

## ***Project Business Management<sup>1</sup>***

# Taking Care of (Project) Business

**Oliver F. Lehmann**

*"I admire Picasso. He sold his oil more expensive than anyone else."*  
Unknown



## Summary

Project Business with clients and contractors comes with specific challenges for all professionals involved. They need a good understanding of project management, but also of commercial and legal matters in order to make the project satisfactory for the organizations and individuals involved.

More education is necessary to prepare even experienced project managers for these challenges. At the moment, most project managers learn Project Business Management through trial and error.

However, trial in project business is expensive, and error even more.

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<sup>1</sup>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.

## Liquidity

It is autumn 2019 while I am writing this article, and attentive readers of business press find the topic of *liquidity* addressed in many places:

- On 23 September, UK's oldest provider of package holidays went into insolvency after 178 years of operation. British travel firm Thomas Cook had failed to fully refinance huge debts and went out of business, forsaking 150,000 tourists, Britons and people from other nationalities, stranded in holiday destinations, sending several thousand employees into unemployment, and leaving an unknown number of invoices from business partners unpaid<sup>2</sup>.
- On the same day, a scathing letter became public by Ola Källenius, the CEO of German Mercedes-Benz car maker Daimler AG. In this letter, Mr. Källenius criticized the losses of the group, which added up to 4.2 billion Euros, and called for the protection of the "financial solidity", which he called a "life vein of the corporation"<sup>3</sup>.
- Automotive again, same day. South China Morning Post reported that during the second quarter of 2019, the Chinese maker of electric cars NIO burned 2.6 billion yuan (US\$4 million) a day. Their cumulative losses since their foundation 5 years ago are reported at US\$5.7 billion. The company, according to the article, hopes for an infusion of 10 billion yuan by an investor, however given its reported rate of burning money, this would just help the company to survive another four days.
- One month earlier, in August, India Business Law Journal wrote that "More action needed to ease contractors' liquidity crisis". Blaming unresolved disputes and insufficient performance of contractors in infrastructure and construction projects as the culprit, the article describes how an entire national industry suffers from losses and late payments.<sup>4</sup>
- US aircraft manufacturer Boeing may currently also be much more in liquidity troubles than what is communicated in public. The corporation had a stock buy-back program over US\$20 billion in 2018 and are about to invest US\$4.75 billion in buying Brazilian Embraer, a manufacturer of small commercial aircraft. Since March 2019, their most promising model, the Boeing 737 MAX has been grounded by aviation regulators around the world, and newly built aircraft are stockpiling and cannot be delivered. Already delivered aircraft have also been grounded, and their operators already began charging the costs of the grounding to Boeing. According to IBA Group, the costs of grounding are at about US\$150,000 - per aircraft and per day.<sup>5</sup> At the same time, sales of Boeing aircraft are slumping<sup>6</sup>. Boeing is still a darling of investors, due to its large backlog of orders from the last years to be fulfilled and its second business in military, however this may finally prove to be a temporary relieve only.

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<sup>2</sup> (Collinson, 2019)

<sup>3</sup> (Köster, 2019)

<sup>4</sup> (Negi & Kumar, 2019)

<sup>5</sup> (Whybrow, 2019)

<sup>6</sup> (Johnsson & Kochkodin, 2019)

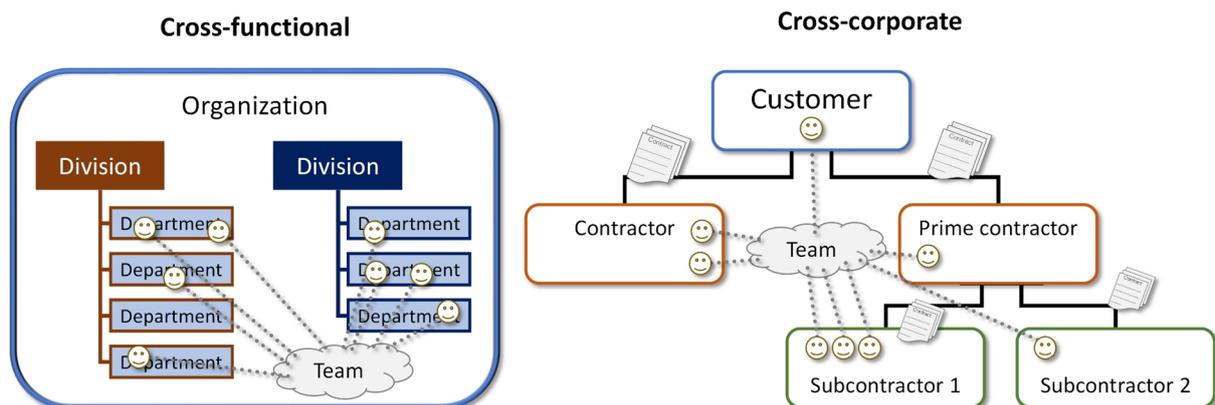
The majority of the examples above are not from project management, however, they show the crucial significance of liquidity for any company's survival. Most companies need to live from the earnings made from the business they do. The examples also show that the matter is not specific to an industry, or a certain country culture, it is a universal issue for every business anywhere in the world.

