

Effective Execution – Your Distinctive Competency

THIS ISSUE'S HOT TOPICS

- Execution is under appreciated but delivers big returns.
- The key steps to unlock your organization's full potential.

Pöyry Management Consulting has worked with hundreds of clients to solve business issues and capture opportunities. While the scope of our involvement ranges from strategic initiatives, to market services, to asset evaluations, all companies face their own unique set of issues. The one factor that is consistently under appreciated nor fully captured, however, is the “execution gap”; the ability to consistently deliver on an asset’s full potential. This continues in spite of all the good initiatives we see from internal improvement programs. After years of improvement initiatives - Kaizen, TQM, Six Sigma, Lean Manufacturing, etc. - why is there is still so much opportunity left on the table?

Here are four key steps to make sure your organization achieves its potential . . .

STEP 1 - PUT EXECUTION ON THE EXECUTIVE AGENDA

At the highest level, there are three items that manufacturing companies need to get right to be successful in the long-term: strategy, assets, and execution. Strategy is the basis on which companies compete and typically, executives are very comfortable spending time developing the company vision and leading the change. Decisions regarding assets, or capital equipment, are also critically important to success, and they need to fit into whatever strategy has been developed. Senior managers and operations groups have a lot of experience in delivering the capital plan, and building, buying or upgrading assets is usually very rewarding and directly addressed. The third item, execution, is the ability for the whole organization to deliver and this is where many organizations fall short.

Given the critical nature of effective execution, why is performance management often a huge area of opportunity for companies, and yet given so little time by senior executives?

Conventional wisdom suggests several reasons:

- “Performance management is important, but the gains are incremental and I have higher impact items on my agenda.”
- “It’s not my job to execute. I delegate the execution, that’s what the operations managers are supposed to be doing.”
- “I’m not going to force performance management on my team; they will decide how to get the results.”
- “We’re on it; we have a Six Sigma program.”

If you share these views, you may be missing out on an opportunity to improve your organization’s performance, profits and shareholder value. Intuitively everyone understands there is room to improve performance – better quality, decreased downtime, increased throughput, less waste, energy savings, etc., but how big are the opportunities and how much is it worth to the bottom line?



Pöyry's experience in conducting over 150 performance management assessments in manufacturing sites in North America, tells us that the bottom-line opportunity is worth much more than managers think - typically 5% - 10% of revenue annually (see Figures 1 and 2).

Given the magnitude of this opportunity, the fundamental first step is to understand the issues in detail, and have everyone sign off. You can then move to closing the gap and holding people accountable for generating results. Doing this will require attention from the most senior group of executives.

STEP 2 - DEFINE THE PRIZE

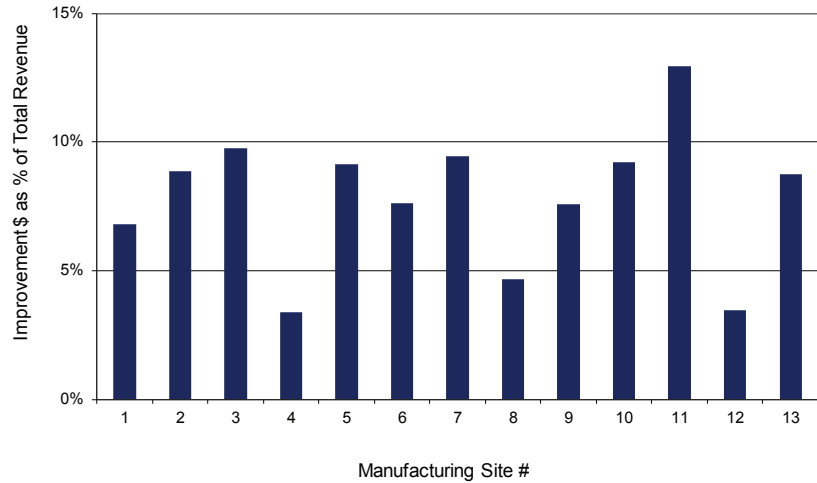
The initial step in working towards more effective execution and improved performance is getting a brutally honest assessment of an organization's current realities. Larry Bossidy, in the bestseller *Execution: The Discipline of Getting Things Done*, puts it well, "Realism is the heart of execution."

