

Project Business Management^{1,2}

Before You're Bound Forever...

Oliver F. Lehmann

*"Make sure before you're bound forever,
That heart and heart will find together.
When folly's gone—remorse lasts long."*
- From "Song of the Bell" (Friedrich Schiller)³

Summary

In Project Business Management (PBM), companies come together to do projects as customers, contractors, and in other roles. PBM is high-risk business for all these parties involved. Many risks are linked with the mutual obligations among the contract parties, in which shortcomings and problems, but also refusal to meet obligations of one organization may translate into problems or even crises for others.

Careful selection of the organizations, with which one is prepared to have a contract, is therefore a key element of success in project business. A simple collection of selection criteria done early in the project may help ensuring that the right questions are being asked before decisions are made that have implications far into the future.

Cross-Corporate Projects

Project Business Management (PBM) describes projects as cross-corporate endeavors that bring together independent organizations as buyers, sellers, and other forms of business

¹This is the 14th in a series of articles by Oliver F. Lehmann, author of the book "[Project Business Management](#)" (ISBN 978-1138197503), published by Auerbach / Taylor & Francis in 06-2018. See full author profile at the end of this article. A list of the other articles in PM World Journal can be found at <https://pmworldlibrary.net/authors/oliver-f-lehmann>.

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³ Own translation from the German original

partners. Together they form Project Supply Networks (PSNs) that may work very well to the benefit of all members involved and bring the project to a successful end.

Often, they don't.

In its simplest form, a PSN may consist just of a customer, a contractor and a contract between them. In other projects, PSNs grow into complex and often very opaque networks with lots of organizations involved in various roles, such as customers, contractors, subcontractors, consultants, freelancers, providers of personnel services, consultancies, and many more.

Figure 1 visualizes the basic structure of a still simple PSN.

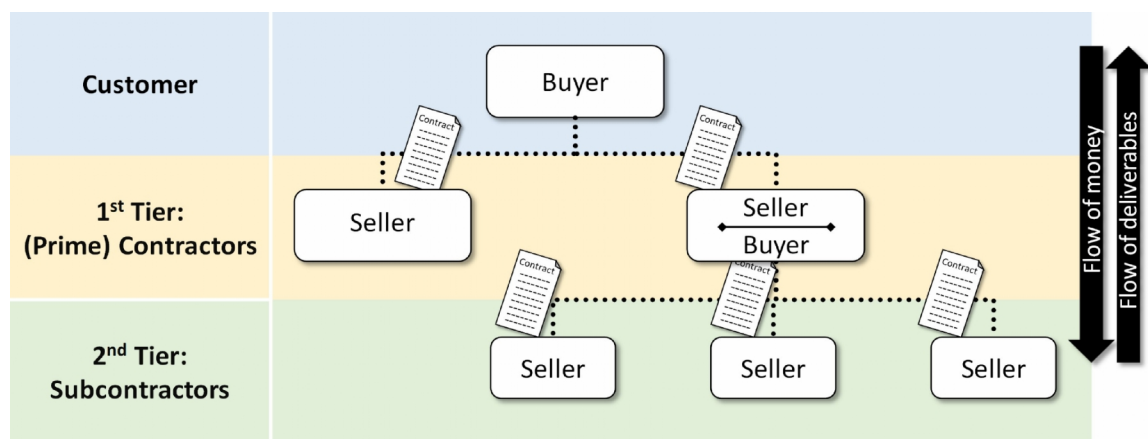


Figure 1: A simple example of a Project Supply Network (PSN) with a customer and five sellers over two tiers.

PSNs are often very dynamic as the engaged parties may change their roles over time. A prime contractor today may become a subcontractor tomorrow, while one of the subcontractors assumes the responsibility of the new prime contractor. Contractors may leave the PSN, when their work has been done or even earlier, when the contract has been cancelled. Other contractors join the network late in the project, because that's the time when their contribution is needed first.

PSNs can also become opaque. In many of them, nobody knows for sure, which organizations have become an element of the project, particularly when no one assumes the responsibility to oversee, supervise, and manage all parties in the project and also the interfaces between them. Customers often believe that a contractor performs project work with own resources, when it actually has been forwarded to one or more subcontractors, and they may subcontract it further.

