PROJECT MANAGEMENT

Speed Bumps

By Rob Verkerk

Spare a thought for the world's project managers. In many industries today, competitive pressures and the need for speed are driving change in the way businesses are conceiving and conducting projects. Scope, time and cost—the time-honoured pillars—are still critical success factors, but in a speed-to-market economy you need more than a traditional and structured approach. Businesses are increasingly using formalised projects to get things done, and there's typically a much wider range of people involved in the process. Project management is becoming a horizontal skill and all staff need basic competencies around it. However, a process-bound and overly formal culture around projects can be disastrous from a business perspective.

Project managers are often caught in the middle of tensions between two internal groups: the process police versus the market-focused thinkers. To complicate matters, each group sees the project manager as their frontline soldier against the other, and he or she inevitably gets caught in the middle. But beyond internal conflicts, project managers are also limited if they're stuck in the "single purpose" by-the-book mentality. Sometimes, you simply have to throw out the rule book and develop the capacity to re-think projects as you go. The project manager's value in situations where we're breaking the traditional rules is in minimising the risk and framing the gravity of the task for others. In modern business, it's often more important to keep the failure rate at an acceptable level, rather than ossify in process.

Traditional models for project management have incorporated aspects of this flexibility, and included concepts such as "fast-tracking" and "crashing." But it became obvious during the internet and telecommunications revolution that the environmental changes are stretching established norms. In my opinion, the current challenges are far from resolved. As a discipline, project management now finds itself in need of some new models that can balance the needs of the business but still get things done. I believe there's a lot of potential to develop models that comfortably sit in the middle—but they're probably quite a leap from traditional project management. Four years ago, I was running a portfolio and programme management consultancy practice. I stepped down and asked the consulting firm I was working for at the time to find me an assignment with a high tech client, doing front line project management. There seemed to be some interesting changes happening in project management and the best place to understand what's happening is out in the field actually doing it.

The change of mindset I'm seeing in my classes is that people in project management roles are being forced to think more like marketing managers. Time, cost and scope simply don't matter if you don't achieve the business outcomes—so you can't focus on them exclusively. One solution around managing this tension is to have two levels of project management in (larger) projects: a driver who's downward-looking who can hammer things through, reporting to a more business-oriented project manager who can think more broadly. It provides you with the two necessary layers, but it's an interesting balancing act.

There is a clear link between strategy and projects, and it's reflected in the decision-making around which projects need the most attention and resources. A common weakness is simply a company's reluctance to accept the size of the pipe—the inability to see that completing say 50 projects per year can add more value than stretching resources to attempt more but achieve much less. It takes strength of character for leaders to accept this reality. Depending on the quantity of projects, an additional management layer of programme or portfolio management should enable an organisation to drive through more projects and increase the success rate—but it doesn't always work out that way. People in portfolio management positions often lose sight of the mission and become compliance cops and report compilers. Instead of being mentors they are a blockage, and it's usually because they get caught up in the details. It takes experience and intelligence to know when to take a step back, but often programme office staff are ex-project managers or administrators and engage at a tactical rather than strategic level.

Project management is at a critical evolutionary stage, and it needs more work.

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STRATEGY

Past and Present

By Dr. Siah Hwee Ang

Despite the increasing interest in strategy, the field is still in its infancy. Research in the area initially emerged from the offshoots of related fields, including seminal works by Joseph Schumpeter, Ronald Coase, Chester Barnard, James March, Herbert Simon, Alfred Chandler and Edith Penrose. More recently, strategy research has very much been shaped by works by Oliver Williamson, Michael Porter, Sidney Winter, Gary Hamel, C.K. Prahalad, David Teece and Rob Grant. The central issues in strategy research have generally clustered around the strategic behaviour of organisations and how they structure themselves in order to compete more effectively and efficiently. No single theory, though, has been able to address the complexity of strategy. In other words, strategy is still a phenomenon in search of a theory.

The topic of strategy has traditionally been taught as a capstone course in business schools, the logic being that a strategy encapsulates value creation within and across the functions of a firm. In this paradigm, functional level strategies such as marketing and operations all support the overall business/corporate strategy of the firm. However, as organisational research advances, the distinction between an umbrella strategy and the functional strategies of an organisation are becoming blurred. The emphasis has now shifted from *what* strategy should be adopted to *how* and *when* a particular strategy can be implemented. Over the past 10 years, the execution of strategy has taken centre stage, and the attention has shifted to a more micro level of the organisation (such as deriving competitive advantage from the dynamic capabilities generated through cross-functional activities.)

Imagine 20 executives working in the same industry with the same level of knowledge in strategy. This creates a situation of perfect information, so how will the winners emerge from the group? Firstly, strategy is about logic and out-thinking. Everyone will claim that they have a winning strategy. But as Mike Tyson said, "Everyone has a strategy until you get punched in the mouth." There is also the critical element of the knowing-doing gap: managers may understand the benefits of adopting a strategy, but yet never really get around to implementing it. So the ultimate winners usually possess the ability to constantly augment the competitive landscape and renew their sources of competitive advantage. This behaviour is commonly known as the *Red Queen Effect*.

