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Project Ownership in Theory and
Practice. Project Owners Type 1 and
Type 2

Working paper

Preface

This report was written by Nils Olsson at NTNU and Gørild Berg-Johansen at the Norwegian Government Agency for Financial Management (DFØ). The ideas have developed for some time, but became clearer during the work on Berg-Johansen's master thesis.

We thank all interviewees and who participated in the empirical part of the study and Gro Holst Volden in the Concept programme for valuable comments and for encouraging us to summarize this report.

Trondheim, December 2015

The authors have responsibility for the information in reports published by the Concept programme. Opinions and conclusions are not necessarily in accordance with the policy of the Concept programme. Gørild Berg-Johansen has written this report as a private person and not as a part of her position in DFØ.

Abstract

Project owners are important. They shall support the project manager and provide senior backing to a project. However, there are some different aspects of project ownership, which are discussed in this paper. The main research question addressed in the paper is: How is the project owner role described in the literature in terms of responsibility for project execution and the following operation of the project delivery? The paper is mainly a theory review of the topic project ownership. We present a simple model for the relation between project owner, project manager and operation of the project delivery. The main basis for the model and discussion is a theoretical review, but we also test the proposed model on a sample of projects. As we will see, this testing creates the need for a distinction between two types of project owners; one that is mainly concerned with supporting the project manager and enabling project delivery, the other being focused on the business case and having responsibility for both project delivery and benefit realisation. There has been a development where the importance of the role as project owner has been highlighted. It is our impression that this development has had two ambitions. One is to strengthen project execution. The other ambition is to emphasize the business case perspective. These two perspectives calls for different organisational positions of the persons called project owners. We urge future researchers and practitioners to clarify what type of project owner role that is referred to in different contexts. We also call for an awareness of the fact that different project owners will have different set of incentives and priorities.

1 Introduction

Project management has become aware of the importance of project owners, and of the concept of project ownership. Owners have both control and responsibility for cost and income related to a project. A stakeholder who both has control and profit responsibility has incentives to maximise the value creation related to the resource they own (Grünfeldt and Jakobsen 2006). Projects owners have incentives for weighing costs against benefits for a project, in order to initiate and execute successful projects. Applied in a project context, this means that project owners should be responsible for a project's business case. Project sponsorship and project ownership are related.

Project ownership typically includes the identification and definition of the project. In contrast, project management is usually concerned with delivering a project that is already defined. Responsibility for the business case would mean that project owners have incentives to cancel a project if the business case no longer justifies the project.

However, the background for this paper is that our experience indicates that this type of “pure” ownership of projects is not present for all projects. While a traditional owner can be identified for some projects, it is a more complex picture in many other projects. We present a simple model for the relation between project owner, project manager and operation of the project delivery. We test the model on a sample of projects. As we will see, this testing creates the need for a revised model, and the introduction of two types of project owners; one based on the mainstream in the theory and one based on practice.

The purpose of this paper is to discuss the concept of project ownership. The main research question addressed in the paper is: How is the project owner role described in the literature in terms of responsibility for project execution and the following operation of the project delivery? Based on a literature study, we present models for the relation between project owner, project manager and operation of the project delivery. We then briefly test the models on a sample of projects. As we will see, both the literature study, and the model create the need for a distinction between two types of project owners; one based on theory and one based on practice. The empirical part of the paper is based on interviews with both project managers and project owners for seven Norwegian public projects.

2 Project owners and project ownership

2.1 About ownership

Ownership gives control and responsibility (Foss and Foss, 1999). A project owner bears the owner rights and responsibilities of a project (Eikeland 2001). According to Eikeland (2001), it is the project owner that takes the risk related to the cost and future value of a project. Both these risks can to a certain extent be transferred to other actors in the project.

Ownership can be related to property rights. To have the property rights of an object means that you have the decision-making authority of an asset, in which you are responsible for the result of developing or using that asset, when all contractual obligations are satisfied. Two aspects of ownership as residual control rights and residual liability of results (Milgrom and Roberts, 1992). The control right gives the owner legal rights to utilize, develop and sell the asset one owns, which means that one has the full disposition right of the asset within the relevant juridical boundaries (Hart, 1995). Residual control right implies that the owner can choose to rent/let out the asset or in other ways delegate the authority of his belonging to others. For example, the owner of a company may decide to delegate the operation of the company to a manager. In a project context, daily control of a project is transferred to a project manager. The owner will at any time be able to take action and question the leader's decision, as implied by the term residual control.

