Fair Project Governance: The Role of the Client's Corporate Governance

Christine Unterhitzenberger, Lancaster University Management School

Dietmar Moeller, Merck KGaA

Corresponding author:

Christine Unterhitzenberger

Lancaster University Management School

Bailrigg

Lancaster LA1 4YX

c.unterhitzenberger@lancaster.ac.uk

Abstract

Projects are gaining more and more importance in the global economy and big corporate firms need to ensure that their complex large-scale investment projects are suitably governed. Looking at project governance through the theoretical lens of inter-organisational networks, where the corporate client is the lead organisation, we investigate the role of the client's corporate governance on fair project governance. With the initial findings of a single holistic case study, we develop five propositions about this relationship.

Track: 17 – Operations, Logistics and Supply Chain Management

Special Session: Project Management

Word count: 2,073 excl. tables and references

Introduction

Despite the worldwide trend of projectification, under which organisations change their way of working from business-as-usual to project structures, there is still a number of corporations, for which running complex projects is not an everyday business (Lundin et al., 2015). Turner et al. (2010) propose that around 40% of the global economy is based on projects. This does however not mean that these 40% are undertaken in a professional environment where established project structures are in place and project management is a core competence as it would be the case in project based organisations (Müller et al., 2015). Quite the contrary – large corporate groups frequently run their business as operations and non-standard projects do not belong to their core business. They regularly undertake complex projects only in exceptional cases and – especially for large-scale investment projects in IT or construction – need to bring in external expertise to develop and deliver the project. This creates complex temporary inter-organisational settings, which need to be governed carefully in order to satisfy the needs of the corporate and the project.

The governance of a corporation focuses mainly on the connection of the relationships of its stakeholders to the corporation and amongst them (Monks and Minow, 2011). The stakeholders in this case are e.g. directors, managers, employees, shareholders, customers, creditors, or suppliers, with each of them having a variety of interests and constituents, which are often conflicting with each other. While it is recognised that more recently there is some deviation, in general it is widely accepted that corporations' governance practices are determined by national institutions and based on country standards (Aguilera et al., 2018). Hence, the following question arises: If corporate governance is established through national institutions, what is the role of corporate governance in determining project governance? We will look at this relationship through the theoretical lens of inter-organisational networks, which are characterised as a set of actors with recurring connections who come together for shared objectives and aims (Mountford and Geiger, 2018, Oliver and Ebers, 1998). We will furthermore utilise the theory of organisational justice, which is concerned with the perception of fairness in the working environment (Greenberg, 1990), to evaluate this relationship. By doing so, we create the term fair project governance and we will explore the link between corporate governance and project governance in terms of inter-organisational networks, in particular in regards to the perception of fairness.

Theoretical Background

"Interorganizational networks (…) are groups of legally separate organizations connected with each other through exchange relationships, common or complementary goals, and/or common bonds or social relationships that are sustained over time" (Williams, 2005, p. 223). Based on this definition we suggest that projects, which involve multiple organisations – as it is often the case with large-scale investments projects as mentioned above – can also be viewed as inter-organisational networks. Ligthart et al. (2016) use the term inter-organisational projects in this context as this adds the time aspects of temporariness and temporary embeddedness to the characteristics. Research on network theories differentiates between emergent and orchestrated networks, whereas emergent networks are networks, which emerge spontaneously amongst actors who perceive a mutual interdependence and orchestrated networks are networks, which have a lead organisation that deliberately recruits other organisations to form a network (Dagnino et al., 2016). One key aspect in orchestrated inter-organisational networks is that the lead organisation recruits the members and defines their relationship and cooperation (Paquin and Howard-Grenville, 2013). This suggests that inter-organisational projects would be orchestrated networks with the client as the lead organisation who has the power to recruit the actors and to determine how they interact. Ferrary and Granovetter (2009) define the presence of this lead organisation as a "specific agent in a network [who] induces specific interactions with other agents that could not take place [if] this agent were not there".

