

concept

Ole Jonny Klakegg

# Formulation of objectives in public investment projects

Concept Report No. 6



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## **Formulation of objectives in major public investment projects**

Målformulering i store statlige investeringsprosjekt

*Ole Jonny Klakegg*

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*Sammendrag:* Det er dokumentert at mål virker som et prestasjonshevende hjelpemiddel når det brukes rett. Denne rapporten tar for seg teorigrunnlaget og dokumentasjon av dagens praksis, for deretter å trekke ut anbefalinger om hvordan mål best skal formuleres og brukes i store statlige investeringsprosjekt. Mål er et sentralt tema i mange typer beslutnings- og ledelsesteorier. For å kunne forstå fullt ut bruken av målformuleringer for å oppnå resultater, kreves et bredt teoretisk fundament. Oversikten finnes i denne rapporten. En gjennomgang av dagens praksis viser markert bedring i bevisstheten om mål som virkemiddel i perioden 2000-2004. Kvaliteten på målformuleringene i store statlige investeringsprosjekter må likevel ytterligere styrkes. Anbefalingene omfatter en rekke viktige punkter for å øke den positive effekten av målformuleringer som virkemiddel i prosjekt.

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Concept Program  
Department of Civil & Transport Engineering  
Norwegian University of Science and Technology  
Høgskoleringen 7A  
N-7491 NTNU – Trondheim

Tel. (+47) 73594640

Fax. (+47) 73597021

<http://www.concept.ntnu.no>

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# Summary

Objectives (Goals and targets) are proven to work as a performance enhancing tool, when used right. This report covers the theoretical foundation and the empirical findings needed to understand and evaluate the use of goals and targets in big public investment projects. Based on this, advice is given as to how goals and targets should be defined and used.

The concept of defining and using Goals/Targets as a tool in projects is closely linked to the concept of measuring. We define goals and targets for performance, based on the needs which trigger the whole project and its expected effects. The targets are then used as guidelines and benchmarks for the performance. Performance measuring and feedback to those involved is crucial. The purpose is both implementation of corrective actions and learning. Evaluation of goal achievement is important in order to learn and gather data for the next project to be planned. This logic is focused in this report, through a theory chapters (1 and 2), an empirical study (chapter 3), and conclusions including guidelines on how to define and formulate goals and targets (chapter 4).

## Theory

Goals are a significant focus area in many kinds of decision- and management theories. In different ways these theories use goals as a model for explanation and an instrument to achieve results. The most important line of work is found within the theory of Management by Objectives and Project Management. However, to fully understand the use of objectives to achieve results, a more extensive platform of theory is needed. An overview is found in this report.

Using objectives as an instrument for management goes through the fields of **Cybernetics/Systems Engineering**, through **Management by Objectives** and **Valuebased Management**. This kind of theory was developed further into **Project Management**. Following this line of development further may bring us into the **theory of Complexity**, as the total situation in and around projects grows ever more complex. At this stage the old theories may not be sufficient as models for explanation.

An important sideline goes through different kinds of leadership theories, like the **Path-Goal theory**, further into the theory of **Valuebased leadership**. To some extent, these developments are built into the theory of projects, but only remotely. Consequently, we have not used a lot of space on these subjects. This direction is seen more evidently in the Scandinavian school of Project Management than in the International standards, textbooks or books of knowledge. A very different sideline goes through **Theory of Decision Making**, **Economic Theory** and over to **Theory of Planning**. In the field of Planning theory, it is possible to gather all the “loose ends” from the other directions.

None of these theories are studied down to the nitty, gritty details. The origin is sought out, and then we jump to the current status. There is not enough room for a complete overview of the theories.

During the study of theory we have found several dilemmas pointing towards the need for a shift in paradigm within Project Management. This report does not represent such a shift in paradigm. It has its roots within the classic Management by Objectives tradition.

