

Project Business Management^{1,2}

The Great Talent Gap in Customer-Facing Project Management

Oliver F. Lehmann

*“How merit is with luck connected,
Is to suckers all unknown.
If the philosopher’s stone was theirs,
they’d lack a philosopher for the stone.”*
Johann Wolfgang von Goethe, Faust II

Summary

A new survey confirms that Project Business Management (PBM) is a fast-growing discipline in today’s reality of project management. It is nevertheless underrepresented in associations, literature, and education.

As the specific needs of project managers in customer-facing projects are so widely ignored, people have to develop their professional skills mostly based on trial and error. This is a costly approach that impacts the profitability of their employers as much as their own income.

Dear Project Managers, Again, We Need to Talk About Money

In my last PM World Journal article³, I suggested that project managers should foster the skills needed to do customer projects. They should do that in a way that these

¹This is the 8th in a series of articles by Oliver Lehmann, author of the book *“Situational Project Management: The Dynamics of Success and Failure”* (ISBN 9781498722612), published by Auerbach / Taylor & Francis in 2016. See full author profile at the end of this article. A list of the other articles in PM World Journal can be found at <https://pmworldlibrary.net/authors/oliver-f-lehmann>.

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³ (Lehmann, 2018)

projects are successes for both the paying customers and the own organization. Ensuring monetary income from a customer project for a contractor is foremost not greed but giving the company the lifeblood for survival, growth, and development.

As a result, I had many discussions with colleagues from project management and related disciplines like governance (PMOs⁴), educators. I had also many discussions with project managers from both sides customers and contractors.

All agreed that there is a talent gap that makes it difficult for project managers to run customer projects as customer-facing profit centers. The income should reflect the responsibility of the project manager as the manager of an income stream for the own organization, but also for the deliveries and services provided to the customer, whose business success to are larger or lesser degree depends on the performance of the project manager.

There was however not much agreement, how project managers in customer projects should be paid and whether they are currently rather overpaid or underpaid. Here are some comments:

- “The project managers of our contractors generally come in expensive cars to meetings. They are definitively overpaid, and the companies that send them suck the blood from us.”
- “As a PMO manager, I am governing a portfolio of customer projects. The profit that our project managers create is too small, so they should not be angry that they do not get paid very well. If they help us make more profit, we can pay them better.”
- “I am a project manager in a project, and we are the prime contractor. I always have the feeling that the project manager on customer side is much better paid, and I have the same feeling when I meet the project managers of our many subcontractors. We are the ham in the sandwich, and as we are organizing the project but are not doing the productive work, we are expected to be cheap.”
- “I have strong experience in several software service delivery companies and in these companies it's very easy answer to your question - PM's who work on customer projects have high visibility, high appreciation and high salaries.”
- “We hire project managers for customer projects in high technology. While certification gives an indication of people's project management skills, no certification validates the business skills needed to do projects against payments.”

⁴ Project management offices

There is a common saying in quality managing: “Without data, you're just another person with an opinion.”⁵ The differing opinions show that we need better data on customer projects and many other aspects of Project Business Management (PBM). That data is so far not available. I therefore decided to obtain such data in form of another small survey performed between 13 and 27 May 2018. During the two weeks, I received 325 responses. The results of the survey are published here for the first time.

Surveys: Customer Projects Versus Internal Projects

The first question in the survey asked, whether the respondents were in customer projects or in internal projects. I had asked the same question already in a survey in August and September 2015, which had 246 respondents. In this first survey, the responses were distributed⁶:

Customer projects	51.1%
Internal projects	44.3%
Other settings	4.5%

“Other settings” could include capital projects, freebie projects⁷ and some more, the survey did not go into details on them.

The majority of projects however were reported as internal projects in organizations and customer projects. Internal projects are done by an organization for its own purposes. Customer projects are performed by one organization, a contractor, for another one, a customer, in exchange of project services and deliverables against money.

There are many differences between the two types of projects. The most obvious one: Internal projects are generally cost centers, customer projects are profit centers.

I repeated the question in my May-2018 survey. These were the results from 325 responses:

Customer projects	58.5%
Internal projects	34.2%
Other settings	7.4%

⁵ (Revelle, 2004, p. 34)

⁶ (Lehmann, 2016)

⁷ (Lehmann, 2017a)

Figure 1 shows both results in diagrammatic form. The outer ring depicts the results of the new survey, while the inner ring represents numbers from the research done in 2015 for easy comparison.

