Good Governance

Critical Success Factors and Implementation Mechanism

Organisational, Project-based and Economic Perspective and the Role of Standardisation

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Governance can be regarded as the core of business, management as well as economic development and performance. It influences on the one hand strategies in organisations and on the other hand operational business through projects, programmes and portfolios. Moreover, in a broader sense governance is also related to the functioning of governments and related authorities to provide the fundaments for market and economic growth.

Good governance, defined as the quality management and orientation of development policies with a decisive impact to the decision-making processes (Mira & Hammadache, 2017), is critical for the successful implementation of an organisation's strategy, projects, programmes and portfolios and corporate standards as well as for creation and maintenance of a well-functioning market and economy. Good governance reflects the values and principles of an organisation or country resp. region, taking into account contractual and legal requirements as well as cultural and ethical norms, thus facilitating the achievement of the organisation's and government's strategic objectives and complying with internal and environmental constraints. Moreover, numbers of economists consider that good governance has also a positive influence on economic performance and growth (see Fig.1).

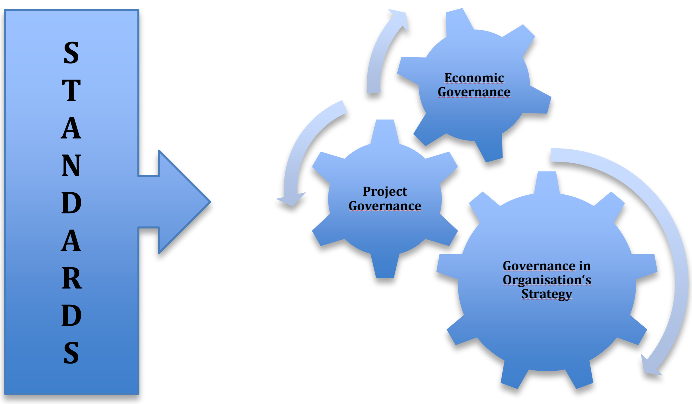

Fig. 1: Good Governance Perspectives (Source: Own representation)

Good governance requires the active stewardship of all of an organisation's investments. It is the responsibility of the organisation's top management as well as governments and related authorities to establish appropriate frameworks through principles and policies, and culture to help ensure an organisation and/or region will meet its objectives and standards. The governance frameworks should integrate – across projects, programmes and portfolios – within the respective organisation or region and enable, rather than hinder, the people managing the initiatives. In addition, standards may help to facilitate the development and establishment of these governance frameworks.

This paper will investigate the concepts of governance from four perspectives: a) the organisational viewpoint, b) the project level perspective, c) the broader economic viewpoint and d) the impact of standardisation on good governance. In this respect the following questions will be addressed:

- What are the critical success factors of good governance, related to the organisation's strategy, projects, programmes and portfolios as well as for market and regional development and economic growth?

- What is crucial for the implementation of good governance, related to these areas above-mentioned?

- What is the role of standardisation and what kind of standards exist – as main prerequisite for good governance? Which contribution can management consultants make?

Good governance for the organisation's strategy

A practical instrument for improving an organisation's strategy towards good governance is aligning it to principles and policies relevant to corporations. This can further be used to generate synergies between all stakeholders, internally and externally with regard to the corporate environment.

Practical development efforts to ensure good governance of organisations in their strategies are the development and publication of a **Code of Best Practice (The Code)**. The first step is the drafting of 'The Code' for corporate governance by corporations, based on a needs analysis, where relevant laws and regulations, international governance standards (e.g. OECD standard, ECGI codes, governance guidelines from international investors, etc.) and expectations expressed by main investors as well as a scorecard for analysts and investors are included. The aim of the Code is to assist enterprises in conducting relations between shareholders, boards of directors and managers. Thus, leading investors and other stakeholders should be invited to discuss the results of the needs analysis, sharing experience and know-how and to comment before its publication.

The Code is meant to give a full picture of all governance elements for corporations and therefore comprises three layers of governance issues:

- A description of the legal stipulations relating to key governance points.

