P3

THE SECRET OF SUCCESS

How Sara Lee's fortunes were transformed

Private equity

Proudfoot gain credence from Candover

Demag

Hoisting sales to sky-high levels

Issue 18

1946-2006 60 years of expertise

welcome

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Welcome to the latest issue of P3

This year is our 60th anniversary. To mark this occasion, we reflect on page 31 on how operational improvement has developed and evolved since 1946, when Alexander Proudfoot first set up business in Chicago.

On the subject of how operational improvement has changed, Jos Wintermans talks candidly on page 20 about his experiences and observations as a "corporate doctor" or turnaround specialist.

Delivering change is all about changing people's behaviour. Klaus Friedlaender of Sara Lee describes how training, training and more training was or has been the secret to its success in achieving a dramatic 60% increase in productivity. Quite by contrast, Graeme Lowe of the Lowe Corporation reveals why he is a firm believer in the importance of conducting a thorough business and operational performance health check. BPN's Chairman José de Oliveira Costa, discloses how change was made to stick in his companies. Meanwhile, on page 16, Dr Thorn describes how Demag Cranes & Components has changed in order to fully exploit China's exceptional growth rate.

Private equity is booming once again and across the world, Proudfoot is increasingly working with the management teams of PE owned companies. In this issue, leading European PE firm Candover provides a review of European private equity. And Director, Nils Stoesser then reveals why he believes teaming with management consultancies is vital.

This issue's book review on page 26 is all about the importance of effective decision-making. Finally, we are delighted to welcome Richard Donkin as guest author. Richard, a regular contributor on work and management issues in The Financial Times, looks at human capital management and the crucial role of the workforce in defining a company's competitive advantage.

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people

Empowering employees at Sara Lee

Klaus Friedlaender - Operations Director, Sara Lee

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contents

José de Oliveira Costa, Chairman, BPN Group ▶

◀ **Dr Thomas Dorn,** Managing Director, Demag Cranes & Components

empowering employees at Sara Lee

Look on the Sara Lee website and the first thing you'll read is –**'Our mission is to delight you… every day.'** Well Sara Lee's many brands may have been happily delighting their customers but managers at the Slough site were far from happy with performance. The rest of the staff were pretty discontented too. So recognising that changes needed to be made they took up the offer of external assistance from Proudfoot Consulting to get them back on track ▶

The Sara Lee plant at Slough produces a range of well-known bath and shower products such as Radox, Badedas and Sanex, which are sold in the UK and across a number of other European countries including France, Germany and Italy.

In 2005 the company decided on a major transfer of business from Germany to Slough. Since then the site has struggled to cope with the extra demands placed on it. To deal with this problem a decision was taken to outsource some of the production in order to meet sales. However, it was apparent to Slough's Operations Director, Klaus Friedlaender, that realistically this should only be a short-term measure. What really needed to happen was for him to work with his staff to improve working practices within the plant.

"Having said that it was obvious we didn't have either the knowledge or motivation within the company to do this ourselves," explains Klaus. "I had already worked with Proudfoot Consulting on a project in Germany and been very pleased with the results. So when Proudfoot approached our Vice President of Operations, Coen Terlingen, I was able to recommend to him that they come on board."

The Way Forward

Having undergone a thorough business review it became evident that the actions needed would be 95% people orientated. A few small technical improvements were also highlighted, but overall the changes would be centred on communication, training and best practice.

With that in mind one of the first actions was to build a specific control room on the production floor to serve as an information hub. The Proudfoot and Sara Lee taskforce teams, along with representatives from all the relevant company departments, met in the control room every morning to discuss the 'way forward', which incidentally became the name of the project. Klaus explains, "To ensure clear lines of communication we instigated handover meetings, informing the afternoon and nightshift staff of progress. We also streamlined our core processes and put a set of management operating systems in place." Another useful addition was the use of target boards, enabling everyone to track their own progress. Employees were invited to design these, which helped them to be more easily accepted.

Cultural change was also a significant element to be considered. Before the project when members of staff were asked how things were going they would invariably just comment that everything was fine. In reality they had no idea of what was being produced to define if it had been a productive day or not. Management weren't suggesting that staff didn't work hard; it was more that nobody was working to specific targets or being held accountable for what was going on. For example, engineers were in charge of the machines yet if they broke down they felt it was neither their fault, nor their problem. Now there is an engineer per line, per shift, facing clear targets and hourly reviews, all of which has lead to an impressive increase in production and job satisfaction.

I N T E R V I E W

Klaus Friedlaender
Operations Director, Sara Lee

"Despite having less staff operating efficiency has risen sharply from 40% to 65%, whilst productivity has improved by a dramatic 60%"

It helped that the Proudfoot team were welcomed from day one and didn't have to deal with much resistance in the workforce. "Staff were aware that things weren't working as well as they should and that changes had to be made, we just didn't know what the answer was", explains Klaus. "Prior to Proudfoot, employees had been compliant with what was asked of them but what we really wanted was a more proactive approach, which thankfully we now have. What really surprised me was just how quickly the change took place. The average age of our staff is about 50 and many of those have been with us for around 20 years, so I assumed change would difficult. I believe the reason it wasn't is down to the professionalism and sensitivity of the way the Proudfoot team gave everyone an honest but non-judgmental wake up call."

Secret of Success

So how was the change managed so efficiently? Training, training and more training is the answer. Having learnt about the value of active supervision, three times during every shift the supervisor walks the floor to see if any of the line leaders have a problem and takes them through an activity card checklist. This active supervision training was carried out both in training rooms and on the production lines themselves where relevant, which had a particularly good impact. The core team were also given essential auditing, troubleshooting, problem solving and changeover training.

The understanding and attention given to staff during the project has paid off two fold. Firstly turnover has rocketed from £130 million to an impressive £220 million post Proudfoot. Dramatic workforce reductions did have to be made but this was mainly achieved by reducing the number of temporary workers

"We are now armed with the knowledge and tools to continue improving"

About Sara Lee

The Sara Lee Corporation is a global manufacturer of high-quality goods such as Sara Lee food products and varied brands like Douwe Egberts, Playtex, Radox, Babedas, Ambi Pur and Kiwi. The Corporation has operations in 58 countries employs 137,000 people worldwide. The Slough plant accounts for around 5,400 employees and its turnover is in excess of £220 million

and cutting back on overtime. Despite having less staff, operating efficiency has risen sharply from 40% to 65%, whilst productivity has improved by a dramatic 60%.

The second point to make is that staff morale has escalated too. Klaus comments, "We are aware that we still need to pay close attention to morale but a clear improvement has definitely been made. We've reached a state where employees all know about best practice and how to apply it. However, they don't, as yet, all have the self-motivation and discipline to take the extra steps we're recently put in place, hence a need for careful supervision." Klaus stresses, "We would never have got to this level without Proudfoot's intervention. Our targets still need to be higher but we are now armed with the knowledge and tools to continue improving and have every right to feel confident about the future."

Klaus ends on a further high note stating, 'It's incredible to think that in just six months we have transformed our factory into a centre of excellence. This has mostly been achieved through employee empowerment and instilling a target-orientated mentality, proving it's all about working smarter not harder."

For further information on our work at Sara Lee, contact Jerome 't Hart, jthart@proudfootconsulting.com

Project at a glance

- Turnover increase from £130m to £220m
- Operating efficiency improvement from 40 to 65%
- Productivity improvement gains of 60%
- Overall equipment efficiency improvement from 40 to 60%
- Secured significant behavioural change through employee empowerment, helped re-establish trust in management team and installed a "target and achieved results" culture. The direct result of this was a positive shift in employee morale
- Installed Key Performance Indicators and an efficient Management Operating System to provide management with required visibility over production
- Improved procedures and tools for more efficient shift handover
- Trained all supervisors in active supervision such that three times each shift they walk the floor to check if any line leader has a problem

managing energy costs

Unable to pass on fast rising oil, gas and electricity costs, many large companies are being forced to pay close scrutiny to how they manage and consume energy and other natural resources across their operations. As a result, Proudfoot Consulting's productivity expertise has proved highly valuable to a number of clients seeking sustainable improvements, with typical energy cost savings of between 5 – 15%, sometimes considerably higher for the largest organisations. If you would like to know more about our capabilities in this area please contact Miki Klempa in North America, Robert van Gestel in Europe, Dhesan Moodley in Africa, St John Cameron in Asia or Ian Renwood in Pacific.

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keeping an eye on the ball

In an increasingly aggressive business environment, it is critical that companies consider a health check every once in a while to sustain a competitive market position. This article features **Lowe Corporation, New Zealand's largest independent hide and skin manufacturer and exporter** - a company that continues to keep its eye on the ball and recognises the value of conducting a health check every now and then

Lowe Corporation is held in high esteem by New Zealand's business community for its strong belief and commitment to operational control and precision. The company's business philosophy focuses on creating shareholder value and striving for sustainable profit through operational efficiency. It is an organisation that recognises there is always a smarter way of doing things. Deciding to undertake a business transformation project as part of a 'health check', Lowe engaged productivity experts Proudfoot Consulting to improve the business' operational performance, reduce costs and boost its market position to compete more aggressively for quality raw material supplies.

