PROJECT MANAGEMENT

COLLEGE OF PETROLEUM AND MINING ENGINEERING

Dr. Ibrahim Adil Ibrahim Al-Hafidh

Mining Engineering Department

College of Petroleum and Mining Engineering

University of Mosul

Email: iibrahim@uomosul.edu.iq

LECTURE 3

Governance

- Objective.
- What is the project Governance?
- Components of Project Governance.
- Three Pillars of Project Governance.
- Core Principles of Project Governance.

Dr.Ibrahim Al-Hafidh
Email: iibrahim@uomosul.edu.iq

Objective

Project governance has come into prominence in recent times, though it has always existed informally in various guises. Governance is now correctly viewed as playing a vital role in the successful delivery of a project. Project governance is about helping to ensure that the right projects are done well. Taking the time to put in place good project governance is especially important when dealing with complex or risky projects.

The aim of this lecture is to provide appropriate guidance for establishing and maintaining the structures and forums needed for effective project governance at all stages in the project lifecycle.

What is Project Governance?

Project governance is the management organization framework within which project decisions are made. Good project governance facilitates efficient decision making, timely and optimum decisions made by the right people, and decisions that meet the needs of the project and its stakeholders.

The U.K. government defines project governance as "**Those aspects of governance related to ensuring the effectiveness of projects**"

As shown in Figure 1, project governance sits between the owner's corporate governance and the specific project management regime, overlapping both areas. The demarcation between a company's corporate controls and project management activities is frequently ill-defined. Project governance does not seek to more accurately distinguish between the overlap zones; rather it seeks to better define the specific arrangements required within the overlap areas for successful project execution.

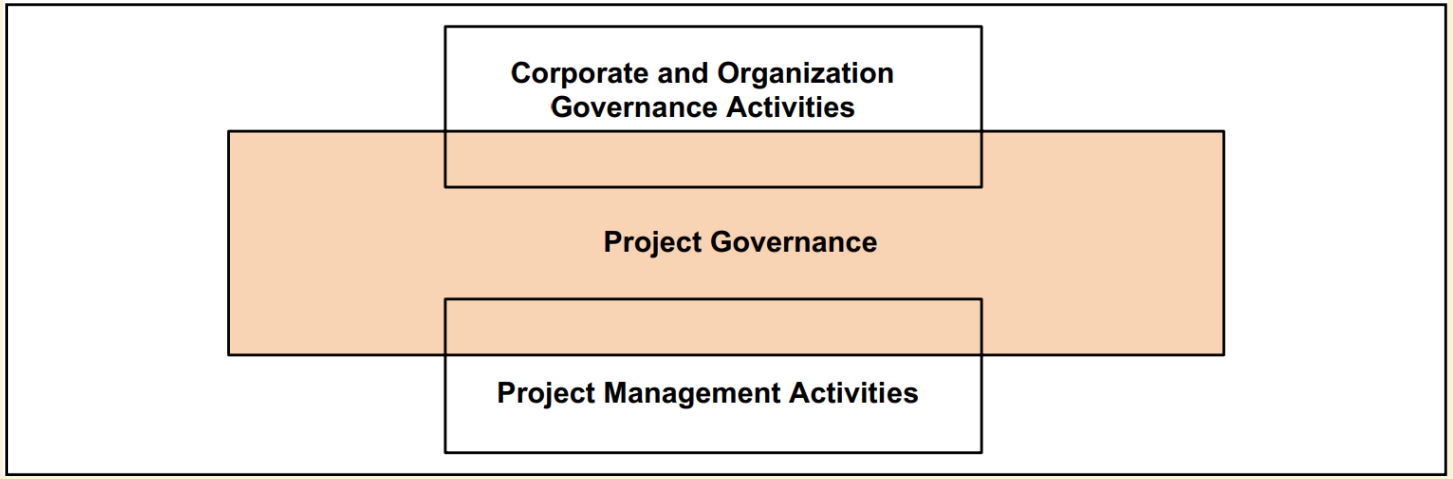

Figure (1) Project governance

The role of project governance is to provide such a decision-making framework to govern its capital investments. The best framework is logical, robust, and repeatable—a structured approach for conducting project activities.

Components of Project Governance?

The main activities of project governance relate to the following:

- Program structure and direction.
- Project ownership and leadership.
- Effectiveness of project management functions .
- Reporting and disclosure (including consulting with stakeholders).

These activities are illustrated in Figure 2.

