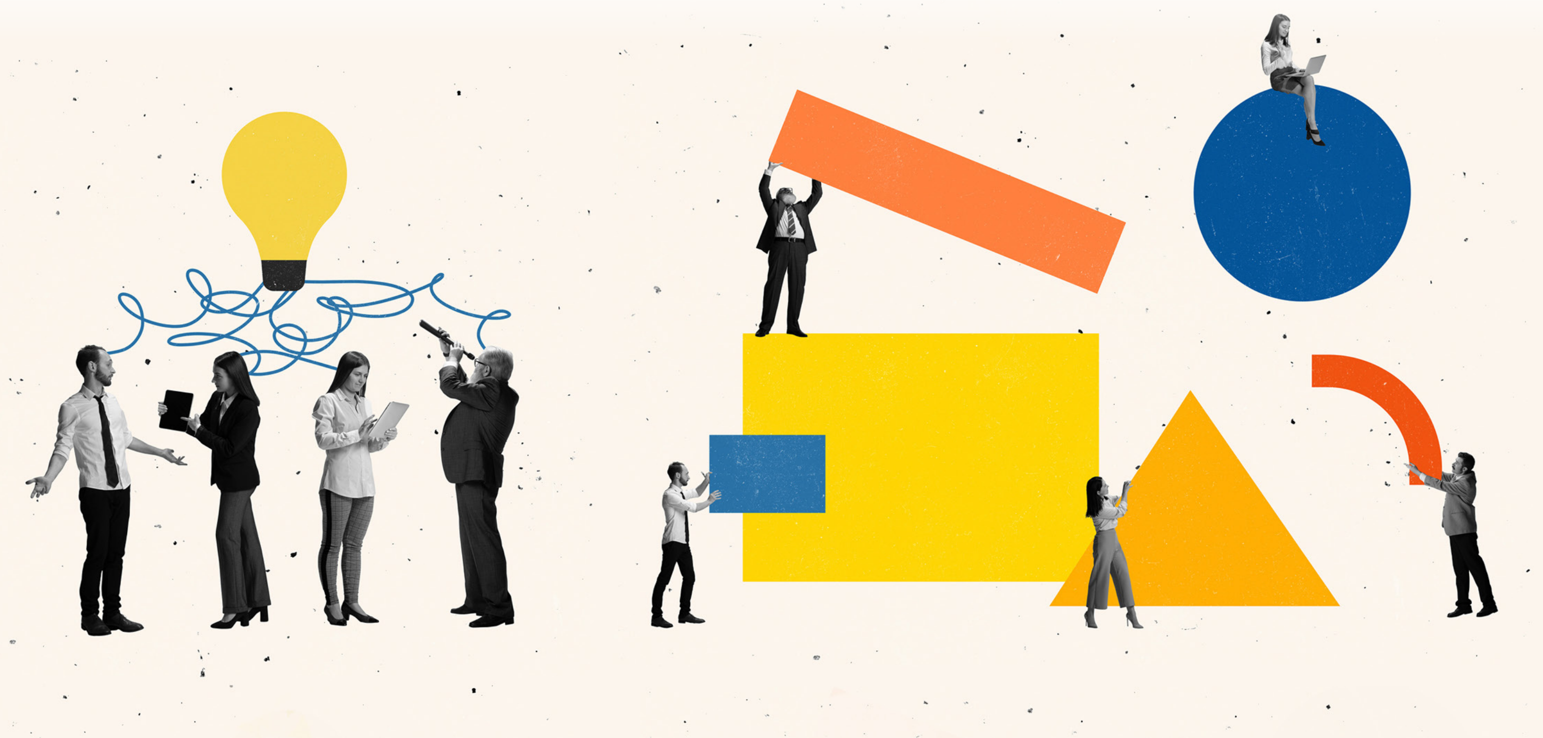



# Are Your PMs Ready, Willing & Able to Be Held Accountable?

By Dr. Perry Daneshgari & Dr. Heather Moore

Often entrusted to run multimillion-dollar projects and serving as the link between the office and the field, project managers (PMs) are essentially depended on to run a small business. As PMs take on bigger projects, they are expected to have stronger financial skills. For example, a project that generates 10% gross profit but takes 10 months to collect payment can break even or hurt a company's cash flow.