Such as project business.

## Project Business

Project business takes place, when organizations come together to do one or more projects. These projects are no more just cross-functional, they are cross-organizational.

### Examples of Project Teams



*Figure 1: Cross-functional projects are performed inside the protective walls of a performing organization. Cross-corporate project span over several organizations.*

Project Business Management (PBM) brings together project management and business management. However it is different in its lack of experts, who are qualified to help organizations do better projects with paying customers on one side and successful contractors on the other.

PBM does not focus on the internals of the organizations involved. The focus is on the interfaces between them. These interfaces can be well working and harmonious. Often, a lot of conflicts threaten the success of the project and the economic well-being of the parties involved.

Project business is high-risk business for all organizations involved. Illiquidity and insolvency of the own organization is a permanent threat, however, a business partner going bust can also be damaging. This is true for customers and contractors, the crisis of one organization involved can easily translate into problems for the other parties.

## An Insolvent Subcontractor

I experienced such a case in an engineering project about three decades ago. For a customer-specific machine that my employing company built as a prime contractor, a complex component was ordered from a subcontractor. Making the component was scheduled to take about six months, and a payment scheme was agreed upon to have most of the price paid in several installments before delivery.

A week before the delivery date, the subcontractor went insolvent. The business was closed and the company could no more dispatch the component, which was practically finished. It would have been illegal, if my employer would have tried to get the component out of the premises and assemble it to our machine, the component has become part of the insolvency estate. Meanwhile, we had almost paid the full price, however, we had no ownership of the component.

We were therefore not able to finish the machine and deliver it to the customer. One consequence were penalties, a second was payments that the customer withheld, according to contract. To make things worse, we had of a piece of equipment standing in our premises, blocking space that we would have needed for other projects and always at risk to get damaged by our ongoing production activities.

Half a year later, the insolvent company got formally liquidated. The insolvency estate was auctioned, and we could buy the component out, finish the equipment, and deliver it to the end customer.

The lost revenue and the late delivery turned the engineering project from a profit into a loss.

## Profitability, Liquidity, and Solvency

Liquidity and solvency are often confused, however, they are not the same.

**Liquidity:** The ability of an organization to pay liabilities that are due at the moment, such as wages, invoices, taxes, etc.

**Solvency:** The ability of an organization to enter long-term commitments and pay them when they are due.

In project business, solvency is achieved through profitability of the project business, and also through customer happiness. Profitability brings the assets needed to be liquid and solvent in the near future. The happy customer makes it easier to do profitable business in the farer future both by acting as a reference customer and through the opportunity for the contractor to become incumbent supplier and have easier access to future business with the organization.

Liquidity comes from getting invoices paid by the customer timely and in full. Other sources can be free cash, credits from investors or banks, and assets such as bonds or shares that can

be sold quickly to make cash available again. Liquidity enables the company to pay employees, contractors, taxes, and so on, obligations that are immediately due.

Liquidity is not the major focus of a business project, of course. However, when it is neglected, the company may run into illiquidity or insolvency.

Illiquidity: The company is no more able to pay currently due liabilities.

Insolvency: The ratio of what a company owes to what it owns makes it mandatory by law to declare the company insolvent.

The intention of this article is not to go into technical details, particularly not of insolvency laws that differ between countries. Independent of these laws, illiquidity and insolvency are always hurtful in project business, destroying the jobs of people and jeopardizing the project.

