



## How the specific benefits and disadvantages of bilateral and multilateral contracts, together with project alliances and customer-led consortia can influence project success?

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Research on Topic #4 **“Bilateral vs. Multilateral Contracts”** from the Pilot  
Qualification Program  
**“Approved Consultant/Educator for Project Business Management”**

by

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## **Table of contents:**

<b>1. Introduction .....</b>	<b>03</b>
<b>2. How the concept has changed over the time .....</b>	<b>03</b>
<b>3. Legal definitions, benefits and disadvantages</b>	
• <i>bilateral contract .....</i>	<i>04</i>
• <i>multilateral contract .....</i>	<i>04</i>
• <i>project alliance .....</i>	<i>05</i>
• <i>customer-led consortium .....</i>	<i>05</i>
<b>4. Two related trends in the project management</b>	
• <i>choose MAKE more often .....</i>	<i>06</i>
• <i>choose BUY more often .....</i>	<i>07</i>
<b>5. The current practice and company policy issues</b>	
• <i>the current practice .....</i>	<i>08</i>
• <i>company policy issues .....</i>	<i>08</i>
<b>6. The conclusion .....</b>	<b>09</b>
<b>7. References .....</b>	<b>10</b>

## ***1. Introduction***

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Using either of these two types of contracts – bilateral or multilateral with project alliances or customer-led consortia can boost the project success in terms of collaboration with external/remote teams. The non-on-site employees take a significant part of the company's workforce in the last few years. The need to manage this workforce, make them align to the company ideas requires more detailed and wider discussion over Project Business Management<sup>2</sup> and the options it can give us in this constantly growing cross-corporate environments.

Very often the remote teams are considerate as strangers<sup>3</sup> in the company environment and bringing them into the work process seems a little bit scary for the Project Management Offices (PMO). This also requires the need for change internally in the organization and externally – the contractors in their way of executing projects.

On the other hand, the project alliances and customer-led consortia can give us additional resources in order to finish the project with success. The constant need for project managers capable enough to lead a project in the cross-corporate environment and to be able to deliver results in selected deadlines can bring us new knowledge, new methodologies, and practices.

The benefit of this kind of partnerships is huge and the usage in real projects is wide – from a simple apartment renovation, for example, to giant cross-continental projects. This turn projects into more cost-effective and efficient collaboration. But despite the fact that this principle has a lot of benefits to the company work environment and culture, the vast majority of organizations still prefer to use their internal resources in project management process.

We don't know the real motives behind this decision in most cases, but there is a need for a developed methodology for managing remote/virtual teams and align them to the internal corporate environment. The project management process is changing all the time. The competition between the companies imposes the need for new methods and techniques to deliver more, fast and quality products and services. The open innovation approach used more often in many industries already is a good example of how the attraction of external sources and contractors can initiate significant changes in your organization.

## ***2. How the concept has changed over the time***

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The idea of using external contractors/resources became more and more popular in the last decade. Moreover, in the last few years, many companies look into the freelancer market to find professionals who can fill temporally their project requirements gaps without the need for permanent hiring.

At the beginning of this process, the project managers consider this opportunity as a backup plan in case some additional things are needed and to solve issues on the road without the possibility to hire people who will be useless after delivering of the project they were hired for. Nowadays things are different, and this remote workforce very often represents a full department in the companies. And yet they remain as a side employee, people not related to the company success, goals and objectives.

No matter how managers using the common methods in the work process with these external for the company contractors they have very little or no success in the alignment of the teams,

they do not feel as a part of company development and the techniques they are using from the management practice has zero influence in this case.

### ***3. Legal definitions<sup>4</sup>, benefits and disadvantages***

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- ✓ *Bilateral contract is a contract between two parties in which each side agrees to fulfill his/her side of the bargain. In more complex situations such as multilateral contract negotiations, a bilateral contract can be a so-called "side deal." That is, both parties are involved in the general negotiations but may also see the need for a separate contract relevant only to their shared interests.*

The benefits of the bilateral contract – increase the partnership between two companies. This can open more markets or extend the existing if the participants are in successful industries. As each company benefit, this contract can add more workplaces. The company employees can also benefit from this type of contract. They can get access to tools, resources, and services that are not available in their own company if this was agreed in the terms. Another advantage is that they are easier to negotiate than multilateral trade agreements since they only involve two participants. This means they can go into effect faster and acquire benefits more quickly. If negotiations for a multilateral contract fails, many of the companies involved in the multilateral contract can negotiate a series of bilateral agreements between them.