Strange situations can occur in PSNs. To give an example, Figure 2 depicts a situation that occurred in a project of one of my clients: A project customer (Company A in the diagram) contracted a vital part of their key project to a Company B, that in turn contracted out the

most difficult pieces of work to Company C as a subcontractor, without knowledge and approval of Company A.

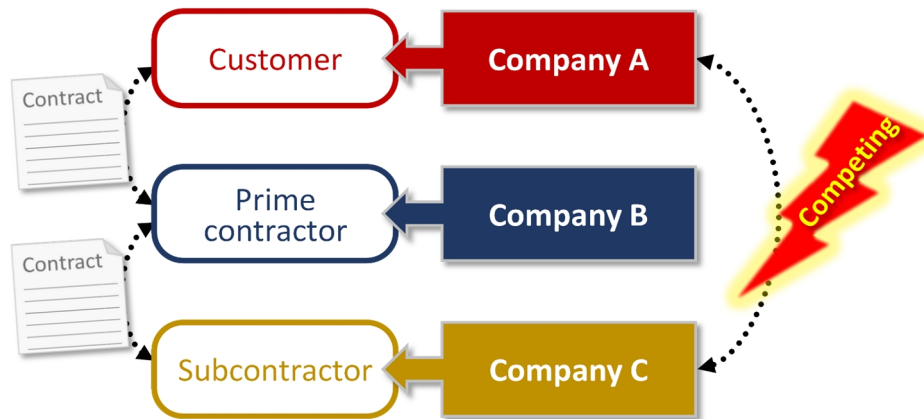


Figure 2: A situation from real life, in which a subcontractor in a project was a business unit of a direct competitor of the project customer, who was not aware of that.

When the customer finally found out that a third company had become a provider in their project, they were especially shocked to learn that Company C was a 100% subsidiary of their most direct competitor, who from time to time filled idle capacities with third party business.

They found that out late in the project, when dependencies were too strong to simply change the supplier. In the role of a subcontractor, Company C learned a lot about details of the project and the general approach taken, which allowed them to adjust own strategies to remain competitive.

The Trend Towards Using Project Supply Networks (PSNs)

Doing projects not only cross-functional but cross-organizational is a growing trend, as recent surveys have shown⁴: Project work that some years ago would have been done with internal resources are more and more done by external teams, which leads to the emergence of Project Supply Networks.

The existence of these PSNs is so far mostly ignored by the majority of experts in project management, who generally follow a traditional interpretation of project management as mostly internal discipline. In this understanding, activities are done by a cross-functional team that extend over different functional units. The internal project is authorized by a project sponsor and directed by a project manager in order to meet the requirements of a project requester, and they assume that all these players are internal inside the same

⁴ See my publication in PM World Journal of last October (Lehmann, 2018b)

organization to achieve some future goals, and these are also goals of the same organization.

In this concept of project management, procurement and in its wake also contracting are interpreted as something that may be necessary here and there, but are not considered a key competence that needs to be built, understood, and mastered. It is not interpreted as an essential prerequisite for project success and is rarely described, researched, and educated.⁵ A contractor in this understanding is more considered a sidekick of a project manager that may be helpful here and there.

However, for projects that are mostly or in full handed over to contractors, the functioning of these vendors becomes the lifeblood of project success. Their progress of work is the basis to meet or miss deadlines, and their income is the largest cost factor in the project.

There are many differences between projects done internally and those done by contractors for paying customers. If things go badly in an internal project, they will probably be swept under the rug of management. They are too embarrassing to make them public.

Conflicts in a project under contract may as a worst-case scenario lead to lawsuits or be discussed in the press.

Project Business Management consequently regards project work outsourced to third parties not as a deviation from the “best practice” to use internal resources for a project. In this discipline, procuring project work is understood as normal and as a professional and effective response to a core challenge for most project managers: Shortage of resources.

Resources in the understanding here may include people, equipment, skills, licenses, and know-how, but also funding. Observation shows that the most crucial resource of all is management attention. There is no certainty that a project with management attention will have the other resources needed, but a project without management attention will definitively lack them.

A buyer organization intends to tap into the assets of other organizations, called vendors or sellers, and to turn them into project resources.

