

## **Emerging need for improvement of project management practice in state enterprises**

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### **Abstract**

Project management approach as a tool for organizing implementation process of different investments is nothing new and we definitely could consider project management application in different areas as a good methodological basis for efficient spending of state enterprises funds.

Nevertheless there are still many problems areas as not always state enterprises and big corporation business shows transparency of funds allocation and expenditures. Mostly that is covered behind the laws and regulations to ensure companies have not put at risk their trade secret. State shares in enterprise are linked to the allocation of certain financial funds, especially in the fields which request important investments.

Paper analyzes the project management maturity level in state enterprises in EU member state Latvia. Author provides overall view on state enterprise structure in Latvia, investment environment and project management practices. Empirical research reveals that there are many problem fields in state enterprises and project management process not always well established.

**Key words:** *project management, Maturity, Public administration, State enterprise*  
**JEL codes:** *O220, H430, H540*

### **Introduction**

Effectively managing knowledge in projects is the key factor in the company gaining a decisive advantage. This is of special importance in those organizations running a significant number of projects on a yearly basis. This creates a multi-project environment which could generate challenges. However, it should be perceived as an enormous source of information. The companies which are able to profit out of this situation will definitely gain a competitive advantage on the market as the fast and efficient application of knowledge to the projects can effectively reduce their duration, budget and enhance the quality of their outcomes (Spalek, 2014).

In the terms of the economy's main sectors of the added value in operating capital, are public services, trade and services, as well as transport. The largest contribution to the

total added value source is transport sector, forestry sector, as well as public services. Most of companies, where the state is the largest shareholder, work only in the internal market. The largest capital is operating in sectors where there are monopolies (mostly energy sector). They are often compared to existing or potential competitors and that is a strong cost advantage. However, there are a number of industries in which capital operates in relatively strong competitive conditions, such as telecommunications, real estate, financial services and agricultural entrepreneurs training.

Project management application can be implemented as enterprise project management office. In many state enterprises that's an option what works best but meanwhile formal setting of such a project management office not always ensures success of the projects.

Enterprise Project Management (EPM), in broad terms, is the field of organizational development that supports organizations in managing integrally and adapting themselves to the changes of a transformation. Enterprise Project Management is a way of thinking, communicating and working, supported by an information system, which organizes enterprise's resources in a direct relationship to the leadership's vision and the mission, strategy, goals and objectives that move the organization forward. Simply put, EPM provides a 360 degree view of the organization's collective efforts.

In recent years, with general adoption of (IT) governance practices, Enterprise Project Management has become more specific: whereas in the 1990s focus was generally on the management of the single project, in the subsequent decade, the focus lay more on the fact that a project is likely to be not the only one in the enterprise. The project co-exists with many other projects in the enterprise, or may be part of one or more programs. It may utilize (human) resources that are shared among other projects.

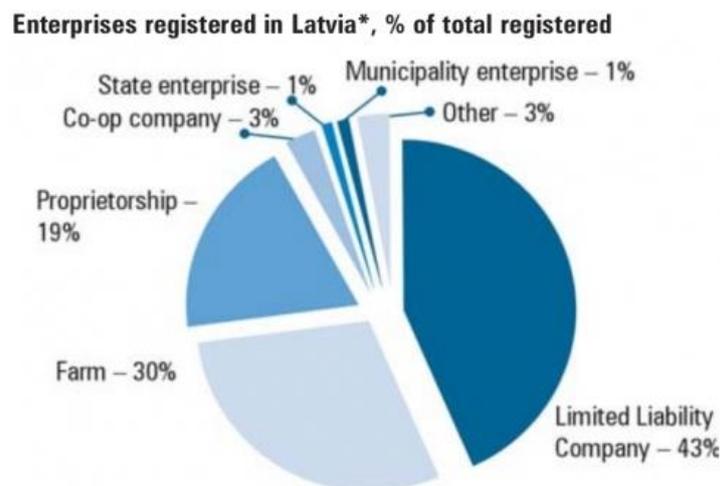
In order to facilitate governance, it has become essential to be able to manage, monitor, and assess the status of all projects (and other assets, of course) in the enterprise, through a set of (preferably uniform) Enterprise Project Management processes, methods and application packages (Parth Frank, 2002). Typically, organizations that adopt an Enterprise Project Management way of working, might set up a Project Management Office(PMO)/ Enterprise Project Management Office (EPMO), which is said to be more successful than a traditional PMO in addressing the priorities of the organization as its scope is enterprise-wide (PM Hut, 2010), might select and adopt a Project Management Methodology like PRINCE2, PMBOK (or create a proprietary method) or follow the concepts of IPMA Competence Baseline as a foundation for development and certification of project managers and their knowledge, experience and behavior. They might even select and implement a software system to support Enterprise Project Management.