Acknowledging need for change: first step to improving business performance

After a period of consolidation in the late 90's, Lowe recently re-entered a growth phase through a number of fellmongery and tanning plant acquisitions across New Zealand's South and North islands. During this time the company's focus shifted from operational excellence as they were faced with new challenges that arose from acquisitions including the integration of systems and processes. It didn't take long, however, for management to acknowledge the need to develop an appropriate culture, address operational efficiencies and achieve sustainable growth, as part of a business transformation programme.

Whilst management and staff acknowledged the need for change, according to Keith Smith, Chairman, the question was "We need change but how do we change the way of doing things collectively across a number of plants?" An external, objective and expert approach was the answer.

In September 2005, 'Working Smarter', a 20 week project with Proudfoot Consulting began. As the project name suggests, the key objective was to change the way of doing things to ensure the future success and growth of the company. The project focused on introducing 'best practice' in three areas – plant production, chemical management and repair and maintenance. It was agreed that operational excellence in these three areas would spearhead the transformation of the entire business.

INTERVIEW

Graeme Lowe
Founder, Lowe Corporation

Appropriate culture: the capability to deliver operational excellence and results

Prior to the "Working Smarter" project, each plant operated with different systems and processes.

This was underpinned by a 'silo-mentality' where various functions of production worked in isolation of each other. Staff focused on their individual area and didn't see the impact of their work on the next stage of the production line. There was limited communication between supervisors and departments impacting a clear and effective shift handover as well as the ability to manage variances in production.

Creating an appropriate 'can do' culture that promoted operational excellence and best practice across all plants was key to taking the business to a new performance level. This involved changing the behaviour of both the staff and supervisors through the implementation of a new management operating system that standardised processes across the whole group. Key to this was a set of tools including 'walk-the-floor', 'shift handover meetings', 'daily review meetings' and 'shift controls' that encouraged active supervision and operational precision. These tools facilitated regular communication and feedback so that production performance could be linked back to the forecast and continuous improvement plans could be implemented.

Other factors that contributed to creating an appropriate culture included training and education, hands-on support and coaching, visual management, daily review of performance and management reinforcement. A supervisor commented, "The training aspect of the project motivated me. I really began to understand the impact of my job and performance on other areas of the business."

'Working Smarter' allowed staff to understand that they had a role to play in getting ready for the next stage of production and realising that the next person in the line is in fact a customer. Throughout the project, their outlook was broadened as they became more commercially aware. Staff could see the 'big picture' and were able to view their role in the context of the entire business, instead of only their specific function.

> "Creating an appropriate "can do" culture that promoted operational excellence and best practice across all plants was key to taking the business to a new performing level."

Management commitment overcomes resistance to change

Although change was considered necessary by many staff, there was an element of fear when faced with the reality of changing individual behaviour. Many staff had been with their plant for a number of years and had become used to doing things a certain way. This led to initial resistance and scepticism and was one of the project challenges. However, management commitment was key to overcoming this challenge.

About Lowe

New Zealand, land of the long white cloud, has long been considered producer of world-class hides, lamb and sheep skins for the global leather industry. In total, New Zealand produces some 6.9 million hides and skins each year.

Lowe Corporation, founded in the 1960's by Graeme Lowe, was a dominant player in New Zealand's meat industry for more than three decades. Having sold out of the meat slaughter business, Lowe is now New Zealand's largest independent skin and hide manufacturer and exporter.

What makes New Zealand's hides and skins world-class and in such demand? Well, the hides are symmetrical in shape with a low percentage of flay damage ensuring consistent character and good quality. Lamb pelts offer consistent area yields and fullness whilst maintaining a soft handle.

Lowe Corporation's management regularly reinforced the necessity to "embrace the change and run with it". Consistent communication by Lowe Management gave staff faith and belief in not only the project but also the longer term future of the company. Lowe Management displayed their commitment by getting out on the floor and attending start of shift and daily review meetings with plant management. According to a taskforce member, "we needed a collective focus and management support and commitment to push the change through".

The visibility and measurability of the project benefits also contributed to overcoming staff resistance. "Supervisors and staff interacted daily with Proudfoot and valued the hands on, practical approach that was being undertaken to improve the operational performance of the plant", commented a staff member.

Business is a science

The positive impact of the project was clearly evident with the uptake of a more scientific, systematic, disciplined and communicative approach to increased output, reduced cost and a competitive market position. Project successes include:

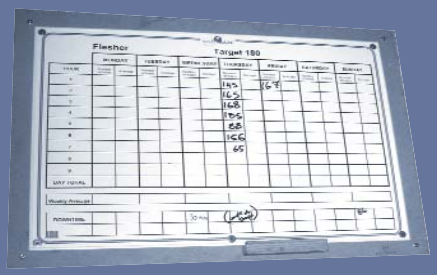
- Productivity improvement gains of between 9%–16% in the hide plants and 6%–9% in the pelt plants
- 40% improvement in repair and maintenance with the average planned maintenance job reduced from 3.9 hours to 2.3 hours
- More tightly controlled variances in production due to visual and active supervision and leadership
- standardised reporting systems across all plants allowing management to make necessary business decisions based on accurate data in a timelier manner.

"When you walk the floor now at any one of the plants you see best practice, a can-do attitude and above all a heightened awareness amongst staff of the impact of their performance on the next part of the production line. Proudfoot has assisted in helping us to worker smarter and to take the business into the future where we are in a position to compete more aggressively for quality supply. You will be surprised at how a 'self examination' can benefit a business' performance. I would recommend it to any company that is serious about best practice." ■

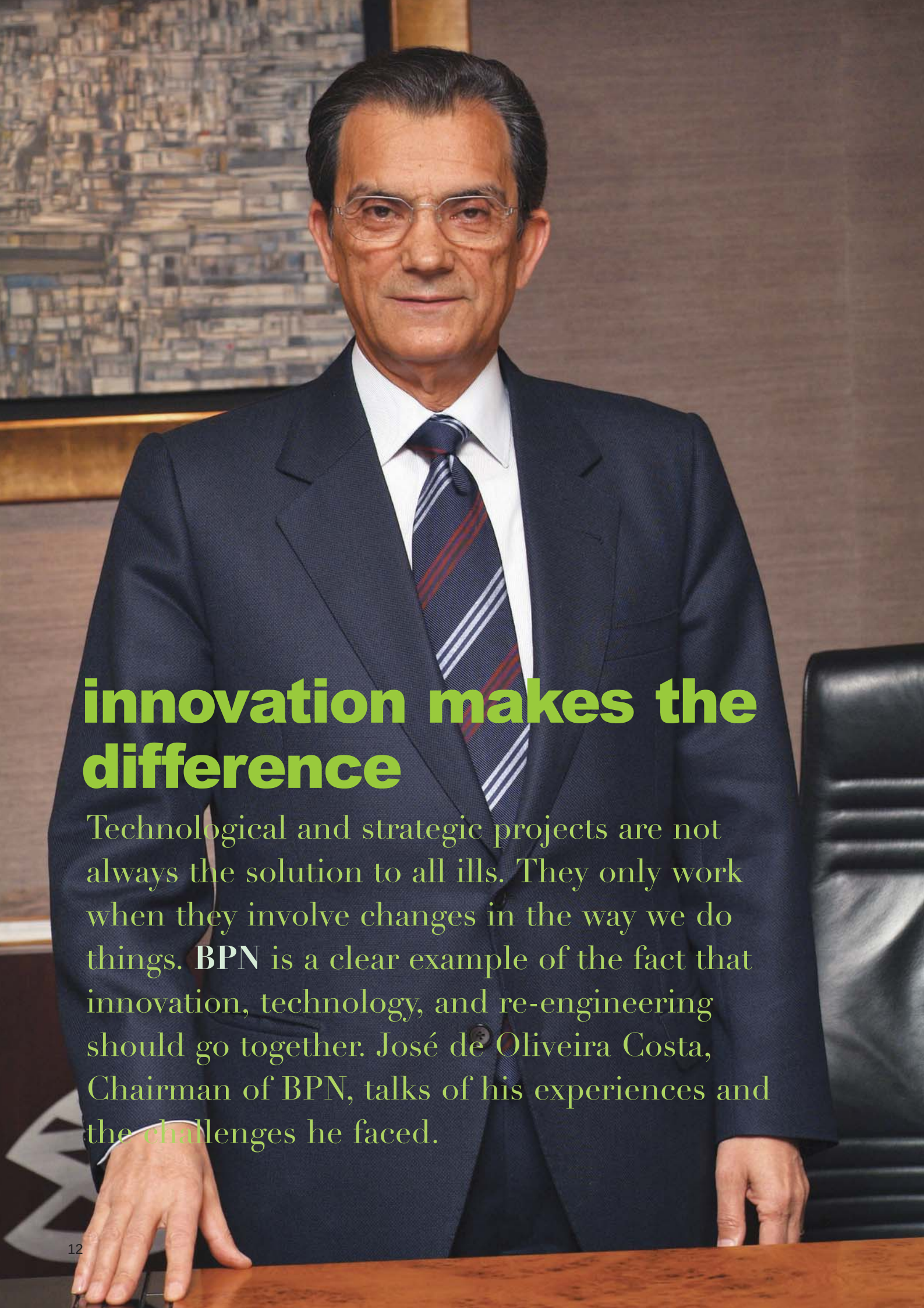
For further information on our work at Lowe, contact Gemma Manning,
gmanning@proudfootconsulting.com