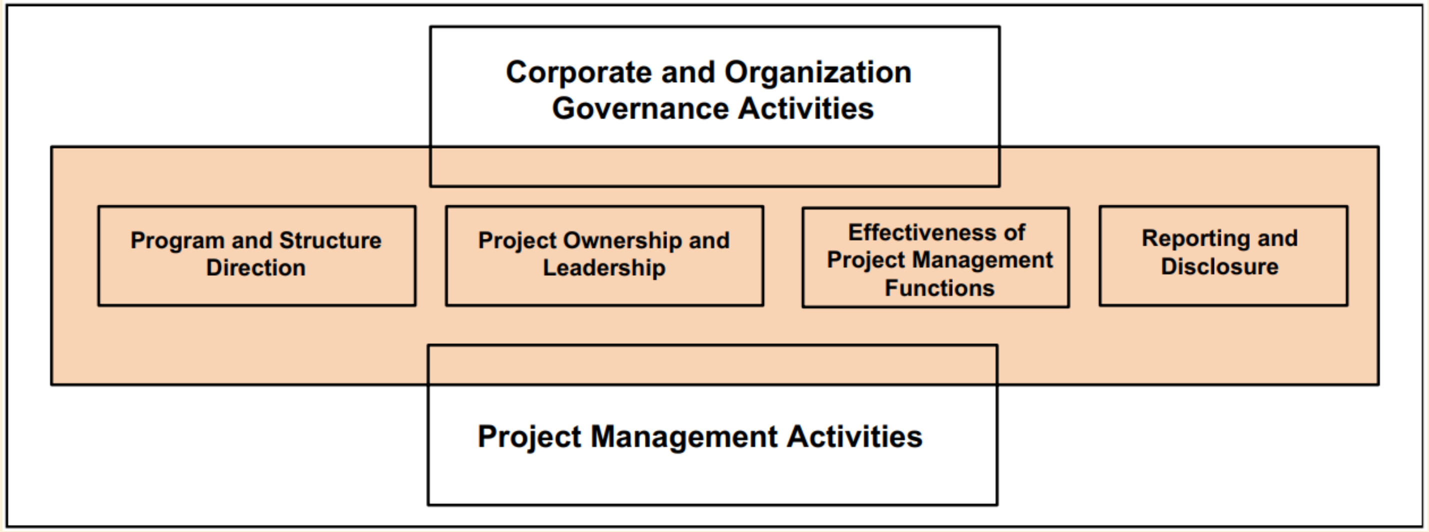

Figure (2)
Governance components

The highest levels of the mining company must act to set the project governance mechanisms in place, have them function correctly, and instill in stakeholders confidence in the arrangements. A project needs a different organizational structure from that of corporate governance and distinct from that of line operational management. It needs to have a minimum of layers, and it needs to be both flexible and cross-functional. A project's governance structure may need to evolve as different project stages transpire, and thus the framework should be revisited from time to time during the life of the project.

Three Pillars of Project Governance

The project governance decision-making framework is supported by three pillars:

1. Structure: Establishment of an effective governance oversight structure.
2. People: Appointing the right people to project leadership.
3. Information: Regular, timely reporting that informs the decision makers.

There are several ways of delivering effective project governance. Because some of the structures and mechanisms can sometimes conflict, it is important to identify potential problems at project outset to ensure that the necessary protections are in place.

Core Principles of Project Governance

The project governance framework has to be based on certain core principles to be effective (Johnson 2013).

Principle 1: Ensure a Single Point of Accountability for Project Success

A single leadership point of accountability ensures clarity of leadership and timeliness of decision making. A project without a clear understanding of who is accountable for its success essentially has no leadership. This is the most fundamental principle of project accountability.

Without one single person driving the process of dealing with the solutions to the difficult issues that beset all projects, a successful project outcome will be impeded. This is particularly true during the crucial project initiation phase; it needs a point person to make sure that the project starts off on a firm footing.

Principle 2: Assign a Competent Project Manager to Lead the Project

It is not enough to nominate someone to be accountable—the right person, an effective project leader, must be selected to be accountable. There are two aspects to this:

1. The right person with the appropriate skills, either from within or from outside the organization must be selected and then held accountable. If the wrong person is selected, the project will be no better placed than if no one is accountable for its success.

2. The person must be given sufficient authority by the mining company to ensure that they are empowered to make the decisions necessary for the project's success. Besides having the competence, the assigned project manager must be given the authority and the resources to enable appropriate decisions to be made.

Principle 3: Make Project Management Independent from Asset Ownership

Often mining companies assign the project management role to the future asset owner (i.e., future mine operations), thinking that this will provide more assurance that the completed project will meet the mine operator's needs (which is indeed one of the critical measures of project success). However, the result of this approach, more often than not, leads to wasteful scope inclusions and frequent failure to achieve the other corporate and stakeholder requirements. Reasons for this shortfall include the following:

- The benefit of doubt for project decisions goes to the stakeholder who is the future mine operator, thus skewing project outcome.
- Project requirements receive less scrutiny, reducing innovation and outcome efficiency.
- Different skill sets surround project management and mine operations management, thus placing sound project decision making and procedure at risk.
- Mine operational needs always prevail when problems require attention, placing the project at risk of being neglected during such times.
- Project contingency or underrun monies are at risk of being allocated to additional scope for mine operational needs.

