
***Project Business Management*¹**

Business Acumen and Business Spirit

Oliver F. Lehmann

*“...and then the day came when the risk to remain tight, in a bud,
was more painful than the risk it took to blossom...”*

— Elizabeth Appell²



Summary

Focus on project business from the contractor’s viewpoint: An aspect of Project Business Management is the need to develop project managers with business acumen – the ability to run a project as a profit center that contributes to the organization’s profitability and liquidity. In addition to that, project managers should be helped develop business spirit, the preparedness and willingness to apply this ability.

¹Editor’s note: This series of articles is by Oliver Lehmann, author of the book *“Project Business Management”* (ISBN 9781138197503), published by Auerbach / Taylor & Francis in 2018. See full author profile at the end of this article.

² (Sky Blue Press Editor, 2013)

Needs and Wants

I was some time ago tasked by a new training customer to give seminars to their project managers on matters of project business. The company was performing projects for paying customers and the projects where its main source of income. The company's project business was not going well, and my customer assumed that the cause was a lack of business acumen but its project managers.

My seminar attendees were generally well prepared for tasks of project management, but as the projects they managed were done for paying customers, and their task was not only to ensure project success, They understood the desire of their employer to increase their commercial capabilities. They had to learn to run their projects as profit centers.

In our seminar, we discussed matters of customer satisfaction, but also profitability and cash flow. The company had a large portfolio with customer projects and each of its customers considered it normal that the Contractor would lay out money for them during the course of the project. This became a challenge to the credit line of the company, which got even more difficult by the habit of many customers to pay late. So over time, the outlays of the contractor grew larger and larger. Another problem was that the project managers were slow in reporting billable work done for the customer, which led to delayed invoicing to customers.

Figure 1 shows how a cash flow can be negative most of the time, even when the project work is profitable. Between the time, when the work is done, and the moment of payment, several weeks may pass, in which the contractor is funding the project for the customer.

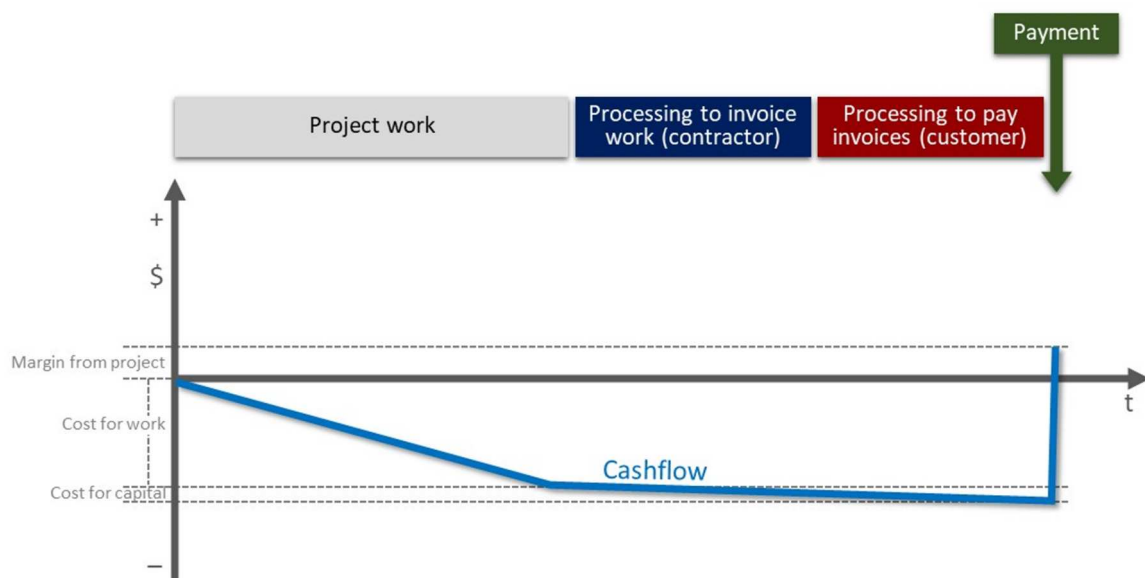


Figure 1: Elements that delay the payment when the contractor lays out money for the customer

Sometimes, contractors find out that they can no more afford funding their customers' projects.

The cash flow problems of my customer repeatedly brought the company in financial distress when the ongoing project business portfolio needed to be funded with bank loans. The company's bank understood that project business is high-risk business and the credit conditions reflected this. To make their position towards their bank worse, as a service-oriented organization, the company did not have many hard assets, such as buildings or machines that they could offer the bank as security. Their main asset was the skillfulness of its employees, and while this asset was esteemed by customers, moneylenders did not consider it acceptable as a collateral.

