Project Business Management[1]

Healing Conflicts in Project Business

Oliver Lehmann

"There is no coming to consciousness without pain."
Carl Jung

Summary

While project management must generally deal with conflicts among stakeholders, managing disputes gets particularly important when a project is done by more than one organization. Project Business Management experts have some tools that can help effectively resolving such conflicts. There is a need to develop more.

Conflicts in Project Business

Why does it Matter?

Project Business Management describes how organizations such as companies, agencies, and other institutions perform projects jointly in a customer-contractor relationship.

It is a measurable trend[2]: More projects are partially or fully outsourced and outtasked to vendors of products and services, based on the expectation that the external contractor is in a better position to do the work and deliver results as expected. However, this decision adds areas of conflict that are often poorly understood, and that should be addressed in a specific way to protect the success of the project.

[1] *Editor's note: This series of articles is by Oliver Lehmann, author of the book "Project Business Management" (ISBN 9781138197503), published by Auerbach / Taylor & Francis in 2018.. See full author profile at the end of this article.*

[2] The trend is confirmed in surveys on customer side, where "Make-or-Buy" decisions tend to select more often the "Buy" option than "Make", and on contractor side, as a growing percentage of project managers say that they do projects for paying customers (Lehmann, 2018a, pp. 8-10).

The number of organizations involved may be just two, a customer and a contractor. Often, contractors hire subcontractors, who in turn may pass work on to sub-subcontractors, and so on. The number of companies (and individuals under contract, such as freelancers) involved may then become quite big.

This is a similar development that operations had in the recent decades, when they developed supply chain management (SCM) with its specific skills and software. However, the temporary nature of projects and hence the business relationships between the organizations makes it much more difficult to manage its Project Supply Networks (PSNs), while they are growing by number and complexity, and cope with their dynamics and opacity.

Causes of Conflicts in Project Management

Internal projects inside organizations are commonly done in a cross-functional style, also referred to as "Matrix", and have various sources of conflict, among them:

- Competition for human and physical resources between operations and project(s)
- Operational disruptions caused by project(s)
- Control over success-critical decision processes, such as staffing and procurement
- "Servant of two masters" dilemmas for employees assigned as team members
- Uncertainties for the performing organization from the level of risk that is inherent in projects
- Competition for management attention, the scarcest resource in most organizations

The second item "operational disruptions" is often overlooked. It is among the hidden costs of projects in matrix organizations, when they impact operations, often even at times when the project has been finished long ago.

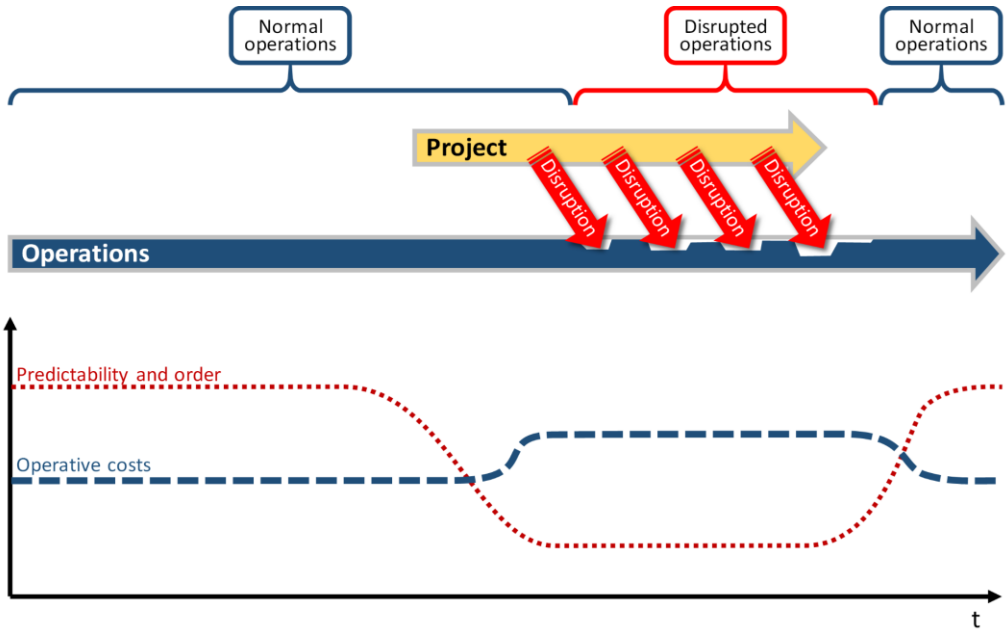

Figure 1: Disruptions and uncertainties from a project can reduce the effectiveness and efficiency of operations