Profit responsibility means that the owner is responsible both the cost and income related to the resource. Owners can lease out or in other ways delegate the authority of the owned resource to others (Grünfeldt and Jakobsen 2006). This is implied by the fact that the rights are residual.

Thinking about effectiveness of projects been influenced by the principles about ownership, and governance. A project stakeholder who has control and result liability of an asset, has both possibilities and an incentive to make the most of the asset's value creating potential. Project owners appear to be suitable guardians of effectiveness of projects. A stakeholder who has control while not being accountable for the result, can behave irresponsibly and take advantage of the situation to pursue personal or organisational ambitions. Without project owner exercising governance, project managers can put themselves in this situation. On the other side, stakeholders who are liable for the result while not in control would have incentives to maximize the asset's value would be in place, but the authority to do so would be in the hands of others. This can be the situation for a manager who will receive a project delivery, such as a new IT system that shall be used in his or hers part of the organisation.

2.2 Project owners

There is a clear link between the roles and responsibilities of owners of organizations, and owners of projects. The value creating activities of owners can be conceptualized in the form of four distinct roles (Grünfeldt and Jakobsen, 2006). The first and most obvious role is to add capital to companies and investment projects. As a second role Owners participate in investment

and divestment decisions. They therefore have a selection role to make sure that the capital flows to profitable projects. A third function of owners is to make sure that the management maximizes the company's value; we refer to this as the owners' governance role. The fourth role is to add competence, network and other resources to projects and companies. Project owners can fill these roles related to projects. The project owner provides funding for a project and is involved in selecting projects. Project owners should secure that a project is contributing to the best for the organization. Finally, project owners are experienced people with competence that a project can benefit from.

Project governance has become an important issue in project management (Ahola et al. 2013; Garland 2009; Müller, 2009; Williams and Samset 2012). The project owner has been the subject of attention in project management literature (including Morris, 1994, Helm and Remington 2005; Cooke-Davies et al. 2006; Kloppenborg et al. 2006; Crawford and Cooke-Davies 2007; Bryde 2008, West 2010).

In spite of this, Ahola et al. (2013) claim that there is no universal definition of project ownership. They conducted a literature study to investigate how different researchers define project ownership, and which management theories from the traditional organizational literature is the origin of theories of project ownership. They found that the definition of project ownership varies from a very narrow to a very wide perspective. There was a large variance in the terminology used to define and describe the key concepts of project ownership. As a consequence, they believe that we are missing a universal understanding and definition of what project ownership actually is. Project sponsor and project owner are two important terms related to project governance. The terminology is not consistent in the project management literature, and there is considerable overlap in the use of the two terms. This report focuses on the project owner.

Morris (1994) describes the sponsor as the person who provides resources for a project, but who is also responsible for ensuring that the project is successful at the business level. Project ownership is typically connected to a person, normally a senior executive (Dinsmore and Cooke-Davies 2006). A typical role of the project owner is as project advocate (PMI, 2010) and to be a champion of the project at the executive level. The OGC defined that the project sponsor was expected to provide internal political support for the project, ensuring priority for funding and resources, and to ensure that the project delivers the desired business outcomes (Dooley 2007).

Turner (2007) discusses the owner of the project as the person or group who provides the financial resources for its delivery, accepts project milestones and project completion, but who is also accountable for the investment in the project, and receives value from the operation of the facility delivered. In this meaning, the project owner provides a link between the permanent organisation and the project, and safeguards the business case of the project. The business case includes market and user considerations of the project delivery. Müller (2009) emphasizes that a project steering group can fulfil the role of project owner.

Garland (2009) describes four principles of good corporate governance of projects. These principles address the question about who is responsible for the project's success and that shared responsibility will always lead to unclear responsibility.

- Principle 1: Ensure that the responsibility for the project's success is placed on one person. This person must have the authority to make the necessary decisions for the project's success, and have the right position in the organization.
- Principle 2: The project owner should be the one who owns the service of the delivery instead of the delivery. This means that ownership of the service outcome determines project ownership.
- Principle 3: ensure that the management of stakeholders is separated from project decision making.
- Principle 4: ensure that the project gets an efficient decision making structure, separated from daily decision making in the base organization.