The question is, how actors in project business can avoid these situations and who should take responsibility for that.

## Specific Liquidity Challenges in Project Business

Liquidity is a zero-sum game in most business situations. The liquidity gained by the contractor in the moment of payment is liquidity that the customer is giving away. At any given moment, the liquid money can only be on one side of the business relationship, not on both.<sup>7</sup>

There are three common forms of payment terms:

1. Regular installments, such as monthly payments, that are not directly linked to project progress but allow the contractor to pay own costs occurring over time. This is mostly common for fixed-price contracts.
2. Partial weighted payments, when certain milestones have been achieved.
3. Reimbursement of documented costs plus fees either
  - a) in a regular cycle (often monthly), or
  - b) after submission of cost documentation (such as copies of invoices from subcontractors).

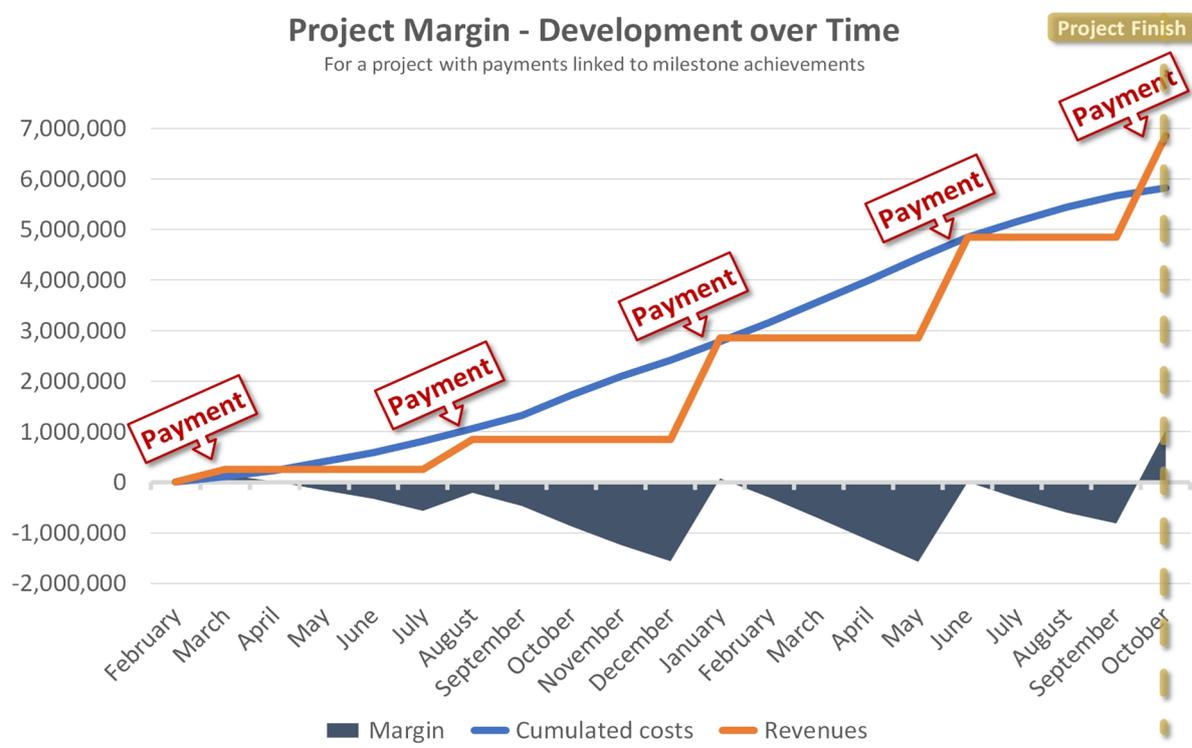
These different payment terms vary in how they respond to delays, cost overruns, accepted change requests and other forms of variances and changes. However, they often have in common that the contractor needs to lay out money and other assets for the customer most of the time.

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<sup>7</sup> There is an exception: “Letters of Credit” and similar kinds of IOU, which make the money seem to be available on both sides. However, this is beyond the scope of this discussion.

Figure 2 shows an example, how even a profitable project can endanger the contractor's liquidity. The blue line describes how costs are accumulating over the course of the project. The customer pays against weighted milestones (model 2 above) or against submission of cost documentation (model 3b). This is shown as an orange line.

