GOVERNANCE IN THE BOARDROOM:
HOW PROJECT MANAGEMENT CAN DELIVER ORGANISATIONAL STRATEGY

1. ABSTRACT

This paper considers the role of Project Management and Governance in the formulation and implementation of organisational and business strategy. It contends that many organisations fail to realise the desired benefits from its organisational strategy because they do not actively deploy the principles of project management in either the formulation or execution of their business strategies. Further, the paper contends that many organisations fail to deliver their strategies within an appropriate governance framework.

The author suggests that project management is a key mitigator of organisational risk and therefore a key element of governance. The paper concludes with some integrated models for strategy formulation and strategy execution that enhance performance, improve alignment of corporate activities with the organisational strategy, whilst concurrently enhancing shareholder benefits through effective implementation.

2. INTRODUCTION

Many successful organisations formulate their strategies using the principles of wave planning, often taking a three horizon approach to their business. This requires vision, design, information gathering and implementation, which occurs through a portfolio of strategic initiatives. These initiatives are scoped into themes, programs and projects, properly funded and resourced so that the timeframe within which the organisation will realise the desired benefits can be significantly reduced. The strategic framework provides a clearly defined implementation plan and outcomes for the first year, with progressively more uncertain projects and outcomes for the following years. It is ultimately the responsibility of the Board to ensure that strategy is delivered through a sound system of internal control to create value and safeguard shareholders’ investment.

Corporate governance is the mechanism for ensuring those internal controls. It involves a complex 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. Various global bodies have enunciated good corporate governance principles, one of which is invariably risk management.

A company’s objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it.

The requirement for governance therefore increases as complexity increases, and as companies operate in open and emergent environments, where they are increasingly undertaking projects of growing complexity.
This is achieved through standardization of processes which support emergence, drive alignment and performance whilst maintaining governance and probity.

Project management plays a critical role as a key enabler of organisational strategy. Organisations are large scale complex systems that need to comprise a multitude of independent systems, working together to deliver business outcomes. The paper will discuss the emerging system-of-systems concept to describe the large-scale integration of many independent, self-contained systems in order to satisfy a global business need. Further, it will demonstrate that the deployment of project management principles and methodologies within and across an organisation is a major mitigator of risk, and therefore a significant facilitator of good corporate governance. It will conclude with an integrated model of project management, corporate governance and organisational strategy.

3. **Why Focus on Strategy, Governance and Project Management: The Proposition**

Type in the phrase 'strategy, governance and project management' in any search engine covering the web, academic literature and business information sources and very few hits will be returned. There is very limited information on the combined topic.

Strategy literature deals heavily with models, tools and techniques for formulating organisational strategy – determining what business the organisation wishes to be in.

Governance literature mostly discusses the topic from the Board perspective, outlining roles and responsibilities of boards, policy frameworks, ethical and responsible decision making. The focus is usually on financial responsibility and value creation, governance charters and structures.

Project management literature focuses predominantly on the functions of managing projects and project lifecycles and only relatively recently are we seeing any detailed, practical information on program and portfolio management.

These are three very important topics which individually receive a lot of attention. Collectively, however, they do not appear to rate prominently in the literature. This is surprising because without a properly executed and governed business strategy, an organisation will simply not deliver the desired benefits for its shareholders. So the fundamental proposition is this:

*That the desired benefits of organisational strategy will be achieved faster and more efficiently when strategic objectives are implemented using a project management approach, and that effective governance is enabled by an organisational approach to project management.*

Whilst the concept proposed in this paper appears to be quite simple, indeed many would argue it to be common sense, there is not much information written about it.

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1 In this paper, the term ‘organisation’ is used interchangeably with company, corporation, firm etc to denote an entity, regardless of how it is constituted.

2 In this paper, the term ‘shareholder’ refers collectively to owners of businesses, shareholders who are investors in businesses and stakeholders in not for profit organisations.
Nor are there many discussions being had at executive levels regarding the role of project management and governance in the formulation and implementation of organisational and business strategy.

In order to validate the proposition, this paper will highlight the key elements, current deployment and limitations of strategy formulation, strategy execution and governance in Part I. Part II will develop some models of an integrated approach to strategy formulation and execution using project management and governance as critical enablers.

PART I

4. STRATEGY FORMULATION

The word “strategy” derives from the Greek word stratçgos; which derives from two words: "stratos" – meaning army; and "agos" – which is the ancient Greek for leading. It can more recently be traced to 1610 as “strategos”, the art of a general.

There are endless definitions of strategy, but essentially strategy is about:

- where you are now;
- where do you want to go, and
- how to get there.