An even more recent evolution in Enterprise Project Management is to not only plan and track the *existing* set of projects, but to create a portfolio (per budget size, per calendar year, per budget year, per business line, et cetera) of existing and future (demand) projects. This is called Project Portfolio Management. Just like the management of a portfolio of shares, Project Portfolio Management is the activity of selecting which projects to keep in portfolio (because of their anticipated value) and which ones to discard (because of their obsolescence or because they will not yield the value that was initially calculated). Project Portfolio Management includes the creation of various scenarios to decide which the best portfolio is (for a certain year, business, budget, and etcetera). Once the contents of the portfolio are agreed upon, it is key to constantly scrutinize how the individual projects are evolving in terms of quality, cost and schedule.

Implementing an Enterprise Project Management toolset needs to be considered in the light of the organization's Project Management Maturity and the methodologies, processes and governance structures that are currently in place. There are many consulting organizations that can support such implementations.

### State enterprises and project management processes in Latvia

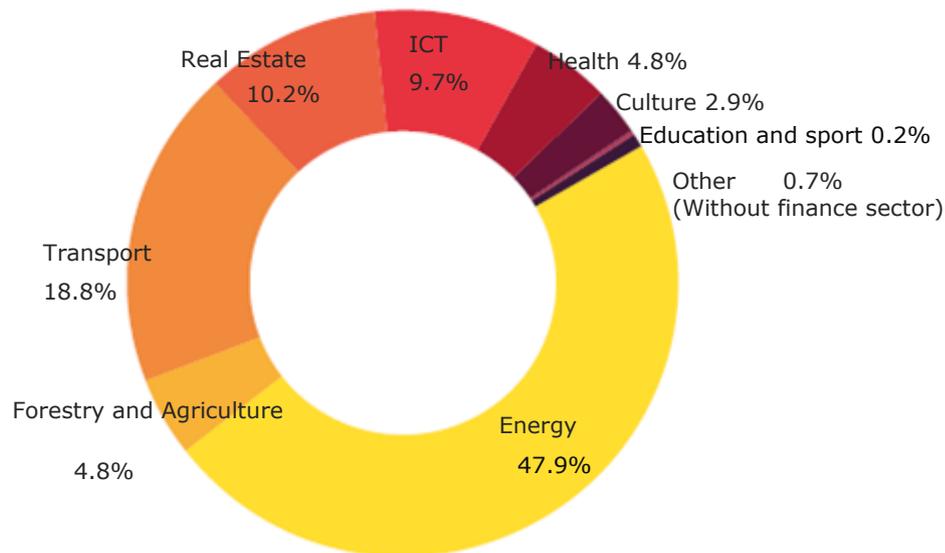
Latvian government is a shareholder in 142 enterprises which includes 74 enterprises where state holds 100% shares; which is around 2% of totally registered enterprises in Latvia (Fig.1).



**Fig.1. Structure of registered enterprises in Latvia**

Source: State Company register

The biggest sectors covered are energy and transport. Energy sector includes government shares in the state electricity supplier joint stock company “Latvenergo” and biggest gas supplier – joint stock Company “Latvijas gāze” following by real estate, information and communication technology sectors (Fig.2).