In the example, payments by the customer bring the contractor temporary relief, but most of the time, the contractor is laying money out for the customer, as the mostly negative blue-grey areas indicate. The project requires a lot of financial strength from the contractor to cover the temporary losses, until the final payment makes the project profitable.



challenge the contractor’s liquidity, while one may assume that the customer is also not happy.

- The customer may run into insolvency or hold money back before certain claims have been resolved. This will increase the outlays and make the contractor particularly vulnerable to pressure.
- The contractor may run into insolvency.

At this last point, liquidity is no more a zero-sum game, where the benefit of one party is the disadvantage of the other. The example of the insolvent contractor described earlier shows, how a contractor insolvency in most cases is also a disadvantage for the customer. Expectations for deliveries will not be fully met, at least not when they are needed. Sometimes, all money spent for the contractor is lost in such a moment without any result gained.

### Project Margin - Development over Time

For a delayed project with payments linked to milestone achievements

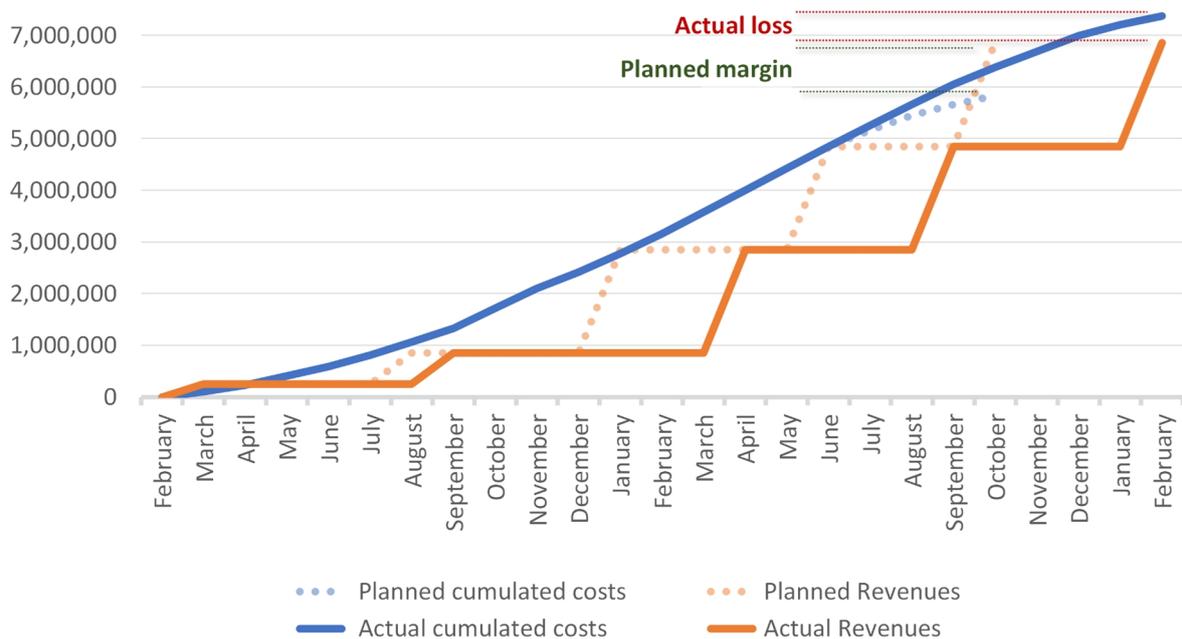


Figure 3: A delay in the project from Image 1 shows the vulnerability of the contractor's business to delays, which impact profitability and liquidity, and probably also customer satisfaction.<sup>8</sup>

<sup>8</sup> The example still ignores penalties, damages, or unpaid incentives and award fees due to the delay. Reality can easily be worse.

## More Challenges in Project Business Management

A core requirement of PBM is to nourish the growth of Business Acumen among project managers, who are mostly not educated for that.