The one proven mechanism for ensuring that projects meet corporate and stakeholder needs, while optimizing value for money, **is to assign project management to a specialist party that otherwise would not be a stakeholder to the project; in other words, make project management independent of asset ownership and all other stakeholder groups.** Such assigned project management must be given clear terms from the mining company, outlining project requirements and the organization’s obligations to project stakeholders.

Principle 4: Establish an Enabling Governance Oversight Structure

Good project governance is enabled by a good governance oversight structure. In small-to midsized, nimble companies, this can be one person—for example, a senior vice president (VP) of projects—as long as it is the "right person." With large organizations, this is more typically accomplished via a project governance board.

Whatever the oversight entity size, the entity becomes a resource for project management to draw upon for program direction when needed, as well as to keep informed. If the oversight entity is a board with more than one person, then the governance board will include corporate executive presence, user groups, and perhaps even stakeholder representation.

The oversight entity has overall responsibility for the governance of project management. The roles, responsibilities, and performance criteria for project management are defined by this entity. The oversight entity can decide when independent scrutiny of a project management system is required and can implement such scrutiny accordingly.

If the oversight entity is a board, then the effectiveness of the governance board structure is dependent on the people that populate the board. Membership should be determined by the nature of the project. This in turn determines which organizational roles and which, if any, stakeholders should be represented (Figure 3).