Having a strategy is critical to every organisation, regardless of whether it is a private company, a publicly listed company, government entity or a not-for profit organisation. The formulation of a sound strategy facilitates a number of actions without which the achievement of desired results would be otherwise difficult. A strategic plan, when communicated properly, provides employees with a clear vision of the purposes and objectives of the organisation.

The formulation of strategy forces organisations to examine the prospect of change in the foreseeable future and to prepare for change rather than to wait passively until market forces compel it, allowing the organisation to plan its budgeting. Companies have limited funds to invest and must allocate capital funds where they will be most effective and derive the highest returns on their investments.

Without a clear strategic plan decision makers have no direction as to where to focus effort other than the maintenance of the status quo. The organisation becomes purely reactive to external pressures and less effective at dealing with change. In highly competitive markets, a company without a coherent strategy is likely to be out- manoeuvred by its rivals and face declining market share.

Traditionally, the formulation of strategy has been seen as having six important steps:

1. The organisation must first choose the business or businesses in which it wishes to engage — the strategic intent.
2. The company should then articulate a "mission statement" consistent with its business definition.
3. The company must develop strategic objectives or goals and set performance objectives.
4. The company creates a specific business or competitive strategy that will meet its corporate goals (e.g., pursuing a market niche strategy, being a low-cost, high-volume producer, growth strategy etc).

5. The company then implements the business strategy by taking specific actions (e.g., lowering prices, forging partnerships, entering new distribution channels etc).

6. Finally, the company needs to review its strategy's effectiveness, measure its own performance, and possibly change its strategy by modifying some or all of the above steps.

Whilst strategy is a comprehensive concept, it is often applied to different levels of organisations, functional activities or geographic regions. Most commonly, an organisation will resolve its strategy into three levels:

- Corporate strategy;
- Business unit strategy; and
- Functional level strategy.

There are numerous models which assist in the formulation of corporate strategy, including:

**Figure 1: Strategy Models**

- BCG Matrix
- GE/McKinsey Matrix
- Porter's Five Forces
- Ansoff Matrix

**Systems Thinking**

More recently, management study has come to view organizations from a new perspective: a systems perspective. Very simply, a system is a collection of parts integrated to accomplish an overall goal, therefore an organization is a system of people. Systems have inputs, processes, outputs and outcomes, with ongoing feedback among these various parts. If one part of the system is removed, the nature of the system is changed.

Systems range from very simple to very complex. Complex systems, such as social systems, are comprised of numerous subsystems. These subsystems are arranged in hierarchies, and integrated to accomplish the overall goal of the system. Each subsystem has its own boundaries of sorts, and includes various inputs, processes, outputs and outcomes geared to accomplish an overall goal for the subsystem.

Systems theory has brought a new perspective for managers to interpret patterns and events in their organizations. In the past, managers typically took one part and focused on that. Then they moved all attention to another part. The problem was that an organization could have departments that operate well by themselves but don't integrate well together. Consequently, the organization suffers as a whole. More managers are now recognizing the various parts of the organization, and, in particular, the interrelationships and interdependencies of the parts.
Simplistically, systems thinking is a way of helping a person to view the world, including its organizations, from a broad perspective that includes structures, patterns and events, rather than just the events themselves. This broad view helps one to identify the real causes of issues and know where to work to address them.

In many organisations, strategy formulation and strategic planning is an event: it happens once per year, often during a weekend retreat or intensive period of effort, where the output is a vision or mission statement, or even a one-page glossy brochure outlining the company strategy. And because it is viewed as an event, there is often not a great deal of planning or rigorous process attached to strategy formulation.

Strategy formulation is often convoluted, with the initial direction sometimes coming from the Board, sometimes from the Executive, and sometimes from the operating Business Units.

Strategy formulation is often confused with business planning and budget setting. In most companies, there are usually guidelines, templates and traditional practices which determine at what point in the year the strategic planning activities occur and how they should be undertaken. It becomes a routine, and is often viewed as an interruption to business as usual.

However, decisions as to which markets to serve, what competitive strategies to follow and what investments to make are too important to be approached in such a relaxed manner (Grunig & Kuhn, 2002).

**Complexity**

In practice, strategy formulation is dynamic and complex.

All strategic decisions have the following characteristics:

- They deal with complex interrelationships often with competing interests
- They occur at irregular intervals;
- They are always unique in their scope, in their questions and in the framework of preconditions to be met;
- They have a long term influence on the fate of the company; and
- The solution is unknown until the outcome is agreed.
This description of strategic decision-making highlights features which are typically used to characterise projects.

