

NEC Contract Governance for Effective Project Delivery: why it matters and how to do it better

Presented by

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Agenda

- ❖ Aim of doing this
- ❖ Bad governance examples
- ❖ What is P^{3/4} governance & why does it matter.
- ❖ A generic model for effective governance
- ❖ Principles for effective governance of contracts (for sub-projects)
- ❖ A bit more on processes & inputs
- ❖ Some NEC specifics
- ❖ The enhanced model for effective assurance
- ❖ Feedback and discussion

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Aim of doing this :

For me to get feedback and thoughts on :

- ❖ is it just me who thinks governance of contracts is often done appallingly,
- ❖ whether my thoughts *so far* on how it should be done are valid, so that ...
 - ... you have better governance on your contracts ...
 - ... so that your contracts are delivered better.

Examples of bad governance

- ❖ A tower refurbishment where only the Capital Investment Director at 3 levels above the *Project Manager* could sign-off anything significant & any compensation events.
- ❖ A railway line where no-one on the *Employer* side seems able to 'accept' anything under the contract as there is minimal delegation.
The same project had no Gateway reviews before the notice to proceed from ECI Stage 1 to 2.
- ❖ For a transport authority in a capital city, 'governance' is solely to report to ministers & budget holders, so that they know more money is needed.

What is P³ Governance ?

APM BoK7 : Governance is :

“The framework of authority and accountability that defines and controls the outputs, outcomes and benefits from **p**rojects, **p**rogrammes and **p**ortfolios.

The mechanism whereby the investing organisation exerts financial and technical control over the deployment of the work and realisation of value”

Why does P³ Governance matter ?

The opening statement in **APM**'s

'Directing Change :

A Guide to the Governance of Project Management' is

Governance has been shown to have the most significant impact on the successful outcomes of complex organisational change and projects.

5 key elements for effective P⁴ governance*

- ❖ Portfolio management
 - ❖ Project sponsorship
 - ❖ Effective Project management
 - ❖ Procurement, administration & management of contracts ?
- Project Management Office**
-
- ```
graph LR; A[❖ Portfolio management] --> PMO[Project Management Office]; B[❖ Project sponsorship] --> PMO; C[❖ Effective Project management] --> PMO; D[❖ Procurement, administration & management of contracts ?] --> PMO;
```

\* Eric G Too & Patrick Weaver (Nov 2014), *The management of project management: A conceptual framework for project governance*, International Journal of Project Management, Vol. 32, Issue 8, p.1382 – 1394.

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## So what is 'Effective Governance for the PAM (Procurement, Administration & Management) of Contracts' ?

- ❖ The setting of objectives for each contract.
- ❖ The monitoring of
  - performance against these objectives and
  - the critical success factors (CSFs) that lead to performance.
- ❖ Making timely strategic decisions for the contract in consultation with its management.
- ❖ Providing direction and guidance to the PAM teams
- ❖ Final tier of dispute avoidance before it gets legal.

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## Key insight

- ❖ A quote from Dr Martin Barnes:

*"Projects don't fail for novel reasons;  
they fail for the same boringly repetitive reasons".*

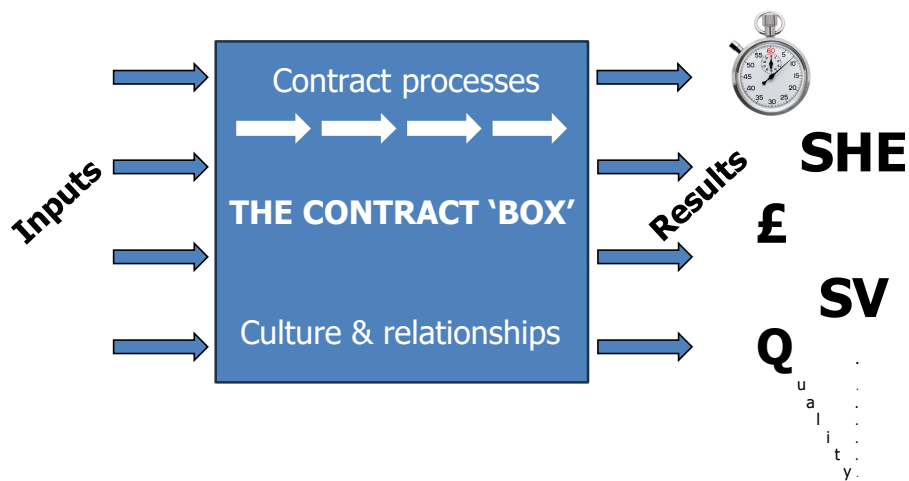
- ❖ Turning this around and applying it to contracts :

*Contracts don't succeed for novel reasons, they  
succeed for the same boringly repetitive reasons.*

**So, shouldn't a key role of P<sup>4</sup> governance (at any level) be to make sure that these 'boringly repetitive' reasons are in place early on & stay in-place over a project or contract's duration ?**

Arguably, it is the 'über' CSF of all CSFs !

