PROJECT GOVERNANCE

AN ESSAY ON THE BUSINESS POLICY APPROACH AS APPLIED TO THE GOVERNANCE OF MEGAPROJECTS

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Abstract: The literature addressing the subject of projects and megaprojects governance is somewhat incipient and ambiguous. This work aims at a discussion of the possible contribution of the business policy approach as a means to overcome this gap in the practical governance of megaprojects. The category of megaprojects was chosen because they are organizations with some resemblance to companies in the wider sense of the word, despite some fundamental differences. Within the scope of megaprojects, we find a governance architecture that parallels the double tier of traditional corporate governance models. Project directors usually have a team similar to that of traditional companies. This can be envisioned as the executive board or managing structure of a traditional company. But these sorts of projects generally have a project steering committee, which is a non-executive governing structure addressing the scope of the project and which broadly considered might be compared with the non-executive board (or supervisory council) from traditional organizations. We propose for discussion an example of double tier project governance, approached from a business policy viewpoint, distinguishing executives from non-executive roles. The text ends by addressing the institutional configuration area of business policy in the context of megaprojects, as well as a reflection on the validity of the points of view proposed.

1. INTRODUCTION

The literature on project management shows that in spite of the progress in processes, tools and systems, the rate of success in these is low (Mir & Pinnington, 2014; Sirisomboonsuk, Gu, Cao & Burns, 2018). Also, much of the business and development of companies is attained by the launching and development of projects and megaprojects. According to Flyvbjerg (2014) a conservative estimate for the global market of megaprojects is of 6 to 9 trillion US dollars a year, about eight percent of the world's gross internal product. The literature also suggests that the projects with the best performance are those who have the best project governance (Joslin & Müller, 2014). However, in spite of this the literature is rather scarce when it comes to showing how the project governance works in practice. Additionally, when we seek to go deeper into the matter of types of project governance models (Bekker, 2014) we once more come across excessively simplistic focussing, which does not prove to be useful. For this reason, the subject of megaprojects governance is timely and relevant.

Bekker (2014) proposes a possible classification into three schools of thought on the subject of projects governance: the single-firm governance, the multi-firm governance and the large capital firm governance. In this paper we are centered on the latter, as it is this which deals with megaprojects in general. In addition, the author establishes a crucial distinction between governance and governing that is to set up the governing structure ex-ante and the practical day-to-day governing of the projects. This is a critical difference, as the best-governing structure might lead to poor performance if the practice of the governing activity is not effective.

Though there is some literature on the management of projects and megaprojects (Sainati, Brookes & Locatelli, 2017; Sanderson, 2012; Zhai, Ahola, Le & Xie, 2017), this is still rather incipient and ambiguous as to the specific governance process. Some possible reasons for the scarcity of literature on the practical process of governing projects may be found. On the one side project governance (Ahola, Ruuska, Artto & Kujala, 2014) is a recent subject in comparison to corporate governance (or governance in general). Besides, the sum of knowledge on corporate governance was essentially developed by lawyers, economists and some managers in the early eighties of the twentieth century, the area of project governance knowledge began later, and was driven by specialists in project management who usually have a more technical profile. So, while the former were focussed on the legal standards and on the compliance to rules envisaging possible financial audits and compliance in general, the latter normally focus on the attainment of the objectives of the same project, considering risks of various kinds, technical, operational and financial. And this demands a style of governance altogether distinct from the former.

The general literature on projects gives many examples of deficiencies in the management of projects and megaprojects with insufficient performance in relation to the estimated initial objectives, which lead us to a critique of the governance of those projects, this being the reason for these lines. Among these projects, the well-known case of the F-35 (1) is an example of the implementation of a project (or rather, a programme) not being carried out in the scheduled time. It cost much more than the initial forecast and also there are doubts as to the final performance of the product (Bender, 2015). Additionally, one might talk about several projects in the oil and gas industry, such as the Kashagan project, which we address later.