With this power the lead organisation, i.e. the client, can also influence how the project is governed, set the strategic goals, choose the actors to form a network for project delivery and provide the financial resources for the project. Through intentional governance the client can "plan, implement and control the formation of interorganizational ties and the entire network structure" (Dagnino et al., 2016, p. 351). Past studies suggest that there is no common and universally agreed definition for project governance, but for our work we decided to use the frequently used definition by Müller (2009, p.4): "the value system, responsibilities, processes and policies that allow projects to achieve organizational objectives and foster implementation that is in the best interest of all stakeholders, internal and external, and the corporation itself". This definition touches on the relationship between the project and the corporation (or lead organisation) which we highlighted earlier, but it does not attempt to understand the interplay between them. The study by Mountford and Geiger (2018) looks in more detail at the relationship between governments and inter-organisational networks in terms of field governance, i.e. the governance of certain organisational fields and what the roles of each actor are. They use the four dimension by Djelic and Sahlin-Andersson (2006) to evaluate how regulatory patterns change: 1) who is regulating; 2) the regulatory mode; 3) the nature of rules and 4) compliance mechanisms. We adapt these dimensions to the corporate-project-level and evaluate the regulatory patterns between the lead organisation (client) and the project.

Methodology

We adopt the philosophical lens of interpretivism to conduct our study. Interpretivism recognises the humans as social actors and emphasises the importance to understand differences between them (Saunders et al., 2016, Creswell, 2009). This perspective is appropriate for research undertaken with humans where we try to understand the participants' world from their point of view. We use an inductive approach as we aim to develop a theoretical explanation for a phenomenon and we will be guided by the data collected (Saunders et al., 2016). For this purpose, we collected qualitative data through a holistic single case study where our unit of analysis is the case.

Case

For our single case study we chose an unusual case which does not comply with theoretical norms or everyday occurrences (Yin, 2018). Our case is a project, which was completed on time and under budget according to specification with a very satisfied client and stakeholders – considering that 6% of projects are wholly unsuccessful and that only 22% meet their objectives this project can be classified as unusual (APM, 2015). Furthermore, it utilised a real bonus model where contractual partners were rewarded if they achieved certain milestones, instead of contractual penalties, which are often viewed as punishment. The project encompasses the construction of an innovation centre for a pharmaceutical and chemical company in Germany with an annual turnover of £ >10 billion and was conducted from 2014 – 2018. The total value of the project was £ >200 million and a major investment for the organisation.

The internal organisational structure of the project is outlined in Table 1. It needs to be highlighted that one external partner is included in this internal list. The reason for this is that the project management consultancy worked very closely with the client and was regarded as almost internally when it came to decision making in the project. Furthermore, the organisation had put a steering committee in place in which the executive level and the programme lead as well as the project management consultancy (project lead) where represented. In addition, heads of department who were involved in the project were present in the steering committee.

Level	Role	ID	Internal/external	Project role
Executive	Chairman of the Executive Board and Group CEO	CEO	Internal	Funder
	Member of the Executive Board and Division CEO	DCEO	Internal	Sponsor
Programme	Programme lead	PrgL	Internal	Programme Lead
	PMO	PMO	Internal	PMO
Project	Project lead	ProL	Internal	Project Lead
	Head of Architectural Design	HAD	Internal	Architectural Design
	Project management	PM1-9	Internal	Sub-project management
	Project control	PC1-3	Internal	Project control
	IC Operations	ICO	Internal	User
	M&E engineer	MEI	Internal	User
	Project management consultancy	PMC1-4	External	Project management consultancy

Table 1– internal organisational structure

The project was an internal project for the organisation (client), which was supported with external expertise as required. The joint project responsibility lay with the Project lead and the Head of Architectural Design who were supported by an external project management consultancy, various internal sub-project managers who dealt with the day-to-day business, an internal M&E engineer and an internal controller. The project's outputs were produced by the project team, which was led by the external architect who sub-contracted the relevant engineering and consultancy services and who managed the external contractors who were directly commissioned by the client.