There are studies of how the sponsor contributes to the project's success, including Bryde (2008) Hall et al. (2003) and Kloppenborg et al. (2006). Andersen (2012) show that project success is strengthened by a close cooperation between project owner and project manager throughout all phases of a project. Helm and Remington (2005) advocate a close and active role of the owner. Literature tends to focus the owner functions as the link between the owner and the project organisation. There is a literature addressing the relation between project manager and projects owner. This literature is mostly written from a management perspective. A common focus is methods and techniques to improve the project management's ability to handle the owner and to contribute to the owner's success. Examples include Francis (1986), Bubshait (1994), Songer and Molenaar (1996), Müller and Turner (2005), and Gunhan and Arditi (2007).

The specific characteristics of the public sector make the governance of public projects a complex issue. Olsson et al. (2008) looked at project ownership. They found that that responsibility and ownership are much more complex than previously assumed in the project management literature. Some reasons for the complexity in public sector are the multifaceted success criteria (a wide perspective), the limitations to market, and responsibility for common resources, benefits, welfare, and development (Christensen et al. 2007). The project owner is typically designated by the project's financial owner (Andersen, 2012). In the private owner investments going on this under other assumptions and framework conditions than is the case for big government projects. This allows the theory and logic which is established around the ownership in the private sector may not be directly transferable to public sector projects. The concept of the project owner is important and useful for both private and public projects, but the use of the concept of the project owner must be adapted to the context that the different projects are located in the (Andersen, 2012).

3 A model for the relation between project owner, project manager and operations

Several authors have discussed project organisation with regard to roles and responsibilities, such as Stinchcombe (1985), Packendorff (1995), Söderlund (2004) and Crawford et al. (2006). Key stakeholders in projects include: project owner, users, project manager, project management team, project team members, and external stakeholders (PMI 2008). Operation of a project delivery is typically not done by the project manager, Projects deliver their output to someone who will use the delivery. Stakeholders responsible for operation are those who receive the project deliveries. Operational responsibility includes responsibility for the value generating activity that utilises the project delivery, but also maintenance. The operating party is responsible for the long-term benefit delivered – the outcome of the project. They therefore have a benefits perspective. Their success is measured in terms of value delivered to the users and the quality of their performance.

Project management typically has an executing perspective. They focus on delivery. Common incentives are to keep investment costs within budget and to deliver on time in addition to delivering the specified scope. The elements in this 'iron triangle' are still the dominating success criteria in projects (Atkinson 1999). Avoiding cost overruns can affect priorities in terms of service or functionality after the result is delivered. In practical terms, the decisions made by the executing party to some degree influence what the operation costs will be later. One common role of a project owner is to address this potential conflict between delivery and operations.

We found that project owners should be responsible for both project delivery and for operations of the project delivery. The model in figure 3-1 is based on the literature that highlights the project owner is responsible for the business case of a project, including both ensuring project delivery and the benefits realisation. Project managers are typically responsible mainly for project deliveries. Other parts of the organisation, or other organisations, are responsible for the operation of the project delivery, and thus benefits realisation. What we called project owner type 1 is responsible for both of these activities. This is the project owner that is typically discussed in the literature.

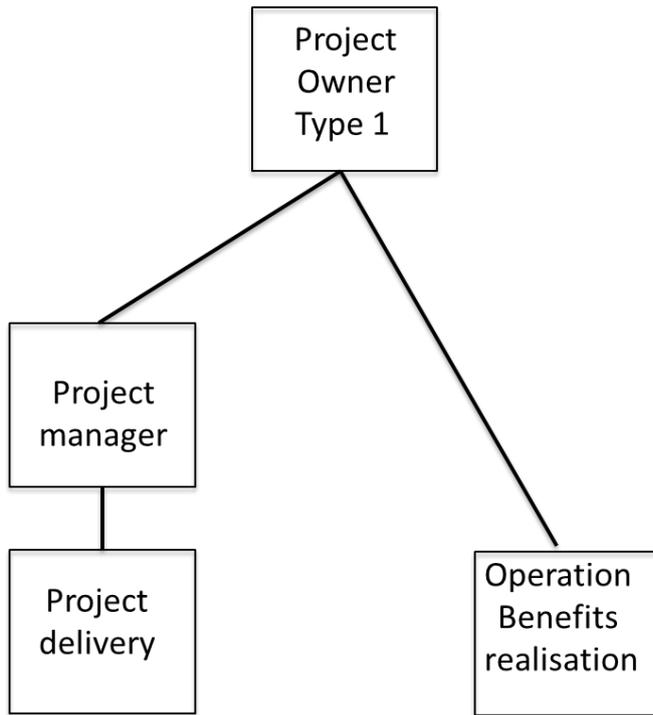


Figure 3-1: Organisational position of project owner implied by established theory, based on the project owner as responsible for the business case

