

# Project Business Study Book





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Document version: 04-2022

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# Welcome

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Dear Reader,

This Project Business Study Book, developed and published by the [Project Business Foundation](https://www.project-business.org), is your starting point for methodical Project Business Management. You will find it easy to read and to implement. Some of the contents may feel familiar; others might be new to you. Either way, we hope you find the material useful and thought-provoking.

The book has been written for use in a seminar provided by an *Education & Consulting Partner* and conducted by a trainer with ACE-certification (*Approved Consultant & Educator*). The Project Business Foundation's partnership and certification programs signal value for money in the field. When you look for training, check out for the program signets.

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Project Business Management is a discipline that has a shortage of educated practitioners, who can combine knowledge in project management, business management, and legal knowledge. On top of that, organizations involved in project business need people with business spirit, which adds the preparedness and willingness to apply this knowledge for the benefit of stakeholders.

We hope, this Project Business Study Book will help individuals navigate the market of project business, and will also help organizations develop their project managers to the level of professionalism necessary for project success and business success.

Good luck in project business!



Oliver F. Lehmann  
President – [Project Business Foundation](https://www.project-business.org)  
01 December 2020





# I. Introduction to the Study Book

## A. What is Project Business?

A major change has been taking place in project management and is likely to accelerate over the next decades: Projects break through the protective walls of organizations.

Internal projects – those that are run entirely within the walls of the organization – often find themselves facing resistance from functional staff and delays caused by standardized processes imposed on project managers and their teams.

Modern organizations learn fast, but most are still too slow to develop the skills that are needed to support these internal projects.

Organizations therefore look outside their corporate walls to find vendors prepared and able to help them achieve their goals. This moves the work from internal project management to project business: the exchange of services for payment to deliver projects, or in other words, performing projects under contract.

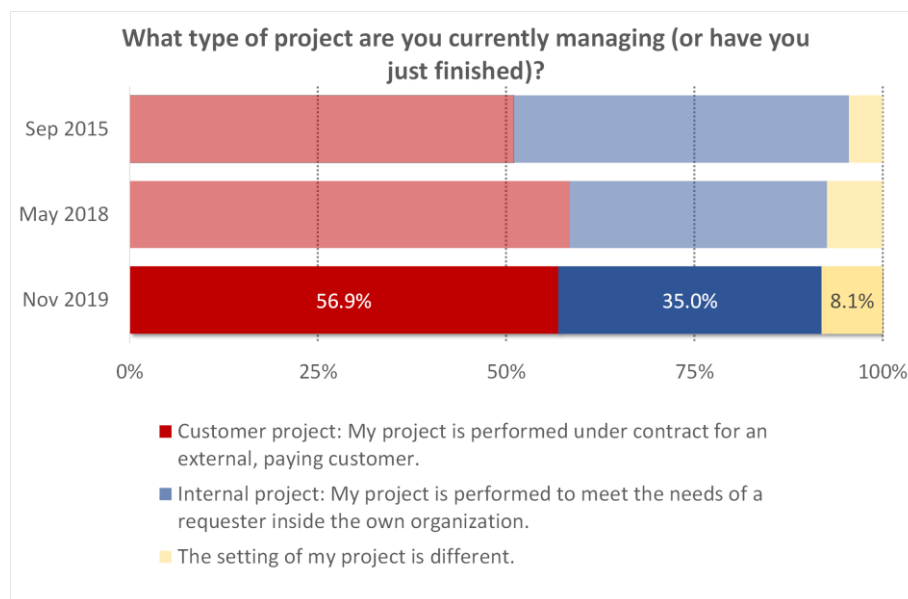


Figure 1: Survey data from 2015 to 2019, comparing the percentage of internal projects versus customer projects.  
n = 245 (2015), 325 (2018), 346 (2019).

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Performing projects under contract has been a fast-growing business over the last couple of years. This is clearly visible in three global surveys from 2015, 2018 and 2019, in which the majority of project managers responded that they perform customer projects rather than internal ones (see Figure 1).

For many countries, project business has become a key driver for economic prosperity. Their economies may lack the big corporations that employ tens or hundreds of thousands of people, but they have a growing number of contractors who find their project business customers predominantly in other countries.

The rise of partnerships and the growing use of external contractors to complete projects has increased the commercial and legal complexities of cross-corporate business. Practitioners – but also governance teams, educators, and project management researchers – now need additional skills and knowledge. A central aspect is the expansion and sometimes replacement of cross-functional with cross-corporate projects, as is shown in Figure 2. Methodological approaches in project management still ignore how this fundamentally changes the character of project management, which comes with the risk of a disconnect between taught theory and actual practice.

### Examples of Project Teams

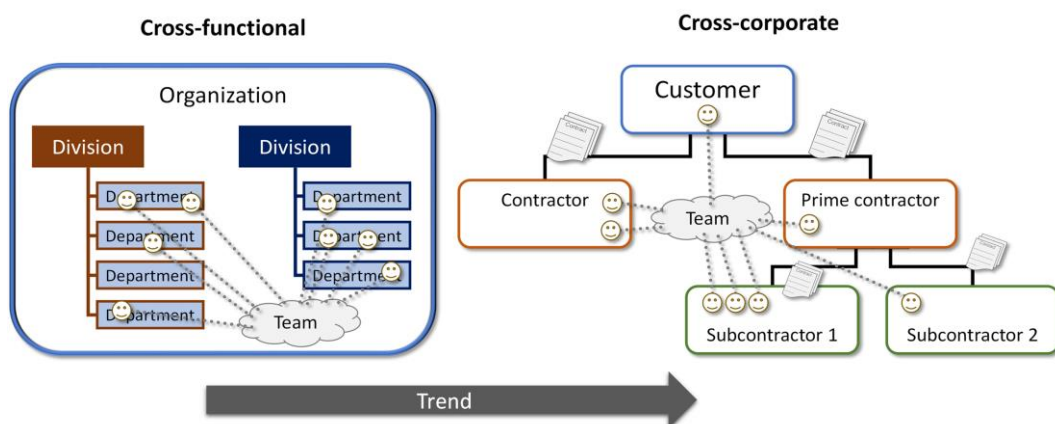


Figure 2: Cross-functional, internal teams and cross-corporate teams in project business

Between the cross-functional world of project management and cross-corporate project business management, a step was the so-called “extended workbench”, which is generally still done using internal assets of an organization as resources, but with exceptions. In the extended workbench model, a project manager must justify the procurement of project work from outside the organization. The norm is internal execution.

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In contrast, in fully cross-corporate project business, a project manager must rather justify why internal resources have to accept the additional workload that the project means to them, when there are external providers who can do the job as well. These three models are visualized in Figure 3 on page 14.

The extended workbench is the model that many project management methodologies so far describe: Projects are generally internal activities with some procurement here and there where necessary or beneficial. Project business management goes the step further to focus on fully cross-corporate projects. This is the world that is addressed by the Project Business Foundation.

Internal projects with or without extended workbench support a business. In cross-corporate worlds, projects are the business.

Project Business Management does not focus on the internals of the organizations involved. Instead, we look at the interfaces between them. These interfaces can function well and be harmonious. Or they can be fraught with conflict that not only threatens the success of the project, but also presents a risk to the economic well-being of the organizations involved. Running projects as a business is a high-risk endeavor for all parties.

A core requirement of Project Business Management is to nourish the growth of business acumen among project managers, a quality that has rarely been a focus of their education. Yet in Project Business, where different players come together to perform projects under contract, they need this business acumen individually and when working together.

Illiquidity and insolvency are a permanent threat to any organization. However, a business partner going bankrupt can be just as damaging: The crisis of one organization involved can then easily transform into problems for the other parties – and this is true for both customers and contractors. Therefore, more tools and techniques are needed to master the numerous situational challenges that projects as businesses, and the profit centers undertaken by contractors to create revenue, pose upon us. This Study Book begins the discussion about the knowledge and skills required to manage projects under contract successfully in this complex business environment.

## **B. The Purpose of This Study Book**

This Project Business Study Book gives a brief and straightforward introduction to the world of project business management.

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Project (business) managers on both sides of the negotiation table face a number of challenges that are different from those in internal projects.<sup>1</sup>

- On the customer side, the challenge is to ensure the company gets reliable performance from the vendor, good customer service, and an agile response to change requests as and when they happen.
- On the contractor side, project managers run profit centers. They have to ensure customer satisfaction while managing the project to maintain profitability and considering the liquidity of the performing organization to avoid insolvency.

Prime contractors are the group sandwiched between both challenges. They are contractors to customers, but also customers of subcontractors. Their expertise in project business management, or lack thereof, becomes obvious when conflicting demands come from both sides. The customer requests services and results and subcontractors request enabling services and provisions required to do the work, and, of course, payments.

Other groups also face challenges in the growing project business environment: Governance jobs for portfolio and program boards, project sponsors and project management offices (PMOs) are different when projects are profit centers and done for paying customers.

The same applies on the customer side, when project work is handed out to external organizations, partially or in full. If governing bodies want to keep some influence over what happens in the project, including aspects such as approaches, people, methods, tools, etc., they need to understand how they fit into the wider project business environment.

Consultants, trainers, and other associate and supportive disciplines area also affected. What is right and relevant in internal, cross-functional projects may be less important in cross-corporate projects, where different functional knowledge is needed, such as commercial and legal expertise, in addition to project management proficiency.

The Project Business Foundation believes that a first step towards better project business lies in knowledge exchange through community building and education. This Project Business Study Book is intended as a guide for professional education. It addresses a wide array of topics, reflecting the wide array of topics relevant to the discipline.

A project manager in project business is to some degree in a similar position of a car driver. You do not need to be an expert in engineering or the technology that moves a car to be able to drive it. However, a driver has to make many micro-decisions during the journey, and errors can

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<sup>1</sup> See page 15ff for a detailed description of the players and roles involved in Project Business.

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delay the arrival at your destination. Worse, driver errors can result in risk to life, health, and finances.

The same applies to project managers in business contexts. Errors in judgement can translate into time losses, cost overruns, and in some industries, a risk to human lives and the environment.

Another central aspect of project business management is documentation. The project's documentation can be used as evidence, if a project ends at the nightmare of a seemingly unresolvable conflict, and there, it can make the difference between swiftly finding a mutually accepted settlement or having to deal with lengthy and expensive litigation. The value of good documentation is tangible in the moments when it supports your position in a conflict. It becomes even more material when it is the other side whose position is supported by disciplined record-keeping.

Project business is high-risk business. These risks include project risks, but also commercial and legal risks. The purpose of this guide is to help practitioners to deal with these risks. The project business industry has become a major contributor to the overall project economy; it needs professionals who understand and manage these risks to navigate the project to success.

This Project Business Study Book is a step to ensure that this contribution is as valuable as it can be.

## C. Utilization of the Study Book in Professional Education

For trainers, coaches, and other groups of instructors, the Project Business Foundation has a set of training materials. These materials include a handout version with graphics in printable resolution.

Use of these materials is limited to holders of the ACE (Approved Consultant and Educator) status to ensure proficiency of the instructing person. More details on the ACE program offered by the Project Business Foundation can be found at:

<https://www.project-business.org/programs/ace-qualification>

Questions should be directed to [info@project-business.org](mailto:info@project-business.org).

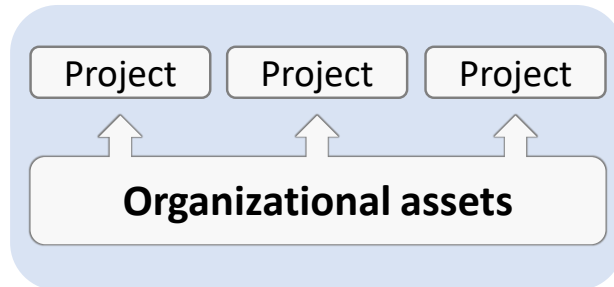
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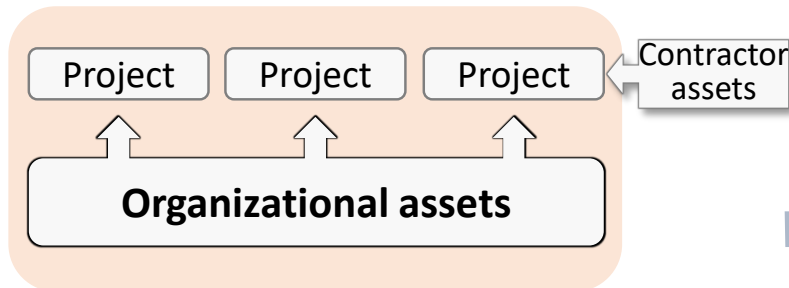
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## Cross-functional projects



## Cross-functional projects with “extended workbench”



## Cross-corporate projects

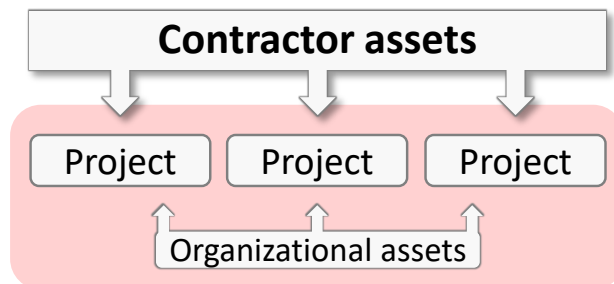


Figure 3: Cross-functional approaches do projects by turning organizational assets into project resources. The extended workbench model adds contractor assets as an exception. In cross-corporate project management, the focus shifts to assets mostly provided by contractors. In the perception of these contractors, they also perform projects: Customer(-facing) projects. The grey arrows on the right show the overall trend.

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## II. When the Project is the Business

In this section, we look at the players and roles in a project under contract. You'll also learn about common legal, commercial and interpersonal considerations for project business. Finally, this section looks at considerations for integrity in how project business works.

### A. The Players: Buyers and Sellers

Doing projects as business is a high-risk activity for all parties. Let's look at the different players involved who have the role of managing these risks.

There are many stakeholders who participate in delivering a customer project. Some are on board for the whole project lifecycle; others contribute temporarily for a specific work packages or task. Relationships between these stakeholders can, of course, be different in every project but they follow a common course of action. The model in Figure 4 gives us an initial understanding about when a certain player comes into the process (project lifecycle) and when they leave.

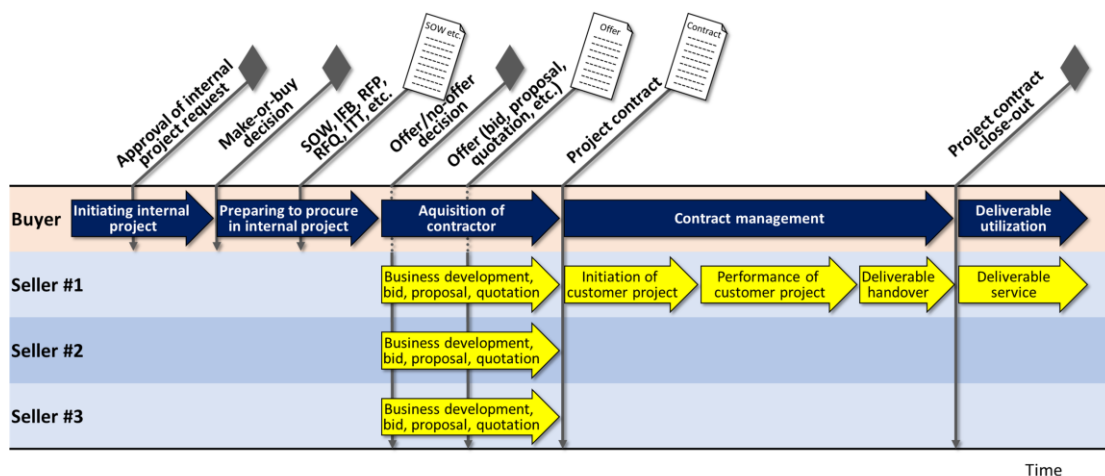


Figure 4: The flow of documents and actions (complex form) in the customer project, assuming that Seller #1 wins the project against the other two sellers and becomes the contractor.<sup>2</sup>

<sup>2</sup> The diagram is descriptive, not prescriptive. It does not say "this is how the process should be" but describes what it often looks like. Other processes are acceptable if they help achieve the intended results or avoid problems.

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The flow presented in Figure 4 shows a new project business relationship between the buyer (customer) and the seller (contractor). Some buyers and sellers may already have an established business relationship based on past work. **Buyers and sellers are the key players in project business.**

## The Buyer

The buyer is the player who typically initiates the project. Before the contract is concluded, the buyer is considered by the seller to be a prospective customer (or in short: a **prospect**). When the contract is agreed, the prospect becomes a **customer**. The customer has the freedom to contract the entire project or to outsource parts of the project, such as work packages or tasks, to contractors.

The buyer's obligations are typically documented in the contract and may also include legal requirements. Typically, these are:

- During business development: Approaching and informing sellers and obtaining offers (bids, proposals, etc.) from them.
- Making sure that all information is available to the seller(s), to allow them to meet the buyers' obligations on time.
- Making payments (mostly by paying invoices).
- Supporting and supplying the seller, especially after the contract is awarded.
- Being available for field changes.
- Coordinating different contractors and dealing with conflicts between them, if the projects were awarded to more than one contractor.

In the context of good faith, there are also scenarios where organizations buy together in cooperation. In this case, the project will have several customers, and the contractor must be aware of the organizational and socio-political context on the customers' side to prevent obstructing the project and avoid damages to their own business.

## The Seller

Sellers are also known as vendors, particularly when their contribution is mostly done in form of products, or as providers, when they make resources available and deliver services.

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The prime contractor is in a hybrid role. On one hand, the prime contractor acts as a contractor to the customer but on the other hand, it is a customer of the subcontractor(s). The main job of the prime contractor is to be the connection between the customer and subcontractors, making sure that the flow of deliverables takes place as agreed from subcontractor to the customer and the money flows in the opposite direction.

The prime contractor is “sandwiched” between the customer and subcontractor(s) and can be in an attractive financial position. The prime organization has knowledge which the other players do not have. Often, this is a huge advantage and makes the role powerful and profitable. But there is also a downside, in which pressure from the other parties makes the prime contractor lose the margin it carved out between the price invoiced to the customer and the amounts billed by subcontractors. Liquidity can also become a problem when subcontractors want to be paid before the customer pays for their work.

The prime contractor bears a high business risk: The organization has the liability for the subcontractors’ services and work results and for the payments by the customer. If one of the two groups default or otherwise fail to meet their obligation, the prime contractor will be the one to bear the risk.

**The Subcontractor:** Subcontractor business is usually the second tier in the project supply network (PSN), coming after the prime contractor tier. Very often, the subcontractor is the party who is doing the actual work and delivering results on the project. The subcontractor commonly also provides the resources needed for the project execution such as space, people and equipment.

There may be more tiers in the PSN with more subcontractors involved. Sometimes the subcontractor can act as another prime contractor, outsourcing the work to the next tiers of subcontractors. This can make the number of tiers substantial and hard to manage, particularly in large projects.

**The Freelancer:** One special type of (sub-)contractor is the self-employed freelancer. Freelancers may have teaming agreements with other freelancers which allow them to subcontract the work to them. They invoice customers which means that they act like a small company.

One of the benefits of contracting freelancers is the flexibility they bring into projects. As mostly self-driven individuals, freelancers are often the fastest in obtaining new knowledge and skills. They constantly search and apply new technologies in their work in order to improve their competitive position. In many cases, they are prepared to accept the customer’s mission as their own.

Freelancers perform projects as real contractors. In most cases they are well-paid and fully self-managed professionals, who take all the benefits from boss-free work and the responsibility that

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comes with it. It is their decision to be self-employed, and they have full awareness of the opportunities which this brings but also the risks that they are taking.

When the assignment is over, freelancers have the benefit for the customer that they take care of their own future. They do not need to get actively fired: The contract is terminated, and they find a new customer. The ability (and obligation) to take care themselves comes at a cost for freelancers, so for the moment, they are often more expensive than employed staff.

**Other Players:** Depending on the project and also on the particular business environment, there could be different stakeholders involved, including the following.

- **Consultancies** may not participate in productive work but employ their expertise to help the parties in commercial, organizational, interpersonal and technical matters.
- There may be **other contractors**, who do not contribute to the project directly but provide infrastructure and help supervise the work process.
- For projects with major physical workloads like construction, engineering and similar areas, organizations taking care of **fringe services** such as catering or waste disposal could also be considered as contractors. Providers of cloud services, communications infrastructure, and other digital services have a similar role in projects with virtual project team setting.
- **Government agencies** and even **competitors** can be important stakeholders in project business and play a major role which can be both driving and restraining.

Some companies have stakeholder registers for their projects, where they keep track of all the parties involved. The Project Business Foundation supports this approach as good practice and recommends having contract partners included as key stakeholders.

## B. The Roles

Various roles that are common for project management are also found in project business management. However, the cross-corporate, contractual, and legal aspects of project business bring more roles into the picture.

Let us look at them now.

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## Buyer- and Seller-Side Roles

Customer-Side Role	Contractor-Side Role	Comment
Project manager	Project manager	The project manager has the responsibility, alone or shared with a team, to achieve the objectives of the project.
Project sponsor	Project sponsor	The project sponsor is the person who mandates the project and provides the project manager with the authorization to do it.
Project management team	Project management team	Supports the project manager in organizational tasks and often shares project success. Each party may have their own project management team or contribute to a team that spans project-wide across organizations.
Corporate management	Corporate management	Contracts and other project business documents bind entire organizations. Corporate managers therefore commonly want to be involved in decision points and in developing and finally agreeing them.
Lawyers and counsels	Lawyers and counsels	(External) lawyers and counsels help corporate management to protect the organization from accepting potentially damaging contract clauses and support Alternative Dispute Resolution (ADR) <sup>3</sup> and legal action.
Purchasing or procurement	Sales	Experts for buying (on the customer's side) and selling (on the contractor's side). These are often the first roles involved in developing the project business.
Functional and technical staff	Functional and technical staff	Interact in various ways with the project. Their involvement often grows during the course of the project business and so does their influence on the customer-contractor interface.