The company implemented two initiatives to improve the overall cash flow situation across the portfolio of customer projects:

1. Develop a software solution that allowed managing and forecasting outlays and payments for the entire portfolio. With this Homemade solution, the company hoped to increase the predictability of the financial condition of the organization despite the dynamics and volatility of the business.
2. Perform a training program for the project managers to increase their business acumen and competency to run the projects as revenue providing entities.

The second initiative brought me into the organization.

It soon turned out that one issue contributing to the overall problem was professional education. The project managers were not familiar with the terminology used in project business, with the processes they should follow, and with the understanding that their projects were not only technical endeavors but also essential elements of the profit loss calculation of the employing company. In addition, they were not fully aware that their actions could have legal implications, in the worst case in form of litigation.

Another aspect that called for better business education for the project managers was the inability to look at the project business in its entirety. The project managers had a basic understanding of what was necessary to generate a positive margin from a customer project. However, they had difficulties to understand how the project contributed to an overall profit and loss calculation. Some of the projects had quite attractive margins, but it wasn't expensive undertaking to win new business for the organization. Developing bids, proposals, and other forms of offers was an expensive exercise, and with a hit rate of about 10%, the organization had to develop 10 offers on average to win one new project.

Figure 2 illustrates the revenue and cost calculation of the organization. The small profit is trouble in itself of course, but it also comes with a risk: A small costly event, such as a customer not paying or a damage claim from perceived or actual poor work in a project could be sufficient to turn the calculation into a loss. Another problem for the company was that

the small profit made it hard to build reserves to cover for damage claims and other risks and did not allow the company to invest in new technologies.

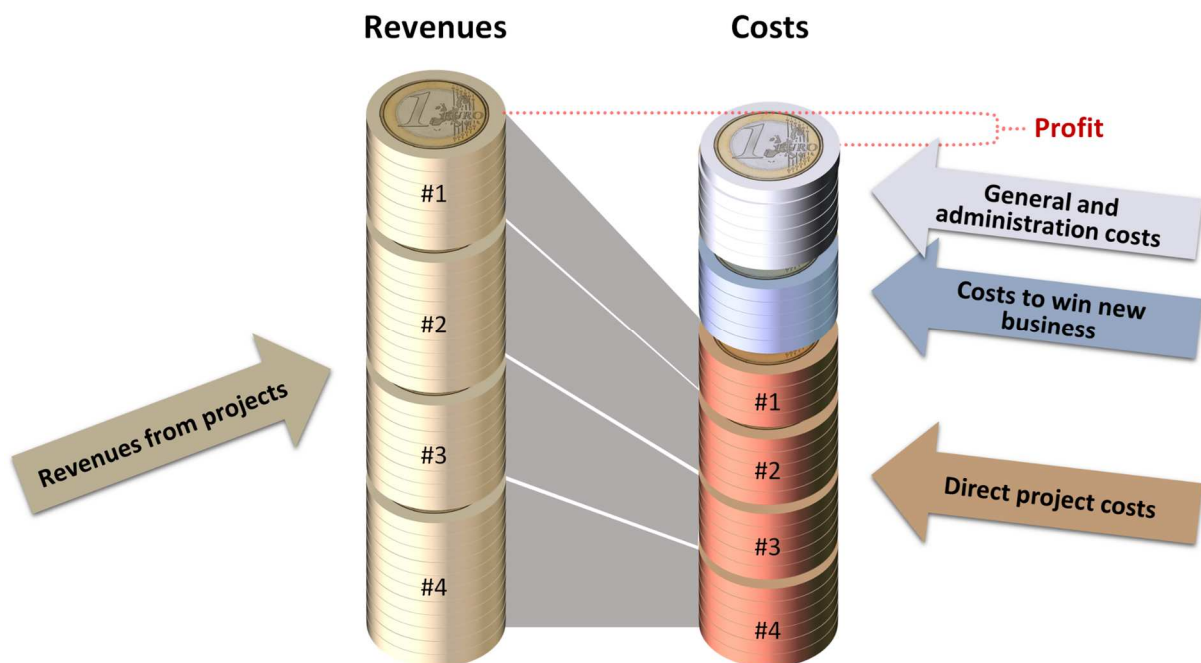


Figure 2: Each of the margins (revenues of the projects minus directly attributable costs) of the projects in the portfolio may be attractive. Adding the costs of running the firm and of winning new business, the remaining profit can be much smaller than expected.

While we trained the project managers in commercial and legal aspects, another problem turned up: Many of them understood the need to direct their attention to the profit center nature of their projects, but the preparation to bear this in mind when they communicated with stakeholders and made decisions in their projects was not developed. Their education had been purely technical and considering matters of profit and loss as well as of cash flow matters seemed unfamiliar and not natural to them.

The lack of business acumen was one problem, but there was a second one – the missing business spirit.

