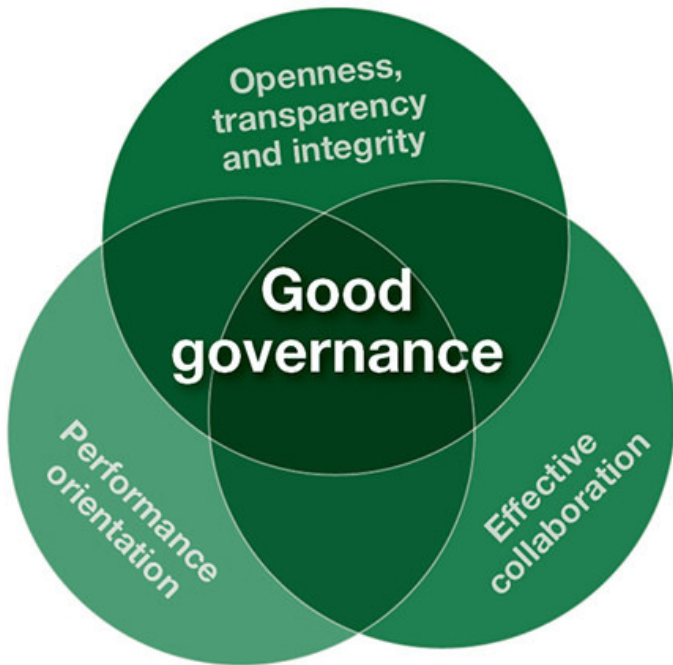# Organisational Governance

Interest in governance stems from the perceived limitations of traditional institutions and conventional structures to impose 'rules' on people, and the need to balance power, authority and concern for stakeholders and the wider good. The concept has been growing in use since the 1980s, but is of course much older. The term *governance* refers to all processes of governing, whether undertaken by government, a market or an board of directors, whether over a family, tribe, formal or informal organization, or territory, and whether through laws, norms, power or language.

Governance is defined as *the action or manner of governing a state or organization*; and the verb to govern is defined as *to conduct the policy, actions, and affairs of a state, organization or people with authority*. The term governance first appeared in Middle English and is derive from the Latin *gubernare* 'to steer, rule' and from Greek *kubernan* 'to steer'.

Governance can therefore be seen as a way of steering, organising, amplifying and constraining both power and actions of the people within the entity being governed. It is the way that the rules, guidelines, norms, practices and actions that underpin an area of activity, are developed, justified, sustained and regulated; thereby creating the conditions for ordered rule and collective action. The governing body sets the objectives and creates the rules, the people being governed (management) work within the rules to achieve the objectives[1].

Corporate and organisational governance, or more accurately the governance of the corporation/organisation, and the sub-set of corporate governance focused on governing portfolio, program and projects, (the Governance of PPP[2]) is attracting a lot of attention world-wide. In general terms, governance focuses on the aspirational and ethical considerations of 'what is to be achieved and why this is important to the organisation'; management focuses on how the objectives set by the governance processes will be achieved, who does the work and when. Unfortunately, far too many authors of articles and papers on project management, portfolio and PMO managers, and project auditors are focused on the wrong aspects of governance[3]:

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[1] For more on the **six functions of governance** see:
https://www.mosaicprojects.com.au/WhitePapers/WP1096_Six_Functions_Governance.pdf

[2] For more on the **governance of PPP** see:
https://www.mosaicprojects.com.au/WhitePapers/WP1073_Project_Governance.pdf

[3] To appreciate the different perspective on governance held by Boards and project/IT managers see:
https://mosaicprojects.wordpress.com/2013/02/10/governance-is-seen-differently-by-directors-and-managers/

- Importantly, the 'Governance of PPP' is not a separate entity; governance is an integrated and holistic process and is the exclusive responsibility of the 'governing body' typically a 'board of directors'[4], but the governing body may be an individual or some other grouping at the pinnacle of the organisation. It is impossible to govern one aspect of the business without affecting other aspects!

- Confusing good governance with good and prudent management is detrimental to both processes[5]. You govern a corporation or an organisation, with the purpose of directing the corporation or organisation's management to accomplish specific objectives, sometimes involving projects or programs. The governing body is responsible for providing strategic direction and oversight to management with well-defined accountabilities and decision-making parameters.