Vendors also intend to tap into assets of buyers, above all financial assets. These are turned into project funding necessary to pay people and other resources, cover risks, and allow a profit that is necessary to motivate the contractor to do the business at all.

⁵ To give an example: Low emphasis is given to the project contract as a document to initiate the project in the foundational standard “A Guide to the Project Management Body of Knowledge”, *PMBOK Guide*, 6th Ed. (PMI, 2017, p. 78). However, for a project manager in a customer-facing project, this contract is the most important project document of all during project initiation, but also during the entire further course of the project.

Ideally, in a project business situation with involvement of two (or more) organizations, there are similar setups on both sides, customer and contractor. Each may have a project manager, a project sponsor, teams involved, and more roles mirrored on both sides. Figure 3 shows examples of members of organizational structures that can be found on both sides of the project business deal.

An exception are purchasing and sales, which are complementing each other, more than mirroring.

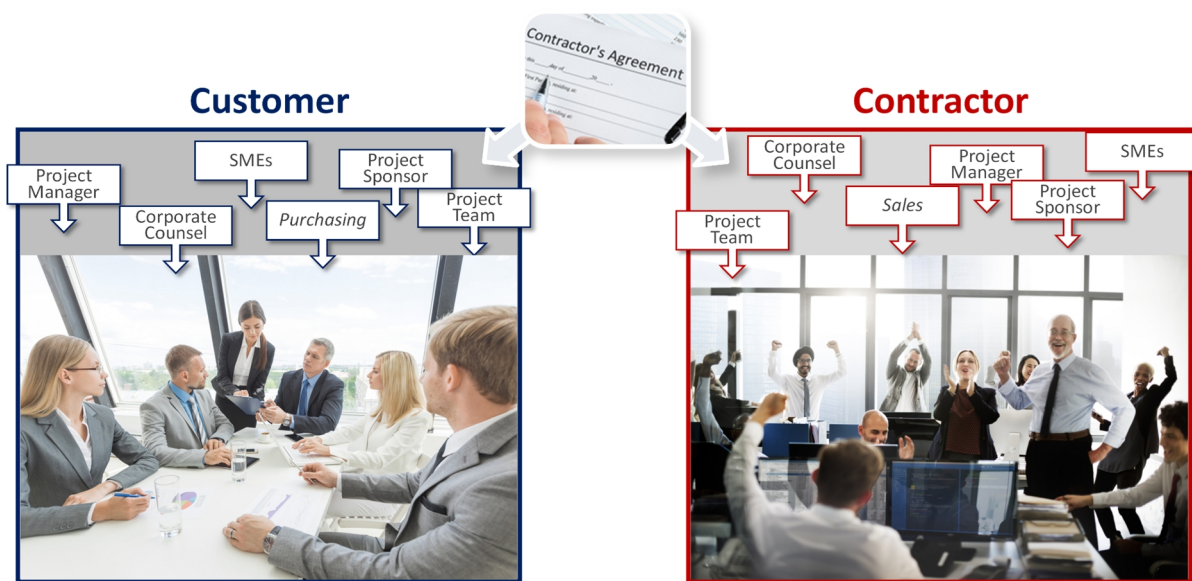


Figure 3: Many roles can be found mirrored between customers and contractors.⁶

Companies and other organizations will generally adjust these structures to their size, culture, maturity for project management, and also to the preferences of the people involved. Some may for instance have a PMO (Project Management Office) established to unify education, approaches, and terminology used for projects, while others expect project managers to develop their methodologies individually. Apart from such differences, the existence of project-related inner-company structures on both sides in a customer-facing project shows that it actually consists of two or more projects involved: An internal project on customer-side with work outsourced to the contractor, and a contractor-side project, which is a customer project intended to bring money home.

One should note that inadequate organization for projects on either side can drive the project into crisis and can also harm the other side.

⁶ SMEs: Subject Matter Experts

Obligations

Project Business Management, as said previously, is high risk business for all parties involved.

The business is different to, for example, buying a book in a shop. In the book store, when money and literature each have changed the owner, the business is done. The customer does not have to worry that the store may go bankrupt, or burn down, or that the shop owner may have to go to jail for tax fraud. The same is true for the shop keeper: The customer may read the book or not, may be impressed, even delighted of what he or she finds in it, or may instead decide to scrap it out of frustration. For the book store, the future of the book does not matter anymore, the business with the customer is finished. The book store will also not have to consider if the customer may soon become insolvent, the business is over and the book is paid.

