



# Project governance: Balancing control and trust in dealing with risk

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## Abstract

Organizational performance can be enhanced by effective project benefit generation. Although it identifies the project owner as the single point of accountability for the realization of project benefits, the literature does not comprehensively discuss this role in the project governance model, nor the management approaches that can support this role. Based on principal–agent theory and a control–trust–risk approach, we have conducted an empirical study across various managerial contexts. Results suggest that trust of the project owner in the project manager is more effective in a turbulent environment, whereas more control by the project owner of the project management process is a superior management approach in a more stable project setting. Finally, a project governance model is introduced and the management role of the project owner is discussed.

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## 1. Introduction

Successful projects enhance productivity and organizational value (Lee et al., 2011; Shenhar and Dvir, 2007). One of the major determinants of their success is an effective project governance structure (Lechler and Dvir, 2010). Project governance seeks to create the conditions for ordered rule and collective action (Stoker, 1998) by providing a formal representation of the organizational arrangements that surround a particular project. Given the temporary nature of projects (Malach-Pines et al., 2009; Bakker et al., 2013), each one requires a unique governance structure which, while distinct from the relatively stable standing structures of the participating organizations, must nevertheless, co-exist with them. The assignment of accountabilities to certain entities in the project governance model is

important (Too and Weaver, 2013), because it helps bridge the gap between the expectations of a role and the way that role is filled (Forbes and Milliken, 1999) by attaching sanctions and rewards to levels of performance (Zwikael and Smyrk, 2011). Existing literature accepts project managers as accountable for delivering outputs efficiently — to specification, on time and within budget (Lewis et al., 2002). Such a view is consistent with the assumption that projects are undertaken to deliver outputs (deliverables which take the form of artifacts, such as a bridge, or an information system).

However, literature also challenges existing project governance models, suggesting they are dated, incomplete, and of questionable value (Lechler and Cohen, 2009; Zwikael and Smyrk, 2012). In particular, a major criticism is that such models are not reflective of recent developments in the project management literature, especially those that view projects as exercises aimed at realizing benefits desired by the funding organization (Scott-Young and Samson, 2009). ‘Benefits’, defined as ‘flows of value that arise from a project’ (Zwikael and Smyrk, 2012), for example ‘increased market share’ or

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‘reduced operating costs’. While the importance of project benefits is well accepted (Shenhar and Dvir, 2007), accountability for their realization appears to be treated ambiguously in the literature (Remenyi et al., 1997). As a result, this paper aims at understanding the impact of management accountability approaches for benefit realization on project performance and their implications for project governance. The research questions this paper attempts to answer are: (1) ‘does assignment of benefit realization accountability improve project performance?’, (2) ‘to whom might such an accountability be assigned?’, and (3) ‘what are the most effective management approaches to support this role?’. The paper includes the development of a theoretical framework, discussion of a quantitative study aimed at its validation, and introduction of a generic project governance model.

## 2. Related theories and hypotheses development

This section reviews the governance literature and principal–agent theory as a foundation on which to discuss the assignment of an accountability for benefit realization. It then applies the control–trust–risk approach to establish appropriate management approaches for this role, and develops a series of research hypotheses.

### 2.1. Project governance

Recent international financial scandals and the collapse of high profile corporations, such as Enron and World-Com have brought into prominence the role of governance—particularly as it relates to corporate performance (Bozec et al., 2010). Nigro et al. (2012) stressed the importance of designing governance models to deal with the issues of inter-firm relationships, following concepts of Transaction Cost Economics. In general, governance provides a framework for ethical decision making and managerial action within an organization that is based on transparency, accountability, and defined roles. Corporate governance concerns the manner in which corporations are regulated and managed (du Plessis et al., 2005), and deals with the need to balance achievement of the organization’s goals with those of its stakeholders, including society in general and shareholders in particular. A governance structure seeks to reduce conflicts among different groups of stakeholders that might otherwise impact negatively on performance, and provides a framework through which the objectives of the organization are set (OECD, 2004).

For similar reasons, projects—unique processes (Marle et al., 2013) intended to realize target benefits (Zwikael and Smyrk, 2012)—also require their own governance models. Whereas organizational structures are typically functionally-oriented, members of the teams involved in projects are usually drawn from across functional and organizational boundaries (Sundstrom et al., 1990), and so standing organizational governance structures are rarely suited to projects—each of which requires a separate arrangement.

The literature has no commonly understood and agreed upon definition for project governance (Bekker, 2014). Renz (2007), p. 356 defines project governance as “a process-oriented system

by which projects are strategically directed, integratively managed, and holistically controlled, in an entrepreneurial and ethically reflected way”. The Project Management Body of Knowledge (PMBOK®) defines project governance as “the alignment of project objectives with the strategy of the larger organization” (PMI, 2013, p.553).

Moreover, the literature does not agree on the structure of a robust project governance model (Zwikael and Smyrk, 2011), only that it should be based around four key principles (Garland, 2009): (1) identify a single point of accountability, (2) ensure a service delivery focus, (3) separate the project and the organization governance structures, and (4) separate stakeholder management and project decision making. Similarly, Turner (2009) suggested three steps for project governance: (1) define the objectives, (2) define the means to achieve the objectives, and (3) define the means of monitoring the progress. PRINCE2 (OGC, 2009, p. 306) argues project governance should “ensure that an organization’s project portfolio is aligned to the organization’s objectives, is delivered efficiently; and is sustainable.” Müller (2009) suggests governance models should help fostering projects to be successful, prioritize projects for best use of resources, identify projects in trouble, and rescue, suspension, or termination of these projects as appropriate.

Consequently, literature also suggests various project governance models. Ruuska, Ahola, Arto, Locatelli and Mancini (2011: 650) identified three main categories of project governance models based on the variety and level of stakeholder involvement: a single firm’s governance scheme with its multiple projects, multi-firm projects where various companies engage in contractual agreements, and projects as hybrid or network like structures involving multiple interconnected actors relying on the presence of one supreme hierarchical authority. Morris and Geraldi (2011: 20–23) argued that the management of projects could be viewed at three functional levels: technical, strategic, and institutional. Bekker (2014) combined the two models described above into three ‘schools of thoughts’ – single firm, multi-firm, and large capital. Finally, based on transaction cost economics, Winch (2001) proposed to extend the narrow focus on transactions with the project client.

However, project governance models have lagged behind developments in the project management literature. Recent literature accepts that projects have specific benefits to achieve (Shenhar and Dvir, 2007) and that the delivery of outputs is a (necessary but insufficient) precondition to the realization of those benefits (Zwikael and Smyrk, 2012). Despite this fundamental shift in the focus of the literature, little has been revealed about the implications of benefit realization for project governance (Remenyi et al., 1997). In particular, while the literature tends to be very prescriptive about outputs-related roles in projects (Pryke, 2005), discussion about project benefits ignores the concept of accountability for their realization (Muller and Turner, 2005). Even where the emergence of new roles related to benefit management has been recognized (e.g. OGC, 2009), the need to formalize them with supporting accountabilities has been disregarded. Hence, this paper seeks to determine not only whether models of project governance should be augmented with a supporting accountability for

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