Are your PMs willing and able to act as your company's agent in running a business to its full extent? This article offers guidance, best practices, and performance measurements to help CFOs hold PMs accountable for finances beyond the next billing cycle.



## READY, WILLING & ABLE

An entrepreneur looking to start a business and grow it to over $1 million in revenue in the first year would be required to put a business plan together to secure funding. Yet, contractors hand $1 million jobs to a PM without requiring a plan, and very often, without business or financial training.

So, finding out if your PM is ready, willing, and able to fulfill the role is challenging, especially when your options are limited. A lot is learned as the PM acquires on-the-job training one job at a time.

The following scenarios may sound familiar:

### Scenario 1

After 15 years in the field, a newly-minted PM is excited to put their title to work. You don't have time to train them, so you hedge your risk by starting them out with managing small jobs and rely on their field experience to help them run the job.

### Scenario 2

The Assistant PM who spent the past three summers interning as support for three different PMs is looking to be promoted to PM. They have a great attitude and you're short on PMs, so you want to get them started now.

### Scenario 3

A PM, who was a top performer in the field, has lost money on all of their jobs over the past two years as a PM. You're not sure what to do with them.

Even though these three scenarios are very different, the root cause is the same: lack of a common pathway for PMs to turn their *readiness* into the *ability* to perform. In some cases, the ability is also limited to the individual's *willingness to learn* and *trust in the company's structure* as the company is trusting them with its money.

## MEASUREMENTS TO MANAGE PMs, PROJECTS & THE COMPANY

Independent of any individual PM, there are certain characteristics and outcomes by which to measure – and therefore manage – your PMs. Some of these are behavioral in how they manage resources and act as the company's agent while others are strictly project metrics that can provide early indicators of management performance.

Consistency is critical; maintaining a standard review process with your PMs on their individual projects and their collective personal performance is important. The following are some examples for each, along with a process for tying them all together:

### Behaviors

Although it seems like many of these behaviors may only apply to larger projects, remember, if you don't hold all PMs responsible for the same behaviors independent of project size, then you risk handing them the business without requiring business management.

#### *Conducting a Successful Project Startup*

In general, there are five phases of project management: conception and initiation, project planning, project execution, performance/monitoring, and project close. Exhibit 1 presents a project management process that is specific to construction.

Whether or not your company has a formal process, a good PM should at least be:

- Managing project handoff from estimating (unless the PM estimated or won the project themself) to understand the assumptions and scope.
- Defining the project team based on skills needed and available.
- Reviewing the contract and highlighting key risk areas for the company and the project to company executives.
- Developing a financial plan for the project that sets a realistic strategy to achieve profitability and cash flow goals.
- Setting up a Single Point of Launch™ where the people, money, and material

Even if a PM is driven by money or keenly aware of the project financials on paper, **THEY NEED TO KNOW WHAT DRIVES THOSE FINANCIALS** to be what they are and manage those inputs. This is where the rubber meets the road between a **PM WHO IS READY AND WILLING** vs. having the **ABILITY TO PROJECT MANAGE** effectively.

planning culminates in a physical event that communicates the plan to the project team and other key stakeholders.

***Scope & Change Order Management***
Projects change and expand (30%) throughout their life cycle,[1] and PMs do not always stay on top of change management, recognizing the volume and the impact of changes at 80% or more complete. The following questions can be used to measure PM behaviors:

- How up-to-date is their change order tracking/change log?
- How well and often do they provide an update to the customer about open questions and change orders?
- How frequently do they provide change order status updates to accounting, adjusting their contract and job cost?

If a PM is not on top of this data frequently, then they are likely not managing the changes.

***Transparency With Data***
PMs are infamous for horse trading[2] and experience success to an extent. However, a business operating with a barter system cannot survive long.

Two signals that go with horse trading are lack of transparency to the data available about the project and/or inconsistencies in the data between accounting and the project's field operations. The latter is also an indicator of what is described in the next section for managing work vs. managing money.

