable portfolio by ensuring their early involvement and by a shared understanding of the risks and rewards with due protection of commercial confidentiality?
PD8	Does the organisation's engagement with its customers encourage a sustainable portfolio?
PD9	Does the organisation's engagement with the sources of finance for its projects encourage a sustainable portfolio?
PD10	Has the organisation assured itself that the impact of implementing its project portfolio is acceptable to its ongoing operations?

4.2 Project sponsorship

This component seeks to ensure that project sponsorship is the effective link between the organisation's senior executive body and the management of each project. The sponsoring role has decision making, directing and representational accountabilities.

Project sponsors are variously titled, for example Senior Responsible Owner, and may be located at different levels in organisations. Project sponsors are the route through which project managers directly report and from which project managers obtain their formal authority, remit and decisions. Sponsors own the project business case.

Competent project sponsorship is of great benefit to even the best project managers.

Key questions

PS1	Do all projects have competent sponsors at all times?
PS2	Do sponsors devote enough time to their projects?
PS3	Do sponsors continue in their roles for periods of time sufficient to ensure accountability?
PS4	Do project sponsors engage regularly with project managers and are they sufficiently aware of the project status?
PS5	Do project sponsors provide clear and timely directions and decisions?
PS6	Do project sponsors have sufficient influence with which to ensure that project managers have adequate resources with the right skills to deliver projects?
PS7	Are projects closed at the appropriate time and outcomes tested against their business cases?
PS8	Is independent advice used for appraisal of projects?
PS9	Are sponsors accountable for and do they own and maintain the business case; is accountability identified for key project documents?
PS10	Are sponsors accountable for the realisation of benefits?
PS11	Do sponsors adequately represent the project throughout the organisation?
PS12	Are the interests of key project stakeholders, including suppliers, regulators and providers of finance, aligned with project success?
PS13	Is project learning from experience recorded and shared?

4.3 Project management capability

This component seeks to ensure that the teams responsible for projects are capable of achieving the objectives that are defined at project approval points and use that capability to improve governance and outcomes.

Maturity of project management capability is determined by a number of factors, including the skills and experience of project leaders, the commitment to continual learning and developing competence, the resources available to them and the tools and processes they are able to deploy.

The board and project sponsors should take these factors into account when assessing the effectiveness of their project teams and identifying improvement priorities and capability maturity targets.

Efficient project management requires effective delegation that allows decisions to be made at a level that is consistent with the organisation's system for internal control.

Key questions

PM1	Do all projects have clearly defined outcomes with clear critical success criteria that are tracked to inform decision-making?
PM2	Is the board assured that the organisation's project management processes incorporate review points, are subject to continual improvement and maturity and that project management tools are appropriate for the projects that it sponsors?
PM3	Is the board assured that the people responsible for project delivery, especially the project managers, are clearly mandated, sufficiently competent, and have the capacity to achieve satisfactory project outcomes?
PM4	Are project managers encouraged to identify and exploit opportunities for improving project outcomes?
PM5	Are key roles and responsibilities for governance of project management clear and in place?
PM6	Are service departments and suppliers able and willing to provide key resources tailored to the varying needs of different projects and to provide an efficient and responsive service?
PM7	Is the management of issues, changes, risks and opportunities integrated into the decision making process and in line with adopted policies?
PM8	Is authority delegated to the right levels, balancing efficiency and control?
PM9	Are project contingencies and other risk responses estimated and controlled in accordance with delegated powers?

4.4 Disclosure and reporting

This component seeks to ensure that the content of project reports will provide timely, relevant and reliable information that supports the organisation's decision making processes, without fostering a culture of micro-management.

It is important for the organisation to distinguish between key drivers of success and key indicators of success.

An efficient reporting process will minimise the reporting burden throughout the organisation without compromising effectiveness. Reporting requirements should be commensurate with each project's complexity, risk and significance.

A culture of open and honest disclosure is a key requirement for effective reporting and where internal or external pressures pose threats to this, the value of independent verification of information will be increased. As such threats often present themselves prior to major project approvals or when projects start, there is an opportunity for independent oversight and verification to help avoid serious difficulties.

An internal risk and assurance function should plan checks even in the absence of specific threats. There is an opportunity for independent oversight and verification to improve project outcomes and learn lessons. External assurance can often reduce risks further and provide a check on internal risk and assurance functions.

Disclosure should be extended to all stakeholders to the extent that they have a legitimate interest in project information.