According to the College of Complex Project Managers (CCPM, 2008), complex projects have the following characteristics. They:

- are usually adaptive system of systems;
- have high uncertainty in scope definition;
- are distributed;
- have ongoing environmental and internal turbulence;
- are implemented through wave planning; and
- are unable to be decomposed to elements with clearly defined boundaries.

Complex Project Management (CPM) is defined as the lifecycle delivery of emergent strategic outcomes through projects. CPM not only delivers organisations the capability to project manage highly complex projects in pluralist environments, but just as importantly, it delivers a strategic capability to organisations and governments in the management of their ongoing businesses and in the delivery of complex policies.

The Complex Project Manager Competency Standards lay the foundation for project management to effectively deal with complex projects, and in doing so, to add real value to our world. They recognise that complex projects require additional competences to those required for traditional projects. In particular, these Standards provide a framework that can be used not only to develop the full potential of emerging project managers, but also to provide a higher level of competence to which existing project managers can aspire.

**Wave Planning**

Wave planning (Dombkins, 2007) is a methodology for planning complex projects, and has four key elements:

- Vision;
- Design;
- Gathering information; and
- Implementation.

The principles of wave planning are equally applicable to strategy formulation at the enterprise level. A challenge facing many directors and executives is how to maintain a focus on current activities whilst actively thinking about the future. This can result from the lack of a coherent way to discuss current issues, emerging opportunities and future options.

One approach to planning that addresses this challenge is called the “three horizons” of growth (see Figure 4 below). It provides a framework to think about growth in a way that balances the competing demands of focusing on the present whilst investing for the future. The time horizons are measured over a period of years and each includes different sets of strategies to address the development needs of the organisation.
Strategy formulation is a complex project to be undertaken. In complex environments, problems for management stem from the assumption that the outcomes, envisaged at the inception of the project, can be sufficiently determined early in the project and then delivered as planned (Remington, 2008). In strategy formulation, the solution is rarely clear, definitive or static.

Approaching strategy formulation as a project in its own right is an obvious step to take. Treating the strategy formulation process as a project ensures that the activities are scoped, time-bound, properly resourced, with effective stakeholder management, communication and knowledge management to deliver a robust and sustainable outcome for the organisation. Double loop learning is an important element of strategy formulation as it allows for the revisiting of the assumptions that the initial decisions were made upon and consideration of changes in the environment.

The deliverables of the Strategy Formulation phase can vary from a Vision Statement, Mission Statement, and possibly some strategic objectives, but at the very least there should be a clear understanding of the organisation’s strategic intent.

5. **Strategy Execution**

In many organisations, strategy execution is often deployed using a traditional and simple approach. The Board outlines its strategic intent to the CEO and/or Executive. This is then passed on to the Business Units, Geographic Regions and Functional Departments who translate the strategy from their perspective and often develop a budget which concentrates on business as usual, possibly some extra for some new ‘strategic’ initiatives, as depicted in Figure 5 adjacent.

The textbook presentations of the strategy process all point out the critical need to match or fit the strategy with the structure, culture, processes and controls. What typically follows is a wide ranging and complex discussion of various concepts, research findings, tools, and guidance for the various aspects of execution. The need for an overall framework to clarify the connections between the strategy and choices about execution has been recognized and addressed by Kaplan and Norton (2000) with their strategy maps and by Hrebiniak (2005) with his model of the strategy execution process. Within both of these frameworks, the essential connections between strategy and execution are provided by two steps:

- recognising the demands the strategy will place on the organisation; and
- setting short term objectives.
Recognition provides a status and readiness report on the ability of the organisation
to execute the strategy. Setting short term objectives crystallizes clear goals for the
organisation to move toward achieving strategic objectives, effecting the desired
change and business outcomes, and strengthening organisational capabilities
(Harper, 2007).

Any strategies that a corporate Board agrees to will result in a many-faceted high-
level plan covering a range of factors. Yet the reality is that many organisations pay
more attention to strategy formulation than strategy execution. The execution of
strategy should be calculated and intentionally implemented. Strategy execution
should not be left to chance; good execution, like good strategy, is fact based and
results driven. As Michael Porter stated, “A poor strategy executed well is always
better than a great strategy executed poorly” (Porter, 1996).

