1

Corporate governance influences how organizational objectives are set and achieved. (ASX, 2007; OECD, 2004) and also fosters self-regulation within a greater context, without determining every action of organizational actors (Clegg et al., 2002). Hence, “governance is ultimately concerned with creating the conditions for ordered rule and collective action” (Stoker, 1998, p. 155).

Agency theory assumptions have been highly influential in shaping corporate governance systems

Transaction cost economics (TCE) is concerned with the possibility of opportunistic behavior eventuating, which may be caused by organizational actions being driven by self-interest and an ambition to minimize costs (Williamson, 1979). In order to minimize the total costs of a good or service, different costs (e.g., production, search or information) must be taken into account before making a decision about suppliers, outsourcing, mergers and acquisitions, and any coordination between firms such as alliances or contractual agreements. TCE can, therefore, help to understand governance and organizational decision making. In its original form, Williamson (1975) outlines three drivers of transaction costs: (i) contingency factors (e.g., frequency and asset specificity); (ii) behavioral factors (e.g., bounded rationality and opportunism), and (iii) context (i.e., institutional

Table

Stakeholder theory takes into account of a wider group of constituents rather than focusing on shareholders. Where there is an emphasis on stakeholders, the governance structure of the company may provide for some direct representation of the stakeholder groups.

Table 2

The governance of a project involves a set of relationships between the project's management, its sponsor (or executive board), its owner and other stakeholders. It provides the structure through which the objectives of the project are set, and the means of attaining those objectives and monitoring performance are determined.

2

Classical means of governance are regulations (proscriptions/injunctions

or prescriptions/orders), economic means (sanctions or

incentives) and information (advice or warnings) (Bemelmans-Videc, Rist, &

Vedung, 1998).

The most common governance

field is corporate governance; “a system

[that] shapes who makes investment

decisions in corporations, what types

of investments they make, and how

returns from investments are distributed”

(O’Sullivan, 2003, p. 24)

Corporate governance systems are composed of three areas: internal governance processes

(structure, composition, and authority of the board; the relationship between board and management; and internal inancial and auditing controls), the quality of the independent auditing

functions in the national economy, and the nature and quality of the corporate law and regulatory mechanisms designed to shape corporate activity (Monks & Minow, 2004, referred in Detomasi, 2006).

Corporate governance is defined thusly (OECD, 2004): Corporate governance involves a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Governance has to cover all levels of the organization. Governance should flow from the government level, through government agencies responsible for execution, down to the project level. It should define how resources and risks are distributed among stakeholders (society at large); laws and regulatory mechanisms make up the structure and information.

3

Most often PBOs are organized in a matrix structure where the line and project organizations exist alongside each other (Turner and Keegan, 2001).

4

Even though TCE is criticized for its crudeness in the form of primitive models, underdeveloped trade-offs, severe measurement problems, and too many degrees of freedom (Williamson 1985), it is frequently used to address research issues and explain marketing phenomena. An example includes the investigation of the question of what governs the adaptability of organizations, where Williamson (1994) conceptually concluded that companies know better than the market what goes on, and their internal dispute leads them to adaptation, which is by outsiders viewed as the invisible hand (in the sense of Adam Smith).

5

Limitations of governance

The review of literature above showed that governance provides a mental framework for decision-making and behavior within a society's cultural, ethical, and moral standard. The authority exercised by governance institutions ranges from consultative only to governmental policy and law-making. Within this continuum the responsibility for action is delegated to the actor in a governed organization. Several limitations spring from that and are valid at both the organizational and the project level. Decisions by actors are subject to interpretation of the framework within an organization's or project's context and the situation at hand, leading to a range of possible decisions and behaviors in the face of uncertainty and ambiguity of information, and the subjectivity of the interpretation of the situation and its context. Thus, governance does not anticipate actors' decisions and behavior, but sets the stage for actors to decide on it. Despite the clear philosophical positioning of governance through Foucault's (1926–84) philosophy of neo-liberalism, the related ontological and epistemological basis of research on governance is less clearly articulated and left to the different research streams and its constituent perspectives. These streams are approached using objective, subjective, and conceptual approaches. However, suggestions on possible research epistemologies at the level of governance (not its constituent parts) are lacking. Stoker (1998) identified the idiosyncrasies of governance theory as: • Actors are taken from within and outside the governed institution; • Actors work in autonomous self-governing networks; • Boundaries and responsibilities to tackle social problems are blurred; • Power dependencies in collective actions are hidden and need to be identified; (p. 306) • The capacity to get things done does not rest on the power of the governance institution to command or the use of its authority. It shows that a variety of epistemological stances is indicated for future research, thus going beyond the current prevalence for conceptual and case studies. Project Governance Page 11 of 29 PRINTED FROM OXFORD HANDBOOKS ONLINE (www.oxfordhandbooks.com). (c) Oxford University Press, 2015. All Rights Reserved. Under the terms of the licence agreement, an individual user may print out a PDF of a single chapter of a title in Oxford Handbooks Online for personal use (for details see Privacy Policy). Subscriber: University College London; date: 14 August 2016 Positioning TCE from a contract lens (the firm as governance structure) in relation to orthodoxy lens, as defined by Williamson (2002) (the firm as technology production system, focused on proper resource allocation), he concluded that as asset specificity and disturbance increase, partners become more dependent on each other, because failure has increasingly large consequences. Further research is indicated on the relevance of the unit of analysis, possibly integrating current viewpoints into new perspectives beyond the traditional ones of production, contract, or competence. The combined use of game theory, organization theory, and TCE could allow the development of more comprehensive models in the future. Further, contract science needs to be better understood and more dynamically applied in reality (Williamson 2002).