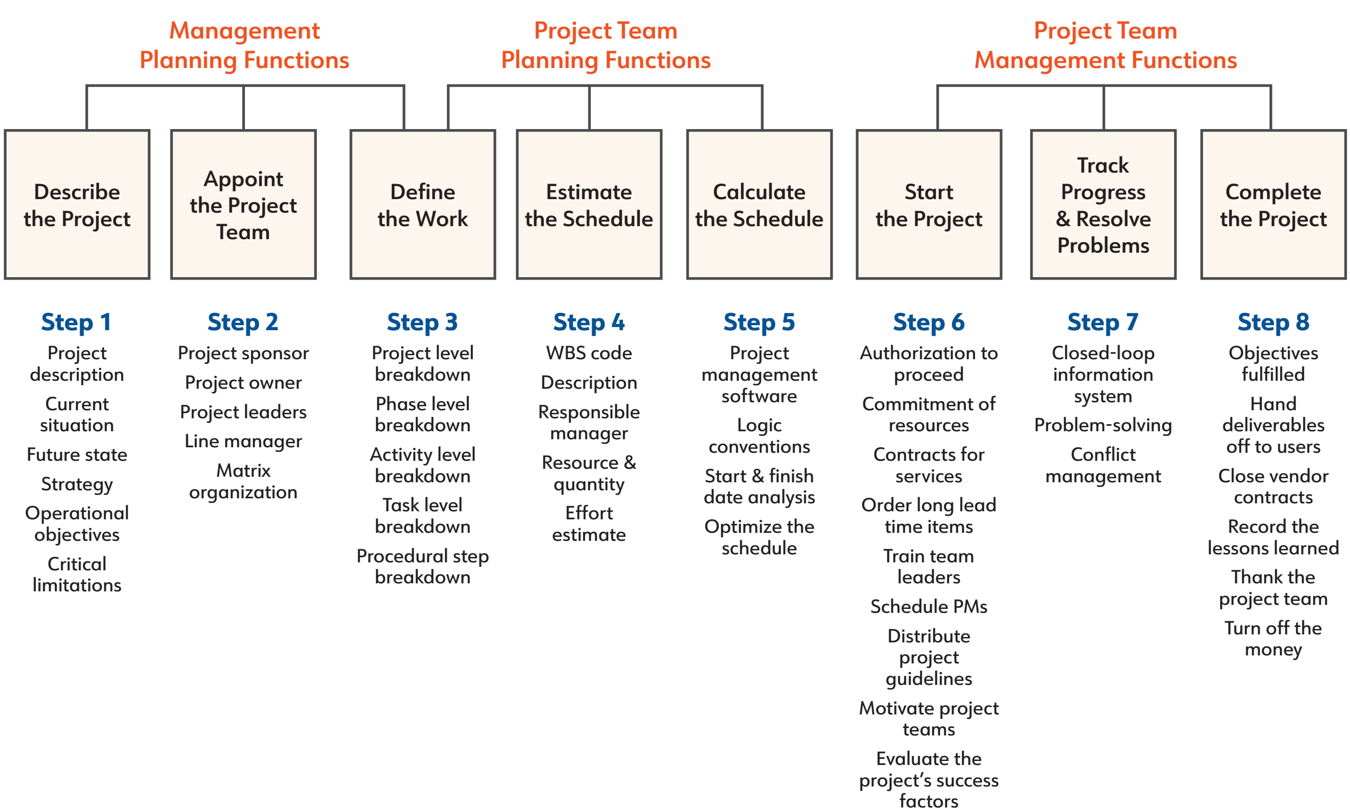
A few behaviors to watch for include:

- Explaining the project status without the use of data from accounting and/or field operations
- Using offline, individually produced spreadsheets
- Lacking use of operational tools and processes (including excuses for why they can't or don't apply to a particular job)
- Using company money (overhead, indirect, procurement buyout) to cover project costs or losses

***Customer Management***
To the customer, PMs are the face of the company. Even if they are not salespeople, PMs take care of the customer. How often do they take the customer to lunch or out for a coffee to talk about upcoming jobs? How often do they close their projects with a guaranteed service contract or last look at the next job?

