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Should there be an Internal Contract between
PMOs and Functional Departments?
Student Paper                                          by Xiaohua Zeng

# Should there be an Internal Contract between PMO's and Functional Departments?[1]

## Xiaohua Zeng

**ABSTRACT**

Organizations have been facing various challenges and more complex when they deal with projects because there are many factors that might lead to a project failure which could generally perform as quality reduction, cost increases and time postpone etc. In project-oriented organizations, there are both external and internal projects. The biggest difference is that internal projects are a strategic choice and an option for the organization design while external projects are performed per force because of the customized nature, in other words, external projects are undertaken for an external client. In this context, organizations are usually aware of taking a contract with the external clients while used to ignoring the necessity of setting contracts for internal projects. Since internal projects are driven by organizational strategies and in most cases performed by a PMO, they form networks that extend across the hierarchical functional units and meanwhile PMO plays the role of interacting with both projects and hierarchy. Therefore, the tensions and conflicts between PMO and functional departments are rising and inevitable, which absolutely increase more risk for project success as well as organizational strategy realization. How to resolve the conflicts and ensure a better internal project environment is significant for organizations. This paper discussed the necessity of an internal contract between PMO and functional departments and the value/effects it could bring to organizations for internal conflicts resolution. By analyzing and comparing with other solutions, the paper aims to prove there should be an internal contract between PMO's and functional departments.

**Key Words:** Internal contract   Conflicts resolution   Project environment   Organization structure   Hierarchy

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[1] *Editor's note: Student papers are authored by graduate or undergraduate students based on coursework at accredited universities or training programs.  This paper was prepared as a deliverable for the course "International Contract Management" facilitated by Dr Paul D. Giammalvo of PT Mitratata Citragraha, Jakarta, Indonesia as an Adjunct Professor under contract to SKEMA Business School for the program Master of Science in Project and Programme Management and Business Development.* http://www.skema.edu/programmes/masters-of-science. *For more information on this global program (Lille and Paris in France; Belo Horizonte in Brazil), contact Dr Paul Gardiner, Global Programme Director* paul.gardiner@skema.edu.

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## INTRODUCTION

Managing projects are never easy. The ultimate question that we ask ourselves from time to time is how can we ensure the project deliverables and realize expected benefits? In this paper, we focus on internal projects in project-oriented organizations and compare the conflicts resolutions between PMO and functional departments.

Firstly, let us take a look at the differences between external projects and internal projects. Organizations do external projects based on customer demands. Therefore, there are at least two entities involved in an external project: project owner and project contractor. And organizations tend to set a contract with involved entities in order to set rules and define responsibilities. However, internal projects are as much important as external projects for organizations based on the fact that organizations could improve some processes, upgrade infrastructure and enhance business/strategies by internal projects. Generally speaking, most internal projects are undertaken without an external contractor and because of which there is no contract applied either, the efforts are based on the cooperation of PMO and functional departments.

In project-oriented organizations, running internal projects are often not desirable. A simple reality they are facing now is the conflicts between projects and other functional departments. Managing projects are different from managing operations or any other business processes, while they share a common resource pool in the organization without any agreements in legal effect. It could result in many problems, for instance, unlike the conflicts between project owner and contractor in an external project that could be solved by a legal process according to a contract, the tensions between PMO and functional departments could only be solved by negotiations, tolerances, shared understanding and culture influences. Therefore, it could cost longer time to resolve the conflicts in organizations and leave long-term culture issues. This paper proposes to adopt a contractual agreement to better resolve the conflicts between PMOs and functional departments.

The paper is going to identify some common conflicts between PMO and functional departments. And develop alternatives based on the problems, by comparing and analyzing the options we are going to choose the preferred proposal. With the research findings, the paper needs to answer the question "should there be an internal contract between PMO's and functional departments" and contribute more value to sustain internal project success in organizations.

## Methodology

### Part 1. Problem recognition

The problems that organizations are facing when they deal with internal projects:

- Shared control and responsibility lead to role ambiguity

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The functional managers are responsible for the functional part of projects, while project managers pay more attention to the project execution and deliveries. The responsibilities are generally clarified in meetings without an actual contractual document, which is the reason why the people involved in a project but very often they don't know what exactly their roles are. In reality, it is not rare to see that some project contributors stay out of his duty and responsibilities. When the tasks arrive, they don't have a clear idea of what they need to do. And when any problems occur, they are not willing to take the responsibility.

- Low efficiency in decision making
  Based on the fact that there is more than one boss in a matrix organization, decision making process is sometimes difficult and takes a long time. Managers make decisions by meetings and reports. However, agreements are not easy to achieve when authority is shared. Tensions on power could easily arise and managers from different departments need frequent communications and negotiation. Decisions could only be made based on shared understanding and compromises.

- Split authority leads to complicated communications and cooperation
  Project team members consist of staffs from various departments, the report relationships might be not clearly defined as PMO is a temporary department. People don't have a solid commitment to a project team, communications and cooperation are hard to manage and control.