Strategy researchers have been able to link various strategies with firm, group or industry performance. It is widely accepted that the performance differences between competitors are largely based on the variation of resources and their utility. Performance is the time test of any strategy. As markets evolve, incumbent firms tend to be confined by the structure of the industry, and hence a set of competing rules. But even if a single strategy has been consistently pursued by multiple players, we have no way of judging its viability unless we put it through a performance test. In practice, the benefits of strategies will take time to surface. Therefore, careful planning coupled with flexible implementation is the safest approach.

The adoption of any strategy requires significant commitments, many of which are irreversible. This irreversibility of commitments has largely been taken lightly in organisations and is also very difficult to visualise in classrooms, even with case studies. Research has shown that inflexible commitment to an all-out strategy can be costly. In situations where a desirable strategy is formulated, organisations clearly need to be aware of both environmental and organisational constraints. Recognising constraints is as important as harnessing strengths.

The fundamental assumption of any systematic competitive analysis involving two or more players is that the players are rational, though boundedly so. That is, even between individuals, the degree of rationality varies. In the context of strategy analysis, actors are assumed to be rational in their selection of strategies—but only to their best knowledge of the situation. Without this assumption, it would be impossible to anticipate competitive moves. In recent years, research tools such as scenario analysis and real options have been the closest in mimicking real life situations for this purpose.

While the business school's duty is to facilitate knowledge transfer, the practice of strategy in corporations ultimately rests on the shoulders of individual strategists and their ability to handle snapshots of competition. The researcher's duty is to ensure the practicality and relevancy of their work to organisations, based on academic rigor. There is often a perceived gap between research and practice in strategy. However, as many good researchers have shown, it is not impossible to bridge this gap. The onus clearly lies with the researcher.

The complexity of strategy research is clearly on the rise. Researchers are now engrossed in fashionable topics such as knowledge management, sharing and integration; the value-added roles of subsidiaries in multinational corporations; and more recently, the exploitation of sustainable firm intangible resources and relational advantages. Such are the complexities of these areas, organisations are increasingly being approached by researchers to help them understand these phenomena. Organisations, recognising rigorous research as a value-added process, are also increasingly involved in action research. Sharing knowledge reduces the perceived gap between research and practice, and should be encouraged.

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PROPERTY

Solid Foundations

By Dean Humphries

If the residential property market has hit a plateau or softened slightly in recent times, the commercial market—which often lags about a year behind the residential market—is continuing to show good strength. Generally, commercial developers are building with pre-committed space, and the vacancy rates are at an all-time low (less than 5 percent). But the question still preoccupies every property owner: how would a downturn in the economy affect today's property market, compared the bust with the late '80s-early '90s?

At the time of the stock market crash in 1987, major construction projects were underway and the property market meltdown didn't really occur until about 1991. But yields gradually rose and property values decreased significantly. Eventually, there was an unprecedented amount of property available, and vacancy rates in the Auckland CBD hit about 30 percent.

In the current property circumstances, there's a much stronger backbone to the market's fundamentals. Along with the global property boom and a growing population, the growth in all major cities has been fuelled by trends like suburban development, with current vacancy rates at less than 10 percent, and even lower in the industrial market.

There's just more demand out there, particularly from overseas investors. There are institutional and private buyers looking to spend hundreds of millions of dollars here and we just don't have the opportunities for them. Investment demand has driven the yields down to all time lows in all property classes, and therefore property values continue to increase. If you look at demand and supply forecasts, there's no light at the end of the tunnel. It's estimated that there's about 10 years of land supply left in the Auckland area. Investors are already buying in rural areas, regardless of whether they're zoned for commercial use or not. In fact, overseas institutional purchasers are making it difficult for New Zealand developers to stay in the game. They can afford to buy and hold for the long term, and they just don't need short-term returns.

So developers are struggling from a cost perspective. Traditionally, they have been able to generate a 15 to 25 percent margin, but that's a diminishing reality. Rising labour costs and the price of imported materials are critical factors. The building booms in India and China are important, because they're draining the world's commodity supplies. The huge investment in infrastructure and the incredible urbanisation in those countries has sent the price of materials through the roof.

Interestingly, you can put up a building in Mumbai or Beijing as quickly as you can physically build it. Here, we're facing huge issues with the Resources Management Act, in both the commercial and residential sectors. It has probably been downplayed to this point, and in reality it's a much bigger issue. The situation has been compounded with leaky house syndrome, and councils are becoming incredibly conservative with their building consents. When projects are "notified," it can delay the process for 3 to 18 months, so the holding costs are huge. It's putting off developers because they're at the mercy of the councils.

The good news is that people in the property industry today are more educated, and banks are being more responsible in terms of risk-taking. We used to have 40 students in our undergraduate property classes. In the last five years those numbers have grown to 180, and there's a huge demand for our graduates. Many of them have the ambition of becoming rich developers, but there's also enough interest in the traditional segments of valuation and property management. These days we're able to provide students with strong technical skills, such as financial risk analysis and asset pricing models. We have a number of lecturers from the United States, and they're bringing a new and leading edge perspectives to our financial skills.

In all, it's unlikely we'll see a bust like the early '90s, but there will be a softening in some segments at some point in the future.

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