

Some differences for project managers working in supplier organizations and in owner organizations

By Alan Stretton

TWO TYPES OF ORGANIZATIONS THAT UNDERTAKE PROJECTS

From time to time various writers in the project management literature have distinguished between two types of organizations that undertake projects. I have called these project-based organizations, and production-based organizations. I borrowed from Cooke-Davies 2002 in describing them as such, and from Archibald et al 2012 (who use different descriptors) in defining them (e.g. Stretton 2015b)

- **Project-based organizations** derive most (if not all) of their revenue and/or other benefits from creating and delivering projects / programs to external customers.
- **Production-based organizations** derive most (if not all) of their revenue and/or benefits from producing and selling products and services. They utilize projects to create new, or improve existing, products and services; enter new markets; or otherwise improve or change their organizations.

Other writers have used different descriptors for these, as will be seen in a moment. However, comparatively little has been written about the very substantial differences for project managers who work in project-based organizations on the one hand, and in production-based organizations on the other.

One author who has done so is Taggart 2015. He describes the above two types of organizations as **Supplier Organizations (SOs)** and **Owner Organizations (OOs)** respectively. As is indicated in the title of this article, I propose to mainly use Taggart's descriptors in the following, mainly because of their handy abbreviations.

Another author who has published work in this area is Lehmann 2016, who describes projects undertaken within these two types of organization as "**customer projects**", and "**internal projects**", respectively. Lehmann has drawn up a table of differences in the environment and the requirements that project managers are facing with these two different kinds of projects, and I will draw on this in the following enquiry about the nature of these differences, and some consequences.

I also note that my own direct experience has been exclusively in Supplier Organizations, and I will be drawing on this experience to some extent in the following. When it comes to Owner Organizations I can only quote other writers.

But first, we discuss an apparent imbalance in the literature regarding materials on these two types of organization.

APPARENT IMBALANCES IN THE LITERATURE

The project management literature tends to focus on OOs

It appears that the focus of the project management literature is primarily on owner organizations. As Taggart 2015 observed,

Conventionally, either directly or by implication, the project management bodies of knowledge focus on the role of the Owner Organization (OO).....

I had been broadly aware of this since the late 1960s, when I first read Cleland & King's pioneering book on *Systems Analysis and Project Management* (Cleland & King 1968). This book was obviously highly relevant to defence-acquisition projects, but had little relevance for my organisation, Civil & Civic, which was a supplier organization in the building and construction domain. I remember thinking at the time that this was probably due to the different application areas being considered.

However, when I later read Kerzner's classic book *Project Management: A systems approach to planning, scheduling and controlling* (Kerzner 1979), I began to realise that the focus of both books was on the owner organisation.

In contrast, Civil & Civic was a supplier organization, so this recognition gave me some (preliminary) understanding of why a good deal of the material in both books was substantially irrelevant to us.

However, there appear be more project people practicing in SOs than in OOs

The following contention by Taggart really caught my eye.

So, for each significant project there may be many PMs employed by SO, but there may be only one PM employed by an OO. It is my contention that this ratio is repeated across most projects and so most of the individuals engaged in the management of projects do so for Supplier Organizations (SO) rather than Owner Organizations (OO).

For some reason it had simply not occurred to me before reading Taggart that there may be more project people practicing in SOs than in OOs. Later, this was broadly confirmed by some research work of Lehmann 2016.

Lehmann surveyed some 246 project managers, and found that some 51% of respondents worked on what he called 'customer projects' – i.e. with SOs – whilst 44% were on 'internal projects' – i.e. with OOs – whilst the remaining 5% said that the setups of their projects didn't fit either.

In light of this, it would appear that project management in SOs does not get the coverage in the literature that its importance in terms of numbers of project managers involved in them appears to warrant.

SOME DIFFERENCES BETWEEN SOs AND OOs FOR PROJECT MANAGERS

A table showing ten differences – Lehmann 2016

As noted earlier, Lehmann 2016 produced a table showing differences in the environment and the requirements that project managers face managing projects in the two different types of organization, as shown in Figure 1 (my numbering).