**Fig.2 Structure of registered enterprises in Latvia by sectors**

*Source: Cross-Sectoral Coordination Centre of Latvia*

Transport and logistics sector is vital for the Latvian economy growth, taking into account that in 2014 transport and logistics industry contribution to GDP accounted for 10% and it employs 9% of total labor. JSC "International Airport "Riga" is now implementing the most ambitious infrastructure project in the airport history, where total of project budget is estimated at 81.5 million euros. In addition, in September 2015 has been completed passenger terminal enlargement first phase and continue planned terminal expansion, constructing aircraft piers, baggage convey locations and other activities while providing access to the "RailBaltic" railway station within the airport.

However, in the end of 2015 the Riga port authority has completed 133.65 million euros worth infrastructure project, which is by far the most ambitious port infrastructure project implemented by Latvia. The main objective of the project is to move bulk of the city center on the river Daugava opposite shore, the construction of four bulk carriers handling berths with a total length of 1,180 meters and a depth at the berths of 15.5 meters. Access roads, railways access roads, utilities and communications to the port area have been constructed. The project total capacity is 20 million tons of bulk per year with the prospect accommodates ships with a draft of up to 17 meters.

SJSC "Latvian Railway" in December 2014, completed by far the largest rail infrastructure construction projects - the second track road construction Skriverskrustpils, which are crucial in increase of train capacity (including speed and security direction from Krustpils to Riga). The project is built track road 56 km in length with the relevant civil engineering and systems, a total investment of 107.4 million euros.

Transport sector also facing with challenging project implementation as "RailBaltic". "Rail Baltica" is part of international transport corridor "North Sea-Baltic". The main goal

of Global Project “Rail Baltica” is to develop the missing high-quality physical infrastructure and logistical railway connections for passenger and freight transport between Finland, the Baltic States and other EU countries. Currently these networks face interoperability issues caused by the differences in railway infrastructure standards, mainly the railway gauge width - isolated network in Baltic States operates 1520 mm railway gauge whereas the rest of EU has 1435 mm gauge railway network. The project will be financed by the member states and by the European Union TEN-T budget (€124 million), Structural and Cohesion Funds provided to the EU New Member States. The total cost is expected to be around €1.5 billion for option one and around €2.4 billion for option two.

All existing public and private capital for funding the infrastructure contains a variety of financial tools that can be applied for maintaining a competitive transport system, such as the Trans-European Networks - Transport (TEN-T) programme in cooperation with the financial instruments of the European Investment Bank, and financing and co-financing of the EU Structural and Cohesion funds of the EBRD

## Research

Latvian government has invested more than 2 billion euros in the state enterprises and that's a public expenditure what invested from taxpayer's money. Such a public funding request some transparency and good sound of financial management where society could rely that all investments and projects are implemented in most efficient way.

Author has participated in new initiative organized by State Audit Office of the Republic of Latvia, which according to risk analysis has shown that there are big problems when facing project management issues in the state enterprises.

As good direction author would like to point out that governmental institution - Cross-Sectoral Coordination Centre have made a steps forward improvements of state enterprise governance. So far there are elaborated three guidelines what are open for public commenting process. Nevertheless, process is begun with unified guidelines for strategic planning of the state enterprises. No doubts that even strategic planning is weak in those companies, but we can't forgot also about project management practices and enterprise capacity in project management.