Nevertheless, the vast majority of organisations simply do not execute their
strategies effectively. Some of the statistics are illuminating:

- Fortune Magazine - less than 10% of business strategies are effectively
delivered
- Australian Institute of Company Directors – 70% CEO’s who fail, do so not
  because of wrong strategy, but because of poor execution
- Ernst & Young - 70% of capital expenditure spent on initiatives not aligned
  with organisational strategy
- McKinsey – 28% of CEOs say that their company produces a strategic plan
  that reflects the company’s goals and challenges, but is not effective.
- PriceWaterhouseCoopers – Only 2.5% of companies have 100% of strategic
  projects on time, within budget, to scope and delivering the right benefits

So what progress has been made to make strategy execution more effective?

In 1992, Kaplan & Norton introduced the Balanced Scorecard as a performance
measurement system. They introduced the concept of the Strategy Map as a
general framework for translating a strategy into objectives that are linked across the
four Balanced Scorecard perspectives: financial, customer, internal process and
learning & growth. The framework aligned processes, people, technology and
culture to the customer value proposition and shareholder objectives.

In their subsequent books “Alignment” (2006) and the most recent “The Execution
Premium” (2008), Kaplan and Norton expanded the principle of aligning the
organisation to the strategy, and linking strategy to operations.
There is also a developing body of knowledge around project portfolio management – often a misused term, but which essentially is about a set of business practices that brings the world of projects into tight integration with business operations (Levine, 2005). If properly implemented, it has the potential to align projects with strategies, resources and executive oversight of the enterprise and provides the structure and processes for project portfolio governance.

Learned colleagues, Crawford, Hobbs & Turner (2006) noted that the need to align project delivery capability with corporate strategy is well recognised, and that organisations are increasingly realising that corporate strategy is delivered through projects, and so project management capability is key to their ability to deliver their strategic intent. Thiry (2007) states that all too often, corporate strategy is too high-level and fairly abstract, leaving line, project and program managers in the dark. Dragan et al (2006) highlight the misalignment between the myriad of projects underway in any organisation at any time and its organisational strategy.

Such thought leadership is ground breaking on the topic of strategy execution, an area where this is not a great deal of practical literature. Nor apparently is there much documented evidence of combining these concepts in practice.

It is the proposition of this author based on many years of practical experience that the desired benefits of organisational strategy will be achieved faster and more efficiently when strategic objectives are implemented using a project management approach. So how does this occur?

The Strategy Execution Framework (see Figure 7 below) is a model that has been developed by this author to take a holistic approach to assisting organisations to achieve their strategic and business objectives.

It combines the business disciplines of project management, governance and business transformation, and uses a consistent strategy formulation and execution process that is appropriate to the particular organisation. It relies on project teams with a range of competencies that go beyond traditional project management, including business strategy, portfolio management, investment analysis, portfolio risk and governance, program management, change management, knowledge management, business process reengineering and organisational design.

The Strategy Execution Framework applies at many levels – enterprise wide, Business Unit, Functional Department – because the principles of project management make it scalable and equally applicable.

Figure 7: Strategy Execution Framework
The Strategy Execution Framework above demonstrates that the strategic intent, which has been developed in the Strategy Formulation phase, is then translated in the Strategic Portfolio Definition phase. In this phase, a portfolio of strategic initiatives is identified, business justified, scoped into themes, programs and projects, prioritised and appropriately resourced. This definition and prioritisation of the strategic portfolio is the critical link between strategy formulation and strategy execution.

System of Systems

A system of systems (SoS) is defined as ‘a set or arrangement of systems that results when independent and useful systems are integrated into a larger system that delivers unique capabilities’ (Department of Defense, 2007). In practice, a SoS is dependent on the performance of the individual systems as well as their combined, end-to-end behaviour.

An organisation executing its strategy is in practice a system of systems. The focus of the organisation is on the evolution of some agreed capability over an agreed period of time. The majority of focus initially is in working to enhance the way that the current systems work together, anticipating internal and external change, and eventually adding new capability or functionality through new systems or changes to existing systems.

Today’s successful businesses are those that take a portfolio approach to strategy implementation and genuinely understand the critical role that project management plays across and throughout their organisations. It is this explicit Strategic Portfolio Definition phase that is usually missed in most organisations.

The principles of project management form one strand of an organisation’s DNA – it should be the strand through which all strategy is formulated and strategic objectives and initiatives are delivered. The other DNA strand is governance.

6. Governance

The etymology of ‘governance’ comes from the Latin word guberbare and gubernator, which refer to the steering of a ship and to the steerer of a ship. This is the origin of the word governor. The word ‘governance’ comes from the old French word ‘gouvernance’, and means control and the state of being governed. According to the Oxford English Dictionary, it also means good order. Thus we have from the etymology of the word a useful metaphor – the idea of steering or captaining a ship. We have references to control and also to good order, which is more than simply being on course: it is also about being shipshape and in good condition (Farrar, 2005).

