



Can Efficiency Cost Too Much?

We all appreciate a major benefit of the capitalist system, namely its relentless drive to efficiency. The ‘invisible hand’ of the market is supposed to ensure that the producer with the highest prices will not be around for long to rip us off. However, this hasn’t always been the case, for it is only now, with easy and rapid access to price comparisons via the Internet and cell phones, that we have the power to be the ‘invisible hand.’

Is relentless efficiency really a benefit?

Let me clarify that question by asking, “Do you think there comes a point where the cost of efficiency is too high?” That is a more interesting question, for most people think that the whole point of efficiency is to reduce cost, so how can it be a ‘cost’ to us? Many people don’t consider that efficiency comes at a price to consumers and society in general. Don’t get me wrong, I am all for efficiency if it means I can save money, but not at any price. Let me explain why.

Efficiency is about doing more with the same input or doing the same with less input (at best, it is about doing more with less). On the other hand, effectiveness is about a specific result you want or about a desired outcome you want to create.

Consider this: Efficiency gives us mall music; effectiveness gives us soaring symphonies. Efficiency gives us bland warehouses; effectiveness gives us grand cathedrals. Efficiency gives us many MP3 players; effectiveness gives us cool iPods.

You get the picture.

Sometimes effectiveness wastes a bit, I admit, but in my book it is a small price to pay for beauty. (Sometimes efficiency harms a lot, but I'll get to that later. And don't get me started on how important efficiency and productivity is for the economy. Is unemployment from outsourcing, downsizing, mechanization or whatever really good for society? And does it make your children happy when you get home late from work because you are doing the work of two people in the grand quest for productivity? How does this efficiency and productivity add to your quality of life?)

Another thing, if people are unemployed, who is supposed to have the money to spend to boost the economy? And who decides that a quarter-on-quarter growth in profits is a worthy indicator of success?)

I'm sorry, I got a bit carried away there.

The point I want to make is that it is critical for all of us to understand the implications of the difference between efficiency and effectiveness. For if we allow 'relentless efficiency' to continue unchecked, our society will become inane, uninteresting and uninspiring. As consumers, we do have the power to do something about it, and I don't mean through laws and regulations. We must simply exercise our free choice more wisely, based on a better understanding of consequences. For that understanding, we must dig a bit deeper.

Better Sameness

Efficiency is normally defined as the ratio of useful work done to total energy expended. As explained above, at best it is about doing more with less. The only way to achieve doing more with less is by *doing things right*. In other words, efficiency has to do with getting better at what is already being done. This is what every business should be doing as a matter of course; it is the essence of operational management. Efficiency has nothing, or at least very little, to do with innovation.

Innovation has to do with newness, whereas efficiency has to do with sameness, albeit 'better' sameness. (To avoid confusion, note the practical difference between creativity and innovation: creativity is dreaming up a new idea, whereas innovation is making the new idea happen.) Some people will argue that an innovative process can result in efficiency. Yes, but it is still producing the same product or service, only 'better'.

One of the more disturbing side-effects of competition (any competition) is the belief that size beats all. Why do I find it disturbing? Well, in business terms, size invariably means 'volume' and 'output', or the capacity to produce output in great volume.

This automatically brings to the fore the reality of 'sunk costs': once you have invested millions in a fancy facility that can churn out huge volumes cheaply, you will be very reluctant to stop and do something different. You're sunk in more ways than one, and so your energy focus stays on output (*doing things*) and on doing the same thing better or cheaper (*doing things right*). But an obvious side-effect of increased output is a great need to find more consumers. The outcome? Increased competition for more customers! And increased competition means that you must become more efficient...

Am I really the only one who smells a treadmill here?

Ah, you say, but efficiency can be a desired outcome. Yes, it can. But it is important not only to consider outcomes and results. You must also consider consequences. Whereas efficiency is about costs, effectiveness is about consequences.

This concept is critical, for those who strive to be effective while ignoring consequences will also ignore two vital aspects on which effectiveness depends. These are commitment and relationships. When you are aiming to be effective, you are striving to achieve an effect. Effectiveness is thus an act of creation.