Project at a glance

- **A more scientific, systematic and communicative** approach to increased output, reduced cost and a more competitive market position
- **Productivity improvement gains of between 9% - 16%** in the hide plants and 6 % - 9% in the pelt plants



- **40% improvement in repair and maintenance** with the average planned maintenance job reduced from 3.9 hours to 2.3 hours
- **Cultural and behavioural change** to support newly revised processes and systems. This was achieved through a company-wide, comprehensive training and education component of the project
- **Standardised reporting systems** across all plants allowing management to make necessary business decisions based on accurate data in a timelier manner
- **Improved communication** between departments and plants as a result of operational tools including 'walk-the-floor', 'shift handover meeting', 'daily review meeting' and 'shift control'



innovation makes the difference

Technological and strategic projects are not always the solution to all ills. They only work when they involve changes in the way we do things. **BPN** is a clear example of the fact that innovation, technology, and re-engineering should go together. José de Oliveira Costa, Chairman of BPN, talks of his experiences and the challenges he faced.

The act of going to a Multibanco ATM to withdraw money or using the "home banking" service to pay our bills is so automatic that not many people think about the changes that banks have had to make to be able to provide this type of service. Most of the changes took place internally. It is because of this that the users are not aware of the work and the innovation that banks have to carry out every day. It is not just a case of adding technology. This, by itself, does not result in the required changes and increases in productivity. It has to be aligned with the organisational strategy and involve the staff. This is the only way to achieve the desired objectives.

BPN is a recent arrival on the Portuguese banking scene, if we compare it to other banks already established in the market. But this does mean that it is less innovative than the others.

José de Oliveira Costa, Chairman of the BPN Group, always believed in innovation in technology as well as in procedures. It is not by chance that the bank obtained net income of €38.7 million in 2004, an increase of 16.7% over 2003. And when there are problems, they are tackled head-on. This is what happened in the area of specialised credit. The matter was resolved with the help of Proudfoot.

How would you describe BPN's business?
BPN was created in 1993 following the merger of two financial companies. In 1998, then with new shareholders, its activities were broadened to encompass all aspects of banking. In an attempt to suit the needs of the market, new specialised institutions were created including commercial and private banking, investment banking; consumer credit, factoring and leasing; management of assets and property funds.

BPN has a network of two hundred branches in Portugal; an external financial branch in the Madeira duty free zone; another in Paris, made up of five branches; an International Financial Institution in Cape Verde and BPN Brasil Banco Múltiplo in São Paulo.

All of the institutions are held by the holding company BPN SGPS, including the insurance area, with REAL Seguros (real business branches), REAL Vida Seguros, AVS - Corretores de Seguros and NOSSA - Seguros in Angola. In total, the Group controls 16 companies.

What are the company's values?
Innovation, quality, responsibility and commitment are the concepts that drive us to achieve excellence. We give priority to being technologically up-to-date, both in terms of computer software as well as the products that we offer to our customers. Quality of service is also very important to us, which is reflected in our highly personalised approach to our customers.

I have always believed that a small bank, in order to develop and be successful in the banking industry, would have to have a very high capacity for innovation. Innovation in the use of technology, in the way of doing things, in procedures… And this gives staff more time to have greater and more personalised contact with our customers.

What are the differences between BPN and the competition?
Innovation based on technology, which does not detract for the need for

INTERVIEW

José de Oliveira Costa

Chairman, BPN Group

personal contact, is the best way to differentiate ourselves in a business where the main raw material (money) is the same for all of the operators. The most obvious example at the moment refers to the activity of acquirer of credit and debit cards. The new chip (EMV) technology has allowed us to break a monopoly that, for decades, has limited the commercial activities of small and large distributors. With this, the bank will not only grow in the future, but it will reach an even broader range of customers.

What are the greatest challenges in the banking sector?
In recent years, we have witnessed a consolidation of the banking sector, which has definitely provided competitive advantages but, in practice, has had the effect of reducing competition. New technologies can seem impersonal, and need to be managed with care. This is the great challenge of modern times and BPN does take care. The decentralised solution of cheque scanning is a good example. The objective is to take full advantage of new technologies in order to have more time for personal contact. In this technological "trade-off", Proudfoot has been a great partner

because it has made it possible to adapt the re-engineering of our processes in line with our capacity to develop innovative solutions.

What plans are there for the future?
We are preparing a new computer platform, based on a mainframe, because this is what best responds to the dynamics that we are trying to apply to the Group. We want to become a major operator in the area of electronic means of payment, either as an Acquirer or as an Issuer.

It is also my intention that, in a not too distant future, each branch will become a Business Centre rather than a Service Centre. It is a large scale task, but we have already made a start. The idea is to optimise technology in the provision of services and give our staff more time to provide a more personalised service. Our aim is to make technological improvements that are not expensive, because we cannot sustain high costs. This requires a strong sense of innovation.

Another objective involves BPN's entry into the Stock Exchange towards the end of 2007, when I think the Portuguese economy will be in full recovery. It will be the right moment to consider the possibility of quoting the bank at a price that reflects its value and provides a good fit in the holding company, a solid way of reinforcing the group and creating a sustainable future for the bank, whilst maintaining its independence.

What type of projects have Proudfoot carried out for BPN and what have the results been like?
For us, it has been a very positive experience. At first I was a bit sceptical and it was due to the persuasion of Mr Lourenço, Vice President of Proudfoot in Portugal, that I awarded them an important job in the group's specialised credit area. The timing couldn't have been better.

BPN's specialised credit area had problems, both of a practical nature (relating to business itself) and structural nature which needed to be addressed and resolved. The Proudfoot team, deployed great judgement and skill to ensure our issues were readily resolved. Once the required changes were in place, the business grew and the rate of default fell to exemplary levels. With the help of Proudfoot, BPN is proud to say that nowadays, in the area of consumer credit, it has the lowest levels of default in the Portuguese banking industry.

The relationship with BPN started with projects within the bank, but given Proudfoot's wider expertise, we recommended them to the Group's Venture Capital Fund. The jobs that were awarded here are still in progress, but the results, from what we have been told, already show widespread satisfaction amongst all of the staff working with them.

What is your opinion of Proudfoot?
It fulfils its promises and takes pleasure in transferring knowledge. In doing so, it resolves problems and opens the knowledge highway, which allows us to continue to make progress.

Their practical approach builds a sound foundation for progress and their extensive knowledge of re-engineering processes helped us to exploit the technical advantages where relevant.

In contrast to other consultants, Proudfoot favours feasibility over long reports. They work on a practical level, showing the way and demonstrating to staff the advantages of certain practices, solutions or procedures.

For further information on the work Proudfoot did with BPN, contact Ana Bonilla Varo, abonillavaro@proudfootconsulting.com

"In contrast to other consultants, Proudfoot favours feasibility over long reports. They work on a practical level, showing the way and demonstrating to staff the advantages of certain practices, solutions or procedures."

The Project in detail

Any project that deals with the structure of an organisation also deals with its staff. This is normally the most delicate part. The project carried out by Proudfoot had three areas of focus:

- the post merger alignment between BPN Creditus (consumer credit), BPN Leasing, Neofactors BPN (factoring) and BPN Rent;
- increase in the efficiency of sales;
- bad credit repair.

To improve the performance and results of the bank, activity was centred upon: alignment of the commercial team with the strategy and the key objectives; identification of the needs of consumers as well as actions to increase the level of customer service; improvement of back office efficiency; enhancing the skills of the sales team in order to boost sales; carrying out of supervisory training sessions; and development of administrative guidelines.

Proudfoot developed and implemented reporting tools and an operational management system to enable BPN to monitor and measure their business more effectively.

The results did not take long to appear and were more than encouraging. In carrying out the reengineering project, BPN were simultaneously able to install a new core banking system. In addition, the changes made in the marketing department not only increased efficiency, but will also support the migration to a philosophy based on CRM (Customer Relationship Management).

But there were also immediate and quantifiable results. Among them, an increase in productivity of 43% and a reduction in the time taken to decide or approve credits, and a reduction in the level of default in consumer credit.

hoisting sales to sky-high levels

Dr Thomas Dorn, Managing Director of Demag Cranes & Components reveals how Proudfoot helped revamp their sales process in China

Area Manager Lane Qian used to spend much of his day calling his team of sales engineers to check their progress in selling cranes and components to companies in eastern China. Qian's high producers continued to make sales, but low producers remained relatively unaccountable for their activities. Though focused on generating new orders, everyone on Qian's team was spending far too much time on administrative tasks and after-sales service.