I often use a motorway as an example in my seminars:

> *"You are a project manager and on the way to a critical meeting with the car. Time is tight and you have to press a bit to be there on time. Then you notice a construction site in front of you. Traffic is slowing down, possibly stopping. What goes through your mind?*
>
> *"Do you think 'hey, this is great use of my tax money; they make the road wider, safer, more comfortable, faster'? Or 'it's about time that they finally remove the potholes of last winter'?*
>
> *"Your initial response will probably be more a short unfriendly word crossing your mind. Traffic gets congested and you may arrive late at your meeting. You will be forced to drive slower, the trucks that are normally on a distance are right next to you, and if your car breaks down, there is no shoulder to place the car safely and wait for help. In many countries, road construction sites are favorite places for speed traps, and fines for speeding get increased in construction zones. Driving fast can become expensive.*
>
> *"On a motorway, as a driver, you are part of operations. Road operations have the task to allow vehicles to move from a to b, and the construction is a project.*
>
> *"The example shows, how operations people often perceive projects. We just change the perspective, and the often negative view on projects and project managers gets understandable."*

It is surprising that this effect of projects, disruptions of operations, is rarely discussed in literature, given its often dramatic effect on operations' ability to meet its objectives, as is depicted in Figure 1 and shown in the story with the road. Considering how project failure often has its origins in the desire by operative people to shield their world from the potential impact from projects, many causes of conflict get better understandable and manageable.

Operations are generally not happy about any form of disruptions and are wary of the uncertainties that projects bring. The most basic expectation that operations must meet is creating predictability and order, and based on the repetitive nature of most operational tasks, operation people are most of the time quite capable of achieving this goal. In reality, as pictured in the example in Figure 1, the uncertainties and costly disruptions from the project have their origin in its uniqueness and temporary nature. The example shows further, that the uncertainties and cost increases may already begin when the project has just been initiated and operations managers are taking measures to avoid the impacts on their domain of responsibility.

There are more causes of conflicts in projects, and standards such as the PMBOK Guide[3] list conflict management among the interpersonal and team tasks and skills that project managers should master. Projects in cross-corporate settings add more dimensions of complexity to that: Commercial and legal.

Conflicts in Project Business Settings

The causes of conflict described above also occur in cross-corporate projects in a commercial setting. Most of the organizations involved are also functional organizations, and even a self-employed one-person contractor has to do his or her own book-keeping, marketing, and other operational activities on top of the project work. Questions such as strong or weak matrix ("Does the project have priority or operations?"), overcrowded project portfolios, inability to manage uncertainty, and other shortcomings that internal projects find themselves in, occur here as well.

However, the commercial and legal nature of projects under contract triggers a major number of additional conflict causes. The often difficult relationships among individuals, expected to act together but being located in and paid by different organizations, add another dimension.[4]

From a customer perspective, the core difficulty is to bring strangers into the project[5]. From a contractor's perspective, questions of profitability and liquidity matter, these are the lifeblood of the own organization.

Figure 2 shows the responses to a survey from summer 2017 on the frequency of causes of conflicts in projects in a contractual setting.

The responses showed that differing business interests was the dominating topic among the responses. This was followed by cultural, legal, and moral diversity on the second place and clashing egos and distrust on the third.

The conflict topics at the bottom end of the list may not be as frequent as those at the top, but the survey respondents said that they occur. In such cases, when insolvency of a party involved in the project arises, or intrusion of malware at interfaces between computer system, these have the power to not only delay the project and drive it out of budget, but to derail the entire project and damage the organizations involved in it.

---

[3] (PMI, 2017, pp. 348, 349)

[4] One of the worst mistakes one can do in a project is hiring two consultancies for a project and expect them to act together as a team. In the presence of the customer, they behave as expected. Leave them alone in a room, and hell will break loose.

[5] I am often surprised how poor some organizations' knowledge is of incumbent project contractors, with whom they have worked for many years.

Stakeholder management in internal projects mostly builds on scrutiny of inhouse interfaces among business units and people. Some external stakeholders play a roll, of course, the focus however is mostly internal. The cross-corporate character of projects performed under contract adds a focus on inter-company interfaces, which have a strong commercial and legal character. There are many reasons that conflicts can begin, when there are tensions and frictions at these interfaces. The business partners involved in the project are definitively project stakeholders, and the list in Figure 2 is still not complete—there are more causes for conflicts.

