Best Management Practice

Capital investment governance: The integrated governance of projects, programmes and portfolios

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Contents

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1 Purpose of the paper

The purpose of this White Paper is to present an integrated approach to the governance of projects, programmes and portfolios. It aims to demonstrate how the logic behind concepts such as ownership and accountability can be used to ensure a consistent approach to governance across an organization.

2 Defining capital investment governance

The importance of good governance in the delivery of capital investments has been recognized by the Office of Government Commerce (OGC[1]) for some time. For instance, OGC published a pamphlet entitled 'The eight common causes of project failure' (OGC, 2005), which refers to problems such as 'Lack of clear senior management … ownership and leadership' along with 'Lack of effective engagement with stakeholders', both important facets of project governance. Establishing effective project governance can be an issue, however, and when an organization is running numerous projects and programmes within one or more portfolios, ensuring effective integrated governance can be a challenge. The first challenge is agreeing a common definition of what exactly constitutes capital investment governance – you can't establish something if you can't agree what it is.

Capital investment is the commitment of money to purchase assets. This paper defines capital investment *governance* as the organizational framework that enables effective capital investment decision making.

This framework can be considered to have three pillars:

- *Structure*. This refers to the overall decision-making committee structure, which may need to address matters at the project, programme and portfolio levels, and also integrate with existing governance committees.
- *People*. Of vital importance is how the structure is populated. It must take into consideration the organizational accountabilities of those involved and how these translate into the capital investment sphere. Committee representation at all levels must be adequate for the direct needs of that investment, be it portfolio, programme or project, and no more. Overly large committees are the death of effective decision making.
- *Information*. Once the structure and representation are addressed, the success of the governance framework depends upon the quality of the information provided to the decision makers. It is important that this information is tailored to the needs of each committee and, in particular, is focused on optimizing the business investment and realizing its benefits rather than on the engineering outcomes sought.

3 Background

3.1 Queensland University of Technology study of PRINCE2

In early August 2010, the Queensland University of Technology (QUT) released the findings of a research project entitled 'Creating value in project management using PRINCE2®'. The research project was sponsored by APM Group Ltd (APMG), OGC and TSO.

The research project identified 'the dominant factors which participants believe constrain the success of PRINCE2 projects'. The project found that it was not the framework that was at fault but rather the organization's ability to effectively implement that framework. In particular, poor project governance was cited as a major failing:

> PRINCE2 participants were especially trenchant in their judgement of Project Board effectiveness. Project Board members were criticised for: not understanding their roles and responsibilities, lacking experience, or not possessing the necessary competency. Project Boards' membership was sometimes delegated to staff who had no decision making authority. Project Boards were not using the Business Case to periodically verify the continuing viability of the project. Senior management was also chided for its lack of commitment and leadership, and a tendency to bypass the Project Board. More generally, organizations were not giving sufficient priority to project governance.

On the basis of this study alone, it appears that project governance is not well understood or effected. The original PRINCE was established in 1989. If the governance arrangements it proposes are not well understood, it is likely that the governance elements of Managing Successful Programmes (MSP®), released a decade later, aren't well understood either. This year has seen the release of Management of Portfolios (MoP™) and so a further piece will be added to the capital investment governance puzzle.

3.2 National Audit Office report on assurance for high risk projects

The National Audit Office (NAO) released its report 'Assurance for high risk projects' in June 2010. The report dealt primarily with the assurance of high risk British government projects. Assurance is a very different topic to governance yet is closely tied to it since assurance provides decision-making support. One of the recommendations of the NAO report was to ensure the assurance of high risk projects was integrated across all (assurance) mechanisms. Since this paper addresses the integration of capital investment governance, and given the aforementioned link between governance and assurance, OGC requested it take the NAO report into consideration. There may

1 OGC (former owner of Best Management Practice) and its functions have moved into the Cabinet Office part of HM Government: www.cabinetoffice.gov.uk

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be an opportunity to better integrate the assurance mechanisms by linking them into an integrated governance framework. This is addressed in section 9. During the development of this paper, the British government launched the Major Projects Authority and this too is addressed in section 9.

3.3 The fundamental problems

Experience, and studies such as the QUT PRINCE2 study, suggests a number of fundamental problems associated with capital investment governance.

Failure to meet the needs of senior management

The QUT study and the experience of many project managers is that it is difficult to obtain the required level of commitment and involvement from senior management in the area of capital investments. It is likely that this is because capital investment governance currently does not meet their needs – *visibility* of the organization's major capital investments and the ability to *control* those investments.

Lack of understanding of the true purpose of capital investment governance

It is unsurprising there is a lack of understanding of the true purpose of capital investment governance given the lack of a common definition of capital investment governance itself. Governance committees are routinely used by attendees to update themselves on the project's progress. Quite often they are used as a mechanism for stakeholder management – one need only consider the size of the meeting. Very large meetings are usually indicative of a committee functioning more as a stakeholder group than a decision-making group. Yet capital investment governance, whether at the project, programme or portfolio level, or all three combined, is, or should be, fundamentally concerned with effective *investment* decision making (as opposed to *technical* decision making to differentiate it from those decisions made by project managers and their teams). Once functions such as information gathering or stakeholder management are incorporated, its primary remit will suffer.

Insufficient understanding of the principles of governance

A further issue is that the principles that underpin capital investment governance are not fully explained in the core guidance material. For instance, PRINCE2 talks of the Executive being accountable for the success of the project and representing the business but this can be interpreted in many ways. On a major project, there may be any number of senior executives who consider themselves capable of 'representing the business' but only one of them will be ideally suited to take on the role of Executive. Organizations need guidance on how to select that person. Similarly, when PRINCE2 states the Executive is accountable, it means exactly that – the responsibility rests with the Executive. However, some organizations have Project Board decisions ratified or endorsed by one or more senior managers in the organization. Such arrangements are at odds with PRINCE2's intent of treating the governance of change differently to that of business as usual. This is an example of one of the key findings of the QUT study into PRINCE2 – organizations are not always implementing PRINCE2 effectively and this is particularly noticeable with the project governance elements of the methodology.