Now, after Proudfoot consultants helped Demag Cranes & Components refine their sales process in China, Qian feels a greater sense of control over his work and says his team's time is spent much more efficiently and effectively.

"We are closing sales faster and saving time with the new way of doing things," said Qian.

Demag Cranes & Components entered the Chinese market more than a decade ago and has been enjoying steadily increasing revenues since then. In recent years, sales have even outpaced the high average growth rates of the entire Chinese market.

Still, given the magnitude of the Chinese market, the importance of the Chinese manufacturing sector and a surge in infrastructure projects, the Germany-based company holds only a relatively small percent of China's market share. Competition comes from multinational builders of cranes and companies as well as hundreds of small Chinese crane makers. Each company is trying to grab its share of local contracts and inflows of Foreign Direct Investment, estimated at US$60 billion in 2005 by the United Nations Conference on Trade and Development.

Late last year, Demag decided to notch up its efforts in China by opening more sales offices around the country and creating a system to manage the sales process centrally from the company's Chinese headquarters in Shanghai. Demag wanted to make these moves quickly – expanding from six sales offices to 17 in 2005 and adding another 11 offices in 2006.

"We wanted to penetrate deeper into the market to take advantage of China's exceptional growth rates while increasing our sales to local companies," said Thomas Dorn, Managing Director of Demag Cranes in China.

Enter Proudfoot

Demag called in Proudfoot for a business review in November of last year. The international team, including a Frenchman, an Austrian and four Chinese, found that Demag sales engineers often played the role of "order takers" rather than active salespeople. By travelling around to the various offices in China and observing sales people throughout their work days, the team was able to document how much time was being spent on which tasks, showing that Demag sales engineers spent much of their days handling problems and completing administrative tasks. It also found that sales meetings were not structured and specific sales targets were not set.

Yun Wang, the Director of the Sales and Marketing Division, said, "Before

About Demag Cranes & Components China

The cranes division of Demag designs and implements overhead, area-serving transport solutions tailored to individual customer needs. These include standard cranes with up to an 80t load capacity and a 35m span for general industrial applications, portal cranes for container and bulk material handling and transfer systems and process cranes for automating and interlinking production processes.

INTERVIEW

Yun Wang
Sales and Marketing Director

"We now have prospecting and sales data that we can analyse to observe trends and get an overview of our business. We can better understand where to make improvements and where to pay more attention."

we had the system set up by Proudfoot, my sales team was relatively small and people contacted me directly with their questions. We relied on and trusted the people, not the system."

As Managing Director, Dorn's ultimate goal was to increase turnover and sustain those increased levels, and Dorn recognised that a revamp of the sales process and training for new sales engineers was the only way to achieve his goal. In the end, Demag accepted Phase One of Proudfoot's offer to refit the sales process by designing and implementing a Management Operating System (MOS) and Sales and Support Processes.

"I wanted a team that combined Chinese language skills with proven western management techniques so that we could manage our sales process more professionally," said Dorn.

From Good to Great

Proudfoot's team of three was given nine weeks to deliver on the project, nicknamed "From Good to Great". Without losing any time, Proudfoot assembled the group of people at Demag with whom they would work together closely. The group included two directors (including Sales and Marketing Director Wang), the marketing manager, sales managers and area managers. It was critical that people at all levels of the organisation felt involved in designing and implementing the changes.

Proudfoot began the project with strictly defined milestones and held a weekly review meeting with management to discuss what had been achieved and where work was still needed.

"At no point did I have the feeling that I didn't know what was going on with the project," Dorn said after the project was completed.

After improvement targets were agreed with Demag's management, Proudfoot went to work implementing the Management Operation System (MOS). In order to make the system easy to understand and easy to use, the project team decided to follow the motto: "keep it simple".

Simplicity Sells

Demag's new MOS consists of four stages – forecasting, planning, execution and reporting. For each stage, new reporting and communication lines were defined and all involved were equipped with the right tools, such as simple, easy-to-use reports. Reports were created with drop-down menus so that sales engineers simply have to select an answer rather than type in their responses on reports such as the Target Customer Contact Record. As part of the new process, sales engineers are required to fill out a report summarising sales activity and

deliver it to sales assistants by Thursday afternoon at 3pm. Sales assistants then aggregate all the data and present sales managers with an overview of the sales pipeline.

Sales managers hold a meeting with area managers every Friday at 10 am. to discuss the data, "hot" projects and problems in the sales pipeline. Instead of relying on an ad-hoc management style, managers now use these formal meetings and reports to keep salespeople accountable and better steer the entire sales process.

"We now have prospecting and sales data that we can analyse to observe trends and get an overview of our business. We can better understand where to make improvements and where to pay more attention," said Wang.

The new process helps management know what's going on in the frontline and frees up sales agents for cold calling. Each sales person is required to make five cold calls a week and keep a record of these efforts.

"We're no longer sitting there waiting on the customer to call," Wang said.

Of course, all change comes with its share of resistance, and Wang said some sales people don't like the new system.

"This is not a question of whether you like it or not. This is a management question. Our old system would not have worked with our expanded sales force," Wang said, adding that sales people are only required to fill out two reports a week, a task that takes roughly ten minutes a day.

Others have adopted the new system wholeheartedly with an understanding that it is helping them achieve higher sales and thus more commission.

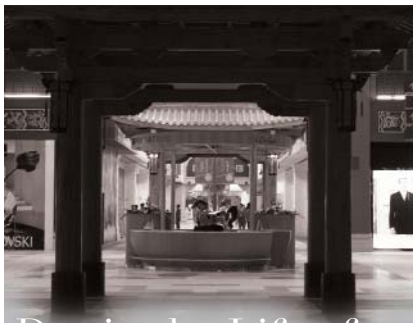
A look at overall sales growth backs this up: Sales at Demag China have already exceeded the targets set by the company at the beginning of the project.

"The results are very, very positive. We are very happy that we did this project," said Dorn.

Since moving from good to great, Proudfoot has gone back to double check that new work processes continue to bring the desired results.

Looking forward, Dorn reiterated his plan to sustain his recent achievement. He said: "With the tools Proudfoot gave us, I'm sure we can maintain our high levels of growth."

For further information on the work carried out at Demag, contact Fabrice Firmin, ffirmin@proudfootconsulting.com



Day in the Life of a Demag Sales Engineer in China

Pre-Proudfoot

- More time spent on taking orders than actively selling
- Sales force worked independently of Shanghai headquarters
- Too much time spent on solving problems and administrative tasks
- Lack of management overview of sales process

Post-Proudfoot

- Sales engineers make at least five cold calls per week
- Administrative tasks reduced to allow more time for prospecting
- Salespeople report to sales managers who meet weekly with sales director to review targets and achievements
- Each sales person works off of a personal sales plan that includes targets
- Reasons for lost sales opportunities are identified, and corrective actions are taken

fifteen years, eight projects, one loyal client

INTERVIEW

Jos Wintermans

Corporate Doctor

Serial Proudfoot Consulting client Jos Wintermans is quite comfortable being called a 'corporate doctor'. A turnaround specialist, and descendent of the eponymous Dutch cigar magnate, he has an impressive, fifteen-year record of successfully restoring profitability to a string of under-performing businesses. It all began quite by accident in 1991 when he took his first chief executive role at Canadian Tire Acceptance (CTA), the credit card and insurance wing of Canadian Tire, one of the country's best-known retail groups.

Shortly after he was appointed, a former colleague from his American Express days, who had since joined Proudfoot Consulting, called him and explained what the firm did. The timing couldn't have been better, as Wintermans knew he had to make sweeping changes to improve financial performance at CTA.

"Proudfoot came in and presented a clear, compelling plan for improving the way we operated. But I wanted greater emphasis on working with the middle tier of management at CTA; they were pivotal in terms of the project's success or failure. Middle managers don't see the whole picture in these situations and this leads to fear, uncertainty and resistance. I felt it was important to recognise this and work with them very closely," says Wintermans.

Proudfoot duly modified its proposal and worked under Wintermans' executive sponsorship to carry out a successful operational improvement programme. Wintermans and Proudfoot then went on to run similar programmes in three other businesses within Canadian Tire, delivering financial benefits amounting to some $20m. Between 1997 and 2000 he delivered similar results as chief executive of Rogers Cable Systems, Canada's largest cable TV company, and later at scissor-lift manufacturer Skyjack.

One of the key learning points about successful, sustainable performance improvement, says Wintermans, is to start by analysing the work:

"To really understand what needs to be done you have to get back to first principles and ask 'what are we in business to do, what's our purpose?' Then you design an improvement plan around that. The financial benefits follow later.

"Major organisational change is among the toughest jobs for a chief executive to get right, and is one reason why a burgeoning market exists for external consultants who can help. But making change endure well beyond the disbanding of the task force is an even more difficult challenge," he points out.

He adds that once the momentum created by the driving team ends, it's easy for managers and their teams to revert to the comfort zone of how they worked before.

"The solid reasons for process changes people originally bought-into quickly get forgotten as new managers arrive and, before long, business performance begins to slip."