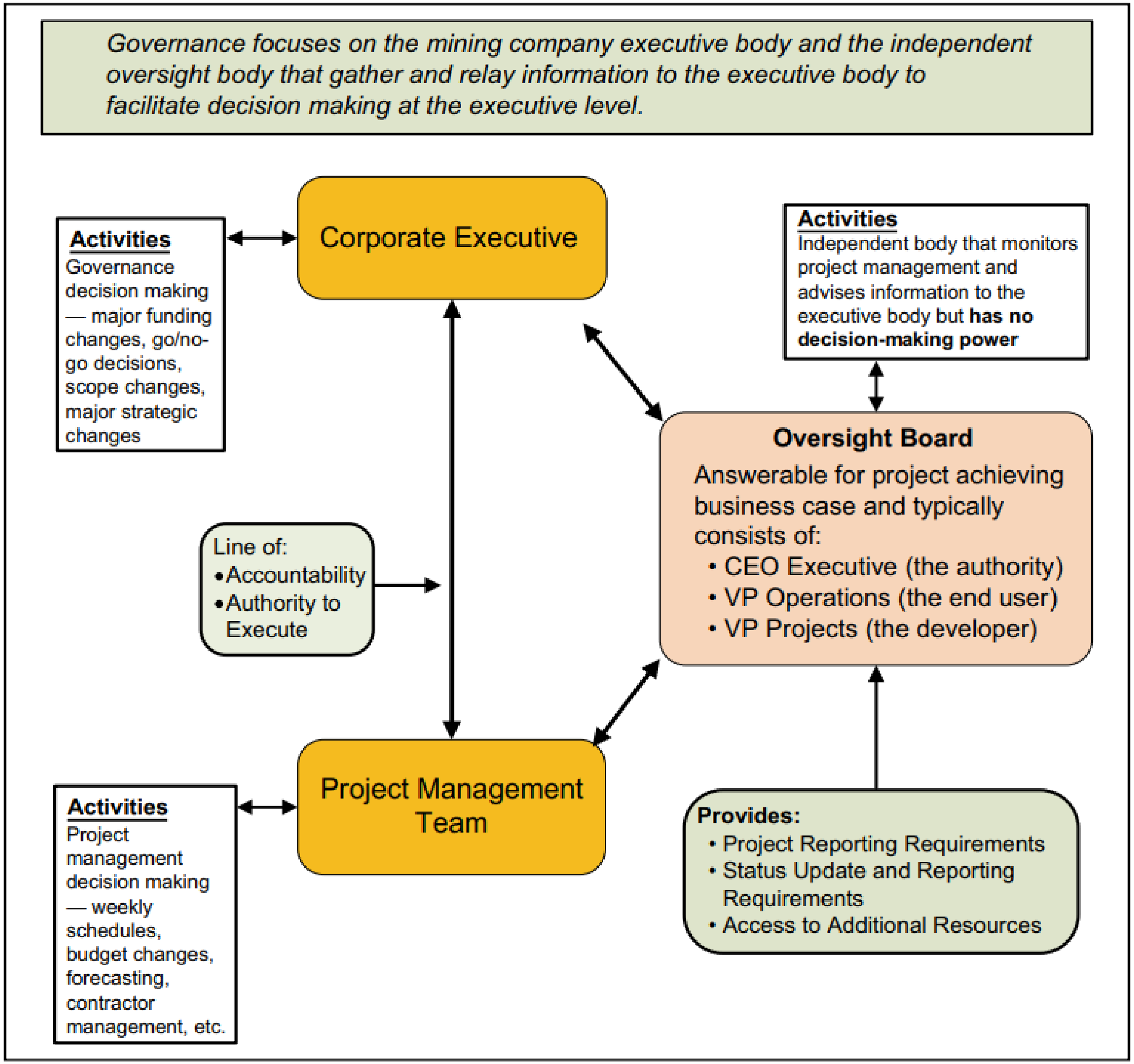

Figure (3)
Project governance interface

Principle 5: Split Stakeholder Management and Project Decision Making

In reality, projects have to deal with multiple stakeholders. Both project decision making and stakeholder management are essential to the success of the project, but these are two separate activities and they need to be treated as such. Separation prevents decision-making forums from becoming clogged with tangential stakeholder agendas. If a stakeholder committee is formed, membership needs to be restricted to only those select stakeholders absolutely central to project success. Large committees that are more like stakeholder political forums than project decision-making forums become a hindrance to timely decision making (Garland 2009).

Principle 6: Separate Project Governance from Company Governance

Adoption of this principle will reduce the number of decision-making layers and the associated delays and inefficiencies. This separation ensures that a project's decision-making body is empowered to make decisions in a timely manner.

Projects require flexibility and rapid decision making. The hierarchical mechanisms associated with mining company organization charts do not enable this. Project governance structures overcome this by drawing the key project decision makers out of the mining company's conventional organization structure and placing them in a separate forum, thereby avoiding a hierarchical decision-making process. Consequently, the project governance framework established for a project should remain separate from the company organization structure.

Principle 7: Provide Timely Reporting and Disclosure

Every organization has valid requirements in terms of reporting and stakeholder involvement. Dedicated reporting mechanisms established by the project can address the former, and the project governance framework must address the latter. Clearly defined criteria have to be established for reporting project status and raising awareness of risks and issues to the levels required by the owner mining company.

Regular reports on the project status, issues, risks, and the current state-of-the-project business case have to be escalated regularly by the project manager to the key mining company decision makers and stakeholders. The project business case updates must be supported by timely, relevant, and realistic information that provides a reliable basis for making authorization decisions.

Additional Principles for multi-Owned Projects

In a multi-owned project, the owner shares ultimate project control with other parties. The following are additional principles of good governance for such projects, courtesy of the Association for Project Management (APM 2007):

■ All the owners should agree upon a formal governance arrangement.
■ There should be a single point of decision making for the project.
■ The allocation of authority for representing the project with owners, stakeholders, and third parties should be a clear and unambiguous.
■ The project business case should include agreed-upon definitions of the project objectives, the role of each owner, and their incentives, inputs, authority, and responsibility.

- Each owner should make sure that the legal competence, obligations, and internal governance arrangements of all the co-owners are compatible with its own standards.
- The owners should agree on recognition and allocation of rewards and risks, taking into account the ability to influence outcome, thereby creating incentives for cooperative behaviour.
- Project leadership should exploit synergies arising from multi-ownership and should actively manage potential sources of conflict or inefficiency.
- A formal agreement should define the process to be invoked, and the consequences, when a material change of ownership is considered.
- A mechanism should be in place for independent review or scrutiny when it is in the legitimate interests of one or more of the project owners.
- A dispute resolution process should be in place that does not endanger the achievement of project objectives.

Attributes of Good Governance

Governance is not a project management function or activity, nor is it an additional layer of decision making. Good governance is all of the following:

■ An explicit organizational structure that enhances accountability.

◆ The structure encourages adherence to designated authority, check points, and communication lines.

◆ Processes are not mere formalities to mark compliance.

■ An objective monitoring process that can impartially assess investment readiness

◆ Facts and data drive decision making.

◆ The project performance is transparent.

- ■ A series of go/no-go executive decisions over the course of the project life cycle
  - ◆ The project is not allowed to move around the gate (approval point) processes.
  - ◆ Third-party independent reviews eliminate optimism bias.
- ■ An information-sharing process that streamlines and empowers decision making
  - ◆ Deliverables are completed collaboratively.
  - ◆ The risk of project surprises is reduced, and quality is enhanced.
- ■ Minimization of bureaucracy
  - ◆ Templates of required reports are developed; needed content is identified.
- ■ A project team that shares a holistic view of project success
  - ◆ The governance oversight entity and the project team are cohesively aligned.
  - ◆ There is cross-functional alignment of key business and technical requisites.