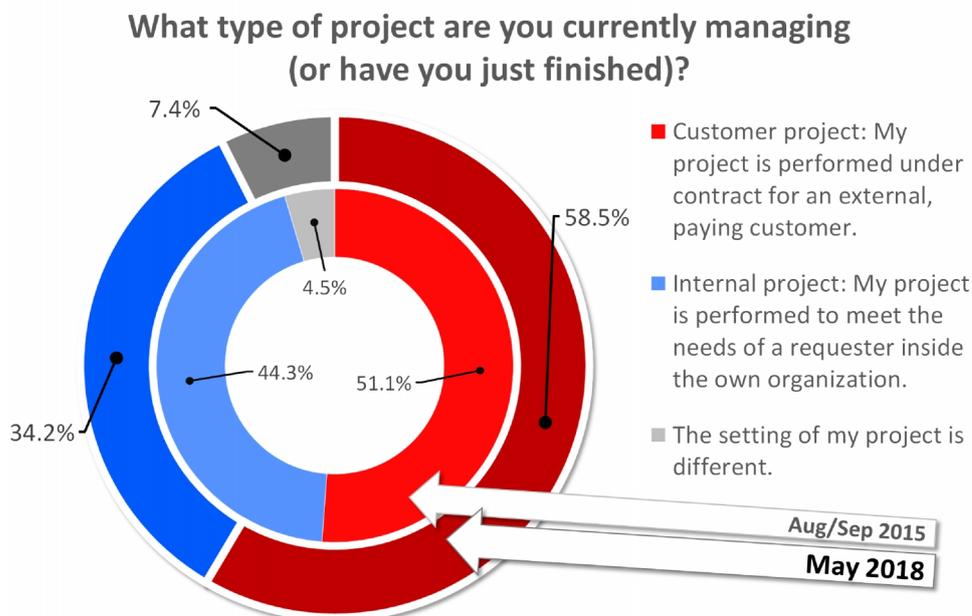


Figure 1: Results of the May-2018 survey (n=325, outer ring) compared with the results of the survey in 2015 (inner ring, n=245)

The percentage of project managers in customer projects grew to from 51.1 to 58.5% while the percentage of their colleagues in internal went down from 44.3% to 34.2%. It is also notable that projects with other settings went up to 7.4%. An observation that is definitively worth more detail research in the future.

Interestingly, this corresponds with another survey that I did in December 2016 and January 2017. In this survey, I was interested in the development of the market for the two types of projects. I asked, whether the recent and near-future trend for make-or-buy decisions was going towards companies selecting more often the “buy” or the “make” option. “Make” leads to an internal project, “buy” to a customer project for a contractor that was able win the contract.

I received 590 responses for this survey. Figure 2 shows the distribution of the responses, with +3 representing a very strong trend towards more frequent use of the “buy” option, -3 chosen by attendees, when the trend goes very strongly towards “make”.