If the customer in the example finds a book not worth the money paid, the person will probably not blame the bookstore for that. The responsibility will be seen on the author and possibly the publishing company.

Project contracts are fundamentally different.

In a project, once the decision has been made between organizations to work together and the contract has been entered into and signed, the parties are bound for a time that may last some days, weeks or months. It may sometimes turn out to be years. Parties have a high degree of responsibility for each other. Customers and contractors have obligations against each other that may be laid down in the contract, and these obligations are long-term.

Particularly in *Civil Law* jurisdictions, additional requirements come from *Civil Codes* and other laws regulating trade and business. In these environments, legally mandated rules of "*Good Faith*" add further requirements on top of what the contract and laws describe, and to make things more difficult, what constitutes *Good Faith* varies from jurisdiction to jurisdiction.

The book store and the book buyer have to apply *Good Faith* in these jurisdictions, but for the contract parties in a project with the deeply entwined business matters, this is far more important. The essence of *Good Faith* in project business management is to turn contract parties into project partners, and in Common Law and other jurisdictions, that do not mandate that by law, it is still a good idea to mandate it by contract and live it every day that the project is done.

This topic is described in more detail in my book "Project Business Management"⁷.

⁷ (Lehmann, 2018a)

The table in Figure 4 shows some project obligations commonly found in projects under contract.

Typical Obligations of Contract Parties in Project Business		
Obligation	Customer-side	Contractor-side
Basic obligations	Payments	Products and services
Deliverables	Provisions	Project deliverables
Services	Enabling services	Project services
Information	As necessary for the contractor to do the job	Progress data, problems, performance, projections, possibly work and costs
Guarantees and insurances	Insurance of contractor staff and deposits for contractor's property on customer's premises	Bid bonds, performance bonds, insurance against liabilities
Monetary considerations	Payments	Outlays
Organizational	Project management	Project management
Schedule	Timeliness of provisions and enabling services	Timeliness of deliverables handover
Disruptions of project work	Protection from disruptions	Acceptance of disruptions

Figure 4: Common obligations of customers and contractors in projects, depending on the contract and legal requirements of the applicable jurisdiction

“Provisions” in the table refers to deliverables that the customer needs to provide to the contractor timely to enable agreed upon performance, such as interface descriptions of existing hard- and software in customer’s operations that must be handed over to the contractor to facilitate connection of a new solution with the older systems in place.

“Enabling services” are also provided by the customer to the contractor and may be necessary for the contractor to do the contractual work. Common examples are giving contractor employees on customer premises a user account for the corporate WIFI network, allowing them to use the staff canteen, and granting them access to the corporate help desk.

It is often taken as granted that delays and other problems in contractual projects are the contractors’ fault, but customers not meeting their obligations in time are as much a cause of troubles and even crises in projects.

Ethics

In project management, there is another area of obligation apart from those that are contractually and legally demanded: Ethical requirements. Members of the Project Management Institute (PMI) and also holders of their professional certificates know the *Code of Ethics and Professional Conduct*⁸, which they have accepted as a valid yardstick for themselves. With its simplicity of language and clarity of its statements, this code of conduct is also a useful moral compass for every person involved in project management.

Ethics in a contractual setting cannot work as a one-way street. If one party under a contract sees itself bound by a set of ethical rules and another one does not, the contractual relationship will become lopsided, the relationship will suffer, and so will the joint project. It is like a sports match between two parties, one sticking to the rules while the other one plays foul. Watching the match will be not joyful, and the result will not be fair. Balancing the obligations of the parties evenly and fairly needs good intentions from both sides, open communications and the common intention to put mission success first.

The matter gets even more difficult, when the project develops from simple customer-contractor procurement to become a more complex project supply network in which more than two parties are involved. The company that causes the problems may not even be one with which one has a direct contractual relationship. A company whose action create an ethical weak spot may not only impact its direct contract partners, but also other organizations inside the PSN.

