Project Governance: Enabling Organizational Strategy

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Abstract: Despite extensive developments in project management theory and practice, projects are still vastly underperforming and project success rates have remained virtually unchanged. Additionally, the definition of project success is evolving and projects are increasingly required to demonstrate their contribution to bottom-line business value and organizational strategy. Theoretical and empirical evidence increasingly points to the importance of effective governance in ensuring that projects meet the traditional criteria of time, cost, and quality as well as realize their business case and support organizational strategic objectives. However, there are wide variations in how project governance is understood and defined and the literature is largely sporadic. Existing conceptualizations of governance in the literature vary considerably and the optimal form of project governance is yet to be identified. To address this conceptual gap, this study examines the project governance literature and industry standards. The findings reveal some unifying themes and points of convergence amongst the key conceptualizations of project governance. Additionally, we find evidence from the literature that the role of project governance is shifting from ensuring efficient project delivery to ensuring that project benefits are realized and aligned with organizational strategic objectives. This shifting role of project governance is in congruence with the shifting emphasis of projects from product creation to value creation. The findings of this study serve as a foundation for the discussion on how project governance has evolved and what conceptual and practical challenges it faces today. Furthermore, this paper identifies some potentially fruitful directions for future research on project governance.

Keywords: Governance of Projects, Organizational Strategy, Project Governance
1. INTRODUCTION

The organization of work using projects represents a major milestone in the evolution of management: from functional, bureaucratic approaches to project- and process-based approaches (Turner & Keegan, 2001). As emphasized by the Project Management Institute (PMI), the latter have increasingly become necessary for organizations to realize their strategic aims and to sustain a competitive edge in today’s dynamic and chaotic economies (PMI, 2010, 2015). Across seven project-intensive industries, the global economic impact of project management is expected to reach $18.18 trillion in 2020, which is a growth of $6.61 trillion or 57.13% from 2010 to 2020 (PMI, 2013b).

Despite the economic significance of projects, only 62% of projects are able to meet their intended goals and this percentage has remained virtually unchanged from 2012 to 2016 (PMI, 2016c). Interestingly, the Association for Project Management (APM) reported that only 22% of projects can be considered wholly successful when project funder’s and stakeholders’ satisfaction are factored in (APM, 2015). Similarly, the Chaos Report, based on data from approximately 50,000 software projects, reported that only 29% of projects are successful in terms of delivering satisfactory results on time and within budget (Standish Group, 2015). Although some studies have questioned the accuracy of existing estimates of project success rates (Budzier & Flyvbjerg, 2013; Jenner, 2015; Zwikael & Smyrk, 2012), it is quite clear that additional research is required to understand why projects continue to fail and how success rates may be improved.

Furthermore, the definition of project success is evolving. In addition to the traditional project success criteria, projects are increasingly required to demonstrate their contribution to bottom-line business value and organizational strategy (Mir & Pinnington, 2014). The importance of projects and programs for realizing business value and strategic objectives is widely documented (Serra & Kunc, 2015; Shenhar & Dvir, 2007; Zwikael & Smyrk, 2012). However, despite the strategic significance of projects, two separate studies indicate that only 40% of projects are aligned with business strategy (KPMG, 2010; PMI, 2014).

Theoretical and empirical evidence increasingly points to the importance of effective governance in ensuring that projects meet the traditional criteria of time, cost, and quality (APM, 2015; Flyvbjerger, 2006; Locatelli & Mancini, 2012; Locatelli et al., 2014; Ruuska et al., 2011; van Marrewijk et al., 2008) as well as realize their business case and secure the expected strategic objectives (APM, 2011; Jenner, 2015; Thorp, 2001; Turner et al., 2010; Zwikael & Smyrk, 2015). However, there are wide variations in how project governance is understood and defined (Bekker & Steyn, 2009; Roe, 2015; Sankaran et al., 2007), often depending upon the technical backgrounds and research fields of the authors (Bekker, 2015). Also, the literature on project governance is largely sporadic. According to Ahola et al. (2014), it is divided into two separate streams, one which positions project governance as internal to a specific project and another that positions it as external to a specific project. Accordingly, the ‘optimal form’ of project governance is yet to be identified (van Marrewijk et al., 2008).