Lack of clarity around integration of project, programme and portfolio governance

Large organizations are likely to have a mix of projects and programmes, with some form of portfolio management. This can result in numerous project and Programme Boards along with an executive management decision-making committee. The question then becomes one of decision rights – which boards make which decisions and to what extent those decision rights can be prescribed. Just as the governance arrangements themselves should be based upon a logical construct, so too the governance at the various levels should be integrated. That is, the decision rights should be internally consistent.

Lack of clarity around tailoring of governance arrangements

Organizations need to tailor governance to meet the organization's needs without losing its effectiveness. Large organizations might be delivering many, many projects and programmes. If each one was to have a Project or Programme Board, executives would find themselves doing little but attending meetings – clearly not a sustainable situation. Organizations therefore need to be able to modify capital investment governance guidelines to suit their particular circumstances. To do this properly requires an understanding of the underpinning principles and advice on tailoring approaches. For instance, it may prove helpful if advice was available on:

- how to avoid having an overwhelming number of Project and Programme Boards
- how to support senior executives who, because of the particular role they have in the organization, find themselves overwhelmed by the volume of their Senior Responsible Owner/Project Executive duties
- to what extent governance models can be modified before their intent is compromised.

Without such support, there is a risk that organizations will address their particular governance needs in a manner that creates issues rather than resolves them.

4 Existing Best Management Practice guidance on governance

The following is intended to give only the salient points of the guidance on governance provided by each source document. It is not intended to be fully comprehensive.

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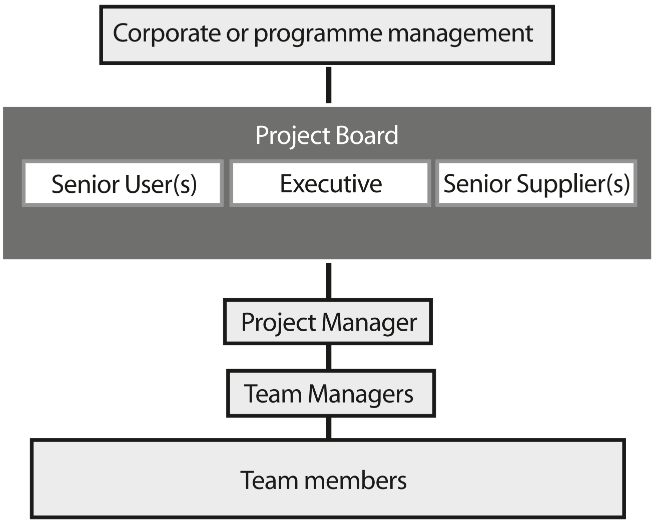

Figure 4.1 PRINCE2 project governance

4.1 PRINCE2

PRINCE2 introduces the concept of the Project Board comprising the Executive, who represents the business viewpoint and is chair; the Senior Supplier who represents the interests of those designing, developing and implementing the project's products; and the Senior User who represents the interests of those who will use the project's products. The Project Manager reports in to the Project Board but is not a member of it. Board members are supported by assurance roles. The PRINCE2 governance arrangement is shown in Figure 4.1. Note that details such as assurance roles and change authority have been omitted.

The Project Board is responsible for 'the overall direction and management of the project within the constraints set by corporate or programme management'. PRINCE2 shows the Project Board reporting in to corporate or programme management. On the size of the Project Board, it states that 'the Project Board needs to represent all of the interested parties in the corporate organisation, and involve any suppliers (internal or external) that have been identified'. It subsequently modifies this by saying 'it is good practice to keep the size of the Project Board as small as possible while still representing all business, user and supplier interests'. Certainly, the former statement could result in very large Project Boards indeed.

PRINCE2 describes the Executive as being 'ultimately accountable for the project's success' although also describes the Project Board as 'being accountable for the success or failure of the project in terms of the business, user and supplier interests'. The Executive 'is responsible for the Business Case' and 'responsible for ensuring the Business Case is written and approved'. PRINCE2 doesn't actually state who should approve the Business Case although it comments that, 'In some cases, programme management will provide an approved business case as part of the Project Brief'.[2] The Executive is the 'single point of accountability for the project'.

The Project Manager is described as 'the single focus for day to day management of the project' and operates within the constraints laid down by the Project Board.

4.2 Managing Successful Programmes

MSP integrates its governance approach with that of PRINCE2. Figure 4.2 gives an interpreted view of the governance relationships between the programme board, the PRINCE2 Project Board and the sponsoring group. MSP describes the sponsoring group as 'making the investment decision' and their role perhaps being performed by 'a standing corporate portfolio board'. The programme board is chaired by the senior responsible owner (SRO) who is 'ultimately accountable for the programme' and 'accountable for the success of the programme'. MSP describes the programme board as reporting to the SRO. The SRO is supported on the programme board by the following:

- the programme manager, who is responsible for the day-to-day management of the programme and is the 'agent' of the SRO
- the business change manager who has 'responsibility for benefits definition and management throughout the programme' and is 'key to providing the bridge between the programme and the business operations'
- project executives from key projects within the programme
- the lead supplier if appropriate
- representatives of corporate functions such as finance, HR etc.

MSP discusses integrating programme and project governance structures. It implies not all projects within a programme will have a dedicated project board. In key projects, the project executive may sit on the programme board. Other important projects may have the programme manager acting as project executive.[3]

Figure 4.2 shows an example of how the MSP description of governance may appear in practice.

4.3 Management of Portfolios

The current MoP guidance refers to the peak governance body as the portfolio direction group or investment committee and describes it as 'the governance body where decisions about inclusion of initiatives in the portfolio are made'. The portfolio direction group is supported in its activities by the portfolio progress group which reports to it. This is 'the governance body responsible for monitoring portfolio progress and resolving issues that may compromise delivery and benefits realization'.

2 Approval of a document is a critical concept in governance since it is tightly linked to accountability. As discussed in section 6, accountability is the cornerstone of good capital investment governance.

3 This is interesting in that the programme manager may well be an outsourced position. In section 6.2 the importance of the SRO or executive having a service outcome focus is discussed – this is unlikely to be the case with an outsourced programme manager/executive.