Data collection

Data collection for this case study took place approx. 6 – 12 months after project completion. This allowed us to obtain a comprehensive picture about the behaviours, perceptions, processes and policies during the project as the participants had time to reflect on the project. For the data collection we used the following sources of evidence in order to develop converging lines of inquiry (Yin, 2018): workshop, interviews and document analysis. Firstly, we conducted a two-day workshop with key project team members (see Table 2 for details on the participants). The aim of the workshop was to review the project and its key aspects, to discuss its success factors and lessons learned. The workshop was audio recorded and transcribed. The flipcharts created during the workshop were also used as data. Furthermore, we used an observer to take field notes during the workshop to record non-verbal behaviours.

Role	**ID**	**Internal/external**
Project lead	ProL	Internal
Head of Architectural Design	HAD	Internal
Project control	PC1	Internal
M&E Engineer	MEI	Internal
Project manager	PM	Internal
Project management consultant (project lead)	PMC1	External
Project management consultant	PMC2	External
Project management consultant	PMC3	External
Project management consultant	PMC4	External
Architect (project lead)	Arch1	External
Construction manager	CM	External

Table 2 – Participants in the workshop

Secondly, interviews with a variety of project team members were conducted. The sampling of the interviewees ensured that different perspective of different roles in the project were captured (see Table 3 for details on the interviewees). This enabled us to generate an in-depth understanding of the behaviours, perceptions, processes and policies in the project. All interviews were audio recorded and transcribed.

Role	**ID**	**Internal/external**	
Chairman of the Board and Group CEO (at the time of the project)	CEO	Internal	Conducted
Division CEO	DCEO	Internal	Conducted
Project lead	ProL	Internal	Conducted
Head of Architectural Design	HAD	Internal	Conducted
Project manager	PM	Internal	Scheduled
Project management consultant (project lead)	PMC1	External	Conducted
Architect (CEO)	Arch2	External	Conducted
M&E engineer (CEO)	MEE	External	Scheduled
Structural engineer (project lead)	SE	External	Scheduled
Façade contractor (CEO)	FC1	External	Conducted
Façade contractor (technical project lead)	FC2	External	Conducted
Façade contractor (commercial project lead)	FC3	External	Conducted
Building contractor (project lead)	BC	External	Conducted
M&E contractor (CEO, project lead)	MEC	External	Conducted

Table 3 - Interviewees

Thirdly, documents we collected in order to gain another perspective on the project. The documents are partially commercially sensitive and hence, only a limited number of project documents can be used for analysis. The following documents were provided: project hand book, project organisation, post implementation assessment and project reports. In addition to internal project documents the public domain was also sourced for documents. We used newspaper articles and website reports about the project as well as the book publication which was produced after completion of the project.

Data analysis

The data will be analysed using phenomenology. Phenomenological research has its focus on describing the joint meaning of a lived experience of a concept or phenomenon for various individuals (Creswell, 2013). This analysis is particularly appropriate for our case study research as we have a group of individuals who participated in the research and we aim to explore a description of the universal essence, i.e. a composite description of the phenomenon (Creswell, 2013). The analysis will be guided by two questions: What have the individuals experienced and how have they experienced it (Moustakas, 1994)? Analysis undertaken using phenomenological research traditionally moves from significant statements, i.e. very narrow statements, to broader units or meaning units and then onwards to mid- and high-level themes (Creswell, 2013). In order to administer the data analysis we use the software NVivo.

Discussion and Conclusion

The initial screening of the workshop and interview transcripts has provided some interesting insights and hence, we would like to present a number of propositions based on this screening:

1. The client's corporate governance has an impact on the project governance, but it does not necessarily shape or define it.
2. The individual actors in the lead organisation, who are in charge of the project, have the power to implement an appropriate and fair project governance, if the corporate governance allows for this.
3. The regulatory mode of fair project governance is composed of a mixture of hard rules and agreements in the contract and soft, non-binding guidelines and behaviours.
4. The nature of rules is predominantly informal and developed through cooperation and constructive discussion.
5. The compliance mechanisms are focused on rewards for achievements instead of punishments for non-achievements.