Obtaining a brutally honest assessment is extremely difficult to get from internal resources for several understandable reasons. By the very nature of an internal team's composition, it is difficult to be 100% objective. Human nature dictates that insiders will have a skewed view of reality because they likely know some of the players involved (and don't want to hurt feelings), personal pride may be on the line (they may have been part of the problem in the past), internal hierarchy gets in the way, and finally they may lack a broader perspective.

Using practical experience as a guide, the following is Pöyry's perspective on what reality often looks like in organizations:

- Current management and supervisory teams are fairly strong groups with lots of technical knowledge. They have good skills and great attitudes, many are the right people to lead change.
- Existing management processes and systems rely too heavily on result indicators, and do not provide enough focus on the controllable elements on the operation. The list of key performance indicators used to manage the business is incomplete, important information is not being reported, and no formal action planning processes are in place to ensure that performance variances are being addressed.

FIGURE 1: TYPICAL IMPROVEMENT OPPORTUNITIES AT MANUFACTURING FACILITIES WITH NO NEW CAPITAL



- There is no silver bullet – gains will be the result of a disciplined effort in capturing many small opportunities throughout the operation, not any one big change. However, areas of opportunity exist in almost all key business drivers: production, quality and cost.
- Opportunities represent financial gains that are greater than management anticipated. Typically several million dollars for a small to mid-sized operation and tens of millions for a large site (annually).
- Capturing the opportunity is 100% achievable through more effective management process and execution.

In addition to providing details on the specific issues impacting operational and financial results, a performance management assessment conducted by an external group can also generate plant-level support for doing something about it. A Chief Operating Officer from a recent client explains, "Everyone on site knew that there were opportunities to improve performance, but we didn't have a handle on the specifics. Once the prize is laid out there in front of you, you really have something specific to shoot for. It is very important to have specific performance improvement goals for the management team, which they are accountable for achieving."

FIGURE 2: OPPORTUNITIES IDENTIFIED AT MANUFACTURING COMPANIES

Client description	Annual execution opportunity* (\$MM/yr)	Increased shareholder value (@5 x multiple)
North American Integrated Paper & Packaging Producer (single site)	\$18	\$90
US Market Pulp Producer (single site)	\$13	\$65
North American Pulp & Paper Producer (multiple sites)	\$52	\$260
North American Market Pulp Producer (single site)	\$8	\$40
North American Wood Products Manufacturer (multiple sites)	\$20	\$100

*with no changes to strategy or assets

There are not many opportunities like this one.

Business is a game filled with complex challenges: shifting government policies, environmental regulations, increasing commodity and energy costs, and market fluctuations in the prices that your products can command. What is most unsettling is the inherent lack of control that you have on any of these items. However, you do control how well your organization executes. It's relatively quick - major shifts in strategy or re-tooling production facilities will likely take years before yielding a significant impact on your organization's operating earnings. Better performance management delivers improved results in months, not years. It's a material gain - there are not that many items on your agenda that, if you are focused, will improve your bottom line by millions of dollars. More effective execution will.

STEP 3 - INSTALL EFFECTIVE MANAGEMENT SYSTEMS

The opportunity has been laid out there, now what? Status quo is usually not an option. Leaving a multi-million dollar opportunity unaddressed is not acceptable.

The decision comes down to tackling it with an internal team or partnering with external resources to help you get there (see Figure 3 for some benefits of each approach).

Coming to a decision on which approach to use can be difficult, one that should not be taken lightly and should be focused on results, not simply cost. Investing in a culture of performance management is just like any other capital project, many factors need to be considered.