<https://books.google.co.uk/books?hl=en&lr=&id=zGlLcX7SjnYC&oi=fnd&pg=PR4&dq=project+governance+example&ots=MIaT_SVAgZ&sig=r-_5keN2w2_cyXy_siwVWx5PCao>

6

Furthermore, literature on corporate governance emphasizes various agency problems resulting from the separation of ownership from control that characterizes modern corporations (La Porta et al., 2000; Shleifer and Vishny, 1997; Letza et al., 2004). In particular, this literature examines mechanisms and measures applied by shareholders to ensure that their hard earned capital is not wasted on inefficient investments, or even outright stolen by managers that have been provided the authority to run the corporation. It has been argued that an actor engaging in any economic transaction needs to deal with three fundamental problems: coordination, safeguarding, and adaptation (Williamson, 1975,

 Furthermore, the extensive literature on corporate governance, adopting an agency perspective, has focused on identifying situations in which the goals of the principal may not be in alignment with the goals of the agent, and proposed mechanisms and measures (predominantly contractual in nature) to counter this problem (Jensen and Meckling, 1976; Eisenhardt, 1989; Shleifer and Vishny, 1997).

In the context of project business of multiple firms and stakeholders, there is an evident need to clarify the concept of project governance. A number of concepts for project governance have been proposed.

Transaction cost economics has highlighted three different forms of governance, market, hierarchy and hybrid, i.e. network.

In addition to literature discussing the governance of economic transactions, there is a vast literature on corporate governance which concentrates primarily on the agency problem, i.e. the separation of ownership and control.

To address this problem corporate governance literature sheds light on the design of governance systems that aim to ensure that the capital invested by shareholders is put to effective use by managers that act as their agents. A central element of these governance systems is the contractual arrangement between the principal and the agent, and several scholars have devoted attention to the identification of incentives that help to align the objectives of the managers with the objectives of the investor.

There are three kinds of literature discussing governance in project contexts. First, literature focusing on analyzing a single firm's governance scheme with its multiple projects. Second, literature considering large multi-firm projects as contract organizations. Third, literature considering projects as hybrid or network like structures involving multiple interconnected actors, as opposite to atomistic market structures directed by the invisible hand of competition or governance structures relying solely on the presence of one supreme hierarchical authority.

According to our view, a clear and sufficiently broad definition for project governance that would fit the context of large complex projects does not exist. More specifically, there is a lack of agreement concerning what governance of large projects encompasses, or in other words, what are the practices, complex interactions, and institutions that are relevant when large projects are carried out between the client, the seller, and other involved firms, and to what outcomes do different practices and institutions lead to.

7

Governance has become an increasingly popular theme in the project management literature. This reflects a widening of focus away from the purely technical and operational tasks that need to be fulfilled to deliver project outcomes, to encompass a much greater interest in how interactions between the multiple actors responsible for undertaking those tasks are organized and coordinated (see, for example, Atkinson et al., 2006; Clegg et al., 2002; Flyvbjerg et al., 2003; Miller and Lessard, 2000; Pitsis et al., 2003; Pryke and Smyth, 2006; van Marrewijk et al., 2008; Williams et al., 2009; Winch, 2001, 2009). Kloppenborg and Opfer (2002) describe this in terms of an increased focus on stakeholder identification and management

Inspired by the ‘cognitive approach’ to project risk and uncertainty proposed by Winch and Maytorena (2011), we focus on three alternative conceptions of decision-maker cognition: optimizing, optimizing within limits, and satisficing. These are presented in Table 1.

The core argument advanced by Explanation Type A (cf. Davidson and Huot, 1989; Flyvbjerg, 2009; Flyvbjerg et al., 2002, 2003, 2005; Wachs, 1989, 1990) is that the performance of megaprojects is often disappointing, because non-viable projects are so regularly undertaken. I