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Governance Matters

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Yes, we all know that governance is a critically important aspect of business; it sets out how the firm is to be run, delineates responsibilities and generally keeps us all on the straight and narrow. It is also one of the media buzz words this month as the Global Downturn deepens. I counted some 5000 references to Governance in the London Times this month.

Interestingly, there is a comparison of the governance styles favoured by firms in the United Kingdom (UK) and Europe and between UK and USA [http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article5983510.ece]. It turns out that in UK, businesses are structured around a single level Board of Directors with the *non-executive* Directors providing breadth and external perspective for the *executive* Directors. This model was advocated by Sir Richard Greenbury when he did seminal work in UK on the subject some 15 years ago. His ideas lead to what the Times called the gospel of the non-executive director as the guardian against executive excess. This single level structure has served industry well but depends on having well qualified and experienced non-execs, a commodity in short supply world-wide right now.

In our troubled times, he now advocates the continental-style two-tier board exemplified by Philips, the Dutch electricals company on whose board he now sits. In an interview with the *Times*, he said the system of board guidelines and rules introduced by Sir Adrian Cadbury in 1991 and reinforced by his own report in 1995 and the Higgs review (2003), needed reform. While Sir Richard was referring to recent developments in the banking system, there are clear parallels with the world of project management.

Under the Continental model, a company has a supervisory board of nonexecutive directors only, to which a separate executive board reported. The idea is that a separate senior board is better equipped to curb operational and strategic excesses. In Britain, companies have unitary boards of directors, where executives and nonexecutives are equally responsible. In European, many companies have a two-tier structure – a supervisory board of nonexecutive directors to which a management board of executives reports.

Consider now the case of a major project or programme – such as the late and not lamented single offender management IT system, an initiative begun in 2004 for

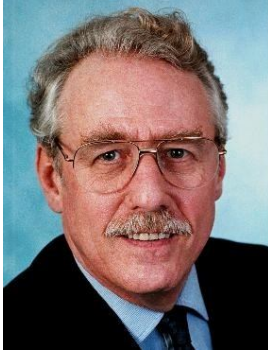
the National Offender Management Service (NOMS). The project to provide an IT system in support of a new way of working with offenders was to be introduced by January 2008. Lifecycle costings were approved at £234 million to 2020. According to the National Audit Office (NAO) £155 million had been spent on the project by July 2007, it was two years behind schedule, and estimated lifetime costs had risen to £690 million. The Minister of State at the Ministry of Justice called a halt to the project while options to get the budget under control were sought.

The facts are stark; the project had been hampered by poor management leading to a three-year delay, a doubling in project costs and reductions in scope and benefits. In its March report, the NAO state that many of the causes of delay and cost overruns could have been avoided with better project management. The report identifies inadequate management oversight and the technical complexity of the project as major issues which were significantly underestimated. Further, budget monitoring was absent and change control was weak. There were also difficulties with the main supplier contracts where insufficient pressure could be brought to bear to ensure that suppliers to deliver to time and cost.

While some of these issues will be familiar to many, they are neither unique nor are they insoluble. But good governance is needed to identify them and then to take action so perhaps we need to take a leaf out of other business practice. Some effort has been applied to help, especially in Government projects where PRINCE2[®] for instance provides a governance structure but at a single level. NOMS was mandated to use PRINCE2[®] as have many other projects but failure of management is still all too common. Perhaps tougher implementation of the PRINCE[®] Board is needed to reinforce the distance between the operational and the management levels.

Sadly, government projects are not the only ones to suffer from poor governance. Many companies still apply senior management control based solely on the overall value of the project. Simple go/no go decisions are taken on nothing more sophisticated than turnover levels. While this is better than nothing and at least acknowledges some limited view of the business case, it misses all the important aspects such as whether the level of risk is appropriate, whether high risk (and high return) projects are balanced by low and medium risk projects to provide a balanced portfolio. Furthermore, it misses key technical aspects such as those that went so badly wrong in the NOMS situation.

So would a two-tier project board help? Perhaps but as few of the major players in the project delivery world operate governance systems like Phillips, I guess we won't find out any time soon.

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