In this paper we put forward the hypothesis that the business policy approach (Valero & Lucas, 1991) may offer a practical view on the governance of projects. By definition, projects differ from traditional business organizations once they are not expected to last forever. Project owners rather have performance concerns for the time allocated to the full execution of the project, its costs and the tangible objectives intended to be achieved. These constitute the so-called triple constraint of project management (control costs, development time and project quality).

Our motivation to study in-depth the business policy approach comes from the fact that after decades of experience in major organizations, which in principle may be assumed to be more advanced in management practice, we can witness that the management models we found showed deficiencies proven by the frequent appearance in the press and in company reports. Not only with cases which appear in periodicals as scandals, but also the more normal situations of insufficient organizational performance. And we understand performance in the context of the organization as a whole and also extended to the context with which the organization is related with the advantages mentioned below in section 3.

Lastly, it must be mentioned that the adoption of the business policy approach within this study is based on three characteristics which we considered relevant: (i) it's dynamic (not static) nature, (ii) its conceptual scope, and finally (iii) to enable and facilitate discussion from a common platform.

2. THEORETICAL BACKGROUND

The concept of governance may apply to many different types of organizations (Bevir, 2012). Governing also includes many activities as the laws or rules of conduct mentioned, in leading a particular organization towards some desired objectives. To govern includes the manner in which a group or organization takes its decisions of a political nature on matters of policy and how interactions occur between its members, and of these with the close surroundings, making use of principles, instruments and techniques to direct an organization. So it is understandable that some authors describe the governance of organizations as an activity comprising three critical skills: to govern, to define strategy and leadership (Pye, 2002). It is through this process of governance that the directive process following certain criteria of professional coexistence is pursued towards certain chosen organizational objectives. In the same manner one may ask, what is project management? According to the Project Management Institute PMBoK (2013, p.553) project governance is defined as:

(1) The Lockheed Martin F-35 was developed from 1992 to 2018 to replace most of the USA's combat planes. It was developed in cooperation with several foreign partners so that it might be available for export. The programme was strongly criticised for costs overrun during development, and for the projected total cost for useful life of the planes.

"The alignment of project objectives with the strategy of the larger organization by the project sponsor and project team. A project´s governance is defined by and is required to fit within the larger context of the program or organization sponsoring it, but is separate from organizational governance."

When it comes to the point of defining project governance, the literature becomes diffuse and even ambiguous. In some cases the governance of projects is considered only from an executive perspective, that is, from the point of view of the project manager. In other cases we find an approach from the point of view of the project steering committee, which Bekker and Steyn (2009) argue is equivalent to the supervisory board in a traditional company. We diverge from the PMI and adopt a different definition:

*"Project governance is a set of management systems, rules, protocols, relationships, and structures that provide the framework within which decisions are made for project development and implementation to achieve the intended business or strategic motivation." (*Bekker & Styn, 2009, p.87*)*

This definition is not free of deficiencies either, such as, for example, not giving due attention to the management structure.

On the issue of project governance, a relatively new area, one detects the influence of corporate governance, in which it is possible to identify some approaches and theories it was particularly influenced by:

Shareholders' approach (Friedman, 1962) is a landmark in which it is assumed that the shareholders' essentially seek to maximize their profits. Its focus is on how governance and decision-making rules are connected to the achievement of the ultimate objective of the project, namely how their promoters are going to maximize their gains.

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), in which we have two perspectives, that of the agent and that of the principal. In companies, we are talking about managers and the shareholders or their representatives. Essentially it is about how the agent makes decisions aligned with the intentions of the constituents, that is, the principal. In the context of projects, the alignment among promoters and the project manager or director, as well as other relevant decision-makers.

Transaction Cost Theory (Coase, 1937; Williamson, 1981) in which it is assumed that the organization of the project will adapt its governing structure seeking to minimize transaction costs. It is a theory that considers not only the costs of the project, but also the costs of interaction with other relevant actors and with the pertinent negotiations—for example, using the criterion of 'make-or-buy' to make decisions within the scope of a project.

Institutional Theory (Scott, 1995) in which emphasis is laid on how an institution is built up within the scope of projects. It is considered in three dimensions. The regulatory dimension, which pretends to explain how the institution is defined in legal terms. The normative dimension, which shows how the organization is defined through standards, conventions, and rules. And the cognitive-cultural dimension, which attempts to describe how people act within the institution.