Disadvantage is like in any other contract, this one can also cause less successful companies to go out of business. They can't compete with more powerful industry players in foreign countries for example. When benefits from this contract are removed, they lose their price and business advantage. Bilateral contracts can often trigger competing bilateral contracts between other companies in order to answer the new environment and terms in their industry. This can reduce or even eliminate the advantages that the other contract gives between the original two participants.

- ✓ *Multilateral contract is a contract among multiple parties that transactions be summed, rather than settled individually. Multilateral contract can take place within a single organization or among two or more parties. The activity is centralized in one area, obviating the need for multiple invoicing and payment settlements among various parties.*

The benefit of using this type of contract is that it makes each one of the involved parties equals by the terms. No one of them can offer better or more services/products to one, then it does to another. This is a big advantage, especially for smaller size participants, which makes them less competitive by default because of lack of experience or finance resources. This is a major benefit for the biggest companies because the most favorite of them will get the best terms in the deal. It increases the business share for every participant. The biggest companies get the lowest possible prices for services/products which increase either their profits or will lower their own end-prices which will allow them to extend their market share eventually. Standardized regulations and terms for all the participants in the contract. They will save from the costs since they will follow the same rules for each party of the contract and country they are located. The companies can negotiate deals with more than one organization at a time. These agreements undergo a detailed approval process after the negotiations and most of the companies would prefer to get one agreement signed covering as many participants as possible at once and go through approval process once, rather than do it for every party separately, which will save a lot of recourses and time. There is also benefit applies to the small companies. Unlike bilateral contract where it tends to favor the company with the best market share and bigger resources and puts the smaller companies at a disadvantage. Here

the multilateral contract can make small companies stronger and push their development helps them to grow over time and became bigger in the future eventually and involved other smaller companies in their contracts in order to do the same with them.

But there are also some disadvantages of multilateral projects. The biggest one is that they are complex. This makes them difficult to deal, hard to agree on each detail and therefore time-consuming to negotiate. Sometimes the length of negotiation means it won't take place at all or will be signed after significant time and effort loss. Sometimes the details of the negotiations are particular to specific business practices. The majority or smaller competitors often misunderstand them. As a result, they receive a lot of complaints from the harmed sides which makes the negotiation process even longer. Another minus, common to any agreement is that some companies and industries in a particular field suffer when borders disappear. This means building closer relationships between some companies can lower significant or even eliminate the chances for new players in the game. This falls mostly on the small businesses. A multilateral contract gives a competitive advantage to giant multi-nationals, already built companies. They are already familiar with operating in a global environment. As a result, small companies can't compete. They lay off workers to cut costs in order to meet some criteria. Others move their services to countries with a lower standard of living. That makes multilateral agreements/contracts unpopular.

- ✓ *Project alliance is a project delivery method based on a joint contract between the key participants to a project, whereby the parties assume joint responsibility for the design and construction of the project to be implemented through a joint organization, and where the participants share both positive and negative risks related to the project.*

This is an agreement based and build around a certain project. It is intended to distinguish it from the strategic alliance which is a collaborative arrangement in terms of several projects or other long-term activity. The alliance is built on two main groups of features: trust, commitment, and cooperation. They are also known as collaborative features and they are unambiguous. There are also structural features. They are joint agreement and organization as well as risk sharing. Without collaborative and structural features existing, none project can be implemented as a project alliance.

Project alliance also have some secondary features such as an early selection of service and design workshops. Without them, it is difficult to create a cooperation model based on trust where the target cost level is fixed only after the selection of the partners. Other examples are - joint definition of goals and the aspire for constant improvement. The secondary features are observed oft in alliancing, but project alliance may also be implemented without these elements, and therefore their use in defining the procurement method is not necessary.