A joint code of conduct like that of PMI, adapted to the specific needs of the project and signed by all contributing parties, may be helpful, particularly if it has a strong enforcement regime in case of violation. Unfortunately, project teams rarely have the time to develop such a document, establish the regime for its implementation, and ensure that everyone understands and subordinates to it.

Risks

All parties in a project under contract are at risk that another party may not be able to meet its obligations, or may not be prepared to do that in full. It may be a direct contractor or customer upon which one's success may depend. However any other organization that works in the project and whose results matter for project success can also bring risks, even if one does not have a direct contractual relationship with it.

⁸ (PMI, 2006)

In a PSN, there is strong mutual dependency among the organizations involved, and while one party may be able to damage the business for another, each of them is able to damage the entire project that brought them together.

In addition to the risks inside these organizations, further risks lurk at the interfaces between the organizations. Conflicting business interests can cause quarrels and misunderstandings, but there are many other causes.

Figure 5 shows the responses of a survey made in summer 2017 on the frequency of conflicts⁹.

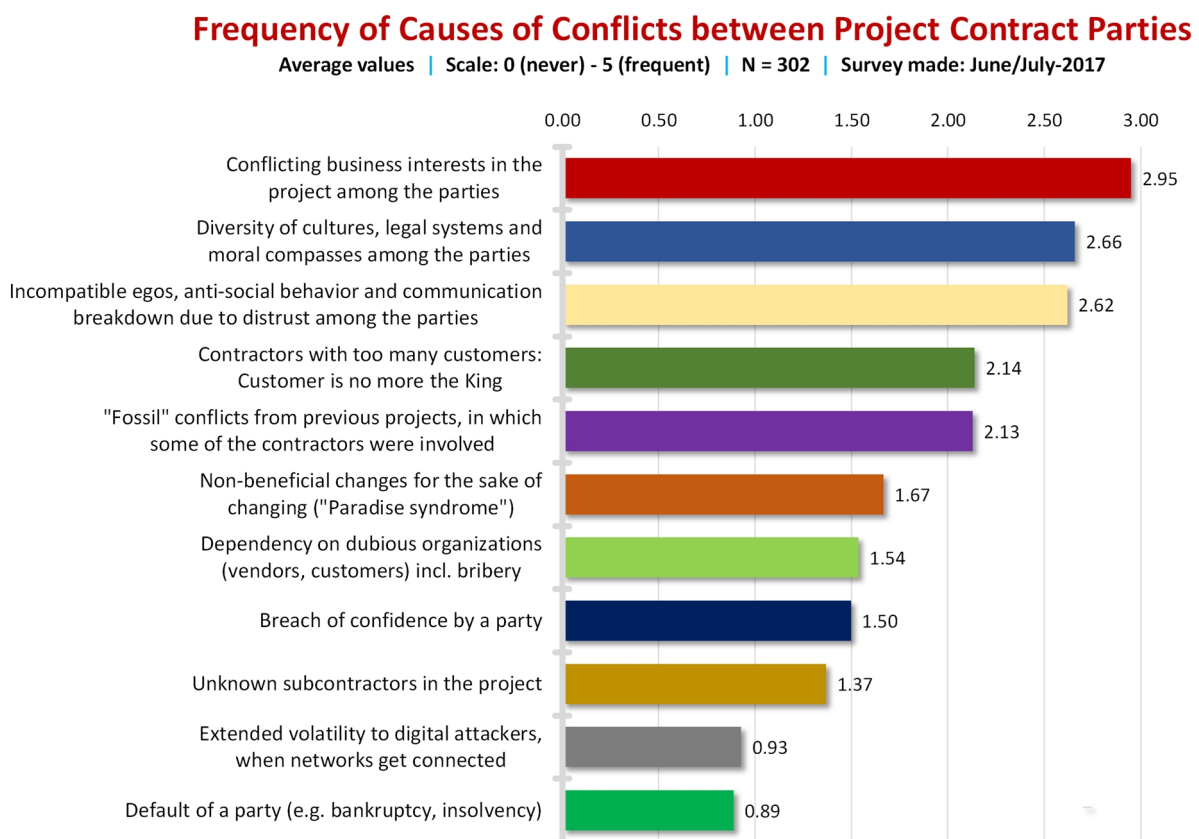


Figure 5: Frequency of causes of conflicts named in a survey per 07/2017

Any of these risks, and others not shown in the survey, are not only a contractual matter. Contractual relationships in the project may differ from those that are defined by the stream of value creation, as is shown in the example in Figure 6.