Traditional View of Governance

The notion of corporate accountability has existed ever since there have been businesses trading. It grew in prominence through Berle & Means and their hypothesis of the separation of ownership and control. Adolph Berle Jr and Gardiner Means published their classic work The Modern Corporation and Private Property in 1932. Their central thesis was that as publicly listed corporations grew, their shareholdings tended to become dispersed, so that there was a separation of ownership and control. As management power increased, the question became one of devising effective safeguards or countervailing power.
'Corporate governance', however, is a concept that although has been in circulation for some time, the term was probably used for the first time in 1962, by Richard Eells of Columbia Business School in his book *The Government of Corporations*. It has now become a much used term, but it is still quite ambiguous. In its narrowest and most usual sense, it refers to control of corporations and to systems of accountability by those in control. It refers to the companies legislation but it also transcends the law because we are looking at accountability, not only in terms of legal restraints, but also in terms of systems of self-regulation and the norms of so-called ‘best practice’.

Governance is generally charged with translating the organisation’s shareholders/owners/not-for-profit stakeholders’ expectations and requirements into performance by the organisation, and ensuring trusteeship for the capital and other resources provided.

At the centre of the organisation’s governance system is the Board of Directors. It is a widely held view that the Board is exclusively responsible for the governance of the company, which can be defined as the accomplishment, manner or system of directing and controlling the affairs, policies, functions and actions of an organisation. It focuses on giving leadership, directing the organisation’s affairs and overseeing what is being done. Governance is the system or processes by which a company is directed and controlled in order to protect shareholder interests. The governance process needs to drive the realisation of the organisation’s or system’s vision in an environment that is complex and emergent.

The practice of good governance is therefore an essential concern for all boards of directors and practices have been prescribed by most regulators around the world. For example, the London Stock Exchange requires that companies must provide an annual statement of compliance with the Combined Code, which states that the Chairman of the Board is pivotal in creating the conditions for overall board and individual director effectiveness, both inside and outside the boardroom. Although it is of particular relevance to directors of listed companies, it has also become a matter of increasing relevance and interest to all boards and entities in recent years with the increase in the access to capital, the globalization of business markets and the strategic need to diversify corporate activities.

In summary, traditional governance is often the purview of the Board with a relationship to the CEO. Corporate governance tends to focus on financial performance and legal compliance, and its true role within the organisation is not generally visible to the majority of staff.

**Governance in Practice**

In most organisations, governance in practice operates at three levels:

- Board;
- Corporate; and
- Project.

Contrary to the traditional Board approach, the governance function in practice in many organisations is very widespread (Matheson, 2006). It includes:

- Establishing board policies that define and reflect the board principles, rules and values.
- Appointing the chief executive, ensuring competence and capability and overseeing his management of the organisation.
Establishing the mission, setting the direction, vision, strategic goals and overall strategy for the organisation and monitoring performance and achievement against them. Governance is responsible for the strategic positioning so is concerned with the longer term view and the development of resources.

Ensuring clearly defined division of powers and responsibility between the board and CEO.

Approving CEO short term operational strategies, annual plan and performance objectives aimed at achieving the board’s strategic goals.

Ensuring the annual plan provides the financial and human resources necessary for its achievement.

Monitoring and ensuring organisational and CEO performance in respect of overall strategy, strategic goals, current financial and operational strategies and plans and performance objectives.

Compliance.

Understanding risks to the organisation or its performance and ensuring actions are taken and plans in place.

Relationships, image and communications.

Most organisational charts ignore governance and peak with the chief executive position. However, in practice, governance exists all the way through an organisation, right down to individual project level. The issue, therefore, is that there is usually very little consistency in the way that corporate governance and project governance is deployed, nor is there usually explicit alignment between the governance framework and the organisational strategy.

Risk Management

All companies face risk. In fact, the modern company developed as a method of spreading the risk of business failure. Most boards tend to assess financial risk as the highest priority for the enterprise and the Board’s survival (Garratt, 2003). Risk management a critical element area of governance because:

- Directors and management are operating in an increasingly complex legal environment;
- Failure to attend to risk can lead to extensive corporate and personal liability, financial failure and criminal sanctions;
- Defending the consequences of unmanaged risks is costly; and
- Many organisations deliver their business through a combination of projects and operations.

Risk is essential to an enterprise. If we had full knowledge of the future there would be no risk. But we live in a gloriously imperfect world that allows for great rewards, major disasters and harsh punishments (McSweeney, 1999).