Trends in Make-or-Buy Decisions

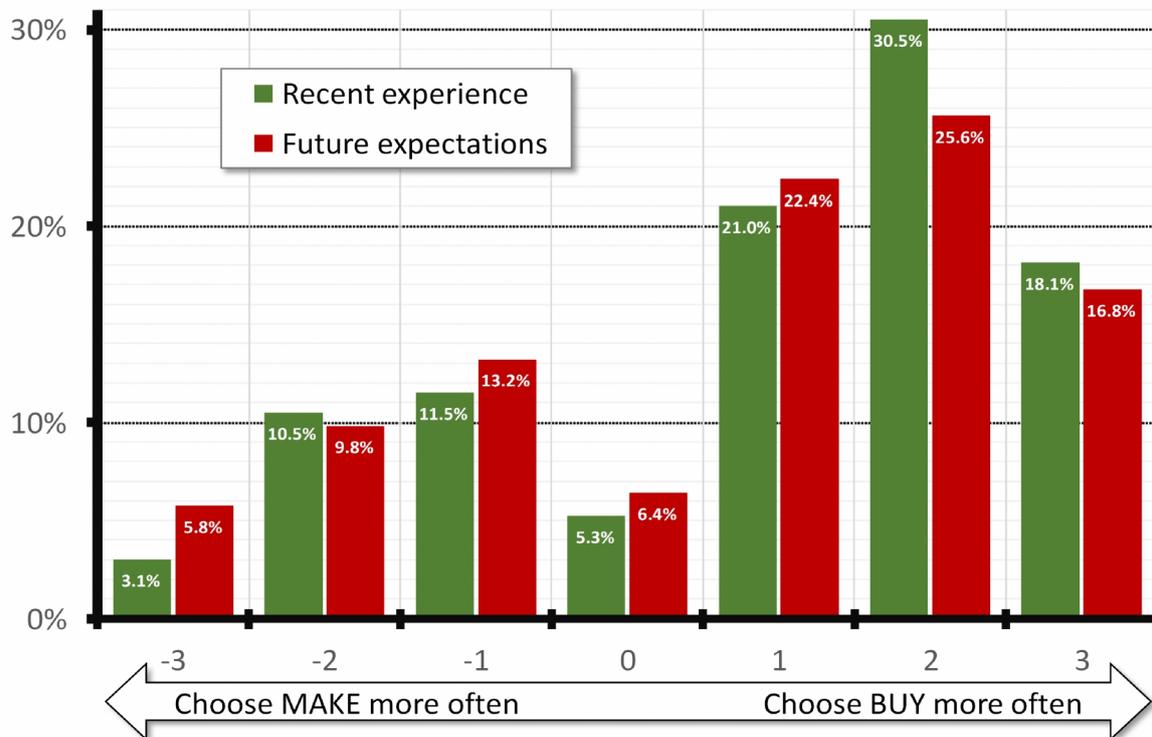


Figure 2: Survey results for trends in make-or-buy (n=590)

The overall result was a trend towards more buying for the past and the future. This trend was robust across different world regions, project sizes and degrees of outsourcing done so far⁸.

So, one would assume, repeating the 2016 survey should give an even stronger majority for project managers in customer projects. This assumption was confirmed. Truly surprising was the pace of the development.

A corollary of this development is the further growing need for project managers who can manage complex project supply networks (PSNs) on customer side. This is the topic of other articles in this series.

Customer-facing project management is of course not a new thing. Projects for paying customers have probably been around for millennia. As the research shows, they are also not exotic or special. Outsourcing project work by one company and performing it by another, or potentially a large-scale network of companies, against payment is instead a massive global trend. It is strange that this mostly ignored by opinion leaders in the discipline, who commonly focus on matters of organizational change, strategic

⁸ (Lehmann, 2017b)

alignment and more aspects of project management that are typical for internal projects.

Seasoned practitioners in this field of project management have gathered a lot of experience. It is impressive to talk with them about both project management and project business management. However, we need to collect this knowledge and add new insights to it. Projects are generally unique and even the most seasoned practitioner will from time to time face new challenges, for which the person could be better prepared when knowledge is shared.

We also have to make it easier for young people to get into relevant positions in project business management. Learning by trial and error only will allow for too many errors on the way to professionalism, that will be costly, and in the case of project supply networks, impact not only the own company but others in the supply network too.

Better qualification could also help ensure that project managers in customer projects are appropriately paid. Which leads to the second part of this new survey.

Further Research

In the same survey of May 2018, there was a second intention: Find out whether there is a difference in income for project managers in customer projects and internal projects. The question is difficult to answer and to research, because there are many aspects of a project managers' jobs that influence income, including

- Geographical location
- Industry
- Experience
- Project size
- Education and certification
- Job status (employed/self-employed)
- Gender

Another limiting factor is people's understandable reluctance to talk openly about their income number. For some, it may even be a breach of their employment contract or NDA⁹. The survey was done fully anonymously, not even participants' IP numbers were

⁹ Non-disclosure agreement

stored, to allow participants to openly talk about the amounts that they get paid by their employers.

It was helpful that I had the results of some recent surveys on the income of project managers at hand that I could use to “sound” the survey results and exclude outliers¹⁰, in particular:

- PMI Salary Survey, 10th Edition¹¹ (Global)
- Glassdoor Project Manager Salaries¹² (Global, running analysis)
- APM Salary and Market Trends Survey 2018¹³ (United Kingdom)
- Gehalt und Karriere im Projektmanagement 2017¹⁴ (Germany)

From these surveys, data got further qualified. For example: Yearly incomes of under \$10,000 would seem implausible for project managers from the USA or the European Union, but have been reported in India or Africa. Then, the responses were removed that said that their project have a different setting. Digging deeper into the experiences of this group would be interesting for another research. For this research, the group was out of focus and the data were not structured to allow digging deeper. They are therefore also not regarded in the following discussion.