Wintermans, however, is confident that Proudfoot Consulting's approach leaves a legacy of good systems, behaviour and management skill that gets firmly embedded in the business. Asked how he knows, he points to a meeting just two days prior to this interview at the headquarters of former employer Canadian Tire Corporation:

"An ex-colleague told me they still use the Proudfoot performance metrics, project management and processes for efficient resource utilisation, although later managers had tried to abandon them. He said that after 14 years they

still occasionally go back to the Proudfoot management manuals to check how things were meant to be done. That, to me, says it all," he explains.

But sometimes other reasons can lead to the undoing of all that good work. Out of Wintermans' previous employers, two firms were subsequently bought by larger companies and had to fit in with the acquirer's way of doing things. And another has a new chief executive with a fundamentally different management philosophy who decided to abandon the Proudfoot methodology he inherited.

Wintermans says the most difficult turnaround project he has led was at Skyjack, where the bank was foreclosing as he arrived. Here, he worked seven day weeks for almost four months. His most satisfying was at Rogers Cable where working with Proudfoot saved $27m and brought another $30m within sight, all in just one year.

Asked about the changes he's observed during fifteen years as a Proudfoot client, Wintermans points to the more sophisticated, specialised form of consultancy offered today.

"As Proudfoot has grown through acquisition they've become less generalist, with more functional expertise in areas such as logistics, sales, finance, and so on. It's now no longer just about cost-reduction–revenue growth is equally likely to be part of a turnaround plan. Proudfoot people today are extremely disciplined, with very specific expertise. They stick to a well-tested and proven process that they believe in, one that they know works. It's why they are unique."

And, reflecting Proudfoot's philosophy, Wintermans too sticks with what he knows works. He always negotiates funding for a Proudfoot project before he accepts any new job.

"I believe you need the energy, momentum and absence of emotional attachment to tackle the odd corporate 'sacred cow'. It's important to be dispassionate and that's what external consultants help with. Besides, most ailing firms don't have the expertise or management know-how to do the kind of business review and subsequent change plan that Proudfoot does.

"Consultants can't run my business for me; I still have to make all the decisions. But they help me to define what those decisions are and where the priorities lie. I still need to own the process and drive it–support from the highest level is crucial to success.
"Business is speeding up, as is the pace of change, but people are still pretty much as they were thirty years ago. I think you need to allow for that. It's possible to go too fast when turning a company around–you can leave good people behind if you're not careful," he says.

His reputation as a fixer ensures he never has to look for work–it finds him. Most recently he was chief executive of distribution services company Sodisco-Howden Group, where his efforts and Proudfoot's help contributed to a tripling of the stock price before the company was sold. Some company owners get him in to fix things but don't perceive him as someone who will stay around and grow a business. But that's what he intends to do at Cygnal Technologies Corporation, where he's been president and chief executive since November 2005.

At the time of writing, Proudfoot Consulting has just completed an initial review of the business and is set to start a two-phase project starting with short-term cost reduction, followed by sales performance, customer service and operations improvement. Cygnal Technologies will make a profit in the future, says Wintermans, with an assured confidence that only comes with experience of previous success. ■

"Proudfoot people today are extremely disciplined, with very specific expertise. They stick to a well-tested and proven process that they believe in."

how to succeed in the profit

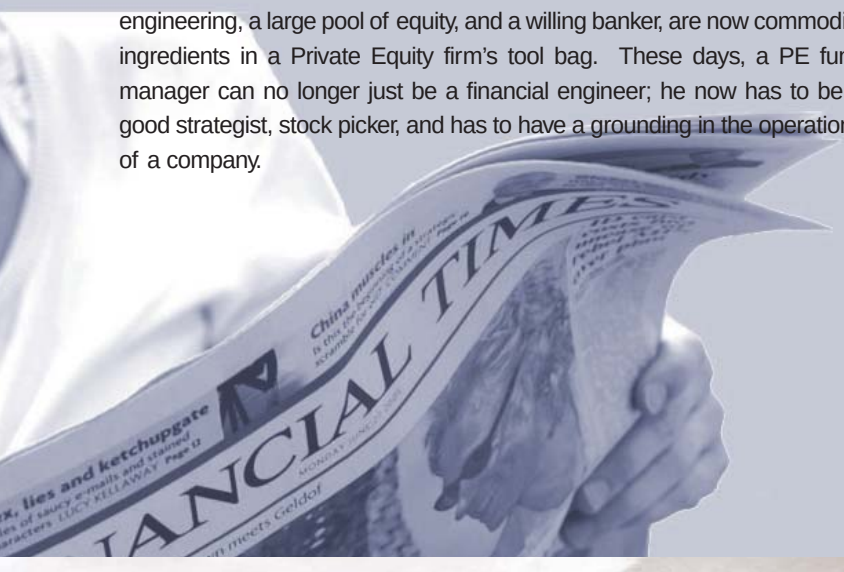
Given the buoyancy in the Private Equity market globally, and the dramatic growth we are witnessing, it will come as no surprise that is not unusual for Proudfoot to work with the management of companies owned by Private Equity funds. Across Europe, some 30% of our projects are now with the management teams of these companies.

In a recent issue of P3, we covered the dramatic improvements that Proudfoot helped the management team at Vetco Gray to deliver, enabling them to double their well system production capacity and make the most of a booming market. Vetco Gray is owned by Private Equity funds, with Candover, JP Morgan and 3i all having an equal share, and is one of the largest private UK companies.

In this feature on Private Equity, we have reproduced, with the kind permission of Candover, a recent article on the European market to provide some insight into one of the key regions.

why do management teams choose to work with Pro

Private Equity funds typically plan to own a business for no more than three to five years. During that time it is not unusual for them to want management to make significant improvements to the original business, negotiate and complete acquisitions, and prepare the group for sale. As the market has matured, the competition to increase returns and attract investors has significantly increased as well. What was once a competitive edge: financial engineering, a large pool of equity, and a willing banker, are now commodity ingredients in a Private Equity firm's tool bag. These days, a PE fund manager can no longer just be a financial engineer; he now has to be a good strategist, stock picker, and has to have a grounding in the operations of a company.



As a result of this trend, many firms have begun to hire operating partners with actual P&L responsibility, and using outside resources to work alongside management teams to add value to the companies. These partners are usually involved early in the transaction, before the acquisition is completed, supporting the transaction teams. Following a successful acquisition, operating partners are also involved in developing a detailed operating strategy and implementation plan, often referred to as the 100 day plan.

Once this plan is in place, it is up to management to implement the strategies and initiatives. Due to the relatively short time of ownership, there is an added emphasis of speed attached to this plan. The management team needs to implement the plan in a period of time that allows for the shareholders to benefit from the increased cash flows as soon as possible, pay down debt and optimise value on the sale. So you can't have a plan that produces cash and profit only by year three.

Proudfoot gain credence from Candover

Nils Stoesser, Director

Candover is one of Europe's leading private equity houses, having invested over €34 billion in a variety companies. Nils Stoesser, a Candover Director, believes teaming up with management consultancies is vital for private equity companies. Nils states, 'Such partnerships enable us to get a good look at various markets, understand how different companies work and find out about the strength of their competitors. They also help us discover ways to improve production, find new markets, and investigate the potential for various additions to each business.'

When acquiring oil and gas experts Vetco International back in July 2004, Candover opted to work with Proudfoot. Nils and several of his colleagues had already worked with Proudfoot in the past so felt confident we could help.

candover

able world of private equity

udfoot?

The questions faced by management are; “How to optimise the profit improvement generated by the plan?” “What is the fastest and surest method of implementing change in their organisation?” “How do you change the behaviour of the people in a way that creates lasting and sustainable changes, but with measurable near term P&L results too?” and “How do you increase cash flow with the greatest certainty?”

Here is where Proudfoot can help and why senior management teams choose us to work with their people:

- We offer speed of execution. CEOs who use Proudfoot typically say that, with our assistance, they achieve operational improvements in 6 months, which otherwise would have taken them 36 to 48 months to achieve on their own
- They also say that they get “Certainty of Execution”. 70% of internal change programmes do not live up to expectations and less than 10% achieve their financial objectives. CEOs tell us that with our assistance they have greater certainty that they can manage any internal resistance to change and achieve their financial objective
- They also get the resources needed to deliver the financial objectives on time and to budget. Over 90% of our projects achieve or better their financial objectives; 90% of our client CEOs are references for us; and 70% of our projects come from repeat business
- With Proudfoot‘s assistance, CEOs are able to compliment their people with objective expert skills and thereby optimise operation of plans and the financial impact of these. All our projects start with an analysis of the company during which time we agree with the management the optimum project plan, business case and implementation plan.

For further information on the work we do with PE houses and their management teams, please contact:

North America
Bev Landstreet (blandstreet@proudfootconsulting.com)
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Richard Ramsey (rramsey@proudfootconsulting.com)

‘Proudfoot played a fundamental role in assisting us through this acquisition and beyond,” comments Nils. “They delivered exactly what they said they would, which can be summed up in improved returns and helping us gain a clear competitive edge.”