<sup>3</sup> The Project Business Foundation has a network of specialists for ADR (Project Business Foundation, 2020a).

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Experts	Experts	Many aspects of today's project business need involvement of experts, such as data protection and privacy, safety concerns, legal requirements, cross-cultural awareness, and many more.
Contract management	Contract management	Manages the implementation of the contract. They know where the original contract document is, and control access and changes to it.
Claim management	Claim management	Analyze the documentation and reports of the project to identify areas for construed changes that allow for demands in money, rework, and other assets.
Finance	Finance	Ensure timely payment by the customer and billing and receipt of payments by the contractor.
PMO	PMO (sometimes: PBMO)	On both sides, a project management office (PMO) helps govern a portfolio of projects by unifying the basic approach, language, processes, documentation, use of software, lessons learned and knowledge bases, and other organizational process assets. A project management office (PMO) on contractor side can turn into a project business management office (PBMO), whose tasks are expanded to also include monitoring profitability and liquidity over the entire portfolio.

One should note that for any of these roles, external help may be used in form of outsourcing, so that they are not only roles in project business but can become subject to it as well.

## Other Roles

**Consultants:** Consultants can help teams on both sides to cooperate. They may have a focus on technical, organizational, interpersonal, and even legal matters. Some specialize in Alternative Dispute Resolution (ADR) or other aspects that are common challenges in project business management.

**Trainers:** Help both customer and contractor staff to develop the skills for cooperative success. They may have a focus on technical, organizational, interpersonal, and even legal matters.

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**Experts:** Develop education programs and literature such as books, articles, papers, and more to improve understanding and give practical help.

**Auditors:** Project management auditors perform reviews.

**Insurers:** Insurance companies can play a role in project business to cover vested liabilities of parties in the context of developing and performing the contract. A common example is accident insurance for contractor staff working on customer premises.

Legal insurance may also be an issue, given the high-risk nature of project business and the possibility of lawsuits as a worst case.

**Surety companies:** In large projects, surety companies may be used to issue bid bonds, performance bonds, or warranty bonds<sup>4</sup>. These are explained as follows.

- **Bid bond:** Compensates the buyer in case the seller withdraws the offer before the contract is concluded.
- **Performance bond:** Compensates the buyer (and sometimes also subcontractors), in case the contractor is not able or prepared to meet contractual obligations, e.g. due to insolvency of the company.
- **Warranty bond:** Compensates the buyer, in case the contractor is not able or prepared to meet contractual post-project warranty obligations.

**Banks:** Contractors often need to lay out money for the project, when development of costs precedes payments from the customer, as is shown in

Figure 6. Banks may become important players in project business to protect the contractor's liquidity and keep the project running.

**Government agencies:** Set constraints on the parties in form of rules and regulations that must be adhered to.

The **Project Business Foundation:** The home association for organizations and individuals involved in project business management. Sets standards, supports education, and builds a community for professionals.

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<sup>4</sup> Bonds can be alternatively made in form of a monetary deposit or another asset used as collateral. A surety company may also require a collateral to reduce its own risk exposure.

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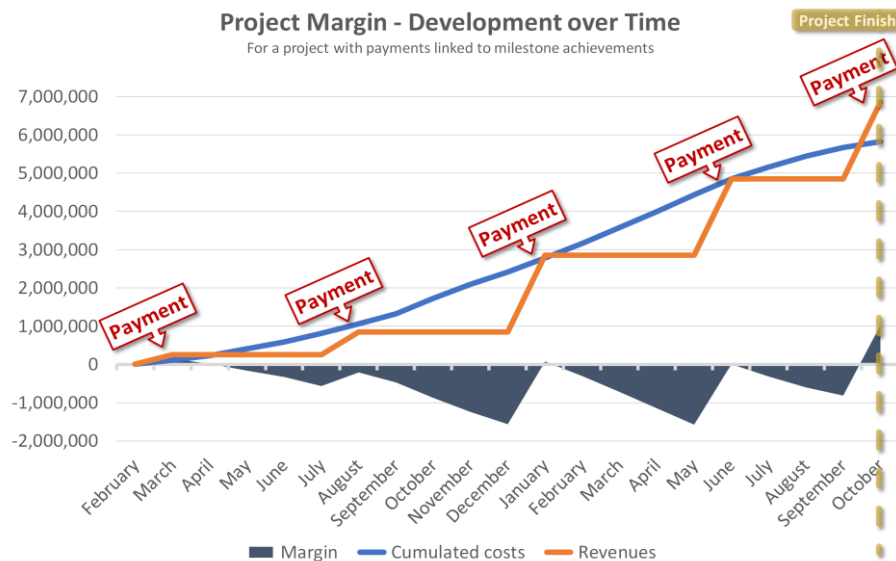


Figure 6: Example of a project that is loss-making most of the time, turning into profit with the last payment.

## C. The Customer-Contractor Interface

The focus area of project business management is the interface between two or more companies.

There are many aspects that relate with customer-contractor interfaces, including:

- **Inter-organizational:** How differences in culture, management approaches, and leadership styles influence the relationship between the parties
- **Legal:** How the relationship is influenced by obligations that are imposed by law on the parties
- **Contractual:** How binding agreements influence the relationship between the parties
- **Inter-personal:** How relationships between individuals influence the relationship between the parties

There are various forms of interfaces. The following overview sets out several of these models but should not be considered a comprehensive guide.

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## An Outsourced Project

In the outsourced project model (see Figure 7), the contractor takes over the entire project from the customer. The customer's own contribution to the project is limited, possibly to the acceptance of the end results.

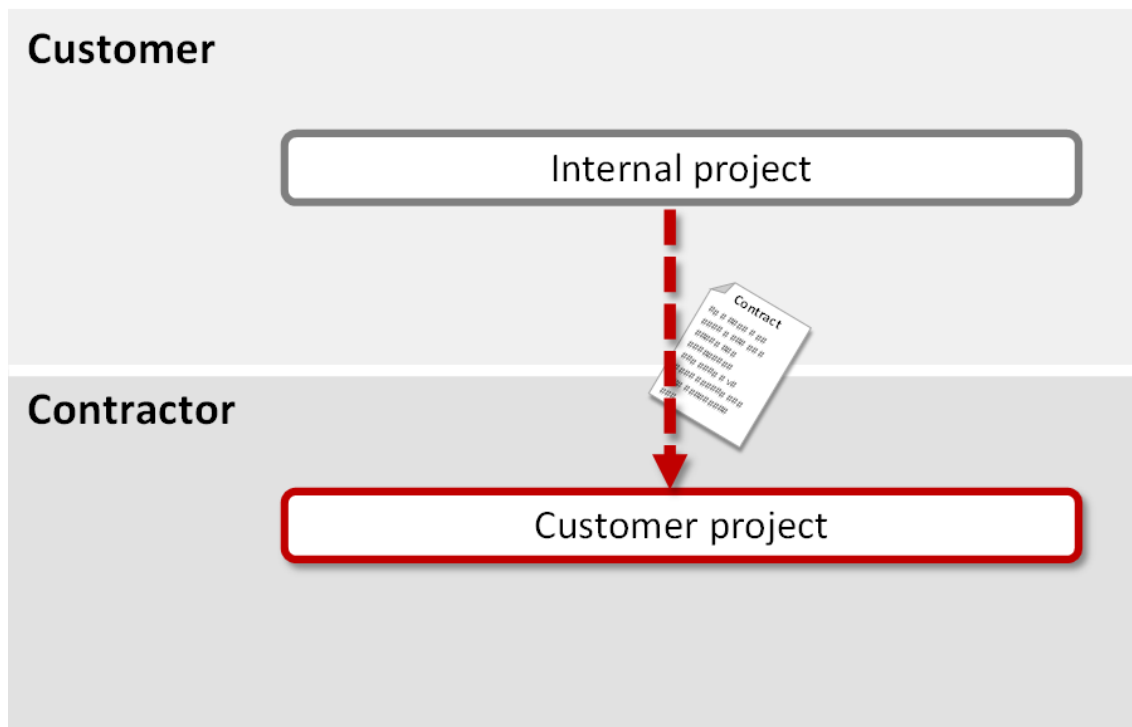


Figure 7: The contractor takes over the entire project for the customer under contract.

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## An Outsourced Project Phase

In this model, the interface between the customer and client is specific to a particular project phase. The customer's project is delivered following a phased approach. One or more project phases are outsourced to contractors. See Figure 8.

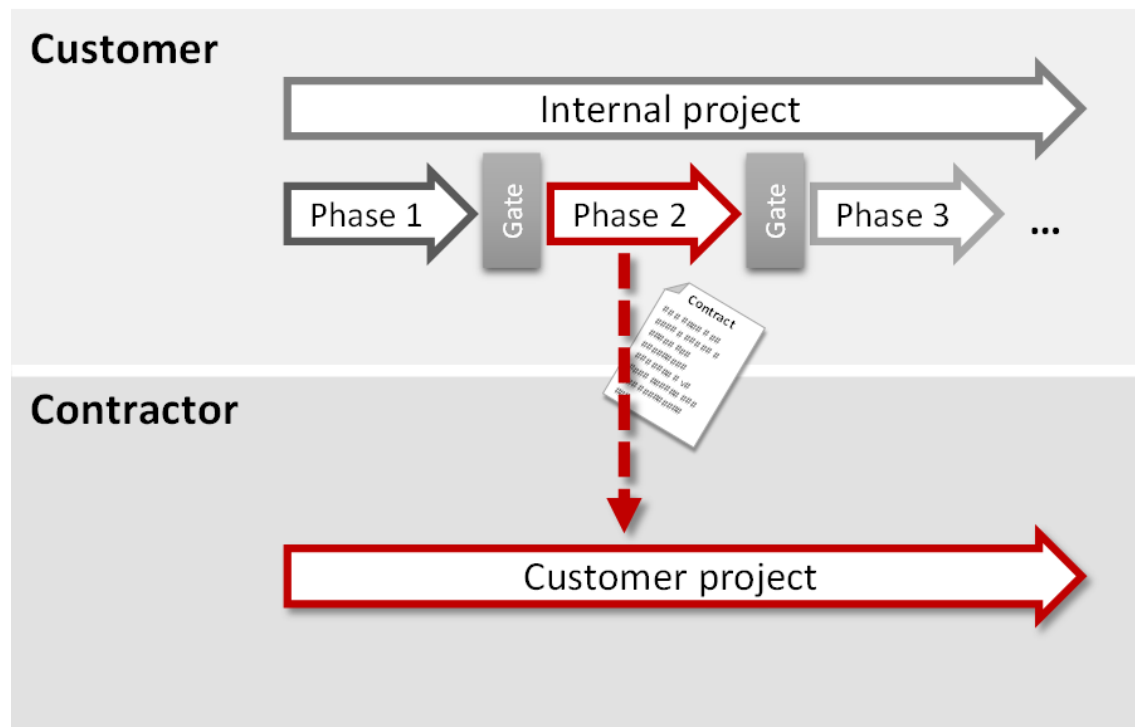


Figure 8: A phase in a project is outsourced to a contractor, who performs it as a customer(-facing) project.

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## An Outsourced WBS Item

The customer has itemized project work and deliverables in form of a Work Breakdown Structure (WBS). One or more components inside the WBS are outsourced to contractor(s). In this model, the WBS item becomes a new customer(-facing) project. See Figure 9.

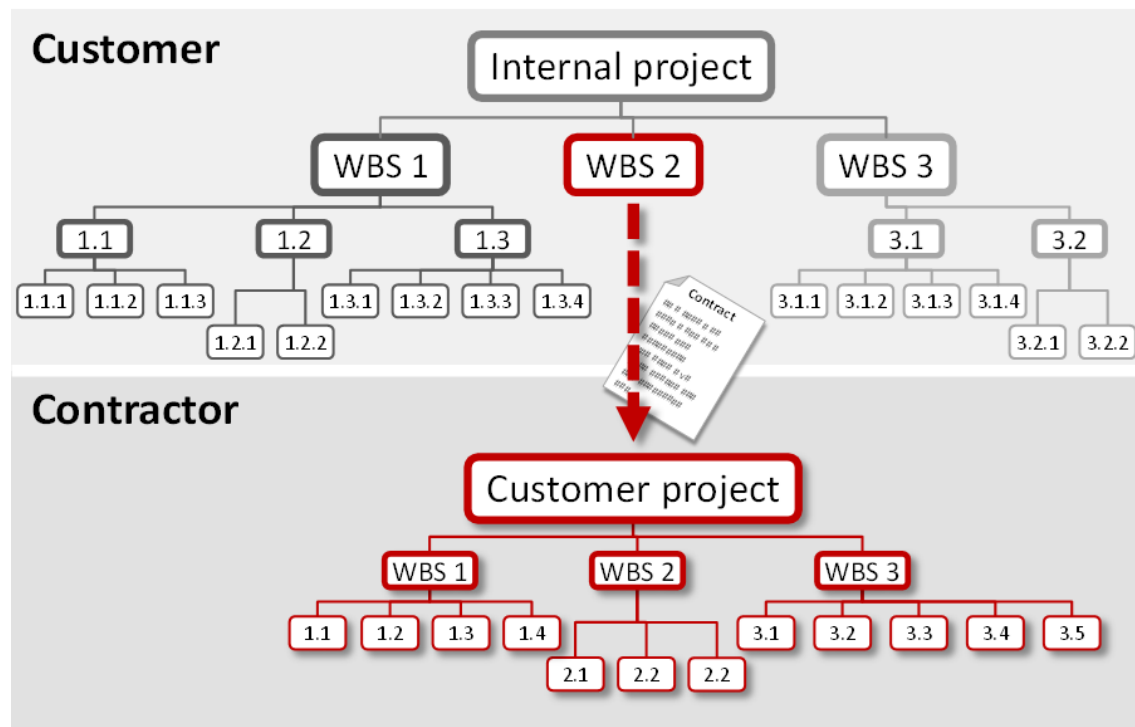


Figure 9: A WBS item in a project is outsourced to a contractor. This sub-project becomes a customer project for the contractor, often with its own sub-WBS.

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## An Outsourced Workstream

Figure 10 illustrates a project type (the “Rainbow Model”) commonly used for work that initiates production of an item. As the date for the start of production is a hard deadline, the project is broken down into parallel workstreams that may start at different times. However, they must all be finished in time to allow the start of production (SOP). In this model of outsourcing, one or more workstreams are given to external contractors.

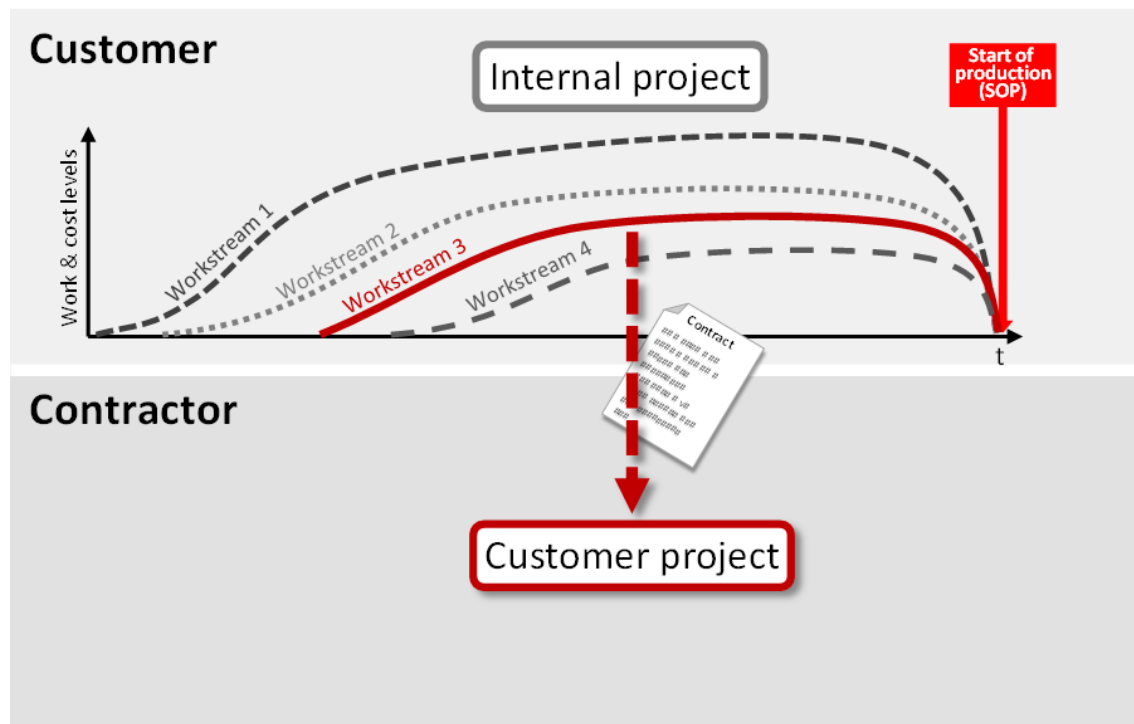


Figure 10: A workstream in a project is outsourced to a contractor. There it becomes a customer project.

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## A Mixed Internal/External Team used by the Customer

Figure 11 shows how a project done by the customer can be staffed by a team of internal members and supplemented by external members provided by a contractor. In this model, the team works together with contract staff being embedded in the in-house operation.

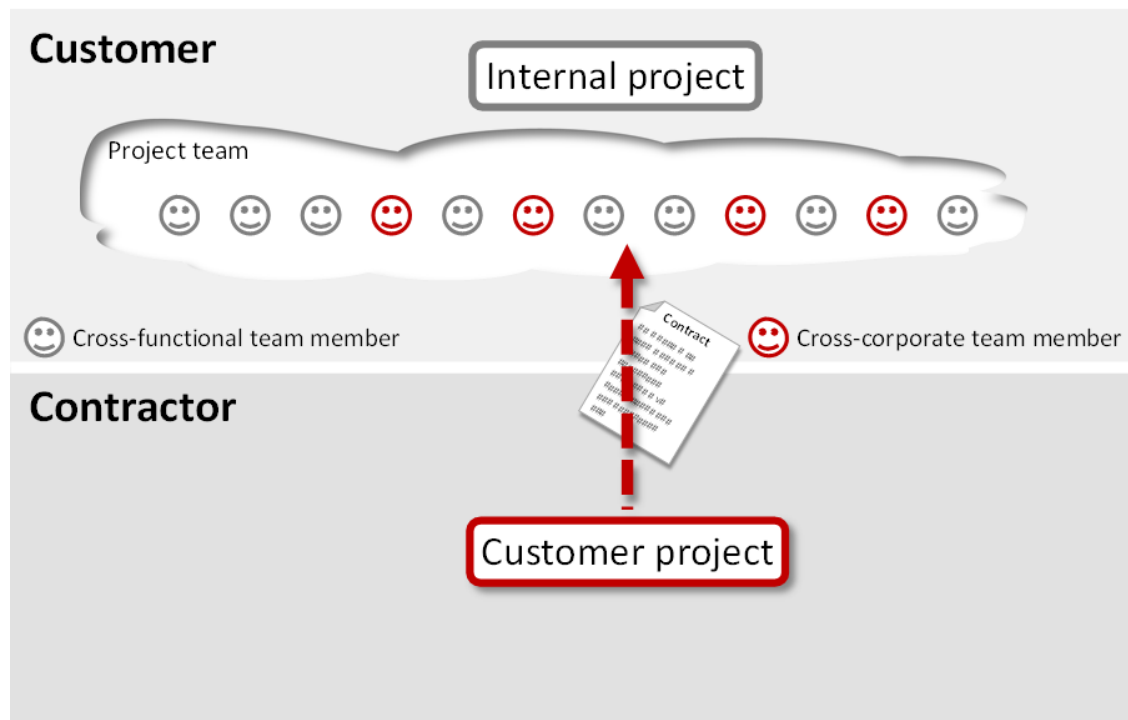


Figure 11: The contractor's customer project consists of temporary provision and placement of team members in the customer's project.

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## A Program

“Program” is a term used in multi-project management, that is popular in industries, such as infrastructure, aerospace, defense, and some more. In a traditional understanding in these industries, a program is a large undertaking, in which most or all work is done in form of projects that are performed by contractors and are subordinate to the program. The customer’s responsibility then is to coordinate these contractors and pay them.

In Figure 12, the customer-facing project of Contractor 3 is part of a customer-side program, which includes other projects and also operational service bought from other contractors.

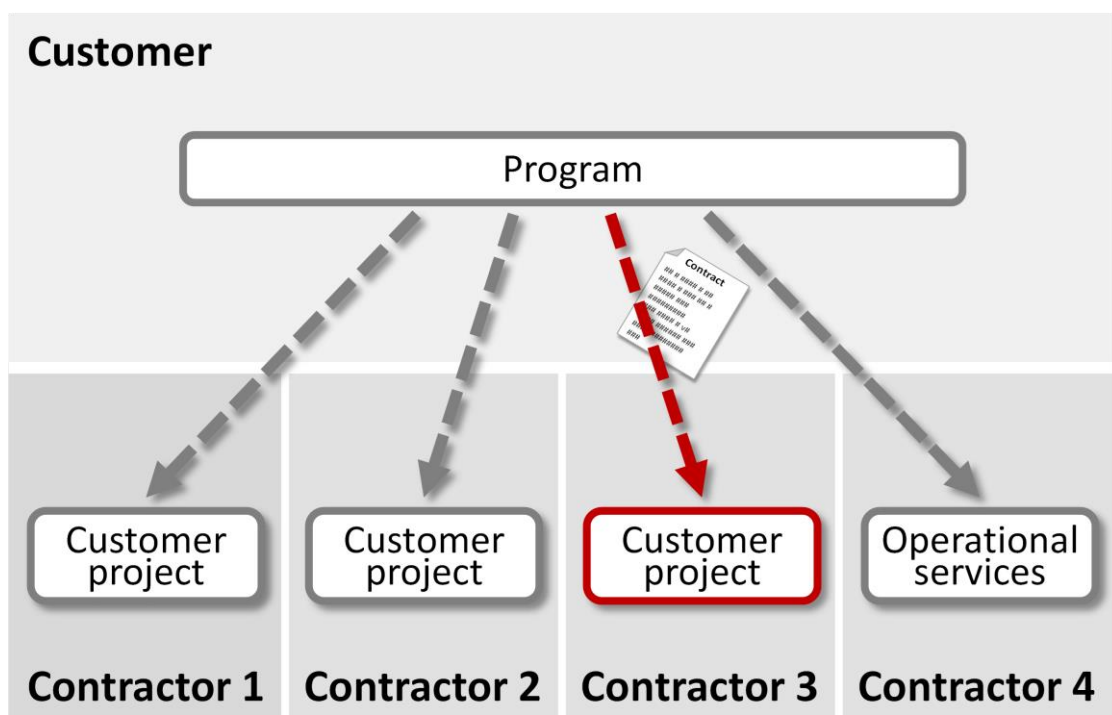


Figure 12: Contractor 3’s project is one of a number of projects done for a program on customer side.