- Tensions and conflicts towards resources
  When organizations have internal projects to do, the resources for the projects are shared with functional units. Therefore, conflicts between PMO and functional units are inevitable especially if the resources are limited within an organization.

## Part 2. Feasible Alternatives

There are mainly 4 alternatives towards the conflicts between PMO and functional departments:

- Do nothing.
- Negotiate in communications
- Report to higher management and seek for solution
- Set an internal contract

## Part 3. Development of outcomes

1. Do nothing.

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Little tensions might arise between PMO and functional departments from time to time, for instance, there is only one meeting room available and both project team and marketing department need to conduct important meetings, yet neither party wants to delay the meeting having the risk of overrun schedule. If people do nothing, either one team chooses another place for meeting or reschedule the time. In reality, it is quite often to see similar cases and it leads to complaints as well as low performance.

2.  Negotiate in communications

When project team is running behind the planned schedule, crashing is a technique to get the project back on track. However, when project team requires more resources, such as more funds or people, it would definitely put more pressure on functional departments as they have less resources to use. In this case, project manager and functional managers need to negotiate through one or another meeting and conversation until an agreement is reached.

3.  Report to higher management and seek for solution

If either project managers or functional managers could make a decision on how to fix a problem, they might need to report to high-level leader for solution. It is a typical way to resolve conflicts in organizations of strict hierarchy.

4.  Set an internal contract in pre-project phase

Once organizations make the decision to do internal projects, several meetings are necessary before running the projects. For example, it is important to form a meeting with projects managers, functional managers as well as other involved representatives for the preparation of an internal contract based on shared understanding of the project. An internal contract for internal projects should include the role description, responsibility segregation, resources plan, report relationship, risk takers, performance management rules and so on.

**Part 4. Criteria for comparisons**

- Employee satisfaction
- Communication efficiency and quality
- Information transparency
- Culture effects

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|  | **Do Nothing** | **Negotiate** | **Report** | **Internal contract** |
|---|---|---|---|---|
| **Employee satisfaction** | Low | Low | Middle | High |
| **Communication Efficiency & quality** | Low | Middle | Middle | High |
| **Information transparency** | Bad | Bad | Good | Good |
| **Culture effects** | Negative | Negative | Middle | Positive |

### FINDINGS

**Part 1. The analysis of the alternatives:**

- When problems occur and people do nothing, the direct effect is employee dissatisfaction. The efficiency and quality of communication is reduced since people take a negative attitude of problem solving. There is no information transparency and in a long run, it could damage organizational cultures.

- Negotiate is a common and direct way of conflict resolution in reality. However, authority and power are split and it won't make people happy no matter what result it will be after negotiation. Communication is the main method, therefore the efficiency and quality are relatively higher than doing nothing. Information transparency is bad since all the conversations might be too informal and difficult to follow or record. And frequent negotiations make cooperation more difficult so it has a negative culture effect.

- When project managers and functional managers cannot reach to an agreement and they might need to report to higher level managers. In the case, people need to accept the decision made by higher leaders. The efficiency and quality of conversations are relatively high, and people are happier since risk is transferring from execution level to organization level. The conflicts won't have a negative effect on organizational culture because people handle problems by processes.

- Setting an internal contract is very practical way to handle conflicts. As the paper mentioned above, an internal contract for internal projects should include the role description, responsibility segregation, resources plan, report relationship, risk takers, performance management rules and so on. And the contract should be signed as early as possible. With an internal contract, it could prevent the problem of role ambiguity

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and improve the efficiency of decision making, communication. Moreover, a contract could ensure information transparency and most importantly it offers a binding document to follow when problems occur.

## Part 2. Selection of a preferred alternative:

The paper will recommend the alternative of having an internal contract as the best solution based on the four criteria discussed above.

| Selection Attributes | Contract vs. Report | Contract vs. Negotiate | Report vs. Negotiate |
|---|---|---|---|
| Employee satisfaction | Better | Better | Better |
| Communication efficiency and quality | Better | Better | Equal |
| Information transparency | Equal | Better | Better |
| Culture effects | Better | Better | Better |
| DOMINANCE? | YES | YES | YES |

The ranking of the four alternatives are:

Internal contract > Report > Negotiate > Do nothing

## Part 3. Performance monitoring

Setting an internal contract requires longer time devotion before starting a project but it saves more time in execution and control phase. It is a binding document between PMO and functional department and could bring many tangible and intangible benefits for organizations:

- Improved transparency in roles, responsibility, structure and accountability
- Higher efficiency in decision making
- Better communications and cooperation
- Effectively reduce internal conflicts and tensions
- Better internal project environment
- Alignment of cultures and values within organization

## Conclusions

The value of setting a contract is remarkable, there should be an internal contract between PMO's and functional department and it should be done as early as possible.

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