	COMMON DIFFERENCES	
	Internal projects (OOs)	Customer projects (SOs)
(1) Are for the performing organization	Cost centres	Profit centres
(2) Project selection is mostly made as	Internal decision	Bid / no-bid decision
(3) Project work for the requester is based on	Internal agreements	Legally binding contracts
(4) Team's familiarity with the target environment at project start is	High	Low
(5) Project managers are mostly	Rather weak	Rather powerful
(6) Obtaining resources is mostly	Rather difficult	Rather easy
(7) Management attention for the project is mostly	Rather low	Rather high
(8) Project managers must consider	The interests of the own organization	The interests of both the customer and contractor
(9) Staffing and procurement mostly managed by	Functional units	Project mgt. team
(10) Reputation inside the own organization is mostly	Rather low	Rather high

Figure 1: Adapted from Lehmann 2016, Figure 5 – Differences in the environment and the requirements that project managers are facing

I had not previously seen these differences so conveniently summarised as in Figure 1. Some of these issues, for instance (5), (6), (7), (9), & (10), indicate why the situation for project managers in OOs appears to be somewhat more challenging than in SOs. Indeed, the need to deal with these types of issues is perhaps one reason why OOs are given so much more attention than SOs in the literature.

Whilst there is not a great deal to comment on with many of the issues in Figure 1, I do want to say a bit more about issues (2), (3) and (8). But first a contextual note.

A note on types of services offered by supplier organizations

In Stretton 2016¹ I identified four types of project management services which a SO can provide to an OO. These are:

- a) Asset/service delivery via traditional contracting;
- b) Asset/service delivery using external modern project management services;
- c) Asset/service delivery using external project management services, plus ongoing service provision;
- d) Project management consulting services

The differences between these types of services become very important when we are considering differences for project managers working in supplier organizations compared with those in owner organizations. Project managers in SOs may undertake a very wide range of functions, depending on what type of service the SO has been engaged to provide. It is therefore not necessarily valid to make generalised statements about the functions a project manager undertakes in SOs.

A note on (2) Project selection

Item (2) in Figure 1 shows project selection in SOs via bid/no bid decisions. This would certainly apply with the Type a) service, and sometimes with the other three. However, with the latter three, engagement is very often by some form of negotiation based on factors such as the SOs reputation and track record, or similar, rather than by competitive bidding.

A note on (3) Legally binding contracts

The forms of contract for the various types of SO service can vary greatly. For example, if a Type c) service is being provided, the SO has a very direct contractual obligation to help the OO secure its benefits. Such an obligation would be written into the SO's contract.

With service Types b) and d), the extent to which the service is tied to securing the OO benefits will vary. In many cases, even if there is no contractual obligation to do so, the SO will have a strong vested interest in helping the OO secure its benefits. This is simply because, as a longer-term marketing strategy, the SO wants to have a string of satisfied customers (i.e. satisfied OOs) to help attract further SO business..

A note on (8) Considering the interests of both the customer and the contractor

The immediately preceding two paragraphs appear to put the contractor's interest in the customer for service Types b), c) and c) into an appropriate context.

We now move on to discuss some other differences for project managers between OOs and SOs.

SOME OTHER DIFFERENCES FOR PROJECT MANAGERS IN OOs AND IN SOs

A note on my perspectives

I want to make it clear that my following descriptions of project management in supplier organizations mainly reflect my experience in the Civil & Civic situation. I am well aware that other supplier organizations operated differently – in fact, in Australia, they all did. However, as I recorded in Stretton 2009g, Civil & Civic was the acknowledged leader in this country in its business – so we were evidently doing a lot of things right. We did quite a few Type a) projects, but were mainly delivering Type b) projects, with some Type c), and an occasional Type d).

On the other hand, I also want to emphasise that I have never worked in production-based organizations (I use this descriptor because we were sometimes also the owner organization with quite a few of our own projects). Therefore the following depicts my understanding of the project managers' situation from the literature, and from many of my students who worked in owner organizations.