## A model for good governance : balanced scorecard



## 8 Principles for Effective Governance

1. Structural Separation of Governance & Management.
2. Mutual Empowerment and Legitimate Authority.
3. Minimum Viable Governance: the Goldilocks Principle.
4. Proximity Without Interference.
5. It's forward looking & pro-*active*.
6. Assurance Enables, not Hinders, Delivery.
7. Organisational Design is inextricably linked to Contract Strategy & vice versa.
8. Decision Making Authorities & Escalations are Explicit.

## 1. Structural Separation of Governance and Management

- ❖ Governance and contract management are **distinct functions with different purposes**.
- ❖ Governance sets direction, constraints and assurance; management delivers within them.
- ❖ *Separation is essential to avoid both abdication and interference.*

## 2. Mutual Empowerment and Legitimate Authority

- ❖ Governance must be **explicitly empowered by stakeholders** to be effective.
- ❖ Management must be **explicitly empowered by governance** to act decisively.
- ❖ *Authority must flow both ways, or neither function works.*

## 3. Minimum Viable Governance : the Goldilocks Principle

- ❖ Governance should be **no more and no less than necessary**.
- ❖ Start with Minimum Viable Governance (MVG) and grudgingly add controls **only when justified by risk, value or complexity**.
- ❖ *This establishes proportionality as the governing meta-principle.*

## 4. Proximity without Interference

- ❖ Governance must be **close enough to understand reality**, but **sufficiently distant to avoid managing**.
- ❖ Oversight should illuminate, not obstruct.
- ❖ *Be "close but not too close" and "don't get in the way".*

## 5. It's forward looking & pro-active

- ❖ It's not a passive receiver of historical information.
- ❖ It is assured that the lead & lag information it is receiving is up to date and accurate.
- ❖ It prompts management to think ahead, develop actions & holds them to account

## 6. Assurance Enables, not hinders, Delivery

- ❖ Monitoring and assurance exist to **increase confidence and expose blind spots**, not to slow progress.
- ❖ Assurance must have **access to people, data, tools and stakeholders**, while remaining non-intrusive.
- ❖ *Assurance is a support function, not a 'drag' function.*

## Importance of Assurance

- ❖ Except on smaller contracts, project sponsors / boards do not have time to delve into detail.
- ❖ Need assurance that information/data is correct & represents reality i.e. Goodhart's law isn't running rampant.
- ❖ Suggest 3 lines of defence : assurance of initial (reporting) processes, assurance that processes are running as intended, assurance that right processes.
- ❖ Ideally assurance is seen a 'constructive friend' vs. a \*\*\*\*\*. Data & 'soft' information point to AfIs which can then be investigated.
- ❖ Implies 'assurer' has experience.

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## 7. Organisational Design is inextricably linked to contract strategy & vice versa

- ❖ Effective contract governance is inseparable from **organisational design** — structure, processes, tools and culture.
- ❖ Key artefacts (e.g. Contract Initiation Documents) are **governance-owned sign-offs**, not administrative outputs.
- ❖ *Governance is anchored in how the contract is actually run.*

## What is 'Organisational Design' ?

Organisational design is all-embracing term covering the process of structuring an organisation's roles, responsibilities, and relationships to achieve its goals and objectives effectively.

In a contract environment, it involves recognising where the Parties' objectives are aligned (and where they are not) and the constraints within which each Party has to operate.

From this, the key elements of a contract teams organisational design include:

- ❖ **Structure:** Defining the hierarchy and reporting relationships both within each of the Parties' teams and with each other.
- ❖ **Roles and Responsibilities:** Clarifying job descriptions and decision-making authority for each (level of) position.
- ❖ **Processes:** Establishing workflows and procedures to ensure efficient operations.
- ❖ **Technology:** Integrating tools and systems to support each organisations' functions and minimise friction between the Parties.
- ❖ **Culture:** Shaping the contract team's values, norms, and behaviours.
- ❖ **People:** Ensuring the right talent is in place & fostering their development.

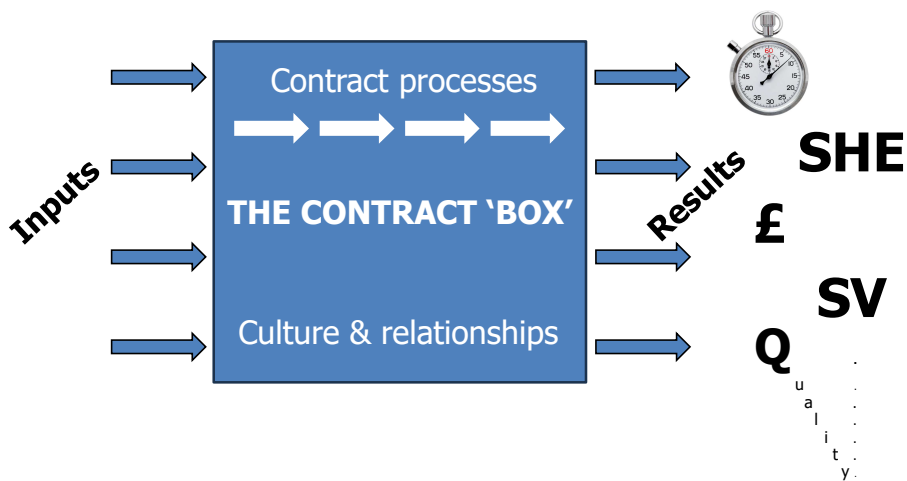
## 8. Decision Making Authorities and Escalations are Explicit