The choices open to management and the Board are broadly to:

- Accept the risk.
- Institute adequate control systems and compliance programs to guard against the risk.
- Terminate the conduct in question.
- Transfer the risk to another.
As traditionally the responsibility for governance rests with the board, responsibility for operational risk management rests with the CEO. The two are not always aligned and are not always deployed consistently through the business, as highlighted in Figure 6 below.

Figure 8: Traditional Governance and Risk Framework

**International Practice**

There is a direct linkage between organisational strategy, projects and governance.

In recent years, a number of international peak bodies have shifted the focus away from pure financial and compliance risk and governance and opened the door to encourage operational and execution activities to be more closely monitored. A fundamental reason why corporate governance has recently moved into the worldwide economic and political agenda has been the rapid growth in international capital markets. Organisations wishing to attract investors need to convince them that reliable governance structures are in place within their organisations, that risk is appropriately identified, managed and mitigated, and that the organisation has robust systems and processes in place.

In 1996 the OECD commissioned a study to review and analyse international governance issues and suggest an agenda and priorities for further OECD initiatives. This led to the setting up of the setting up of the Business Sector Advisory Group on Corporate Governance, which produced a report, *Improving Competitiveness and Access to Capital in Global Markets*. The following were identified as key areas of common understanding:

- Corporate governance practices constantly evolve to meet changing conditions.
- There is no single governance model. Nor is there a static, final structure in corporate governance that every country or corporation should emulate. Experimentation and variety should be expected and encouraged.
- Corporate governance practices vary and will continue to vary across nations and cultures, as a function of ownership structures, business circumstances, competitive conditions, corporate life cycles and other factors.

The Cadbury Report (1999) recommended that directors make statements in the company’s annual report and accounts on the ‘effectiveness of their internal systems of control’ as a way of assessing risk for shareholders. It was assumed that this was already high on the list of most Board agendas.
In the experience of the author, most Boards focus on financial and compliance risk, and they often take unnecessary risks because they do not have sufficient reporting systems or are making decisions in ways which are not aligned to its governance and risk management and framework. The focus has shifted significantly since the beginning of the millennium.

In 2004 the OECD defined governance as "...involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. It 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."

Similarly, the Australian Stock Exchange (ASX) in its 2007 Corporate Governance Principles defined corporate governance as "the framework of rules, relationships, systems and processes within which authority is exercised and controlled in corporations... It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized."

Corporate collapses had been manifesting themselves in financial failure. However the regulators recognised that most financial failures were the culmination of systemic failures – failure to recognise and manage risk, failure to ensure the organisation had robust and continuously improved systems and processes in place, and failure to effectively align the day to day operations of the company with the agreed strategic direction.

In Australia, Principle 7 of the ASX guidelines explicitly addressed 'Recognise and manage risk', which covers the following:

- Risk management is the culture, processes and structures of an organisation.
- Companies should have policies for oversight and management of business risks (not only financial).
- Management is required to implement risk management and internal control systems.
- CEO is required to disclose material risks and provide improvement assurance.

It is undeniable that the management of projects is an effective method to control risk.

There is a strong argument to be made that organisational risk can be most effectively managed through organisational processes, and it is the opinion of this author that the most effective practice is project management. Governance is achieved through standardization of processes which support emergence, drive alignment and performance whilst maintaining governance and probity.

Adopting a corporate-wide approach to project management ensures consistency of delivery and in fact raises the general standard of project delivery, enabling an organisation’s business opportunities to be embraced more profitably with reduced risk.

In most organisations, a project management methodology is often just a suite of tools, techniques, templates and practices, not necessarily embedded into the fabric of the organisation. This methodology applies only to projects which have been approved.
A project management enabled organisational strategy forms the basis for a major organisational and cultural change to take place, thus transforming the organisation into a ‘project focussed organisation’.

In order to be most effective, project management principles and practices must apply to all aspects of the life cycle of strategic initiatives, from the idea stage, through to scoping, investment analysis, as well as to non-traditional projects such as submissions and proposals.

One major outcome of a project management enabled strategy sees the organisation doing ‘the right projects – right’. It ensures that the individual project managers and their teams are developed, their corporate support systems are enhanced, thus enabling the organisation to undertake the required projects and programs that are aligned to the strategic direction determined by the organisation’s Board in order to provide ‘strategic sustainability’.