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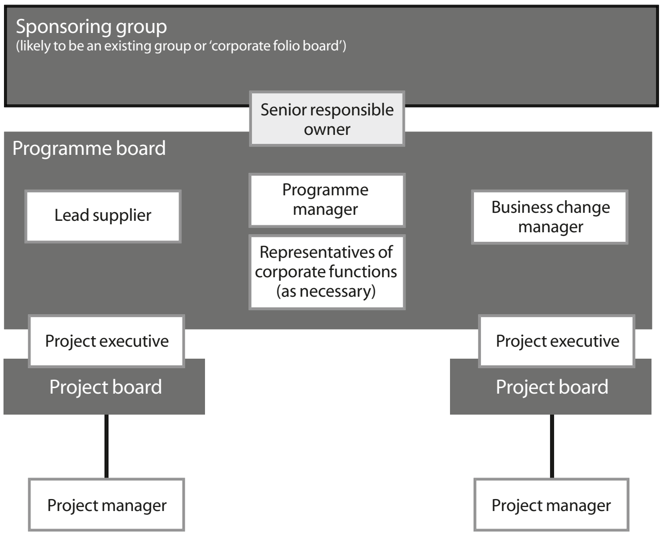

Figure 4.2 Programme governance arrangements

The relationship between the portfolio and programme levels in the organization is implicitly addressed through the medium of the business case:

- The decision to include initiatives in the portfolio, and their prioritization, is based on an assessment of the project or programme business case, hence there exists an implicit decision hierarchy between the project/programme board and the portfolio direction group.
- MoP mentions the usefulness of a staged gating process based upon the programme and/or project lifecycles, especially if it is linked to funding. While it does not explicitly state that the gating process is based upon reviews of the business case, it seems likely that this is the case.

4.4 Portfolio, Programme and Project Offices

Portfolio, Programme and Project Offices (P3O®) doesn't address capital investment governance as such. Instead, and as is to be expected, it analyses the governance arrangements for P3O– who should head them up, where they should be sited and how they should report. While important, these considerations are not central to this paper.

5 Business as usual versus change

Organization structures are primarily designed to facilitate the effective operation of a business on a day-to-day basis. Accountabilities established within the organization reflect these day-to-day operations, and the organization chart in turn reflects the accountabilities. Large organizations are therefore usually structured in a divisional nature and organizational accountabilities are arranged around the split of work between the various divisions in the organization and upon the management hierarchy.

Projects on the other hand are not driven by the need for routine or ongoing operational effectiveness and have very different structural needs. Whereas the organization has ongoing operational needs as its primary focus and has an organizational structure designed to deliver this, the project is a very dynamic environment with a relatively short-term focus. Large projects create impacts across the organization. Project stakeholders are not neatly arranged within an organization chart but are scattered throughout it. It is therefore not surprising that the project's needs cannot be met by the existing organization structure. This situation is described diagrammatically in Figure 5.1.