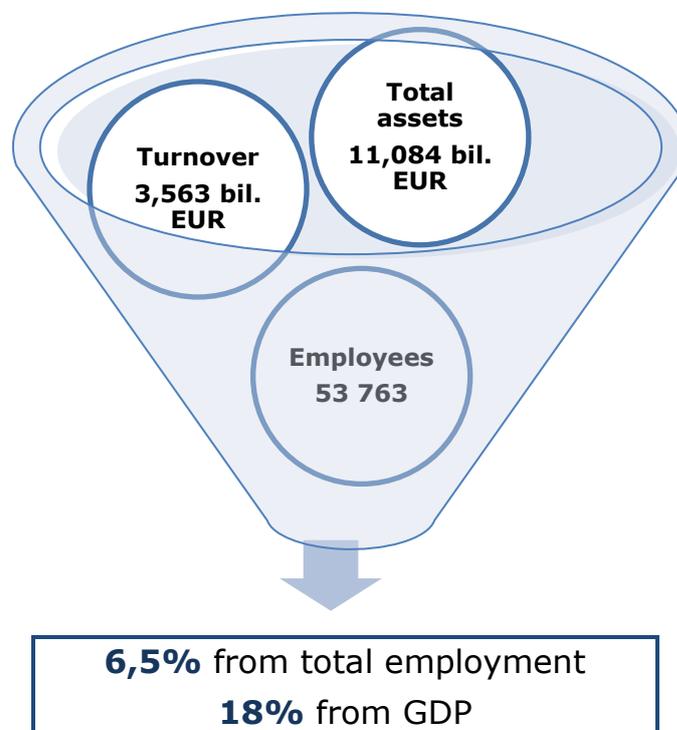
State-owned enterprises in Latvia are characterized as:

- Governance is decentralized
- Managed by the correspondent line ministries
- Managed in accordance with the state established sector policy and social needs.

Undergoing reforms and strategy of state asset management aims to centralize and improve governance of state-owned enterprises:

- Developing business apart of sectoral policy issues
- Centralized public asset management
- Defined in state capital investment goals
- Measures for return on assets and value enhancement.

In overall we can describe state enterprises as important actor in the state economy as it covers almost 1/5 part of total GDP of Latvia and also are important employer as well as taxpayer (Fig.3).



**Fig.3. State enterprise macro economical aspects**

*Source: Author construction based on available statistic data*

Recent project management audits have been done in the field of transport and energy and results from project management application use are shocking. Performance audit results reveals that in almost every audited project there were amount of investments what was spent inappropriate and is result of bad project management. In one case author finds out that there have been project where no actual project manager was appointed. For project with a budget more than 100 million euros and where top management has announced it as a project oriented activity implementation without project manager is unacceptable. In almost all large scale projects author can identify misleading interpretation of understanding of project goals. In many documents stated

project goal is defined different. I top management is not sure about their projects strategic goal means that they are not sure about project results.

Table No.1

**Project management practical application in state enterprises and problems identified by the project audits**

No.	Project management areas	Problems, actions
1.	<b>Project initialization</b>	<ul style="list-style-type: none"> <li>• Weak problem analysis (mostly analysis is centered to the current situation evaluation and not deep problem analysis);</li> <li>• Defined goals not always complies with other strategic goals and/or previous problem analysis;</li> <li>• No links between policy making, planning and budgeting (political influence).</li> </ul>
2.	<b>Project planning</b>	<ul style="list-style-type: none"> <li>• No project plans at all or they are very general, outdated;</li> <li>• No professional supervision of detail design elaboration process and assessment of proposed solutions and construction approaches (in construction projects);</li> <li>• No detailed alternative analysis.</li> </ul>
3.	<b>Project implementing</b>	<ul style="list-style-type: none"> <li>• Poor HR management;</li> <li>• weak project change management what is result of shortage of appropriate and detailed project planning (duties what should be done by the project team members in many cases are additionally outsourced);</li> <li>• Procurement problems, unprofessional documentation what contractors can use against client;</li> <li>• Weak contract management;</li> <li>• Weak risk management (risk management is retrospective and <i>postfactum</i>).</li> </ul>
4.	<b>Project closure, controlling and ex-post</b>	<ul style="list-style-type: none"> <li>• No result and goal achievement analysis or it is formal;</li> <li>• Slow product implementation and or start of processes what was project aimed for;</li> <li>• No future business strategy or it not complies with project specific goals;</li> <li>• No ex-post monitoring and/or evaluation of project impact.</li> </ul>