In Project Business Management, there are different players that come together to jointly do a project and need business acumen, such as:

- **Customers** – they mandate the project and profit from the benefits from the projects' results. These results may be products or services, or maybe just knowledge created, and the benefits may be desired improvements of operations or mandated compliance with laws and other rules.
- **Contractors** – They provide resources to do the project partially or in full for the paying customer. The essential business interest of the contractor is to bring money home with the project, the most important project document in such a situation is the contract with the customer.<sup>9</sup>
- **Prime contractors and subcontractors** – Often, contractors act as prime contractors between one or more customers and subcontractors. Prime contractors are both contractors to the customers and customers of subcontractors. From such multi-tier relationships, complex project supply networks can evolve, that are oft very opaque and dynamic. It may well be that no one oversees the entire network, which may include companies that others are not aware of.

There are aspects of the business that these groups share, others are different. As a customer, the monetary aspect is important, however, it rarely contributes to satisfaction or even happiness. Customers mostly wish:

- **Reliable vendor performance:** Vendor selection, on top of matters of costs and free capacity, is based on expectations on the performance of the vendor. To a big degree, this builds on promises made by the vendor. Timeliness is commonly a top expectation, quality and completeness of contractual and other deliverables handed over deliverables another one.

Reliable vendor performance means in essence that the customer gets what has been ordered and for which the customer has communicated preparedness to pay. It is not about favors for the customer but about meeting obligations.

- **VIP-grade service,** initiative taken by the contractor to communicate issues identified early and proactively and making suggestions on feasible solutions. It also means that customers hate being told during business development that as customers, they will be king, however, when they have signed the contract, they found themselves as

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<sup>9</sup> In the understanding of these articles, self-employed freelancers who work for the project are considered contractors too.

customers in a waiting line at a supermarket cash desk, with other customers being served before them.

VIP-grade service is in essence the experience that brings a smile on the face of the customer. It is perceived by the customer, when the service quality exceeds the contractual obligations and basic expectations.

- **Agility** of contractors when new needs or wishes turn up. Agility means the ability to quickly change style and contents of the project work. This may come in response to change request required by the customer. It also means to swiftly respond to risks and challenges that turn up during the course of the project work, which may lead to change requests proposed by the contractor.

Agility in essence is the ability and preparedness of the contractor to respond to changes in the environment in a style that brings benefits to the customer.<sup>10</sup>

On contractor side, the core intentions are easier to describe:

- **Liquidity:** Take care of outlays that may overstretch the financial strength of the contractor company.

Liquidity helps an organization survive the day.

- **Profitability:** Making the project earn more than what it costs.

Profitability allows the organization survive over a longer term, grow and develop

- **Customer satisfaction:** Meet the objective and subjective requirements that lead to satisfaction and happiness.

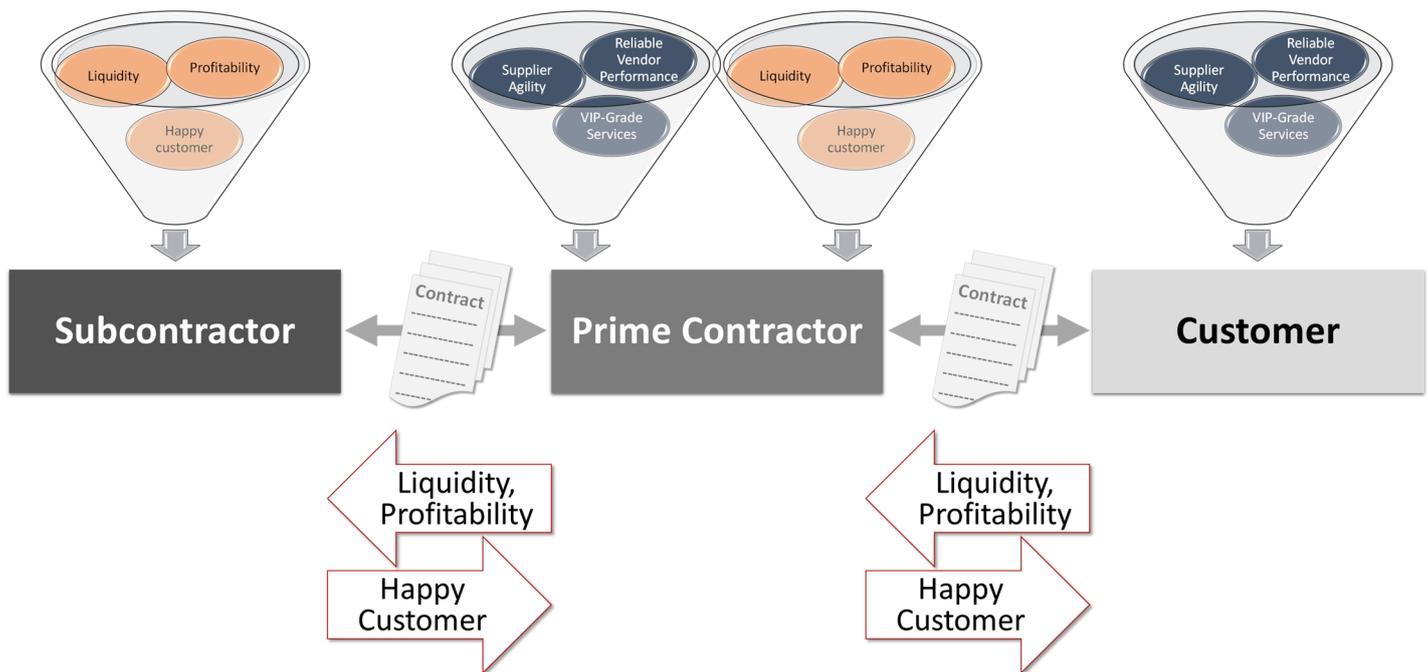
A satisfied customer is the basis for future project business.

