Enterprise Project Governance[1]

How to Manage Projects Successfully Across the Organization

EPG and Corporate Governance

By Paul Dinsmore & Luiz Rocha

This is the second article of the series *Enterprise Project Governance (EPG): How to Manage Projects Successfully Across the Organization*. It will cover how the concept of EPG is ingrained into corporate governance adding project traceability and accountability to the basics of corporate governance.

EPG evolved in part due to the cascading changes that affected overall corporate governance beginning in the 1990s. Pressures from the marketplace, governments and regulatory agencies placed a disconcerting spotlight on company boards to ensure that decisions and corresponding actions are fully traceable from the top down. Since a major part of organizational survival depends on new projects, EPG adds a measure of traceability and corresponding accountability to the basics of corporate governance.

The increasing focus on corporate governance can be traced to the stock market collapse of the late 1980s which precipitated numerous corporate failures through the early 1990s. The concept started becoming more visible in 1999 when the Organization for Economic Co-operation and Development (OECD) released its "Principles of Corporate Governance". Since then, over 35 codes or statements of principles on corporate governance have been issued in OECD countries.

In 2001 and 2002, high profile corporate failures plagued major institutions. In the US, Enron, WorldCom, Xerox, AOL Time Warner, Tyco, and Arthur Andersen were in deep trouble. In Europe the same emerged with Ahold, Bertelsmann, Vivendi, SK Corporation, Elf-Aquitaine, Londis and Parmalat. The scandals in the US led to the refinement of existing corporate governance aimed at protecting investors by improving the accuracy and reliability of corporate disclosures. The Sarbanes-Oxley Act of 2002 (often shortened to *SOX*) is legislation enacted in response to protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise. In the UK, in 2003, the Higgs Report *z*eroed in on the same critical issues.

Corporate governance emerged from the shadows of boardrooms and is in common use not just in companies but also in the public sector, charities and universities. It has become shorthand for the way an organization is run, and is classically composed of committees charged with responsibility for regulatory compliance, auditing, business

[1] This series includes articles by Paul Dinsmore and Luiz Rocha, authors of the book Enterprise Project Governance, published by AMACOM in the USA in 2012. The articles are extracts and summaries of key topics from their book, providing information and guidance on one of the most important aspects of portfolio, program and project management today – governance. For information about the book, go to http://www.amacombooks.org/book.cfm?isbn=9780814417461.

risk, hiring and firing the CEO, and the administration of the board of directors' activities. The demand of shareholders and other stakeholders for good governance is strong and continuing. The evolution of corporate governance was prompted by cycles of scandals followed by reactive corporate reforms and government regulations intended to improve the practice. Investors, unions, government and assorted pressure groups are increasingly likely to condemn businesses that fail to follow the rules of good practice.

Currently there is no evidence of a universal set of corporate governance principles applicable to all countries and their organizations. However, corporate governance guidelines produced by OECD encourage the application of good corporate governance as a precondition for international loans to governments for financial sector and other structural reforms as well as equity investment and bank loans to large companies. Although the pressure is currently on listed companies to make transparent their corporate governance principles, this requirement is likely to be extended not only to all listed companies, but also to other privately and publicly owned companies and organizations that want to use money from others.

Although there is a need to increase the overseeing of governance structures this is not an easy task. As mentioned by James Wolfensohn, former president of Word Bank, "a number of high profile failures in 2001-2002 have brought a renewed focus on corporate governance, bringing the topic to a broader audience… the basic principles are the same everywhere: fairness, transparency, accountability, and responsibility. These are minimum standards that provide legitimacy in the corporation, reduce vulnerability to financial crisis, and broaden and deepen access to capital. However, applying these standards across a wide variety of legal, economic, and social systems is not easy. Capacity is often weak, vested interests prevail, and incentives are uncertain".

The high visibility heaped on corporate governance sparked by the scandals at the beginning of the XXI Century, brought attention to lacking governance policies in more specific disciplines. In the early 1990s, information technology executives perceived a crying need to put order into the then chaotic industry. Various programs and standards were developed, such that IT governance has become a solid cornerstone of the profession. After the turn of the century, a similar need became evident in the burgeoning field of project management.

Standards and regulations about corporate governance have been continuously changing during the past 30 years. With each new corporate scandal or financial crisis a step is made to their improvement based on the issues aroused. Despite all actions taken there is a lot to be done. On June 2012, for example, British multinational bank Barclays was fined in $450 million by US and British regulators for what is the largest banking scandal in history for its role in trying to rig the LIBOR (the London Interbank Offered Rate). In July 2012 drug giant GSK made a $ 3 billion settlement with US Justice Department, the largest healthcare fraud settlement in US history. Greece has been in a deep, deep crisis during the last five years due to a complete lack of governance of their institutions. On May 2012, the Presidents of the largest bilateral Chambers in Greece presented "10 Sets of Organizational and Administrative Actions

Designed to Restart the Greek Economy”. These actions were presented by Yannis Stournaras, presently the country s finance minister, and by Vassilis Antoniades of the Boston Consulting Group. The first proposed action on the document was the Establishment of a Governance Center to Centrally Coordinate the Government. What we observe is that Boards is that boards are much more focused on evaluating and advising on short term corporate issues than really analyzing the long term enterprise position.

Projects, programs and portfolio management are instruments of enterprise value creation and as such need to be closely linked to oversight at its highest level. Enterprise project governance helps fill the voids left in loosely-woven corporate governance policies, primarily with respect to project transparency, accountability and responsibility. More importantly, EPG is a natural evolution in organizations that wrestle with countless demands for new projects to be completed within tighter time frames, at less cost and with fewer resources.

The demand to undertake, manage and complete multiple projects creates a need to provide greater governance and structure. Whereas corporate governance also includes the concerns of the ongoing organization, with its status quo activities and operational issues, EPG focuses on the projectized part of organizations.

About the Authors

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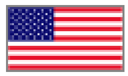

Paul Dinsmore is President of Dinsmore Associates, and a highly respected specialist in project management and organizational change. A certified project management professional (PMP), he has received the Distinguished Contribution Award and Fellow Award from the Project Management Institute (PMI®). He regularly consults and speaks in North America, South America, Europe and Africa. Paul is the author and / or editor of numerous articles and 18 books, including the *AMA Handbook of Project Management*. Mr. Dinsmore resides in Rio de Janeiro, Brazil.

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