After this condensation of data to what was relevant for this analysis, there were 275 responses left, 174 stating that they worked in customer projects, 101 from internal projects.

What the Data Say

The following data refer to gross salaries, i.e. the money paid by the employer. Participants were members of the social networks LinkedIn and Facebook, who communicated in their profiles and in group memberships that they worked as project managers.

The average income¹⁵ of project managers in customer projects was insignificantly higher than that of their colleagues from internal projects. Comparing the median values

¹⁰ There are various possible explanations for outliers, including salaries of “0” and salaries in the millions. As the survey was designed to have no possibility to identify the participant, it was not possible to ask and the outliers were therefore dropped from the results.

¹¹ (PMI, 2017a)

¹² (Glassdoor, 2018)

¹³ (APM, 2018)

¹⁴ (GPM, 2017)

¹⁵ The numbers are gross income numbers. The survey asked for gross and net income, but this article discusses gross income. This is the money that companies invest into the income of their employees and freelancers.

of the two groups instead, internal projects had the slightly better pay, as shown in Table 1.

	Global	
	Customer projects	Internal projects
Responses	174	101
Median	80,000	83,000
Average	98,040	96,902

Table 1: Median and Average values of the global income figures.

For both comparisons, the differences are small. It seems safe to conclude that on a global level, salaries and rates paid to project managers in internal projects and their colleagues in customer projects are generally the same, at least according to what was reported by the participants of the survey.

The picture is however changing, when one relates the income numbers to the various regions from which the participants came. Table 2 shows the results for those regions from which at least 5 persons from both project types responded.

	USA, Canada		Europe (EU)		Africa		Middle East		Latin America		India	
	Replies	Average	Replies	Average	Replies	Average	Replies	Average	Replies	Average	Replies	Average
Customer projects	31	140,329	52	122,728	11	80,917	29	72,328	10	53,388	16	28,007
Internal projects	14	108,786	42	96,498	6	86,567	14	82,764	6	75,833	5	29,850

Table 2: Average values of several world regions.

There seems to be a consistent picture: In high-paying regions like North America and the EU, project managers in customer projects reported higher payments. In medium and low paying regions, project managers in customer projects reported lower average income numbers than their colleagues in customer projects.

An Influencing Factor: Profitability of the Project

I mentioned above the factors that influence project managers' income. The also mentioned surveys done by associations are digging deep into these factors and give interesting insights.

An additional factor not mentioned in these surveys applies to customer projects only: the expected or actual profitability of the project. When a contractor is expecting a high profitability, the company is likely to offer a higher salary (or rate for freelancers) in order to convince good people to do the project and stay with it.

Lower income often signals that the contractor cannot afford to pay more to the project manager. The most likely reason is that the project has been sold cheaply to the customer. Figure 3 depicts how the payment of the customer to the contractor influences the contractor's salary or fees paid to the project manager



Figure 3: How the profitability of the customer projects impacts the salary of its project manager.

This shows that the income of the project manager is linked to the pricing with the customer and the internal costing of the contractor.

What influences the prices agreed to be paid by project customers to their contractors? Of course, the classical offer-demand balance. Other factors, like price-driving urgency and others may also come in.

The numbers in Table 2 may be interpreted to show another type of causes, why companies select the *Buy* option in *Make or buy* decisions.

- **For better paying regions:**

The dominant driving force for the buyer seems to be the tapping of contractors' assets, particularly skills, tangible possessions, and management attention, and turning them into resources for the project. In order to make these resources available, customers have to pay a price high enough that it will make it worthwhile for the seller to become the contractor.

In such a situation, the *Make* option is chosen mostly to get things done by

thoroughly competent contractors. The higher salaries that these contractors pay reflect their expectations of future profits from the projects.

- **For lower paying regions:**

In the regions where project managers in customer projects earn less than internal project managers, a much stronger consideration seems to be the objective to get project work done cheaply. The contractor saves the customer from having to hire personnel and giving these people a workplace, or from blocking internal corporate resources that will then need to be replaced by others. This approach will only be worth taking, if the contractor is cheaper than internal resources. The price pressure from the customer will then translate into lower earnings for the contractor's staff, accepting that people will possibly work on the project with lower qualification and motivation.

In such a situation, the *Make* option is chosen predominantly to get things done by cheap contractors. The lower salaries paid by these companies rather reflect their actual poor profitability and possibly also their poor liquidity.