Stewardship Theory (Davis, Schoorman & Donaldson, 1997), in which it is suggested that the behavior of the managing director (or project director in the context of projects) is aligned with the interests of the principal, that is, the shareholders or promoters of the project). From this point of view a counterpoint is attempted with the agency theory, but its weakness comes from being too static, that is, to contemplate the relationship between agent and principal from a single moment in time, without taking into account the underlying motivations which might lead to a change in the actions of this agent over time. The same might be said of the agency theory, to some extent.

Stakeholders Theory (Freeman, 2010) seeks a balance, and not only to maximize profits for the partners promoting the project. It pretends to consider other actors such as employees or workers who participate in the project, the context or community and also the country in which the project is being carried out. With this theory the intention is to consider other actors such as employees or workers who participate in the project, the community and also the country in which the project is being carried out. With this theory, other dimensions are included beyond the mere objective of maximizing profit.

These theories were influenced by lawyers, economists and other professionals involved in the development of the corporate governance field. However, others were left out, such as project directors and engineers among others, with a more technical profile or more practical attitude in the execution of project management.

It was the need to bring order and references for the improved development of projects which led to transfer some principles of corporate governance to the area of project governance. **Table 1** gives us a comparison between corporate governance and project governance, from the study by Bekker and Steyn (2009). In this a correspondence is shown, though with change of designations, between the relevant concepts of governance of both types of organizations.

	Corporate governance	Project governance
Usual designation of the boards	Board of directors	Project steering committee
Composition of the board or governing body	General capacity to advise. Executive and non-executive councilors. Dimension adequate for the immediate and necessary taking of decisions.	The central capacities have to do with specific aspects of the complexity of megaprojects. They should have a dimension adequate for the immediate needs concerning decision making.
Responsibility	The board may have the final veto over the direction of the organization, and in general, its responsibilities may be published yearly.	Final responsibility is with the project steering committee, which includes the project manager.
Auditing committee and councilors	The members of the committee are generally selected based on their experience and financial knowledge.	The project auditing committee is composed of members with reputation and experience in large projects.

Table 1. Comparison between traditional corporate governance and project governance. Adapted from Bekker and Steyn, 2009.

Another critical theme regarding project governance is power. In any organization, it may be observed that these changes according to the typology of the relations between the members belonging to governance structures and executive structures, their degree of interdependence, as well as the processes for the resolution of conflicts. This is critical because in projects we distance ourselves from the pyramid power structures typical of traditional companies and move close to a context of a matrix structure, in which typically appears an underlying form of quasi-network of people (internal or external to the promoters) as is shown in **Table 2**, adapted from Bevir (2012).

	Pyramid organizations	Markets	Matrix
Governance	Authoritarian model predominates	Prices are the major influence	Trust is key element
Basic relations between parties	Employee–company relations	Contracts and property rights	Interchange of resources
Degree of interdependence between parties	Dependence	Independence	Interdependence
Coordination and processes for decision making	Rules, regulations and orders	Negotiation	Diplomacy
Culture	Subordination	Competence	Reciprocity

Table 2. A comparison of variables in the governance of projects as related to pyramid organizations and markets. Based on Bevir (2012).

Table 2 makes us consider the main differences between the types of organizations and how they might influence the government systems of each kind. And this is where the business policy approach and its institutional configuration field might improve the governing of projects, which is particularly critical when dealing with mega projects due to their size, amounts involved and challenging objectives. The theme is pertinent and in this paper we analyze the potential for the application of this model in order to provide a useful framework for the practice of governance in this specific case of the megaproject, by definition, an enterprise limited in time.