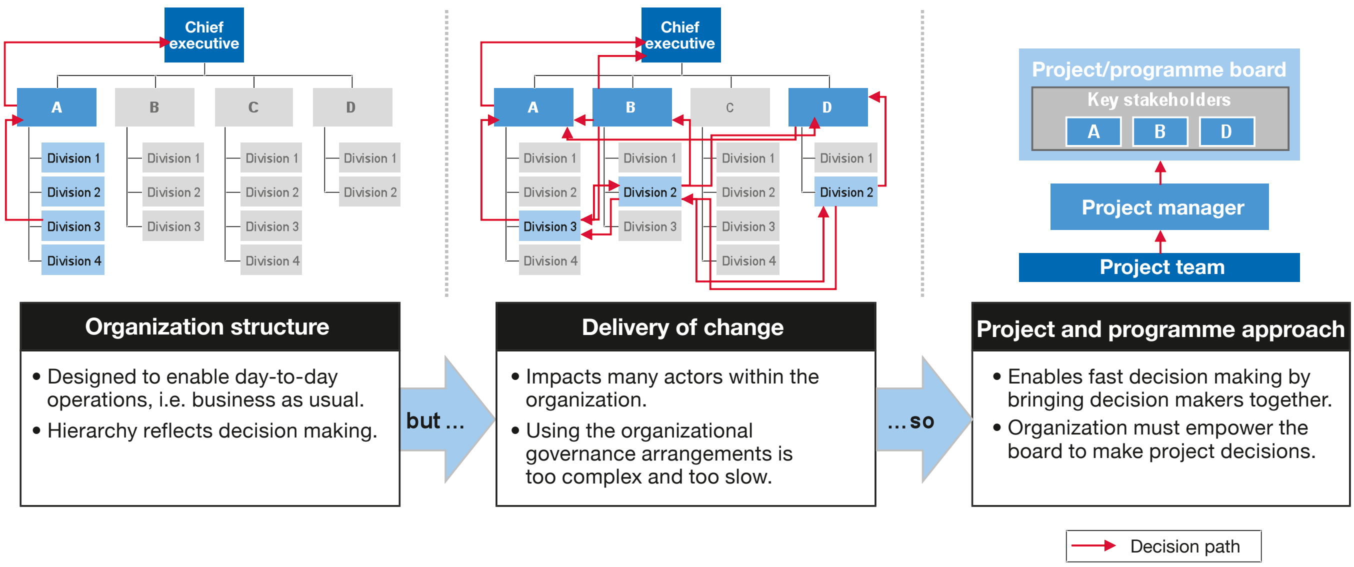

Figure 5.1 Organization structures do not meet project needs

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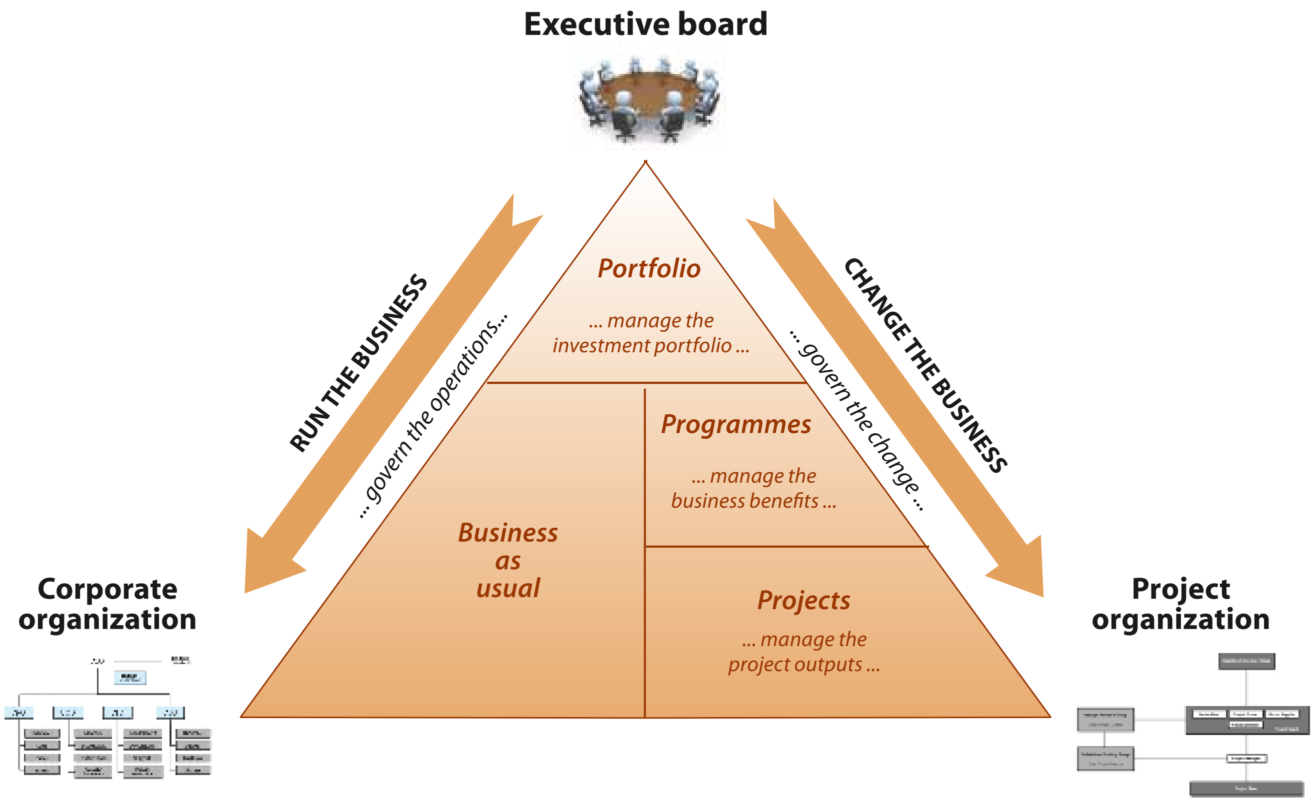

Figure 5.2 The Governance Triangle

This has a number of consequences for the project. In particular, it means that the project cannot utilize the organization structure for its own delivery purposes since that structure is not designed for delivering a project. The organization sets out to overcome these problems through the establishment of a project board. The intent is that key project stakeholders are brought together under the umbrella of the project board to make decisions as a group thereby ensuring the needs of key stakeholders are met and the delays associated with serial or layered decision making, as is typical of decision making in an organization structure context, are overcome. To a large extent, the same is true at the programme level. While both programmes and projects are serving the needs of the organization, their governance needs are not served by the organization structure.

Another way of picturing this is through the Governance Triangle (Figure 5.2). This model shows separate governance arrangements being used for business as usual, and change, and shows how these become aligned at the portfolio level.

6 Accountability

6.1 Single point of accountability

Best practice (both PRINCE2 and MSP) promotes a single point of accountability for the success of a project or programme, which remains unchanged over the project life. PRINCE2 refers to this person as the Executive while MSP refers to him or her as the senior responsible owner (SRO). A single point of accountability ensures clarity of decision making and empowers the accountable person within the organization. Consistency of this accountability throughout the project's life ensures decision-making consistency – the focus of the project, its objectives and the benefits it seeks remain consistent throughout its life, or at least are not changed without due process.[4]

Without such consistency of accountability, the direction and focus of the project may change. This is because the direction and specific focus that the accountable person brings to the project reflects their role in the organization, and so may change if the accountable person changes. This is not ideal if the change detracts from a service outcome focus (see page 9). Furthermore, transferring accountability from one person to another also runs the risk of blurring accountability

4 It is a role within the organization rather than a person that is made accountable.

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Identifying the accountable person

Figure 6.1 shows how a project can usually be considered as a mechanism to move from one level of service to another higher level of service. Projects enable step changes in service level. Within an organization there will be a person accountable for delivering the existing level of service. This person will also be accountable for delivering the future level of service or service outcome that the completed project will enable.

This person is clearly best placed to define the exact service outcomes they will require in order to deliver the level of service for which the organization will hold them accountable. Meanwhile, the Project Executive (or programme SRO) will be defining the outcomes that the project or programme must deliver. Unless these outcomes exactly match the required service outcomes, the project will deliver a suboptimal service outcome and the new service level will not be achievable.

There is one sure way to ensure that the outcomes defined and delivered by the Project Executive exactly match the service outcomes required by the organizational owner of those services and that is to ensure both are defined by the same person.

In other words, service ownership determines project ownership. This places business interests at the heart of project delivery.

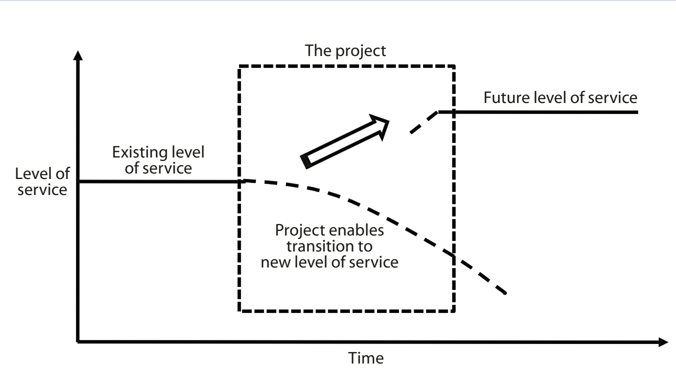

Figure 6.1 The project as a transition mechanism

since decisions at one point in the project lifecycle may have been shaped by those made under previous accountability arrangements.