- ❖ Defining high-level roles is insufficient.
- ❖ **Defined decision authorities** (including delegations) **and escalation routes** must be explicit, understood and aligned to the contract strategy.
- ❖ *Clarity of authority is the difference between governance and theatre.*

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## A model for good governance : balanced scorecard



## Processes : are the contract mechanisms working ?

Why does this matter ?

- ❖ If they are not working well, how can we believe the 'Results' data ?
- ❖ What can we do (early on) to make them work well, so that the contract is delivered successfully ?

## Processes : are the contract mechanisms working ?

- ❖ Cloud-based systems can track compliance with multiple workflows. Data can be extracted to show dashboards and trends & exceptions.
- ❖ Danger of single versus multiple measures :
  - Goodhart's Law : "*When a measure becomes a target, it ceases to be a good measure.*"
  - Too many measures : what do we focus on ?
- ❖ Applies both to selection of key processes – danger of ignoring what is not measured - and measure used.
- ❖ Ideally, a line of sight between process & results.

## Inputs (1)

At the start of the contract

- ❖ Process, culture and results won't work as well if not set up well.
- ❖ Need to think about overall contract organisational design.
- ❖ A plan is needed to put these & reporting on them in place : a Contract Initiation Document.
- ❖ Governance should give direction on this plan, sign it-off, have assurance that in place and that is working.

## Inputs : contract organisational design

- ❖ Right organisational design :
  - Right organisational structure
  - Right people : ethics and soft & hard skillset
  - RACI where **A** = **decision making**
    - A**uthority to make decisions & be
    - A**ccountable for them, such as
    - A**cceptances and instructions
  - Fit for purpose tools e.g. not just NEC cloud-based systems but others as well.

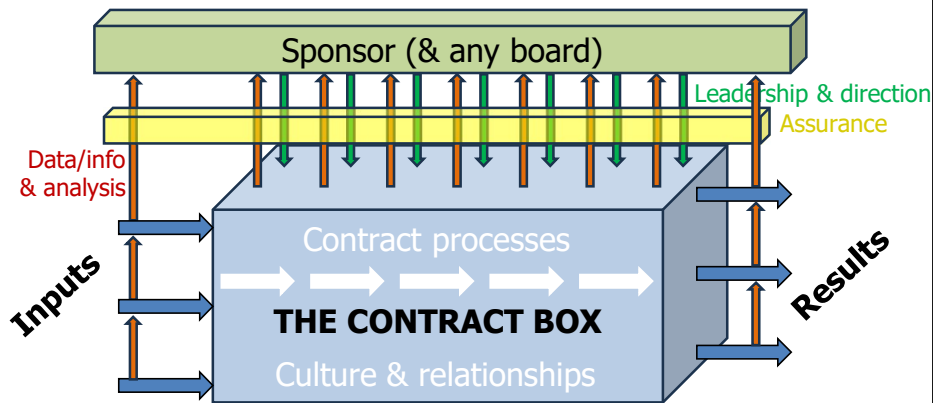
## Inputs (2)

- ❖ Key inputs:
  - Right *Contractor* for right Price (& other financials)
  - Programme
  - Right contract organisation design: see previous.
  - Good contract documents (Z-clauses & Scope) : well-structured, concise and *sufficiently* precise
  - 'Fit-for-purpose' contract strategy
- ❖ How far back do we go ?
- ❖ Are our gateway reviews effective ?  
Or are we just box ticking ?

## NEC mechanisms for governance

- ❖ Outline requirements in *Client's Scope*, fleshed out in *Contractor's* submission, evaluated as part of the tender process & incorporated into the contract as *Contractor's Scope*.
- ❖ Requirement for monthly dashboards as part programme submission.
- ❖ Use of X20 : Key Performance Indicators
- ❖ Use of X29 : Climate Change
- ❖ Use of X12 : Collaborative Working across contracts with Core Group, KPIs etc.
- ❖ Amended W3 : Dispute Avoidance Board

## A summary diagram ?



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## Questions & Reflections

- ❖ What resonates with you either positively or negatively ?
- ❖ What can you do to 'nudge' NEC projects in a better direction wrt governance ?
- ❖ Any challenges to what I have said ?
- ❖ Any questions : clarifications, amplifications etc

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