- Developing and strictly adhering to complex procedures is not synonymous with good governance. *"Good governance is about control whilst great governance is about guidance and competitive advantage...... Leading organisations that do governance well, have fewer governance mechanisms and lighter processes because... they have a shared understanding of the business priorities[6]"*.A well governed organisation allows its managers to contribute entrepreneurially to the achievement of its objectives.

- Governance has a moral and ethical dimension:
  - Good governance = achieving the intended objectives (not necessarily achieving 'good' objectives)
  - Ethical governance = achieving 'good' objectives.
  Every organisation is a community of people existing within a network of internal and external relationships. Moral perspectives and values inform each person's character and the organisation's culture is the sum of the characters of past and present employees. This moral and ethical perspective starts with the Board and cascades down through the organisation's hierarchy. It influences decisions such as whether:
  - The board appoints its CEO based primarily on intellect and competence or on values and virtue.
  - The organisations strategy is either built around doing what is permissible or the strategy focuses on doing what's proper.
  - The organisation looks first to profits and pragmatism or puts its purpose and principles first.

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[7]. Cadbury defined the aim of governance as: ***to align as nearly as possible the interests of individuals, organisations and society***. In the long run the interests of the organisation's shareholders or 'owners' and society they live and work within are convergent.

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[4] The Global Network of Director Institutes (GDNI) has been established to promote best practices and advocate on governance issues affecting corporations. Directors overwhelmingly see governance as a Board responsibility. For more on GNDI see: http://www.gndi.org/

[5] For more on differentiating organisational governance from the management of project management see: **Governance & Management Systems**: https://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf   and https://mosaicprojects.com.au/PDF_Papers/P162_The_Management_of_Project_Management_IJPM.pdf

[6] Quote Tina Nunno; Vice President, Gartner commenting on research that shows well governed organisations achieve a 20% higher return on assets.

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

Making the planet a 'better' place serves the interests of the organisation and making the organisation 'better' serves the interest of everyone. 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[8] and is consistent with emerging views of corporate social responsibility within society (CSR) – an organisation's social legitimacy can never be taken for granted, its clients and other stakeholders expect social accountability. Depending on the organisation various aspects of the 'sustainable development cycle' below will have greater or lesser importance in the creation of sustainable organisation with a long-term future.

The two key definitions that effectively established the modern concepts of corporate governance 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[9]. 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."*

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8   See **WP1001 Ethics and Leadership**: https://www.mosaicprojects.com.au/WhitePapers/WP1001_Ethics.pdf

9   **Stewardship** is an important governance concept. It includes:
   - *Fealty*: A propensity to view the assets at ones command as trust for future generations rather than available for selfish exploitation.
   - *Charity*: A willingness to put the interests of others ahead of ones own.
   - *Prudence*: A commitment to safeguard the future even as one takes advantage of the present.
   - *Accountability*: A sense of responsibility for the systemic consequences of ones actions.
   - *Equity*: A desire to see that rewards are distributed fairly, based on contribution rather then power.

Based on these definitions[10], the key elements of good governance can be seen as:

- Setting the right strategic objectives for the organisation;

- Developing and articulating the principles that support the organisation's values and objectives;

- Managing the appointment of key executives and providing advice/mentoring;

- Working with the executives to design and implement the policies needed to implement the principles

- Then working with the managers to ensure the efficient use of the organisation's resources, in accordance with its policies, in pursuit of its objectives[11]. At the highest level, these elements are embedded in the strategic plan for the organisation.

Implicit in all of the above is the need to create an appropriate organisational culture that prioritises ethics and 'right behaviours'. Culture starts at the top of the organisation and cascades down, and importantly 'culture eats strategy for breakfast[12]'. The organisation's culture will always override good strategic intent, therefore the first step in any strategic change is to focus on ensuring the culture of the organisation is aligned with and supports its strategic intent.

Implementing governance

In the same way coaches don't play sport, they choose who gets to play and it's the players selected by the coach who win or lose the game; the governing body does not 'manage' the organisation. The role of the governors is to select the right managers to run the organisation and then let the managers make the operational decision. If the right people have been selected for the management team they will have far better 'playing skills' than the governors.

