

# Project Management and the Creation of Economic Policy Guidelines at the Sub-national Level

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Walter Scherrer

University of Salzburg, Department of Economics and Social Science [walter.scherrer@sbg.ac.at](mailto:walter.scherrer@sbg.ac.at)

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*Economic policy at the sub-national or "regional" level has increasingly become relevant and challenging with intensified economic globalization and requires the development of economic policy concepts. This paper discusses how methods of project management can be applied to the process of creating guidelines for regional economic policy authorities. It starts with a discussion of specific features and challenges of project management in the public sector. It is concluded that projects in the public sector frequently are more difficult than those in the private sector.*

*Then typical features of a project which is aimed at creating regional economic policy guidelines (CEPG-projects) are highlighted. Major characteristics of the most important project deliverable – a coherent medium term concept for regional economic policy makers – are discussed. The analysis of the typology of such projects suggests that CEPG-projects tend to start as pioneer projects and then turn into acceptance projects. From this analysis of project types and a brief analysis of three distinct levels of project management (functional, methodological, and social level) skill requirements of project managers and the public administration's potential for drawing on external expertise are derived. Finally the relation between focusing the project's scope on the one hand and achieving legitimization and acceptance by the stakeholders and the wider public on the other hand is discussed. A trade-off between these two project goals arises as both are functions of the number of stakeholders.*

## 1. Introduction

Project management has become a standard tool for planning, coordinating and controlling diverse and complex activities in the private business sector. Meanwhile its use is commonplace in many areas in the public sector, too. Many endeavours of the public sector are organized as "projects", and thus the interest for specific features of project management in the public sector has increased (see e.g. Wirick [8]). This paper deals with a specific type of public sector projects which is at the interface between the public and the private sector: the creation of a strategic framework ("guidelines") for regional economic policy authorities.

The need for such a coherent framework for focusing regional economic policy in a medium term perspective has increased as the context for economic policy making at the sub-national level (i.e. regional level) has become more complex. The intensity of interaction and competition among regions has increased both at the international and interregional levels, and the scope of economic policies at the sub-national level has been enlarged as international economic and political integration has shifted competences and power between levels of government. The scope of regional economic policies has also been widened as participation in many European Union programmes needs most of the project development and policy planning to be done at the sub-national levels.

Politics has been challenged by the necessity to design coherent and sophisticated strategies for regional economic development. The design process of guidelines for economic policy at the regional level is considered a "project" because it meets the criteria both according to the Project Management Institute's Guide to the Project Management Body of Knowledge (PMBOK; PMI [5]) and to the German industrial norm DIN 69901. The design process is a temporary endeavour as it has a start and an end, it needs resources and some amount of preparation and planning, and the process's goal is to create a unique "deliverable" – i.e. the economic policy guidelines. Thus methods of project management can be applied to the process of creating such guidelines.

The paper analyses the endeavour "Creating Economic Policy Guidelines at the sub-national level" (CEPG-project) from a project management perspective. Section 2 discusses challenges and problems of project management which are specific in public sector project in general. Section 3 highlights major features of a CEPG-project being a specific public sector project. Topics of analysis include project deliverables, possible project types, specific issues concerning the functional, methodological, and social levels of project management, and problems of dealing with big numbers of stakeholders and aggregating results. Matters concerning project organisation, timing of the project, and the roles of public employees and other experts in such a project have been discussed elsewhere (Scherrer [7]).

The paper draws on experience with CEPG-projects which have taken place in Austrian regions since the late 1990s.

## 2. Specific features of project management in the public sector

### 2.1. Defining the “Public Interest” and Measuring Project Success

A marked difference to private business sector projects is **the difficulty to define the “public interest”**. While in business projects a company’s interest usually can be defined easily in public sector projects major problems of revealing preferences and preference aggregation arise. So it is not quite clear which groups of a region’s society or economy ought to be targeted by economic policy in order to serve the “public interest” best. A specific feature of public sector projects is that – like a CEPG-project – they may reach far into the future and therefore needs of stakeholders ought to be served who are not yet “at the table” and whose interests might be difficult to identify (Wirick [8]).