Business Acumen

Project Business Management is a discipline which is impacted by a deficiency of sufficiently educated professionals. Sufficient education for project business includes not only technical expertise and project management skills, but also business knowledge.

The need for business knowledge is comparable to the knowledge that is needed to drive a car through the city. A driver must make a lot of small decisions on the way, and the person needs to understand the dynamics of traffic, the functions of the own car, and the rules imposed by law. It is not necessary that the driver is an expert in physics, or in car mechanics, or in little matters. To drive the car safely, only basic knowledge may be needed, and it is not

learned at a University but at a driving school. The driving instructor also is not a physical, technical, or legal expert but combines sufficient familiarity with the three disciplines to teach the learner the essential lessons. Lack of sufficient knowledge in any of the three disciplines can lead the journey into technical or legal troubles.

In project business management, the general task is similar. A project manager must make a lot of micro-decisions during the project, and it is important for the person to understand the consequences of actions (or inaction) on the commercial and legal dimensions in addition to the outcomes in the dimension of project management. Project managers in project business need a degree of instruction that should at least match what is required to drive a car.

While project business has become a key discipline in all areas of improvement and innovation and for regulatory projects, it is widely ignored in literature, academic and professional education, research, and in the work of professional associations. Organizations in this field seemingly prefer to deal with the much shinier world of projects that are internal in organizations.³ Project business management deals with organizations and individuals who have they are boots firmly on the ground Commercial matters. It is an area, we are organizations and individuals earn money, sometimes lose money, and sometimes go insolvent.

Given its massive impact on the global economy, the risks that come with project business for all parties involved, and the very specific challenges that practitioners face, it is surprising that not more is done to educate people.

Obviously, professional education can help develop business acumen among practitioners in project business management.⁴ This is true for both sides, project managers in customer projects, where they are tasked to generate the income for their employers, contractors working for paying customers, and also for project managers on customer side, who have to manage complex, opaque, and dynamic networks of suppliers. However, it is much more difficult to develop attitudes and behaviors.

So far in this series of articles for PM World Journal, the focus was on business acumen. In project business, this includes understanding the commercial and legal aspects and having the situational awareness to respond to challenges, opportunities and threats in a highly dynamic environment, on top of being knowledgeable in the various aspects of contemporary project management. Past articles in the series focused either on the customer or the contractor side. This article will look at business acumen and business spirit with the focus on the contractor, which is regarded here as an organization with employees working for a contractor. However, the essential statements made here do also apply for self-employed individuals and freelancers.

³ An exception is the Project Business Foundation, which has a focus on Project Business Management (Project Business Foundation, 2019)

⁴ (Lehmann, 2019)

In a future article, the question of business acumen and business spirit for customer side employees will also be discussed.

Business Spirit

Business acumen in the sense as it is used here is about knowledge, skills, terminology, and other aspects of a professional person's expertise in the field. Business acumen stands for the ability of a project manager to run the project as a business endeavor.

Business spirit in contrast describes the willingness of an individual to apply this expertise to the benefit of the employer end of other stakeholders involved in the project.

