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EPG Principles and Framework
Paul Dinsmore & Luiz Rocha
Series Article

Enterprise Project Governance[1]
How to Manage Projects Successfully Across the Organization

EPG Principles and Framework

By Paul Dinsmore & Luiz Rocha

This is the fourth article of this series. The previous three articles presented the evolution of corporate governance, a definition for EPG, and the view of major international project organizations regarding the governance of projects and programs. This article covers the principles and framework necessary to enable and drive projects and programs to achieve the expected outcomes for the organization.

Why did a project leader make such an ill-advised decision? In reality project decisions cannot be attributed to a single person; in fact, projects evolve as a result of a decision chain. A pivotal reason for flawed decisions is that many project leaders think about decisions as events and not processes. Decisions are a long social process involving a series of interactions carried out by different people, unfolding over time and involving three levels of analysis: individual, team, and organizational. Many project managers focus too much on deciding the right solution for a problem rather than thinking about the right process for making key decisions. Effective project and program governance requires focusing on the right decision making process..

At the individual level, poor decisions are made because of cognitive biases such as overconfidence, repeating old patterns, overestimating benefits and underestimating cost and time. At the team level, although teams can leverage the perspectives, experience and expertise based on the potential that diversity brings, teams tend to get immersed in a script of dealing with idiosyncrasies, conflicts and social pressures for conformity and fail to realize their potential. At the organizational level, decisions are shaped by culture, structure, and systems.

Here are the basic principles that define the effective approach to Enterprise Project Governance and decision making on the individual, team and organizational level:

1. Identify a single point of accountability

Identify the persons accountable for the success of the portfolio, programs and projects. The roles, responsibilities and performance criteria for the governance of project management must be clearly defined and all personnel involved in the project

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[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.*

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governance structure need to know for what they are accountable and responsible, and members of delegated authorization bodies must have sufficient representation, competence, authority and resources to enable them to make appropriate decisions. Accountability cannot be shared - more than one person, or a committee, cannot be held "accountable" for the success of a project - or delegated. Without a single point of accountability, projects lack clear authority because the validity of any decision is questionable since the authority that lies behind that decision has not been established.

2. Ensure enterprise project governance is value focused

The focus on value creation is guaranteed by the EPG structure that considers three decision layers:

- **Strategic Decisions – 'What?'** - Strategic decision-making creates the forward thrust in the business. Corporations often capture their overall business strategy in a "Statement of Intent" and it's an excellent term for describing what strategic decision-making is. Failure to examine the big picture can lead to stagnation in the business and an inability to move forward.

- **Tactical Decisions – 'How?'** - Tactical decisions involve the establishment of key initiatives to achieve the overall strategy. This layer of decision-making can sometimes be overlooked yet it is the glue that creates a strong connection between long-term vision and day-to-day activities.

- **Operational Decisions – 'How will we deploy resources?'** - Operational decisions determine how activities actually get done. They are the 'grass roots' decisions about who is going to do what and when. Operational decisions are often made in 'real time' and are the result of needing to make quick adjustments or change to achieve the desired outcome.

3. Separate EPG and corporate governance

EPG and corporate governance are complementary, yet require separation in order to reduce the number of project decision nodes since decision paths will not normally follow the organizational line of command.

4. Separate stakeholder management and decisions

Stakeholder management and project decision making are separate functions and call for separate forums to be addressed. When the two are confused, decision making forums become clogged with stakeholders resulting in labored decision making. While many people may need to be aware of a project and have input into shaping it, not everyone needs to participate in each project decision. Achieving separation will reduce the number of people required in project decision forums while maintaining the essential input provided by key stakeholders. Effective stakeholder management is essential for the success of any project.

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5. Timely decision making

Timely decisions, accurately communicated, are essential for projects momentum, and such decisions must be capable of being implemented. Particularly at some stages, the ability of the project governance arrangements to resolve complex issues, some of which will have conflicting requirements that will need trade-offs and compromises, is fundamental for the progress of the project.

6. Control and communication of information

This assures that the project is where it should be and has visibility of key work streams with clearly defined criteria for reporting project status and for the escalation of risks and issues to the levels required by the organization. Supporting the needs of stakeholders requires communication channels to be established and reporting frameworks to be developed. Stakeholders need the opportunity to have their issues and concerns raised and addressed.

Based on the above considerations a framework is presented below showing the components for effective governance of projects and programs across organizations.

Fig. Components of EPG

Strategic alignment

A responsibility of EPG is to ensure that projects are consistent with company strategies and goals and that the projects are implemented productively and effectively. All investment activities are subject to the governance process in that they need to be resourced and financed adequately. For mandatory projects, the decision is not whether

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to undertake the project but how to manage it in order to meet the required standard with minimum risk. For discretionary projects, there needs to be more focus on the go/no go decision and whether the project supports the strategic objectives and whether the investment gives the best value compared to other alternatives.