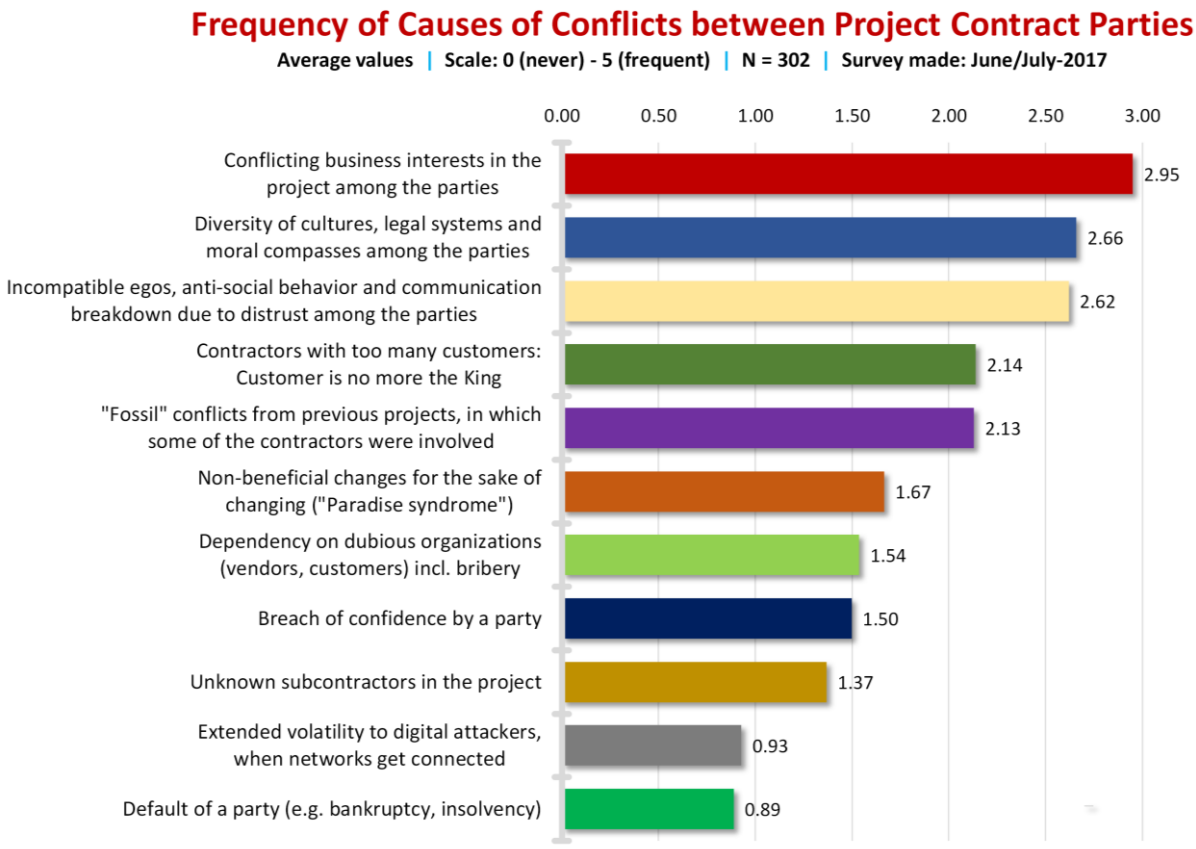

Figure 2: The most common cause of disputes in Project Supply Networks is conflicting business interests.

The Intensifying Nature of Conflicts in Project Business

Conflicts often begin with small things. The proverbial midget for one side, that looks like an elephant for the other, or is made to grow into that elephant over time. Escalating conflicts are a threat to meeting the project's mission, but even simmering under the surface, they can cause delays, cost overruns and prevent the project from delivering what is needed. Competing then seems to be more urgent than completing.

Conflicts lead to distrust, and as Covey & Merill[6] pointed out, distrust is like an additional tax while trust increases speed and brings a dividend.

This is particularly true for projects. Unless—of course—one trusts the wrong people.

Let's assume for this discussion, in the projects that need help to overcome a crisis of distrust and lack of cooperation, the players are generally honest and want to do great projects with a performance that brings joy to customers and sponsors and pride to the people actively involved. What prevents them from achieving that are misunderstandings and the inability to walk towards each other and meet in the middle.

Healing the Conflicts

The core approach to successful project business management is developing and nurturing a culture driven by "Mission Success First", a concept developed by NASA in the year 2000.[7] This concept builds on principles such as "turning contract parties into project partners" and "placing completing over competing". Projects performed as business relations with customers and contractors involved gain "Speed of trust" (Covey & Merill, 2006), as trust reduces the time needed for negotiations, discussion, and reduces the desire to withhold information from other parties that could turn up later in a lawsuit and be used against oneself.