- ✓ *The customer-led consortium is a union between two or more organizations joined around the motto that "The customer knows best". These unions enjoying impressive business growth and customer retention. Their customer and community are central to their culture and the decisions that are made. They are developing in alignment with customer expectations. The main key to success is to know how and why your customer behaviors in certain situations.*

This consortium is also proactive. Their philosophy is to rely on customer opinions and needs and that's why they search for their feedback regularly. They are asking questions to understand what their customers want and what don't want and why is that. This gives them insights about customer needs and helps them to answer to these needs on the quick and best way possible. Their deep understanding of the customer gives them the ability to build

strong relationships and use some of the situational project management tools like benefit engineering <sup>[5]</sup> for instance.

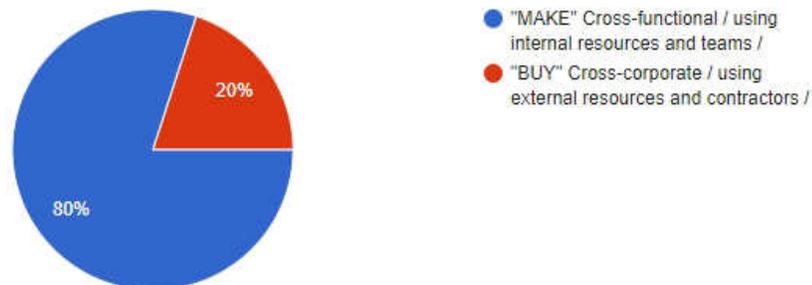
As a benefit, we can mention that the customer-led consortium is also employee-led consortium <sup>[6]</sup>. The more employees are engaged with the business the better is the customer experience. Unlike usual sells metric measure here we have a different scale of success. Organizations that put their customers first have shifted the focus to evaluate things like brand feeling, customer intercession, effort and satisfaction of the customer. Another benefit of customer-led consortium <sup>[2]</sup> is “Mission success first” across the Project supply network, which keeps all stakeholders integrated into the consortium. If the contractor wants to lead this project to successful end, he or she must support the consortium goals and their achieve.

#### ***4. Two related trends in the project management***

##### ✓ The trend of choosing *MAKE* more often

This is option where the organization / PMO decide to use their internal resources to deal with company projects. This is the preferred method of work for the companies as in *Figure 1*. The vast majority 80 % of the participants in the survey<sup>7</sup> point that the decision to make a project cross-functional using their own forces is the right decision.

In the project planning process, your organization prefers to...



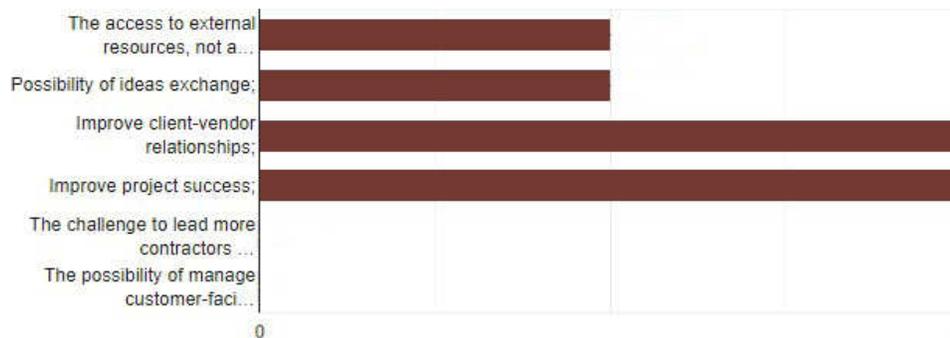
*Figure 1 – the results from survey for BUY over MAKE decisions*

Although this is not an official PM survey<sup>7</sup>, it shows clearly the uncertainty in the companies when it comes to using external teams/contractors. This is may be due to fear of bringing strangers<sup>3</sup> in your internal projects, lack of leadership skills to manage remote/virtual teams, language barrier and so on. But no matter what the reason is the trend in this survey shows that organizations need more prepared people to face these new challenges in the constantly changing competitive business environment.

✓ The trend of choosing *BUY* more often

This is the option where the organization / PMO decide to use external resources / contractors. This is the less popular method of executing projects according to the online survey<sup>7</sup> but it's also the way where you can achieve fastest results and can bring innovative ideas in your organization as some of our participants answer – *Figure 2*. But the big impact over the company remain the improvement of client-vendor relationship as well as improvement of the project success.

What would be the reason to choose BUY project option, and work with external contractors?