Whichever route is taken, any organization that wants execution to become a distinctive competency must do the following key things:



Provide the leadership - ensuring excellence in execution is the CEO's responsibility and requires direct oversight. It cannot be entirely delegated. This is a big part of what separates companies that can call execution a distinctive competency from those who cannot.

Dedicate the resources - under-resourced performance management efforts will not deliver successful, sustainable results. Decide on the mandate, identify the right resources and provide principles of performance management training.

Develop management process - design management systems, practices and operating disciplines that focus on the controllable elements of the business.



Invest in people - equally important to processes, is the development of people. Enhancing the execution related skills throughout the supervisory and management ranks will make the management processes come alive and will enable the organization to deliver results.

Implement effectively - fully implement management systems throughout the entire organization (operators to CEO) until it becomes the way you do business. Typically, behavior does not change quickly, this is a long term effort.

FIGURE 3: BENEFITS OF USING INTERNAL & EXTERNAL RESOURCES TO ADDRESS PERFORMANCE MANAGEMENT

Internal	External
less cash cost in the short term	performance management experts
understanding of internal process	quicker - luxury of focus
on-site technical knowledge	objective, fact based
less perceived risk	broader perspective

STEP 4 - RELENTLESSLY MANAGE PROGRESS

Relentlessly holding people accountable for delivering specific results in a specific period of time is critical to long-term success. A key part of this, is having the right management processes that facilitate executive oversight and easily identify weak performance. Redefining performance improvement goals on a regular basis will create the expectation within the organization that the job is never done.

Jim Collins, author of several classic business books summarizes the situation very well his bestseller *Built To Last*, "The critical question asked by a visionary company is not 'How well are we doing?' or 'How can we do well?' or 'How well do we have to perform to meet the competition?' For these companies, the critical question is 'How can we do better tomorrow than we did today?' They institutionalize this question as a way of life--a habit of mind and action. Superb execution and performance naturally come to the visionary companies not so much as an end goal, but as the residual result of a never-ending cycle of self-stimulated improvement."

PUT EXECUTION ON YOUR AGENDA

Execution, the ability to deliver; whether that is delivering on the strategy, delivering on the capital investments, and at the end of the day, delivering results, is what separates the top performing companies from everyone else. Effective execution is truly a distinctive competency, available to any organization that chooses to make it a priority. So, what's on your agenda?

Internal groups cannot do it all.

When well applied, Six Sigma, Lean Manufacturing, Kaizen, 5 S or similar programs can all deliver value. However, these tools are typically used with laser-like focus on specific issues for a relatively short period of time. How does the agenda for an internal improvement program get established? Often times by a manager's gut feel or worse, reaction to who is yelling the loudest. Why does it take so long to see results? Typically, internal teams are under-resourced. What happens once all the black belts have left? Performance usually slides back to historical levels. Chances are that your internal improvement group could use some support.



Pöyry is a global consulting and engineering company dedicated to balanced sustainability and responsible business. With quality and integrity at our core, we deliver best-in-class management consulting, total solutions, and design and supervision. Our in-depth expertise extends to the fields of energy, industry, urban & mobility and water & environment. Pöyry has 7,000 experts and a local office network in about 50 countries.

Pöyry's net sales in 2010 were EUR 682 million and the company's shares are quoted on NASDAQ OMX Helsinki. (Pöyry PLC: POY1V).

Bob Chown, Vice President
North America Region
tel. 289-291-4577
bob.chown@poyry.com

Mike Steele, Director
tel. 404-585-2110
mike.steele@poyry.com

David Jesseau, Principal
tel. 289-291-4573
david.jesseau@poyry.com



Engineering balanced sustainability™

Pöyry Management Consulting
277 Lakeshore Road East, Suite 301
Oakville, Ontario, L6J 1H9, Canada

www.poyry.ca