Healing conflicts means either preventing small conflicts from growing to a magnitude that it disables the parties to be successful together, or in an even worse case, trying to reconcile the parties that find themselves in a crisis and turning them into partners again.

There are situations that this task is easily achieved, and others, when it proves difficult. Here are some recommendations that one can try out:

1. Develop a Common Glossary

> Many discussions are not about contents, or roles, or other critical things but turn around terminology. Seemingly simple terms can lead to avoidable misunderstandings, such as milestones (I know of three definitions) or stakeholders (five definitions).

On a language dimension, defining terminology is a form of defining the leading standard. Which brings us to the next recommendation:

[6] (Covey & Merill, 2006)

[7] (NASA, 2000)

2. Define Leading Standards

Take for example a warehouse management in a company that valuates goods at purchasing prices. The company intends to use standard software for the task, but the software as taken from the shelf uses valuation based on sales prices. Either the organization must be change its processes to match the software, or vice versa.

Many very basic decisions just like the one in this example should be made upfront, considering the effects on project costs, work involved in doing the project, and how it affects the performance of the combined systems after the project and their openness for future updates and upgrades. In essence, this is a decision about a hierarchy of standards to ensure, that those on higher level remain rather untouched, while those on lower level will need to be adjusted.

If such a decision is not made early, it can derail the project later, when a lot of money has already been burned.

Defining a hierarchy of standards is similar to defining roles for people. Another approach to managing conflicts.

3. Define Clear Roles and Responsibilities

Inside an organization, people know generally their position. It is a classical tenet of organizational theory that people, who know their place do not need to spend time and energy fighting it out and can instead focus on their job.

Internal projects complicate the matter, because in a project context, a person's place can be different to that inside the functional organization. It is depending on culture, but projects are not rare in which a boss of a project manager in functional context becomes a team member inside the project.

When organizations act together as clients and contractors, confusion about the interfaces between the individuals involved are predictable. This also has a cultural dimension: In some cultures, one may safely assume that the customer-side people are located on top of those who work for a contractor, but this may not be true for all business relations. Clarification can help avoid conflicts when people feel that they need to sort out their interpersonal interfaces.

Roles and responsibilities are tightly linked to communications, which will be discussed in the next recommendation:

4. Define Communication Channels and Rules

Projects can suffer from a lack of communications. Projects can also deteriorate from an overload of communications, particularly when the communication is ineffective in either building relationships or in communicating relevant information.

In some projects, particularly when they are done in a cross-corporate way, the length of communication ways can become a problem. When there are too many relaying persons between a sender and a recipient of a message, communications get slowed down, filtered by personal interests, and often distorted.

Setting rules, which channels are open for communications and which are not (or only under certain circumstances such as emergency), and where direct communications are possible and where not, can help make the project faster and its teams better informed.

Another core aspect of effective and efficient communications is trust. As we carefully assume for the discussion here that all players involved are trustworthy, what can we do to improve trust and with it speed?

5. Try Benefit Engineering

Described in an article in 2017[8] for use by a contractor, it can actually be also used by a customer. The cooperative project partner helps a customer safe costs, a contractor be more profitable. Why not give some of these savings back to the other party, create a win-win solution and get the project out of its crisis, re-establish well-working communications and re-establish trust?

6. Rethink the Contract Type

Often, contract type selection is based on familiarity with types and corporate tradition, more than on situational assessment of what is favorable for the specific needs of the project. Each contract type has its benefits and downsides[9], and it may turn out during the course of the project, that the wrong type has been chosen. Parties/partners should then be open to renegotiate it for the benefit of the project and the business.

7. Introduce Third Parties

Third parties that have equidistance to the players in the project can be highly effective to avoid or manage conflicts between players in a project under contract. There are

[8] (Lehmann, 2017)

[9] (Lehmann, 2018b)

some examples of third parties, whose use for conflict management in cross-corporate projects can be successful[10]:

- **Mediation**: A mediator is a person with credibility and neutrality. Being respected by all parties involved in the conflict, the person can find areas of common interest among the players and help them find and resolve misunderstandings. Mediation does normally not lead to legally enforceable decisions, but the parties can agree with the mediator's help to a new contract or a change to the existing one, which would be enforceable.

- **Non-binding arbitration**: An arbitrator is in most cases unknown to the parties before the arbitration. The arbitrator will listen to the sides, weigh the case based on professional good practice and legal rulings and finally come out with an arbitral award. This award is a recommendation, in most cases in form of a settlement, and the parties can jointly decide to accept it, which makes it a binding agreement, possibly a new contract. If one party rejects the award, the arbitration is typically regarded as failed.