This issue has been reflected by the change of goals of regional economic policy in the CEPG-projects in the province of Salzburg during the past fifteen years. In the first edition of this project in 1997 the guidelines aimed at two goals of economic policy: gdp growth and jobs. In the next round in 2003 economic growth and jobs were still top-level goals, but the reduction of regional disparities was added as another goal of medium term economic policy. This change occurred although no major change in regional economic disparities had been observed in the meantime. In the project cycle which started in 2009/10 these three goals will very likely be complemented by ecological sustainability. While this topic was considered exogenous in former project cycles ecology-economy links will get more attention and thus will turn from being part of the framework conditions to a core object of economic policy.

But even if we assume that – like in the case of the CEPG-project – it is possible to define the public interest properly it is often difficult to **measure the achievement of this public sector project properly**. While in a private business environment a single and simple indicator of performance, like return on investment, can be used to measure performance, public-sector agencies often lack such simple measures. In the case of the CEPG-project at the top level of goals aggregate indicators like the gross domestic product per capita, the growth rate of real gdp, employment growth or unemployment rates have been used. Measurement of these indicators is simple, but targets expressed in average values hide differences across

sectors, firm size, gender, age groups and other structural characteristics which might be important. Targets and measures ought to be diversified carefully because there is a risk of overloading medium term guidelines with a vast amount of goals, strategies and instruments. Guidelines thus would become less meaningful.

A further problem with the CEPG-project is the difficulty **to attribute actual economic performance to the strategies suggested by the project**. A region’s economic performance depends on a variety of influencing factors which are not under the control of the region’s authorities. Interregional and international interdependencies of the business cycle, constitutional and other legal constraints, and the activities of regulatory authorities at the national and supra-national levels restrict a region’s potential to design and implement independent policies. Therefore it is suggested to measure performance and to define targets in a CEPG-project not primarily in absolute numbers but in relation to other regions within the same or a similar relevant legal and political framework

### 2.2. Five Challenges for Project Management in the Public Sector according to PMI

The Project Management Institute, a leading non-profit organisation which has been propagating project management and setting standards in project management identified five challenges and trends which affect how project management works in the public sector (PMI [6]). These challenges are: managing multiple stakeholders, adapting to a changing political landscape, understanding local politics, dealing with public scrutiny, and dealing with personnel constraints

In public sector projects usually **several stakeholders from other agencies and outside the public sector** with varied interests are involved. The impact of these projects on this multitude of programs and providers has to be considered as the project’s success requires their cooperation and performance. This, in turn, increases the number of stakeholders in this type of projects. The project managers thus operate in an environment of conflicting goals and outcomes, and because they may lack governance in their projects, they need to use a lot of negotiation, conflict resolution, communication, and leadership skills. The inclusion and management of a multitude of stakeholders has turned out to be a major challenge in CEPG-projects (see Scherrer [7]) and will therefore be dealt with in more detail in section 3.

The need to **adapt to a changing political landscape** may best be exemplified by the fact that project continuity may not be warranted due to political cycles and

elections which entail the change of political leaders and perhaps even the first tier of administrative leadership. With new people at the top level new ideas for new projects enter the administration while old projects are prone to be stopped or started over again. A CEPG-project should be initiated soon enough so that it can be finished well before the next election day in order to save project results from the rhetoric of election campaigns. Therefore proper timing has turned out to be another crucial issue in CEPG-projects (more details see in Scherrer [7]).

**Understanding local politics** is important because directives, policies, procedures and statutes may affect projects. In the public sector projects are performed in an environment that includes political adversaries; often they have to placate political interests. This applies to CEPG-projects because they affect a variety of policies which are designed and implemented by other departments of the regional administration, by other government agencies, or at other levels of government (e.g. the central state).