6.2 Service outcome focus of accountability

Projects deliver assets and assets act as platforms for the delivery of services. The primary reason for investing in a project is to achieve a service outcome. Therefore the service outcome should always be the focus of the project from an *investment* perspective. Hence, the person accountable for the success of the project should be that person best positioned to maintain a service outcome focus for the investment being made. This is best determined by an examination of organizational roles and responsibilities to identify that role in the organization that is accountable for the service outcome in question. Without this approach, there is a risk that the delivered outcome will not provide optimum value for money since decisions may not necessarily be made on the basis of the service outcome and may therefore be suboptimum from a service perspective. Examples of suboptimality might be:

- the timing of the delivery may not be optimum – the asset may have been delivered earlier than was necessary thereby delaying a more worthy project
- the asset may not be optimally integrated with other assets in the network
- changes to the asset's design may have been approved to meet construction needs but result in additional whole-of-life costs
- reduced benefits as a result of changes during development not being service outcome focused
- those involved in service delivery may not consider the project deliverables suitable for their needs.

6.3 The accountability equation

Service outcome accountability determines project accountability since the primary reason for a project investment is to enable a future service outcome. Therefore, if a person is accountable for a service outcome, they are accountable for the project that delivers that service outcome. This equivalence is displayed in Figure 6.2. Furthermore, when a person is accountable for the

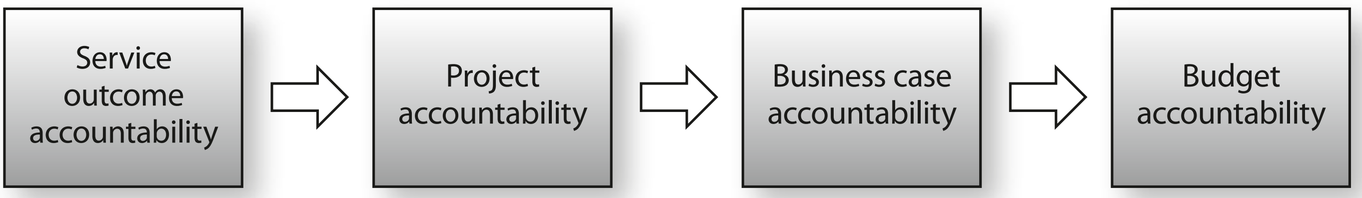

Figure 6.2 The accountability equation

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success of a project, they must by definition be accountable for the business case since the business case describes the project and the justification for undertaking it. Without control over the business case, there can be no control over the project itself. Similarly, there is no accountability without empowerment and that is provided in part by budget accountability – without budget ownership there is no real control of the project.

Consequently, the accountability equation of Figure 6.2 must hold for the governance arrangements of a project to be fully effective. This is not to say that a project will fail if its governance arrangements do not reflect the accountability equation, but its outputs are likely to be suboptimal.

Therefore, the person accountable for the success of the project is accountable for, amongst other things:

- Defining and focusing upon the service outcome throughout the project's life
- Owning and approving the business case and changes to it
- The project budget and the tolerances set.

What decisions should be made by the project board?

Generally, any decision that can have a material impact on the business case should be made by the executive/project board.

The logic should be apparent; the business case describes the project and the justification for developing it. Since the executive is accountable for the project, and therefore the business case, any matter that can have a material impact on that business case must fall within the decision remit of the executive and project board.

The concepts discussed in this section apply equally to programmes. However, there will be programmes, usually large ones, where there will be more than one service involved (perhaps more than one organization) and so it will not be as simple to identify who should be made accountable for the programme – there may be several candidates. The identification of the SRO in such circumstances could be addressed by the likely apportionment of risk and capital on the programme, where the SRO is selected from the organization carrying the greatest risk.

6.4 Supplier accountability

In-house suppliers often consider themselves accountable for the success of the project – after all, projects are their business. However, the supplier is accountable for delivering the project within the constraints laid down within the business case, i.e. on schedule, within budget, to the required level of quality etc. Hence the executive/SRO approves the business case and the delivery arm delivers within the constraints laid down in that business case. These arrangements can become blurred.

For example, sometimes, in both explicit and implicit purchaser/provider arrangements within an organization, there is a tendency for the purchaser to hand over too much responsibility to the provider and not fulfil the executive's role. This often happens when purchasers are not adequately resourced to fulfil their executive obligations – organizations often concentrate all their project delivery skills in their project delivery group, forgetting the project skill needs of the business. Alternatively, the provider (supplier) can 'capture' a project and take on too much responsibility and accountability and become, to all intents, the project executive. In either case, the resulting effect is that the delivery arm of the business drives service outcomes and the result is again at risk of being suboptimal.

7 Decision rights

Clarity around decision rights at the project, programme and portfolio levels within an organization is critical to effective governance. Without such clarity, decision making becomes ad hoc and blurred. Further, if the governance framework is to be effectively integrated, it is essential to ensure the decision rights are internally consistent and logical.

7.1 Projects and programmes

Since PRINCE2 uses product-based planning, many project decisions will, or should, involve approval of key project documents. Foremost amongst documents is the business case since it provides the ongoing justification for the project and is therefore central to decision making.

What event initiates a project?

Since 'a project is a *temporary organization* that is created for the purpose of delivering one or more business products according to an agreed business case' (PRINCE2 definition), it must have a start and a finish. Organizations often struggle to initiate projects effectively because they can't identify the initiating event.

The solution is straightforward. A project should not exist without governance in place or else there can be no effective project decision making. The very first step in establishing governance is to appoint the accountable person.

Hence the event that initiates a project is the appointment, by corporate, portfolio or programme management, of the Project Executive.

Figure 6.2 indicates the importance of linking project accountability with Business Case accountability. Hence, PRINCE2's Executive, who is accountable for the success of the project, should be the person that approves the Business Case. It would be sensible if at the same time, other board members endorse the document to show their support for it. Remember also that the Business Case is a live document and is developed throughout the early stages of the project. It will therefore have various iterations that require approval. Documents that feed

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the Business Case, such as the Project Brief and Project Plan should also be approved by the Executive and endorsed by the Executive's colleagues on the Project Board. PRINCE2 proposes management by exception. For this to work effectively requires the baseline against which exceptions are to be measured to be well defined and documented. The project will therefore produce other documents that should be approved by the Executive.