In the example, direct contractual relationships exist between the prime contractor and the four other participants, but not among them. In a commercial understanding, customer and subcontractors in Figure 6 have of course a business relationship, but from a strictly legal

⁹ The results of this survey were first published in another paper of this series (Lehmann, 2017).

standpoint, they are all only committed to the prime contractor—a principle called “Privity of contracts”:

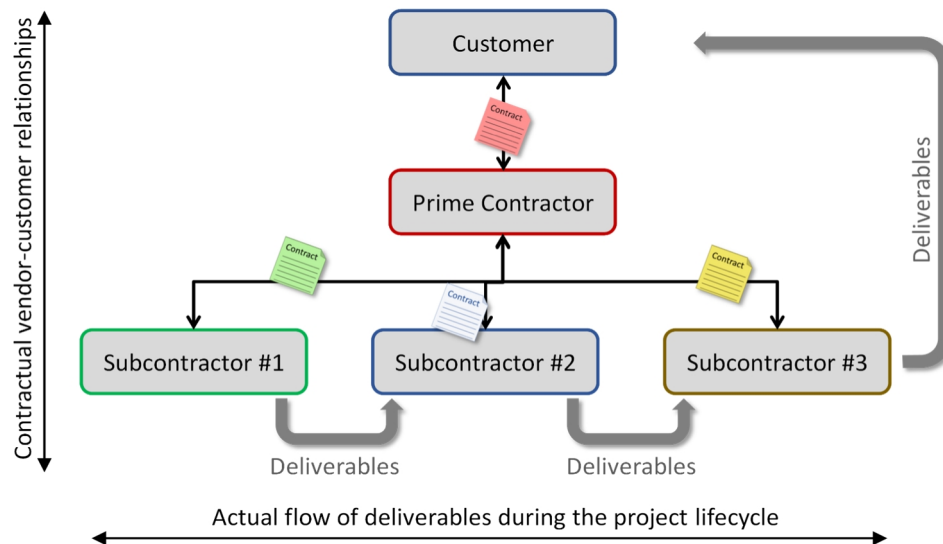


Figure 6: In a Project Supply Network (PSN), the contractual vendor-customer relationships can differ from the actual stream of deliveries and value creation.

The value stream of deliverable handovers goes over Subcontractor #1 through Subcontractor #3 during the lifecycle of the project and at the end of the project to the customer. In this over-the-fence project situation, subcontractor and customer can impact each other's project success despite the fact that they have no contractual relationship with each other. Contracts will not be able to reduce these risks, because they do not follow the same path as the value generation stream of partial and final deliverables.

The example shows that it can become difficult to eliminate project risks through contracting alone.

There are other limitations of trying to do risk management in PBM just by contracting: A constituent of the project may go insolvent. Or may lose key team members and is not able to find timely replacements for them. To reduce risks in project supply networks, the approach must go further than simply rely on the contract, one has to look at the organizations and at the people involved.

Costs and Benefits of Procuring Project Work

When one looks at the uncertainties that one faces in project supply networks, one may wonder if it is worth the hustle, and whether it would not be better to avoid these risks and do projects solely in the controlled environment that one can create inside an organization.

But is it truly possible to get out of the way of the challenges that come with Project Business Management?

I discussed before that the reason to do projects with third parties as contract partners, direct and indirect, instead of doing them only as internal, cross-functional endeavors, is the desire to tap into other organizations' assets and turn them into project resources. These can include people, equipment, licenses, know-how and skills, and many more. However, the scarcest and most crucial resource inside an organization is time and again management attention: Consider an organization should do a new project, voluntarily or not, but management feels that it is already more than busy looking after the existing projects. A solution then is to outsource the project and ask another organization's management to take governance and responsibility for it—against payment, of course.

Outsourcing a project can be a Zimmer frame for a failing company trying to slow down its demise and to evade inertia that inevitably comes with organizational deterioration. Contracting can also be a success strategy.

Project Business Management is not cheap. It comes with transaction overheads in form of additional work and costs, it takes time to go through the processes of developing, maintaining, and finally ending the business relationship, and it brings commercial and legal risks in addition to the technical and organizational risks that are normal for most projects. This is true for all parties involved.