As with all creations, the creator must take responsibility for the outcome. This responsibility cannot be avoided nor delegated. The moment you accept that you will be responsible for your effect, you become committed to both the process and the outcome. This is an important distinction between efficiency and effectiveness.

You can be efficient without being committed to the process or the outcome, but you cannot be effective unless you are committed to the process (the act of creating the effect) as well as to the outcome (the effect itself). Too many producers fixate on the process and damn the consequences, such as environmental damage, social scarring, name-your-own-pollution-here.

Subjective meaning

This brings me to relationships. To consider both processes and outcomes you must go beyond objects and see relationships, including the relationships between objects. You may already know this as systems thinking or the interconnectedness of all things.

The point is that effectiveness always has consequences in the world 'out there' and impacts on people and objects. This means that, whereas efficiency can have meaning in relative isolation, effectiveness only has meaning in relation to someone or something. We can only be effective as 'part of' and not as 'apart from'.

Consider it this way: it is possible for a lone individual to be efficient within an inefficient team or organization; but it is not possible for a lone individual to be effective as part of an ineffective team or organization. Picture workers on an assembly line mindlessly doing exactly what they are told to do, how to do it and when to do it. Efficient? Quite possibly. But do they care about the desired outcome or about consequences? And can they individually make a difference that matters or has meaning?

Let's take another slant: Efficiency is all about objective measurement to do with tangible objects. If it is not, how will you know when you are doing more with less? On the other hand, effectiveness tends to be subjective because outcomes and consequences depend on how we look at them. This means that perceptions play a role: what I perceive as a desired outcome might not be part of your reality. If this was not so, then we would be able to measure 'cool'. (Yes, I know we can measure physical 'cool', but I'm actually talking about fashion 'cool'.)

One interesting way to view this is to note that efficiency matters to the *producer*, while effectiveness matters to the *consumer*. When you buy an MP3 player, do you care how efficiently it was produced, or do you care whether it produces the results you want? That is why I say efficiency is not an act of creation and why the result of being efficient might be material, but not meaningful.

Meaning in action

Of course, the real difficulty is that, today, organizations had better be both efficient and effective. This is not yet common practice, and so many organizations, and the people in them, are caught between efficiency and effectiveness: They are under competitive pressure to produce something quicker and cheaper, while knowing that what makes them stand out from their competitors (differentiation) is built on providing the results and experiences (the effect) that customers want.

The problem, however, is that doing something different takes a different mind set than doing better the same thing as your competitors. Which is why some organizations are good at 'visions' and poor at execution, and others execute well what they have copied. As I said, in today's markets you need both: vision and action. Or, as I see it, you need to be tactically effective: vision-in-action.

Can you be good at both?

Yes, but it might take a shift or two: a shift in perception and a shift in behavior.

Where should you start? Start with realizing that an organization which takes effectiveness seriously, and to the limit, is unlikely to cause harm. Once you have acknowledged that truth, then it will be easier for you to find the 'right' for you to do.

Your 'right' thing is what is meaningful to you, your people and your customers. Without meaning, your people will not willingly invest their time and energy, they will not be self-motivated. Without meaning, your people will feel exploited in the name of efficiency; with meaning, they will celebrate their exploits as valuable outcomes and meaningful consequences.

Tongue in cheek report on efficiency (source unknown): Alarmed to have learned that Schubert has not finished his 8th Symphony, a city council attended a performance by the City Orchestra and reported as follows:

For a considerable time the four oboe players had nothing to do. Their numbers should be reduced and their work spread over the entire orchestra, thus eliminating peaks of activity. All 12 violins were playing identical notes. This is unnecessary duplication and the staff of this section should be drastically cut. If a larger volume of sound is required, this can be obtained through an electronic amplifier.

Much effort was expended in the playing of semiquavers. This seems to be an excessive refinement and it is recommended that all notes be rounded up to the nearest quaver. If this were done it would be possible to use trainees and lower-grade operators. No useful purpose is served by repeating with horns the same passage which has already been handled by the strings.

If all such redundant passages were eliminated, the concert could be reduced from two hours to 20 minutes. In fact, if Mr Schubert attends to these matters he would be able to finish his symphony after all.

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