- **Binding arbitration**: Here, it was contractually or legally decided beforehand that the arbitral award will be binding and enforceable. The arbitrator in these cases rises almost to the power of a judge. Binding arbitration can be done behind closed doors, which dependent on the legislation may not be possible with a lawsuit. Binding arbitration may be contractually agreed as a substitute for a court trial[11].

- **Audits**: An auditor can also be considered a third party, mandated by an audit client to perform a review by an auditee. Auditors normally do not have the equidistance of a mediator or an arbitrator, but being dedicated to the project mission can also be very effective.

- **Therapy**: Sometimes, it takes a therapist to manage a conflict. Burn-outs may be an example, when individuals are impacted by ERI (effort-reward imbalance) and exhaustion, and other members of the project team do not understand the signals and complain about the person's nonperformance.

These third parties are a formal approach. It may sometimes be easier to first try a non-formal way.

[10] Please check whether all statements made here are valid in the legal environment of the project.

[11] Not all jurisdictions allow for that.

8. Spend some Private Leisure Time Together

An evening together in a restaurant, or joint attendance of a concert or another event that appeals to all of them, may change the relationship of the players and help them develop new mutual trust. The off-record nature may also give an opportunity to speak openly about the troubles in the project business and how to resolve them.

9. Address the Conflict and Avoid False Harmony

Conflicts can be noisy, nasty, and hard to ignore. In other moments, they can be hard to identify, because they are fossil discords, taken over from historical projects in which the players have worked together. There may also be a superficial harmony, but swept under the rug are disagreements and clashes that are not shown openly to avoid a perception of people being quarrelsome and not able to work in teams.

False harmonies make it difficult, often impossible, to manage conflicts. Trustworthiness for all parties can only exist, when the parties are allowed to bring up their disagreements, so that solutions can be found.

Conclusion

Not all problems between parties/partners in project business are resolvable. Parting ways or going to court may be final steps to protect own interests and those of the project and also to retain credibility. The downside is that during the course of the project, particularly when deadlines come nearer, the dependencies of the parties/partners on each other increase.

The project management discipline has a shortage of knowledge developed on the management of projects that are not done internally by just one company, but by two or more in customer-contractor relationships. This impacts our profession's ability to deal with conflicts between the partners. There are definitively more ways to heal this type of conflict and avoid both project failure and lawsuits. However, as there is hope that more experts turn their attention to the management of project business, an increase in professionalism should be expected.

Bibliography

Covey, S.M.R. & Merill, R. (2006) *The Speed of Trust: The One Thing that Changes Everything*, Salt Lake City, UT, USA: FranklinCovey.

Lehmann, O.F. (2017) 'Crisis in your customer project? Try benefit engineering', *PM World Journal*, VI (10), October [Online]. Available from: http://pmworldjournal.net/article/crisis-customer-project/ (Accessed: 30 October 2017).

Lehmann, O.F. (2018a) 'Projects as Profit Centers - Must We Go Back to Square One Again?', *PM World Journal*, VII (XI), October, p. 14 [Online]. Available from: https://pmworldlibrary.net/wp-content/uploads/2018/10/pmwj75-Oct2018-Lehmann-Projects-as-Profit-Centers-series-article-2.pdf (Accessed: 28 October 2018).

Lehmann, O.F. (2018b) *Project Business Management*, New York City, USA: Taylor & Francis [Online]. Available from: https://www.crcpress.com/9781138197503.

NASA (2000) *Report on project management at NASA by the Mars Climate Orbiter mishap investigation board*, 13 March [Online]. Available from: https://science.ksc.nasa.gov/mars/msp98/misc/MCO_MIB_Report.pdf (Accessed: 25 June 2017).

PMI (2017) *A Guide to the Project Management Body of Knowledge - PMBOK Guide*, 6th edition, Newtown Square, PA, USA: PMI - The Project Management Institute, Inc.

About the Author

Oliver F. Lehmann

Munich, Germany

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 Technical University of Munich.

He has been a member and volunteer at PMI, the Project Management Institute, since 1998, and serves currently as the President of the PMI Southern Germany Chapter. 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 books:

- "Situational Project Management: The Dynamics of Success and Failure" (ISBN 9781498722612), published by Auerbach / Taylor & Francis in 2016

- "Project Business Management" (ISBN 9781138197503), published by Auerbach / Taylor & Francis in 2018.