## **Empirical study**

In the empirical part, 23 projects are studied. They have all gone through the Norwegian Quality Assurance Scheme during the period 2000 – 2004. The projects cover a representative selection of all the projects (the total number is right below 50) gone through the QA Scheme up to the summer of 2004. Most of the chosen projects are roads or defense projects. Some are buildings, railroads or technological (IT or telecom) projects. Some of the defined goals and targets from the chosen projects are used as illustrations and examples during the chapters 3 and 4. The rest of the empirical study is documented separately and put into the research database of the Concept Program.

Current and documented practice, show a significant improvement during the studied period. The use of common terms and the awareness of the instrumental meaning of goals and targets are improved, especially in the period 2002-2004. Still, there are a lot of things to improve. The definition and formulation of the goals and targets are not significantly improved. Therefore, this report is written to support this improvement process.

## **Recommendations**

The guidelines cover a number of important issues, relevant to improve the effect of objectives as a performance enhancing tool. A number of handbooks, instructions and other publications are studied, in addition to the theory and material from the empirical study.

Some of the most important findings are:

- Start with the decision-makers intention and the stakeholder needs. Careful preparations and a well-structured process are important.
- The goals should be stretching and built on the intended effect/benefits of the project. Logical structure, relevance and sustainability are decisive criterions to accept the defined goals.
- Through the goals expressing the intended effect, one should be able to read the intension and ambitions of the decision makers. These goals are the most important to secure the project success.
- The targets should be defined as precise and clear as possible and has to be communicated strongly within the project organization. Targets must not be confused with description of size, frames or means. Arrange the targets in a goal-hierarchy with result indicators and criterions.
- Use Multi criteria analysis/Multi attribute evaluation to study different performance strategies and to choose the best one.

- Measuring performance and feedback is vital to using goals and targets as a performance enhancing tool.
- Good communication of the objectives, internally and externally, is crucial for success.

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| Report | Title   | Author   |
|--------|---|--|
| Nr. 9  | Bedre utforming av store offentlige investeringsprosjekter. Vurdering av behov, mål og effekt i tidligfasen<br><b>Improved planning of public investment projects Making up-front appraisals of needs, objectives and affects</b> | Petter Næss med bidrag fra Kjell Arne Brekke, Nils Olsson og Ole Jonny Klakegg                             |
| Nr. 8  | Realopsjoner og fleksibilitet i store offentlige investeringsprosjekt<br><b>Real options and flexibility in major investment projects</b>   | Kjell Arne Brekke  |
| Nr. 7  | Hvordan tror vi at det blir? Effektvurderinger av store offentlige prosjekt<br><b>An estimated guess. Up-front assessment of anticipated effects of major public investment projects</b>  | Nils Olsson  |
| Nr. 6  | Målformulering i store statlige investeringsprosjekt<br><b>Formulation of objectives in major public investment projects</b>  | Ole Jonny Klakegg  |
| Nr. 5  | Bedre behovsanalyser. Erfaringer og anbefalinger om behovsanalyser i store offentlige investeringsprosjekt<br><b>Needs analysis in major public investment projects. Lessons and recommendations</b>                              | Petter Næss  |
| Nr. 4  | Konseptutvikling og –evaluering i store statlige investeringsprosjekt<br><b>Concept development and –evaluation in major public investment projects</b>   | Hege Gry Solheim, Erik Dammen, Håvard O. Skaldebø, Eystein Myking, Elisabeth K. Svendsen og Paul Torgersen |
| Nr. 3  | Beslutningsunderlag og beslutninger i store statlige investeringsprosjekt<br><b>Decisions and basis for decisions in major public investment projects</b>   | Stein V. Larsen, Eilif Holte og Sverre Haanæs  |
| Nr. 2  | Statlig styring av prosjektleidelse. Empiri og økonomiske prinsipper.<br><b>Economic incentives in public project management</b>  | Dag Morten Dalen, Ola Lædre og Christian Riis  |
| Nr. 1  | Styring av prosjektporteføljer i staten. Usikkerhetsavsetning på porteføljnivå<br><b>Government project portfolio</b>   | Stein Berntsen og Thorleif Sunde   |