

Projects with internal vs. external customers: An empirical investigation of variation in practice



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Received 6 June 2015; received in revised form 3 February 2016; accepted 10 February 2016
Available online 4 March 2016

Abstract

The purpose of this paper and the research programme of which it is part is to empirically investigate variations in project management practice. The research is based on the analysis of an extensive dataset containing information on the extent of use of a large number of practices and contextual variables related to organisational contexts and project characteristics. The paper focusses on the effects of the difference between projects with internal and external customers, which have been shown to be an important characteristic of the project context. A distinction is made between the extent of use of project management practices and the effect of variation in the extent of use on project performance, which are shown to be very different both conceptually and empirically.

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Keywords: Practice; Context; Contingency; Empirical; Customer type; Type I and II organisations

1. Introduction

This paper focusses on the contextual effects of one of the longest standing and best known contextual characteristic in the project management literature, the distinction introduced by Archibald (1976) between Type I and Type II organisations. Type I organisations do projects for external customers, whilst projects in Type II organisations do projects for internal customers. This distinction is based upon the make or buy decision, which has a very strong structuring effect on firm operations and governance and on relationships between firms, as shown by Williamson (1985, 1999). In the context of project management, it is applied to the production or procurement of customised products and/or services. Despite the fact that this distinction is both long-standing and well-known, it has been the object of very little empirical research. The paper draws upon previous results from the extensive research programme

of which it is part (Besner and Hobbs, 2008, 2012a, 2012b, 2013).

1.1. Types I and II as organisational archetypes

Archibald argued forcefully that the contexts of these two types of organisations are very different and that this difference has a strong effect of project management practice. Type I organisations have specialised expertise in some area, which they use to produce customised products and services to meet the specific needs of their customer organisations. Because their activities are largely project based, they also have expertise in project management. The mission of Type II organisations is to deliver standardised products or services to their customers through established business processes, which are not organised on a project basis. Projects in Type II organisations are used to develop or modify the organisation's products, services and business processes. The projects are designed to meet the needs of internal customers. Type I organisations typically have a contractual relationship with their customers, often on a project by project basis. Projects in

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Type II organisations are managed internally through administrative procedures.

The rationale for the decision to examine the differences between internal and external projects is based on the following observations:

1. In the large dataset of this research programme, the proportion of practitioners that report working in each type is split almost equally. Each therefore represents a significant portion of the reality of project management.
2. Type I and Type II have been used in the literature to describe the organisational context, see for example [Turner and Keegan \(2001\)](#). It is likely that many practitioners and researchers use it because they recognise its empirical validity.
3. This characteristic of projects has complex effects on practice. Many other contextual effects have been found to be unidirectional, for example, project size is associated with more extensive use of all project management practices. From both researcher and practitioner perspectives, unidirectional effects are easier to interpret and use. Some contextual effects are not unidirectional; they have a differentiated effect, meaning that their presence tends to increase the extent of use of some practices, whilst reducing the extent of use of others. The differentiating effects are more complex to interpret and use than unidirectional effects. They require the systematic analysis to which this paper is devoted. Previous research has shown that external and internal customers have a differentiating effect on practice ([Besner and Hobbs, 2012a](#)). Although the differentiating effect has been identified, it has not been analysed systematically.
4. Previous research has also shown that the type of project customer co-varies with several other characteristics of projects and with characteristics of the organisational context ([Besner and Hobbs, 2012a](#)). Although the co-variation has been identified, it has not been analysed systematically.
5. Based on a summary examination, the co-variations of the characteristics of projects, organisations and practices seem to form patterns.

The present paper investigates the patterns in the co-variation of the characteristics of projects, organisations and practices in order to identify patterns and to show that they form coherent organisational configurations as conceptualised by ([Mintzberg, 1979](#)). Doing so validates the current practice of using these labels to quality project contexts. With the detailed descriptions and analyses provided here, both researchers and practitioners will be better equipped to understand and intervene in each of these contexts.

1.2. *Extent of use of practices and best practices*

The project management practitioner literature and professional standards do not make a clear distinction between extent of use and “best practices”, meaning practices for which more extensive use contributes significantly to improved

performance. The material presented in practitioner journals and conferences is very normative; it presents exemplary practice based on the authors’ experience.

Professional standards are based upon a consensus amongst practitioners as to what constitutes good practice ([American National Standards Institute, 2014](#)).

A standard is a formal document that describes established norms, methods, processes, and practices, as with other professions, the knowledge contained in this standard has evolved from the recognized good practices of project management practitioners who have contributed to the development of the standard ([Project Management Institute, 2013, p. 1](#)).

Thus the recognised good practice found in standards is both common practice and better practice. A distinction is made in this research between the extent to which a practice is actually used and the extent to which variation in use is associated with variation in performance. The two are considered to be conceptually distinct and are measured empirically with different methods. The results are compared.

1.3. *Research questions*

1. What characteristics of projects and organisational contexts are associated with internal and with external projects?
2. What are the differences in project management practices used on projects with internal and external customers?
3. Do differences in organisational context, project characteristics and practices between internal and external projects form configurations?
4. Does the extent of use of practices differ empirically from their contribution to performance?
5. Which practices contribute to performance in each of these contexts?

2. Literature review

The focus of this paper is on contextual variation in both project management practice and contribution to performance. The empirical study of contextual variations in project management practice is largely inspired by contingency approaches applied to the study of organisations in which contingent effects are often based on the identification of statistically significant associations between the context and the characteristics of organisations ([Donaldson, 2001](#); [Mintzberg, 1979](#); [Schreyögg, 1980](#)).

[Crawford et al. \(2005, 2006\)](#) investigate empirically what characteristics organisations use to create groups of projects: type of product or deliverable, life cycle stage, stand-alone or grouped, strategic importance, strategic driver, geographic region, project scope, project timing, uncertainty/ambiguity/familiarity, risk, customer/supplier relations, ownership/funding, and contractual issues. They provide a summary of much of the literature on each of these ways of grouping

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