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## D. Legal Factors for Project Business

Project business is done under contracts that are legally valid and enforceable, and, as a worst-case scenario, may necessitate final resolution of conflict at court.

### Project Managers' Involvement in Contractual Matters

Counsels and external lawyers may be asked to help with contract development, conflict, crisis or in other situations during contract-related projects. However, in a day-by-day cross-corporate project situation, project managers have to make many micro-decisions that can later have legal implications – without the time and the opportunity to talk to legal experts first.

Transnational project contracts involve a diversity of doctrines and rules. What may be a legal and appropriate activity in one country may be detrimental or even illegal in another. This even includes the definition of what constitutes a contract and what does not.

Commonly in smaller organizations, project managers are involved in contract development. On the buyer side, they find sellers, negotiate prices and conditions and conclude the contract. Other functions are commonly also present, such as experts in law and in procurement, but in a consulting role, project managers master the process.

The same is true for small organizations on the vendor side: Project managers are involved in business development, making first rough plans for the project, broadly estimating time, work, costs, resource usage, and other relevant data for business development. They assess the plausibility of constraints such as deadlines, cost ceilings, time windows for operational disruptions, and more.

In larger organizations, project managers on both sides tend to be exempted from business development, which is done by specialists. This takes workload from the project managers, who can focus on project work, but a negative aspect of this approach is that it also keeps their critical knowledge and acumen out of the business development process.

Even if not directly involved in business development, project managers need some knowledge about contracting in general and the project contract in particular, because on both sides, it is their job to ensure that contractual obligations are met.

There are important differences in legal systems around the world, so it is important to know what legal environment you are operating in.

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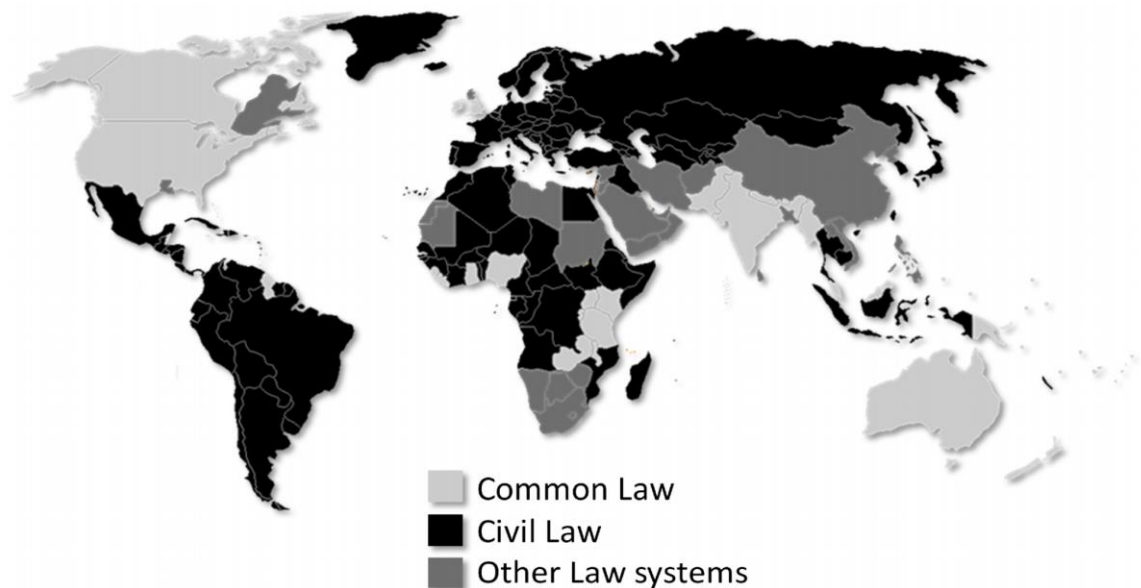
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## Legal Systems

Different legal systems interpret what constitutes a contract differently. There are also differences between national laws and local regulations. A simplified overview is shown in Figure 13.

In general, each country has its own legal system, and in complex federal structures, each structural layer may have its own laws.<sup>5</sup> While there are attempts to unify at least business legislation through bilateral and multilateral contracts, the success of these efforts is generally limited. International law is still heterogeneous.



*Figure 13: Simplified - Global distribution of law systems; some countries have mixed systems.*

To simplify the understanding, one can generally distinguish between the following:

- **Common law:** Anglo-American law going back to medieval traditions of jurisprudence (case law developed in lawsuits) and statutes (law developed in parliaments).
- **Civil law:** Based on late 18<sup>th</sup> century French law. Implements separation of powers<sup>6</sup>, therefore abandoning jurisprudence and relying on a civil code instead.

<sup>5</sup> Germany, for example, follows laws on an EU level, has national laws, and also laws made by each of its 16 states.

<sup>6</sup> Executive, legislative, and judicial. Separation of powers considers a court a member of the judicative power and does not allow it to develop laws.

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- **Other law systems:** Other law systems can be relevant for project business, such as:
  - **Islamic law** – found in some Arabic countries.
  - **Party law** – found in non-democratic countries, where the legal system reports to a ruling political party, which is consequentially regarded as standing above the law.
  - **Mixed law systems** – combining two or more different legal systems.

Attempts have been made to harmonize and unify international business and contract law, such as the United Nations Convention on Contracts for the International Sale of Goods (CISG), that can (within limitations) be used as a kind of third-party law.

Although legal systems are different all over the world, there are some common aspects that appear to be universally applied. We discuss those below.

## Legality

The content of the contract must not be illegal or *contra bonos mores* (which means it does not infringe valid moral standards).

Depending on the jurisdiction, legality may include protection from fraud: A contract entered by one party with the intention to deceive or scam the other party is then void.

## Applicable Law and Place of Jurisdiction

Trans- or multinational project contracts have a consequence that at least one party has to act under a foreign legal system, despite possibly not knowing enough about that system to make informed decisions. This is an element of the business and legal risk for this party from the project. Parties can insist that their own national law is applied, but if everyone did that, it would not be possible to contract internationally at all. Therefore, one party (or even more in multilateral contracts) will have to take the risk of working under a foreign and unfamiliar legal system with unknown rules, and in the worst case, having to deal with litigations in an alien jurisdiction.

The parties select the place of jurisdiction and this adds a second risk, even if the parties are in the same country: Selecting the home town of one party means that in the case of a lawsuit, time and costs are at stake for the other party which will need to find a lawyer who is admitted to the bar at this distant location, and travel to court hearings.

Parties are generally free to choose the applicable country law and the place of court chosen for the worst case, when a conflict leads to a lawsuit. Inside certain limitations, they may also choose a third country law, or international business laws such as the 'United Nations

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Convention on Contracts for the International Sale of Goods' (CISG). Unfortunately, not all nations support the 'Party Autonomy Doctrine', which allows parties of a contract to freely choose the governing law.

## Offer and Acceptance

The process that leads to a contract is simple: One party, which may be the seller or the buyer, makes a legally and commercially valid offer to the other party. By accepting this offer, the other party concludes the contract. This moment is often referred to as the 'Meeting of the minds'.

A contract may have more than two parties. In this case, one party makes the offer to the other parties, and some or all of them accept it.<sup>7</sup>

The offer and acceptance may be written and documented. They may also be done verbally or 'by conduct' which means a 'constructive contract' can be construed from hindsight.<sup>8</sup> Accepting the contract may also be done implicitly, for example through performing the request of an offeror. This act then concludes the contract<sup>9</sup>. Today, offer and acceptance are often done using online systems.

Verbal contracts are commonly beneficial over written contracts by making contract development faster, cheaper, and easier. However, their performance relies on the memories of the people involved. Due to the lack of evidence, a verbal contract may be hard or impossible to enforce.

Verbal contracts are an expression of trust, written contracts an expression of diligence.

## Capacity

Age and mental illness may disallow parties from entering a contract. For example, children are not able to enter into legally binding contracts in many jurisdictions.

In business deals, the person entering into the contract on behalf of an organization must be formally authorized by the organization.

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<sup>7</sup> Multilateralism in form of consortia (temporary joint ventures) and project alliances (multilateral project contracts and customer-led consortia) can be a powerful option for the parties involved.

<sup>8</sup> E.g. A vendor delivers goods that were not ordered, and the recipient accepts and consumes them.

<sup>9</sup> E.g. Responding to a purchase order by sending the requested goods without further confirmation.

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## Privity of Contracts

‘Privity of contracts’ is a doctrine that often applies in a multi-tier project supply network. In the small project supply network shown in Figure 14, the customer has a contractual relationship with the vendors on the first tier, but not with the subcontractors on the second tier. If there were more tiers, the customer would not have a contractual relationship with them either.

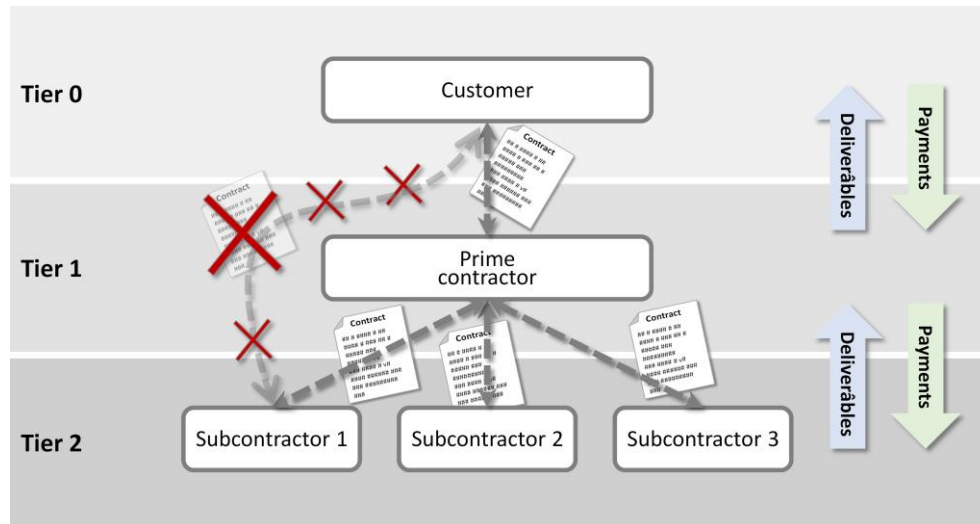


Figure 14: Privity of contracts - there is no contractual relationship between the customer and the 2nd-tier subcontractors

This has consequences:

- The project customer cannot give immediate direction to the subcontractors on how to do work (unless this is permitted by the contracts). Directions must be given to the Tier 1 contractors, who have to pass it on.
- The prime contractor on Tier 1 is fully responsible to the customer for the completeness, correctness, and quality of the work done by the subcontractors.
- The prime contractor on Tier 1 must pay the subcontractors for their work in a timely fashion, even if the customer defaults.
- Change requests by the project customer have to be submitted to the prime contractor, who may or may not pass them on to the prime contractor(s), whose work will be impacted by the request. The change request is only considered accepted if all parties have agreed to it.

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These rules can become devastating, particularly in large cross-corporate projects involving many organizations. In reality, they are in practice only applied to some degree. There are also some exceptions to the doctrine of privity of contracts. The most noteworthy is product liability, which is discussed below.

## Product Liability

Product liability legislation exists in many, but not all jurisdictions, and there are differences between countries' implementations.

Product liability holds a vendor (e.g. a manufacturer, processor, importer, or reseller) responsible for bringing an unexpectedly dangerous product to the market. Product liability is generally independent from the contractual setting. In project business, this means that a customer can directly sue a subcontractor whose product has been found unsafe.

The burden of proof to show that a product is not unsafe or that warnings have been given when the danger is inevitable, linked with product features, or even a feature of the product<sup>10</sup> is then often on the side of the product's vendor. This is called 'strict liability'.

## Legal Warranty

While product liability is linked to hazards that come with a product, warranty is a guarantee given that the product is free of faults and fit for use as promised, specified, and expected.

Warranty typically includes the options of free repairs, replacement, or, if this is not possible, reimbursement during a predefined warranty period (often two years).

In jurisdictions that have no legal warranty, or for products that are exempt from legal warranty (such as used items), contractual warranty can be a valid replacement.

## Completeness of Contracts

A common requirement on project contracts is completeness, as any ambiguity allows for different interpretations of the contractual agreements and the obligations that the parties have entered into.

On the other hand, an alternative view on contracts says that there is no such thing as a complete contract. Contracts reach into the future, often far into the future, and the uncertainties

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<sup>10</sup> E.g. A feature of a hot chocolate drink is that it is hot, but it may also burn lips.

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facing the parties are high. That makes it impossible to predict and make arrangements for future conditions under which the contract may have to be effective.

Following this view, contracts are generally 'agreements to agree'. They have some basic elements of agility and adaptability for the unforeseeable built in and are subject to refinement, alteration, and change over time. This openness includes termination as an extreme form of a contract change.

This agreement-to-agree view may be true for project business management more than for any other business discipline<sup>11</sup>.

## Further Prerequisites for Contract Validity

Depending on the jurisdiction, certain other requirements must be met to make a contract valid and enforceable. These include:

- **Consideration:** Typical for Common law and Islamic law environments (see page 31), consideration means disadvantages for both/all sides. Each party has an obligation against the other party/parties, such as assumption of costs, work, and risks. Consideration may also come in the form of restraints on freedoms such as gag or non-competing clauses. In jurisdictions where the doctrine of consideration applies, an agreement that puts all burdens on one party would not be considered a valid contract.
- **Intention:** In Common law and some other country laws, parties must show that, at the moment an agreement was entered into, there was the intention that the agreement will be legally binding and subject for remedy in court. Without intent, it could be considered a private matter and a court may decline to discuss the situation. A way to validate this intention is the use of the word "Contract" in the title of the document. Further validation is done by stating the applicable country law and the place of jurisdiction.
- **Presence of a third party:** Some law systems require the involvement of a third party for certain forms of business to be valid and enforceable<sup>12</sup>.
- **Written contract:** Some law systems require a contract in writing for certain forms of businesses to be valid and enforceable<sup>13</sup>.
- **Good faith:** In many Civil law jurisdictions, the doctrine of 'Good faith' prevails, giving the contracted parties the enforceable responsibility to help the other contracted party or

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<sup>11</sup> (Hart & Moore, 1998)

<sup>12</sup> E.g. Real estate business in Germany requires the attestation by a "Notar".

<sup>13</sup> E.g. Real estate business in certain US states requires a contract in writing.

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parties to realize the business benefits that they expected when they entered into the contract. This also protects them to some degree from damages that may arise out of the contract. In these jurisdictions, a contract is considered an assurance of a partnership.

## ‘Agile Contracting’

The success of agile project management methods based on the Agile Manifesto<sup>14</sup> with their short-term orientation and bottom-up team approaches also called for contract types that would be compatible with these approaches.

Framework agreements describe the over-arching terms of the agreement. Then individual purchase orders under the terms of the framework form the actual orders for small business volumes, such as sprints or a minimum viable product.

Agile methods resolve specific problems that can occur in projects, like ambiguity and uncertainty about the intended outcome. For example, in explorative projects, “the way is made by walking”. However, these methods bring new risks into a project, such as the difficulty to make medium to long-term predictions.

Project contracting should place the risk on the side of the contract, where the ability to influence and manage the risk is highest<sup>15</sup>. Therefore, it can be dangerous for a contractor to perform a project under a fixed-price contract and assume all cost risks, while the customer is still discovering the wants and needs that the project will have to address and satisfy.

Another problem for the effective application of agile methods in project business management and particularly in project contracting is that these have been generally developed for internal projects. Project business is briefly addressed in the Agile Manifesto<sup>16</sup>, but popular agile methods tend to ignore the contractual customer/contractor interfaces inside the project and of the effects that different business interests, cultures, legal systems (in international project business), etc. of the parties involved can have on a project.

## E. Commercial Factors in Project Business

Delivering projects under contract comes with expectations and uncertainties about the future. These may present themselves as benefits and opportunities, but also as costs and threats for

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<sup>14</sup> (Beck, K. et al., 2001)

<sup>15</sup> (Tom Arbogast, 2010)

<sup>16</sup> Quote: “[...] we have come to value: [...] Customer collaboration over contract negotiation [...]”

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the organizations involved. As we've seen, due to the high degree of uncertainties, project business is a high-risk business.

The opportunities can be described as **the ability to tap into the assets of other organizations and turn them into project resources**. The challenges are inside the organizations, but also at the interfaces between them: Small issues can easily escalate into conflicts that lead to crises and project failure.

## Tapping into Assets

There might be many reasons why two organizations, the customer and the contractor, choose to work together to deliver a project, but they all relate to tapping into the expected or existing assets of the other side. 'Assets' can be interpreted broadly, from money to more intangible items like reputation.

A buyer may be interested in the following assets from a vendor:

- Available and skilled human resources
- Special machinery
- Know-how and expertise
- Agility
- Risk control
- Management attention.

The 'what's in it for me' for the vendor includes the following assets from the buyer:

- Money
- Reputation – the ability to create a case study or gain a reference that would lead to further work
- An opportunity to build new know-how on the job
- An opportunity to open a door to a new market or industry.

Another point of interest for a vendor may be the opportunity to become an incumbent or preferred supplier or service provider. This is a common justification for so-called Freebie projects (discussed on page 75).

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The picture gets more complex when more organizations are involved. Project Supply Networks can have a multitude of inter-organizational interfaces, each with its own benefit expectations and access to assets over corporate borders. This also brings risks that can lead the entire network into crisis and derail the project. That leads us on to the next topic: conflict.



Figure 15: People involved in project business were asked to rate how frequently they experience these causes of conflicts in their projects on a scale from 0 to 5. The most frequent cause was conflicting business interests.

## Conflicts

In the complex environment of project business, it is almost impossible to avoid conflict. Figure 15 shows data from a survey done in 2017.<sup>17</sup> Participants responded that the most common reason for conflict was conflicting business interests between parties. Then came cultural, legal, and ethical diversity, incompatible egos and poor communication.

Conflicts often begin as small disagreements or disappointments. However, the insignificant stumbling stone for one side can appear as a mountain for the other. Conflicts can escalate over

<sup>17</sup> (Lehmann, Leading Project Teams Across Corporate Borders, 2017, S. 11)

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time – this is the ultimate threat to meeting the project’s goals: Goals that should ideally be shared by all parties involved in the project, despite their different business interests.

## Business Acumen

On top of project management knowledge, project managers leading projects under contract must also know how to manage business relationships with customers, contractors, or both. These relationships have legal, commercial, interpersonal, and technical aspects, and each of them can become a source of success as well as of failure.

Business acumen means understanding the business context of the work, both for your own organization and that of the other parties involved. Project managers can develop business acumen by improving their skills in these areas:

- **Analytical abilities:** The application of the DIKA loop (Figure 16) to understand problems and opportunities and address them in an informed manner, based on knowledge, not just on raw data.
- **Financial literacy:** Being able and willing to read and understand monetary data and act upon it when necessary.
- **Early identification of business threats and opportunities:** Includes not only the management of project risks but also of monetary risks, risks to the cross-corporate functioning of the project team, risks related to reputation etc.
- **Timely issue management:** Early and proactive addressing of issues is easier and less costly than delaying the response until you are facing a crisis.
- **Executive mentality**<sup>18</sup>: Understanding diverse corporate data and seeing the key drivers of the business and how they relate with each other. Assume responsibility and accountability for actions.

There is a corollary that comes with business acumen: Project managers have a lot of responsibility and expertise and need to be paid in a way that reflects that level of seniority and experience. A low-paid, less experienced project manager may not demonstrate the team spirit, loyalty and business acumen required to deliver the project effectively. The cost of paying a project manager appropriately is always lower than the potential cost to the business of a project that fails.

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<sup>18</sup> (Cope, 2012)

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## The DIKA Loop

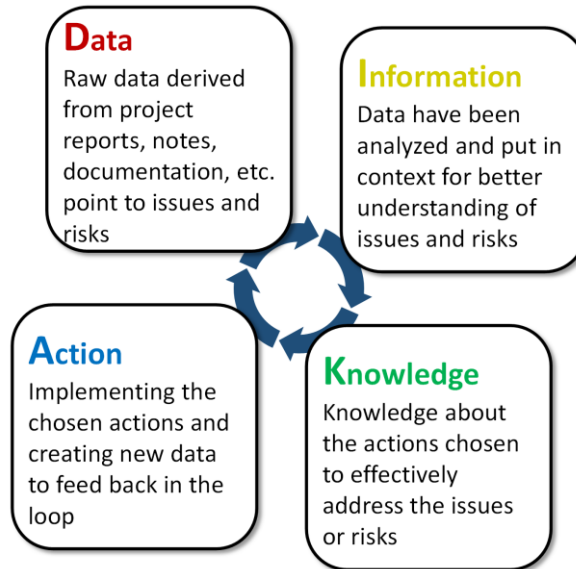


Figure 16: The DIKA loop creates information and actionable knowledge from data and leads to action, which in turn provides new data.<sup>19</sup>

## Business Spirit

Business acumen refers to the skills and ability to include business matters in decision making in project business management. In contrast, business spirit refers to the preparedness and willingness of a person to do this. It includes the joy of and pride in knowing that the project is not only technically a success, but commercially successful too.