For the second situation, one should also be aware that many emerging countries have over decades invested heavily in education, especially in form of scores of technical universities. These educational institutions produce a constant output of high numbers of well-educated young people, but their countries failed to also establish and develop the successful industries needed to employ them. Often, the education is paid by the young people's families, who after the end of the studies expect a payback from the person. With a lack of appropriate jobs on a grand scale, the principle of offer and demand drives down the salaries of those able to find a job, with a glut of poorly employed and unemployed engineers as a reserve bench, just in case the person, who was lucky to have a job, fails or demands higher payments.

Low salaries can become a trap: The employer may not be interested in changing the situation. The person may then have to rely on credits, and while the salary is not sufficient to pay back interest and principal, the amount of credit taken will go up further. People work harder to get the best income possible in the current job, which takes away the time needed to develop oneself further to evade the trap. In the end, people will burn out.

Educated for Customer Projects?

How are project managers professionally educated to do customer projects? Managing customer projects is an aspect of Project Business Management (PBM), the other one is the management of project supply networks on the side of the client, or, as a student of mine called it once, "project procurement management on steroids".

Both aspects need people who master both, project management and business management.

The basic education of most project managers is related to the topic of the project. Software projects are mostly managed by people educated in software, engineering projects by engineers, marketing projects by educated marketers, and so on. They may have had lessons in project management, but this was considered rather a supplementary part of their education that is not essential.

On top of this basic group, some had further professional education, mostly in a corporate setting:

- A growing number of project managers then had some form of education in project management. As I mentioned above, this did not include business aspects, except for some hours on procurement management in simple client-contractor settings. Matters like profitability, liquidity and also legal matters were not part of this education, and also not how a mission-oriented team is formed out of a complex project supply network from a greater number of independent organizations, that act together under contracts.
- Another group has had education in business management, mostly either in a corporate setting or in form of academic studies.

In this context, they may also have had some lessons in project management, but more as a supplementary education.

Figure 4 shows the education gaps that come with these three groups.

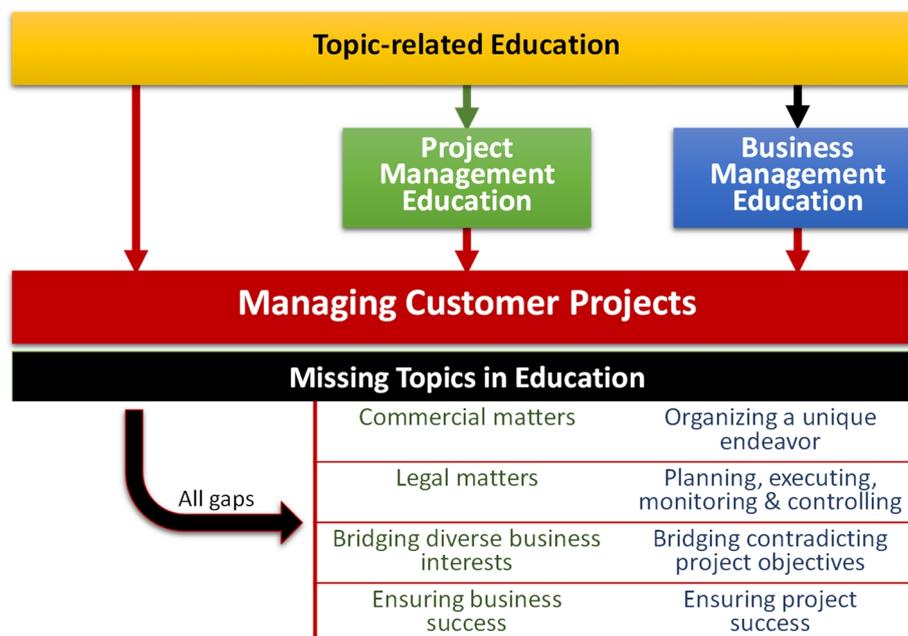


Figure 4: The education gaps that impact success in customer projects

How will these gaps be filled? Mostly by trial and error.

Learning by trial and error takes a lot of time and the person's ability to draw lessons from negative events, when human nature too often tells people to avoid accountability instead and learn nothing.

To make the trial-and-error approach even worse: Errors in customer projects are costly.

Often, the costs do not only affect the contractor, but also the customer, subcontractors and other constituents of the supply network. Projects are not rare, where such errors impacted the society and the natural environment.