These behaviors can be monitored either in the background with data or

Exhibit 1: The Process of Project Management



with formal customer relationship management tools. PMs must be willing and able to transition their presence to one that represents the business, not just building.

## PROJECT PERFORMANCE LEAD INDICATORS

Outside of personal behaviors and tendencies, there are data-driven lead indicators for a project that a PM should manage for a predictable and visible outcome. Even if a PM is driven by money or keenly aware of the project financials on paper, they need to know *what* drives those financials to be what they are and manage those inputs. This is where the rubber meets the road between a PM who is ready and willing vs. having the ability to project manage effectively.

First, a PM needs to provide reliable project projections, including early warning of profit gain or fade (from estimate).

Further, a PM should be able to explain and ideally quantify the sources of the gain/fade such as:

- Estimating misses
- Procurement/buyout
- Change orders
- Productivity and its root causes

If the accounting data shows a deviation from expectations, then there should have been another way of conveying it weeks or months in advance. There are no circumstances on a job that should be unknown or unknowable with the right measurement system.[3] A PM must be responsible for managing these information sources and informing the business about them as soon as possible.

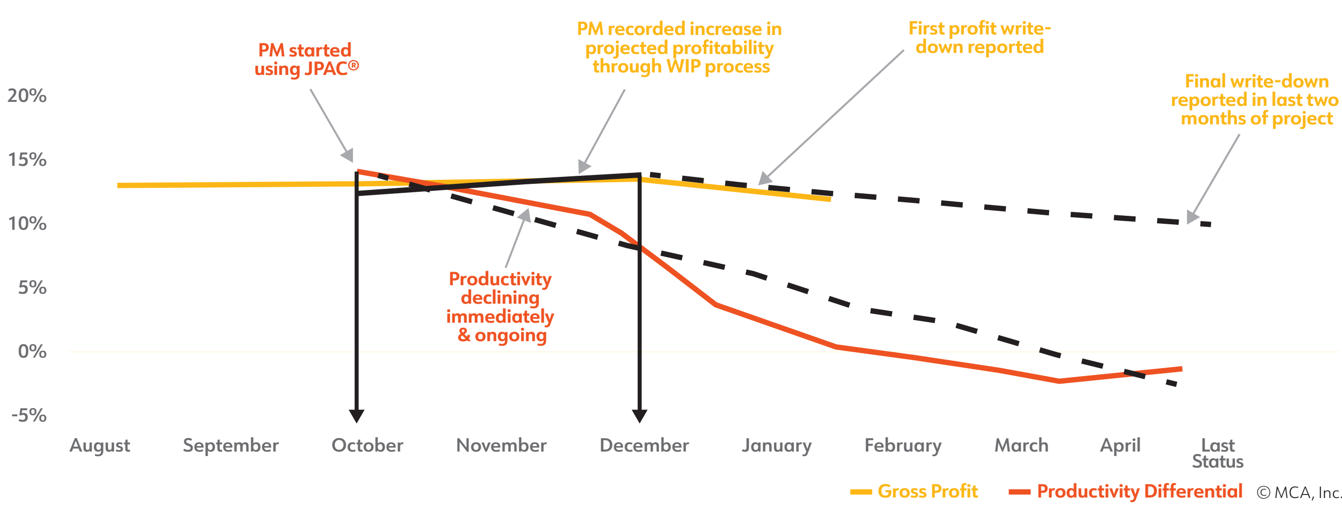
Exhibit 2 shows an example of where SIS® (ASTM 2691) indicated productivity impacts and field obstacles, reflected in JPAC® (ASTM E2691) in poor productivity, but the PM did not include it in the financial reporting until months later.

The positive case exists too – affectionately named *sandbagging* – where a PM waits to disclose profit until months after it is produced (Exhibit 3). This typically happens when a PM is more worried about managing money on paper than managing the inputs to it on the jobsite and lacks an understanding of what drives the financials. Do a quick litmus test by asking some simple questions:

- What are your total hours and duration on the job?
- How close to completion is the job?
- How many hours or dollars have you spent and how much is remaining?
- Regarding the number of workers on the job, what is the average and peak?