Risk Management

Risk management is a systematic process of identifying and assessing company risks and taking actions to protect a company against them. Companies need risk management to analyze possible risks in order to balance potential gains against potential losses and avoid expensive mistakes. Risk management is best used as a preventive measure rather than as a reactive measure. Managing risk in an integrated way can mean everything from using financial instruments to managing specific financial exposures, from effectively responding to rapid changes in the organizational environment to reacting to natural disasters and political instability.

Portfolio Management

The project portfolio provides a big-picture view. It enables managers to become aware of all of the individual projects in the portfolio, and provides a deeper understanding of the collection as a whole. It facilitates sensible sorting, adding, and removing projects from the collection. A single project inventory can be constructed containing all of the organization's ongoing and proposed projects. Alternatively, multiple project inventories can be created representing project portfolios for different departments, programs, or businesses. Since project portfolio management can be conducted at any level, the choice of one portfolio versus many depends on the size of the organization, its structure, and the nature and interrelationships among the projects that are being conducted.

Organization

Effective governance starts with leadership, commitment, and support from the top. However, such leadership, while crucial, is not enough. You must define appropriate organizational structure and roles and responsibilities for all participants. There are three main organizational components to EPG: executive leadership, the portfolio management team, and program and project managers. To be effective, the individuals who direct and those who oversee governance activities must be organized, and their contributions must be modeled to ensure that authority and decision-making has a clear source, the work of management and oversight is efficient, and the needs for direction and decisions are all addressed. The bulk of Enterprise project governance work is carried out by committees and for many organizations, multiple committees work at different levels. The actual committees you use depend on organizational structures, culture, and other issues and not all organizations will employ all of these committees at the same time. EPG is a collaborative process and there must be a healthy mix of corporate, business units and support services.

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Stakeholder Management

In every undertaking there are parties with a vested interest in the activities and results of the project. These parties are called *stakeholders:* individuals with some kind of stake, claim, share, or interest in the activities and results of the project. Identifying stakeholders early on leads to better stakeholder management throughout the project. All people have expectations that drive the way they interact. Expectations are their vision of a future state or action, many unstated but which are critical to the project success Understanding these expectations and responding to them is an art and expectation management is useful to any area in which human beings must collaborate effectively to achieve a shared result. Failure to recognize that people are bound to have positive and negative reactions will only result in disaster.

Most stakeholders will have interests outside the project and they will not be effective in supporting the project's delivery unless they are accurately and currently informed about the progress a project is making and consulted on the challenges it is facing. One of the aims of project governance is to build a common sense of ownership of the project, for example by informing and listening, and creating an environment of trust between the dedicated project delivery team and the wider stakeholder community.

Performance Evaluation

For EPG to be effective it has to be measured and performance monitored on a periodic and ongoing basis to ensure that it contributes to business objectives while being effective, and responsive to the changing environment. Typically, performance is evaluated during execution and, quite often, it is forgotten after the product or service is delivered.

Business Transformation

Business transformation should be a continuous process, essential to any organization in implementing its business strategy and achieving its vision. It is an ongoing requirement because vision and strategy will always need adapting and refining as changing economic influences impact. Business agility, or the ability to achieve business transformation, is therefore a true measure of both management and corporate success and, as such, must be considered on the EPG structure. Developing the internal capability for change management is an essential step in assuring the successful implementation of any change project.

The next articles in this series will present the components of the above framework in greater detail.

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Enterprise Project Governance describes proven techniques for dealing with simultaneous initiatives and ensuring that programs and projects align with the priorities, resources, and strategies of the organization - and ultimately create value. Containing examples and case studies, the book provides readers with practical methods for incorporating enterprise project governance into their organization's culture, synchronizing it with corporate governance, and maximizing efficiency and results across departments.
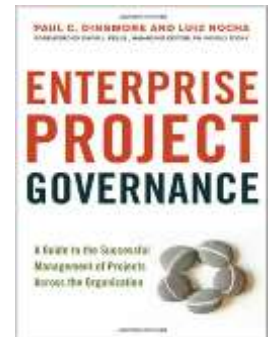
Whether one's view is from the boardroom, the executive suite, the project management office, or the project trenches, this is an important guide for anyone managing multiple projects. For more about the book, go to http://www.amacombooks.org/book.cfm?isbn=9780814417461.

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Luiz Rocha

Luiz Rocha has 35+ years of experience in the industry and business consulting. Luiz worked with Andersen Consulting and Delloite in the USA and Europe when he had the opportunity to manage multi-cultural and geographically dispersed projects in Latin America, North America and Europe. In Brazil he worked with Dinsmore Associates and Petrobras. Luiz is an engineer by background, MSc. in industrial engineering from UFRJ – Brazil, PMP-PMI and IPMA certifications. He is also a published author with two previous books, *Business Metamorphosis,* in Brazil, and *Mount Athos, a Journey of Self-Discovery,* in the USA. Luiz can be contacted at luiz.rocha@dinsmore.com.br.