

The six functions of governance

By Lynda Bourne

Many people in the project management domain confuse management with governance - this paper is designed to dispel many of the myths.

My hypothesis (H1) is that *management and governance fulfil different purposes within an organisation*. If this hypothesis holds, then my proposition (P1) follows: *if something is designated as a 'management function' it cannot also be designated a governance function*; and conversely governance functions are not management functions.

Probably the easiest starting point is to briefly outline the widely accepted functions of management. Henri Fayol (1841 – 1925) defined the five functions of management in his 1916 book *Administration Industrielle et Generale*, they are:

1. to forecast and plan,
2. to organise
3. to command or direct (lead)
4. to coordinate
5. to control (French: contrôler: in the sense that a manager must receive feedback about a process in order to make necessary adjustments and must analyse the deviations.).

Management undertakes these functions through management structures and committees such as project control boards. For a more detailed discussion of the functions and principles of management see: **WP1094 The Functions of Management**
http://www.mosaicprojects.com.au/WhitePapers/WP1094_Defining_Management.pdf

Given these functions of management are still generally accepted more than 100 years after their publication, P1 states they cannot also be the function of governance.

Governance overview

Governance is the action of governing an organisation by using and regulating influence to direct and control the actions and affairs of management and others. It is the exclusive responsibility of the 'governing body', the person, or group accountable for the performance and conformance of the organisation (in a commercial organisation, the Board of Directors).

The objective of 'good governance' adapted from the definition by Sir Adrian Cadbury (2002) is: "... holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, the organisation and society".

Stewardship is an important governance concept. It includes:

- **Faith:** A propensity to view the assets at ones command as trust for future generations rather than available for selfish exploitation.
- **Charity:** A willingness to put the interests of others ahead of one's own.
- **Prudence:** A commitment to safeguard the future even as one takes advantage of the present.
- **Accountability:** A sense of responsibility for the systemic consequences of ones actions.
- **Equity:** A desire to see that rewards are distributed fairly, based on contribution rather than power.

'Good management' and 'governance' are not synonymous! Good governance, achieved by integrating, coordinating and balancing the six functions of governance discussed below, will lead to good management outcomes but if P1 holds, the governance functions will be different to management functions.

The Six Functions of Governance

The six functions of governance are:

- **Determining the objectives of the organisation** expressed through its vision and mission statements and implemented through its strategic plan. The objectives define the purpose of the organisation, and describe how the purpose will be fulfilled. The strategic plan is a key interface between management and the governing body with shared responsibility to develop an effective strategy for management to implement.
- **Determining the ethics of the organisation;** defining what aspects of behaviour are really important. How much importance is genuinely given to factors such as sustainability, corporate social responsibility and stakeholder engagement over profits and short term movements in the share prices. Ethics are based on morals and values and define the rules or standards governing the conduct of people within the organisation. The ethical standards of any organisation are set by the behaviours of people at the top and cascade down the hierarchy; see: <http://mosaicprojects.wordpress.com/2014/09/20/the-moral-underpinnings-of-good-policy/>
- **Creating the culture of the organisation:** this is a more subtle process and deals with the way people interact with each other. The governing body decides on the culture it wants and influences the operating culture of the organisation through the people it appoints to executive positions. *Governmentality*¹, the willingness of people to 'be governed' and to support the governance system is at the centre of an effective culture. Other aspects include: how supportive the organisation is, how innovative, how risk seeking/averse, how open and transparent, how mature and professional, and how tolerant is it. It is impossible to have innovation as a key

¹ See R. Müller, S.Pemsel, J.Shao. *Organisational enablers for project governance and governmentality in project-based organisations*. International Journal of Project Management (Pre press). <http://dx.doi.org/10.1016/j.ijproman.2014.07.008>

objective, which requires sensible risk taking if the organisation's culture is intolerant of failure.

