



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*, customers, 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 elevator music; effectiveness gives us soaring symphonies. Efficiency gives us bland warehouses; effectiveness gives us grand cathedrals. Efficiency gives us small MP3 files; effectiveness gives us loss-less, Hi-Fi, music files.

You get the picture.

Sometimes effectiveness wastes a bit, I admit, but 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? 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 that will boost the economy? Who decides that quarter-on-quarter growth in profits is a worthy indicator of success?

I’m sorry, I got a little carried away there.

It is critical that we 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 previously, at best it is about doing more with less. The only way to achieve doing more with less is by *doing things right* (in the words of Peter Drucker). 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 in business 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.

An unintended consequence of size beats all is often the issue of sunk costs. Once you have invested millions in a fancy facility that can churn out enormous volumes cheaply, you will be very reluctant to stop churning out huge volumes cheaply and do something different, even if your customers have moved on. 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 an increase in product inventory. The outcome? Increased competition for more customers! And increased competition means that you must become more efficient... Am I 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. We must also consider consequences. Whereas efficiency is about costs, effectiveness is about consequences.

When you aim to be effective, you are striving to achieve an effect, a desired outcome. Effectiveness is thus an act of creation. As with all creations, the creator must take responsibility for the outcome. This responsibility cannot be avoided or 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-harmful-consequence.

Subjective meaning

To consider both processes and outcomes you must go beyond objects and acknowledge 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 will impact on people and objects. Whereas efficiency can have meaning in relative isolation (i.e. on the factory floor), 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? Probably. But do they care about the desired outcome or about consequences? Not likely. Nor can they easily, as individuals, make a positive difference (or contribution) that has meaning.

Let’s take another slant. Efficiency is about objective measurement involving tangible objects. That is the only way to establish objectively whether you are doing more with less. On the other hand, effectiveness tends to be subjective because outcomes and consequences depend on how we ‘see’ them. This means that perceptions play a role – what I perceive as a desired outcome (my reality) might not be how you see reality. If this was not the case, then we would easily be able to measure and to agree on what is ‘cool’ or ‘sexy.’

One interesting way to view this is to note that efficiency matters to the *producer*, while effectiveness matters to the *consumer*. When you buy a smart phone, do you care how efficiently it was produced, or do you care whether it does what you want (produces the outcomes or effect that you want)? Clearly, the result (outcome) of being efficient might be material, but not necessarily 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 based on providing the outcomes and experiences (the effect) that customers want.

The problem, however, is that doing something different takes a different mind-set than simply doing the same thing as your competitors, but 'better.' This is why some organizations are good at 'visions' and poor at execution, and others execute well what they have copied. In today's competitive markets you need both. Vision and action.

Can you be good at both vision and action? Yes, but it might take a shift or two. A shift in perception and a shift in behavior.