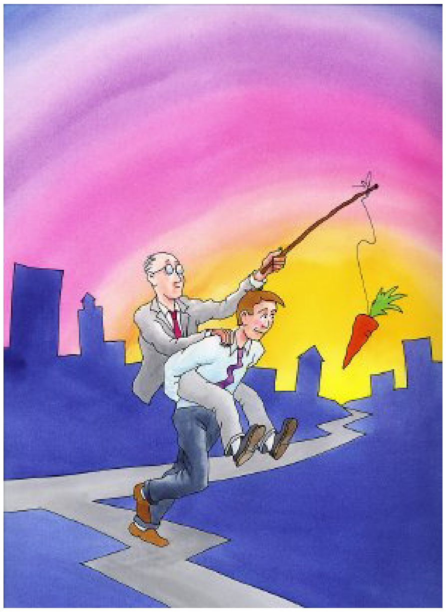
Corporate Governance

Lessons for PMO managers from the CBA scandal



The CBA[1] financial scandal of 2017/18 is a classic example of the effect of setting the wrong performance targets. ***If your measurement systems focus on the wrong things, you will get exactly what you asked for!***

Project management used to be defined as balancing the 'iron triangle' of time, cost and output (scope), these days quality, sustainability, safety and maintainability are frequently added to the mix. In the modern lexicon, project success is defined as delivering 'stakeholder value', or as fulfilling 'stakeholder expectations'. In short, project success is multi-dimensional and depending on the requirements of the project's stakeholders, some dimensions are more important than others. The challenge for project controls professionals and PMOs is creating performance measures that focus on things that matter; as Einstein said *'Not everything that can be counted counts and not everything that counts can be counted'*. And even more important, just because something is easy to measure accurately does not mean it really matters.

The CBA financial planners were measured and incentivised on the amount of profit they generated for the bank – the CBA paid bonuses to staff that sold high-risk products and paid more bonuses (commissions) to staff that unnecessarily churned clients through package after package. The financial planners were not incentivised to look after the best interests of the CBA customers.

As discussed in ***The normalisation of deviant behaviours***[2] the real *'surprise'* is that anyone in the CBA management can pretend to be 'surprised' when their financial consultants did exactly what they were being paid to do. The way the CBA Board avoided taking any disciplinary actions against the staff and managers in their wealth management division tends to support this view, and suggests the KPIs and performance were largely in line with what was intended, the maximisation of bank profits rather than the optimisation of the clients' wealth.

Paying bonuses and commissions to encourage specific behaviours is at the 'high end' of the behaviour modifying 'tool kit' available to management (and can be very effective for clients if used ethically), however, KPIs and performance measurements don't need to be linked to personal payments to be effective. Most people are innately motivated[3] to achieve success and will adapt their behaviours to be 'successful' against any reasonable KPI. The challenge is setting the right KPIs to drive the desired behavioural outcomes; as discussed in ***What you measure is what you get***[4], set the wrong KPIs and even with the best of intentions you can drive undesirable outcomes.

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1 Commonwealth Bank of Australia, Australia's largest bank.

2 See: https://mosaicprojects.wordpress.com/2014/06/27/the-normalisation-of-deviant-behaviours/

3 For more on ***motivation*** see: http://www.mosaicprojects.com.au/WhitePapers/WP1048_Motivation.pdf

4 See: http://www.mosaicprojects.com.au/Mag_Articles/SA1018_What_you_measure_is_what_you_get.pdf

Why does this matter to PMOs and project management in general? I would suggest the overemphasis in most PMO reporting structures on the easy-to-measure KPIs of 'on time' and 'on cost' are very likely destroying value. If the project team are aware of the fact their project will be flagged as 'Red' on a RAG[5] report if they don't finish the development of a component by the end of the week, they will be motivated to cut corners, reduce quality, skip or minimise documentation and ignore long term desirable characteristics such as maintainability to avoid the 'red flag'. None of the short cuts will be enough to cause the component to be rejected but in aggregate the quality of the item is reduces and long-term value lost.

This type of value/quality degradation is particularly easy to encourage in 'soft projects' such as IT coding. You can write a software module that 'just works' or you can spend a bit more time to clean up and document the code so it is easy to understand and maintain. Similar options to create 'just-OK' / 'gone-through-the-motions' outcomes can be encouraged in training material development, 'organisational change' and a host of other 'soft projects' by focusing on cost and time rather than value and benefits realisation. It is easy to finish an organisational change project 'on time' and 'on budget' (all KPIs green) if you don't worry about actually creating the desired change in the minds and behaviours of the people in the organisation – *'they all attended the workshop, it's not our fault they did not buy into the initiative…'*. The project was a success but the change initiative was a failure???

Measuring value, quality and benefits contribution is much harder than measuring time and cost performance. However, the question for PMO and executive management to answer is do you want your projects to meet some arbitrarily set cost and time parameters or do you want to get some real and sustainable value out of the money being spent? There are basically two choices:

- If you are happy just to spend money and expect nothing back measure cost. If you actually want to realise sustainable value measure the project's value contribution.
- If you want to put pressure on your project teams to 'perform' set a ridiculously short time for completion. All that will happen are costs will go up and quality will go down but the team will be 'working to maximum capacity'. If you want to optimise costs and value do some proper planning, add in appropriate contingencies for risk and measure the quality and usefulness of the project's deliverables.

These are simple choices that need to be framed within the context of each project – there's no right answer! There will always be a limited number of projects where speed is an imperative, but for most a combination of better strategic planning so the work is started at the right time and/or simply allowing adequate time will produce far better-quality outcomes at a significantly reduces cost[6].

Simply having an immovable deadline is not an excuse. The London Olympics infrastructure was started 'early', properly resourced from the beginning, used appropriate procurement systems and finished a year ahead of the opening ceremony with no fatalities. The key KPI was ***no injuries***, most of the other outcomes revolved around this primary objective which required proper training, skilled workforces, careful planning, clean working spaces and carefully thought through methods of working.

Contrast this success to similar projects in New Delhi and Rio de Janeiro where strategic decisions were not made at the right times, pressures to 'increase speed' developed and cost, quality and safety all suffered.

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5 RAG = Red, Amber, Green. To understand the limitations of this type of simplistic reporting see: https://mosaicprojects.wordpress.com/2014/08/15/mind-your-language/

6 For more on ***benefits realisation*** see: https://mosaicprojects.com.au/WhitePapers/WP1023_Benefits_and_Value.pdf

Getting the balance right, setting the right KPIs and requiring management to have the right systems in place to achieve the organisations objectives is a governance imperative[7]. The 'governing body' needs to decide what matters and then task their executive to implement the appropriate systems, KPIs and other measures.

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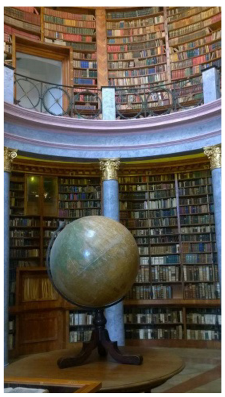

[7] For more on ***governance*** see: http://www.mosaicprojects.com.au/WhitePapers/WP1033_Governance.pdf