- 'Shall Recommendations' which also reflect basic international governance standards. Companies that do not comply with these Recommendations have to state this in their annual report and/or their website.

- 'Should Suggestions' that represent additional international elements of good governance. These 'Suggestions' do not require an obligatory statement in case of non-compliance. However, the Code encourages a detailed description of the application and any deviation from the 'Suggestions'.

The next step to achieve better corporate governance should be focused on improvements in governance quality. This is helped by the use of **practical tools** to promote the implementation of good governance with investors, analysts and companies and to facilitate the understanding of its complex nature. As such a tool, a **scorecard** enables analysts, investors and companies to evaluate systematically varying governance scenarios of companies and also copes with the rising complexity of corporate governance matters.

Obviously, better governance quality cannot be achieved by description only. Company executives and their boards must accept that an active and positive pursuit of good governance is paramount for success in this discipline. They need to commit themselves to improving their performance, on a continuous basis, by formally adopting the principles of the Code and make its **commitment** public.

Moreover, top management needs to draw up **implementation and action programmes**, where necessary and select priority principles that it can work on; create a plan of action setting out specific activities for improving its performance; and evaluate its performance and results against the priority principles. These implementation steps will be facilitated by an appointment of a project manager to co-ordinate implementation.

The following critical success factors need to be considered in **good governance organisation's strategy implementation** plans:

- Define a **common vision**
- Ensure an **implementation mechanism**
- Create **synergies** among all **stakeholders**
- Ensure exchange and **learning from best practice**

Furthermore, in order to ensure the **implementation of good governance** in the organisation the following actions may be taken by the top management:

- Urging all management levels to put in place the principles, policies and tools that help run their affairs more effectively.
- Supporting all management levels that genuinely commit themselves to effective governance.
- Facilitating exchange of experience and practice as well as learning from each other.
- Recognising all efforts that meet the targets of good governance, e.g. by a label to award entities having achieved a certain overall level of good governance under the principles of the Code; by personal certification related to governance, etc.

During the past few years, international organisations and business associations have brought forward recommendations for good governance, so the debate on these matters has been quite extensive. It is essential that the business community accepts its responsibility and adopts good practice working methods and procedures, which will strengthen the infrastructure of enterprises and increase mutual trust between the general public and enterprises.

Good governance for projects, programmes and portfolios

Strategies are implemented in projects, programmes or portfolios, and it has become common to combine the concepts and terms "governance" and "project" into the term "project governance". Project governance extends the premise of governance into both the management of individual projects, programmes or portfolios via governance structures and the management of projects, programmes and portfolios at the business level through coordination, planning, and control (Kelly, 2010). Thus, project governance is project-focussed, describing how the project management processes are governed throughout the project lifecycles (Sankaran, 2008).

According to the Governance of Project Management (GoPM) of the Association of Project Management (APM) project governance is a subset of corporate governance, but most of the methodologies and activities involved with the day-to-day management of individual projects lie outside the direct concern of corporate governance. However, project governance has an operational impact on corporate good governance, as good governance in projects, programmes or portfolios supports the implementation of corporate strategy and the achievement of intended objectives. It provides the structure through which strategies and objectives are set, and the means of attaining those objectives and monitoring performance are determined. In addition, governance of a project involves a set of relationships between the project's management, the Executive board and stakeholders.

The critical success factors for **good project governance** focus on three key areas:

- The effectiveness and efficiency of the **corporate strategy direction** and **implementation** processes
- The **sponsorship** of projects, programmes and portfolios
- The **management** of projects, programmes and portfolios

Thus, the **successful implementation** of project governance is based on three levels:

- **Executive Board level:** i.e. the extent to which top management takes an interest in projects, programmes and portfolios through setting direction, monitoring performance and responding to external pressures. This level identifies good corporate governance.

- **Context within which projects take place**: i.e. to create an infrastructure of project, programme and portfolio management to link projects to corporate strategy, which enables that the right projects are done as well as to ensure the organisational infrastructure exists to undertake projects, programmes and portfolios effectively. This level identifies project governance.