A common observation in project business is that project managers push away, or are pushed away, from the responsibility for the commercial and legal aspects in order to allow them to focus on technical matters. Project managers show business spirit by stepping up and assuming this responsibility as well. They understand that in project business, the dynamics of success and failure are driven by the inter-organizational challenges as much as by the technical ones.

<sup>19</sup> (Lehmann, Project Business Management, 2018, S. 248)

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## Portfolios, PMOs, and the Project Business Management Office

Project business management brings new requirements on the government of project portfolios. This is true for both bodies that commonly govern portfolios:

- **Project Selection & Review Board**, which does project selection, prioritization, load balancing, and often termination of projects across the portfolio.
- **Project Management Office (PMO)**, standardizing approach, processes, and terminology.

On the way from cross-functional to cross-corporate, project governance needs to change its focus on both sides: customer and contractor.

**The contractor side:** Talking about customer happiness, profitability, and liquidity in project business is sometimes limited just to project management. If an organization or freelanced individual has only one project, revenue minus costs may be the profit from it, and the same is true for the happy customer and the cash flow: They are considered just for this one project.

However, many organizations have portfolios of customer projects. In a large contractor organization, such a portfolio may include several sub-portfolios; it may span the world and include thousands of projects.

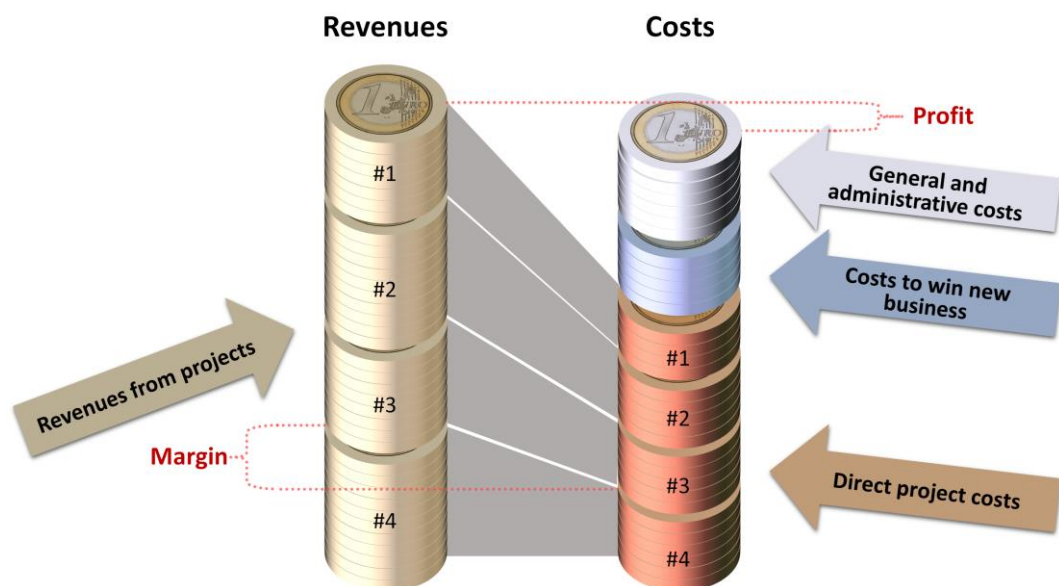


Figure 17: A schematic illustration, how the profitability of a contractor portfolio is commonly dependent on the margins from the projects, but also influenced by the costs to win future business and by the organization's G&A costs.

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In these cases, the profit-loss calculation, as shown in Figure 17, has several influencing factors, including the margins that the projects generate, but also the general and administrative costs of running the organization (G&A) and the costs to win new business.

**The customer side:** Another aspect of portfolio management is the protection of the organizational assets from being overcharged by too many concurrent projects that need them as resources. This can include people, money, equipment, but also soft assets such as management attention. How the governmental focus in a cross-corporate environment of a Project Selection & Review Board and a Project Management Office (PMO) differs from the focus in a portfolio dominated by cross-functional resource allocation is shown in Figure 18.

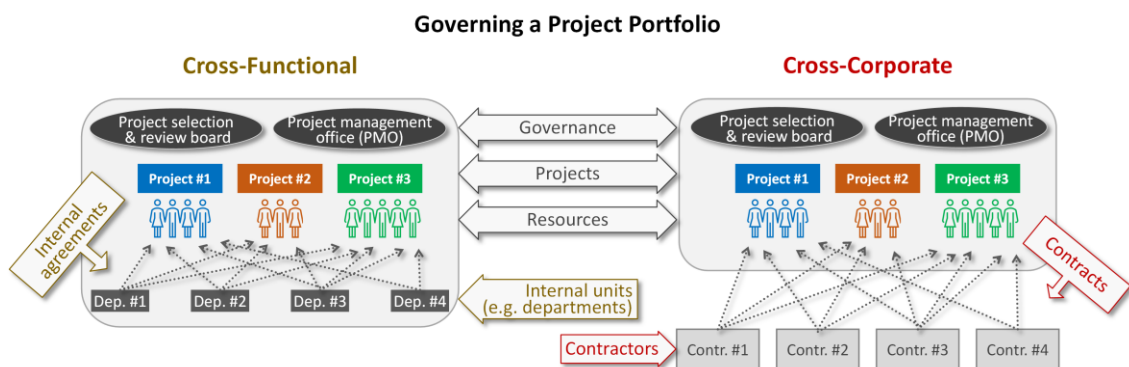


Figure 18: Governing a cross-corporate portfolio on client side differs from managing a cross-functional portfolio, as internal agreements on resource usage are replaced with contracts.

Project business means to tap into the assets of other organizations, in particular of contractors, and turn them into project resources. This makes a rethinking of portfolio management necessary, as this removes bottlenecks, but can create new ones, for example employees who are capable in engineering and managing complex networks of suppliers.

In the context of these two areas of shifted responsibilities, the work of Project Management Offices (PMOs) may also need to be redefined to include the business challenges. PMOs can then become PBMOs, Project Business Management Offices.

## Addressing the Challenges of Project Business

The core approach to successful project business management is to develop and promote a culture driven by the “Mission Success First” paradigm.

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This concept is based on principles such as “turning contract parties into project partners” and “placing completing over competing”. Dealing with conflict of all kinds involves preventing small conflicts from escalating into large ones.

Parties already in a crisis need help to turn them into partners again, and this is commonly provided by a third party. There are situations where this task is easily achieved, and others where it proves difficult. In general, conflict resolution works best where people are brought together as well as companies.

There are some approaches which can be taken to prevent the conflicts before they appear or to successfully manage them before they damage project business. These include:

- **Agreeing on and using a common glossary:** Simple terms can lead to avoidable misunderstandings. Defining terminology can help.

Note: This workbook has a glossary on page 77.

- **Defining clear roles and responsibilities:** When organizations act together as clients and contractors, misunderstandings about the interfaces between individuals involved are common. Clarification can help avoid and roles and responsibilities are closely linked to communications.
- **Defining communication rules and channels:** Projects often suffer from a lack of communication or from an overload of communication, especially when the communication is not effective. When the project is cross-corporate, the number and length of communication channels can become a huge problem. Defining how communication will happen on the project sets boundaries around which channels are open for communications and which are not, and where direct communications are possible. Such rules will make project execution faster and better inform the teams involved.
- **Using the right contract type:** There are an enormous number of different types of contracts including fixed price, time-and-material or cost-reimbursable contracts, with incentives or award fees, or with liquidated damages or penalties. There are target cost contracts, often with benefit-cost sharing and floors or ceilings, framework contracts with POs as individual orders, and then the distinction between contracts to deliver goods and those to deliver services. Each has its own benefits and disadvantages and not all are fair.

Selecting and agreeing on the right contract type with the best distribution of risk and control among the parties is a difficult task, but a core challenge of project business management. The reality today is often that one or two standard contracts are used as organizational ‘best practices’. Sometimes they may sometimes be appropriate; at other times they are not.

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- **Considering multilateral contracts:** Often called project alliances or customer-led consortia in projects, these can boost the project's success in terms of the customer-contractor collaboration. In multilateral contracts, all parties have a common business interest: Project success.
- **Integrating contractor staff:** Contractors and subcontractors are often seen as strangers and competitors in the organizational environment. Integrating them into the work process might seem scary for the employed staff of the customer. Taking people's fear into consideration may help.
- **Setting up a Project Business Management Office (PBMO):** As governance entities, the PBMO is often in a perfect position to supervise and support portfolio-wide project business. This requires change to the way projects are executed and supervised.
- **Using third parties:** Third parties can be highly effective in working with the players in the project to avoid or manage conflicts. The Project Business Foundation offers services with the introduction of third parties such as:
  - ADR (Alternative Dispute Resolution) including:<sup>20</sup>
    - Mediation
    - Non-binding arbitration ( $\approx$  conciliation<sup>21</sup>)
    - Binding arbitration
  - Project Business Healing Days<sup>22</sup>
  - "Health checks" (Project Management audits at contractors or customers).<sup>23</sup>

## F. Interpersonal Relations and Leadership as Factors for Project Business

Project business brings together project management and business management. Projects run in this way reach beyond corporate walls, which requires all people involved to collaborate effectively, both at the leadership level and the day-to-day project team level.

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<sup>20</sup> (Project Business Foundation, 2020a)

<sup>21</sup> Terminology may vary in different jurisdictions

<sup>22</sup> (Project Business Foundation, 2020b)

<sup>23</sup> (Project Business Foundation, 2020c)

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As a result, the cross-organizational team faces interpersonal and leadership challenges that are rarely seen in internal projects. Some common considerations and challenges are discussed below.

- **Loyalty conflicts:** Teams from different organizations often have to work together, possibly merged into one cross-corporate team (see Figure 2 on page 10 and Figure 12 on page 29), but have their homes in different corporate cultures, systems of ethics and conduct, and maybe different legal systems (when the organizations are in different countries). This can result in conflicts of loyalty: does the team follow the needs of the project or only the needs of their home organization?

A common example is found in moments of conflict when contractor team members are working on customer premises. People may have to make a decision about whether to support the organization that employs them and sends them their pay checks, or the one where they are actually working.

- **Ownership of assets:** Assets are temporarily brought into the project by the parties involved. These could be hard assets, such as money and equipment, or soft assets such as expertise and reputation. Conflict can arise over the degree to which they can be used or consumed, who can manage them, and in what condition they are finally given back. As a result of challenges over assets, a successful project may finally be considered a failure by some or all parties.

**Challenges of connective leadership<sup>24</sup>:** A key success factor for the project is the ability of the leaders involved to take control of the entire cross-corporate project. The leadership in a cross-corporate project is a connective effort. It extends across all relationship boundaries and does not end within the walls of the home organization. It requires leaders to work together, even when that involves stepping into the leadership arena of another organization. When organizations team up to do projects together, their leaders' spheres of influence no longer end at the organization's border. Instead, their influence reaches into the other organizations involved in the project. There, other leaders have their spheres of influence. Sometimes, these spheres of influence overlap, causing conflict. Figure 19 shows how this adds to the complexity of a project.

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<sup>24</sup> (Lipman-Blumen, 2000)

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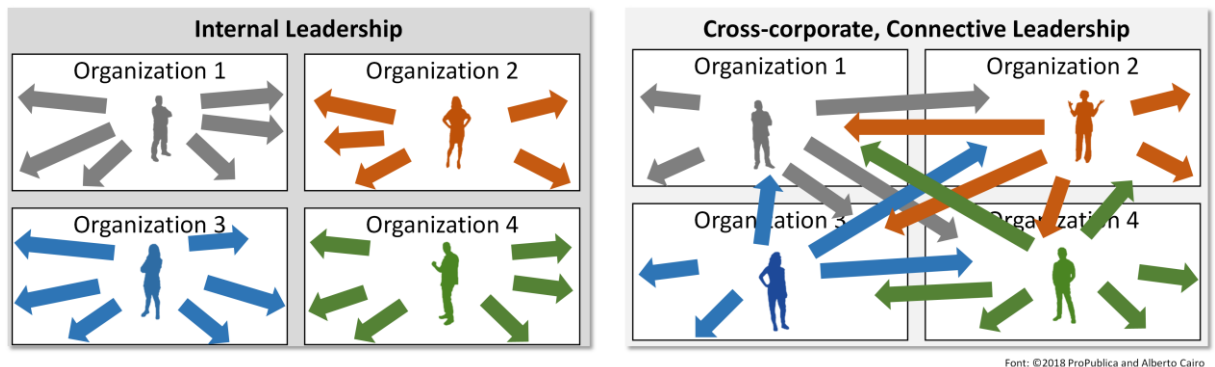


Figure 19: Connective leadership does not end at the borders of an individual's own organization. It requires the ability to cooperate and manage the dynamics and ambiguity in this scenario. Compare with Figure 2.

Additionally, leaders must rely on each other. The project's eventual success is affected by the leaders' ability to accept this two-way permeability of organizational borders and the impact it has on influence and responsibility, together with their ability to find joint solutions that put completing over competing.

- **Servant-leadership<sup>25</sup>:** An additional challenge is the transformation from traditional top-down management to servant leadership. As well as serving the organization, the leader also serves the cross-corporate project that the organization is involved with. Often, project managers also have to serve the community in which and for which the project is performed, and in projects with high environmental impact, they may have to work for the entire planet.

However, even otherwise well-prepared servant-leaders can lack the skills to balance the risks that the own organization faces against the overarching needs of the cross-corporate project.

Servant leaders facilitate team participation and tolerate errors to a reasonable degree and use them to "fail forward". Unfortunately, error tolerance in cross-corporate projects can be more complicated, as errors done by either party under contract can lead to expensive liability claims by another. They can damage the reputation of an organization and – in the worst case – finally ruin it. Often, they do not just happen inside its protective walls and trusted internal environment, but at the technical, commercial, and legal interfaces with other organizations and possibly with public exposure.

<sup>25</sup> King Friedrich II of Prussia, called "The Great", wrote in 1752: "Owning the highest power in the state, I had the opportunity and the resources to prove myself beneficial to my fellow citizens." And "The ruler is the supreme servant of the state." (Friedrich II v. Preussen, 1752)

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- **Implementing “Agile Methods”:** The concepts of ‘Agile transformation’, together with ‘Servant leadership’, have been implemented in many organizations, with a greater or lesser degree of success. However, these approaches were fundamentally limited to application inside the own organization. There are no published models or case studies that we are aware of that demonstrate the success of agile methods in cross-corporate projects. Agile methods, just like traditional project management approaches, address the typical problems of the 20<sup>th</sup> century.

Today, many projects using agile principles have had to leave the safe zone, where published agile methods give direction and offer proven practices. The need to be more effective and innovate more quickly has forced organizations to open up their application of agile methods to cross-corporate working. The challenges of more traditional approaches unfortunately remain the same: The methods were not made for project business.

## G. Considerations for Integrity in Project Business

A major problem in project business is corruption. Project decisions often involve large sums of money, and the incentive to influence outcomes and redirect money flows through bribery, blackmail, favoritism, nepotism, and kickbacks is high. This is not only unethical, but detrimental to project success for three reasons:

- Decisions are no longer based on the benefits for the project but on benefits for specific individuals or groups.
- There is an impact on the freedom to make future decisions. Corrupt people and organizations are open to blackmail. They will be forced to make more decisions that are detrimental to the project and its stakeholders.<sup>26</sup>
- Where corruption prevails, people tend to get used to it, at one point regarding it as something normal. Corrupt people are then often aggrandized, and the exploitation of others is considered at least acceptable, possibly even favored and admired as a sign of strength and heroism. When the line between right and wrong is getting shifted, it becomes impossible to do proper project business, which builds on the basic assumption that parties involved act as partners and meet their obligations.

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<sup>26</sup> “...once you involve yourself in the murky world of bribery it is not open to you to simply opt out whenever you like.” (Penzhorn, 2004).

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## Corruption and the Rule of Law

Corruption correlates with the rule of law<sup>27</sup>. Corruption prevents the rule of law from being implemented in a country, while a strong rule of law in turn prevents corruption from occurring. In addition, both are an expression of a national culture of honesty and legality – or a lack of that culture.

The scatter diagram in Figure 20 visualizes the correlation between the rule of law and perceived corruption, collected by Transparency International, the global association against corruption, and by the World Justice Project.

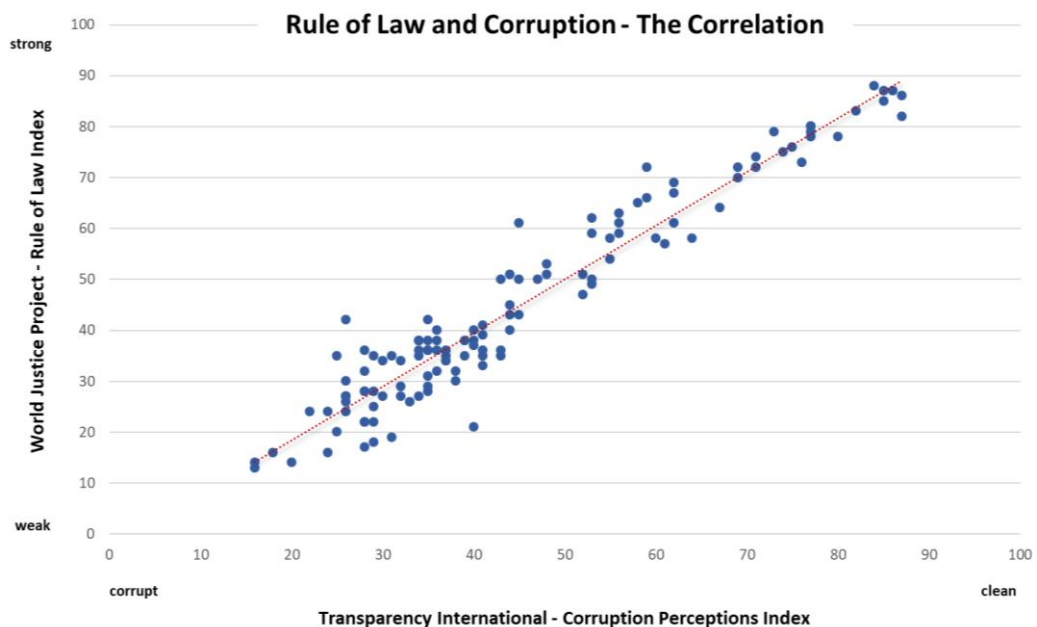


Figure 20: Each data point in the scatter diagram is a country. The plot shows that weak rule of law correlates with high perceived corruptions. Data from 2019.<sup>28</sup>

As you can see, in countries with a high degree of perceived corruption, rule of law is considered weaker.

<sup>27</sup> For the purposes of this section, we follow the approach of Transparency International in assuming that perceived corruption mirrors real corruption. While it is possible to measure perceived corruption, it is less possible to gather reliable data on actual corruption.

<sup>28</sup> Data source: Transparency International (TI, 2020).

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This is relevant to project business because rule of law is important for project success. For example, when poor performance by a customer or a contractor leads to failure in meeting business goals for the other party and damages the entire project, rule of law should ensure compensation for the aggrieved party..

A common question in transnational or international project business is: Whose legal system will be applied for the contract? Our clear recommendation is this: The system of the country with the strongest rule of law and the least perceived corruption.

## Code of Conduct

It may be helpful for a cross-corporate project to develop a unifying code of conduct. This is a document, which describes in plain and clear language, which behaviors are considered acceptable and wanted, and which are considered unacceptable and unwanted.

In a cross-corporate project, a code of conduct can help develop a common culture of success and improve team cohesion. It can help overcome conflicting ethical standards across the organizations involved and provides a guide for team members from organizations that have no such guide.

To be effective, a code of conduct must have a mechanism for enforcement. In a contractual setting, this regime should be laid down in the contract and the code of conduct should be considered an essential element of the contract, ideally as an appendix or an easy-to-retrieve document.

The Project Business Foundation has a Code of Conduct for its members and credential holders.<sup>29</sup>

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<sup>29</sup> (Project Business Foundation, 2020d)

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## III.A Process for Project Business

In this section, we look at the aspects of the project business process, from the first internal discussions about a good idea through to commercial decision points on both sides, common documentation and finally project and contract closure.

Project business typically follows the process shown in Figure 21.

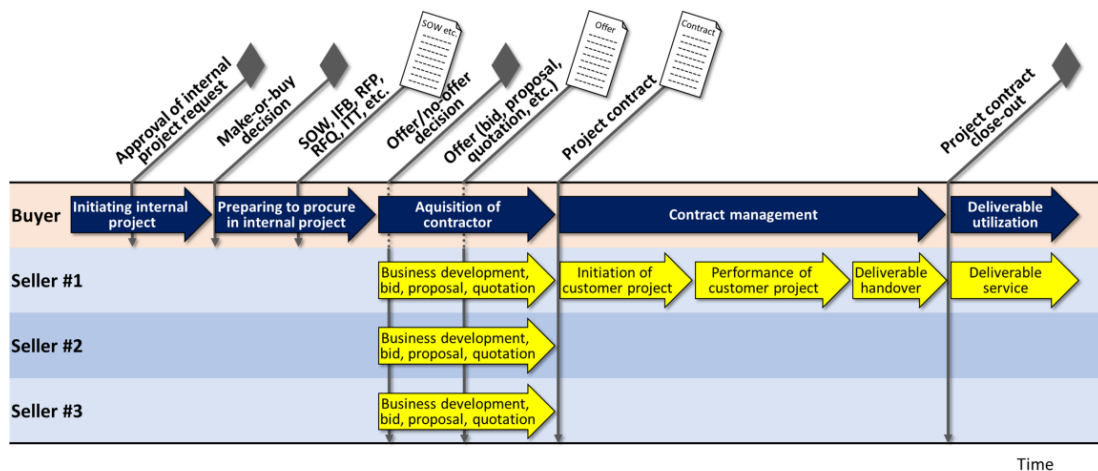


Figure 21: A typical project business process (repetition from page 15)

In the diagram, the initiative to develop the business begins on the side of the buyer, who asks sellers (also called vendors) for offers in the form of bids, proposals, etc.<sup>30</sup> The sellers are probably in a competitive situation and therefore want to win the business. From a legal perspective, the critical moment is the contract signature, at which point the buyer becomes the customer and the seller becomes the contractor. Ideally, this ends the competitive phase and leads the customer and the winning contractor into a phase dominated by completing the work. This is shown in Figure 22.