3. THE BUSINESS POLICY APPROACH

The business policy approach to governing is presented by Valero and Lucas in their book "Política de Empresa: El Gobierno de la Empresa de Negocios" (1991). Other authors belonging to the same research group also contributed to this stream of thought, most often by publishing their works in the Spanish language. The business policy approach is grounded in the seminal work of Kenneth R. Andrews (Andrews & David, 1971; Christensen et al., 1973; Andrews, 1981), Professor of Business Administration at Harvard University, and encompasses four key areas of study: (i) business, (ii) executive structure, (iii) incentive systems, and (iv) institutional configuration.

One of the criticisms directed at some models of corporate governance, such as those recommended by Porter (1991), which became popular since the eighties, comes from a partial and incomplete analysis without considering the company as an open system, constantly interacting with its surroundings. This same idea that Porter's point of view is incomplete or at least does not consider the systemic nature of the company is being adopted by authors familiar with the business policy approach (Calleja & Melé, 2017). Just as one cannot study or understand the human body by studying its different parts separately, that would leave out their mutual interrelationship within the body itself. Neither can we study, understand or obtain the control of the management and governance process of organizations through partial approaches.

In the work of Valero and Lucas (1991) there is no explicit mention of the systems theory. For those with a systems theory background, it is obvious that the model presents a systemic approach to the company. For example, if we consider the definition of a system by Forrester (1968, p.1) considered the forerunner of systems dynamics:

"A 'system' means a grouping of parts that operate together for a common purpose. (…) A system may include people as well as physical parts. Management is a system of people for allocating resources and regulating the activity of a business."

When we compare this with the following text by Valero (1962, p.21) it becomes obvious that this approach contains a systemic frame of reference:

"If we intend to give the usual interpretation to structure we can say that it is the manner in which the elements of a complex system are disposed. Another point of view might be to consider it a stable system with several elements, coordinated or related in a certain manner (…) the structure of the company as being composed of heterogeneous elements, an integration determined by the need of attaining objectives."

The business policy approach is a good example for those in search of a systemic and holistic approach to the company, together with its environment. Systems theory defines a system as an interrelation of elements (not only people or physical resources but also policies, procedures and information) with a given purpose. This same theory defines open system as that which exchanges material resources, information or energy with its surroundings. What better definition of company if not as a human system with an initiative which exchanges energy, money and other resources with its environment, adding value?

This conceptual approach helps us draft an answer to the question, why return to the business policy approach? One point of view has to do with the fact that this is a governance model and the literature suggests that better governance corresponds to better performance in carrying out projects, which in the case of megaprojects is highly critical due to the financial, technical and operational risks entailed. The following word by Valero (2001, p.23) illustrates the relevance of this perspective in the field of projects.

"The activity of these men, divided between management and operations, and the means they use to approach given objectives (…). The men who work in top management will be answerable for their direct actions and in some way for their consequences; the men who carry out the operational work will be answerable for the operational activities and in some way for their consequences."

There is a clear parallel between the traditional management of firms and the management of projects in which there are people responsible for the task of management and others for operational work. The project steering committee has no executive functions, but it has supervisory responsibilities. The project director, with his team, does have executive responsibilities.

The business policy approach applied to the governance of projects is a 'de facto' systemic approach. Within this approach, carrying out the 'business' is a relevant component of the organizational system, which by definition, interconnects all the elements of that system. With adequate incentive systems this approach provides links between people, and their development which involves the human dimension of the organization as a system. In addition, and contrary to natural systems which, as Holland (1995) suggests in his book "Hidden Order…" it took thousands of years for systems to self-organize and self-rule themselves. The company or megaproject, taken as a system, are not as perfect as the latter and thus need (i) the design of the system of governance and (ii) practical governance which in the business policy approach incites us to particularly bear in mind the themes of institutional configuration.

Within the business policy approach, an institutional configuration is the area of governance that inquires on the ownership of the company and the relations between the different types of shareholders. In order to study the institutional initiative, one has to observe the economic and financial frame, as well as the power games taking place between shareholders, their representatives, and the directors.

3.1. A comparison between the business policy approach in traditional organizations and in megaprojects

Valero and Figueroa (2011, p.10) present the double pyramid diagram as an approach to corporate governance. This resembles the dual tiers model of corporate governance, very widespread in Germanic firms. It is a model that helps top management analyze potential situations of misrule. **Figure 1** gives a graphic presentation of these concepts.