A stakeholder who both has control and profit responsibility has incentives to maximise the value creation related to the project. The beauty behind the concept of a project owner lies in the fact that a projects owner has incentives for weighing costs against benefits for a project.

4 Project owners in practice

In her master thesis, Berg-Johansen studied project ownership in seven governmental projects (Berg-Johansen, 2015). In the table below, there is a list of the organisations she conducted interviews in.

Table 4-1: Public organisation that have contributed in the interview survey

	Persons:	Projects:
Norwegian Government Agency for Financial Management	Four	Two
The Norwegian Labour Inspection Authority	Two	One
Trondheim municipality	Two	One
Sør-Trøndelag University College	Two	One
St. Olavs Hospital	Two	One
The courts of Norway	Two	One

As the table 4-1 shows, Berg-Johansen has done research in the seven projects in a total of six organisations. In all of the projects, both project owner and project manager was interviewed.

In the interviews, Berg-Johansen asked project owners to describe their role, responsibility and performance in a project. In their response they focused more on how the project was organized and their relationship to the project manager than the project ownership. None of the project owners talked about responsibility for the link between the project and the organisation, and none of the project owners presented the role as the strategic decision maker for the project and there was no one who mentioned responsibilities for the project's benefits. The general theory defines all of this as central responsibilities related to the role as project owner. The theory places the responsibility for both deliveries and benefits on the project owner or a steering group, while the research shows that project owners only take responsibility for deliveries.

Project ownership was proved to be different practiced in the study compared to the descriptions of best practice in the literature. There were different stakeholders responsible for project costs and project benefits realisation.

Project ownership was found to have nuances for the governmental projects. In all of the studied governmental projects, different stakeholders are responsible for project cost and project benefits, respectively. Project costs were typically allocated to a governmental agency that were responsible for the provision of new infrastructure in accordance with a traditional project management's perspective on time, cost and specification. The term project owner was used in

the study as a term for those senior officials who were responsible for the project delivery. All project managers reported to the project owner.

Berg-Johansens (2015) study of the project managers and project owners responses showed that the role was interpreted and practiced differently. This is consistent with the findings of several different role definitions of project ownership (Müller, 2009; Garland et al. 2009), and that there is not yet established a best practice for project ownership (William and Samset, 2012). A key point in this paper is that a documented role description for the project owner should be established. This was not implemented in any of the projects, despite the fact that five of the seven businesses had introduced a project framework.

The illustration in figure 4-1 is based on the observations in Berg-Johnansens (2015) study. Project owners provide senior support for the project manager with special focus on securing the projects delivery, by providing resources, funds and attention for the project. Both the project manager and project owner were organised and had responsibilities mainly aimed at project delivery. We have called a project owner in this context a project owner type 2. This is project ownership in practice, and it differs significantly form project ownership in theory.

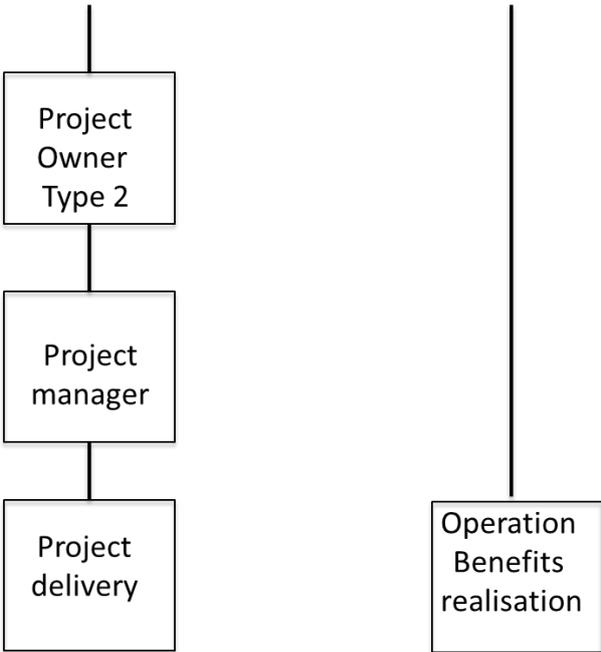


Figure 4-1: Location of project owners in the study.