The skill set needed to govern effectively is based on fulfilling the functions of governance. The governing body needs to know when to lead, when to partner, and when to stay out of the way of the executive! It needs to lead in setting the objectives of the organisation, determining why the organisation exists, whom it serves, and the ethics, culture and policies it will live by. The governing body also leads in the appointment and retention of the CEO and senior executive team. Strategy is the vehicle for achieving the organisation's objectives; therefore the governing body should partner with its executive in developing the organisation's strategy, including management structures and delegations, capital allocation, goals, risk appetite, and resource management. But it should stay out of execution; the governing body's responsibility is ensuring the accountability of its management and the conformance of the organisation.

Developing the right strategy is a shared responsibility between the governing body and management. The governing body needs to work on setting the overall strategy for the organisation, supported by management. This may involve the 'governing body' in:

- One or two 'intensive' working sessions a year (eg, an off site meeting of 2 or 3 days);

- Establishing combined working groups with management focused on strategic issues or key areas of strategic interest;

- Gathering and assessing 'strategic intelligence' from the wider market place and 'the environment'; and

- Encouraging innovation[13].

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10   For more on the **definition of governance** see:
https://mosaicprojects.wordpress.com/2014/04/21/defining-governance-what-the-words-mean/

11   For more on the **functions of management** see:
https://www.mosaicprojects.com.au/WhitePapers/WP1094_Defining_Management.pdf

12   See: https://mosaicprojects.wordpress.com/2011/11/15/culture-eats-strategy-for-breakfast/

13   Organisations that do not innovate fade into irrelevance. But the process of linking innovation to strategy is not simple; strategy implies having a 'plan', innovation implies developing ideas that are not in the plan. For more on this conundrum see: https://mosaicprojects.wordpress.com/2012/10/01/linking-innovation-to-value/

Within this overall framework, more detailed strategic implementation planning is better undertaken by management with the governing body taking responsibility for oversight and approval of the plans and the routine oversight of the strategy and its implementation at its regular 'board meetings'.

Effective governance is implemented by developing effective management structures[14], supported by appropriate rules and procedures; then ensuring accountability at all levels. However, 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.

A governance system focuses on governing things (eg, people and projects) not processes (eg, project management). The governance of people is described as 'governmentatility' – the way governments try to produce the citizen best suited to fulfil those governments' policies. Within organisations this extends into areas such as ethics, motivation, leadership and skills development; and the way the governing body encourages desirable behaviours through a combination of incentives and sanctions.

The art of governing an organisation is ensuring management design systems that offer sufficient checks and balances to ensure accountability without diminishing the ability of managers and elements within the organisation to deliver its objectives.

Corporate Governance

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 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, leading to wise decisions[15].

Good governance is synonymous with good business! The directors need to balance the organisation's short, medium and long-term interests and strike a complex balance between the interests of many competing stakeholder groups that are involved in the organisation's activities or are affected by its activities[16]. 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.

The primary outputs from the governance process are:

- The strategic objectives for the organisation,
- A policy framework that reflects the organisations objectives, culture and values,
- Assurance to a range of mainly external stakeholders (including regulatory authorities and shareholders/owners) that the organisation is operating properly.

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[14] The different **roles of Project Directors, Portfolio and Program managers** is discussed in WP1055: https://www.mosaicprojects.com.au/WhitePapers/WP1055_The_Managers_of_PMs.pdf

[15] For more on **decision making** see: https://www.mosaicprojects.com.au/WhitePapers/WP1053_Decision_Making.pdf

[16] For more on **stakeholder management** see: https://mosaicprojects.com.au/PMKI-TPI-075.php

The objectives and policies are most likely to be effective if they are developed using a principle-based approach that recognises and encourages entrepreneurial responses from all levels of management to deal with changes in circumstances[17].

Robust feedback and oversight mechanisms are also critical for two reasons:

- Firstly the need for accurate information to base the various assurances the Board has to provide its stakeholders upon. To achieve this, the governing body needs to ensure effective oversight systems are in place to provide assurance that the agreed policies and objectives are being implemented and achieved. The systems provide the information needed for governance and assurance; audits ensure the systems are working properly.