In practical terms this meant getting involved right from the start. Long before the deal actually went through we identified the main value points such as implementing an improved inventory management system, clarifying that a real difference could be made to the business.

Once the deal was finalised Proudfoot had the task of working with one of Vetco International’s subsidiaries, Vetco Gray. Proudfoot worked hard to establish a good relationship with the Vetco Gray management team and together agreed on the best ways of improving the day-to-day operations. This resulted in significantly increasing production and profitability.

With regard to the future Nils adds, ‘We enjoy an excellent on going dialogue with Proudfoot and, having been so successful, Candover would definitely be happy to work with them again on future projects.”

a review of european private equity

Last month saw the publication of the final quarter of the 2005 Barometer, a comprehensive survey of private equity transactions across Europe. The latest survey, compiled by Incisive Media and sponsored by Candover, a leading European private equity house, shows the European private equity market has experienced another record year with the total value of deals surpassing €125bn, some 40% higher than in 2004. In total, 1,047 deals were transacted last year, lower than the 1,115 deals transacted in 2004.

Buyouts

Behind the steep increase in the value of private equity deals was a series of large buyouts. Buyouts relate to the acquisition of a controlling stake in an established business, as opposed to growth capital and start-up investing, usually associated with investing in companies at earlier stages of their development.

In Europe, buyouts represented well over 90% by value of private equity transactions. While the number of buyouts increased some 17% in 2005, the average value of these transactions increased a staggering 44%. There were several jumbo-sized transactions during 2005 contributing to this increase. These included Amadeus (€4.3bn), Rexel (€3bn), Groupe Tattinger (€2.6bn), Warner Chilcott (€2.3bn) and Auno (€2.2bn).

Regional analysis

Delving further into the buyout market reveals that the UK represented nearly a quarter of all private equity transactions in Europe by value. In total, the value of buyouts in the UK topped €28bn in 2005, significantly more than the €21bn from the Nordic region and France, both with an 18% market share. By far the largest UK transaction of 2005 was the €2.3bn buyout of Warner Chilcotte. Other notable transactions included Apax's buyout of Somerfield for €1.6bn, and of Travelex for €1.5bn, BC Partner's €1.2bn buyout of Fitness First, PAI Partners' buyout of Kwik-Fit and Dubai International Capital's buyout of The Tussauds Group, both valued at €1.2bn.

But an analysis of quarterly data suggests that the UK may not hold the top spot for much longer. While the UK represented over 30% of all deals by value in the first quarter of 2005, by the final quarter it had slipped to 22%, less than the Nordic region, which had a 23% share.

Looking at the table of the top 20 largest European deals in the final quarter explains why–four were Nordic buyouts. These included the €1.4 billion sale of Norwegian explosives business Dyno Nobel ASA to Australia's Macquarie Bank, the €1.25 billion sale of Swedish plumbing, heating and electrical installation products supplier Ahlsell AB to private equity firms Cinven and Goldman Sachs Capital Partners, the €997 million sale of Swedish chemicals company Perstorp Group to French house PAI Partners, and the €650 million sale of Danish business TDC Directories to a group of investors led by Macquarie Capital Alliance Ltd. a unit of Macquarie Bank.

Europe's biggest-ever leveraged buyout by deal value - the $15.6 billion takeover of Danish tele-communications business TDC A/S, launched by a consortium of private equity firms in November, is not included in the fourth-quarter data since it had not completed. But this will only increase the market share of the Nordic region when the next Barometer in April gives details of the state of the private equity market over the first quarter of 2006.

What is Private Equity?

Private equity is a broad term that refers to any type of equity investment in an asset in which the equity is not freely tradable on a public stock market. Categories of private equity investment include leveraged buyout, venture capital, growth capital, angel investing, mezzanine capital and others.

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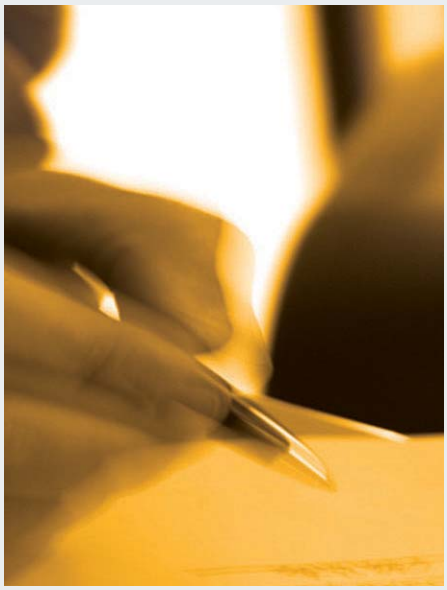


Growth capital and early-stage

While the focus of attention tends to be on buyouts, one should not ignore the fact that growth capital and early stage finance deals still make up a significant portion of deals across Europe. Around half of all private equity deals are either growth capital or early-stage, although these transactions only account for less than 10% by value.

By far the largest growth capital transaction of 2005 was the acquisition finance package provided to Gala Group by equity providers Candover, Cinven and Permira to enable the company to buy Coral Eurobet in a €3.2 billion deal. Candover and Cinven led the tertiary buyout of Gala in 2003, with Pemira joining the equity syndicate early in 2005. The next largest growth capital transaction was CVC Capital Partner's €750m acquisition finance investment in XSYS Print Solutions, the German firm formed via the 2004 buyouts of ANI Printing Inks and BASF Print Solutions.

Of the 116 early-stage transactions during 2005, only two were valued more than €50m. The largest occurred in the UK when American private equity firm Warburg Pincus invested €170m in Fairfield Energy. Norway saw the second largest early-stage deal, with HitecVision and 3i investing in Noreco in a deal valued at €64m.

The number and value of growth capital and early-stage deals was fairly erratic over 2005 and it is difficult to draw any conclusions as to where this segment of the market looks to be heading. For now at least, all eyes remain on the buyout market.

New funds

So how are private equity firms reacting to the trend towards ever increasing deal sizes? In short, they are raising much larger funds. Indeed, 139 buyout funds raised $134 billion in 2005, over double 2004's total, according to London-based research firm Private Equity Intelligence's 2006 Global Fund Raising Review. In Europe, CVC Capital partners closed its latest European fund in July last year, raising €6bn, the largest private equity fund ever raised outside the United States. Others include Apax which closed its sixth buy-out fund raising €4.3bn in July, and Candover who raised €3.5bn in November. CVC's record looks set to be beaten by Permira when it closes its €10bn buyout fund which is due to be launched in the first quarter of 2006. However, European funds still have some way to go before they reach the size of funds being raised by the leading US private equity players. Blackstone, for example, is expected to close its latest fund shortly, widely expected to be in the region of $13bn.

Private Equity Intelligence forecasts that private equity funds could raise up to $280 billion in 2006, the vast majority of this being for buyout funds. So, with plenty of money and a buoyant M&A market, 2006 looks set to be equally favourable for European private equity, particularly buyouts. With new records for deal sizes being set, Europe's first €20bn buyout must be on the cards. ■

For further information on Candover, contact Nils Stoesser, Director
n.stoesser@candover.com

History

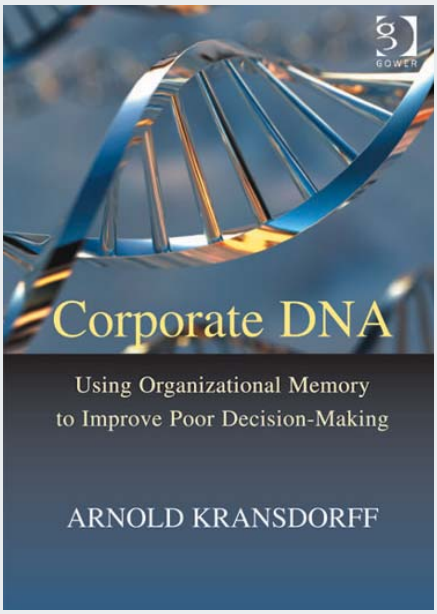
In the industry's infancy in the late 1960s, the acquisitions were called "bootstrap" transactions characterised by Victor Posner's hostile takeover of Sharon Steel Corp. in 1969. The industry was conceived by people like Jerome Kohlberg while working on Wall Street in the 1960s and 1970s and pioneered by the firm he helped found with Henry Kravis, Kohlberg Kravis Roberts & Co. (KKR).

O. Wayne Rollins, Rollins Inc. (ROL), is credited by Harvard Business School as completing what is believed to be the first leveraged buy-out in business history through the acquisition of Orkin Exterminating Company in 1964.

This article first appeared in the March issue of The Scrutineer

the OECD's low productivity

Management is the problem, experiential learning the solution



How good are companies and other organisations at making decisions? Not very, according to a new book on how this single most important skill of managers can be improved.

