The linkage between governance, trust and ethics in temporary organizations

Ralf Müller, Professor
BI Norwegian Business School
Norway

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Governance, trust and ethics in projects

Dr Ralf Müller
Professor of Project Management

BI Norwegian Business School
Department of Leadership and Organizational Behaviour

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Background

Ethics and ethical decision making: a contemporary issue, rarely investigated at the project level

Governance: the framework for taking (ethical) decisions in projects

Trust: one of the mechanisms to execute governance

Aims

To make

- people aware that there are ethical dilemmas to be addressed on projects

- companies aware of the impact of governance structures on the ethical behaviour of people working on projects

- people aware of the implications of the impact of governance structures and ethical behaviour on the trust between projects and their stakeholders.

Research Questions

- What are the ethical dilemmas that project managers are experiencing today?

- What are the ethical implications of different project governance structures?

- How can they be used to build trust within the project team, and between the project team and other stakeholders?

- How are project governance structures influenced by corporate governance structures and what is their influence on ethics and trust?

- What differences are there by type of project, type of industry and national culture?

Definitions: Ethics,morality, dilemma

- **Ethics:** the justification of actions and practices in specific situations. Deals with the reasoning process and is a philosophical reflection on the moral life and the principles embedded in that life.

- **Morality:** traditions or beliefs that have evolved over several years or even centuries in societies concerning right and wrong conduct. (Buchholz and Rosenthal, 1998, *Business Ethics)*

- **Dilemma**: a situation in which a difficult choice has to be made between two or more alternatives, especially ones that are equally undesirable (Oxford Dictionary, 2011)

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Trust

- The "willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party".

  Mayer, Davis, & Schoorman (1995, p. 712)

Trustworthiness

- **Ability:** the skills, competencies and characteristics to influence within a specific area of competence.

- **Benevolence:** the extent "a trustee is believed to want to do good to the trustor, aside from an egocentric profit motive"

- **Integrity:** the extent "the trustee adheres to a set of principles that the trustor finds acceptable"

Mayer, Davis, & Schoorman, (1995, p. 712),

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Project governance

- Comprises the value system, responsibilities, processes and policies that allow projects to achieve organizational objectives

- Fosters implementation that is in the best interest of all the stakeholders, internal and external, and the corporation itself.

- Coexists within the corporate governance framework

Project governance paradigm

Outcome focus
e.g.project outcome
(Brown & Eisenhardt, 1997)

Shareholder orientation:
Companies maximize RoI for their shareholders
(Clarke, 2004)

Flexible Economist

Versatile Artist

Conformist

Agile pragmatist
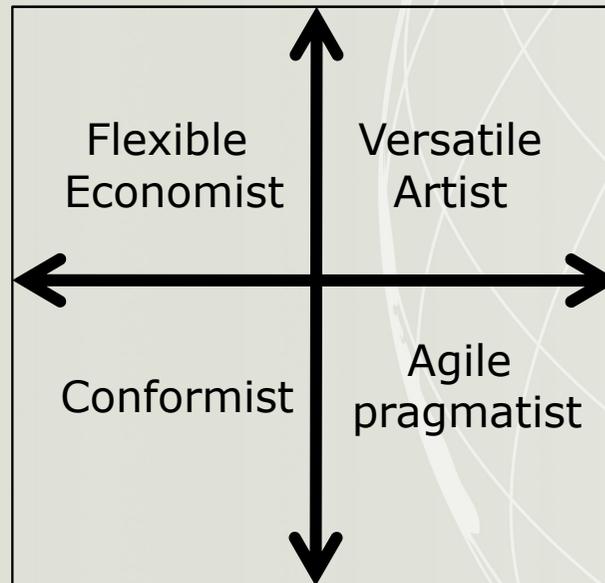
Stakeholder orientation:
Companies maximize benefits for a wide set of stakeholders
(Clarke, 2004)

Behavior focus
e.g.project process
(Brown & Eisenhardt, 1997)

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Governance paradigm precepts

	Shareholder oriented	Stakeholder oriented
Outcome control	Keep project costs low through careful selection of project management methodologies which ensure economic delivery by only marginally compromising other success criteria.	Maximizing stakeholder benefits by optimizing the diverse set of requirements arising from a number of different stakeholders.
Behavior control	Lowest project costs through strict process compliance in organizations with relatively homogeneous sets of projects	Maximize usability and business value of a project's product through a time-phased approach to product release of functionality over a period of time

Method

- Mixed-methods (QUAL finished – QUAN ongoing)

- QUAL: Holistic, multiple case design

- QUAL: 9 case studies

- QUAL: 28 interviews, reviews of policies, processes and other artifacts

- QUAN: Data collection ongoing

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Cases

	Organization	Region	interviews
Case 1	Oil & Gas 1	Northern Europe	6
Case 2	Oil & Gas 2	Northern Europe	2
Case 3	Government institution	Northern Europe	2
Case 4	Pharmaceutical manufacturer	China	7
Case 5	Subsidiary of European Aluminum company	Australia	2
Case 6	Subsidiary of US-based Information Technology firm	Western Europe	1
Case 7	Property services department in a University	Australia	4
Case 8	A change management consultancy firm with an Architectural background.	Australia	2
Case 9	Subsidiary of a US-based firm supplying IT hardware and solutions	Australia	2