Differences in the range of life-cycle phases covered by each

As I have often pointed out (e.g. Stretton 2016c, d), the supplier organization Civil & Civic very often became heavily involved in Type b) projects – i.e. in helping clients articulate their business needs (which we called Client Needs Determination) before also helping them specify the requirements of a project or projects which would make the most effective contribution to achieving their business needs. Indeed many of our project managers developed very substantial skills in these initiation phases. We were also involved to some extent in Type c) projects, notably in a couple of application areas, such as meatworks, where we were heavily committed in helping the client organization secure its operational benefits.

Both the above contrast sharply with the situation of project managers in owner organizations, which seldom appear to involve their project managers in either project initiation or post-delivery phases.

In fact, as recorded in Stretton 2016d, helping the client articulate his business needs quite often entailed helping the client clarify the nature of his business, and in developing strategic business plans to progress the business. You might ask if any of our project managers were qualified to do this. The answer is yes, particularly those who had had prior experience in helping develop strategic plans for ourselves as a supplier organization. (All senior staff were, or had been, project managers, so strategic planning for our own organization was always done by project managers).

Differences in the extent of the PM's responsibility and authority

On all the projects undertaken by supplier organizations in which I worked, the project manager was given full responsibility, with commensurate authority, for the prosecution of the project. This was absolutely normal, and I regarded this as a "given" for effective project management.

I was of course aware from the books cited above, and other materials from the project management literature, that this seldom appeared to be the case with owner organizations, particularly those who undertook their projects mainly with in-house resources. So I was intellectually aware of problems with responsibility and authority in matrix organisations for example, but had had no direct encounters with this.

This changed when I joined the University of Technology, Sydney (UTS) in 1988, to develop and deliver a Master of Project Management program. I was confronted by several mature-age students, and indeed at least one guest lecturer, who said, in effect, “Alan, why are you teaching on the basis that the project manager has full responsibility and authority, when in fact he/she never has these?” You guessed it – they had only ever worked in owner organizations, under matrix or other hybrid organizational arrangements.

Now, there may well be cases where the above differences do not apply, but it would seem to be reasonable to contend that supplier organizations generally give their project managers full responsibility and commensurate authority for executing their projects, whilst owner organizations most often do not. These differences have obvious implications for project managers. For example, I very much doubt that, with my background in supplier organizations, I could function effectively as a project manager in an owner organization.

There is another useful way of looking at the management of projects in supplier organizations, as now discussed.

Running each supplier organization project as a business in its own right

In Civil & Civic our perspective was that, if you were managing a project, you were managing a business. Murphy 1984:69 quotes my old boss and colleague Roy Robinson as follows:

“We established a principle of attempting to make people responsible for the work they were given to do. For example, we regarded a site manager, putting up a building, as being the manager of a business. He was given certain targets, and he had to run it as a business”.

Certainly, as a business, the project had a finite duration. None-the-less, the project manager needed to develop substantial business skills, with all that that implies in terms of effectively dealing with commercial, environmental, financial, legal, contractual, technical, and allied factors. Certainly there were some support groups within Civil & Civic, but we kept these to a minimum, confining them to things that had to be centralised, like payroll. However, as far as possible, we endeavoured to have each project manager run the project as an independent business. This would appear to be in substantial contrast with the situation of project managers in owner organizations.

SUMMARY

This article first pointed out that there are two types of organizations that undertake projects. Taggart 2015 describes them as Owner Organizations (OOs) and Supplier Organizations (SOs), and I have adopted these descriptors in this article. Another pair of descriptors which I (and others) have previously used is production-based and project-based organizations. Lehmann 2016 describes the projects undertaken in such organizations as internal projects and customer projects respectively.

Lehmann 2016 developed a table which showed ten different issues between the two types of organizations and their projects which are relevant for project managers. I have reproduced the basics of this table, and then made a few comments on three of the component issues, illustrating some differences which depend on the type of service being offered and implemented by the supplier organization.

We then moved on look at some other differences for SO project managers, deriving from my own experience in SOs. These covered differences in the range of life-cycle phases covered by project managers, differences in the extent of the project manager's responsibility and authority, and the Civil & Civic practice of having the project manager run his project as a business in its own right.

There are undoubtedly many other significant differences for project management between the two organization types. However, the above appear to provide quite a wide coverage – but I would welcome feedback, particularly in relation to differences which have not been covered in this article.

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