On the other hand, connecting organizations to do projects together provides new opportunities in form of improved agility and professionalism. For companies that make their living on customer projects, these provide the income needed to survive and also the final justification for their existence. The rapidly growing relevance of customer projects over internal projects shows that the benefits from doing projects as a cross-corporate business outweigh the disadvantages.

One may compare this with marriage, which also brings disadvantages such as a loss of some freedoms and the responsibility one has to take for a partner and possibly for a family. But the benefits of being married seem to outweigh its disadvantages; being married is common for people all around the world, independent of their cultures.

The initial lines of Friedrich Schiller's poem "Song of the Bell", written for marriages, do also apply in Project Business Management: At the beginning of the contractual relationship between a customer and a contractor, positive impressions and expectations may prevail. During a presentation, the seller transfers a sense of proficiency and expertise. Good sellers explain the prospective customer the benefits that are to be expected. Very good sellers build an aura of divine successfulness around themselves and promise the impressed customer participation in that, after contract signature, of course. The seller in turn has the expectation of income, a great reference customer helpful to win new business in the future and possibly an interesting project that helps sharpen the own skills.

Another benefit for the seller is the opportunity to become incumbent, which will dramatically reduce costs of winning new business.

Schiller denominates this early time of high hopes as “Wahn” (folly, even madness), and this is true for love as much as for the beginning of some project relationships. Someone on buyer side wants the specific seller, and vice versa. People are sometimes often to explain, why they prefer one seller over the other, even when objective criteria such as price or success record make another company preferable. It is then more a matter of praising exaltation than of unbiased reasoning.

It is said, a stitch in time saves nine. Developing—and applying—clear selection criteria early in the process can reduce later times of remorse. These criteria may include objective elements such as whether the company is in sound financial condition, has a success record, and also whether there are publications of bad practices such as corruption, that make it questionable that the company will follow a “Mission Success First” approach.

One should not generally discount subjective criteria. Things like “chemistry” and “sympathy” can play a role in building a common culture of “Completing over competing” and when one intends to turn contract parties into project partners. A healthy mix of objective and subjective, quantitative and qualitative criteria will probably help to select the best partner from the options available.

When Questionable Companies Hide in Teaming Agreements

A common observation in PBM are companies that join forces to do a project together for a customer. Teaming agreements are an effective way for a questionable vendor (or customer) to hide behind companies with reputation and success record.

There are different forms of teaming relationships, as shown in Figure 7.

Informal relationships, in which there is no contractual relationship among the vendors, prime-/subcontractor relationships with one contractor in an exposed role as a prime contractor, and temporary joint ventures, commonly referred to as consortia.

In reality, many teaming agreements are mixing these structures.