Public sector projects are usually confronted with a much more **intensive public scrutiny** than private sector projects because they affect many persons, firms, and organisations outside the public sector. Failures get a lot of attention because they could be considered to cause an improper use of public funds and because they could harm many persons. In public sector projects it is much less possible to conceal information than in private sector projects; they are performed under constraints imposed by administrative rules, policies, and processes that can delay projects and consume project resources. The project manager in the public sector may operate under a variety of – sometimes overlapping – oversight structures, like the oversight of an elected executive, oversight agencies, legislative bodies and their own oversight agencies, and elected oversight officials, such as state auditors and treasurers. “As a result of this overlapping oversight, public-sector projects may be required to dedicate substantial resources to ensuring that constraints are not violated and that oversight agencies are placated” (Wirick [8], p.3). And, last but not least, projects in the public sector frequently operate under close media scrutiny.

Finally, “dealing with a pay cut” (PMI [6]) or other **personnel constraints** are specific features of public sector projects. If highly skilled jobs in the public sector are paid lower than in the private sector this might lead to higher turnover rates of skilled project managers. Budget constraints, procurement regulations, civil-service protections and specific hiring systems may cause that public sector projects have to be per-

formed with existing staff resources more often than private-sector projects. Further, the culture in public administrations is likely to be different from firms in the private sector which are usually better used to directed action and project success (Wirick [8]).

### ***2.3. Summing up: Public-sector projects can be more difficult than private-sector projects***

The public sector is different compared to the private sector, and thus public sector projects are characterized by specific features and problems which can make them more difficult than many projects in the private sector. In the public sector projects are often operated in organizations and project environments in which it is difficult to measure project outcome. In many public sector projects the outcome is difficult to determine in advance (a CEPG-project is a good example!) which makes this type of projects more difficult than those for which the outcome can be defined at the beginning of the project because more interaction among stakeholders is required during the process.

## **3. Features of a cepg-project**

### ***3.1. Project deliverables***

The project’s purpose is to develop a coherent concept for focusing regional economic policy strategies in a medium term perspective. The concept – which will be the core deliverable of the project – ought to contain an analytical basis from which regional economic policy guidelines are to be derived. This analytical basis is likely to contain an analysis of economic structure and performance of the region, an analysis of the economic, social and institutional environment which forms the region’s framework conditions for economic policy, and an analysis of socio-economic trends which are likely to affect the region’s future economic development. Forecasts and scenarios might also be part of the analytical base.

A first policy-oriented part of the concept is the definition of medium term goals of economic policy and of operational indicators to measure the achievements of policy. This is not a straightforward task because of problems to develop operational indicators which should measure the achievements of the policies and because of the difficulty of attributing economic outcomes to economic policy actions (see section 2.1.). The politicians’ and other stakeholders’ attitudes toward goals of economic policy might change over time, too. E.g. in the economic policy guidelines of the Province of Salzburg in the first project cycle which started in 1997 economic growth and job creation were the only two top-priority goals while in 2003 the reduction of regional disparities was added as a third goal (although regional disparities had not increased

in the meantime). In the recent third round of the project cycle (2010) sustainability – ecological sustainability in particular – will very likely be added as a fourth goal.

The second policy-oriented part of the concept is the identification of fields of economic policy guidelines for developing medium term strategies. Medium term means more that guidelines should be developed for more than one election period and that the strategy period reaches beyond the usual short-term political planning horizon. While divergent interests of project stakeholders may emerge already at the stage of defining top-priority goals they become most virulent when the areas of policy intervention are defined and concrete strategies are developed.

As a CEPG-project is an instrument of political marketing another group of project deliverables could be the presentation of the concept to regional government, regional parliament, various stakeholder groups of economic policy, and to the wider public.