Additionally, existing project governance conceptualizations are dated and incomplete (Lechler & Cohen, 2009; Zwikael & Smyrk, 2012, 2015), and tend to conflate ‘governance’ with ‘management’ (PMI, 2016b; Too & Weaver, 2014). While the literature recognizes the vital role of governance in securing project outcomes and benefits (KPMG, 2010; Zwikael & Smyrk, 2015), existing governance conceptualizations do not adequately address the concepts value creation through project benefits realization (Zwikael & Smyrk, 2015). This contradicts the emerging view that the Iron Triangle criteria for project performance is incomplete (Andersen,
2014; Atkinson, 1999; Baccarini, 1999; Lipovetsky et al., 1997) and the value contribution of projects to organizational strategic goals should also be considered (Cooke-Davies, 2002; Davis, 2014; Khan et al., 2013).

To address these gaps, this study conducted a review of existing literature on project governance to address the following research questions: (1) How is project governance defined in the literature? and (2) How does project governance support organizational strategy? Furthermore, this research serves as the scoping study for a subsequent systematic literature review of project governance and the achievement of strategic objectives through projects.

2. METHODOLOGY

This paper adopts an unstructured and exploratory approach to reviewing the relevant literature, in line with a similar study conducted by Svejvig and Andersen (2015). It broadly targets all relevant publications relating to ‘governance’ in the academic literature as well as publications by key professional organizations. This exploratory approach is useful for the project governance literature since it is widely dispersed and lacks a clear structure (PMI, 2016b). Additionally, as this is a scoping study for a larger systematic literature review, an exploratory approach is useful for capturing the diverse perspectives through which project governance has been studied in the literature.

The literature search was carried out using the Scopus and Google Scholar databases. The former offers good coverage of the academic literature while the latter is also useful for searching for grey literature. The publications of the two leading professional organizations in project management, namely PMI and APM, were also searched. As project governance is a growing and rapidly evolving field, the focus of this research was on publications from the past 10 years (2006 to 2016), in order to avoid the potentially outdated concepts from older studies. An initial list of candidate publications was developed based on their titles, keywords, and abstracts. To select the relevant publications for inclusion in the study, we evaluated each candidate publication individually based on the study selection and quality assessment criteria developed by Kitchenham and Charters (2007). The aim of this strategy was to include all studies, both old and new, that have had or are expected to have an impact on the development of project governance theory and practice. A total of 36 publications pertaining to project governance were selected, which is comprised of 20 journal papers, 2 conference proceedings, 1 book, and 13 industry publications. Additionally, a total of 13 publications pertaining to the relevant concepts of organizational strategy, value creation, and benefits realization were selected. Overall, the most prominent source for academic publications was the International Journal of Project Management (16 articles) and for industry publications was APM (4 publications).

Data from the primary studies were extracted and recorded in tabular form, listing the details and summary of findings for each study. Subsequently, emerging patterns and linkages between the concepts were identified. The findings are presented in Section 3.

Similar reviews on project governance were previously conducted by two studies. First, Ahola et al. (2014) contrasted project governance literature with general governance literature to define project governance and identify its origins. The authors built upon the underlying principle of citation analysis to develop a strategy of selecting only those publications with the highest citations for analysis. Second, Biesenthal and Wilden (2014) explored the dominant content themes in project governance literature and examined how these themes relate to
corporate governance theories. In the first step of their study, the authors searched the Scopus database for studies containing the term ‘project governance’ in their title, abstract, and/or keywords. In the second step, the authors searched the International Journal of Project Management (IJPM) and Project Management Journal (PMJ) for articles containing the term ‘governance’ in their title, abstract, and/or keywords. Finally, the authors used textual analysis to examine the links between key constructs in project governance.

The present study, as well as the subsequent systematic literature review, distinguishes from the aforementioned studies on two levels. First, the research objectives of this study are distinct and focus on the strategic implications of project governance. Second, the methodology of this study is distinct in that we used a more subjective analysis based on defined guidelines to gauge the quality of individual papers. Since several studies on project governance have emerged only in recent years, we argue that a selection strategy based on highest citations would exclude a substantial and essential section of the literature on recent developments in project governance theory. Also, a subjective analysis is likely to be more effective at identifying high quality studies than a textual analysis. Therefore, this study makes a unique and, hopefully, meaningful contribution to the project governance literature.