Managers are responsible for wasting a massive 37% of time in medium to large organisations in Australia, Austria, France, Germany, Hungary, South Africa, Spain, UK and the US. Elsewhere, senior executives in same-size British companies admit that an astonishing one in four of their decisions is wrong. Collectively, their wasted productivity is costing countries like Germany, Spain, the US, the UK and France between 5.9% and 9.7% of gross domestic product (GDP) and the productivity growth of most OECD countries is petering out, with Italy, Luxembourg, Holland, Spain and Switzerland already in negative territory. The book points out that this is the first time in modern industrial history that the economic momentum among so many developed economies has reversed simultaneously with so many others in stalling mode. It is, warns the author, a very late alert of systemic trouble for First World industry and commerce.

With the traditional explanation the dearth of worker skills, the book remarks that the employee skills base has never been higher. It is modern managers, says the author, who are not giving full value to their employers, giving performances they would likely not tolerate from their own subordinates. The way they're making decisions is leaving their experience-rich economies vulnerable to their experience-poor competitors, just like Japan in the 1960s and the so-called BRICK countries Brazil, Russia, India, China (especially China) and Korea, are threatening now.

The author holds two constituencies responsible for this creeping uncompetitiveness.

How is it, he asks, that productivity growth scores are lower today than they were prior to formalised business education? Business education, which supposedly instructs how to do things efficiently, does not teach decision-making as a dedicated subject, leaving managers to depend on feel, political expediency, subjective thinking, experimentation and delay, a process that is little more than guesswork coupled with an ability to play the game of corporate politics well.

He also notes that organisations do not adequately compensate for the downside effects of the single biggest change in workplace practice for more than a century - the actively-encouraged flexible labour market. With the relationship between knowledge and power intimately linked, the corporate body has, deliberately and entirely unwittingly, allowed the ownership of knowledge to pass to the transient individual. No longer are individuals an aggregate part of an established institution. Individuals are the institution for as long as they remain in situ. Then, when the face changes–as it's doing every four or five years in most developed economies–the institution changes or, more accurately, tries to change, bereft of its continuity and at the mercy of new brooms. Ordered evolution has become a shapeless revolution with

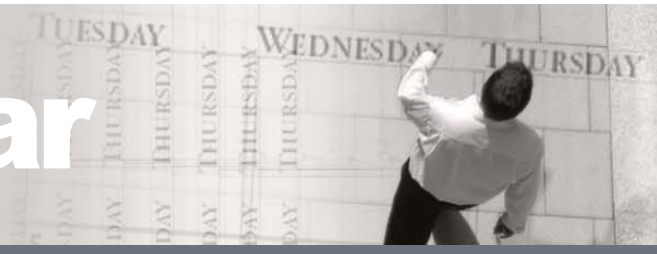
little regard for the one corporate asset that represents the organisation's life form–its institution-specific knowledge and experience.

The author suggests that for businesses and other organisations to substantially raise the quality of their decision-making, they urgently need to be taught to be much better experiential learners. And for experiential learning to take place, companies and other institutions have to better manage their corporate DNA, which comprises the institution-specific experiences otherwise known as Organisational Memory (OM).

The conventional belief is that their OM can be captured by expensive and sophisticated Information Technology (IT) systems that organisations have been persuaded to install. Unfortunately not. The type of data, information and knowledge that most IT systems store and dispense is explicit. However useful this is to the decision-making process, missing is the more valuable component of OM and the decision-making process that is either forgotten or readily discarded via the organisation's swing doors and musical chairs. By which the author is referring to tacit and other related lost knowledge–the 'how' of know-how that characterises an organisation's ability to perform. Much of it is implicit, ambiguous and acquired largely by experience within the organisation. Typically existing only in the minds of individuals, tacit knowledge is normally very difficult to capture. Without it, it is like running a gearbox without oil.

Giving knowledge management an IT role beyond traditional data collection and distribution, this book outlines how elusive tacit knowledge can be captured via a six-stage continuous spiral that firstly allows organisations to pre-select its main learning opportunities. With the full complement of OM in hand, the book then explains how–by adapting to decision-making the models developed by experiential learning expert David Kolb and others–they can reduce the pandemic of repeated mistakes, reinvented wheels and other unlearned lessons that litter modern living. In so doing, business and other organisations could resume productivity growth to more easily fend off their pushy competitors.

CEO calendar



July 19th–20th	Spend Management Conference	Intercontinental The Barclay, NY	The Conference Board
Aug 30th–Sept 1st	The 5th Annual Forbes Global CEO Conference	Sydney Opera House	Forbes
Summer (various dates)	The Leadership Experience at Gettysburg	Taneytown, Maryland	The Conference Board
Sept 7th	Driving growth through business innovation	Grand Hyatt Shanghai	Economist conferences
Sept 26th–27th	Pay at the Top, Executive and Board compensation	Marriott Marquis Hotel, NY	The Conference Board

human capital management

by Richard Donkin

Richard Donkin is the author of **Blood Sweat and Tears, the Evolution at Work**. He is also an independent journalist who, for the past ten years, has been the Financial Times' columnist on work and careers. He works as a commentator on management and employment issues and his articles are widely published. For more information on Richard Donkin and the articles he has written visit **www.richarddonkin.com**

Human capital management, a concept that up to no more than three or four years ago was an ill-defined idea, equated with rationalisation of employment polices around reporting structures, is establishing itself as one of the leading strategic priorities for any business that seeks to define its competitive advantage through the excellence of its workforce.

Unlike human resources management, HCM has been recognised for the way it combines concerns for strong people management with evidence-based measuring, providing a rigorous, auditable, underpinning of employment practices.

The principles of HCM were established during the early 1960s by the late Theodore Schultz, an agricultural economist at the University of Chicago who established that large scale investments in education could raise productivity in US agriculture. In doing so he demonstrated that the yield on human capital in the US economy was larger than that based on physical capital.

Up to that time, national economies had been comfortable in the measurement of physical capital. The realisation that wealth creation was shifting to a knowledge base created a new paradigm that was not fully digested until the 1990s when shares of companies such as Microsoft and other software pioneers began to trade at multiples far beyond their traditional book values.

As academics began to research ideas around intangible assets, human capital came to be recognised as an investment-based discipline centred on the measurable returns from investment in people.

Gary Becker, the 1992 Nobel prize-winner for economics, who coined the term, "human capital", explained that expenditures on education, training and medical care needed a new classification. "They are called human capital because people cannot be separated from their knowledge, skills, health or values in the way they can be separated from their financial and physical assets," he said.

> "HCM combines concerns for strong people management with evidence-based measuring, providing a rigorous, auditable, underpinning of employment practices."

Shultz argued that if people invested–through study time and effort–in their training and education, they could enlarge their range of career choices. In this way it could be appreciated that investment relating to employees could be channelled in two ways: investment in people and investment of people in their work.

For this reason, the information technology specialists helping to programme and maintain a company's computer system have come to be recognised as more important and valuable to the business than the system hardware. Yet the hardware is listed as an asset in the corporate accounts whereas a traditional accounting approach lists the employees as a cost During the 1980s there were attempts to describe employees as assets but this precise definition could not accommodate the valid accounting principle of listing full-time employees as costs on the debit side of the balance sheet. Capital, on the other hand, has a fluctuating value that tends to be associated with investment.

The concept of human capital recognises the inherent value of employees bound up in their knowledge, skills and creativity. The value of this capital changes, depending on the usefulness and pay of an employee. It can also be enhanced by management interventions such as the provision of

the disciplines that have emerged around human capital, therefore, are designed to measure the respective values associated with employment in a way that can inform corporate strategy.

Companies such as the Royal Bank of Scotland, Standard Chartered Bank, Enterprise Rent-A-Car and Sears have placed human capital measurement at the heart of their people and business and strategies, using HC metrics to define their approaches to management, recruitment, pay, employee development and employee relations.

In fact the kind of marketing-style analysis used in customer relations has been transferred to a new business-led approach to employee opinion surveys. Such surveys were used originally to obtain a snapshot of employee satisfaction, assessing the so-called "climate" of workforce opinion.

Today, however, leading-edge human capital practice is linking such surveys far more closely to the aims of the business. Comparisons of engagement scores at Standard Chartered Bank have found a strong correlation with business performances in individual bank branches. Those that score highly on engagement have measurably higher revenues and overall profitability.

"No matter where they are in the world, the more engaged branches perform dramatically better than those with lower engagement scores," says Tim Miller, Standard Chartered director of Human Resources.