### 3.2. Project type

Project characteristics and challenges for project management differ with regard to project content and type. Project types can be distinguished according to various dimensions, e.g. according to:

- the project initiation and project operation: internal vs. external projects;
- the size of the project in terms of resources and time required for the project;
- the project's degree of "uniqueness": pioneer projects vs. routine projects;
- the nature of the endeavour: the project task may be well defined in advance with a limited amount of possible modes of delivery ("closed" task) vs. projects which are characterised by a variety of possible modes of delivery ("open task"); and
- the degree of social complexity of the project: low complexity projects due to a small number of stakeholders involved with only moderate differences of interests and approaches to problem solving, simple modes of causation and thus relatively low risk to accomplish project goals vs. highly complex projects requiring interdisciplinary cooperation, being politically controversial, and involving many stakeholders with diverging interests.

A CEPG-project usually is initiated internally by the politician(s) in charge of regional economic policy, and the administrative department plays a key role in the project. Thus CEPG-projects tend to be basically internal projects although external expertise (both or-

ganisational and functional) may be purchased from outside. The project size usually will be a medium one: in none of the CEPG-projects in Austrian regions in which the author has been involved the average number of staff devoted to the project in terms of full-time-equivalents during the whole process exceeded five persons. The project duration was between nine and eighteen months.

Combining the project dimensions *nature of the endeavour* and *degree of social complexity* in a matrix (see diagram 1) yields interesting insights particularly for CEPG-projects. Projects in the lower left quadrant ("standard projects") can be operated easily due to simple project characteristics; because of its repetitive nature organisations are already experienced with handling this kind of projects. The deliverable of such projects is unique but the mode of delivering is standardised. Serious CEPG-projects will not be found in this quadrant. "Potential projects" are characterised by little social complexity. But because the mode of delivery and the contents of the outcome are largely undetermined in these projects an the scope (i.e. the potential) of possible solutions is broad.

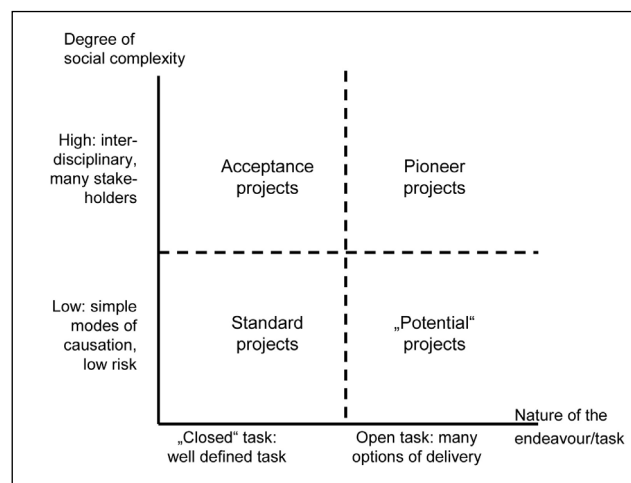


Diagram 1: Project types; Source Kuster [2], translated and adjusted by W.S.

"Pioneer projects" entail fundamental consequences for the organisation undertaking the project. They involve many stakeholders and are characterised by a high degree of uniqueness and risk. Finally, "acceptance projects" are endeavours with a well defined task. They are complex projects due to a big number of stakeholders with diverging interests, but they are not unique (any more). As the organisation already has some experience in handling this type of project methods of project management can be standardised. The major task of such projects is to gain or maintain stakeholders' acceptance of the project outcome.

What project type will a CEPG-project be? When a regional administration does such a project for the first time then it will be characterized by a high degree of openness concerning the mode of delivery and the nature of the project outcome. The project's degree of social complexity depends on the number of stakeholders involved. The project may start as an internal project within the administration in order to analyse the feasibility and different modes of creating economic policy guidelines at the regional level. As it will turn out sooner or later that guidelines are likely to have an actual impact on economic policy and the regional economy only if the region's key economic policy relevant stakeholders get involved into the process the first CEPG-project undertaken by a regional government will tend to be a pioneer project. If the project is repeated it will become easier to define the project task and the expected outcome, and the project management can rely on methods which have proved to be already successful before. So a CEPG-project might start in a pre-project phase as a potential project but will then quickly change to a pioneer project. Finally it is likely to change to an acceptance project as it runs through several project cycles.