*Figure 2 – the results from survey for the reasons to choose BUY*

On the other hand, project managers are not 100% convinced on the type of the contracts they need to use when they are looking for external contractors. The choice between Bilateral and Multilateral contracts is split 50/50. One thing is sure, every one from participants representing organization which is inclined to for customer led consortium or project alliances.

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## 5. The current practice and policy issues

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### ✓ The current practice

Nowadays more companies looking for external contractors and sub-contractor relationships. Mostly because your competitor does it. The problem is that this process is often with minimal or sometimes with none success. The engagement of remote/virtual teams to company objectives is a hard task and with the missing of professionals in this field, this became even harder. Most of the managers who are using this kind of workforce consider them as a one-time option where they can be assigned to a particular project and after this project or a specific task is done, they are no longer needed for the organization. This is one of the main reasons to have difficulties in managing process and achieving the goals.

Another problem in this process is the lack of interest or motivation in some project managers when the main task is to bring money home and to make sure that the company will survive the day<sup>8</sup>. In this JAM (Just About Managing) situation finding your right behavior is often impossible task among with all other tasks you have in order to ensure the organization future.

### ✓ Company policy issues

The common company policy issues are related to the uncertainty in non-disclosure parts. To be sure in this collaboration, most of the organizations have complex bilateral or multilateral contracts where they make sure that it covers all the aspects of this relationship. This, of course, can force some of the contractors to refuse this partnership if they are too complicated even before they start.

In some cases, the collaboration can fail because of the miss of willingness of one of the parties to give access to some resources or deny using provided guides and resources. In some cases, the problems can come from areas have nothing in common with the involved parties. For instance, culture differences, legal frames differences, differences in the IT infrastructure, cybersecurity differences and so on.

## 6. The conclusion

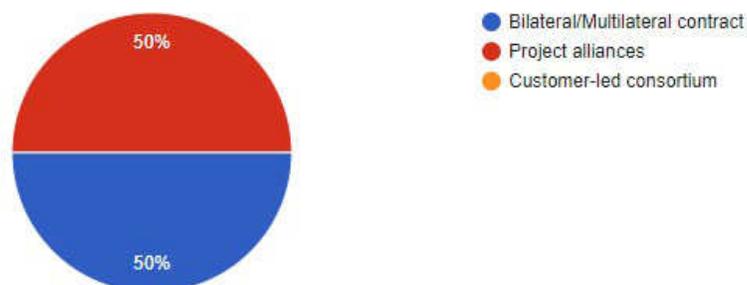
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Our strategy is to focus on the success of our customers, people, partners and communities. This is the motto for most project managers and C-Level representatives. In the way of searching for more faster, easy to manage and profitable ways to achieve these objectives and defend this motto, the management departments are willing to look more often outside their box /organization/ and to try different options of collaboration in small tasks or even partnerships in big projects. The times of single players and alone soldiers are history. If you want to succeed, you need to adjust your company policy and culture to the new upcoming trends in project management.

Based on my observations the trend MAKE was popular in the years before the financial crisis in 2008. After the wave of released employees in many companies in the period 2008 - 2010 plus the more growing uncertainty about the future perspectives for the business, organizations decide more often to BUY external resources for their projects, rather than hire permanent employees. This brings them more risk into their projects, but it also gives them benefit for more predictable cost planning. With other words turns projects into a profit center in the usual cost center environment and boost the project success.

Again, according to participants in the online survey<sup>7</sup>, the usage of Bilateral/Multilateral contracts and/or project alliances will have more influence over the project success – *Figure 3*.

Based on your experience, which of the following approach can have more influence on project success?



*Figure 3 – the results from survey for influence on project success*

Project managers need to be more open-minded when it comes to project planning and execution in a cross-corporate environment. This can allow them to be more flexibility in their options and decisions. This can also lead to innovation approach in your project or the work processes. One of the possible solutions here would be Situational Project Management<sup>5</sup> and its tools in the Project Business Management<sup>3</sup>. Now is the right time and place for a new methodology which you will use in your project management. The remote/virtual teams should not be considered as an interruption in your company initial business model, they need to be fully engaged to your company objectives in order to guarantee project success. This will fill the gap of key talent deficit.

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*Note: This is not an official survey and did not represent and reflect fully the project managers decisions!*
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