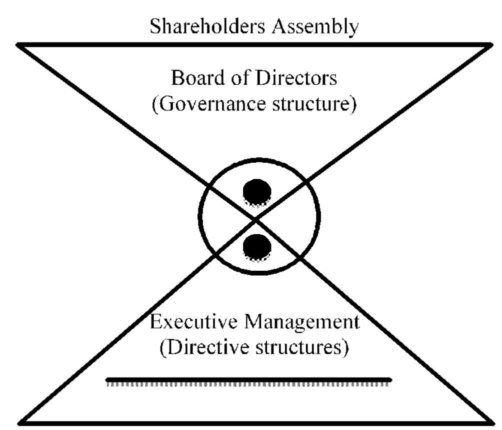

Figure 1. The double pyramid and the top people. Adapted from Valero and Figueroa (2011, p.10) showing the governance structure and the executive structure.

With **Figure 1** as a reference for a desirable governance structure, it is possible to establish a parallel with the situation of megaprojects in which obviously there is always an executive team (the project directors) and a non-executive team (the project steering committee).

The literature on the project steering committees is scarce when we look for examples of governance in action. However, there is some relevant literature on steering committees in general (Mcgrath & Whitly, 2013).

A key question concerns the meaning of the project steering committee. As the name suggests it is a governance body which contributes to the governance of the project from its beginning to completion, and within the scope of megaprojects in general, it includes representatives of the key organizations which are partners or experts in some matters crucial to the project or even final clients of the project. In megaprojects it is essential that a representative of the final client or user of the project results is embedded in this committee to ensure that objectives match requirements. This committee should be in support of the project manager or director.

Another question regards the role of the project steering committee. Its role is to offer advice and to ensure that the expectable project results are achieved. This, among other consequences, implies: (i) advising on which is the best way to attain the project objectives; (ii) advising on budgets; (iii) aiding in the definition of the objectives and the establishing of priorities for the project's key activities; (iv) identification and supervision of potential risks; (v) deadlines supervision; (vi) project quality control; and (vii) advising and deciding on changes to the initial plan whenever need.

In the context of megaprojects the person at the top has his team close by, separate from the execution of the project, which is generally carried out with the aid of matrix structures to organize work. It is possible to consider the project manager or project director as the equivalent of a CEO in a traditional company.

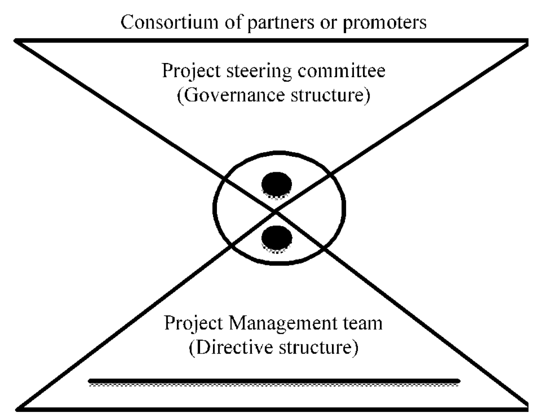

Figure 2. The architecture of the project management with the double tier, separating executive from non-executive functions.

In general, the project steering committee may include not only representatives of the partners who promote the project, but also other categories of members such as representatives of the financing institutions in the case of loans or more complex structures as may be the case when there is a situation of project finance (Esty, 2004; Esty, Chavich & Sesia, 2014; Finnerty, 1996, John & John, 1991). We believe that, in the four governing areas of the business policy approach, the area of institutional configuration is key to the governance of megaprojects, as we shall argue further on.

Valero and Figueroa (2011, p.10) wrote of top people as having a character "beyond the position, the rights and attributes acquired; they are at the top because they concentrate the power, the initiative and the real responsibility over the company." The same happens when the situation evolves from a traditional company to a megaproject, though the titles change as we have seen. Now the CEO or managing director is named project director or project manager and belongs to the directive structure (executive team) whereas the project steering committee is essentially in charge of integrating and minding the interests of shareholders and promoters, their rights and obligations towards the several stakeholders. Figure 2 presents the model offered for discussion. Hence, one sees that the governance structure has, in its turn, two structures: an executive structure and a governance structure. Perhaps the latter is the most relevant for this study as it (i) provides institutional direction to the projects (Geraldi & Morris, 2011) and (ii) positively or negatively impacts upon the performance of megaprojects.