This typology of projects is helpful for the choice of project organisation, for the decision on how to deal with the project environment, and for defining the requirements concerning networking and the skills of the project manager. In the lower two quadrants (particularly in standard projects) no big project organisation is required and the organisational culture does not differ very much from the "line-world" of an organisation. In acceptance and pioneer projects the cultural difference to and the potential for interferences with the line organisation are more significant. In such projects – which are typical forms of CEPG-projects – social competences and networking abilities are key skill requirements for project management to be successful.

### **3.3. Levels of project management**

Project management deals with the organized planning and implementation of complex activities in a project. It has to cope with the challenges of defining the proper scope of the project, dealing with time constraints, and dealing with cost constraints – the triangle of objectives and trade-offs between cost, performance and time (Lock [3]). A major task of project management is to strike a balance between these interrelated constraints. Tackling these challenges needs three levels of project management (comp. Kuster [2]) from which again skill requirements of the project manager of a CEPG-project and the potential to outsource specific tasks to external firms (consultants, experts) can be derived.

First, there is a **functional level** of project management which aims at planning of goals and structuring the project. Here the major challenge for the project manager of a CEPG-project is having a sound knowledge of the region's economy and a basic knowledge of economic theory and policy. The project manager has a strong influence at the functional level because he is in charge of formulating intermediate reports and drafting the final report – the deliverable of the whole project. Therefore administrations are well advised to build up competences in economic policy as these are at the core of the knowledge base required for developing and implementing economic policy guidelines and strategies. At the same time public administrations ought to draw on external expertise, too, in order to confront regional economic policy stakeholders with an unbiased view of the region's economic situation and development.

Second, there is a **methodological level** of project management which is concerned with planning resource use, capacities, cost, time, and liquidity. For these purposes the standard tools of project management like structuring techniques, bar plans, netplan techniques like the critical path method, and other decision and planning techniques are used. As long as a CEPG-project is a "potential project" or a pioneer project methodological expertise may be purchased in the market. When a project is set to take place repeatedly and it thus gets the character of an acceptance project (or even a standard project) the time has come to develop this type of expertise within the administration in order to reduce the dependency from external knowledge.

Third, there is a **relational or social level** of project management. The "informal aspects of project planning and management, which focus on problem solving and conflict management", are important determinants of the success of projects in the public sector (Joyce [1], p. 85). It is relevant how the persons involved in the project communicate and deal with each other in a team, how they can develop creativity, how they present their ideas and results, how opposition and contradictions are dealt with in the project. Motivation and co-ordination of agents which are involved in a CEPG-project are the key challenges at the relational level of project management. Public administrations are well advised to build up and develop skills in this area internally and not to completely rely on external support. For public administrations which are in charge of economic policy contacts with stakeholders or potential "clients" like interest organisations of entrepreneurs, top managers and owners of key firms in the regional economy are essential for the success of economic policies both operationally and

strategically. Project managers therefore should have a sound knowledge concerning the relational or social level of project management. It is supportive if people from the administrative department which is in charge of economic policy affairs are well integrated both in formal and informal networks of relevant agents of economic policy in the region.

### 3.4. *Focusing the project's scope and large numbers of stakeholders*

Designing guidelines for regional economic policy is a genuinely political process and therefore it is – according to Niskanen ([4], p.321) – a “process of achieving consent on governmental actions. ... Consent should be considered superior to any of the other criteria by which social actions are also evaluated”. In CEPG-projects defining the project's scope – what is included in the project and what is not – is a particularly delicate issue because of the broad range of stakeholders with diverging expectations of the project's scope. Stakeholders need to be integrated in the process of defining project scope which makes achieving a consensus – which is crucial for the project's success! – difficult. External stakeholders from outside the public administration and often even internal stakeholders from other departments of the same administration which are affected by the CEPG-project cannot be controlled by the project manager. Like in other public sector projects, even though the project manager may be ultimately accountable, governance of a CEPG-project and credit for successes must be shared (Wirick [8]).