<sup>30</sup> See Glossary on page 75 for disambiguation.

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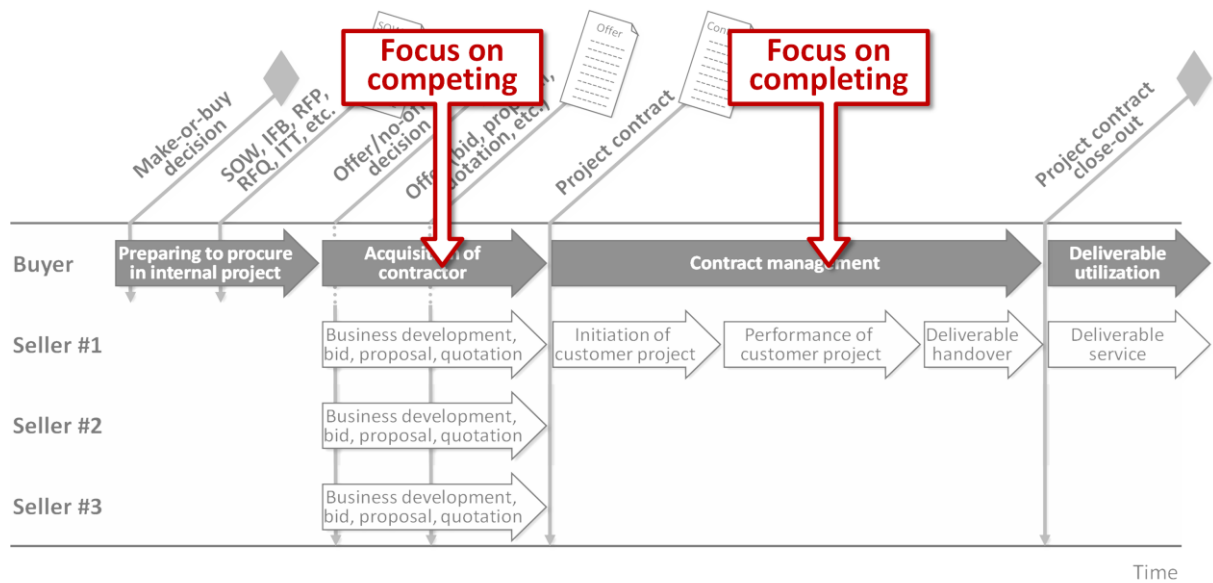


Figure 22: The time before the conclusion of the contract is typically dominated by competing. After this moment, competing should be replaced with completing.

Contractors may have one or more subcontractor, as we saw on page 17. In this case, the process is generally repeated for this second-tier contract. The contractor becomes the prime contractor and acts as customer of the subcontractor(s).

A complex Project Supply Network (PSN) can grow with the addition of more contractors, possibly over more tiers. PSNs in major projects can have hundreds of contractors and six and more tiers. At first glance, PSNs are similar to supply chains found in manufacturing and continuous service, where they are developed to be lasting and are generally well-engineered. However, on a deeper inspection, PSNs tend to be highly dynamic and are often very opaque and poorly organized. A lot of future work needs to be done to bring Project Business Management to a level of maturity in handling PSNs comparable to the management of supply chains in continuous operations.

## A. An Overview of the Process and Decision Points

There is a series of decisions that take place on the way to the project contract and during project closure. These decision points are discussed below.

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## Project Selection and Initiation

The organization may have a formal process which includes a project proposal or request, initiated by an internal requestor and possibly supported by a business case or a similar document. Acceptance (or rejection) is carried out by top management or in very large organizations by a specific portfolio decision board.

In organizations where no such process is in place or where it is not followed by management, the decision is comparatively informal: Managers decide that they want a project, and this is sufficient to move forward with project initiation.

Project selection with or without a formal process is typically skipped when the project responds to a mandatory requirement such as a law, another form of regulation, or a requirement by a key customer that does not allow for rejection. In such case, project selection is mandated by the external influence and the organization has no choice but to begin the work.<sup>31</sup>

Once the decision to go ahead with the project has been taken, the next step is for the project to be initiated internally. This process should have a focus on role definitions, including:

- Role of the project inside the organization – will it be in a “strong matrix”, characterized by reliable assignment of assets such as management attention, people, money, and other resources, or will it be performed in a “weak matrix” structure, where asset assignment is hard to get and, once it is achieved, unreliable?
- Authorization level of the project manager inside the project – where are the limitations up to which the project manager has the freedom to make decisions, and which decisions will the person need to escalate to management?
- The organizational unit or units – who will take the responsibility for the project? At this point, this is still an internal question with a focus on load balancing across the organization’s business units. It may directly lead to the Make-or-Buy decision discussed below.

Failure to effectively initiate the project leads to obstacles for all parties involved later on, hampering their ability to meet business objectives and work together successfully.

## The Make-or-Buy Decision

In the process described in Figure 21, the next major decision is commonly the Make-or-Buy decision. It can be taken as part of project initiation, particularly when the entire project will be

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<sup>31</sup> (Lehmann, Situational Project Management: The Dynamics of Success and Failure, 2016, S. 6, 132-133)

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outsourced. The decision can also happen later in the project, typically when the outsourcing is limited to work packages, workstreams, or other components of the project.

When *Make* is chosen, the project becomes an internal project. When the *Buy* option is chosen:

- the project will probably become a customer project for a vendor
- the organization outsourcing the project work will become a buyer
- the buyer enters the business development phase.

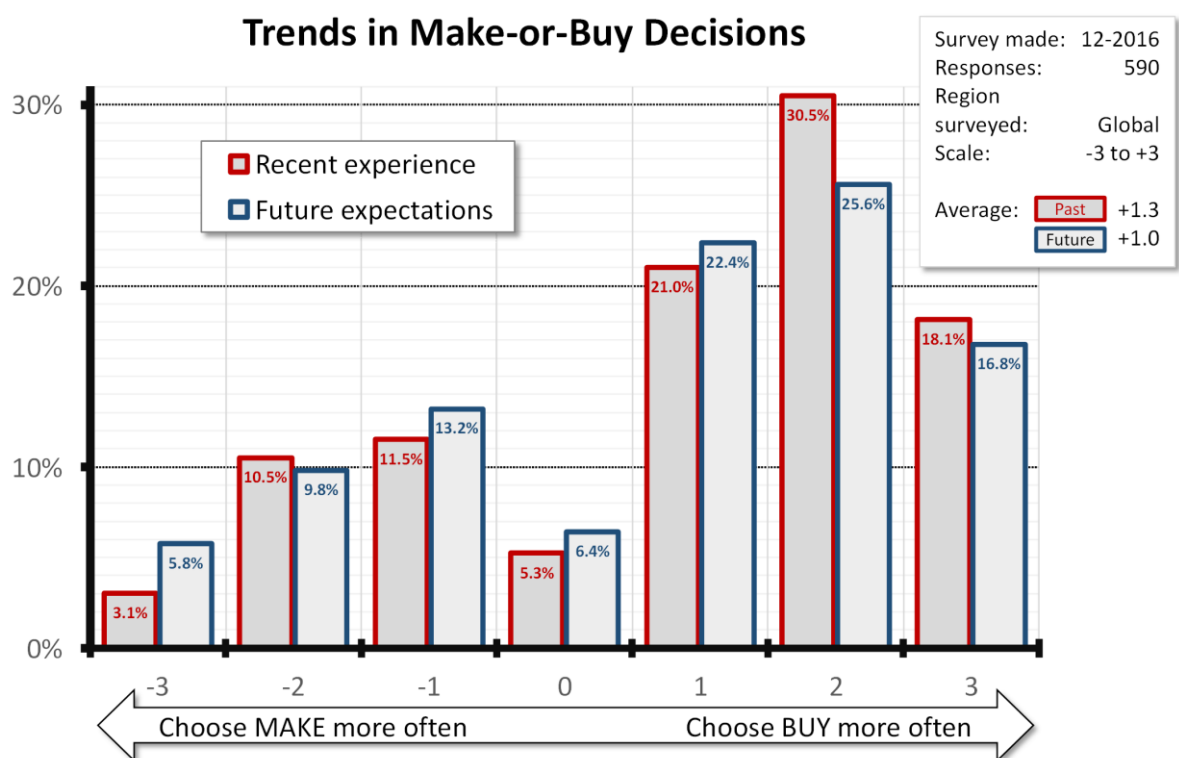


Figure 23: A research from 2016 showed a tendency towards the "Buy" option.<sup>32</sup>

Research has found a general trend to choose the *Buy* option more often. Figure 23 shows the results of a survey from December 2016. Asked about recent experience and future expectations

<sup>32</sup> Source: (Lehmann, Project Business Management, 2018, S. 57-65)

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for “Make-or-Buy” decisions, a majority of the respondents reported a strong tendency towards the “Buy” option for the recent past. They expected that the trend will go on in the future.

The tendency towards “Buy” is among the strongest drivers of the rise of project business management.

## The Offer/No-Offer Decision

The Offer/No-Offer decision is also a portfolio management decision, but we are now on the side of the vendor. Business development, including research on the requirements and environmental conditions of the buyer, is expensive, and so is developing the offer, particularly when it has the form of a proposal or a pitch.

When the vendor organization (or individual, such as a freelancer) makes a decision to develop an offer for an organization, this has some major consequences:

- The seller joins the buyer in the business development phase.
- The buyer becomes the prospective customer (or just “the prospect”).
- The seller promises to submit an offer to the prospect.

## Vendor Selection and Contract Conclusion

These two decisions may be made separately or be just one event. They end the business development phase and start the phase where the project is done partially or in full by the vendor for the buyer.

The vendor is now the contractor and the buyer becomes the customer.

## Handover and Acceptance of Project Deliverable(s)

During the project and towards its end, project deliverables will be achieved by the contractor alone or jointly with the customer. They will be either first approved and then handed over to the customer, or vice versa.

The handover and acceptance of the last deliverables commonly end the project-related obligations of the contractor. The contractor may have follow-up obligations, such as warranty and maintenance services for the deliverables, but these are generally carried out outside the boundaries of the project.

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At this point in time, the customer may still have to make one or more final payments.

## Contract Closeout

A formal closeout document protects the parties from late claims, such as additional calling for more payments or deliveries and is therefore recommended. Such claims may not be justified, but fending them off takes time, energy, and management attention and may, in the worst case, lead to costs for legal advice and representation.

Often, the minutes or report of a formal final acceptance can serve this purpose, when a statement is included that all contractual requirements have been satisfied and agreed upon by the parties.<sup>33</sup> In other situations, a separate document may serve the same purpose.

## B. The Business Development Process

There is a wealth of literature focusing on business development, mostly written from the perspective of the seller. The focus areas of this literature are on “winning the business” by developing strategic approaches, building rapport with the prospect, and writing better bids, proposals, and other forms of business offers. This literature is a valuable addition to the body of knowledge of project business management.<sup>34</sup>

However, the Project Business Foundation takes a more holistic and integrative business perspective: “Winning the business” is only one specific aspect of the process. Project business is high-risk business for all parties involved and winning the wrong business can cause massive damage to the contractor as well as to the customer. Therefore, additional questions are recommended to be asked, such as, “Is this a business we want to win?” on the side of the vendor before developing and submitting an offer.

### Questions to Ask Before Bidding

It is important to be diligent when taking the initial decisions - before effort and energy are invested in business development that may lead to detrimental outcomes. A list of questions to be asked could include:

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<sup>33</sup> Legal or contractual warranty, where this applies, are generally excluded in the statement.

<sup>34</sup> A popular example is the Shipley Proposal Guide (Newman, 2011).

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- **On the seller-side**, when making the offer/no-offer decision:
  - Can we win the business?
  - Is the business attractive for us?
  - Can we make the resources available on time to:
    - a. Develop the bid, proposal, or other form of offer and meet the deadline to submit it?
    - b. Do the project?
  - Do we consider the business worth doing?
  - Can we manage the risks from the business?
  - Do we have the financial reserves to remain liquid during the project?
  - Are deadlines reasonable and achievable?
  - To what degree do we depend on customer activity during the project? If the customer fails, what will it mean for our business?
  - What do we know about the prospect?
  - To what degree can we trust the prospect?
- **On the customer-side**, when vendor selection and contract award are done:
  - Will the contractor help us achieve the objectives of the project?
  - Will the contractor bring the predictability, agility, and competency that we need for project success?
  - Will the vendor stay in business until the end of the project?
  - Possibly: Will the vendor stay in business until the end of a warranty or guarantee period?
  - Will the vendor keep knowledge achieved during the project about our organization private?
  - Can we manage the risks from the business?

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- To what degree do we depend on contractor activity during the project? If the contractor fails, what will it mean for our business?
- What do we know about the vendor?
- To what degree can we trust the vendor?

## The Impact of Hit Rates

The offer/no-offer decision, made on the side of the vendor, is commonly the more difficult one of the decisions above. As Figure 4 (page 51) shows, it is done much earlier in the process and is commonly based on less information.

An often-overlooked factor that makes the decision difficult is the hit rate for vendors, which across industries is generally reported to be around 10% for new business.<sup>35</sup> Hit rate is the ratio of successful offers versus all offers submitted. This number seems to be independent of the industry. A hit rate of 10% means that on average, 9 out of 10 offers are wasted because they don't lead to business.

The success of an offer may depend on several factors:

- Competing offers from other vendors
- A customer re-considering Make-or-Buy and deciding to make the product or service internally, often using the know-how gained from the information collected in the vendors' offers
- A customer deciding to terminate the project partially or in full
- A customer going insolvent during the business development process.

For the contractor however, the decision to develop and submit the offer comes with immediate costs and efforts for activities, such as:

- Building knowledge about the customer and their project as basis for projections, estimates, and rough plans
- Building rapport with the procuring staff
- Developing the bid, proposal, or other type of offer

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<sup>35</sup> For incumbent business, it may be as high as 90%.

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- Preparing a presentation (e.g. for a pitch)
- Allocating internal resources for the project so they are unable to work on other business
- Possibly: Pre-negotiating with other vendors as teaming partners
- Possibly: Negotiating bonds with surety companies (see page 22)
- Often: Paying a courier to submit the offer on time to the prospective customer.

A hit rate of 10% means: This investment is lost in nine out of ten cases. The business gained from the successful tenth offer must not only pay back the costs of developing it, but also the costs of the other nine offers that failed to bring in business. The cost of failing offers can cause losses for a contractor organization, despite otherwise profitable customer projects.

Responses to this problem are commonly the use of pre-standardized templates and text blocks to simplify offer development and reduce costs and efforts, allowing for more offers to be sent out. The problem with this approach is the reduced quality of the offers generated. 'Template' offers can appear to be more oriented towards the sellers' business interests than the buyers' wants and needs and can lead to a further reduced hit rate. Another detrimental effect are projects won that turn out to not be attractive, due to not enough consideration given at the offer/no-offer decision point.

An alternative approach is to make a more deliberate offer/no-offer decision, and once the positive decision has been made, put more focus and effort on winning the business. This will probably lead to a higher hit rate and a stronger focus on the projects that financially and otherwise interesting; however, the costs of failing to win the project also go up.

## Considerations on Writing Winning Offers

There is a body of literature about creating convincing bids, proposals, and other forms of offers.

How to write winning offers often narrows down to just one simple question – what does the buyer want? A vendor often “stands out from the crowd” and moves to the winning side by being accurate in identifying the prospect's needs, wants, and expectations and by writing the offer accordingly. One major reason for this is the observation that industries become more and more complex and customers become more demanding, while vendors have a desire to standardize their offers to make them cheaper to develop, and later reduce costs and risks for delivery.

Bids, proposals, and other forms of offers are often not more than collections of boilerplate text, graphics, and tables. Another approach however is to prioritize on the prospect's mission, including problems, needs, and wishes, and communicate how the seller intends to address it to

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the benefit of the customer. Here are some points to consider during bid, proposal, or offer development:

- Understand the prospect's specific business needs and wishes.
- Communicate that and propose solutions based on the potential customer's interest.
- Every decision to buy brings risks linked with the dependency on the vendor. Demonstrate that you understand these risks and that the prospect will be in good hands.
- A specific approach that will help meet the prospect's specific requirements, reduce risks, and will produce the intended results will add points. Boilerplate text and one-size-fits-all templates are unlikely to achieve that.
- Give a compelling reason for the prospect to choose your recommendation over any other proposals. This is your value proposition that resonates with their wishes and needs and could solve their problems.
- Demonstrate your ability to deliver on time and on budget, but also to increase the prospect's business agility and adaptiveness.
- Do not include excessive documentation, instead focus on the areas the potential customer cares about.
- Text, data, and images should be carefully chosen to communicate the unique value proposition and provide evidence that you can deliver what is desired and needed.

## Considerations on Performing the Offer Presentation

There is a body of literature about presenting offers to customers in a professional manner. The following are some core aspects for consideration in project business:

- Put the buyer at ease: Ensure timing, location, and general setup that takes stress from the audience so that they will keep the presentation in good memory. Serving cookies also helps, even if you are not the host.
- Both matter – preparation and the ability to improvise when surprises occur.
- Rehearse the presentation before you show it.
- Be prepared for difficult questions, including the popular "Can you tell us the reason, why we should select you?"

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- Be prepared for technical problems. Have reserves in place for the presentation PC, adapters, and other equipment used, and for other necessities for a successful presentation.
- If you include practical demonstrations to the presentation, ensure they will work under the conditions in the presentation.
- Use language that the customer understands. This may be a different language to what your engineers, scientists, and other experts normally use and should exclude boastful superlatives and any form of “gobbledygook”.

## Additional Considerations about Offers

Winning the business is the goal of contractor-side business development, but not all businesses are worth to be won. Better keep the competition busy with poor project business and focus on the good one.

During business development, one should remember that the offer to take over project work has three competitors driving down hit rates:

- Competing offers
- The decision of the customer to not do the project at all
- The decision of the customer to use the lessons learned from the offers received and do the project with internal staff

## Vendor/Offer Selection Methods

Small procurement activities are commonly done less formally. The competitive aspects stand behind the wish to make procurement simple and swift and keep costs low.

Larger procurement items are doing with a higher degree of formality and are more competitively organized<sup>36</sup>.

Methods that are often used include:

- **Reverse auction:** In an open bidding session that can be done physically in one room (see Figure 24) or virtually using e-procurement portals or conferencing solutions. In contrast to regular auctions, where the highest bid wins the business, in reverse auctions, the lowest

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<sup>36</sup> In public procurement, this may be demanded by laws, which describe the processes to be applied in detail.

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bidder or, when the customer has fixed the price in advance the bidder offering most in service or products for the budget gets accepted.

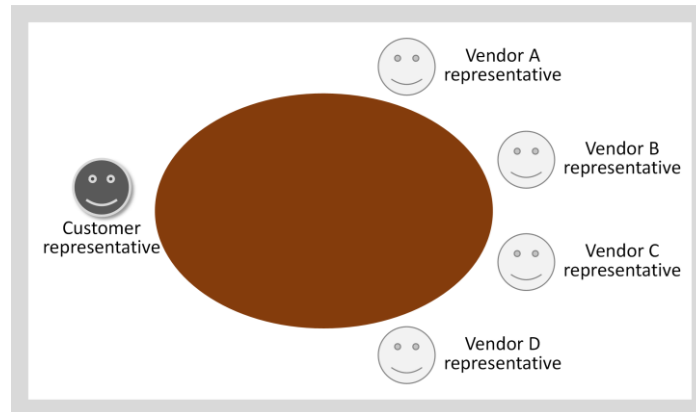


Figure 24: A reverse auction with a customer representative and four vendors openly bidding for the project work.

- **Weighting system:** As shown in the example in Figure 25, a weighting system uses weighted criteria to identify the most attractive vendor (the one with the highest total score).

### Weighting System

Criteria	Weight	Vendor A		Vendor B		Vendor C	
	(1-10)	Rating*	Scores**	Rating*	Scores**	Rating*	Scores**
<b>Vendor</b>							
Technical capability	9	6	54	4	36	9	81
Success record	7	10	90	3	27	4	36
Financial status	8	7	63	5	45	9	81
References	3	2	18	6	54	0	0
<b>Total vendor score</b>			<b>225</b>		<b>162</b>		<b>198</b>
<b>Offer</b>							
Managerial approach	5	6	54	5	45	9	81
Technical approach	9	2	18	8	72	9	81
Longterm TCO***	10	3	27	8	72	6	54
<b>Total offer score</b>			<b>99</b>		<b>189</b>		<b>216</b>
<b>Total score</b>			<b>324</b>		<b>351</b>		<b>414</b>

\*: Scale 0 - 10

\*\*.: Score = Weight \* Rating

\*\*\*.: Total Cost of Ownership

Figure 25: A weighting system for vendor/offer selection with two sections, the first looking at the vendor, who submitted the offer, and a second directed at the offer (example).

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- **Screening system:** Shown in Figure 26. Criteria are described as yes/no questions. Each “yes” answer is checked. The number of the checks is the score. Exclusion of a vendor may be due to not meeting a critical “must” criterion, or because another vendor has a better score.

Screening System			
Criteria	Vendor A	Vendor B	Vendor C
<b>Vendor</b>			
Evident technical capability	X		X
Shown success record	X	X	X
Sound financial status	X	X	X
References presented	X	X	X
Total vendor score	4	3	3
<b>Offer</b>			
Convincing managerial approach	X		X
Convincing technical approach	!	X	X
Attractive longterm TCO***	X	X	X
Total offer score	--	2	3
<b>Total score</b>	<b>--</b>	<b>5</b>	<b>6</b>

Figure 26: A screening system - Vendor C in the example is the most attractive vendor, as it meets all “must” criteria and has the highest score.