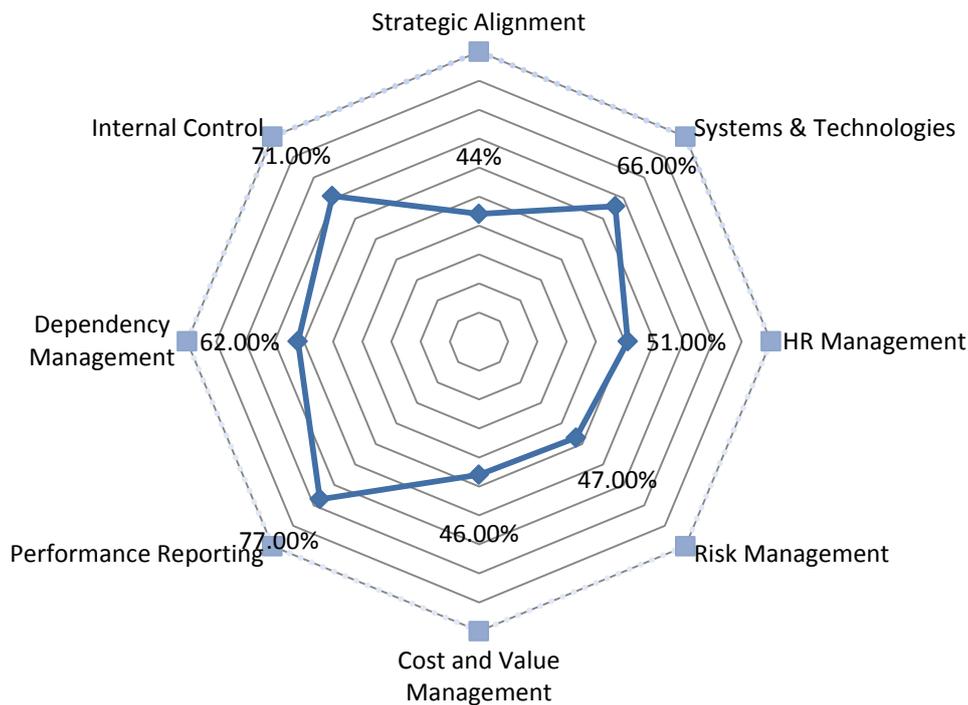
*Source: Author construction based on project audit findings*

Very often project human resources management are not in accordance with the objectives of the project, but considered based on the availability of resources. Human resources for the implementation of the project have been searched at the time of occurrence of the problem, rather than on timely manner, as required by good project management practices.

Meanwhile state enterprise implemented projects show a number of outsourcing procurements for services, which timely could be identified and eliminated if there

would be an appropriate planning and evaluation of human resources, as defined, for example in PMBOK® human resource management processes.

Most purchases are legal and expert services in order to avoid any problems in the project. It reiterates the human resources planning and the lack of adequate human resources to implement the project, as a consequence of outsourcing is that correct planning could lead to a lesser extent.



**Fig.4. Evaluation of project management maturity level in the Latvia's state enterprises**  
*Source: Author construction*

Based on empirical research using *Delphi* method, the author analyzed project management maturity aspects in the state enterprises. Maturity model is constructed as comparison of the actual situation versus desired situation (showing 100% of maturity) or situation where all processes would be set up and implemented according project management standards.

- Model includes such project management process elements as:
- HR management;
- Risk management;
- Cost and value management;
- Performance reporting;
- Dependency management;
- Internal control;

- Strategic alignment;
- Systems&technologies.

Author concludes that weakest parts identified as: Cost and value management, strategic alignment, risk management and HR management what has been identifies below 50% of desired status and results of project management processes. Meanwhile good results shows reporting, systems and technologies and internal control. We should remind that internal control is still managed by the enterprise and management board could have impact on internal audit priorities what could lead to such problems what was found during project audits. A company's system of internal control has a key role in the management of risks that are significant to the fulfilment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets. Systems and technologies have rapidly increased their importance in any enterprise and project management processes as itself.

Nevertheless not always developed systems and purchased technics and equipment shows practical application and help in project management development. For instance not always employees using developed software's (what was identified during IT system audits where in different cases was found out that users haven't even logged in developed programs for more than year or purchased equipment haven't been distributed and set up for use for a months and etc.).