Teaming Relationships between Contractors in Projects

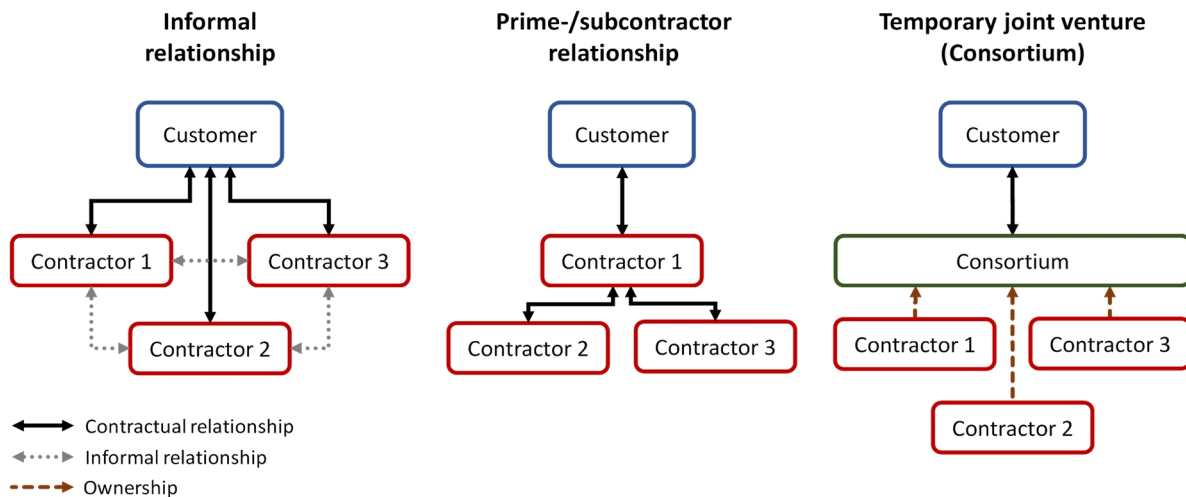


Figure 7: Types of teaming relationships in projects

Informal relationships may be beneficial for the project, or not. The experience of the teaming partners in working together may be helpful. “Fossil conflicts” on the other hand from former projects are among the detrimental forms of relationships here. As a customer, selecting the contractors, one would need to look at the “compatibility” and also at possible conflicts among the companies. As a contractor, one may not be able to select other contractors, but one often has influence on the customer’s selection process.

When one vendor takes over the role of a prime contractor, it is a common field of discussion, whether subcontractors are selected by the customer or by the prime contractor. In any case, one should remember that subcontractors will be responsible for critical project work. It may be advisable to select them jointly.

Consortia, in the context of Project Business Management, are new companies, founded as temporary joint ventures by two or more companies for the purpose of doing the project together. Due its temporary nature, a consortium, has no success history that could be evaluated, it has just been founded by the venturing partners and may be dissolved when the project and follow-up business have been finished. Classical selection criteria may be therefore not applicable.

In the case of consortia founded specifically for the project, it is recommendable to look deeper into the venturing companies. If one or more of them show a questionable history, it may be best not to work with the consortium¹⁰.

¹⁰ It is surprising in reality how often projects run into crisis because this simple rule is ignored.

Contracting as a Long-Term Process

It is definitively advisable to not only consider the current state of affairs of a potential project business partner, be it a customer or contractor, when one makes the decision with whom to do project business together.

One should consider that during the lifetime of the project, many things will change. The parties will know each other much better, and the experience of jointly solved challenges as well as the satisfaction coming from commonly achieved successes may forge them together as a team.

It may also happen that small disruptive factors, ignored early as marginal, grow larger over time and bring troubles and possibly crisis into the relationship. Ownership, management and staff members may change, and the business situation, in which the companies act, may also deteriorate and bring one party in troubles.

Future is not predictable, but the question is nevertheless sensible, whether a partnership for the duration of the project, or at least for the part of the project that the organizations will work together, promises success or whether conflicts and troubles are foreseeable.

Good project business partners are more likely to do successful projects together. They communicate better and stand by each other when troubles occur. We should do everything to raise the odds that we will succeed together over a long term as is necessitated by the project. We need to turn parties into partners, put completing over competing and jointly strive for mission success.

If we find it unlikely with an organization that we will be able to do that, it may be better not to do the business with them. The joy of the success to start the new business is short, but the remorse if it turns out badly will be long.

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Oliver F. Lehmann, MSc., PMP, is a project management author, consultant, speaker and teacher. He studied Linguistics, Literature and History at the University of Stuttgart and Project Management at the University of Liverpool, UK, where he holds a Master of Science Degree. Oliver has trained thousands of project managers in Europe, USA and Asia in methodological project management with a focus on certification preparation. In addition, he is a visiting lecturer at the post-graduate program of the Technical University of Munich.

He has been a member and volunteer at PMI, the Project Management Institute, since 1998, and served five years as the President of the PMI Southern Germany Chapter until April 2018. Between 2004 and 2006, he contributed to PMI's *PM Network* magazine, for which he provided a monthly editorial on page 1 called "Launch", analyzing troubled projects around the world.

Oliver believes in three driving forces for personal improvement in project management: formal learning, experience and observations. He resides in Munich, Bavaria, Germany and can be contacted at oliver@oliverlehmann.com.

Oliver Lehmann is the author of the book "[Situational Project Management: The Dynamics of Success and Failure](#)" (ISBN 978-1498722612), published by Auerbach / Taylor & Francis in 2016.

His seminal book "[Project Business Management](#)" has been published by Auerbach / Taylor & Francis in June 2018 (ISBN 978-1138197503).