## C. Documents and Communications When Carrying Out the Work

Contract performance – doing the work of the contract – begins with the conclusion of the contract. At this point, the buyer becomes the customer, and the seller or vendor becomes the contractor. Contract performance ends with the contract’s formal close-out.

Below, we discuss an overview of the key documents involved in the project contract performance process.

### Project Contract

In the traditional understanding of project management, the conclusion of the contract can happen at any time during a project on the customer’s side. On the contractor’s side, the moment of conclusion is often considered the starting point of the project.<sup>37</sup>

<sup>37</sup> E.g., A Guide to the Project Management Body of Knowledge (PMBOK® Guide), 6<sup>th</sup> Edition, has “Agreements”—including contracts—as inputs to process “4.1 Develop Project Charter”, an initiating process and the first process in the book (PMI, 2017, S. 75).

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Project managers in project business have a responsibility to make sure that obligations of project partners are met. This is true for both sides. Obligations on the contractor side generally include timely services and deliveries. On the customer side, they consist of timely payments, but also provisions (deliveries to the contractor) and enabling services.

Figure 27 shows some elements that should be considered when a project contract is developed. Further details were discussed on pages 23 to 37.



Figure 27: Aspects of project contracts that commonly need to be considered.<sup>38</sup>

## Project Charter

The project charter serves as the foundation document of the project and formalizes the authorization of the project manager. Figure 28 shows examples of considerations that may go into the project charter.

<sup>38</sup> Depending on the applicable law, more factors may need to be taken into consideration.

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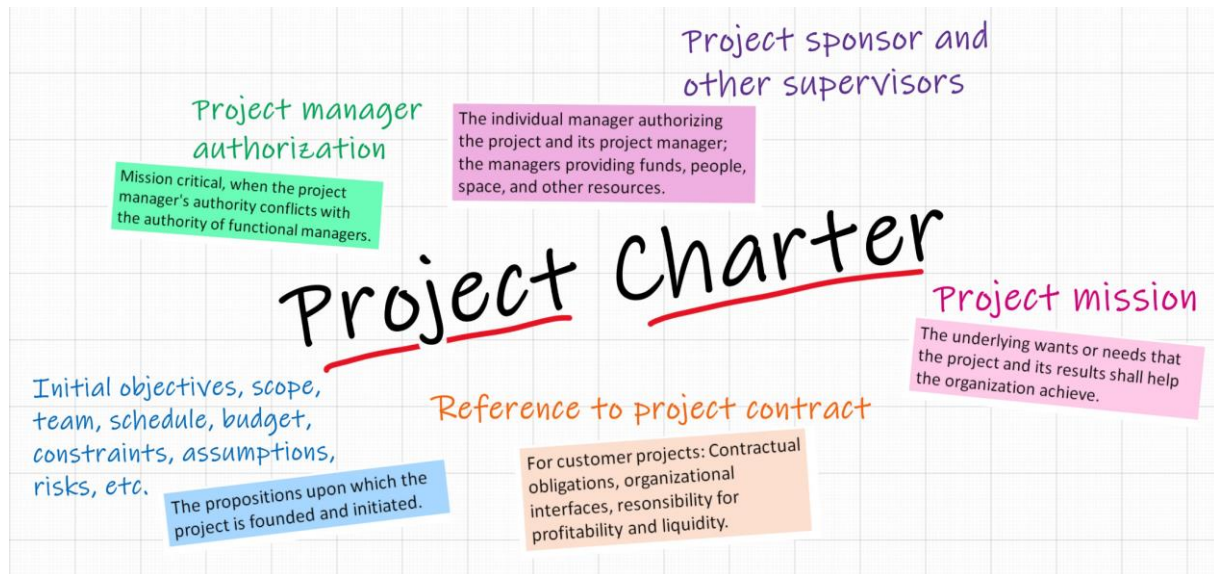


Figure 28: Aspects of project charters that commonly need to be taken into consideration.

An essential aspect of a project charter is the mutual commitment between the organization that does the project, represented by the project sponsor, and the project manager. This commitment is generally a critical success factor for the project, and depending on the size and culture of the organization, the written form is often also a critical factor.

The relationship between a project customer and the contractor often means that there are projects defined on both sides, such as an internal project on customer side, and a customer project on contractor side. The project may consist of a multitude of such contractual interfaces.

Each of the two or more organizations involved in the project may then have its own project manager, a project sponsor, and a project charter authorizing the project manager and ensuring mutual commitment. Figure 29 shows how the project charter is different from the project contract and how each organization involved with the project may have its own project charter.

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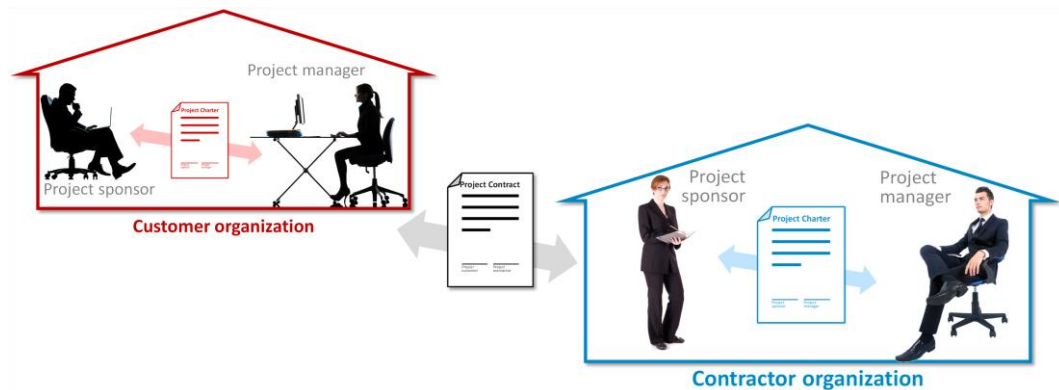


Figure 29: The distinction between project contract—a legal document between organizations—and the project charter, an internal document.

One should note that a high percentage of organizations do not use project charters and therefore have no formalized mutual commitments between project sponsors and project managers. In small organizations, where there is familiarity among the people involved, this may not be a problem.

Larger organizations, however, need a minimum level of formal structure to manage the use of organizational resources, particular in the light of the temporary nature of projects. Working without the formalized agreements of a project charter can bring enormous distress to the people involved with the project and contribute to project failure.

## Management Plans

Management plans detail statements made in the project contract and in the various project charters, where they exist. They are high-level plans that describe management functions. In cross-corporate project business, these functions also extend over two or more organizations, which do not allow for linear chains of command or, where this is preferred, simple self-organized teams.

Management plans are agreement documents between the organizations involved. They can have a binding and in essence contractual character or be regarded more as a gentlemen's agreement—diplomatic documents that are not subject to remedy in court, whose adherence however is in the interest of all parties involved and help make the project successful.

Figure 30 shows typical considerations when developing these plans.

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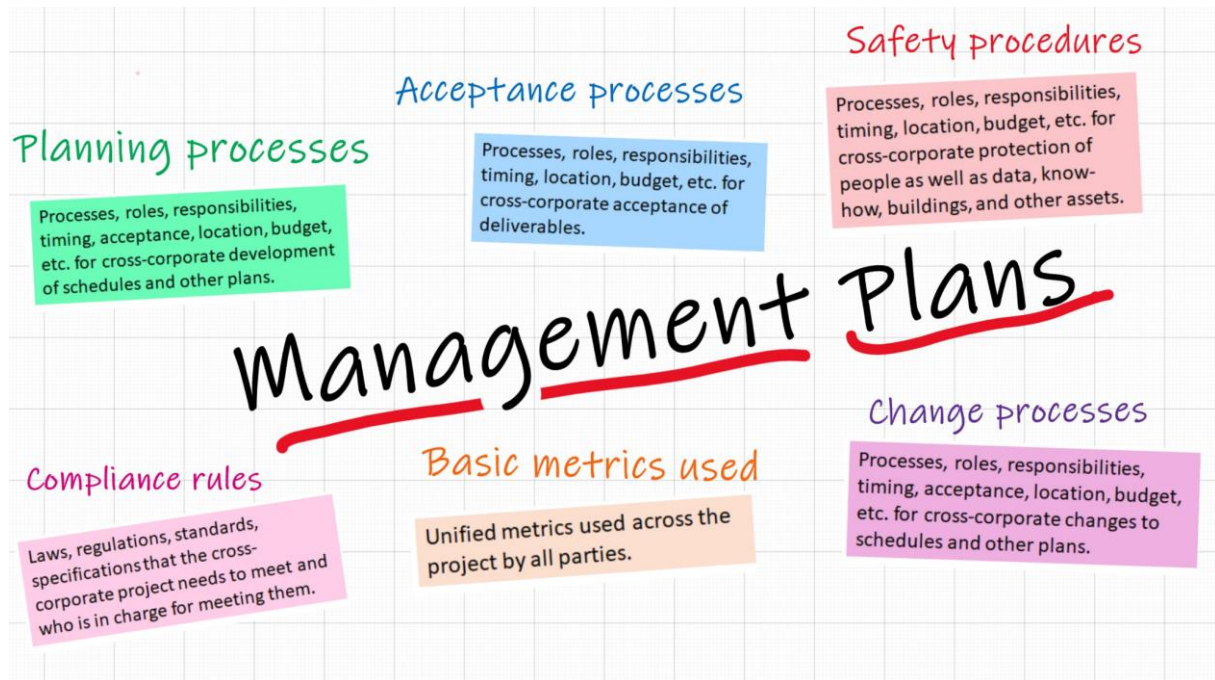


Figure 30: Management plans are high-level plans with a focus on management responsibilities across the parties and the project supply network.

## Mission Statement

Successful projects are more than the sum of their parts. The mission is to achieve more than the set of required deliverables: the goal is the value that the project intends to achieve. It is the future goal behind the narrow objectives, the big value behind the distinct benefits.

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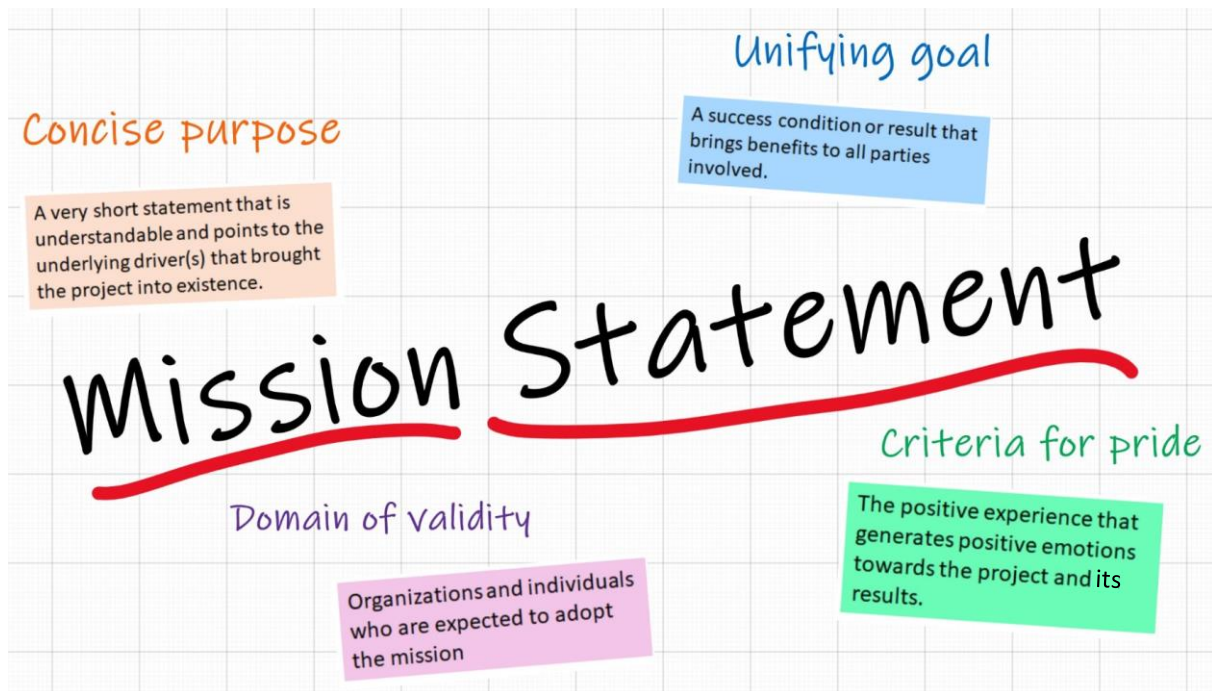


Figure 31: Considerations for a mission statement.

Formulating a joint mission is a difficult endeavor: The challenge is to have a very brief statement that unifies the different people and organizations involved. It should apply to all parties, be easy to understand, but at the same time be strong enough to surmount the divisive forces in the project, such as the differences of business interests.

These differences can be big. Without identifying and addressing them, a mission statement will be ineffective.

Many of the differences are specific to the project and the organizations and people involved. Others are common to project business in general and can be often identified as **divisive forces**, such as:

- **Money:** Payments made are costs for the customer, income for the contractor. Customers prefer to limit payments and do them late, contractors need them in a timely manner to survive.
- **Benefit generation:** For an end customer, despite the outsourcing, a project is foremost an internal project.

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Figure 32 shows how benefits are expected to be realized. In internal projects, the majority or all of them lie in the future. For a contractor in a customer project, benefit generation begins with the first payment from the customer and ends with the last.

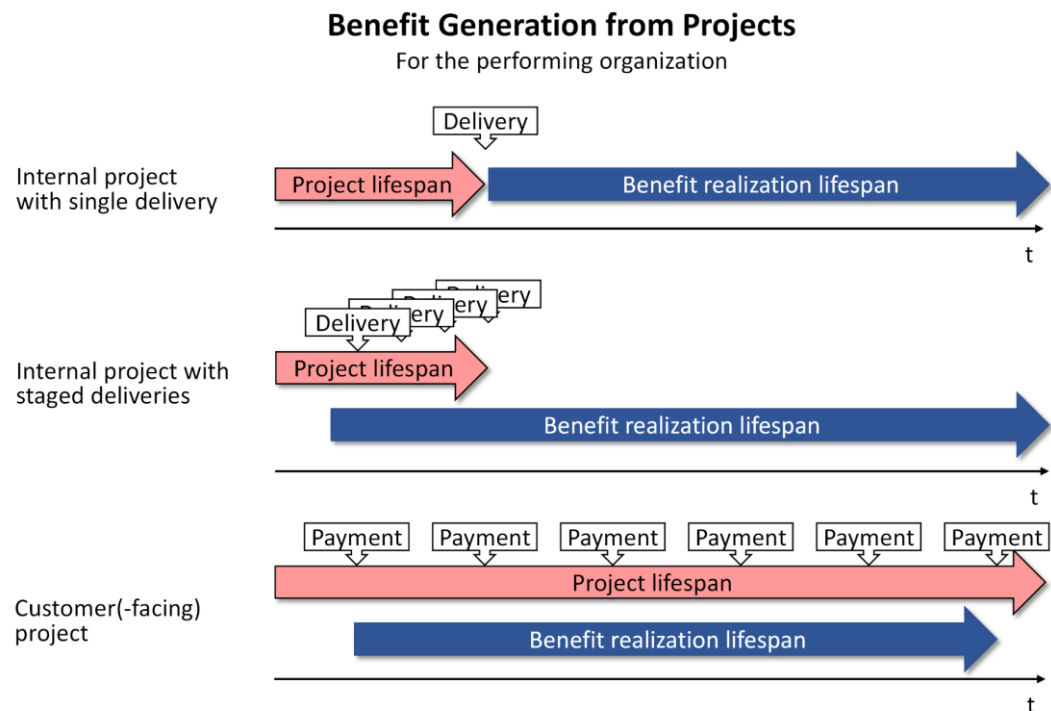


Figure 32: Benefit generation from a project is generally different for customer projects and internal projects. There are alternative types of benefit realization, such as freebie projects, discussed on page 75.

The end customer's perspective is that expenses occur during the course of the project, however the benefits are expected to be realized mostly or in full in the future.

The contractor realizes the benefits during the project, and after the last payment of the customer, the flow of tangible project benefits will be ended.

- **Risks:** Human nature – and common business practice – is to lay the burden of risks on another party. In projects delivered under contract, this includes project risks, but also financial, legal, and commercial risks. Different risk exposure for each party can be a strong divisive force.
- **Control:** The customer in the project may have initiated the project to delegate control to a contractor.

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A common challenge in many modern business environments comes from managers, who are overwhelmed by the need to dedicate meticulous care to an unprecedented variety of topics that are difficult to prioritize. Modern managers must pay attention concurrently to many things that have not existed in the past, among them laws and regulations to protect shareholders, employees, the environment, data and privacy of people, and much more. They must be careful about how they talk about gender, ethnicity etc. and an unconsidered statement or a tone-deaf joke in the wrong moment that would have been tolerated in the past can end a career today. These multiple requirements in a complex and ever-changing world collide with the scarcest of assets in many organizations: management attention. A common reason for a customer-side manager to hand the project to contractor is that on the contractor-side, there is another manager to take control and provide that management attention when they cannot.

Often, however, there is a struggle for control. Control can be aimed at functions and features of a product, quality of a service, use of people, machinery, or expertise, flow of money, and many other aspects of the project. Struggle for control often comes with distrust towards the other party which can slow down the project.

There are also **unifying forces**, on which a mission statement should focus, such as:

- **Long-term business:** Future business for the vendors involved as incumbent suppliers of the customer, and also vice-versa, having a supplier base as a foundation for future innovation and change.
- **Intangible benefits:** For example, having a reference customer and a success story that can be advertised to increase the reputation and win new business.
- **Tangible after-project benefits:** Service fees, revenues from spare parts, and more.
- **Pride on the results:** The human desire to have positive feelings, particularly when the project was difficult and challenging and brought about results that matter.

The objective of the mission statement and other measures is to turn contract parties into project parties that put completing over competing and follow a “Mission Success First” paradigm across the people and organizations involved.

## Communications and Documentation

Communicating in general and reporting in particular get complicated in cross-corporate projects. Poor communications can damage a project, but so can misunderstandings. Communications are based on a foundation of established knowledge, but what can be considered ‘established knowledge’ may be different in different organizations.

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With the majority of projects being performed against one or more deadlines, the individuals involved generally do not have much time to find a common 'modus operandi'. This comes with the risk of misunderstandings.

For example, the statement 'not bad' in one organization may be meant as a kind of appreciation, while in another organization individuals may sense that phrase as disparaging. According to Schulz von Thun, communication takes place on 4 layers<sup>39</sup>:

- **Matter:** Communicating things as they are.
- **Self-revealing:** Communicating own opinions and emotions.
- **Relationship:** Communicating attitudes towards and affiliation with the hearer.
- **Appeal:** Asking the hearer for certain action or inaction.

An example: The statement 'not bad' with the meaning of "no errors, meeting specifications and expectations" (= matter) may be misinterpreted by a hearer in the other organization as a signal of dissatisfaction (= self-revealing) and loss of trust (= relationship) and as a demand to do more (= appeal). This is shown in Figure 33.

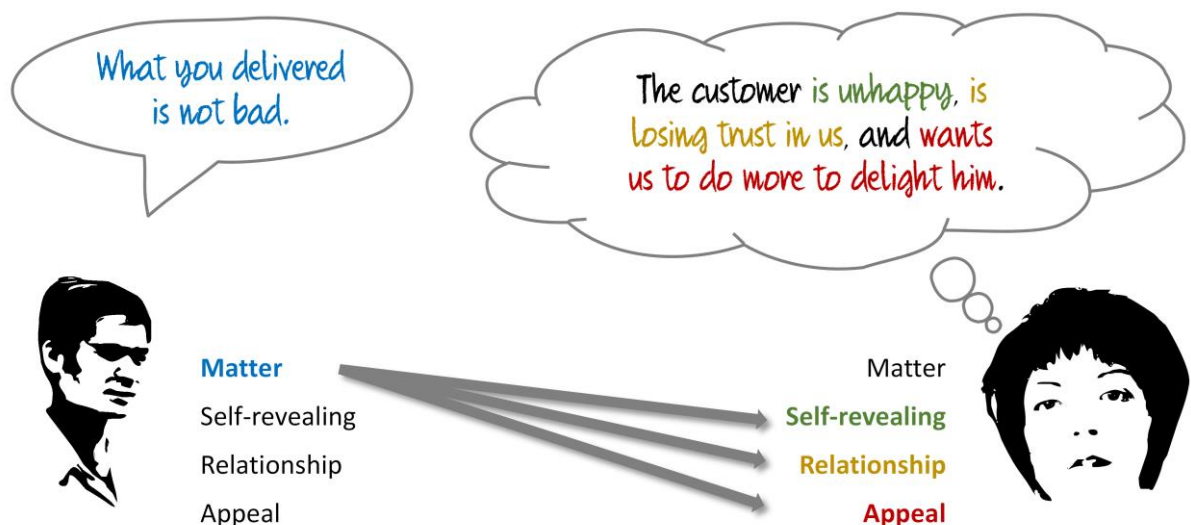


Figure 33: Misunderstandings across the Schulz v. Thun layers of communications can occur, when people are not sufficiently familiar with each other.

<sup>39</sup> (Schulz v. Thun, 2006)

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Another aspect is the worst case that is always lurking in the background of project business management—a lawsuit.

Every statement made during the project, particularly every written statement, could be used by the other party as evidence. In countries with a pre-trial 'discovery phase' early in litigation, one side (or the judge) may request the other side to produce relevant documents, and the other side will be well-advised to collect and submit them.

A lawyer or corporate counsel may therefore recommend project business teams to keep cross-corporate communications at a minimum. This is in conflict with the generally accepted position understood by experienced project managers: A project manager sees the value of intensive communications and documentation to avoid project failure due to misunderstandings and confusion, but also to control the narrative in the project, avoid rumors, and to align all players behind a joint mission.

## Handover or Delivery, Acceptance of Deliverables

Handovers, deliveries, and acceptance trials and reviews are commonly seen as activities that should ideally take place in the closing moments of the project, or at least as major milestones on the way to these moments. They are often linked with deadlines that can be in turn linked with penalties (in Civil Law jurisdictions) or liquidated damages (in Common Law).