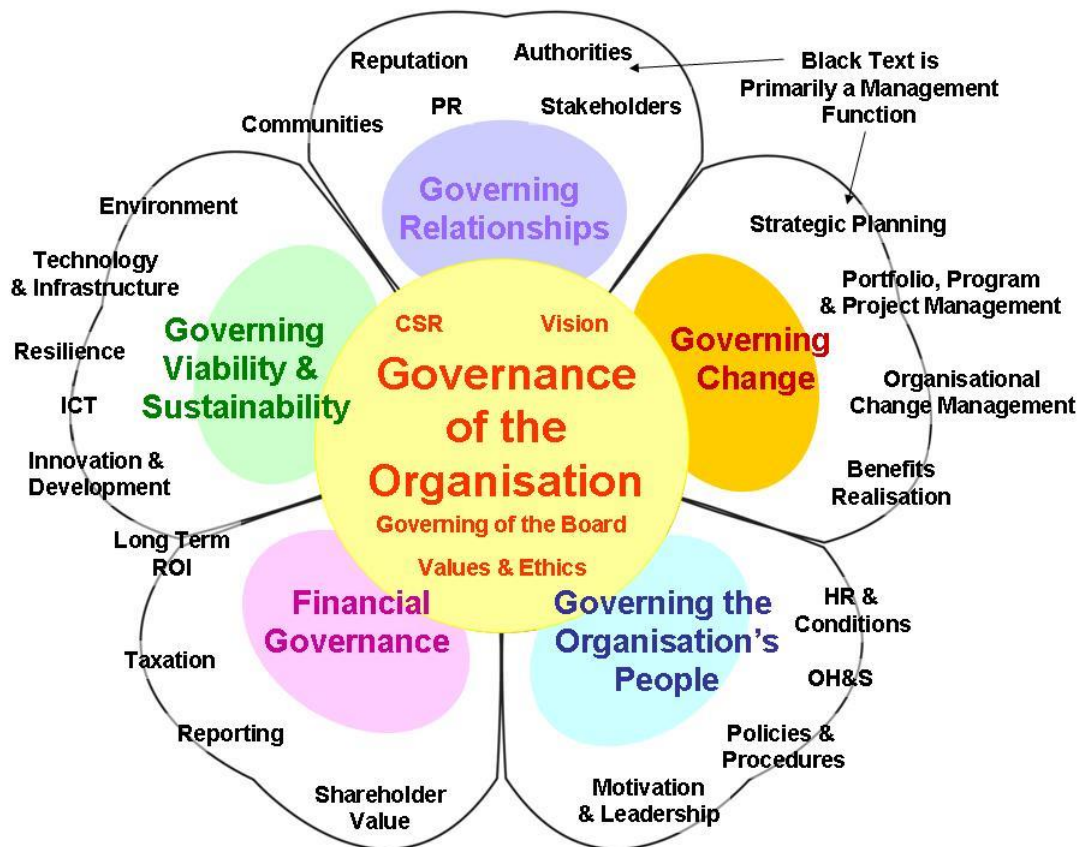
- ***Ensuring compliance by the organisation:*** with its regulatory, statutory and legal obligations, as well as ensuring its management and staff work towards achieving the organisation's objectives, whilst working within the compliance framework defined by the governing body.
- ***Ensuring accountability by management:***
 - For the ethical and cultural environment they develop and maintain within the organisation.
 - For the stewardship of the resources entrusted to their care.
 - For the accomplishment of the strategic plan and fulfilment of the organisations objectives.
- ***Designing and implementing the governance framework for the organisation.*** The governing body is accountable for the performance of the organisation, and retains overall responsibility for the organisation it governs; however, in most organisations the governing body cannot undertake all of the work of governance itself. To ensure the efficient governance of the organisation various responsibilities need to be delegated to people within the organisation's management. The governance framework defines the principles, structures, enabling factors and interfaces through which the organisation's governance arrangements will operate by delegating appropriate levels of authority and responsibility to managers and other entities, and ensuring accountability.

In summary, the governing body appoints, provides direction to and oversees the functioning of the organisation's management and makes the 'rules' the organisation's management and staff are expected to conform to. Management's job is to achieve the objectives of the organisation; working within its ethical and cultural framework, whilst complying with the 'rules' and providing assurance back to the governing body that this is being accomplished.

The implementation of governance

The governing body needs to implement the six functions of governance through an effective framework. This aspect of governance has been the focus of pragmatic consideration by a range of organisations including the Australian Institute of Company Directors (AICD) and the OECD.

The primary elements necessary to achieve this overall objective are outlined in the diagram below:



In this model governance is a single process with different facets. The ‘petals’ represent the five main themes of governance: governing relationships, governing change, governing the organization’s people, financial governance and, viability and sustainability. Other aspects of governance, such as the performance of the ‘governing body’ and of individuals who form the ‘governing body’ have been omitted in the interests of clarity.