- **Level of the individual project**: i.e. to create governance structures to ensure that all projects are identified within one programme or portfolio, roles and responsibilities are aligned to decision-making capacity, the teams responsible for projects, programmes and portfolios are capable of achieving the respective projects' objectives, and that information to support the decision-making processes is delivered in a timely, relevant, and reliable manner. This level identifies delivery capability as part of project governance.

Yet it is only during the past decade that the awareness of project governance has been on the increase in organisations of different sectors. This significant influence will improve the understanding of what differentiates good project governance from good corporate governance as well as their interrelation, so that organisations can move forward to deliver a better standard of performance from various perspectives.

Good governance for market and regional development and economic growth

Economically, the proper functioning of markets is correlated to the proper functioning of institutions through efficient practice of governments, what is also commonly called "good governance". Several econometric studies tested the relationship between good governance in the sense of "market-enhancing governance" and showed a positive relationship between good governance and economic growth – under specific circumstances (Mira & Hammadache, 2017). According to the World Bank, good governance is evaluated by the implementation capacity of governance principles and policies of a country, providing a framework for market development and economic growth. The assumption is that the good governance policies are relevant if countries reach a sound level of economic and social development that enables institutions of good governance to boost growth. Thus, a stable and consistent relationship between the distribution of political power and their institutional frameworks are decisive for good governance and economic growth in a country. However, it cannot be concluded that the enhancing of good governance will be a guarantee of GDP per capita growth and vice versa. Other factors may explain at once the growth of GDP per capita and the improvement of good governance indicators.

In total, empirical and theoretical studies on the relationship between good governance and economic growth showed that especially "**government effectiveness**" and "**quality of regulations**" is a positive sign of the variable good governance (Mira & Hammadache, 2017). This gives reason to focus on the issues of standardisation and standards – as one of the main prerequisites for good governance (refer to the next Chapter).

In addition, good governance requires structural and institutional conditions in creation of a market economy that implies a major **social transformation**.

The critical success factors for **good governance in correlation with regional economic performance** – according to the Council of Europe – are as follows:

- Put **citizens first**
- Improve the **quality of services of public authority**
- Ensure **democratic input in** and **control of regulatory processes**

In this issue, the **role of authorities** in fostering good governance is crucial through:

- Redistribution of power to a stable political coalition and restructuring of the economy to a focus on economic and human development.
- Reduction of risks, such as corruption, stability of property rights, contractual performance by governments, regulatory quality resp. quality of bureaucracy.
- The emerging of formal and informal institutional frameworks to promote investment, production, specialisation, and building of human capital.
- Development and acquisition of skills to orient capital into economic sectors with high added value and increased productivity.
- Fostering and promoting the development and implementation of voluntary or mandatory standards, related to products, processes, services or management systems.

To ensure the **implementation of good governance** in the respective region the following actions may be taken by the respective authorities:

- Create, facilitate and support good governance strategies at local level
- Provide a platform for discussions
- Foster feedback loops from interest groups
- Set up meetings to exchange experience
- Encourage authorities, where possible, to give recognition to those showing the most commitment.

Good governance is at the heart of any successful organisation and authority. In recent years, the question of "how to improve governance" has become a global theme. It is central to achieving its objectives and driving improvement, as well as maintaining legal and ethical standing in the eyes of its stakeholders and the wider community. In this respect standardisation is becoming increasingly important.

Good governance through standardisation and standards

Standardisation is the "activity of establishing, with regard to actual or potential problems, provisions for common and repeated use" (ISO/EC Guide 2, 2004), that are acknowledged by a majority of representative experts. Outcome of the standardisation process are **standards**, which can take the form of statements, instructions, recommendations or requirements, either optional or mandatory (ISO/IEC Guide 2, 2004).

Standards are primarily developed to meet the good practice needs of industry, businesses and other interested parties, and to encourage its take-up in the broader economy. Thus, standardisation is a way of communicating across languages to reflect common practice.