They are also commonly moments that trigger final payments to contractors.

Many changes may have occurred during the life cycle of the project, and both the project and its deliverables may look different to what was originally planned. It is likely that the understanding of project costs has changed as well. A common reason for this is that the rose-tainted skies that were expected at the beginning of the project got replaced by reality, in which there were sunny days, but also thunderstorms and hail.

## D. Close-out

When the project work has been finished, the project business can be closed out.

Close-out may also occur in an unfinished project that has been terminated. In that situation, the goal of the business has not been met, but the business ceases to exist.

If the business was done based on a written contract, a strong recommendation is to have a formal written approach for this moment too. A document in which both parties agree that—apart from possible warranty and product liability—all requirements of the contract have been

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met and that no party can raise claims against the other any longer. This allows the parties to redirect their resources to new tasks without the fear of disruption from late claims.

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## IV. Other Forms of Project Business

There are types of project business that follow a different model to that discussed in Section III. They are different because the timing of benefit generation is different, or the benefits they create are special. In this section we discuss two of those: freebie projects and not-for-profit projects.

### A. Freebie Projects

Razor-and-blade projects or freebie projects are done by the contractor for the customer without monetary charges. Examples are development projects in manufacturing for new products or services that the customer will later buy in numbers. The project is done without invoicing. The income will be generated when the products or services are ordered and invoiced. Software projects are another example that connect a service provider's data processing system tightly with those of the customer, giving the customer a well-integrated and very effective service, but at the same time, binding the customer to the contractor for a long time.

In both examples, the benefit generation for the contractor lies in the future, as is shown in Figure 34.

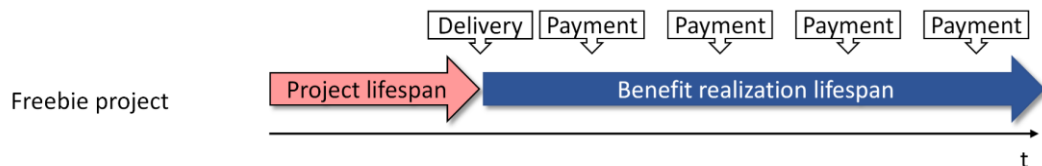


Figure 34: The benefit generation lifespan of freebie projects looks more like that of an internal project, as benefits occur in the future.

This type of work differs from regular customer projects. It can help diversify business interests for the vendor because of the strong bonds between customer and contractor that the model creates. The contractor has the intention of making the customer highly dependent, which is the essential business justification to do the project. The customer may wish to remain more independent, but then, the freebie project will no longer be on offer.

Freebie projects are high risk business for the contractor. There is the expectation that post-project business will finance the project investment, but this may not always happen, for example, when the following business does not meet expectations, or when the customer finds an unexpected way to become independent from the contractor.

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## B. Not-for-Profit Project Business

Project business also takes place in the non-profit world. While many not-for-profit organizations employ and pay for commercial contractors, in some cases the contractor may also be a charitable organization that works pro-bono for the customer, but still gets its own costs reimbursed.

As an example, big global organizations often act as coordination hubs and providers of funds while fulfilling the role of customers. Local organizations as acting as their contractors do the actual field work.

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## V. Project Business Glossary

Term, Acronym	Meaning	Notes
Acceptance Testing	Here: Formal testing conducted to provide evidence that a product, service, or other kind of result satisfies contractually agreed acceptance criteria	Successful acceptance testing leads to validation or sign off by the customer.
Agile methods	A family of frameworks and methods to improve -> Agility in projects	Generally developed for internal projects. Nevertheless, they are often adapted and used for customer projects.
Agility	The ability to respond quickly to changing requirements, wishes, and needs	Contrasts with -> Predictiveness.
Alternative dispute resolution (ADR)	Conciliation, mediation, expert determination, or arbitration (binding, non-binding) to resolve conflicts between contract parties unable to find a solution in negotiations with the purpose of avoiding a lawsuit	Uses a third party to assist resolving the conflict or decide upon it.
Assets	Things of value, such as money, buildings, reputation, skilled and unskilled people, that may be used in projects or not	Project business management means to tap into the assets of other organizations and turn them into project resources.

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Audit	-> Review of documentation	Preaudits precede the reviewed activities, postaudits or revisions follow them. Contrasts with -> inspection.
Backlog	Here A list of work items (user stories) to be prioritized and completed based on the ranking done by a product owner reflecting the needs of the customer	In project business: Reflecting the various wants and needs of the customer relating to the project's results.
Benefit engineering	Approach to resolve a project conflict, dispute, or crisis by adding benefits for the other party	Contrasts with -> Cost engineering.
Bid	Here: Response to an -> Invitation for bid (IfB)	Often used confusingly.
Bid & proposal management	The discipline of developing offers, such as -> bids, -> proposals, -> pitches, etc.	Commonly done during -> Business development.
Bid bond	Insurance or deposit to compensate the buyer in case the seller withdraws the offer before the contract is concluded	Also see -> Performance bond, -> Warranty bond.
Bidders conference	A customer-sponsored event with vendors from different disciplines and industries attending to present the project and respond to questions by the attendees	Often used in government projects to make the project's vendor selection protest-proof.

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Bidding documents	Documents used for any kind of business development	May be documents provided by the customer or by the contractor.
Brain storming	A technique used to generate divergent ideas on a particular subject	Customer and contractor can jointly be involved to generate ideas that will add value for both.
Breach of contract	Violation of contract terms by at least one party	Depending on the jurisdiction, a breach may be immaterial, material, or repudiatory.
Build-Operate-Transfer (BOT)	A contractor designs and builds a product and operates it for an agreed-upon period, then hands it over to the final owner	Commonly used -> Project finance scheme in public infrastructure projects. The Build phase is an investment by the contractor, the Operate phase must bring the payback, which is ended with Transfer.
Burn-down chart	A chart showing the rate (story points/day) at which user stories or tasks are being completed or burned down	It is a communication tool a contractor can use to report project progress to the customer.
Burn-up chart	A chart showing the rate (story points/day) at which business value is growing	Visualizes the impact and value of changes to the scope.

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Business acumen	Here: The ability to make and implement profitable project business decisions in a given situation and environment	An essential skill in project business. Compare with -> Business spirit.
Business agility	The quick realization of business value in an environment with low predictability	In project business: Builds on mutual understanding and the speed and decisiveness of the players. Achieving business agility is often a driving force of -> Project business management.
Business case	Here: A document discussing the benefits, costs, risks, and other aspects of a project, developed to support and justify decision making during project selection	Mandatory projects may not have a business case but follow a regulatory requirement. For -> Contractors in -> Customer projects, the business justification is mostly income generation.
Business development	The phase in -> project business management, when entering a contract is intended but before the contract has been agreed upon	
Business spirit	Here: The preparation to consider, make, and implement profitable project business decisions in a given situation environment	An essential trait in project business. Compare with -> Business acumen.
Business value	Here: tangible or intangible return the customer or contractor anticipates to realize.	Contractual business value is what the Customer is willing to pay for.

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Buyer	Here: Any person or organization in project business that buys project work and/or results from outside. After contract closure synonym with -> Customer	Contrasts with -> seller.
Call-off contract	A contract for works or services, which is entered into ("called off") pursuant to a -> Framework agreement	May contain specific terms for the works and services required, but in general the applicable terms will be those of the framework (i.e. pre-agreed).
Capture strategy	A plan describing steps to win a business during business development	Well developed and implemented capture strategies are often the key to successful business development on contractor side. -> Delivery strategy.
Cash flow	Income minus cost in the customer project over time	It is an aspect of the often delicate balance between money coming in and flowing out.
Cash-flow analysis	Assessment and forecasts of -> Cash flow	
Certification	A formal validation of a person, organization, product, or a process by a third party against specified criteria	A project contract may include clauses that require the use of certified people or subcontractors by the contractor.

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Change control	Another term for -> Change request management	
Change management	The management function to apply changes to an entire organization	Often confused with -> Change request management and -> Change control.
Change request	Request by either contract party to the other(s) to change scope, schedule, and other elements of the project plan	Parties should have a process in place to manage change requests across the corporate borders.
Change request management	The management function to manage change requests	Also called Change control.
Civil law	Legal system based on strict separation of powers	Characterized by the existence of a Civil code. Contrasts with -> Common law.
Claim	Here: Demands in money, rework, and other items of worth, mostly based on construed disruptions, changes, or other alterations to the contractually agreed project work	
Claim manager	Role on -> contractor or -> customer side tasked with identifying situations that justify -> claims against the other party	A "war of claims" between contract parties can be damaging to a -> cross-corporate project.
Client	Synonym for -> Customer	

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Code analysis	The process of validating that software code conforms to guidelines and standards.	May be contractually required as an integrity check on how well the contractor is working according to agreed upon design and coding rules.
Code of conduct	Collection of rules that explains acceptable and unacceptable behavior, often with a mechanism to make it enforceable	
Collocated team	-> Team with members in physical proximity	Contrasts with -> Virtual team.
Common law	Legal system based on the English mediaeval system of jurisprudence	Also called Anglo-American law. Contrasts with -> Civil law.
"Completing over competing"	Paradigm to develop and jointly follow a -> "Mission Success First" motto	Implements the understanding that project success in a cross-corporate project is often damaged by competitive behavior of the parties involved.
Concurrent delay	Here: Discord among contract parties	Causes may be differing business interests and corporate cultures, incompatible egos, differing values, and many more.

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Conflict	Here: Discord among contract parties	Causes may be differing business interests and corporate cultures, incompatible egos, differing values, and many more.
Consideration	Here: Disadvantages, obligations entered into by contract parties when concluding the contract	In Common law: All parties must have consideration to consider a contract valid.
Consortium	Here: A temporary joint venture between -> contractors to do the project jointly. The shareholders (= members, venturers) of the consortium are commonly also its sub-contractor.	-> Teaming agreement. Certain consortia include the customer as a shareholder. See also -> Project alliance.
Constructive acceptance	A non-formal, implicit acceptance by complaint-free usage of contractual deliverables over a period of time	Often leads to -> claims and conflicts.
Constructive change	A change construed from hindsight into project work	Often leads to -> claims and conflicts.
Contract	Agreement between two or more players (organizations, individuals) that is mutually binding, valid, and enforceable at court <sup>[1]</sup>	
Contract change	A requested and approved change that leads to an amendment or addendum to the contract	

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Contracting	Here: The process of developing, concluding, performing, maintaining, changing, validating, and finally closing down of a contract in project business management	Includes legal and commercial aspects.
Contract scope	The work, services, products, and other obligations by the parties that are part of the contract	May include obligations of the customer, such as -> provisions and -> enabling services.
Contract statement of work (CSOW)	A -> Statement of work (SOW) that has become part of the project contract	Often: The procurement SOW made binding by appending it to the contract.
Contractual work breakdown Structure (CWBS)	A Work breakdown structure (WBS) that has become part of the project contract	May refer to the entire WBS or to parts of it.
Corruption	Here: Application of undue influence on one or more individuals or organizations to gain an unjustified benefit	Includes bribery and black-mailing.
Cost(s)	Amount of money that it costs an organization to do a project, e.g. a contractor to do the project for the customer	Contrasts with -> price.
Cost engineering	Approach to resolve a project problem, in most cases a cost overrun, by reducing functions, features, or other costly elements	Contrasts with -> Benefit engineering.

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Cost reimbursable contract	A contract type with a variable price depending on the costs for availability of resources, work done, and goods delivered that have been outlaid by the contractor and are reimbursed by the customer	Reimbursement may include various forms of fees paid on top of the reimbursed outlays.
Cross-corporate project	A -> Project performed by a -> Cross-corporate team.	Contrasts with -> Cross-functional project.
Cross-corporate team	A -> Team with members employed by different organizations	Contrasts with -> Cross-functional team.
Cross-functional project	A -> Project performed by a -> Cross-functional team.	Contrasts with -> Cross-corporate project.
Cross-functional team	A -> Team with members employed by different units (departments, divisions, etc.) inside the same organization	Contrasts with -> Cross-corporate team.
Customer	Synonym for -> client. Chiefly: Person or organization buying project work and/or results under contract against payment	This definition excludes "internal customers" or "internal clients".
Customer-facing project	-> Customer project	
Customer project	Project done by one or more contractors for one or more paying customers	See also -> Cross-corporate project. Contrasts with -> Internal project.

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Deadline	A due date (latest date) for a completion or delivery. Often combined with liquidated damages or penalties	Often confused with -> Milestone and -> Phase gate.
Daily Stand-up	Here: A daily stand-up meeting of a -> Cross-corporate team where status is exchanged, progress is reported, and impediments are discussed and removed	Typical duration: 15 minutes.
Dashboard	Here: A type of information radiator that provides customers and contractors with graphs and reports	Indicates progress and trends and helps identify problems early.
Delivery strategy	A plan describing steps to ensure customer happiness, profitability of, and cash flow from the project on contractor side	Well developed and implemented delivery strategies are often the key to doing the business successfully. -> Capture strategy.
Design-Bid-Build (DBB)	A project, where a contractor develops the design, but the subsequent implementation is done by another one	Common in construction and infrastructure projects. Contrasts with -> Design-Build (DB) and -> Design-Build-Operate (DBO).
Design-Build (DB)	A project, where a contractor develops the design and also does the implementation	Common in construction and infrastructure projects. Contrasts with -> Design-Bid-Build (DBB) and -> Design-Build-Operate (DBO).

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Design-Build-Operate (DBO)	A project, where a contractor develops the design, does the implementation, and operates the results.	Common in construction and infrastructure projects. Contrasts with -> Design-Build (DB) and -> Design-Bid-Build (DBB).
Disruption notice	Message mostly by a contractor to a customer that work could not be performed due to disruptions outside the influence or responsibility of the contractor	Can lead to -> Claims and -> Concurrent delay.
Done	The criteria for accepting a product, feature, story, or other result as finished	In project business, "done-ness" criteria are mostly set by the customer to be satisfied by the contractor.
Earned value method	Method for standardizing progress measurement against baseline schedule and costs	Sometimes used in -> Project business for incentive models.
Enabling services	Services provided by the customer to the contractor to enable the latter to do its work	Compare with -> Provisions.
Effectiveness	Here: The ability to deliver what has been agreed upon and is needed and helpful	An example: In a fixed price project, effectiveness is what the contractor owes the customer. Contrasts with ->Efficacy and -> Efficiency.

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Efficacy	Here: Efficiency and effectiveness under controlled conditions	An example: The performance of a product in a lab environment. Contrasts with -> Effectiveness and -> Efficiency.
Efficiency	Efficacy and effectiveness weighted against costs and efforts occurring to develop or operate it	An example: In a fixed price project, efficiency is what the contractor-side project manager owes his/her employer. Contrasts with -> Effectiveness and -> Efficacy.
E-procurement	Electronic procurement using online media	Often by utilization of portal systems.
Estimation	Process of forecasting of costs, time, work, and other quantitative items	Based on analogies, mostly from past projects.
Expert judgment	Utilizing -> Subject Matter Experts for decision making	May also utilize -> Focus groups.
FIDIC	Fédération Internationale Des Ingénieurs-Conseils, International federation of consulting engineers	FIDIC offers a range of standard form contracts for project business in engineering.
Field change	A change done during implementation, often in response to an emergency or the identified need for technical safeguards.	Commonly circumvents change request processes.

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Fixed price contract	A contract type with a predefined price for the customer, in which the contractor assumes most or all cost risks	May include some variable elements, such as price adjustments (e.g. for raw material costs or exchange rates), incentives, penalties, and award fees.
Focus group	Here: A cross-functional, cross-disciplinary, or cross-corporate group of -> Subject matter experts.	
Forecasts	Here: Predictions of future cash-flows, work, milestones, etc.	May be long-term or short-term.
Framework agreement	Here: Long term agreement, which includes prices, terms, and other contract clauses that apply when the goods and services are ordered.	Often used in combination with -> Purchase orders (POs) or -> Call-off contracts.
Freebie project	Customer project that is done by the contractor free of charge	Binds the customer for some time to use products or services of the contractor and pays back over time when these are invoiced.
Freelancer	Self-employed one-person contractor	

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Gemba	The place where value-added work is being done: a work cell, the developer team room, the help desk, the customer's office.	In project business: Customers and contractors meet at gembas to observe, evaluate, coach, and engage with the team. Contrasts with formal status meetings.
General contractor	-> Prime contractor	
Gentlemen's agreement	Private agreement that in case of a conflict is not intended to be remedied at court <sup>[2]</sup>	
Good faith	Principle that each contract party assumes extended responsibility for the other parties' success from the contract	In civil law: Chiefly a legal requirement; in Common law: Possibly a contractual requirement.
Health check	A review by a qualified auditor, where the auditee is the contractor, and the audit client is the customer to ensure project management is sufficiently developed to meet the customer's requirements	Another word is Project management audit.
Hit rate	Percentage of -> offers that win the customer's acceptance and become business	
Incentives	Here: Models used to motivate contractors to meet customer's objectives	

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Information	<ol style="list-style-type: none"> <li>1. Content of communications</li> <li>2. Response to a -&gt; Request for information (Rfi)</li> <li>3. Processed and understood data</li> </ol>	
Information radiator	A visual control that displays information in a place where customers, contractors, and other stakeholders can see it	To be effective, the information must be current with sufficient detail to explain status.
Inspection	-> Review of work results	Partially or full finished work results can be inspected. Contrasts with -> Audit.
Interface	The point at which physical, system or information boundaries occur.	Care should be taken to scope / describe this carefully in the contract specification to avoid costly misunderstandings.
Internal project	A project done by an organization for its own purposes	See also -> Cross-functional project. Contrasts with -> Customer project.
International Project Management Association (IPMA®)	Umbrella association constituted by a group of National project management associations	Focusses on internal projects. See also -> PMI.

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Invitation for bid (IfB)	Requesting offers from sellers for a price-driven competition (-> bid), based on clear specifications of project work and results	Often confused with -> Invitation to pitch (ItP), -> Invitation to tender (ItT), -> Request for proposal (RfP), -> Request for quotation (RfQ).
Invitation to bargain	-> Invitation to treat	
Invitation to pitch (ItP)	Requesting offers from sellers for a solution-driven competition (-> pitch), based on a project price that has been fixed by the buyer before the competition started ("budget")	Often confused with -> Invitation for bid (IfB), -> Invitation to tender (ItT), -> Request for proposal (RfP), -> Request for quotation (RfQ).
Invitation to tender (ItT)	Requesting offers from sellers for a mostly price-driven competition (-> tender) with unclear specification	Often confused with -> Invitation for bid (IfB), -> Invitation to pitch (ItP), -> Request for proposal (RfP), -> Request for quotation (RfQ).
Invitation to treat (ItT)	Non-binding -> offer	Also called Invitation to bargain. Commercially considered an offer but not legally, acceptance of the non-binding offer does not constitute a contract.

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Iteration	A period during which the team is focused on producing a demonstrable interim result	Contractual terms may state that the result will be shown to the customer, potentially be delivered, implemented, and paid. See -> "sprint".
Iteration planning	The activity to prioritize and identify the stories and concrete tasks for the next -> iteration	Contract terms may state that the customer prioritizes the tasks based on -> business value.
Kaizen	Incremental, gradual, and unending improvement by doing little things better and achieving increasingly higher standards	Also called "Continuous improvement". Kaizen in a project may be contractually mandated.
Kick-off meeting	Meeting to present a mostly mature project plan to supervisors and other stakeholders to gain final approval	A contractor may have a Kick-off meeting with the customer and a second, internal one. Often confused with -> On-boarding meeting.
Lead time	Here: Time that a booking, a PO, a dispatch, etc. to ensure timely availability of an -> asset or a -> resource	Lead time calculation helps schedule the latest moment when an activity needs to be performed.
Lean	The approach that produces value quickly through a focus on reducing delays and eliminating waste	Application of certain lean methods may be contractually mandated in a project.

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Letter contract	Fully negotiated but not yet signed contract, which is used as if it were signed to accelerate implementation	See also -> Letter of intent.
Letter of intent (LOI)	Legal document to drive a running negotiation forward by placing first enforceable obligations on the parties	Contrasts with -> Memorandum of understanding. See also -> Letter contract.
Liquidity	Ability of an organization to meet financial obligations, such as paying wages and invoices, repaying loans, etc.	
Main contractor	-> Prime contractor	
Management attention	An -> asset of the performing organization(s) used as a -> resource by the project	Assigning a management attention for project work to a contractor is often a driving force of -> Project business management.
Make-or-buy decision	Here: The decision by an organization to use own resources for the project ("Make") or outsource it partially or in full ("Buy")	Choosing the "Buy" option is commonly the starting point for project business.
Margin	Difference of a contractor's price to the customer minus assignable costs to do the project. In a portfolio of customer projects, the sum of the margins of the projects minus costs that cannot be assigned to individual projects represent profit	Margin is sometimes calculated as $1 - \text{price}/\text{costs}$ . A project with a price of \$ 1,000,000 and costs of \$ 800,000 would have a margin of 20%.

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Memorandum of understanding (MOU)	Diplomatic document to capture the status of a running negotiation	Contrasts with -> Letter of intent.
Milestone	A moment during the course of a project with duration zero, when something important has been achieved or has happened	Often confused with -> Deadline and -> Phase gate.
“Mission Success First”	An overarching paradigm or motto for a -> cross-corporate project	Reduces the various priorities in a project to just one: Mission success.
Naming	Here: A single customer-approved vendor, which the contractor must use as sub-contractor	Contrasts with -> Nominating.
Nominating	Here: A list of customer-approved vendors, from which the contractor has to select a sub-contractor	Contrasts with -> Naming.
Non-disclosure agreement (NDA)	Contractual or private agreement to keep information confidential and not disclose it to the public	May precede the actual project contract or be included in it.
Offer	Any form of -> Bid, -> Pitch, -> Proposal, -> Quotation that is submitted to a prospective customer or contractor with the intention to enter a mutually binding contract	

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Offer/no-offer decision	The decision on the side of a -> seller to respond to a -> Request for quotation (RfQ), -> Invitation for bid (IfB), etc. with a formal offer or not.	
On-boarding meeting	Meeting to bring internal and external team members together, discussing roles, rules, and more details	A customer may have on-boarding meetings with contractors and internal ones. Often confused with -> Kick-off meeting.
Outsourcing	-> Procurement	
Owner	Here: The final buyer/customer on tier 0 of the project	
Performance bond	Insurance or deposit to compensate the buyer and or subcontractors, when the contractor is not able or prepared to meet contractual obligations	See -> Bid bond, -> Warranty bond.
Phase gate	A process in a phase model, when one phase has been ended, and before the next can begin. Commonly a time of review of the previous phase, risk assessment of the next phase, and final approval to go on with the project	Often confused with -> Deadline and -> Milestone.
Pitch	Here: Response to an -> Invitation to pitch (ItP)	Often used confusingly.