Another major outcome is that the organisation inevitably delivers better commercial returns because it is undertaking the right projects and delivering them more effectively. In addition, organisations who fail to reach their targets because of poor strategy execution or poor project selection significantly benefit from this approach. The confidence level of clients and customers also increases as a result of consistency of delivery and improved stakeholder management.

In-house access to enhanced project management increases the probability of success and enables better management of risks, thereby expanding opportunities to better manage profitable projects and program of work as and when the opportunities arise. In addition, a rigorous project management approach assists an organisation to grow. As organic growth becomes harder, the cost of capital becomes more expensive, and lenders (investors and stockholders) require demonstration that organisations can be more effective in its use of that investment; and must also show that it can retain its talent and staff.

Ultimately, this approach sees the organisation introduce consistently aligned, effective and practical governance at tactical and operational levels of the organisation. It therefore becomes as major asset to demonstrate to the regulators and shareholders that the organisation has robust processes and good governance.

Whilst it has not been made explicit in the Principles of Corporate Governance, discussions with the Australian Stock Exchange and the Australian Institute of Company Directors have been productive in highlighting that the project management discipline is a very effective mitigator of business risk and the practical deployment of project management instills sustainable culture, processes and structures of an organisation.

The second part of this author’s proposition therefore is that effective governance is enabled by an organisational approach to project management.

This concept of a project management enabled strategy is not one that most executives readily understand. The discipline of project management is viewed as tactical and operational, and it is not generally well understood in the Boardroom. Our corporate leaders need to be educated about the benefits.

Unfortunately the adoption of corporate wide, standardized project management processes is still relatively low, according to the Project Management Institute.
At the very least, we need to see an increase in the take up of corporate project management and there is a significant task ahead for the project management profession to elevate the discipline to executive levels.

PART II

7. THE PROPOSITION IN PRACTICE

There are a number of organisations which demonstrate that the central proposition of this paper works in practice. The proposition is, “That the desired benefits of organisational strategy will be achieved faster and more efficiently when strategic objectives are implemented using a project management approach, and that effective governance is enabled by an organisational approach to project management.”

Based on a generic maturity model, there are many organisations who are at the “Initial” or “Planned” stage, predominately because they have only implemented one half of the proposition. Only a minority of organisations are at the “Managed” or above levels.

Those organisations who have embraced the concept have been particularly successful. Whilst there are a myriad of reasons why they have realised significant benefits, in practice, there are four major reasons:

- **Leadership.** The leadership of the organisation has led or at least fully supported the concept and communicated that the desired shareholder benefits will be achieved more effectively through good project management and governance throughout the organisation. This occurs at all levels of the organisation, from the Board, the CEO, the Executive and the operational management.

- **Infrastructure.** Successful organisations have recognised that structure needs to follow strategy, and a properly governed project management enabled organisational strategy needs a structure that supports the delivery of projects.

- **People.** This concept needs champions and training, and effective project managed organisational change needs to occur to ensure maximum buy-in to the concept.

- **Process.** Robust and relevant project management and governance processes need to be established within the existing business practices of the organisation. The process must be simple to use to ensure sustainability.

Using the maturity model from “Planned” to “Optimised”, the following models outline the approaches to project management and governance that organisations currently...
deploy in practice. The models are based on the author’s practical experience working in corporate and consulting environments over almost thirty years.

### 7.1 Planned Approach

In this approach, the model looks confusing because it is confusing in practice. The organisation deploys governance and project management in an ad hoc and inconsistent manner.

**Figure 11: Planned Approach**

The key elements of this approach are:

- Starting from the top of the organisation, the Board provides its strategic intent, which can vary considerably in detail. It will have a corporate governance policy, but it is likely to be very much about Board conduct, and if it is focussed on the organisation, it is likely to be heavily oriented toward financial and compliance.

- The CEO is not directly aligned with the Board. Because the strategic intent is vague and governance is Board focussed, the CEO will probably be running his own show and will develop the organisational strategy to be passed on to the operating units for implementation.

- The Business Units, Regions and Functional Departments will be quite silo in structure, delivering their operations and some projects.

- Ad hoc projects will appear almost randomly, with no formal selection criteria or approval process. Major projects that have been established as a Special Purpose Vehicle or Alliance Contract will float within the organisation because they no longer follow the organisational hierarchy.

- Risk management is a function within the organisation that does its best to work across all business areas, but is often without authority.

- One or more project management methodologies may exist within the business units or functional areas.
7.2 Managed Approach

In this model, the organisation has taken a more formalised and consistent approach to its strategy formulation and implementation. The organisation will have clear governance and risk processes and documentation. It will have some project processes, usually within one or more business unit or region, but will talk about its project management and governance capability as a point of differentiation.