3. RESULTS

This section begins with a discussion on the different forms of governance that exist in the realm of projects, so as to distinguish project governance from the various other forms of governance in the literature. Additionally, the three prominent views on governance in the realm of projects are discussed. Subsequently, a discussion on the role of project governance in supporting organizational strategic objectives is discussed.

3.1. Corporate Governance

Projects are essentially temporary organizations (Turner & Müller, 2003) and therefore need to be governed just as permanent organizations do (Müller, 2009). However, projects do not operate independent of the parent organization (or organizations in the case of multi-owned projects (APM, 2007)). Likewise, the governance of portfolios, programs, and projects is not independent from the corporate governance framework (APM, 2011; Müller, 2009; PMI, 2016b). The alignment between corporate governance and project governance is necessary to ensure the alignment of an organization’s projects with its strategic objectives (Hazard & Crawford, 2004). Therefore, the corporate governance/organizational governance framework is also an important component of governance in the realm of projects.

3.2. Governance of Portfolios, Programs, Projects, and Project Management

Within the general governance literature, Too and Weaver (2014) identified two schools of thought. The first postulates that different sub-units within the organization require different forms of governance, such as IT governance, knowledge governance, network governance, public governance, and project governance. The second postulates that governance is a single process with multiple, inter-dependent facets. Adopting the latter view, Too and Weaver (2014) position project governance under one of these facets, titled ‘governing change’.

The literature on project governance itself is divided into two broad streams (Ahola et al., 2014). The first stream considers project governance external to any specific project. It takes the form of unidirectional controls imposed by the organization on individual projects. This view of project governance is heavily influenced by
Agency theory and assumes a principle-agent relationship between the organization and its projects, where the organization seeks to align the project objectives with its strategy. APM’s conceptualization and definition of Governance of Project Management (GoPM) (APM, 2011) falls under this category (Ahola et al., 2014; Müller & Lecoeuvre, 2014). The second stream considers project governance as internal to a specific project. It takes the form of a shared set of coordination, control, and safeguarding mechanisms to be adhered to by all firms taking part in the project. This view is heavily influenced by Transaction Cost Economies (TCE) theory and seeks to align the objectives of multiple firms involved in the project with the overall goal of the project. The existence of the two alternative streams demonstrates the sporadic nature of project governance literature and the lack of a mainstream conceptualization.

There is currently no generally accepted definition of project governance (Bekker & Steyn, 2009; Pitsis et al., 2014; PMI, 2016b; Roe, 2015). One reason is that definitions tend to vary in verbiage and connotations by industry, a good example of which is IT governance (Weill & Ross, 2004), institutions, and even organizations (Bekker & Steyn, 2009). Another possible reason is inconsistencies in how the scope of the term ‘project governance’ is delineated. One of the more commonly used definitions considers project governance as a blanket term for portfolio, program, project, and project management governance (Müller, 2009, p. 4):

“Governance, as it applies to portfolios, programs, projects, and project management, coexists within the corporate governance framework. It comprises the value system, responsibilities, processes and policies that allow projects to achieve organizational objectives and foster implementation that is in the best interest of all stakeholders, internal and external, and the corporation itself.”

On the other hand, the PMI Practice Guide to the Governance of Portfolios, Programs, and Projects distinguishes between, and provides separate definitions for, each of the four levels (PMI, 2016b). These are presented in Table 1. While both approaches to defining project governance have their merits, this study adopts PMI’s definitions as they enable the distinction of project governance from other forms of governance in the project management literature.

<table>
<thead>
<tr>
<th>Governance Form</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Organizational Project Management (OPM) Governance</td>
<td>The framework, functions, and processes that guide organizational project management activities in order to align portfolio, program, and project management practices to meet organizational strategic and operational goals.</td>
</tr>
<tr>
<td>Portfolio Governance</td>
<td>The framework, functions, and processes that guide portfolio management activities in order to optimize investments to meet organizational strategic and operational goals.</td>
</tr>
<tr>
<td>Program Governance</td>
<td>The framework, functions, and processes that guide program management activities in order to deliver business value to meet organizational strategic and operational goals.</td>
</tr>
<tr>
<td>Project Governance</td>
<td>The framework, functions, and processes that guide project management activities in order to create a unique product, service, or result to meet organizational strategic and operational goals.</td>
</tr>
</tbody>
</table>