Overall, the data screening so far suggests, that a lead organisation and the actors within it have the overarching power to shape the governance in an inter-organisational project. There are however, nuances in the regulatory pattern, which we need to understand better and investigate in more depth.

References

AGUILERA, R. V., JUDGE, W. Q. & TERJESEN, S. A. 2018. Corporate governance deviance. *Academy of Management Review,* 43**,** 87-109.

APM 2015. Conditions for Project Success. London, UK: Association for Project Management.

CRESWELL, J. W. 2009. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches,* Thousand Oaks, CA US, Sage Publications Inc.

CRESWELL, J. W. 2013. *Qualitative Inquiry and Research Design: Choosing among Five Approaches,* Thousand Oaks, CA US, Sage Publications Inc.

DAGNINO, G. B., LEVANTI, G. & MOCCIARO LI DESTRI, A. 2016. Structural dynamics and intentional governance in strategic interorganizational network evolution: A multilevel approach. *Organization Studies,* 37**,** 349-373.

DJELIC, M.-L. & SAHLIN-ANDERSSON, K. 2006. *Transnational governance: Institutional dynamics of regulation*, Cambridge University Press.
FERRARY, M. & GRANOVETTER, M. 2009. The role of venture capital firms in Silicon Valley's complex innovation network. *Economy and Society,* 38**,** 326-359.
GREENBERG, J. 1990. Organizational Justice: Yesterday, Today, and Tomorrow. *Journal of Management,* 16**,** 399-432.
LIGTHART, R., OERLEMANS, L. & NOORDERHAVEN, N. 2016. In the shadows of time: A case study of flexibility behaviors in an interorganizational project. *Organization Studies,* 37**,** 1721-1743.
LUNDIN, R. A., ARVIDSSON, N., BRADY, T., EKSTEDT, E. & MIDLER, C. 2015. *Managing and working in project society: Institutional challenges of temporary organisations,* Cambridge, Cambridge University Press.
MONKS, R. & MINOW, N. 2011. *Corporate Governance* Chichester, UK, John Wiley & Sons.
MOUNTFORD, N. & GEIGER, S. 2018. Duos and Duels in Field Evolution: How Governments and Interorganizational Networks Relate. *Organization Studies,* 0**,** 1-24.
MOUSTAKAS, C. 1994. *Phenomenological Research Methods,* Thousand Oaks, CA US, Sage Publications Inc. .
MÜLLER, R. 2009. *Project Governance* Gower Publishing Ltd.
MÜLLER, R., PEMSEL, S. & SHAO, J. 2015. Organizational enablers for project governance and governmentality in project-based organizations. *International Journal of Project Management,* 33**,** 839-851.
OLIVER, A. L. & EBERS, M. 1998. Networking network studies: an analysis of conceptual configurations in the study of inter-organizational relationships. *Organization studies,* 19**,** 549-583.
PAQUIN, R. L. & HOWARD-GRENVILLE, J. 2013. Blind dates and arranged marriages: Longitudinal processes of network orchestration. *Organization Studies,* 34**,** 1623-1653.
SAUNDERS, M., LEWIS, P. & THORNHILL, A. 2016. *Research methods for business students,* Harlow, Essex, Pearson Education Limited.
TURNER, R. J., HUEMANN, M., ANBARI, F. T. & BREDILLET, C. N. 2010. *Perspectives on projects,* New York, Routledge.
UNTERHITZENBERGER, C. & BRYDE, D. J. 2018. Organizational Justice, Project Performance, and the Mediating Effects of Key Success Factors. *Project Management Journal,* 50**,** 1-14.
WILLIAMS, T. 2005. Cooperation by design: structure and cooperation in interorganizational networks. *Journal of Business Research,* 58**,** 223-231.
YIN, R. K. 2018. *Case study research and applications: Design and methods,* Thousand Oaks, CA, Sage Publications.