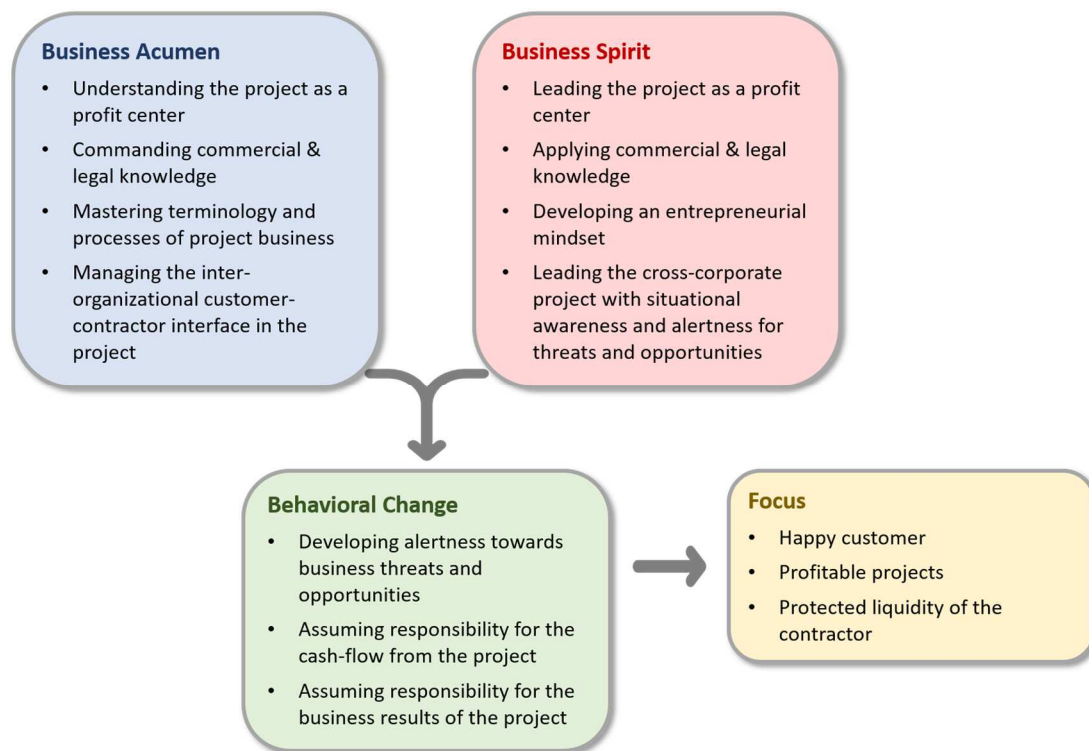


Figure 3: Business acumen and business spirit must come together to change behaviors and meet the objectives of project business management.

It includes situational awareness and a deep sense of loyalty towards the own company. It further comes with a high level of alertness that in a cross-corporate project, the most critical areas where the seeds of troubles and possibly crises are to be found are the interfaces between the organizations. Each organization has its own business interests, but also a specific culture, moral compass, and experiences, from which lessons learned have been taken that influence their behavior today.

However, apart from being a source for potential troubles, these interfaces are also a source for future business. As a contractor, one is often in a situation, where one can see deficiencies and weaknesses that people on customer side got used to and take no more notice of.

Applying a process called “Benefit engineering”⁵, these are opportunities to get a troubled project back to success and to develop new and rewarding business with the existing customer. As a project manager working with a customer, there are commonly occasions when such chances for new business are opening. Using them is in the interest of the own organization, but it should also benefit the customer, who gets problems resolved and for whom new opportunities are opened to take advantage of. Benefit engineering builds on the intention to develop win/win solutions and on the permanent alertness for opportunities to help the customer in surprising ways.

To identify such opportunities to add value to the project for both customer and contractor, a change in mindset is necessary for many project managers. For them, paying attention to questions of profitability, cash-flow, and protection of the own organization against legal claims seems to be an inferior task; something they dislike dealing with. Considering themselves technical experts, not businesspeople, they hide in their bud, when their employer would need them to blossom and open to the full latitude of their responsibility and the various aspects of professionalism the should apply to make their project successful.

Ensuring the financial health off the project and the employer comes with a huge benefit for themselves: job security.

Business Spirit in Times of Crisis

In a joint study performed in June 2020 by the Project Business Foundation and PMI, Project Management Institute, four out of five project managers responded that their project business was negatively affected by the current COVID-19 crisis.⁶ Over 50% of the study’s respondents answered, that the crisis will lead to layoffs by their employers. In comment fields, where free text could be inserted anonymously, the respondents further reported of massive disruptions of project business that they experienced and of a high vulnerability of the business that the COVID-19 crisis laid bare and made obvious.

It seems, at a time in which commercial success for many project contractors is getting more difficult to achieve, that business acumen and business spirit are becoming even more decisive factors for professionals to help their employers stay in business, allowing them to protect their own job or, where this is not possible, making it easier to find a new one.

⁵ (Lehmann, 2017)

⁶ (Project Business Foundation, PMI, 2020, p. 8)

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Oliver F. Lehmann, MSc, ACE, PMP, is a project management educator, author, consultant, and speaker. In addition, he is the President of the [Project Business Foundation](#), the home association for professionals and organizations involved in cross-corporate projects.

He studied Linguistics, Literature and History at the University of Stuttgart and Project Management at the University of Liverpool, UK, where he holds a Master of Science Degree. Oliver has trained thousands of project managers in Europe, USA, and Asia in methodological project management with a focus on certification preparation. In addition, he is a visiting lecturer at the Technical University of Munich.

He has been a member and volunteer at PMI, the Project Management Institute, since 1998, and served as the President of the PMI Southern Germany Chapter from 2013 to 2018. Between 2004 and 2006, he contributed to PMI's *PM Network* magazine, for which he provided a monthly editorial on page 1 called "Launch", analyzing troubled projects around the world.

Oliver believes in three driving forces for personal improvement in project management: formal learning, experience, and observations. He resides in Munich, Bavaria, Germany and can be contacted at oliver@oliverlehmann.com.

Oliver Lehmann is the author of the books:

- ["Situational Project Management: The Dynamics of Success and Failure"](#) (ISBN 9781498722612), published by Auerbach / Taylor & Francis in 2016
- ["Project Business Management"](#) (ISBN 9781138197503), published by Auerbach / Taylor & Francis in 2018.

His previous articles and papers for PM World Journal can be found here:

- <https://peworldlibrary.net/authors/oliver-f-lehmann/>