5 Concluding discussion

Most literature on project ownership focuses on one owner having all the characteristics of owner. It is based on one stakeholder who takes the risk related to the cost and future value of the project. However, some literature focuses on the project owner as the manager of the project manager both with main responsibilities for project delivery.

The referred study shows that there is an important difference between mainstream theory and practice related to who is called project owner, and the responsibilities of the project owner role. Our case study shows that owner responsibilities are not located at the level that the project governance literature discusses. Project owners are typically organizationally located above the project managers, but still within the delivery side of projects. The role called project owner do typically not have responsibilities for the operation of the deliveries.

A traditional project owner is a stakeholder who takes the risk related to both the cost and future value of the project. Such a stakeholder has incentives to analyse and follow up a project based on weighting the costs against the benefits. We did not identify such project owners in our study.

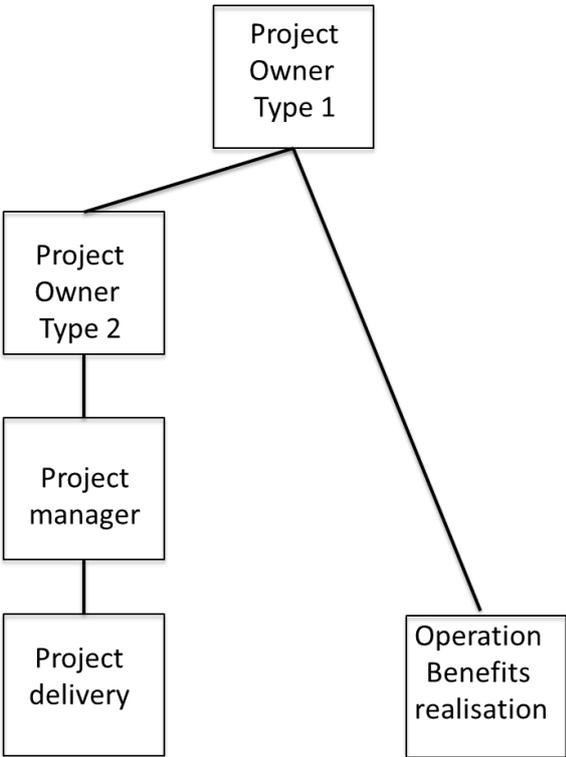


Figure 5-1: Distinction between project owners type 1 and project owners type 2

As a consequence, we introduce a model showing two types of project owners, as shown in figure 5-1. The type 1 project owner is the role that most textbooks discuss. Type 1 project owners have responsibilities of both the delivery of a project, but also for the operation and benefits realisation. Type 1 project owners have responsibilities for the project business case. We did not find this type of project owners in our study. Type 2 project owners are managers that support the project manager, but within the same part of the organisation as the project manager, and with responsibilities for the project delivery. In our study, these people were referred to as project owners, but they do not have the business case responsibility that is called for by the mainstream literature.

Figure 5-1 should not be interpreted as if we recommend having both project owner types. Projects need one visible project owner, and we agree with the literature that project owner type 1 ideally is preferable. It is a paradox that we only found project owners of type 2 in the empirical study.

We found that few authors have made an explicit distinction between these two project owner types. As a consequence, we urge future researchers and practitioners to clarify what type of project owner role that is referred to in different contexts. It is likely that project owners of type 1 and 2, respectively, will have different set of incentives and priorities. There has been a development where the importance of the role as project owner is highlighted. Organisations have introduced the term project owner. However, in our empirical material, focus on project ownership aims at strengthening project execution. This creates project owners of type 2. The aim to emphasise the business case perspective is not addressed through this type of project ownership. A business case perspective calls for what we termed project owner type 1. We need project owners who focus on the fact that projects are executed for a reason. Project owners should take responsibility for both the investment costs as well as the future benefits from the delivery. Such project owners have incentives to select, execute and direct projects that support overall business objectives of the organisation. This is the project owners that theory presents, but this type of project ownership is yet to be implemented in the type of projects that we studied.

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