Exhibit 2: Productivity Predicts Profit

Lead indicator of JPAC® showing a job performing better than expected while the PM waits to disclose the results in profit projections months later.



Without answers to these questions, your PM may be reporting projections to accounting that look good but do not reflect the true job reality.

If your company is using a project management system, then you should also be able to hold PMs responsible by measuring the data quality of that system. In other words, the old "garbage-in, garbage-out" adage holds true if a PM is only putting data in without using the system's outputs to manage and make changes required to improve predictability and overall project performance.

Exhibit 4 shows an example of aligning the data quality with correlated data quality of the JPAC® and SIS® processes with project outcomes. The results show that PMs who correctly used the system with correct data collection, data reporting, data interpretation, and action ended up with more positive job outcomes. The correlation is independent of the job conditions but reflects the PMs' willingness and ability to use a system to manage the project financials by managing the input to those financials.

There must be a consistent and common Single Point of Review (SPR™) where all of the data from the project comes together for an audit via the PM to explain the job's status and use it to plan the next phases. SPR™ is recommended at every 25% complete of a project, although high-risk projects may need more frequent review.[4]

## TYING TO COMPANY PERFORMANCE

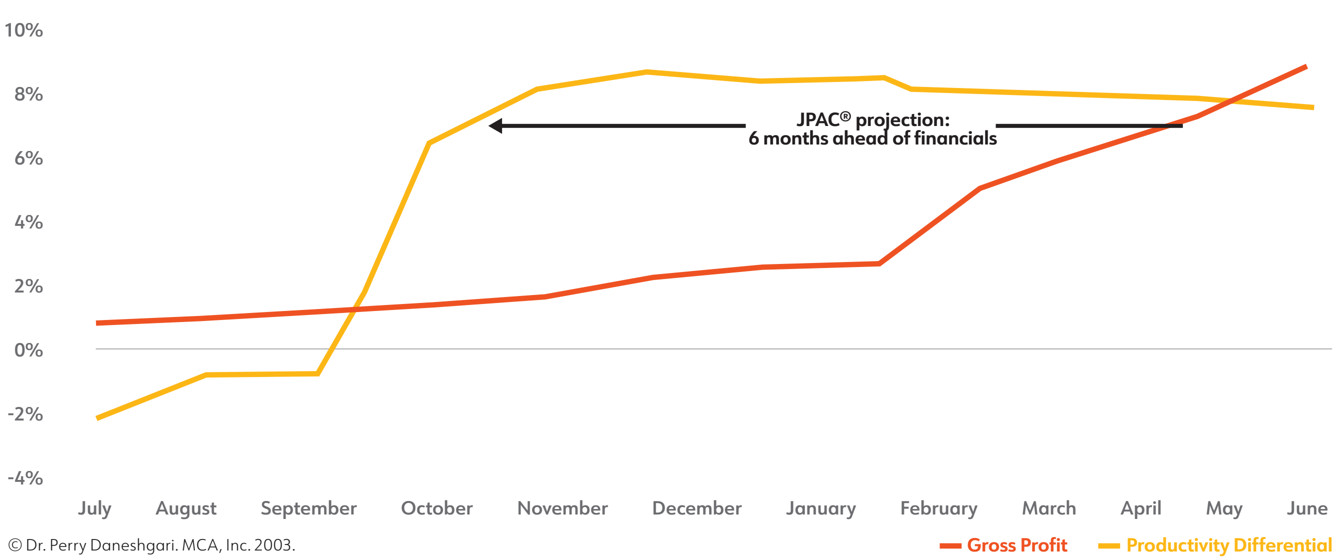
Holding PMs responsible for their behaviors and single project outcomes is one thing; helping them to take the next steps to tie those things to their role within the company gives them a path to management. The same project-level goals can aggregate to annual or even quarterly and monthly goals to work toward.