- Secondly, the governing body needs to be open to constructive feedback from its management on both the strategic objectives and the policy framework. The management group is an integral part of the organisation and the mechanism for translating the governance objectives into results; they are the people actually dealing with the challenges of implementing the policies to achieve the objectives and should have significant insight to both problems and opportunities for enhancement.

The Governance of PPP[18] fits within the overall governance of the organisation and is therefore the ultimate responsibility of the Board of Directors (or similar).PPP (Project) governance, encompasses both project, program and portfolio governance and the governance of supporting management systems such as PMOs and project control boards (PCBs). It focuses on overseeing the management systems that ensure the right projects and programs are selected by the organisation to achieve its strategic objectives, and that the selected 'few' are accomplished as efficiently as possible[19] within the policy framework. This is a key subset of the overall corporate governance system; in some 'projectized organisations', the projects undertaken for clients represent the primary value stream for the organisation (its 'sales'), and in every organisation, projects and programs are a key element in the overall change process needed to adapt and grow the organisation to achieve its strategic objectives.

Both Standards Australia and the Association for Project Management (UK) advocate the Board using focused questions to achieve alignment. The APM (UK) has published a series of booklets[20]. Standards Australia suggests six key questions[21]:

1. What [strategic] benefits are being targeted?
2. How much [organisational] change is required to realise these benefits?
3. Who has the passion to influence and drive this change?
4. How will success be measured?
5. Is the project culture right [particularly to allow unexpected issues to be identified early, raised and resolved]?

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17 Bodies such as the Australian Institute of Company Directors and governance bodies that oversight corporations have a strong preference for principle-based guidelines that allow Directors to use their skills and knowledge to optimise outcomes. Unfortunately there is a low level of awareness of principle-based governance in management and project management circles and most of the academic and other authorities advocate prescriptive guidelines and rules that focus on project management concerns and largely fail to succeed in achieving corporate strategy (Ref: *Is strategy being implemented through projects? Contrary evidence from a leader in new public management.* IJPM, Vol30, Issue 8, pp887 – 900).

18 For more on **Project Governance** see WP1073:
https://www.mosaicprojects.com.au/WhitePapers/WP1073_Project_Governance.pdf

19 The relationship between the various organizational entities involved in project governance are outlined in **PPP Taxonomy**, see: https://www.mosaicprojects.com.au/WhitePapers/WP1074_PPP_Taxonomy.pdf

20 For more on the APM booklet *'Directing Change'* see:
https://www.mosaicprojects.com.au/PDF-Gen/Directing_Change-v2.pdf

21 *Case Studies – How Boards and Senior Management have Governed ICT Project to Succeed (or Fail).* Standards Association of Australia: HB 280 - 2006.

6. Is the project on track [to realise the expected benefits]?

The APM questions are more comprehensive but are focused on very similar themes.

An important principle in developing governance systems is summed up in the legal doctrine *'delegatus non potest delegare'*… unless expressly authorised a delegate cannot delegate to someone else. Part of the governing board's 'design' responsibility is to ensure appropriate delegations of authority are made to management so they can develop an effective management system that meets the governance needs of the organisation. However, delegation of authority does not remove the ultimate accountability from the Board.

Within the PPP management system, it is essential that there is a clear determination of the projects' roles and responsibilities. Two key facets are accountability and the delegating of responsibility:

- The *accountable person* is the individual who is ultimately answerable for the outcomes of the work (project or program). This includes holding the ultimate 'yes' or 'no' authority and veto power. Only one *accountable person* should be assigned to an action or project and a statement should define to whom the Accountable person is accountable (e.g. a project sponsor is accountable to the Board).

- A *responsible person* is an individual who is responsible for completing the task. The *responsible person* manages the action/implementation. Responsibility can be shared between individuals (but the sharing needs to be made clear that is jointly held). The degree of responsibility should be determined by the individual with the *'accountability'*.

As an example - a project sponsor is accountable (to the board) for the success (benefits realisation) of a project. And that sponsor can delegate responsibility to a project manager to deliver the project. The project manager can further delegate responsibility for delivery of an element of the project deliverables to a supplier project manager via contract. But the sponsor is still accountable for project success.