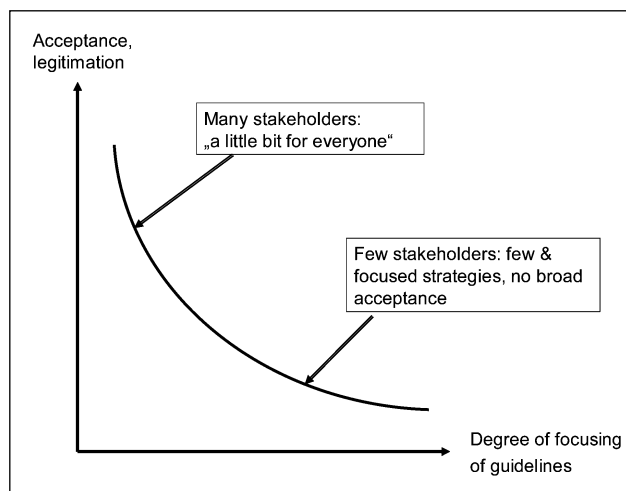


Diagram 2: *Acceptance vs. focusing of guidelines.*

In a CEPG-project the number of people included in the process of creating guidelines will be large because this is beneficial for the guidelines' legitimation and acceptance in the public. Economic policy actions and decisions of regional policy makers can be legitimated by medium term guidelines. The acceptance of economic

policy actions will increase if actions can be explained easier to the public by referring to a coherent set of guidelines thus demonstrating that policy actions are not the result of ad-hoc decisions but are based on a strategic plan. But stakeholders in the project might want to pursue individual interests in the project even under the assumption that there exists a basic consensus on a common regional interest. The participation of a large number of stakeholders in the project makes the search for compromise as a precondition for consensus difficult because the variety of issues to be dealt with in the economic policy guidelines is high and thus the expected degree of focusing of guidelines is low.

But attaching priority to well defined topics and strategies is necessary for budget reasons because it will be both difficult and most likely ineffective to finance a “something-for-everyone” bundle of strategies and measures to be derived from the guidelines. It is also questionable whether such guidelines are helpful for economic policy or even if the guidelines can be taken serious at all because (nearly) any policy action and even contradictory policy actions can be justified with reference to such guidelines. As both the acceptance of guidelines and the degree of guidelines' focusing are a function of the number and diversity of stakeholders involved in the project a trade-off between these two goals emerges (see diagram 2).

The trade-off between acceptance and focusing of guidelines therefore has to be addressed when those policy fields are defined which ought to be covered by the guidelines. It is an important task of project management at the methodological level to apply methods which allow increasing both acceptance and the degree of focusing of guidelines. In the diagram this would mean a shift of the trade-off curve outward from the origin. A simple method to achieve this based on a careful structuring of stakeholder participation in work groups and agenda setting for the workgroups by the project management has been presented in Scherrer [7].

### 3.5. *Summing up: Project management is a useful tool for handling a CEPG-project*

The analysis showed that project management is a useful tool for handling the process of creating economic policy guidelines at the sub-national level. The process of creating such guidelines has all the characteristics which constitute a “project”. The project's purpose and major deliverable is to develop a coherent concept for focusing regional economic policy strategies in a medium term perspective. CEPG-projects might start in a pre-project phase as a potential project but they soon will change to a pioneer project and finally to an acceptance project as it runs through several project cy-

cles. A major task of project management is to strike a balance between project scope, time and cost constraints by applying project management at the functional, methodological, and social levels.

Key skill requirements of the project manager of a CEPG-project are both at the functional level and most of all at the social level, while at the methodological level it is less problematic for a public administration to outsource specific tasks to external agents. The acceptance of guidelines by stakeholders and by the wider public and a high degree of guidelines' focusing are important project goals. As both goals are a function of the number and diversity of stakeholders involved in the project a trade-off between these two goals emerges. Dealing with this trade-off is one of the major tasks of project management in a CEPG-project.

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