

You can't Spot Serious Shareholder Value? Check Your Paradigms

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Part 6

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Efficiency – We Must Use Our Resources Efficiently:

Using resources efficiently is a doctrine everywhere. Management wants to see everyone and every machine working all of the time producing. Not only management, as soon as a person has nothing to do for a while he becomes extremely nervous. He wonders whether he will be the next one out the door. So we all make sure that we are all always busy (or look busy) – no matter what!

Let us see what this causes in a multi-project environment. An environment where many projects are worked on at the same time and where the workers are usually working on more than one project at the same time. Should all the employees in such an environment be working as hard as they can all of the time?

Every project environment has a resource (or set of resources) that is overloaded. These people are the constraint of this project system. The other people are definitely not the constraint. However these other people have a need to look busy and their managers must be able to report the high efficiency. What usually happens?

The constraint resource is continually complaining and asking for more capacity. It is working overtime. It has a mountain of work waiting to be done, with no clear priorities on what should be worked on first (every project manager's project is the first priority). The constraint resource multitasks between many tasks and projects (depending on where the squeakiest wheel is) – losing time every time he re-starts on a task. It is a vicious circle. These constraint resources are blamed for the poor performance of the organisation. I would not be surprised to find a lot of frustration here – and a high level of manpower turnover.

What about the other resources? They are looking for enough work to keep themselves busy, to be 'efficient'. What does this do? It loads even more work into the system so that the constraint resource gets an even bigger backlog. The vicious circle gets much worse. Projects are delayed, SVA is lost.

What is the solution? Identify the constraint. Decide how to exploit the constraint. Subordinate everything else to the constraint. Etc. We already know who the constraint is – so how do we exploit his (her, their) capacity? We make sure that the constraint resource works on one task at a time, to the end – never interrupting a task. Will this help? Of course it will, but the priority project (yes you need to set priorities) gets done first and much sooner, and all the rest also finish sooner. What about subordination? Easy, the constraint resource dictates the rate at which new projects are introduced into the environment. Management's job is to prioritise the projects.

Conclusion:

To find serious shareholder-value-add executives are faced with the difficulty of finding the time to concentrate on this problem. The direction of the solution that is proposed here is that since a business is a system they need only focus on the very few things that are blocking making more and more money. {Clearly buying businesses in markets that are much more attractive is also a route to SVA, but both these acquisitions and the businesses being shed will benefit from focusing on the business constraint}.

Once an executive has found the way to delegate most of his work to focus on the constraint of his business he needs to start thinking about the policies and paradigms driving the behaviour of his organisation. One of the first steps he must take is to define the measures for his organisation: measures that will drive his people to the common goal of making more money now and in the future. With the help of some examples of business paradigms or behaviours, it becomes clear that the approach suggested here is a powerful way to spot and achieve really serious SVA!

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Almost all I have written in this article I owe to Dr. Eliyahu Moshe Goldratt - business thinker and educator. Goldratt is the source of the 'Theory of Constraints'. Much of Goldratt's thinking can be found in his 3 business novels The Goal; It's Not Luck and Critical Chain, which I can wholeheartedly recommend. Another source of Goldratt's thinking are his 'Satellite Tapes', a series of lectures by Goldratt on the subject of applying his theory to production, finance, project management, distribution, marketing, sales, managing people and strategy. These sources of information have been a tremendous influence on my thinking and I hope I have not betrayed Goldratt in what I have written here and that I have helped a little to get his message to more people.