

Reconceptualising mega project success in Australian Defence: Recognising the importance of value co-creation

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Abstract

Recent literature in project management has urged a re-conceptualisation of projects as a value co-creation process. Contrary to the traditional output-focused project methodology, the value creation perspective argues for the importance of creating new knowledge, processes, and systems for suppliers and customers. Stakeholder involvement is important in this new perspective, as the balancing of competing needs of stakeholders in mega projects becomes a major challenge in managing the value co-creation process. In this study we present interview data from three Australian defence mega projects to demonstrate that senior executives have a more complex understanding of project success than traditional iron triangle measures. In these mega defence projects, customers and other stakeholders actively engage in the value creation process, and over time both content and process value are created to increase defence and national capability. Value created and captured during and post projects are the key to true success.

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1. Introduction

In Australia and worldwide, large-scale projects often fail to meet quality, time or budget goals resulting in output dissatisfaction, and large time and cost overruns. Researchers and practitioners have long searched for ways of improving “project success” in these mega projects and argued that the prevalence of project failures may be due to the problems associated with traditional project management theory. One criticism is that traditional project management focuses on efficient delivery of outputs according to specifications (e.g., an artefact such as a bridge) on time and on budget (the so-called iron triangle) while

neglecting the processes of value generation (Ashurst et al., 2008; Remenyi et al., 1997). The dominant view that a project’s sole purpose is creating value for its funding organisation is limiting, as it overlooks other value creation aspects of projects such as value created for end users and other stakeholders (Shenhar and Dvir, 2007).

To overcome the limitations of the traditional output-focused project management approach, research efforts have been devoted to promote and develop theoretical frameworks focusing on the value that projects contribute to all stakeholder organisations. For example, some researchers (e.g., Shenhar and Dvir, 2007; Turner, 2009) have redefined “projects” by integrating value-emphasis terms. Examples include the definition of a project as a “*unique process intended to achieve target outcomes*” and the distinction of project investment success and project ownership success from the traditional iron-triangle-based project management success (Zwikael and Smyrk, 2012). According to Winter and Szczepanek (2008:96), as early as 2001, Cohen and Graham (2001) argued that a fundamental shift in project management is needed from “meeting fixed specifications to satisfying customers; from coming in on a

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fixed budget to managing cash flow [and increasing] shareholder value; and from just getting the project done to helping implement organisational strategy.” Winter and Szczepanek (2008) have applied Normann’s (2001) “logic of value creation” and reconceptualised projects as “value creation processes.”

Value creation, from a strategic management standpoint, is concerned with both the process and content of value creation, where the content side addresses what is value/valuable, who values what, and where value resides, while the process side distinguishes the process of value capture from creation. Value refers to “the specific quality of a new job, task, product, or service as perceived by users in relation to their needs, such as the speed or quality of performance on a new task or the aesthetics or performance features of a new product or service....Value creation depends on the relative amount of value that is subjectively realised by a target user (or buyer) who is the focus of value creation—whether individual, organisation, or society—and that this subjective value realisation must at least translate into the user’s willingness to exchange a monetary amount for the value received.” (Lepak and Smith, 2007:181–182).

Lepak and Smith (2007) highlighted that value can be created at the individual, organisational and society levels, and that the value creation process is to be distinguished from the value capture process, which needs to be managed appropriately to avoid “value slippage”, a phenomenon that occurs when value is created but not captured. Lepak and Smith (2007) argue that value slippage can discourage the value creator from continuing the value generation practice. The value creation process is not sustainable if the parties bearing the cost of the value generation do not enjoy the benefit of the value created due to slippage.

A famous Australian project example of a value-creation process is the Sydney Opera house. It is considered both a triumph and a disaster in mega project management. Assessing the success of this project using the iron triangle measures led to the conclusion that this project was a major failure. The original cost estimate was \$7 million in 1957, the project was completed ten years late in 1973 and over-budget by more than fourteen times, costing \$102 million (Söderlund et al., 2001). The Opera House was labelled a ‘white elephant’, an ‘aesthetic and acoustic disaster’ by the media and the general public (Bourne and Walker, 2005). Over time, the creation of this masterpiece was recognised as an achievement of engineering and project collaboration and highlighted the need for changes in planning and contracts (Söderlund et al., 2001). Yet Australia as a nation has, do and will always enjoy the value generated by this iconic mega project. The value of this project is captured by Australia as a nation, yet many of the current “beneficiaries” of this project did not participate in the original value-creation process. This demonstrates the need to consider project success as an ongoing and long term (emergent) process of value creation, as compared to the traditional output measures.

This multi-level and dynamic perspective of the value creation process is critical in understanding Australian Defence projects; as many mega defence projects are created with the goal of building national capability. Consequently, value created by these projects is far-reaching and difficult to estimate and be captured by the original “creators” or project stakeholders.

Misalignments of the value creation and value capture processes can lead to a perception of project failure. A recent example is illustrated in a newspaper article in *The Australian* on June 04, 2011, “Government and industry out of their depth on defence procurement” (see Fig. 1).

This news article clearly demonstrates the tension between national capability building (broader value creation) and achieving cost efficiency (iron triangle) in mega projects. This tension reflects the misalignment of the value creation and value capture processes. In this scenario, defence and their project partners are tasked with creating warfare destroyers to increase Australian’s defence capability, but their performance in this project is measured against the traditional iron-triangle measures of on time, cost and quality. Thus, from the output or cost efficiency perspective, the project is viewed as making insufficient progress against their temporal milestones.

On the other hand, these parties create new way of working together to design and build warships that increases Australia’s national defence capability. Large numbers of jobs are created in the process and Australia aspires to develop these capabilities to build and maintain our own warships and submarines during wartime. The “value” created is captured by not only the parties involved in the project, but also the larger population of Australians who benefit from the peace of mind that Australia has the naval capability to defend itself when needed. Frontline naval personnel are an important stakeholder group whose safety is a premium concern of the defence partners in this project, yet they do not really contribute to the value creation process when the project is viewed as an entity with closed boundaries, excluding major beneficiaries such as the Australian public or naval personnel.

This paper builds on the relatively new viewpoint, as described in more detail in Section 2 below, that projects should be conceptualised as a value creation process for disparate stakeholders. Through this conceptualisation, we argue that a perception of project failure can be avoided if values created for all stakeholders at different levels are identified at the project commencement stage and captured at the end. Further, value creation should continue during the implementation or delivery stages as a result of growing stakeholder knowledge through continuous (intra- and inter-) organisational learning. This will then lead to better justification for the cost of these large and complex projects. Three major defence mega projects in the Australian defence industry are examined in this paper. Conversations with the leading industry and commonwealth experts from the Australian defence industry and case participants paint the picture of success in mega projects as a complex phenomenon, well beyond the traditional measures of time, quality and budget.

2. Projects as value co-creation processes

Value creation is a central concept of strategic management (Lepak and Smith, 2007; Normann and Ramirez, 1993), of which project and portfolio management constitutes a critical part (Brady et al, 2005; Meskendahl, 2010; Winter and Szczepanek, 2008). Yet, in a survey of project management practitioners, Papke-Shields et al. (2010) found that the traditional

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