Keeping these initial concepts as references Table 3 describes the evolution of the business policy approach from its best-known form of application, within the scope of traditional companies, to the application we propose in this study, that is the governance of projects.

Areas of business policy	Governance in a 'traditional' company	Project governance
The business	The business of a traditional company consists in offering on the market goods and services in a continuous fashion, receiving payment in exchange. It is thus important to be specific as to how money is earned with the company's activity.	The assets, product or service obtained through the carrying out of the project. However, much of this is done in the front end phase of the project, from which viability studies are made. Then, there is a planning stage to determine the necessary resources and to get the project going.
The executive structure	The executive structure of the company makes clear who are the people responsible for determining who will carry out the specific tasks which make the company business move ahead.	There is an executive structure (the project management team) but there is also an overall matrix structure of execution, at a technical level.
Incentive systems	One of the key tasks of managers consists in getting people to work for the success of the business, getting along with each other according to professionally sound criteria or policies.	Also relevant for projects, is the non-existence of fixed chains of command. So matters of influence and diplomacy are more critical for satisfactory progress.
Institutional configuration	In a company this is shaped by the partners, independent advisors, and others who bring capital to the company, as well as the resulting power structure. Money, power and initiative are the three critical dimensions of a company's institutional configuration.	There is an institutional framework defined by the promoters of the project and the project steering committee, and the subject matter is comparable with that found in other companies.

Table 3. A comparison between company and project contexts for the four areas of the business policy approach.

A point that came to our attention when applying the business policy approach to project governance is that in the double layer model, the relative weights of each of these company policy areas are not the same. While in the analogy we mentioned the project director is concerned with all the areas of business policy just as a managing director in a traditional organization, that is, he has to look after the business, to establish the best executive structure, to achieve an appropriate level of professional commitment and to attend to the institutional configuration, when we look at the project steering committee on its own, it considers the business policy from a different angle.

The concept of a steering committee is similar to a non-executive board. In the sense that its main function is to control or supervise the project, just as a ship has the objective of reaching its port of destination by the given date, within the estimated budget costs. In this sense, and differently from the project director, this steering committee will focus its attention essentially on two areas of the company policy: the business (control of metrics) and the matters of institutional configuration.

This committee is not interested in involving itself in matters relating to the executive structure. For that, competent project managers can be recruited. As with incentive systems, that is also a matter for which the project director is responsible. It would in effect be counterproductive and might even give rise to conflicts, making the work of this 'managing director' (the project director) difficult if the committee decided in some manner how the project director should be organized. This is a difference we came across and that may perhaps be common to dual-tier governance structures.

4. THE CHALLENGES OF MEGAPROJECTS GOVERNANCE

What are the major challenges in the governance of megaprojects? We can mention at least three: (i) the proliferation of stakeholders, (ii) the dynamics of management and changes of plans, and (iii) a strict financial control.

The first point, proliferation of stakeholders, has to do with the fact that megaprojects generally have more stakeholders and that alone may originate more complexity, as in general with more stakeholders come more functions and issues. Sometimes we have several organizations financing the project and several sub-contractor companies which have to be coordinated. So governing requires coordinating, lining up and integrating a large number of interests and perspectives.

The second point, the dynamics of governing and changes in planning, presents us with a situation in which, typically in the initial phase, either conceptual or of negotiation, it is hard to have detailed foresights. In megaprojects the planning process takes years, which presents challenges for the governing of the project, as the uncertainty and risks associated with this type of projects means that the stakeholders, for example, have difficulty in defining precisely the individual obligations in a contract at such early stages.

Lastly, financial control is a challenge arising from the fact that many investors need to control their risk exposures.