Key questions

DR1	Does the board receive timely, relevant and reliable project forecasts, including those produced for the business case at project authorisation points?
DR2	Does the board receive timely, relevant and reliable information, which compares progress against objectives?
DR3	Does the board have sufficient information on significant project-related risks and their management?
DR4	Are there threshold criteria that are used to escalate significant issues, risks and opportunities through the organisation to the board?
DR5	Does the organisation use measures for both key success drivers and key success indicators?
DR6	Is the organisation able to distinguish between project forecasts based on targets, commitments and expected outcomes?
DR7	Does the board seek independent verification of reported project and portfolio information as appropriate?
DR8	Does the board reflect the project portfolio status in communications with key stakeholders?
DR9	Does the business culture encourage open and honest reporting?
DR10	Where responsibility for disclosure and reporting is delegated or shared, does the board ensure that the quality of information that it receives is not compromised?
DR11	Is a policy supportive of whistleblowers effective in the management of projects?
DR12	Do project processes reduce reporting requirements to the minimum necessary?

5. Postscript

5.1 Disclaimer

This guide is not intended to comprise advice on which any party may rely in order to ensure compliance with any legal obligations regarding good governance. All liability is excluded in respect of any loss or damage which may arise in connection with the use of or reliance on any information or advice contained in this guide.

5.2 Acknowledgements

This document was prepared by the Governance Specific Interest Group of the Association for Project Management between February 2011 and October 2011. The editing group would welcome suggestions for future editions of this guide and notification of any errors.

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Appendix 1

Relationship between governance of project management principles and the *'UK Corporate Governance Code'* (2010).

Code	Comply or explain requirement	GoPM Principles
A.1 The role of the board	Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	1
A.2 Division of responsibilities	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	3
A.3 The chairman	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	2, 3, 7, 8, 9, 10, 11
A.4 Non-executive directors	As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	5, 7
B.1 The composition of the board	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	1, 3
B.2 Appointments to the board	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	3
B.3 Commitment	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	7, 12
B.4 Development	All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	3, 7, 9

Code	Comply or explain requirement	GoPM Principles
B.5 Information and support	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	6, 9, 10, 11
B.6 Evaluation	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	2, 3, 4, 9
C.1 Financial and business reporting	The board should present a balanced and understandable assessment of the company's position and prospects.	5, 8, 10, 11, 12
C.2 Risk management and internal control	The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	1, 2, 3, 4, 5, 6, 7, 8, 9, 10
C.3 Audit committee and auditors	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.	2, 4, 9
E.1 Dialogue with shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	2, 6, 12

Financial Reporting Council
The UK Corporate Governance Code
www.frc.org.uk

Appendix 2

Relationship between governance of project management principles and the Sarbanes-Oxley Act 2002.

Section of Sarbanes-Oxley Act 2002	Sarbanes-Oxley Act 2002	Relevant GoPM Principles
106. FOREIGN PUBLIC ACCOUNTING FIRMS	(a) APPLICABILITY TO CERTAIN FOREIGN FIRMS . . .	3, 9
108. ACCOUNTING STANDARDS	(b) RECOGNITION OF ACCOUNTING STANDARDS . . .	4
201. SERVICES OUTSIDE THE SCOPE OF PRACTICE OF AUDITORS	(a) PROHIBITED ACTIVITIES . . .	9
202. PRE-APPROVAL REQUIREMENTS	(A) AUDIT COMMITTEE ACTION . . .	9
204. AUDITOR REPORTS TO AUDIT COMMITTEES	(k) REPORTS TO AUDIT COMMITTEES . . .	4, 9, 11
302. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS	(a) REGULATIONS REQUIRED . . .	3, 4, 5, 8, 9, 10, 11
401. DISCLOSURE IN	(j) OFF-BALANCE SHEET TRANSACTIONS. . PERIODIC REPORTS	6, 8, 9, 10, 11
404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS	(a) RULES REQUIRED . . .	2, 3, 4, 5, 6, 7, 8, 9, 10, 11

Section of Sarbanes-Oxley Act 2002	Sarbanes-Oxley Act 2002	Relevant GoPM Principles
406. CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS	a) CODE OF ETHICS DISCLOSURE . . .	3, 4, 11
407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL EXPERT	a) RULES DEFINING 'FINANCIAL EXPERT' . . .	3
409. REAL TIME ISSUER DISCLOSURES	(1) REAL TIME ISSUER DISCLOSURES . . .	10, 11
906. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS	1350. Failure of corporate officers to certify financial reports . . .	3, 4, 5, 8, 10, 11
1102. TAMPERING WITH A RECORD OR OTHERWISE IMPEDING AN OFFICIAL PROCEEDING	(c) Whoever corruptly . . .	4, 11

Securities and Exchange Commission
Sarbanes-Oxley Act 2002
www.sec.gov

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