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Portfolio	Here: A group of customer projects under a common supervision domain and with a joint intention to make paying customers happy, ensure profitability and contribute positively to the organization's liquidity.	See also -> Project business management office (PBMO).
Predictiveness	The ability to make long-term forecasts and plans	Contrasts with -> Agility.
Prequalification questionnaire (PQQ)	A self-disclosure form attached to a -> Request for information (Rfi) or following it as a next step before entering the actual competition. Often used to shortlist vendors	
Price	Here: Amount of money that the customer pays to the contractor according to the contract	Contrasts with -> Costs.
Prime contractor	A person or organization who acts as contractor to one or more customers and as a customer to one or more subcontractors	Also called main contractor or general contractor.
Private finance initiative (PFI)	A -> Project finance scheme whereby a public asset is long-leased (e.g. 25 years) to a private organization, who leases it back to a public user (e.g. school or hospital).	The obligations to upgrade and maintain the asset is with the private organization.
Privity of contracts	A legal doctrine that a contractual relationship must be direct; e.g.: a -> customer has a contractual relation with a -> prime contractor but not with -> subcontractors	Seems to be valid in all legal systems.

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Procurement	Process to buy project work and results from outside the organization	
Procurement statement of work	A statement of work used to inform sellers during a project business development process of the required and intended work and results to be offered. May be turned into a -> Contract statement of work (CSOW), when the contract is agreed upon	
Product	Here: A collection of tangible and intangible features that are integrated and packaged into releases that offer value to the customer or another project stakeholder	The value of the product is validated during -> acceptance testing.
Product contract	A contract type obliging the contractor to deliver work results	A contract type in -> Civil law environments. Contrasts with -> Service contract.
Profitability (Portfolio)	The degree to which payments from the project customers exceed costs of the contractor to perform the portfolio	Includes the costs of winning new business and other costs that cannot be directly assigned to individual projects ("Corporate overhead").
Profitability (Project)	The degree to which payments from the project customer exceed costs of the contractor for the project.	Includes the costs of winning the specific business.

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Program	Here: A set of projects done (mostly) by contractors that are coordinated and combined to an overarching endeavor by the customer	The project goals to be met by the contractors add up to a joint program mission that is managed by the customer.
Project	Here: A temporary agreement (internal or cross-corporate) to invest assets as resources for the creation of unique results.	
Project alliance	A multilateral contract between one or more customers and a number of contractors.	May have the form of a temporary joint venture and is then also called a "customer-led -> consortium".
Project business	The business of doing projects for other organizations or mandating projects to other organizations under contract, assuming that the organizations involved are independent,	This definition includes both sides customers and contractors.
Project Business Foundation	The home association for organizations and individuals involved in -> Project business	This definition includes both sides customers and contractors.
Project business healing day	A moderated event bringing customers and contractors together with a focus on problem solution and performance improvement	

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Project business management	The management discipline and the set of tools, techniques, management approaches, and artifacts employed to manage -> project business	This definition includes both sides customers and contractors.
Project business management office (PBMO)	Operational unit that unifies language and approaches across a -> Portfolio of customer projects and supervises profitability of the projects and their positive or negative impact on the organization's liquidity.	An evolution of the Project management office (PMO) commonly found in organizational portfolios with internal projects.
Project charter	Foundation document of the project and formal authorization of the project manager	
Project contract	-> Contract	
Project finance	A set of schemes that finance projects based on the expectation of monetary benefits gained from its results	Examples are -> Build-operate-transfer (BOT) and -> Private financial initiative (PFI).
Project management	The management discipline and the set of tools, techniques, management approaches, and artifacts employed to manage a -> project	This definition includes internal and cross-corporate projects.
Project management audit	-> Health check	
Project Management Institute (PMI®)	Association for project managers	Focusses on internal projects. See also -> IPMA.

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Project owner	The final (= tier 0) customer of a -> Project supply network	
Project supply network (PSN)	Cross-corporate multi-contract system with customer(s), contractors, subcontractors, and so on, possibly spanning multiple -> Tiers, working together to achieve the project mission	The last part of the definition may be wishful thinking in many PSNs. Compare with Supply chain management (SCM) in operations.
Proof of concept (POC) contract	A contract to develop a functional model or prototype before the actual product or service is contracted out	A form of solution analysis and feasibility study. Legally a separate contract, in the project regarded as a (pre)phase or a project on its own.
Proposal	Here: Response to a -> Request for proposal (RfP)	Often used confusingly.
Prospective customer (prospect)	The buyer during the time of business development	
Provisions	Here: Deliveries by the customer to the contractor to enable the latter to do its work	Compare with -> Enabling services.
Public-private partnership (PPP)	A set of contract types between public customers and private contractors	A common example is -> Build-operate-transfer (BOT).

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Purchase order (PO)	Offer by a buyer to enter a contract for the purchase of goods or services. Acceptance by the seller and conclusion of the contract is expected by delivering what was requested	Often used in the context of a -> Framework agreement, which provides the -> Terms & conditions (T&Cs).
Quotation	Here: Response to a -> Request for quotation (RfQ)	
Release	Here: A version of a -> product that is approved to be handed over to the customer or other stakeholders.	
Relational contracting	An approach to contracting that focuses on partnership among the parties more than on competition	
Request for information (RfI)	Requesting self-disclosure from sellers before the actual competition (-> bid, -> pitch, -> proposal) is entered, often intended to shortlist vendors and to announce a coming competition to them	
Request for proposal (RfP)	Requesting offers from sellers for a solution- & price-driven competition (-> proposal), based on a rough description of project work and results	Often confused with -> Invitation for bid (IfB), -> Invitation to pitch (ItP), -> Invitation to tender (ItT) -> Request for quotation (RfQ).

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Request for quotation (RfQ)	Request for offer(s) from one (or a small number of) seller(s) without entering a competition (-> quotation), commonly for small procurement items that do not justify the costs and time	Often confused with -> Invitation for bid (IfB), -> Invitation to pitch (ItP), -> Invitation to tender (ItT), -> Request for proposal (RfP).
Resources	Own or someone else's assets that are used for the project	Project business management means to tap into the -> assets of other organizations and turn them into project resources.
Retrospection	Here: The structured reflective practice with either customer or contractor team, or both, to learn and improve based on what has already been done	In iterative approaches, retrospections must be done at the end of every -> iteration.
Review	-> Audit of documentation or -> Inspection of work results.	
Rework	The need to work again on a work result that has previously been considered finished	Often a major cost driver in project business and a common cause for losses made by contractors.
Risk	Uncertainty, that matters	In project business management, commercial and legal risks should be managed in addition to project risks.
Scope	The amount and contents of the work that needs to be done and of the results that the project must produce	

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Scope statement	Document developed by the project team(s) describing and specifying the scope of the project and often additional information such as management approach	
Seller	Here: Any person or organization in project business selling goods and services to a ->project buyer. A seller may be a prospective contractor during business development and becomes a contractor, when the contract is agreed upon.	Contrasts with -> Buyer.
Service contract	A contract type obliging the contractor to provide services and the availability of resources	A contract type in -> Civil law environments. Contrasts with -> Product contract.
Situational Project Management	The ability to call upon different practices, methods, and behaviors to respond adequately to changing situations, contexts, and requirements.	
Sprint	A time-boxed -> iteration	Used in methods such as Scrum.
Staged deliveries	An approach to hand over project deliverables to the customer in a number of increments over time	May be used as a proactive business approach or to respond to delays by delivering what is finished, handing over unfinished items at a later moment.

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Stakeholder	Every person, group of people, or organization that the team(s) should be aware of and consider during decision making	The term is often otherwise used, depending on organizational traditions and applied methods.
Stakeholder register	List of identified stakeholders including relevant information for their consultation, engagement, and management	
Statement of work (SOW)	In procurement: A document describing or specifying the needs, wants, and other intentions of the buyer during business development to allow one or more sellers to develop an -> offer. Can become a -> Contract statement of work (CSOW)	There is also an internal statement of work with a different function.
Story	Here: An invitation for a conversation about customer-side requirements, features, and/or units of business value that can be estimated and tested	Stories may be the basic unit of communication, planning, and negotiation between customer and contractor.
Subcontractor	A -> Contractor working under contract for a -> Prime contractor	The Subcontractor may assign work to sub-subcontractors, which can lead to a complex -> Project supply network.
Subject matter expert (SME)	A specialist used for -> Expert judgment	May also attend -> Focus groups.

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Submission date	Here: The -> deadline for submission of a -> bid, -> proposal, or other form of -> offer	Steps planned to make best use of the time available until the submission date are often a core element of a -> Capture strategy.
Target cost contract (TCC)	Form of -> Cost reimbursable contract, in which the fee varies depending on cost over-/underruns	The variable fee is typically calculated through a sharing of cost over-/underruns between contractor and customer.
Team	A group of people working together with a dedication to help each other and achieve a common goal	
Teaming	Here: Cooperation of two or more vendors to do a customer project together that one alone would be unable to do	
Tender	Response to an -> Invitation to tender (ItT)	Often used confusingly.
Terms & conditions (T&Cs)	A series of clauses which is signed by the parties thus making a -> contract or becoming part of it.	It can be dangerous territory if you have unwittingly signed up to someone else's T&Cs.
Tier	Here: Distance of a -> contractor to the final -> customer, which represents Tier 0. Used to describe -> Project supply networks.	Similar to the use in Supply chain management (SCM) in operations.

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Time and material contract (T&M)	A contract type with a variable price depending on the amount of work done and goods delivered by the contractor	
Turnkey project contract	Form of contract, mostly in plant engineering and construction for the outsourcing of a project from beginning to final delivery	Various other names are used across industries, e.g. -> Engineering, procurement, construction (EPC) contract.
United Nations Convention on Contracts for the International Sale of Goods (CISG)	A body of commercial law that can be used for international project contracts as a "third party" law.	Not applicable in all countries, application limited.
Value stream	Here: The set of actions that take place to incrementally add value to a customer from the initial request to final value realization	Contrasts with -> Collocated team. Often achieved through intensive use of communication technology.
Virtual team	-> Team with members in distant locations	Contrasts with -> Collocated team. Often achieved through intensive and disciplined use of communication technology.
Voice of the customer	The term used to describe the stated and unstated needs or requirements of the customer	Commonly needs to go through a translation process to develop requirement statements that the contractor must understand and meet.

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Warranty	The guarantee of a fault-free, fit-for-use, and specification-compliant product promising free repairs, replacement, or reimbursement for errors found during a predefined period	May be legal warranty or contractual warranty.
Warranty bond	Insurance or deposit to compensate the buyer and or subcontractors, when the contractor is not able or prepared to meet contractual warranty obligations	See -> Bid bond, Performance bond.
Waste	Here: Any activity that consumes resources, without adding value to the product or service a customer receives, or to another stakeholder	Also known as negative value.

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## VII. Appendix

### A. Different Challenges: Internal vs. Customer Projects

	Commonly observable differences	
	Internal projects	Customer projects
Are ... for the performing organization	Cost centers	Profit centers
The project requester is ...	Located inside the own organization	A legally separate entity
The project team has to consider...	The interests of the performing organization	The interests of the performing organization and the customer
Project approval mostly follows...	A project request/approval process or no process at all	An offer/acceptance process leading to a contract
Disputes are to be finally resolved...	By management	At courts
The performing organization does the project to attain...	Deliverables and change	Income
Project selection is made as...	A sequence of internal decisions	A bid/no-bid decision (contractor-side), contract award (customer-side)
Project work for the requester is based on...	Internal requests and agreements	Legally binding contracts
Team's familiarity with the target environment at project start is generally...	High	Low
A project budget is developed through...	A more or less informed management decision, or not at all	Deducting a margin from the price to the customer
A project budget is usually managed by...	The project sponsor or a supervisory board or may be inexistent	The project manager
Inside matrix organizations, most project managers are...	Rather weak	Rather powerful
Obtaining internal and external resources is generally...	Rather difficult	Rather easy
Availability of booked resources is rather...	Unreliable	Reliable
Management attention for the project is mostly...	Rather low	Rather high
Project managers must consider...	The interests of the own organization	The interests of both the customer and the contractor
Staffing and procurement is mostly managed by...	Functional units	Project manager and project management team
Reputation of project managers inside the performing organization is mostly...	Rather low	Rather high

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## B. Different Challenges: Internal vs. Outsourced Projects

	Commonly observable differences	
	Projects performed by internal teams	Projects performed using one or more contractors
During a previous Make-or-buy decision, the selected option was...	Make	Buy
Are ... for the performing organization(s)	Cost centers	Profit centers
The (internal or customer-side) project manager needs a budget	Possibly	Definitively
Conflicts commonly occur...	Inside the own organization	Inside the own organization, with contractors and among contractors
The project manager must cooperate for staffing with...	HR department	Procurement department, corporate counsel, management
Disputes are to be finally resolved...	By management	At courts
The performing organization(s) do(es) the project to attain...	Deliverables and change	Income
Project selection is made as...	A sequence of internal decisions	A bid/no-bid decision (contractor-side), contract award (customer-side)
Project work for the requester is based on...	Internal requests and agreements	Legally binding contracts
The project manager's familiarity with the performance environment is generally...	High	Low
A project budget is developed through...	A more or less informed management decision, or not at all	Based on the prices of contractors, that become project costs
A project budget is usually managed by...	The project sponsor or a supervisory board or may be inexistent	The project manager
Project managers must consider...	The interests of the own organization	The interests of both customer and contractor(s)
Organizational interfaces are generally...	Among business units	Among business entities
Project matrices are generally...	Cross-functional	Cross-organizational
Management attention is generally expected to be provided from...	Own management	Contractor management
The requestor supports the project with...	Product ownership	Provisions, enabling services, payments
Worst case for the project	Project cancellation	Contractor bankruptcy
The project competes for resources with...	Functional organization and other projects	Other customers of the contractor(s)

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## C. Types of Requests for Offers and Responses to Them

The following terms and acronyms are often used in a confusing manner that has a high risk of misunderstandings. To avoid miscommunications, we recommend using them as follows:

Type of Request	Definition	Response
Invitation to bargain	= Invitation to treat	
Invitation for bid (IfB)	Asking for a price for a well-defined service or product, entering a price competition	Bid
Invitation to pitch (ItP)	Asking for a solution against a fixed budget provided by the customer, entering a solution competition	Pitch, commercial presentation
Invitation to quote (ItQ)	= Request for quotation	Quotation
Invitation to tender (ItT)	Asking for a solution against requirements described by the customer, entering a price/solution competition with a strong focus on price	Tender
Invitation to treat	Non-binding offer, submitted by the contractor to the customer	Purchase order or similar. Note: In a legal understanding, this is a binding offer by the customer to the contractor over the purchase of products and services.
Request for information (Rfi)	Asking the vendor for self-describing information for pre-selection and to fill a shortlist	Information
Request for proposal (RfP)	Asking for a solution against requirements described by the customer, entering a price/solution competition	Proposal
Request for quotation (RfQ)	Asking for a solution and/or a price for a small procurement item, entering no or only limited competition	Quotation

## D. Types of Statements of Work (SOWs)

Type of SOW	Definition	Purpose
Internal SOW	Developed by an internal requester to describe requirements for the project and its results	Communication between internal requester and internal project team.
Procurement SOW	Developed by a buyer to support a procurement process	Allows vendors to develop their bids, proposals, and other forms of offers.
Contract SOW	SOW as part of the contract	Not meeting the requirements stated in the SOW brings the contractor in a breach of contract situation.

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## E. Template:

### Code of Conduct for a Cross-Corporate Project

*This Code of Conduct can be applied by organizations and individuals involved in project business and can be used as a joint basis for cooperative behavior by project customers and contractors.*

#### Preamble

As practitioners in the Project Business Management community, we are required and prepared to subscribe to a set of moral norms, standards, and behaviors as a basis for professional project business. In addition to their impact on the way we do project business, these principles also govern our conduct as customers and contractors towards other stakeholders of the project including the society, and the environment we live in.

For members of the Project Business Foundation, adherence to its standards is mandatory.

This Code of Conduct is based on five elements:

- Accepting ethical norms as binding and enforceable
- Welcoming personal and organizational accountability as a core pillar of ethical norms.
- Upholding moral principles as baselines for ethical norms and accountability.
- Understanding personal integrity as the foundation of ethical norms and behavior.
- Regarding values as the inner core of ethical norms and behaviors.

#### 1. Ethical Norms

We implement ethical norms, when we make decisions and act as professionals, and expect others in the profession to follow them as well. These norms are:

- **Reliability:** As contractors, we meet the obligations entered towards our customers in a timely and dependable manner. As customers, we do the same for our contractors.
- **Partnership:** As contractors and customers, we go the extra mile for our contract partners to ensure joint project success.
- **Trustworthiness:** We uphold our trustworthiness with others by building relations that are founded on respect and honesty.
- **Good faith:** We respect the interests of those we make business with and help them achieve success from working with us. When we identify risks that can impact their success from working with us, we inform them and are prepared to help find and implement solutions.
- **Thoughtfulness:** We are aware that our actions as professionals have impact on others, including current and future generations.

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- **Clean and clear language:** We refrain from insulting people, however, we address moral misconduct directly.

## 2. Accountability

We accept accountability for our actions and require others to do the same. We understand that accountability cannot be delegated to others and that deferring due accountability to others is unacceptable.

- **Answerability:** As we work, we make errors from time to time. We accept responsibility to communicate these errors to affected stakeholders in a timely manner and take ownership for their impacts and the costs and efforts to resolve them.
- **Transparency:** Working with business partners and other professionals, we notice from time to time that they make errors. While we are open to help them resolving the errors, we do not support deflection, concealment, or any other form of cover-up.
- **Leadership:** We do not undercut our staff or our stakeholders in public, however we help them fix errors, heal conflicts, and inspire them to improve as individuals and in teams.
- **Loyalty:** When we have given guarantees to business partners and people inside our own organization, we do not act as wishy-washies but meet our commitments with zeal and decisiveness.
- **Intellectual property:** We respect the ownership of others on tangible and intangible works, such as texts, pictures, and others, and do not use them unless we have been granted the right from them or use them under fair use rules.

## 3. Principles

Our work as professionals is based on moral principles, which we uphold particularly in times, when they are challenged by others.

- **Fairness:** We resolve conflicts between our vested interests and those of other parties in project business in a spirit of partnership and mutuality that brings about results that are beneficial for all parties.
- **Peacefulness:** We do not decide or act in a way that disrupts peace between people, organizations, communities, or nations. Instead, we strive to act as professionals in project business in a way that supports connectivity among humans.
- **Civility:** We treat our partners in project business with respect that enables us to do more teaming with them in future business. We also treat our competitors respectfully today; they may become our most important cooperation partners in future projects.
- **Proactive handling of uncertainties:** When we communicate uncertain information, such as expectations, assumptions, estimates, forecasts, and risks, we mark this information as uncertain and separate it from facts.
- **Active listening:** We invite others to raise concerns and objections and listen, when they are brought up. When our decisions and actions are criticized, we do not resort to personal attacks or turn a discussion dealing with facts to one dealing with party politics. Instead, we use the discussion for learning and improvement.

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## 4. Integrity

We accept our personal integrity as an asset that we do not give up for perceived or real benefits.

- **Inspiration:** We decide and act in a way that others could use us as positive role models for their actions and decisions.
- **Whistleblowing:** We bring immoral, anti-social, and illegal behavior to the attention of appropriate parties, however, we communicate warnings as facts only, if we can support them with evidence.
- **Truthfulness:** We communicate our true strengths and weaknesses and do not claim to have experience, qualification, and credentials that we do not have.
- **Rule of law:** We make ourselves familiar with the laws under which we do our projects and do our best that people and organizations involved in the project business adhere with these laws.
- **International business:** In project contracts that span over two or more country jurisdictions, at least one party must decide and act under foreign and unfamiliar law and jurisdiction. We do not abuse this imbalance of familiarity to the disadvantage of the other party.
- **Moral conduct:** We do not condone or commit bribery, nepotism, favoritism, money laundry, or any other form of corruption.

## 5. Values

We understand that ethical values are not situationally bendable, but are an integral element of the way we do business and treat others, who depend on our professional actions.

- **Inspiration:** We own our decisions and actions and do them in a way that is beneficial to our stakeholders, society, and the environment we live in and also for ourselves.
- **Facts-based conduct:** We reject the influence of ideologies and superstition on our projects. Instead, we make decisions and act based on facts or in their absence on plausible assumptions.
- **Fairness:** We ensure equal opportunities in our projects for employees and contractors, independent of their gender, physical appearance, nationality, age, or other criteria often used to discriminate people.
- **Goodwill:** As professionals in project business, we separate the common good from the interests of the organizations involved, and also from our personal benefits. We then strive for the first before we pursue the second and then care for the last.
- **Authenticity:** We communicate our values to others and ensure that they perceive our conduct as genuine and authentic.
- **Strength:** When we identify intimidating behavior by domineering abusers towards vulnerable people in our projects, we take clear position to protect the latter.

Notes: .....

## Closing Notes

This Code of Conduct of the Project Business Foundation is open to adaptations as they may emerge as necessary or helpful.

Comments, concerns, and suggestions for it are welcome at [info@project-business.org](mailto:info@project-business.org).

Notes: .....

## VIII. Copyright

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