In megaprojects the coexistence of several (sometimes many) investors is common, which increases the complexity in terms of financial supervision and the management of the project itself.

As can be seen, the subject of megaprojects governance is not secondary. So it will be relevant to outline a chart of reference which might be adequate for administration in complex situations, holistic by definition. To apply the whole model of the company policy to the management of projects is a matter which calls for a more extended text than this presentation. So, as an example and because of the impact it has on the governance of projects we shall address it only from the perspective of institutional configuration, with its project steering committee — a governing body with supervisory functions, which implies a certain degree of control. We have seen that the members of such a committee are not part of the executive structure or project management. Neither are they involved in its execution, but advise the project director and his immediate team. They also have to understand how the carrying out of the project will affect the organizations, from which they came, to promote the objectives of the project and have some basic knowledge of the complexities of this type of projects.

The project manager is responsible for the executive structure, the project manager himself, usually present at the committee's meetings to inform on the progress or development of the project. In practice, this requires the members of the committee to reflect on how the strategy for the development of the project allows the desired objectives to be achieved, to understand how we will know if the objectives have been reached, to supervise the progress and development of the project and take decisions on the ideas and problems which turn up, to advise the project executive team, helping it to manage priorities and conflicts.

In general, a member of the committee should be appointed chairman, though not a 'promoter-partner', so as to guarantee that the committee meetings are constructive and to minimize potential conflicts.

The first objective of this committee is to guarantee the success of the project. It is important that the members of the committee who have in-depth experience of affairs concerning the project should avoid becoming involved in matters relating to execution, so as to minimize conflicts with the project director and with his executive team. In this situation it may be of great help to have a formal description of the roles of each committee member.

As with a board of directors, the members of a project steering committee have to decide on the project governing. Among the more usual may be found matters concerning investments and project expenses. Moreover, decisions relating to risk management, for example, questioning the level of responsibility of the project director in the management of such risks, as well as the external companies sub-contracted for the development of the project. Other decisions may concern the environment of the project such as social responsibility. For example, the management of the project may influence or decide to incorporate more or less labor and materials from a given local supplier, thus contributing to the development of the local communities.

Keeping the business policy approach as a reference we may, in the context of the project, just as in that of a company, present similar questions to help management. Thus, from the institutional configuration point of view, the following questions may be asked (adapted from Valero & Lucas, 1991, p.100):

- What changes have occurred among the project partners or promoters? What are their intentions and interests?
- What are potential partners interested in the project? Are these friendly or aggressive approaches?
- What are project assets sought by other parties?
- What levels of loyalty exist in the relations between management and project partners? That is, between the project management team and the project steering committee?
- How is the project affected by regulations on prices, labor, fiscal and ecological matters?
- To what degree project matters in compliance, or divergent, in relation to existing and foreseeable legislation? What costs must be accepted?

We consider that all these matters which Valero and Lucas (1991) thought pertinent for companies are also, duly adapted, applicable to the world of projects as such, as a particular business organization with explicit objectives, though limited in time. To continue, we now go to an example of a megaproject which — considered from the point of view of the business policy approach — allows us to establish a governing framework.

4.1. The Kashagan case

The Kashagan megaproject (Esty & Bitsch, 2013) developed in Kazakhstan with an investment of over 50 thousand million American dollars and of great technical complexity with its associated risks initially brought together large oil companies such as ENI, Exxon Mobil, Royal Dutch Shell, Total S.A., Conoco-Philips, INPEX and KMG. The shareholder and promoter structure changed throughout the life of the project (over a decade in developing) towards a new institutional configuration, as presented in Table 4, with consequences for power dynamics and decision making. Considering the numbers, it is clear that at the beginning there were four very large companies with an equal shareholding weight, in a configuration that becomes more complex with KMG (the national oil company belonging to the Kazakhstan energy ministry) becoming the main shareholder from 2016 onwards.

In this case, the state-licensed the project before realizing that real benefits were much higher than initially estimated. Hence, the state managed to increase its shareholding position, aiming at ensuring greater power on its side by way of its Oil and gas operator, KMG. This can be observed in **Table 4**.