In customer projects, business success and project success are tightly interwoven. Failure in project management will impact the business success of the project and vice versa. Companies doing these projects as contractors cannot afford these errors. We need project managers educated in Project Business Management.¹⁶

Getting Out of the Low Salary Trap

The weakest person in a customer project is the project manager without project business qualification. Technical staff are expected to do technical jobs, something they are well qualified for. Some project business managers are educated and qualified as project managers, and while they have learned what a project charter is, or a scope statement, a WBS and may be even able to apply agile methods, they have never learned to use approaches like benefit engineering¹⁷ to get a customer project out of crisis.

Educated as business managers, there will not be sufficient knowledge of the processes of project management that are intended to create unique deliverables. From whatever side the manager is coming, the person will not be fully prepared for the job, at least not by education.

Does better education pay itself back?

Project business managers, who are able to ensure profitability for their employer and combine this with the smile of the happy customer create value for the contractor. This value is measurable and can also be felt, when the overall perception of joy and satisfaction in the job environment goes up.

In a well-paying contractor company, project managers should have this qualification to meet the expectations of the company, that is expressed in the high salary.

¹⁶ See my detailed explanation in my article "Project Supply Networks" (Lehmann, 2017c)

¹⁷ (Lehmann, 2017d)

In much poorer-paying companies, getting qualified to develop business acumen and apply it in the project is the way out of the vicious circle of low payment, debt, and burning out. Either the project business manager gives the company the profits that allow better payment and make that interesting to the employer, or the person is in a better position to change the company.

Qualifying employees as project business managers is also in the interest of the employer and its managers. A company profitable enough in its customer projects to pay higher salaries is more joy to manage and increases the benefit generated to shareholders and other key stakeholders.

Beware of the Pot Shards!

Just a note on the comment quoted in the introduction to this article:

- “The project managers of our contractors generally come in expensive cars to meetings. They are definitively overpaid, and the companies that send them suck the blood from us.”

My friend, who said that, may have been a victim of pot shards.

What do I mean with pot shards? The story goes back to European mediaeval times, when people did not keep their money inside pockets or hand bags, and when space-saving bank notes were still not invented. People had no bank accounts, credit cards and no bitcoins on their PCs. Money existed as coins made from copper, silver or - rarely - gold, that were kept in pouches roughly the size of a fist and dangling outside their cloth¹⁸. Plain to see for everyone. The material of these purses, cheap or expensive, their decoration and apparent fullness, and also the clinking sound of the coins inside them during walking advertised a message of liquidity and creditworthiness to other people, or of poverty, of course.

These purses were a risky form of keeping one’s money: “Cutpurses” were thieves who had the art perfected to cut the strings that held the purse and steal the money without the owner immediately noticing it.

Sometimes, the cutpurses had bad luck, when they found nothing but pot shards in a stolen poach. Too many people had more debts than cash. They sometimes filled their purses with pot shards, that made them appear as filled with coins, made convincing sounds, almost like metal during walking. Purses filled with pot shards gave the owner the creditworthiness to survive the day.

¹⁸ See my explanation in my article “Project Supply Networks” (Lehmann, 2017c)

Don't judge a contractor by the cars of its representatives. The car may be like the pouch of the poor guy in mediaeval times, filled up with junk to impress you. Beware of the pot shards!

Conclusion

Project managers in customer projects are tasked to bring the money home that the organization needs to survive the day. They are also expected to bring about the happy customer to ensure the company's future. Most of their projects are not cost centers but profit centers, and making the project profitable is among their tasks, whether they like it or not.

Project managers in customer projects seem to outnumber their colleagues in internal projects. The specific of their task are nevertheless underrepresented in associations, literature, and education¹⁹. The assumption that their experience is sufficient to do a great job is contradicted by the many contractor organizations doing business with poor profitability. This is obviously reflected in the low salaries that many project managers are paid.

Project managers in customer projects should be qualified for Project business management (PBM). They should be able to find the balance of the happy customer and profit for the own organization and learn tools that improve both goals, which seem often to be in conflict. They should also understand how project success and business success are connected.

By bringing monetary value to the own organization and securing its future, they give their companies the business case to pay them better.

¹⁹ An example: The Guide to the Project Management Body of Knowledge (*PMBOK® Guide*) lists "Factors that lead to the creation of a project". The paying project customer is not among these factors, "Customer request" is mentioned on the list, but as factor for the creation of an internal project. (PMI, 2017b, p. 9)

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