The centre highlights the core values of a well-governed organization incorporating the six functions of governance discussed above.

Radiating out from the centre, each petal focuses on an area of governance requiring particular skills or knowledge. How governance is applied in each of these areas based on the ‘six functions’ augmented by specific capabilities, knowledge and skills. For example, financial governance to the standard expected by stock exchanges and governments is not possible without an appreciation of financial artefacts such as balance sheets.

However, the petals do not operate in isolation; a governance failure in any ‘petal’ will impact other areas and the organization as a whole. For example, governance and management failures in the area dealing with the organization’s staff, such as unfair dismissal or discrimination, can lead to litigation affecting the organization’s reputation and market value.

The model is designed to highlight both of these factors, governing any part of the overall structure of an organization requires specialist skills and knowledge whilst at the same time every aspect of the organization is linked and any failure in any specialist area will affect

other areas and the organization as a whole. The art of governance is to develop systems that can simultaneously provide the specialist skills and knowledge needed by each aspect of the organization whilst remaining an integrated part of the overall governance structure.

This model of governance is supported by the approaches taken by various governments in legislating liability for corporate and governance failures. Through such legislation, Directors of corporations are made personally responsible for governance and management failures of the areas for which they have accountability and responsibility

Governing Projects Programs and Portfolios (PPP)

PPP Governance is an integral part of the ‘governing change’ petal. It requires the creation and implementation of the framework and principles by which the organisation’s PPP activities are directed, supported, monitored and controlled.

Where:

- Framework = P + P + P management structures.
- Principles = stewardship, sustainability, stakeholders, etc.
- Direction = alignment with strategic objectives, etc.
- Support = organisational systems, HR, finance, etc.
- Monitoring = surveillance, PMOs, etc.
- Control = tie back to organisational objectives.

The Governance of PPP involves setting the ‘right objectives’, and then asking the ‘right questions’ so that the governing body can be confident the organisation’s management is making the best use of the resources assigned to undertake projects and programs. The ‘questions’ asked by the governing body need firstly to seek assurance the management structures providing answers to their questions is capable, effective and honest; then seek assurance that the resources as deployed by management are generating the optimum value to support the long, medium and short term objectives defined in the organisation’s strategy.

The Governance of PPP is focused on ensuring management develop and implement systems that are capable of ensuring the right projects and programs are selected by the organisation to support its objectives, and that the selected ‘few’ are accomplished as efficiently as possible. Management’s role is to understand the Board’s strategy and objectives and develop systems that are capable of offering effective ‘answers’ to both sets of questions as well as providing advice and recommendations for improvements.

Conclusion

The governance system and the management system are symbiotic, but whilst being mutually interdependent, the two systems fulfil very different functions². A well governed organisation is designed to allow these two systems to work together to the benefit of the organisation’s overall stakeholder community.

² For more on **governance and management systems** see:
http://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf

About the Author



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Dr. Lynda Bourne is Managing Director of Stakeholder Management Pty Ltd – an Australian based company with partners in South America and Europe. Through this global network she works with organisations to manage change through managing the relationships essential for successful delivery of organisational outcomes. Lynda was the first graduate of the RMIT University, Doctor of Project Management course, where her research was focussed on tools and techniques for more effective stakeholder engagement. She has been recognised in the field of project management through her work on development of project and program management standards. She was also included in PMI's list of 50 most influential women in PM.

She is a Fellow of the Australian Institute of Management (AIM) and a Fellow of the Australian Computer Society (ACS). She is a recognized international speaker and seminar leader on the topic of stakeholder management, the Stakeholder Circle® visualization tool, and building credibility and reputation for more effective communication. She has extensive experience as a Senior Project Manager and Project Director specializing in delivery of information technology and other business-related projects within the telecommunications sector, working as a Senior IT Project Management Consultant with various telecommunications companies in Australia and South East Asia (primarily in Malaysia) including senior roles with Optus and Telstra.

Dr Bourne's publications include: [Stakeholder Relationship Management](#), now in 2nd edition, published in 2009, the second, [Advising Upwards](#) in 2011. She has also contributed to books on stakeholder engagement, and has published papers in many academic and professional journals and is a columnist for PMI's *PM Network*. Her next book *Making Projects Work* is due for publication in 2014.

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