Sponsors	2007	2016
ENI	18,52%	16,81%
Exxon Mobile	18,52%	16,81%
R.D. Shell	18,52%	16,81%
Total S. A.	18,525	16,81%
Conoco Phillips	9,26%	-
INPEX	8,33%	7,56%
KMG*	8,33%	16,88%
CNPC	-	8,4%

Table 4. Changes in the partner layout during the development of the Kashagan megaproject (Esty & Bitsch, 2013).

Considering the question, “What regulations of prices, labor, fiscality and ecology affect the company?” within the Kashagan case, it is obvious that the project was planned to end by 2005, however upon difficulties to attain such performance, the state passed a law allowing to change or even cancel contracts with foreign oil companies whenever the actions of these threatened potential national interests. Naturally, the project ended at a grey area position in what concerns governance and risk management for the project.

Also, in these projects, countries produce specific fiscal regulations for crude and demanding environmental laws the project must respect.

Production Sharing Agreement (PSA) contracts should also be mentioned because they set up a lot of constraints on project developments. A PSA normally include clauses that affect costs, through taxes or royalties, for the operating company, which are indexed to the price of the barrel of crude, giving the project every incentive to minimize costs, as future prices are unknown. This is important because usually, the promoters are those who must control production costs.

Production, by its turn, has to generate enough cash flow in order to, after some years, ensure a positive net present value. With this brief example, attention is called to the potential of the business policy approach, which may be applied to this way of developing and carrying out deals which will increasingly impact upon society.

The greatest difference between the governance of traditional organizations and projects can be found in the definition of project, by its nature limited in time and with clear objectives since it was first planned. This is a moment that may assume a rather different form from project governance if one compares it with traditional firm’s governance, in which continuity is of the essence, and in which the future is not defined in such an objective and precise fashion as in projects.

5. CONCLUSION

In this paper, we addressed the subject of megaprojects governance. We are aware that, in general, megaprojects present unsatisfactory execution performances. The literature suggests that better governance drives better performance in carrying out megaprojects. In this context, we put forward the hypothesis that the business policy approach may bring a positive contribution to improve the megaprojects governance, although it was not initially conceived for this.

The justification for the use of the business policy approach for project governance comes from its systemic frame of reference and the clear parallel between the traditional companies’ governance and project governance. In the double pyramid diagram, we show that a parallel can be established with the situation of megaprojects, where governance may be accomplished through two separate structures: an executive structure and a governance structure.

Based on this conceptual framework, we present for discussion the theme of institutional configuration, which is key to megaprojects governance. The specific and operative challenge of how to execute megaprojects finds their answer from the business policy approach.

The project manager and the project steering committee can count upon a doubly useful model that allows them not only to understand how to consider megaprojects governance but also to proceed to their execution, that is, to penetrate into the issues of governing. What this paper brings is a specific contribution to the governance of megaprojects.

In brief, in this essay, we saw that (i) the subject of project governance is so critical in the area of megaprojects due to their high risks, (ii) the subject of project governance is relatively recent, but it has its roots in the traditional management of organizations (corporate governance), (iii) there is not much literature on the ‘how to’ govern projects, that is, there is not an established body of knowledge on how to govern projects in practice, and (iv) we set forth a proposal to extend or apply the business policy approach to the field of megaprojects.

When we start something new, we set forth different reflections and, in general, asking questions is a prudent way to start. So, we might ask the following questions for future reflection:

- Do the interpretation and approach to this question appear to be correct?
- This application being legitimate, how might we make this proposal known not only through academic communities but also for practitioners acting within the business reality which has as its task governing megaprojects?

However, for this proposal to succeed, that is, to continue to have a positive impact on the business, as in society in general, one must continue to promote the business policy approach, being its application to the area of megaprojects an inevitable way to be explored from the practical and conceptual point of view.

As we have seen, this study intends to contribute to the literature on megaprojects. Specifically, we explore to what degree the business policy approach may be applied outside its traditional area of action, in particular in the megaprojects governance. This is an original theoretical contribution that will continue to be explored in future research.

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