### Revenue Goals

Based on the company's overall budget, how much revenue does each PM need to generate? For example, if your company's budget for this year is $50 million and you have five PMs, start with holding each of them responsible for $10 million. Of course, you can be more specific based on their past performance or other factors, but giving your PMs a horizon broader than "finishing the current job" can motivate them to get more work and *do* more work than one job at a time.

Exhibit 3: JPAC® vs. Gross Profit

Lead indicator of JPAC® showing a job performing better than expected while the PM waits to disclose the results in profit projections months later.



### Profit Goals

Setting goals based only on revenue can be dangerous because the business (and each PM) needs to return money to the bottom line for sustainability. Similar to revenue, if your company has set a target net profit for the year, how much does each PM have to contribute?

If your $50 million revenue budget has a 5% net profit goal, then your PMs need to contribute $2.5 million in profit collectively (or $500,000 each, assuming five PMs). Knowing there are good jobs *and* bad jobs, each PM can focus on filling their total bucket, and you can also arrange for a team-based incentive to make the $2.5 million together.

Profit goals can be set at multiple levels, and, depending on the behavior you'd like to drive, you can hold PMs responsible for gross profit, operating profit, or net profit (earnings before interest, taxes, depreciation, and amortization (EBITDA)). Gross profit goals will keep them focused on *direct job cost management,* whereas operating or net profit goals keep them focused on covering *everything it takes* for the company to be profitable.

A simple approach is to give each PM a gross profit target as well as requiring their own cost (compensation, benefits, etc.) to be covered.

### Taking Care of the Company

Once you have behaviors, lead indicators, data quality, and company financial performance all lined up, you are leaps ahead of most in holding your PMs responsible as a true business manager; however, it's possible that you may still have a PM who is successful but does things their own way.

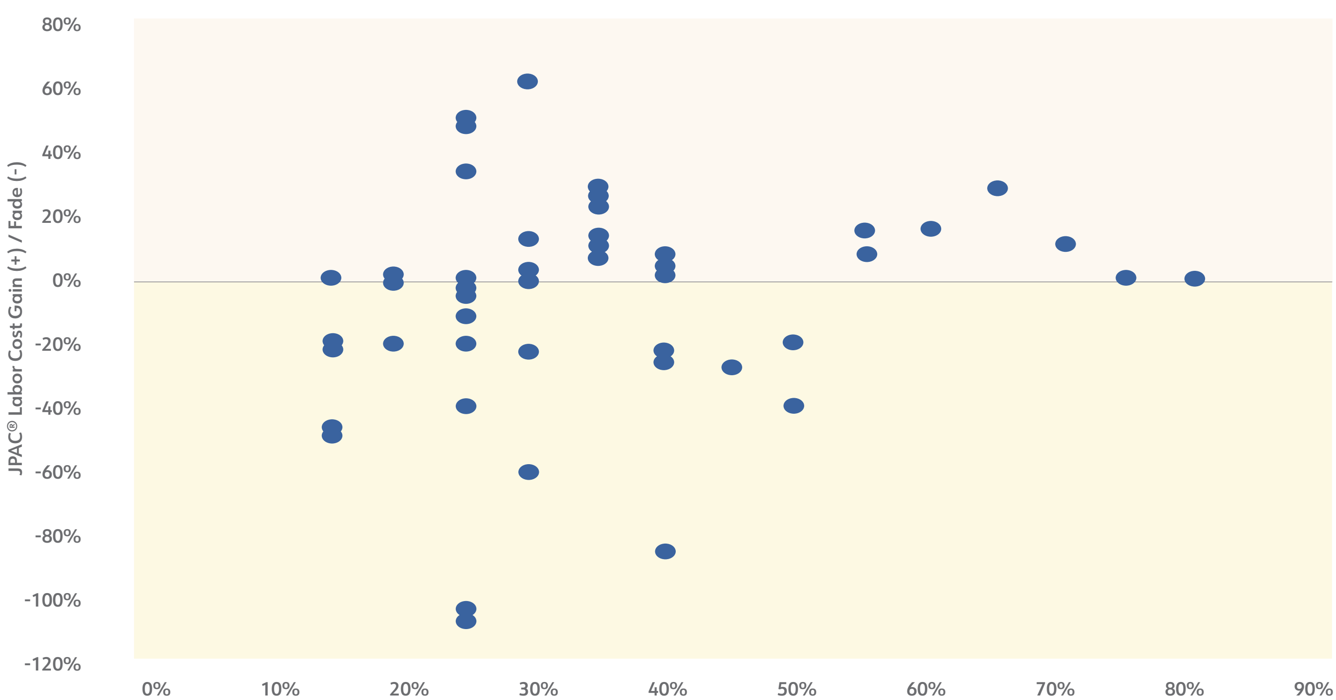
Your risks of overlooking a PM who refuses to comply with company policies, processes, and procedures include:

• Cannot grow or train new talent.

• Lack corporate memory, are liable to repeat the same mistakes, or not learn good habits from other PMs.

Exhibit 4: Agile Data Quality

Data quality as lead indicator for labor gain/fade on jobs over two weeks (each dot represents a job).



• Suboptimized processes that work great for the PM, but not for your accounting department.

• No backup or recovery if/when the PM leaves the company.

Holding a PM responsible to follow company processes can be a struggle; however, it can be as simple as augmenting your incentive structure with some qualitative evaluations for how well they align with the company's overall strategic plan and processes.

## CONCLUSION

A competent PM is capable of managing both money and work, although they are distinct tasks. As PMs assume greater responsibilities, including larger projects to oversee, they are expected to possess superior financial skills.

Accounting and finance acumen requires knowledge of lingo, rules, and ongoing skill development. However, while PMs may excel in estimating or scheduling, they often lack formal training in financial management. Many PMs have likely never balanced a check book, despite being responsible for significant amounts of the company's money.

As a result, project management in construction is more often associated with a role or title than a responsibility to manage and mitigate financial risks. Basic accounting principles and tools can help PMs gain awareness of money management and are good starting points. **BP**

**DR. PERRY DANESHGARI** is President and CEO of MCA, Inc. *(mca.net)* in Grand Blanc, MI. MCA, Inc. focuses on implementing process and product development, waste reduction, and productivity improvement of labor, project management, estimating, and accounting. A frequent author for *CFMA Building Profits,* his current focus is on making productivity visible to everyone through digitalization, commonization, and interconnection™ as well as strategic planning and founder transitions. He can be reached at 810-232-9797 and *perry@mca.net.*

**DR. HEATHER MOORE** is the Vice President of Customer Care and Support at MCA, Inc. *(mca.net)* in Grand Blanc, MI. A frequent author for *CFMA Building Profits,* she holds a PhD in Construction Management with a focus on information available from the jobsite work environment using MCA, Inc.'s processes and tools for Work Environment Management (WEM®). She has contributed to research as well as customer process implementation with MCA, Inc. Dr. Heather can be reached at 810-232-9797 and *hmoore@mca.net.*

## Endnotes

1. *Daneshgari, Dr. Perry; Moore, Dr. Heather; & Daneshgari, Jennifer. "Breaking the Mold: A Nonlinear Approach to Construction Financial Projections." CFMA Building Profits. March/April 2023. cfmabponline.net/cfmabp/03042023/MobilePagedArticle.action?articleId=1873436.*
2. *Daneshgari, Dr. Perry; Moore, Dr. Heather; & Daneshgari, Jennifer. "PMs & CFMs: Increase Information-Sharing to Improve Profitability." CFMA Building Profits. March/April 2021. cfmabponline.net/cfmabp/20210304/MobilePagedArticle.action?articleId=1669332.*
3. *Daneshgari, Dr. Perry & Moore, Heather. "New Productivity Measurement Standard Affects Revenue Recognition." CFMA Building Profits. March/April 2012. cfmabponline.net/cfmabp/20120304?pg=26.*
4. *Moore, Dr. Heather; Daneshgari, Dr. Meik; & Daneshgari, Sonja. "Are Preventers the Real Heroes? Preventing Risk Pragmatically With Data." CFMA Building Profits. September/October 2021. cfmabponline.net/cfmabp/09102021/MobilePagedArticle.action?articleId=1727302.*