The review of the literature and industry publications indicates three prominent views of governance in the realm of projects. First, the PMI view of governance is rooted in the PMBOK (PMI, 2013a) and its Organizational
Project Management Maturity Model (OPM3) standard (PMI, 2003). It is further developed in PMI’s Practice Guide for the Governance of Portfolios, Programs, and Projects (PMI, 2016b). Second, the APM view of governance is based on the Directing Change (APM, 2011) and Sponsoring Change (APM, 2009) guidelines, among others. It is also addressed in the APM BOK (APM, 2012). Third, the governance view developed by Müller and colleagues is based on the book Project Governance (Müller, 2009) and subsequent papers that develop the concepts of the book further (Müller et al., 2015; Müller et al., 2016). These three main views are summarized in Figure 1.

**Figure 1: Three Views of Governance in the Realm of Projects**
(Source: developed by the authors)

While there is a lack of consensus in the literature, the three views described above do share some common characteristics including an emphasis on the alignment of project management with organizational strategy, the relationship between corporate governance/organizational governance and project governance, the criticality of the project sponsor role, and the need for governance arrangements to take into account an organization’s contextual factors.

Differences between the views are mainly conceptual in nature. For example, PMI’s view of governance includes an Organizational Project Management (OPM) Governance framework while the others do not. Also, Müller and colleagues emphasize the concept of governmentality, or the way governors present themselves to those they govern, as the link between different layers of governance (Müller et al., 2016). Furthermore, Too and Weaver (2014) conceptualize governance as being multi-faceted and linked together through the core concepts of
the organization’s vision, ethics, and Corporate Social Responsibility (CSR). Additionally, the role of corporate governance/organizational governance varies. PMI’s view of governance considers organizational governance as the source of strategic direction for OPM governance and subsequently portfolio, program, and project governance. The other views consider corporate governance as having a direct role in the other three forms of governance.

Based on the above discussion, it is evident that there is a need to further explore the different views of governance in the realm of projects. The following subsections describe the different levels of governance and their relationship in greater detail.

3.3. Project Governance and Organizational Strategy

Over the past two decades, the definition of project success has been evolving and expanding beyond the realm of the traditional Iron Triangle criteria, which constitutes the triple constraints of time, cost, and quality (Atkinson, 1999; Pellegrinelli et al., 2007; Shenhar & Dvir, 2007). This is due in large part to the shifting emphasis of projects and project management from product creation to value creation (Winter & Smith, 2006). In an organizational context, value can be understood as the functions created by projects that serve to satisfy the explicit and implicit needs of project stakeholders (Zhai et al., 2009). According to Winch (2010), projects contribute to value creation when their outputs (or deliverables) are exploited to achieve social and economic ends. These outputs may be tangible, in the case of construction projects, or intangible, in the case of IT/software projects.

For projects to create value, their outcomes and benefits must be aligned with organizational strategy (Chih & Zwikaël, 2015; Jenner, 2012; Serra & Kunc, 2015; Too & Weaver, 2014). This means that (i) project business cases must be aligned with organizational strategic objectives, and (ii) project outputs must lead to the desired outcomes and benefits stated in the business case (Serra & Kunc, 2015). Here, an outcome is defined as a “desired, measurable end-effect that arises when the outputs from a project are utilized by certain stakeholders” (Zwikael & Smyrk, 2012, p. 11). These outcomes may be desirable or undesirable, expected or unexpected (Serra & Kunc, 2015; Zwikaël & Smyrk, 2015). A benefit is defined as an “outcome of change that is perceived as positive by a stakeholder” (Bradley, 2006, p. 18). Therefore, benefits arise when project outcomes are advantageous to one or more stakeholders, including the project organization itself.