The aims of standardisation can be, but are not restricted to, ensuring usability, compatibility, interchange ability of products, processes and services as well as health, safety, environmental protection, but also facilitating mutual understanding, economic performance and trade (ISO/IEC Guide 2, 2004).

Good governance principles for **standardisation** can be summarised as follows:
(CEN-CENELEC Guide 30, 2015)

- Transparency
- Openness
- Impartiality
- Consensus
- Effectiveness
- Relevance
- Coherence
- Consideration of the concerns of developing countries.

Standardisation can take place at different levels, and thus standards related to good governance may come up in different forms:

- **International (ISO) and European (EN) standards** on products, processes, services or management systems

  In this respect, **International Standards Organisations**, such as ISO on international level and CEN in Europe, are playing a central role. As leading developer of International (ISO) and European (EN) Standards, they look at ways to improve business practices and policies and where ISO and EN standards can contribute effectively. The key issues range from risk management (ISO 31000), anti-bribery management systems (ISO 37001) and business continuity (ISO 22301) to sustainable procurement (ISO 20400), issues which are particularly useful in today's governance matters and are subject to standardisation efforts.

  Moreover, the next level of a good governance service standard is **ISO 20700 "Guidelines for management consultancy services"**, published in 2017. It covers good practice for the client – consultant relationship in order to ensure the effective, efficient and acceptable provision of management consultancy services, setting out a common basis for preparing and managing the consultancy process as well as defining a common terminology and knowledge throughout the consulting industry – in order to ensure good organisational and project governance. The targeted users are the management consultants, referred to as management consultancy service providers (MCSPs), the buyers of management consultancy services and stakeholders of the management consultancy industry.

- **Governance Models**

  This sections gives examples of a globally recognised good governance model which drives towards convergence of corporate governance regulations around the world. While there is no single model of corporate governance, the **Organisation for Economic Cooperation and Development (OECD)** developed a set of shared or common principles of corporate governance. OECD defined corporate governance as 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 is determined (OECD 2018). The **European Corporate Governance Institute (ECGI)** makes available the full text of corporate governance codes, principles of corporate governance and corporate governance reforms both in Europe and elsewhere (ECGI, 2018).

- **Personal certification standards** related to good governance

  In Austria, a personal certification for supervisory experts has been implemented. **CSE – "Certified Supervisory Expert"** is a certification of competences, experiences, knowledge and abilities specifically for supervisory and foundation board members. It is the seal of quality for (future) members of supervisory boards. The certified persons must have a sound education and/or practice in supervisory or foundation boards. The selection of supervisory board members is thereby facilitated and it gives prospective customers from different sectors security for a successful selection and performance on the supervisory board.

To summarise, the following criteria state – according to ISO/TMB Global Relevance – that a **globally relevant standard** or **model** should:

- Effectively consider regulatory and market needs (in the global marketplace);
- Respond to scientific and technical developments in various countries, and thus not stifle innovation and technological development;
- Have no adverse effects on fair competition, and does not distort the market;
- Not give preference to characteristics or requirements of specific countries or regions when different needs or interests exist in other countries or regions;
- Be performance based rather than design prescriptive.

Hence the development and adoption of an international standard that fails to meet these requirements is open to being challenged as creating a barrier to free trade. Therefore, organisations and authorities are advised to look for relevant and appropriate good governance standards as well as for governance models as a basis for good corporate and project governance striving to quality and excellence.

Management consultants can help to set up and improve organisational and project governance. According to **ISO 20700 "Guidelines for management consultancy services"** the management consultant should maintain an appropriate level of awareness of the relevant laws, policies, rules, regulations and standards that govern their services and those of the client; should engage in dialogue with the client on the codes of ethical and professional conduct that will apply during the assignment; should agree an appropriate system for project governance with the client, whereas the governance of the project should be carried out jointly by the management consultant and the client. Moreover, the consultant should endeavour to achieve socially responsible outcomes that consider the interests of stakeholders in alignment with norms and standards that are documented by the relevant organisation – as a contribution to sustainable organisational and economic development and growth.

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