The key elements of this approach are:

- The Board has developed a Governance Charter that considers both its own operation and that of the organisation, although it will still be primarily focussed on compliance and financials.
- The CEO and the Executive are more explicitly aligned with the Board. They have received clarity of strategic intent which will be translated into a Vision and Mission. They will have an annual business planning process, which will often be quite mature.
- A senior executive such as the Chief Financial Officer (CFO) will have responsibility for Corporate Governance. They will be ultimately responsible for approving new ventures, mergers & acquisitions, new major enterprise projects etc, with the primary approval criteria being financial viability rather than strategic fit.
- Risk management may be elevated to an executive responsibility.
- The Business Units will still be quite silo in structure, delivering their operations and some projects, and taking more direct accountability for Alliance contracts. Significantly, some business units and/or regions may have introduced a line governance process, such as the Strategic Review Committee (SRC) which approves projects and new initiatives up to an agreed financial limit.
- There will be some alignment of the business plans of the Business Units with the corporate plan, but these will mostly be focussed only on the current year budget.
- Ad hoc projects still appear although they will be fewer in number.

This level of Managed maturity is where the majority of organisations exist. Some surprisingly large, international, publicly listed companies operate at this level.
7.3 Integrated Approach

A significant level of organisational maturity exists with this approach, and the organisation has embraced the concept of governance and project management as strategic enablers. These form the corporate DNA.

Figure 13: Integrated Approach

The key elements of this approach are:

- The Board has developed a Strategy Policy and Governance Policy which has specific dual focus on the internal workings of the Board (B) as well as the operations of the corporation (C).

- The Board will undertake a project to facilitate the development of the strategic intent. The Board recognises that it is responsible for the strategy of the business and for agreeing the operating plans and targets required to turn the strategy into action.

- Being directly aligned and explicitly linked through the Strategy Policy and Governance Policy, the CEO and the Executive will:
  - Follow a strategy execution framework and undertake an annual Strategy Formulation project, usually adopting a three-horizons approach, and conduct a Strategic Portfolio Definition project to scope the strategic initiatives into themes/programs/projects, determine priorities and approve, fund and resource them;
  - formulate the corporate governance regime, including decision-making matrix, Strategic Review Committee protocols, corporate risk appetite, corporate reporting; and
  - endorse the project delivery process and system, including project management methodology, project selection criteria, project Governance Boards, reporting and career framework.

- Business Units, Regions and Functional Departments will all develop detailed implementation plans explicitly aligned to the organisational strategy as well as local or specific strategies as required.
The governance regime is cascaded throughout the Business Units, Regions and Functional Departments through Strategic Review Committees that make decisions according to agreed criteria, including strategic intent, risk, complexity, time as well as financials.

An enterprise-wide project management system exists within the organisation, sponsored by the CEO and Executive, and managed by an organisation such as an Enterprise Portfolio Management Office or Office of Strategy Management.

Properly scoped and approved enterprise projects and programs replace the proliferation of ad hoc projects evidenced in less mature approaches.

The significant advantages of this approach are that:

- Project management has been introduced into strategy formulation;
- Portfolio management has been introduced as the link between strategy formulation and strategy execution;
- Enterprise wide project management and governance have been introduced into strategy execution;
- Strategy and projects are aligned;
- Leadership: is actively engaged;
- Infrastructure: The enterprise portfolio management office function transcends the organisational structure and is the custodian of alignment;
- People: have been effectively communicated with and have had skills enhanced through project management training and mentoring; and
- Process: a project management system and focus has allowed the strategic intent to be translated into a portfolio of projects which accelerates benefits realisation, and has enabled effective governance and risk management throughout all levels of the organisation.

7.4 Optimized Approach

The Optimized Approach sees one final advancement in maturity level, and that is structural. In this approach, the organisation is structured into the total project-based organisation.
Some people will debate whether this approach is the ultimate or not. This will depend on one’s view of the benefits of a traditional matrix based organisational structure compared to the more innovative, project based organisation structure where the organisation creates and recreates new structures around the requirements of its projects based on complexity and risk.

8. CONCLUSION

Effective corporate governance and enterprise risk management are key mechanisms for ensuring that an organisation’s strategy is effectively delivered within thresholds agreed by the Board and the executive. It involves a complex 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. Risk management is the culture, processes and structures of an organisation which when articulated into policies to be implemented at all levels of the organisation, ensure that risks are continuously and effectively identified, monitored, measured and managed in order to achieve the required outcomes and enduring benefits to the organisation.
REFERENCES