If the customer helps the contractor maintain profitability and liquidity and the contractor ensures the happiness of the customer, the world of Project Business Management is perfect. In a project supply network, this may span over several organization tiers, as is shown in Figure 4.

Unfortunately, the world is rarely perfect, particularly not in PBM.

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<sup>10</sup> This does not exclude benefits to the contractor, as is discussed in my article on Benefit Engineering (Lehmann, 2017)



*Figure 4: Areas of highest concern for the contract parties in project business.  
Note: a prime contractor is in a hybrid role, as it is the customer's contractor and concurrently the customer of the subcontractor.*

## Project Business is High Risk Business

When contract types are selected, the focus is often laid on cost risk:

In the various forms of fixed price and unit price contracts, the cost risk is on side of the contractor, however, decision power is on the contractor side. Variable price contracts take cost risks partially or in full from the contractor, however, the power to make decisions is also shifting to the customer.

However, there are more areas of risks than just project costs, among them:

- Illiquidity or insolvency of members of the project supply network
- Technical impossibility
- Delays
- Interpersonal and interorganizational conflicts<sup>11</sup>
- Corruption

<sup>11</sup> More on conflicts in my May article in PM World Journal: Healing Conflicts in Project Business (Lehmann, 2019)

and many more. The players in project business should be aware of them at any moment, and while they try their best to forge a functioning project team out of the various organizations and the individuals involved, they should remain alert that this may fail and should keep in mind the absolute worst case: The project may run into conflicts that have no other effective remedy than a court case.

## The Solution

Business acumen for project managers is rarely a part of the education of the people involved. However, projects under contract require this on all sides. Here are some recommendations of behaviors and actions that express this expertise:

### Commercial Awareness

Many project managers today are well aware of and educated in the practices used in project management, including more traditional methods that are useful for medium-to-long-term planning and agile methods that focus on the challenges of the moment. They understand, when to use which practices in a situational style, and how these practices can be detrimental in other situations.<sup>12</sup>

However, effects that are relevant in a commercial view, more than in a project management view, as the effect of delays shown in Figure 3 are hardly understood in the discipline, from the simple reason, that project managers are not taught in that.

Project managers are mostly expected to learn Project Business Management (PBM) by trial and error. However, trial in a business environment is expensive, and error even more.

### Legal Awareness

Legal matters are the other point of concern that project managers are insufficiently prepared for.

In project business between two organizations in the same country, both are in their home law system, that they should know to the necessary degree.

I like to compare this with car driving: A car driver does not need to be an expert in traffic law, but should understand it to the degree to make the hundreds of micro-decisions that are necessary to steer a vehicle from one place to another without running into conflict with police.

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<sup>12</sup> This situational approach is fundamentally described in PMI's *PMBOK Guide* (PMI, 2017) and elaborated in my book on *Situational Project Management* (Lehmann, 2016)

The same is true for project managers in a contractual project: They must make many decisions that, if done poorly, may haunt the own organization in the worst case scenario above.

