Ethics, Trust and Governance in Temporary Organizations

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Agenda

- Governance paradigms for temporary organizations
- Building acceptable governance structures: the role of trust
- Ethics in temporary organizations: ethical issues and dilemmas in different governance paradigms
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Project governance – a definition

• Governance of portfolios, programs, projects, and project management, coexists within the corporate governance framework.
• It comprises the value system, responsibilities, processes and policies that allow projects to achieve organizational objectives and foster implementation that is in the best interests of all the stakeholders, internal and external, and the corporation itself.
What does governance do?

– Defining the objectives of an organization/project.
– Providing the means to achieve those objectives.
– Controlling progress.

Governance paradigms

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

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

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

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

- Flexible Economist
- Versatile Artist
- Conformist
- Agile Pragmatist

Müller (2009)
Four project governance paradigms

<table>
<thead>
<tr>
<th>Outcome control focus</th>
<th>Shareholder orientation</th>
<th>Stakeholder orientation</th>
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</thead>
<tbody>
<tr>
<td><strong>Flexible Economist Paradigm</strong></td>
<td>• Highest possible Return on Investment (ROI)</td>
<td><strong>Versatile Artist Paradigm</strong></td>
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<td></td>
<td>• Project management as core competence</td>
<td>• Balancing requirements of a wide range of stakeholders</td>
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<td>• Professional project managers</td>
<td>• Tailoring of methods</td>
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<td>• Guided by tactical Project Management Offices (PMO)</td>
<td>• Project management a core competence</td>
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<td>• Project management a profession</td>
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<td>• Guided by a strategic PMO</td>
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<table>
<thead>
<tr>
<th>Behavior control focus</th>
<th>Conformist Paradigm</th>
<th>Agile Pragmatist Paradigm</th>
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<tbody>
<tr>
<td></td>
<td>• Maximizing shareholder return</td>
<td>• Balances the diverse requirements of a variety of stakeholders by maximizing their collective benefits</td>
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<td></td>
<td>• Project management a subset of development processes for technical products or services.</td>
<td>• Maximize value by strict prioritization of user needs.</td>
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<td></td>
<td>• Project management is understood as on-the-side task</td>
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Trust and project governance

• Governance is established through the governance structure, which includes formal procedures, processes, policies etc.
• A governance structure is the “lived” governance in an organization
• Governance sets the context, trust is one of the mechanisms to execute governance

Trust in governance (literature)

• Trust as governance mechanism
  – Saves transaction costs and improves performance
  – Supplements control as governance mechanism
    • Too much governance/control reduces trust
    • Non-linear negative relationship
  – Increases risk of opportunism
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),
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.

Requirements for an 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
How can governance structures be used to build trust within the project team, and between the project team and other stakeholders?

- **Project managers trust in the project team** is higher in **stakeholder oriented governance paradigms**, and if project managers have the **authority to implement** their own decision on ethical issues.

- **Project teams trust in the project manager** is higher in **stakeholder oriented governance paradigms** and when project managers have the **authority to decide** on ethical issues.

- To increase trust, the governance structure should emphasize a **stakeholder orientation** and show people trust.
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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)
• 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)
Ethical issue types

1. Transparency issues
2. Relationship issues
3. Optimization issues
4. Power & politics
5. Illegal actions
6. Role conflicts
7. Underperforming governance structure

Müller et al (2013a)

Ethical issues

• Transparency issues
  – PM reluctant to report project performance issues.
  – E.g. hope to balance higher costs through reduced functionality of the product or recover the project through other means in the long run, or due to fear of project termination.

• Relationship issues
  – emerge from interpersonal relationships
  – E.g. close buyer-suppliers relationships, expatriates relationships with locals, PM having to take off friends from project etc.
Ethical issues

• **Optimization issues**
  – optimizing a project towards meeting the objectives of sponsor/company, project manager, or other stakeholder’s, as well as distribution of risk and benefits.
  – E.g. shall the project be delivered as planned or with the best value for the customer.

• **Power & political issues**
  – Using power or politics to enforce decisions or changes in projects.
  – E.g. stakeholders using their power to replace uneasy team members or press for hiring their relatives.

Ethical issues

• **Illegal actions**
  – Fraud, corruption, blackmail, bribery etc.
  – E.g. requesting payments for signing off on specifications, bribery of different stakeholder groups, or diversion of funds to off-project purposes or other projects.

• **Role conflicts**
  – Arising from cultural, religious, legal, or career values.
  – E.g. requiring male team members to speak with female peers, forcing people to apply work practices not in line with their religious beliefs.
Ethical issues

• Governance issues
  – emerge from under-involvement of governance institutions or the complete lack of participation by existing governance structures
  – E.g. questions on who holds ultimate responsibility and authority to intervene when the Steering Committee does not fulfill its role; how to move on with the project when customer management does not engage; or how to handle instructions from incompetent PMO members.

Organizations approaches to ethical issues
(Müller et al 2013b)

<table>
<thead>
<tr>
<th>Governance paradigm: (Precept)</th>
<th>Flexible Economist</th>
<th>Agile Pragmatist</th>
<th>Versatile Artist</th>
<th>Conformist</th>
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<tbody>
<tr>
<td>Outcome control with shareholder orientation (maximizing value for sponsor)</td>
<td>Behavior control with stakeholder orientation (following the process)</td>
<td>Outcome control with stakeholder orientation (balancing diverse requirement)</td>
<td>Behavior control with shareholder orientation (following the process)</td>
<td></td>
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<tr>
<td>Transparency issues</td>
<td>Sporadic audits and site visits</td>
<td>Process compliance</td>
<td>Periodic and formal reporting with follow-up meetings</td>
<td>Process compliance</td>
</tr>
<tr>
<td>Relationship issues</td>
<td>Policies</td>
<td></td>
<td>Informal meetings</td>
<td></td>
</tr>
<tr>
<td>Optimization issues</td>
<td>Training / consulting about expected behavior</td>
<td>Escalation to manager Policies Interpretation of laws</td>
<td>Policies Interpretation of laws</td>
<td>Policies “Closed loop” control system</td>
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• Signing a Code of Ethics has no impact on the number of ethical issues
• Training in ethics reduces the number of optimization issues significantly
Ethical issues in different project governance paradigms?

- **Outcome control**
  - **Optimization**: 39%
  - **Transparency**: 11%

- **Shareholder orientation**
  - **Transparency**: 50%
  - **Optimization**: 18%

- **Stakeholder orientation**
  - **Transparency**: 42%
  - **Optimization**: 24%

Summary by governance paradigm

- **Outcome control**
  - **Balance of transparency and optimization issues**
    - Supervisor asked for help
    - PM has low trust in team
    - Team has low trust in PM
  - **Mainly optimization issues**
    - Steering Group asked for help
    - PM has high trust in team
    - Team has high trust in PM

- **Shareholder orientation**
  - **Mainly transparency issues**
    - Supervisor asked for help
    - PM has low trust in team
    - Team has low trust in PM

- **Stakeholder orientation**
  - **Balance of transparency and optimization issues**
    - Supervisor asked for help
    - PM has high trust in team
    - Team has high trust in PM
Questions?

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References