The main implication of the above discussion is that the emphasis of project governance needs to accordingly shift from product creation to value creation, which entails ensuring that project outcomes and benefits are aligned with organizational strategic objectives (PMI, 2016b). While the focus of project governance has traditionally been on delivering projects within time, cost, and quality constraints, it is increasingly being recognized as a critical tool for aligning projects with organizational strategy (Hazard & Crawford, 2004) as well as implementing organizational strategy through projects (PMI, 2016b). For example, project governance ensures that project resources are allocated in a manner that support organizational strategic objectives (Hazard & Crawford, 2004). Additionally, project governance is responsible for directing and monitoring the benefits realization process (KPMG, 2010), and for creating the accountabilities for project benefits realization (Zwikael & Smyrk, 2015). Furthermore, the literature emphasizes the criticality of the project sponsor role for ensuring that project benefits are aligned with organizational strategic objectives (Crawford & Cooke-Davies, 2007; KPMG, 2010; PMI,
Therefore, it is evident that effective project governance is vital for enabling organizational strategy through projects.

4. DISCUSSION AND CONCLUSION

We can now answer the research questions specified in the introduction to this paper. With respect to the first question, the results indicate that project governance is a part of the governance function that concerns the governance of change in the organization (Too & Weaver, 2014). Additionally, this function has an interdependent relationship with the various other functions of governance. Therefore, project governance should not be viewed as a stand-alone process but one that is an integral part of the overall governance system.

While various definitions of project governance exist in the literature, one of the more common definitions uses it as a blanket term for governance at the portfolio, program, project, and project management levels. However, in line with the definitions developed by PMI (2016b) and presented in Table 1, we position project governance as only relevant to the activities at the project level. This is not to say that project governance is independent from the other levels of governance. In fact, all three prominent views of project governance in the literature recommend that project governance should be aligned with governance at the program, portfolio, and project management levels (APM, 2012; Müller et al., 2016; PMI, 2016b). This ensures that project governance is ultimately aligned with organizational strategic objectives.

With respect to the second research question, we found that all three views recommend that governance at all of the aforementioned levels must be aligned with corporate governance, since the latter is responsible for setting organizational strategic objectives (Cadbury, 1992; OECD, 2015; Shleifer & Vishny, 1997). This would ensure that project objectives are aligned with organizational strategic objectives (Hazard & Crawford, 2004; Too & Weaver, 2014). Also, the results indicate the need for project governance to recognize the shifting focus of projects from product creation to value creation (Winter & Smith, 2006). This, in turn, entails a shift in the focus of project governance from the traditional project delivery criteria to the realization of the expected project outcomes and benefits that support organizational strategic objectives. While this may contradict the conventional understanding that benefits realization is more relevant for programs (OGC, 2007), we argue that it is equally important for projects to demonstrate their value to the organization’s bottom-line. For example, consider the case of stand-alone projects that are not part of a program (APM, 2012; PMI, 2016b). It would be inaccurate to suggest that these projects do not contribute to business value or that their expected value contribution does not need to be identified and actively monitored. Hence, in line with the recommendations of Zwikael and Smyrk (2015), we suggest that project governance should create accountabilities and provide oversight for project benefits realization.

However, a known issue with project benefits realization is that project benefits often exceed the project life cycle (Breese, 2012; Thorp, 2001), thus making it difficult to assign benefits accountabilities to project management roles. To overcome this, Zwikael and Smyrk (2012) suggests the addition of an extra stage post project delivery, termed ‘utilization’ by the authors. Additionally, in line with the recommendations of Thorp (2007), we suggest that the role of project governance must expand beyond the project life cycle and adopt a ‘concept to cash’ approach, which begins at project conception and ends when project outcomes and benefits are realized. In doing so, project governance would enable the realization of organizational strategic objectives through projects.
4.1. Limitations and Future Research Directions

The main limitation of the present study is that, for reasons specified in the methodology section, we opted for a subjective analysis of the literature based on established guidelines for analyzing the quality of studies (Kitchenham & Charters, 2007). While this methodology sacrifices the objectivity and, consequently, replicability of a systematic literature review, we argue that a subjective assessment was more appropriate for analyzing the dispersed literature on project governance. A potential direction for future research is on how project governance can be aligned with corporate governance. Also, further research is required on the processes through which project governance supports the realization of organizational strategic objectives through projects. In a similar vein, it would be fruitful to empirically examine the processes through which project governance enables the realization of project outcomes and benefits. This research serves as a scoping study for a subsequent systematic literature review that will expand upon its results and address the future research directions identified.

References


