Opinion/Ideas

By Aaron J. Shenhar

The Limitation of Efficiency: Why Project Management will become the Next Competitive Asset

Several realities are striking major corporations in the US. On one side of the scale, after years of cost-cutting and company-wide efforts to improve efficiency - most notably among them are six sigma initiatives - even the best companies find out that the rate of improvement is declining. Wal-Mart, the leader of low prices is finding it harder to keep growing and is facing intensified competition from also-runners such as Target or K-mart; and Southwest Airlines, the pioneer of low airfares reports that only a small portion of its earnings come from profits on running commercial flights, and the rest from its smart fuel management program. On the other side of the spectrum, well known innovative firms such as 3M, that tried to join the six sigma trends, find out to their horror that increased efficiency has its cost: stifled innovation and reduction in radical change and new products. So what is going on? Can companies do both six sigma as well as innovation, and do both well? Can they keep competing on both sides of the spectrum?

The truth is that efficiency improvements have their limitation. Initial efforts are always rewarding at first; but how much can you squeeze your operations? After years of cost-cutting, improvements become less and less notable. As experts in manufacturing know, learning curves, which are based on improved performance by repetition, level-off eventually. The cost of any produced product, no matter how many of it you make, will never go down to zero. Thus continuous cost cutting will not provide an unending source of competitive advantage. To illustrate the point think about quality. In the 1980s, high quality was considered an important element of competitive advantage. Not anymore; customers now take quality for granted, rather than view it as a unique advantage. High quality is today a must, and essentially a license to do business. A similar case can be made for organizational efficiency. Eventually, most companies may reach a similar level of efficiency. The current leaders of efficiency are seeing that horizon already, but it will not take long before most companies will catch up, and high efficiency will less and less be a source of competitiveness.

Furthermore, even the best programs for cost cutting, improved efficiency and better quality typically do not create growth. At best they may help you do what you are already doing better and cheaper. The only source for future growth, are new initiatives. Many suggest that innovation is the solution, but not every initiative involves innovation. Perhaps a simple way to see it is to divide the organizational activity into two parts, *operations* and *projects*. Operations involve repetitive ongoing activities such as manufacturing, service, and production; whereas projects involve one-time initiatives such as new or improved products, new businesses, in new markets and new places, but also investments in company infrastructures and internal improvements. Projects are the engines that drive innovation from idea to commercialization. But projects are also the drivers that make organizations better stronger, and more competitive.

It is time that companies realize that the only way they can change, implement a strategy, innovate, or gain competitive advantage is through projects. Ironically, however, many projects today still fail to achieve their expectations; they either do not meet their time and budget goals, do not deliver their business objectives, or both. While companies were busy focusing on improving operations, many of them ignored their project activity. They assumed that if management comes up with the right strategy, their project teams will get it done. Yet as the evidence shows, in projects there is still a significant gap in performance and much room for improvement.

So should companies keep investing in six sigma or other programs for improved operational efficiency? The answer is, absolutely yes. Can they afford to ignore their projects? Clearly not; companies must learn to do both; but each effort should focus on a different part of the company. On one hand, continuous improvement of operations and quality must go on. It may not continue to provide a significant source for competitiveness as it has in the past, but it is a must in order to stay in business. Once you let go, your efficiency and quality may deteriorate. On the other hand, top executives must start paying more attention to their project activity. In projects the improvement potential is high and the opportunity is great. And since more and more people in the organization are involved in projects, it seems that project management should become everybody's business. The R&D or the IT function in the organization does not need six sigma or statistical process control. It needs good processes, better systems, and higher management involvement. Most project problems today are not technical but managerial. When technical errors cause projects to fail, it is usually management that failed to put the right system in place so that these errors will be detected in time. Executives must learn to ask the right questions and foresee danger before they make a commitment to a project and before it is too late; they must understand that different kinds of innovation need different project management styles; and they must implement company-wide initiatives to turn project management into their next competitive asset. It may not be easy, but the rewards will be great. It is time to unleash the underutilized potential that exists in better project management.

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