Both of these roles are important (and not having a clearly accountable executive, supported by responsible managers is a recipe for failure). The role of governance; ie, the role of the Board and executive management, is to ensure that the organisation is structured and operates in a way that ensures capable and willing people are assigned to these key positions. And additionally they understand what aspects of governance responsibility and authority has been delegated to them along with their management responsibilities to actually get the job done properly[22]. There are a number of key roles that support the governance system in ensuring successful project outcomes:

- The Sponsor[23] is the key management link between the executive / strategic levels of the organisation and the managers responsible for the effective delivery of a project or program;

- Depending on the structure of the organisation, it is also quite likely other senior managers will have some responsibilities to assist in the effective governance of the project or program[24], the Sponsor is responsible for leading and coordinating theses inputs;

- The PMO[25] will have key roles in the areas of good practice, assurance and reporting to ensure accurate information is passed up to the Board.

A key role of the governing body is ensuring these systems are designed, effective and working properly[26].

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[22] Many management and executive roles combine governance and management responsibilities. This is discussed in ***'The management of project management: A conceptual framework for project governance'*** available from: https://authors.elsevier.com/sd/article/S026378631300094X

[23] For more on the role of the **Sponsor** see: https://www.mosaicprojects.com.au/WhitePapers/WP1031_Project_Sponsorship.pdf

[24] For more on the **'managers of project managers'** see: https://www.mosaicprojects.com.au/WhitePapers/WP1055_The_Managers_of_PMs.pdf

[25] For more on **PMOs** see WP1034 PMOs: https://www.mosaicprojects.com.au/WhitePapers/WP1034_PMOs.pdf

[26] For more papers, references and booklets on corporate and project governance see: https://mosaicprojects.com.au/PMKI-ORG-005.php

Culture trumps process every time!

Governance is not about outcomes not rules and organisational survival in the 21st century needs a governance system capable of dealing with change, complexity and the emergence of opportunities and challenges at an unprecedented rate, yesterday's 'rules' are more likely to be a liability then a help. In this VUCA[27] environment, self-governance (part of governmentality) is more important than restrictive rules and compliance processes focused on 'ticking boxes'. A strict hierarchy based on blind obedience, abstention, and conformity can create a toxic power structure and disastrous outcomes – power corrupts, absolute power corrupts absolutely! The art of governance is balancing rules and objectives to empower people to be successful and deliver good governance. The foundation for this type of governance is creating a culture focused on doing the right things the right way[28]. Design of the governance system is also a key consideration, creating a network of people with distributed power, decision-making and information flows creates a variety of independent channels of communication and oversight which facilitates localised decision making, internal contestability and cross checking which in a well-designed system increases the reliability of the information flowing back up the organisation for management and governance purposes. Culture is still the key - in this type of distributed environment everyone needs to be focused on the good of the organisation and achieving good governance, not 'petty politics'.

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 above. When the rules start detracting from these objectives, they quickly become obstructions on the path to good governance. The organisation needs to focus workplace policies on the 98 percent of employees who day after day show up on time, do their jobs, work hard, try to do the right thing, and often generate the breakthroughs that advance the company's interests. Focusing on identifying and weeding out the 2% of employees, who are unreliable, can't be trusted, and take joy in spreading their poison among fellow workers is counterproductive.
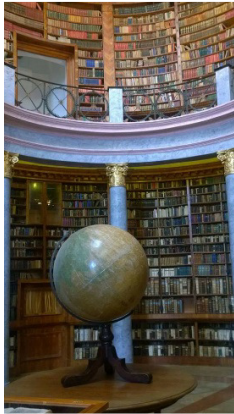
By treating the 98 percent with respect, listening to them, showing them the same loyalty you hope to get in return, you not only create a happier, more productive workplace, you minimize the effect of the 2 percent. The 2 percent can do only so much harm, but the 98 percent can do so much good. Good governance makes it as easy as possible for the 98% to do so by minimizing the control mechanisms that make work dreary.

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

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27   **VUCA** = volatility, uncertainty, complexity and ambiguity a situation.

28   This is the reason ethics and culture are positioned at points 2 and 3 in our *functions of governance* paper: https://www.mosaicprojects.com.au/WhitePapers/WP1096_Six_Functions_Governance.pdf

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