Author would like to stipulate that in many cases problems occurred because of no clear strategic background and government vision on state enterprise management processes. Also we cannot forget about possible political influence on state enterprise management boards. Latvian Cross-Sectoral Coordination Centre now has taken leading role to establish clear state vision on state enterprise. So far Centre has elaborated three guidelines on strategic planning for state enterprises. Still no clear vision on how to improve investment and project management practice in those companies. Analyzing state enterprise policy and going towards joining EOOD society, experts have identified important aspects what should be improved for better governance of state enterprises. That includes central management model, centralized state asset management office, and implementation of overall rules also into local municipalities managed enterprises.

Of course many of those problems can be described as low human resource capacity, lack of professional project managers, but going further this direction we might lost more and more money. There are several other international practices what have been established in other countries, for instance, in the USA there is special enterprise project management offices (*ePMO*), what provides professional guidance and support in project implementation for state enterprises (in current case mostly for IT and innovation projects). If the Latvian government has established as one goal possible

centralized asset management office, maybe there is need to think about establishing a unit what could supervise and support project management processes in state enterprises?

Table No.2

**Current status on state enterprise corporate governance and compliance with OECT recommendation implementation**

<b>Initial concept</b>	
<b>Conformity with OECD guidelines</b>	<b>Partly</b>
<b>Partly centralized management model (exc. Elaborated guidelines)</b>	<b>No</b>
<b>Independent state asset management office</b>	<b>No</b>
<b>Evaluation of state participation (in process)</b>	<b>Yes</b>
<b>Medium-term goal and dividends policy, evaluation of results</b>	<b>Partly</b>
<b>Transparency and reporting</b>	<b>Yes</b>
<b>Professional, market value of an adequate remuneration of management and board officials</b>	<b>Partly</b>
<b>Same principle application for local government enterprises</b>	<b>No</b>

Source: D.Pavljuts (2016), *Corporate Governance Reforms in Latvia, Conference on state enterprise and governance reforms in Latvia, CSCC, 19.02.2016.*

## Conclusions

Paper analyzed important aspects in state enterprise governance what revealed that there is still a lot of problems especially in the field of investment and project management, as there is no clear and direct control from government over the state enterprise funds.

State enterprises not always established in open competitive market conditions what makes them not pay attention to more serious management practice improvements. Research results shows that project management maturity in the state enterprises are low and there is need for improvements in the field. Author identified such an impact factors as:

- No clear strategic alignment;
- Not well established HR management (especially in projects);
- No clear government vision and actions towards state enterprise system improvements.

Author concludes that Latvian authorities are urged to prepare a national strategy for timely and efficient transition to end-to-end state enterprise overall policy, setting out the specific objectives to be achieved, the process to be followed, the milestones and indicators.

Important further steps need to be made to address a number of important remaining issues. These include a robust and reliable monitoring and evaluation system, an effective and dynamic stakeholder's involvement and a focused priority setting by concentrating on fewer innovation- and knowledge-based development priorities in the state enterprise implemented projects.

In addition, the composition of the project framework should be clarified and coherent linkages between the presented documents and strategies established. An extremely low investment in measurement and evaluation exists. Most enterprises spend about one percent of their direct training and performance improvement budget on measurement and evaluation processes. Investments significantly lower than this amount may indicate a need for greater accountability.

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He has gained a BSc. in engineer economics, a professional master's degree in project management (MSc.proj.mgmt) and currently is a PhD candidate with a specialization in project management. He has elaborated and directed a number of domestic and foreign financial instruments co-financed projects. He was a National coordinator for a European Commission-funded program – the European Union's financial instruments PHARE program in Latvia.

Over the past 8 years Emils has worked in the public administration project control and monitoring field. He was a financial instrument expert for the Ministry of Welfare and the European Economic Area and Norwegian Financial Mechanism implementation authority as well as an expert for the Swiss – Latvian cooperation program as a NGO grant scheme project evaluation expert. He has gained international and professional project management experience in Germany, United States and Taiwan. In addition to his professional work, he is also a lecturer at the University of Latvia for the professional master study program in Project management. He has authored more than 30 scientific publications and is actively involved in social activities as a member of various NGO's.

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