On large and complex projects, the Executive is likely to be reporting in to, or perhaps be a member of, a Programme Board. Reporting to the Executive will be a Project Manager. Clarity of decision rights requires all three parties to be clear as to who approves what (four parties if a Programme Manager is included). This should be defined by the project – guidance is provided in the accompanying text box. Broadly, the Project Board should make decisions on matters that could have a material impact on the Business Case. Even before the Business Case as a document exists, a high-level Business Case exists in other forms, such as the Project Brief. It is the role of Project Board members to determine what constitutes materiality throughout the project's lifecycle.

The accountability of the Project Manager on the other hand relates to delivering the project within the constraints laid down in the Business Case. Only the Executive/Project Board can vary the Business Case. Hence, any issues of or changes to scope, cost, schedule, risk or quality that fall outside agreed tolerances should be referred to the Project Board.

The larger and more complex a project is, the more likely it is to actually be a programme – in other words, a group of related projects that together will deliver certain benefits. In some instances, therefore, one or more of the constituent projects will have Business Cases that are a subset of the main programme Business Case. For instance, some projects may have no benefits directly attributable to them, but rather contribute to delivering the overall programme benefits. In such circumstances, the project Business Case is less about justification and more about costs, risks, schedule, scope manage ment and so on. Some, perhaps all, of these parameters may be laid down by the Programme Board. So in a programme situation, the decision to vary the Business Case may not be within the remit of the Project Board but rather fall within that of the Programme Board. Any decision, whether document-, design-, issue- or risk-related, that can have a material impact on the programme Business Case should be taken by the Programme Board. Thus, major project risks on critical projects may be escalated to the Programme Board.

7.2 Decision rights at the portfolio level

Most large organizations have some form of executive management team that takes the strategic decisions in respect of the organization. Often, such a group, or a subset of it, is constituted as some form of investment decision group[5], where, as the newly released MoP puts it, its purpose is to make 'decisions about inclusion of initiatives in the portfolio'. The investment committee is supported by analysis provided by the portfolio office.

It is worth expanding upon the quote above. How does the investment committee determine what initiatives should be included? The answer is again centred on the business case. When an initiative is first proposed and comes to the attention of the investment committee there will be little detail available on it. At that early stage it may only figure in planning documents and it is quite possible that little in the way of rigorous justification will have been undertaken. At this stage, it may not even be a project or programme in the delivery sense of these words (although planning work done to date may have been treated as a project by planners). The investment committee, therefore, may have little analysis on which to proceed, compared to the detail they will have when the initiative has had a full business case developed.

> The business case is not just a *document* – it is a *process* that remains live throughout the project or programme.

Therefore they may be basing their decision on a broad cost estimate along with a view on the extent to which the benefits of the initiative will contribute to the strategic objectives of the organization – that is, a high-level benefit and cost assessment. On this basis the investment committee will determine whether or not to include the initiative in the portfolio. This becomes its first investment decision in respect of this initiative. However, this should not be a 'one-off' decision. The initiative will need to be developed and part of that will include development of the business case. The investment committee has the opportunity to review its investment decision at the next controlled iteration of the business case. This could be, for instance, upon approval of the project/programme brief which is one of the earliest statements of project justification in the project lifecycle. Presented with an approved project brief, the investment committee can determine whether the project should remain as part of the portfolio. This decision can be given teeth by linking it with further funding of project development.

This portfolio investment decision arrangement is referred to as a staged investment gating process. When the project or programme develops to a certain point, it is referred to the investment committee which determines whether it warrants ongoing funding. The investment decisions are normally tied to iterations of the business case or related documentation. When the full business case has been developed, the investment decision becomes whether to commit to funding the project and taking the project to the market. When the market responses are received, the investment decision is dependent upon whether the market response alters the business case or falls within its parameters:

5 Variously known as investment committee, portfolio management committee/group, portfolio direction group etc.

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Project lifecycle	Strategic assessment	Preliminary assessment	Business case development	Procurement	Build	Service delivery
Key project documents	• Strategic business case	• Preliminary business case • Concept design	• Final business case • Procurement strategy • Detailed design	• Updated final business case • Bid evaluation report	• Contract • Project completion report	• Benefits realization plan • Business case
Major milestones	• Project est. • Project executive appointed • Governance est.	• Advisors appointed	• Procurement model decided • Decision to approach market taken	• Expression of interest issued • Request for tenders issued • Contract award	• Construction start • Commissioning complete	• Commence operational service • Close project
Estimates and accuracy	• No estimate or based on past projects • ± 100%	• Preliminary estimate based on concept design • ± 50%	• Pre-market estimate based on detailed design • ± 15%	• Contract price • ± variations	• Actual outturn • ± 0%	
Accompanying government announcement	• '…Investigating various options for the development of […] preliminary estimate available in approx […] months'	• '…Preliminary estimate based upon concept design. More detailed estimates will be developed before any investment decision is made'	• '…Pre-market estimate developed as part of final business case for project. Decision to proceed subject to market providing value for money response to request for tenders'	• '…[Company name] has committed to deliver the project at a price of [contract price] which represents a value for money outcome in line with the government's business case'		
Investment decision	Strategic decision to proceed	Funding to develop the final business case	Final business case; commitment to fund; procurement model	Investment decision		
Gateway process gates		Business justification gate 1	Delivery strategy gate 1	Investment decision gate 3	Readiness for service gate 4	Operational review and benefits realization gate 5

Figure 7.1 Example investment decision gating framework

- If the market response falls within the business case parameters, then the investment decision is whether to fund the build phase (given that the organization committed to the project at full business case stage, this is virtually a rubber stamp unless something major and unforeseen has occurred)
- If the market response falls outside the business case parameters, e.g. the cost is higher than anticipated, the investment decision is whether to support an update to the business case to determine the ongoing viability of the project or, possibly, fund the project in any case.

An example of such a staged investment gating process is provided in Figure 7.1. Note how the investment decisions can be tied to a variety of other project parameters such as milestones, estimate accuracy and even government announcements that include the necessary caveats. The Gateway process can also be integrated into the overall framework, and this is discussed in section 9. Note that the investment decision is separate from the decision as to whether to approve business case. The latter is made by the project or programme board on the basis of whether the change is justified. The investment decision is not about project justification, but whether it is in the strategic interests of the organization to invest in that project as opposed to channelling those funds to a different purpose.