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Transparency issues (examples)

- Project managers reluctant to report project performance issues
  - in hope of being able to balance costs through reduced functionality of the product
  - in hope of recovering through other means at some time in the future
  - in fear of project termination
  - in fear of face-loss by admitting planning mistakes
  - in fear of losing their bonus or other incentives
  - because they are unsure about proper timing for escalation

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Relationship issues (examples)

- Impact interpersonal relationships, such as:
  - Close buyer-supplier relations, leading to invitations, gifts and private ties (gift or bribe?)
  - Inappropriate contacts between expatriates and locals in some countries
  - Replace low performing/not accepted team members
  - Finding out about past unethical behavior of a current supplier

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Optimization issues (examples)

- Optimize towards the sponsor/company or project manager objectives?
  - Delivery as planned or at best value
  - Switching between existing (poor) and new (promising) suppliers.
  - Use of appropriate quality criteria when knowing that higher quality criteria would be possible, but maybe detrimental to project acceptance
  - Using the safety standards of the project's or team members' home countries or the local standards of the country they work in

RQ1: Types of dilemmas (2/2)

- *Dilemma 1:* There is a conflict between two equally valid ethical choices

- *Dilemma 2:* There is a conflict between what is ethically right and what company policy is

- *Dilemma 3:* There is a conflict between what is ethically right and what the law requires

- *Dilemma 4:* There is a conflict between what is legally correct and company policy

RQ2: Ethical implications of different governance structures

Governance paradigm: (Precept)	*Flexible Economist* *Outcome control with shareholder orientation (maximizing value for sponsor)*	*Agile Pragmatist* *Behavior control with stakeholder orientation (following the process)*	*Versatile Artist* *Outcome control with stakeholder orientation (balancing diverse requirement)*	*Conformist* *Behavior control with shareholder orientation (following the process)*
Dilemma 1: conflict between two equally valid ethical choices	Transparency (1-3) Optimization (1-3)	Transparency (4) Optimization (4 & 9)	Transparency (1-3) Relationship (8)	
Dilemma 2: conflict between what is ethically correct and the organization's policy	Relationship (1-3)	Optimization (4) Relationship (4, 7 & 9)	Transparency (1-3)	
Dilemma 3: conflict between what is ethically correct and what the law requires			Relationship (1-3) Optimization (1-3)	
Dilemma 4: conflict between what is legally correct and organization's policy			Relationship (5)	Optimization (6)

() = case number

Organizations approaches to ethical issues

Governance paradigm: (Precept)	Flexible Economist Outcome control with shareholder orientation (maximizing value for sponsor)	Agile Pragmatist Behavior control with stakeholder orientation (following the process)	Versatile Artist Outcome control with stakeholder orientation (balancing diverse requirement)	Conformist Behavior control with shareholder orientation (following the process)
Transparency issues	Sporadic audits and site visits	Process compliance	Periodic and formal reporting with follow-up meetings Informal meetings	Process compliance
Relationship issues	Policies		Trainings in business ethics 24h ethics hotline	
Optimization issues	Training / consulting about expected behavior	Escalation to manager Policies Interpretation of laws	Policies Interpretation of laws	Policies "Closed loop" control system

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Requirements for acceptable governance structure

- Freedom to act
    - Allow for flexibility in reacting to issues
- Appropriate for issue at hand
    - Allow to refer issue to governance structure
    - Provide guidance for issues outside the scope of current structure

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The role of trust

- Systems trust: project manager trusts the governance structure.
  - Belief about the ability, benevolence and integrity of the governance structure as a system, given to it by its creators.

- People trust: structure (or their creators) trust the project managers.
  - Belief of the structure creators in the ability, benevolence and integrity of the project managers.

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Propositions (1/2)

- *P1: In order to be able to delegate the taking/facing of challenging situations governance needs to trust staff's ability, benevolence, and integrity to take appropriate decisions*

- *P2: In order to act appropriately in the face of challenging situations project managers need to recognize the challenging situation, evaluate it, decide on appropriate course of action, and have the ability, integrity and benevolence to take appropriate action*

Propositions (2/2)

- *P3: If staff members feel they cannot act on their own, they need to have trust in governance's benevolence, integrity and ability to refer the challenging situation back to governance*

- *P4A: If the governance structure works to resolve the challenges it reinforces trust of the project manager in the governance structure and he or she will continue to use it.*

- *P4B: If the governance does not work to resolve the challenges, it damages trust of the project manager in the governance system. Then they will start to circumvent it and that, in turn, may damage the trust of the governance structure in the project manager.*

Questions?

Thank You

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