Things get more difficult in trans-national business. If the project business is done by companies in two different countries, at least one of the players must act in an unknown legal environment. One may insist that the other party must do that, to avoid the uncertainty from an unknown applicable law and to have the benefit in the worst case to have the place of court nearby. However, if both parties insist on that, no trans-national business project will be possible. One party will have to give in and take the risk.

In both cases – own legal system or unknown foreign laws – project managers should make themselves knowledgeable to be able to make better decisions.

### Good Faith and Trust

Good faith describes the obligation of players in a business relationship to take care for each other's business interests. The intention in the realm of Project Business Management is to turn contract parties into project partners that place completing over competing and jointly follow a common project mission.

In some jurisdictions, particularly in Europe, Latin America and Asia, Good Faith is a legal requirement of contract law, and ignoring it can lead to lost lawsuits. In other jurisdictions, it is unknown as a legal principle, however in contracting, one is free to add clauses on that.

Whether or not it is required by law or by contract, Good Faith should lie at the heart of all project managers. It is a mindset that helps build trustworthiness, which in turn justifies trust that increases both the speed of the project and the joy to do it.

Good Faith means "All for one and one for all". There are moments, when it is easy to implement, and others, in which it may be more difficult. Taking care for a project partner may cost money, take time, and consume resources. However, it is the core element of successful Project Business Management.

Trust is a skill that needs to be balanced: Lack of trust in good people slows down the project and make it difficult to take opportunities. Trust in the wrong people may lead to getting ripped off.

### Documentation Discipline

My strongest recommendation to project managers in project business is to ensure proper documentation. This is true for all players, customers and contractors.

As much as one should want to avoid court cases, it will not always be possible. People involved should understand the risk of lawsuits and take care that it is done professionally. Lawsuits relating to projects are generally won due to better communications. And lost, when

the other party has that. Most lawsuits end in settlements, however the settlement will be more beneficial for the party with the better documentation.

To make things even more complicated, different law systems require different approaches to documentation:

- In places, where court cases are commenced with a “discovery” or “disclosure” phase (such as in most Common Law jurisdictions), parties can be forced to hand out documentation that is detrimental to their own legal position. Documentation in these countries will be done in a way that it supports the own position but does not damage it in the hands of the other party or a judge.
- In places without a discovery phase (such as most Civil Law jurisdictions), one simply documents as much as possible. However the lawsuit may turn, this may help sustain the own position.

An important aspect of documentation discipline is to store the documentation in a form that it can be easily found and retrieved when needed.

There is rarely joy in documentation, however, the humiliation that can be caused by a lack of it, when it is needed, is an experience that one should avoid in a contractual project.

### Terminology and Processes

One of the greatest knowledge gaps of project managers and other disciplines in project business, such as bid/proposal managers, PMO staff, and more is the poor mastery of professional language. When terms are used differently by buyers and vendors, misunderstandings will occur, and these are among the top causes of project troubles and crises.

Standards like PMI’s *PMBOK Guide*<sup>13</sup> offer only limited help, their focus is on internal projects, with some possible procurement here and there. The view of the contractor is missing, and so are complex project supply networks. This focus of standards makes it hard to build a common understanding to avoid misunderstandings and conflicts that have their origin in unclear and contradictory use of terminology.

The same is true for process descriptions. Standards’ focus on internal, mostly cross-functional projects does hardly support the development of process descriptions that span over multiple organizations in a cross-corporate project.

Developing organization-wide glossaries and process maps may help, and they can also support identifying potentials for misunderstandings, when they are compared and contract partners are found have different standardizations in use.<sup>14</sup>

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<sup>13</sup> (PMI, 2017)

<sup>14</sup> A foundation for such a glossary can be found in my book “Project Business Management” (Lehmann, 2018)

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## Conclusion

The growing commercial and legal nature of projects, developing from a mostly internal and cross-functional discipline to a cross-corporate business requires people involved to attain further knowledge. These people include practitioners, but also governing managers, skill-builders and researchers.

The costs of ignoring this requirement are too high, and the other price to pay is project failure and foregone joy of a discipline that should be satisfying and joyful for all parties involved.

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## About the Author



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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 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](mailto: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.