Accountability for the success of the portfolio should normally lie with the chief executive officer (CEO). Ideally the CEO should chair the peak body but in reality, that responsibility is often delegated to another member of the investment committee.

8 Issues that may arise

The arrangements described in section 7 represent a model. There will be very few organizations that do not have to modify or adjust these arrangements to make them truly useful in their particular environment. What should remain constant in virtually any environment are the principles described in section 6 on accountability. The following section describes some of the situations in which organizations may find themselves when developing governance arrangements.

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8.1 Resourcing the executive/senior responsible owner

Organizations with large capital programmes often create divisions that specialize in delivery. A common example of this is infrastructure growth organizations where it is common to see a 'major projects' group. This division is resourced with project professionals who are often sourced from across the organization. The problem that can arise is that project executives and SROs are seldom members of this division because, as discussed in section 6, these positions should be drawn from those areas with accountability for the service outcome that the change is intended to achieve. And that is a different area of the organization to the project delivery area. The executive/SRO is effectively the customer of the delivery area and it's important for the business that they act as a sophisticated customer. They, therefore, require resources to help develop those aspects of the change that relate to the service outcome – areas such as the business case, benefits, service requirements, and the assurance functions that support these. However, with project expertise stripped from their area, they may not have the resources to fulfil that role effectively. In the absence of customer-focused resources, the void in these areas will be filled by the project delivery area and they are not usually best placed to define such business areas. The outcome may therefore be suboptimal.

Making sense of the layers of accountability

The *executive* is accountable for the success of the *project*.

The *SRO* is accountable for the success of the *programme*.

The *CEO* is accountable for the success of the *portfolio* (assuming the portfolio covers the whole of the organization).

If one project 'fails', the focus should be on the executive.

If many projects within the programme are failing, the focus should be on the SRO since it would appear that the foundation for success of the projects has not been laid.

If programmes and projects are regularly failing across the organization, the focus should be on the CEO with a view to implementing an investment management framework.

This situation is apt to arise when organizations use a purchaser/provider arrangement as was mentioned in section 6.4, since that business model appears to encourage a handover of responsibility, even accountability, for the project from the customer (purchaser) to the supplier (provider) in the organization. This, in turn, encourages project-focused resources to migrate to the provider side of the business.

Organizations should therefore recognize that the change owners in the organization must be provided with project resources in order to act as sophisticated customers, and that this may require procurement of additional resources.

8.2 SRO knowledge gap

Organizations can find themselves in the situation where the executive/SRO lacks some of the skills required to undertake the role effectively. They may be right from the perspective of owning the service outcome and therefore best placed to own the project that will deliver that outcome, but not have either the necessary technical skills or project/programme delivery skills. Such situations may arise, for instance, when a department is introducing a major information and communication technology (ICT) change and the executive/SRO does not have the ICT knowledge or skills to deliver it. In these circumstances, the answer lies in supporting the executive/SRO rather than changing the person in the role.

Some organizations do this by introducing the role of project or programme director. This role acts as the eyes and ears of the executive/SRO and focuses on the business perspective while the project manager or programme manager maintains more of a delivery focus. The latter positions normally report to the director role. One way of looking at the relationship between project/programme directors versus project/programme managers is that the former spend more time managing upwards, while the latter concentrate on managing downwards into the project or programme. Clearly the director role must have strong delivery credentials and their allegiance must be to the executive/SRO.

8.3 Project and programme board size

On large programmes and projects, the committee size often grows to accommodate the growing number of stakeholders – and this is the issue. A project or programme board is primarily a decision-making forum under the definition of capital investment governance described at the beginning of this paper. Usually, large project or programme boards indicate that this purpose has been blurred and that the board is trying to serve two purposes: decision making and stakeholder management. The solution is to recognize these as separate activities and to establish separate, although linked, mechanisms to address each. One mechanism for addressing this is provided in Garland (2009).

Projects should normally be able to limit project board numbers to around six. If a project struggles to achieve this, it may be because it is actually a programme with a number of related projects. It can be difficult to limit programme board numbers to six since there are necessarily more key stakeholders and perhaps more than one funding party. While there are no hard and fast rules, more than 10 people in a meeting tends to reduce its effectiveness, assuming all are participating in the business of the meeting.

8.4 Too many project boards and not enough SROs

In many organizations, trying to establish a PRINCE2 Project Board for every project will result in managers spending an inordinate amount of time in Project Board meetings. Also,

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some managers will find themselves nominated as Executive/SRO for more projects than they can deal with. Organizations should consider the following options:

- The number of Project Boards can obviously be reduced by combining a number of projects under a single Project Board. The issue is ensuring the right representation on the board to address the needs of each project, without the board becoming too large. The key person (the SRO) is clearly not an issue since they are the common factor on each project. Resist the urge to combine projects under a common board if they do not share a common SRO according to the guidelines of section 6.2. It will often be the case that Senior User and Senior Supplier roles have some commonality across the projects. Of course, there is an argument that says this approach isn't actually saving any time since the same matters have to be addressed and whether that happens at one meeting or many is immaterial. The reality is somewhat different – it does save time and it forces greater focus on management by exception and time keeping
- Organizations such as utilities, which often have numerous small projects, can establish one or more standing Project Boards, where the same members are required for multiple projects
- Another option for reducing the workload on SROs is to push accountability for smaller projects to lower levels in the organization. However, it is still best to ensure that the accountability for the project is matched to accountability for the service outcome
- Use a tiered system for categorizing projects. At its simplest it can be capital cost-based although a risk-based framework is better – a capital cost-based tiering is just a proxy of risk in any case. Lower tier projects can be governed with less rigour.

8.5 Handover of accountability

Ideally, the executive or SRO should hold that role for the duration of the project or programme. This isn't always possible and on long programmes there may be changes of personnel. Too many changes will most definitely adversely affect the programme. If it can't be avoided, it may be as well to have a formal handover of accountability, where the key documentation is 'baselined' at that time.

Sometimes, too, the organization's business model necessitates accountability being transferred from one part of the organization to another – for instance from planning to service delivery. In the early planning phases, the service outcome may be owned by the planning function making them logical project/programme owners. As the planning progresses closer to implementation, it may be more appropriate for that part of the business that will use the completed project to deliver the service outcome to assume the mantle of accountability. Such a handover can be best managed by observing a few 'rules':

- Accountability should always follow the ownership of the service outcome. It is unlikely, for instance, that accountability would transfer to an ICT delivery group or the construction arm of a business since they do not logically own the service outcome
- The handover should be formal, with a formal handover of key documentation
- The makeup of the governance body should reflect the new arrangements. Almost certainly, the party that relinquished accountability should remain on the governance body to support the new owner.

9 Supporting decision makers with assurance: The UK government's approach

The UK government has developed a number of project assurance mechanisms to provide an increased degree of assurance on major projects. These mechanisms have been developed over some years in response to perceived gaps in the coverage of existing mechanisms and to better meet the assurance needs of government. This has resulted in the potential for overlaps and means, generally, that the assurance landscape for major projects is not integrated.

The NAO report, 'Assurance for high risk projects', raised two broad concerns regarding project delivery within the UK government:

- 'The lack of a clearly stated and enforceable mandate for assurance across government and consequences for non-compliance;
- The design of the system, particularly the lack of integration across the individual mechanisms and the reliance on point in time assurance.'

In response to this the UK government has recently established the Major Projects Authority (MPA), which has the fundamental aim of 'significantly improving the delivery success rate of Major Projects across Central Government'. Assessment by MPA is mandatory for all projects above departmental expenditure limits. For such projects, HM Treasury must authorize the release of funds, which it will only do on the recommendation of MPA following an assurance review. The mandate of MPA includes, among other things, requiring integrated assurance and approval plans for each major project or programme. Hence MPA requires that projects and programmes themselves develop an integrated approach to the assurance mechanisms they would employ over the life of the project.

The assurance mechanisms used within the UK government, along with their purpose, are reproduced below:

- OGC Gateway™: To provide an independent point in time review of project status prior to a key decision point in the project lifecycle.

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- Major Projects Review Group (MPRG): Part of HM Treasury's validation and approval process for high-value projects, typically those greater than £1 billion, or projects which are particularly innovative or complex. MPRG provides assurance to HM Treasury ministers on the deliverability, value for money and affordability of a project. MPRG can recommend that a project proceeds, proceeds with conditions attached, or is stopped.
- Starting gate: To help departments identify delivery issues and risks much earlier in the policy development process before transition to a project or programme, and so help prevent the common causes of project failure. It is mandatory for major projects.
- Assurance of action plans: To provide SROs with assurance that the project is addressing the issues that have led to a low delivery confidence rating in a recent Gateway review.
- Government Major Projects Portfolio: A portfolio reported upon by the MPA consisting of the highest risk projects or programmes.
- Project Assessment Review: A flexible assurance review that is tailored to the particular stage that the project has reached.

While addressing the full scope of the NAO report is beyond the remit of this paper, there is an opportunity to address concerns regarding integration since a primary role of assurance is to give decision-making support and provide a level of comfort to decision makers.

The UK government is already moving towards an integrated assurance approach. HM Treasury and Cabinet Office guidance (2011) shows how various assurance mechanisms are integrated with HM Treasury approval points, which are based upon specific business case related points in the project/programme lifecycle.[6]

Figure 7.1 indicates how the Gateway gates interact with the key investment decisions. OGC Gateway is designed to support the executive/SRO. However, the first three gates are also ideally suited to support the investment decisions at those points in the project/programme lifecycle, and investment decisions are the remit of the portfolio group/investment committee rather than the project/programme board that is chaired by the executive/SRO. The same could be said of MPRG. The assurance of action plans is tied to Gateway and so can be addressed in a similar manner.

If assurance mechanisms are to be integrated and coordinated to best meet the needs of projects and programmes, a common and consistent approach is required and this will be best governed and subsequently managed from a single point. The MPA does not manage assurance but rather requires projects and programmes to ensure they are taking an integrated approach to assurance through the development of the integrated assurance and approval plans. The assurance mechanisms mentioned above are well positioned to support investment decision making at the portfolio group/investment committee level. This suggests that the determination as to which process should be used should be made by this group – that is, the cohort of senior management within a department that makes investment decisions, or recommends such decisions to HM Treasury. Factors that will require assessment to determine which mechanisms should be used on which projects and programmes include:

- The risk associated with the individual project or programme
- The risk status of the overall portfolio, since that enables a portfolio perspective to be applied
- The strategic importance of the projects/programmes
- The perspective of the executive/SRO.

Such assessment, and the information that supports it, should be the remit of the portfolio office in an organization. The portfolio office can then advise the investment committee on the preferred assurance option. Departments that have not yet implemented portfolio management will address these decisions at the board of management/executive management team level, perhaps supported by a project management office to undertake the analysis.

Note that if Gateway is to support investment decision making, the Gateway report, or some derivative of it, must be made available to the investment committee. This may be at odds with the current arrangement where the Gateway report is owned by the executive/SRO. However, the mandate of the newly formed MPA may result in changes to these protocols anyway.

Taking a portfolio approach will support a common and consistent approach to the determination of the assurance mechanism to be applied to any particular project or programme within a government agency.

10 Conclusion

Capital investment governance, the integrated governance of projects, programmes and portfolios, is the framework that enables effective capital investment decision making. This framework is built around three fundamental concepts:

- Having clarity of accountability and a clear line of sight of accountability from the portfolio level, through the programme level, to individual projects
- Clarity and commonality of ownership of the service outcome to be delivered by the change, the change itself, its budget and the change business case
- Clarity of decision rights at each level in the capital investment governance framework.

6 The Major Projects Authority and guidance on integrated assurance were established as this paper was being written. For further details see the Cabinet Office website http://www.cabinetoffice.gov.uk/content/major-projects-authority. The new edition of *Managing Successful Programmes*, published in the summer of 2011, includes a generic approach to integrated assurance.

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These concepts must be underpinned by a logic and rationale that resonates with organizations and their management in order to ensure support for the uptake of the governance framework.

Such a framework will provide senior executives with visibility and control of the organization's investments, which in turn will encourage them to continue to use effective capital investment governance.

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