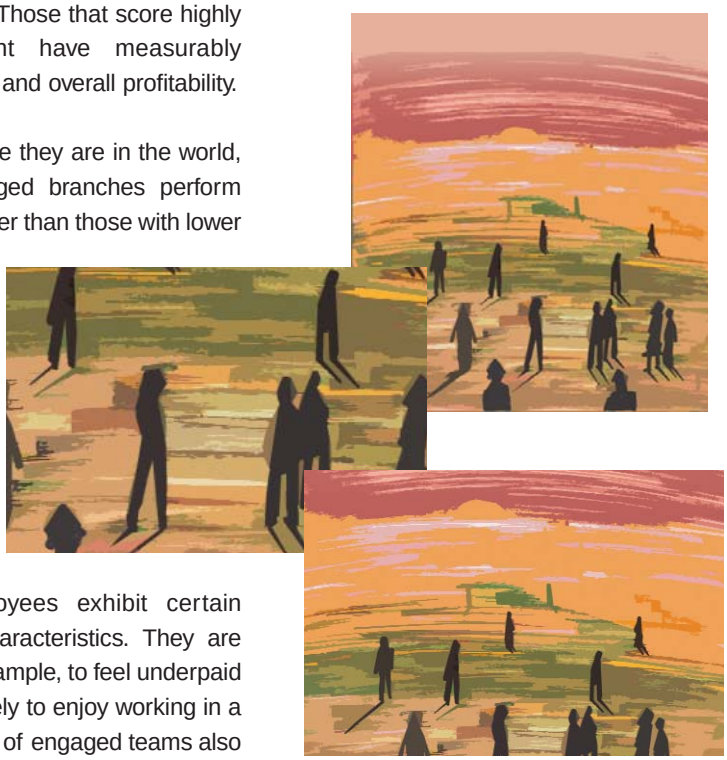
The bank has discovered that engaged employees exhibit certain recognisable characteristics. They are less likely, for example, to feel underpaid and far more likely to enjoy working in a team. Managers of engaged teams also reveal discernable behaviours, such as an ability to describe the business of the bank in ways that are easily understood by subordinates.

These observations of employee engagement are helping to shape various roles in the bank. Human resources managers are distinguishing between innate talents, knowledge and skills in order to ensure that people are in jobs where they can play to their strengths.

In a different way Enterprise Rent-A-Car, the largest car hire business in North America, is using customer-satisfaction feedback to shape its service ethos, promoting, rewarding and recognising staff for their dedication to service more than for their sales record. Here human capital metrics have become linked directly to service and its relationship with revenue performance.

Measuring workforce potential was an important part of the planning behind the UK Government's now abandoned proposals for mandatory Operating and Financial Reviews. In spite of the shelving of these formal reviews, most

(continued overleaf)



coming soon

The Proudfoot Productivity Report

This report, the latest in our series of annual studies on workforce efficiency–what economists commonly refer to as 'labour productivity'is to be published shortly. It will be of interest to anyone concerned with organisational effectiveness and performance; in particular to anyone with management responsibility, as well as those who create policies that influence business. Our report provides an overview of two elements of new work undertaken in the first quarter of 2006.

The first is an independent analysis of three years of our proprietary data collected during internal reviews of operational performance of companies around the world. Although we have been publishing our annual Productivity Reports since 2001, this is the first time that three consecutive years of statistics have been analysed, producing more robust findings.

The second element comprises extracts from an executive opinion survey commissioned by us from The Conference Board. The survey was completed by more than 800 people, mostly Conference Board members, plus other senior executives in large, private sector corporations.

The report has a dual purpose: to expose and highlight the most commonly observed factors that prevent companies operating more efficiently; and to report the executive view on performance barriers, workforce efficiency in 2005 and their expectations for productivity growth in their companies for 2006.

The report also allows comparisons between the observed findings of what actually happens in practice, with what executives think is happening. Furthermore, it identifies the best and worst performing economies, in terms of labour productivity performance, and the best and worst performing industry sectors.

Additional chapters covering more specific aspects related to productivity performance will be released in series later this year. The themes for these include sales force performance, supervisor behaviour and management systems.

If you are interested in receiving a copy please email **rparkinson@proudfootconsulting.com** or visit **www.productivitystudy.com**

large pubic companies appear committed to some form of forward-looking report in order to give investors an appreciation of employment policies.

Such practices are leading to stronger co-operation between metrics-led financial controllers and human resources specialists who have previously concentrated on administrative tasks. Both disciplines are being encouraged to use their skills in ways that will influence and reflect the strategic direction of businesses.

The creativity of employees is proving so important to business that the recruitment and development of people can no longer be consigned to a single function. Human Capital Management must layer itself across various functional silos such as human resources, finance, operations and marketing.

There is a danger that without this breadth HCM will be regarded as no more than some HR toolkit for the compilation of employee statistics when it should be placed, in reality, at the very hub of strategy formation.

The challenge for HR professionals is to prove themselves capable of demonstrating a working knowledge of other business disciplines. "For HR finally to shed its 'tea and sympathy' image," says Rosaleen Blair, managing director of Alexander Mann Solutions, a recruitment outsourcing business, "it needs to start talking the language of the board–and that means delivering tangible results, reliable metrics and a visible return on investment, as well as providing effective strategic and day-to-day contributions to the running of the company."

This is a tall order. But the prize for the effective management and understanding of human capital, is a business that can succeed in an increasingly competitive marketplace through the creativity, adaptability, and talent of its people.

Pam Hackett, president of Proudfoot Consulting's People Solutions division, responds

Whether it's the rapidly ageing workforce issue facing the economies of the US, Western Europe or Japan, or more about fundamental skills shortage in the emerging economies of South Africa or China, the principles of Human Capital Management (HCM) are just as relevant.

"Tight linkage between people management, evidence-based measuring, employment practices and corporate financial goals is what companies must aim for wherever they happen to be located. This is definitely not just another Anglo-Saxon management philosophy that doesn't apply to other cultures," says Pam Hackett, president of People Solutions for Proudfoot Consulting.

Employee engagement and alignment, adds colleague Tony King, director of People Solutions in South Africa, is the bedrock of Proudfoot's 'Co-Venture®' methodology, the approach taken to deliver higher workforce performance in all of the firm's operational improvement programmes for clients.

"It's now generally accepted that resistance to change is inversely proportional to awareness and involvement of employees. If people understand and accept the reasons management are asking for things to change, resistance often melts away. But it takes careful planning and close attention to detail to communicate these reasons in an authentic and compelling manner. Aligning and engaging people makes change happens more rapidly, and Co-Venture® gives much more certainty to this; that's its real power," he says.

Hackett points to a recent global Proudfoot assignment for a large engineering project management firm with more than 5000 employees worldwide. The company in question had a long history of failed change initiatives but only when a new leader arrived, and a different approach was taken, did the business finally manage to make the transformation required to meet its initial $80m productivity improvement target.

"In this situation, the president of the business understood the need to start with gaining consensus and alignment among the senior team. Only then did he cascade the change downwards, and when that happened, he did it personally, even though that meant a huge commitment and an exhausting six-week travel schedule to visit each of the company's major operations around the world. But the result was that people appreciated those visits, and they believed and accepted what he said. Because of this it was so much easier to transfer knowledge, skills and behaviour change to the workforce."

The outcome was an engaged and aligned workforce with a human capital emphasis on accountability at all levels of management and in every phase of the engagement. On the back on this and other project experiences, Hackett believes Donkin makes an important point about the danger of HCM being consigned to the Human Resources function.

"If this happens, its clear potential in terms of value and impact will not be realised and Learning professional and most Human Resources directors would agree with that."

For further information on this article, contact Pam Hackett, phackett@proudfootconsulting.com

celebrating 60 years of success

As Proudfoot Consulting celebrates its 60th anniversary we take a look at how clients' needs have changed emphasis over the years

Alexander Proudfoot founded Proudfoot Consulting, in Chicago in 1946, with a clear mission to increase profits through operational improvements. Since those early days much has changed, enabling Proudfoot to develop into a £129.6 million company, operating on a global scale with offices in 14 countries across five continents. Despite countless change though, the mission to enhance performance through operational improvement remains constant.

CEO Luiz Carvalho states, 'In recent years we have evolved our offering towards telecommunication and energy costs but the end objective has never altered. It's always been about assisting our clients to reach their full potential." Today around 40% of Proudfoot's assignments have an element of top line growth revolving around achieving better sales and support activities. We deal with supply chain logistics, procurement and outsourcing, as well as examining energy, raw material and telecommunication costs.

> "Fundamentally it's still all about people skills, process improvement and implementation"

Importance of Implementation

These are all very different activities from what was happening 60 years ago but fundamentally it's still all about people skills, process improvement and implementation. Luiz Carvalho adds, 'It's these elements that form the basis of every single project we are involved with, regardless of what each individual project is about. Where the difference comes in lies in how each element is approached."

Alexander Proudfoot was inspired to start his own consultancy when he realised the importance of following up analysis and reporting with implementation, hence he is often referred to as the founder of implementation consulting. Peter Isaac, a senior member of the Proudfoot management team who has been with the company since its first European project in 1973, believes that this emphasis on implementation at grassroots level is even more relevant today than when Proudfoot began.

As Proudfoot's first ever Practice Director, John Xerri is a man who knows all about implementing improvements. John comments, "My job involves examining how we've worked in the past, what we are doing now and spotting new working trends in order to establish effective new processes, products and services." He believes that whereas twenty or thirty years ago the focus was exclusively on cost, consultancies should now routinely look at resource management, inventory and best practice. Also where change was often just administered at the top level, many consultancies now appreciate the value of working much further down each organisation's chain.

People Power

In essence implementation is all about getting people to do what they don't want to do, which is change. "The only

1946-2006

60 *years of expertise*

way you get people to change behaviour is to change attitude, and the only way you get to change attitude is to change the way they think," states Peter Isaac. "So to get really sustainable behaviour changes you have to change the way people think."

> "So to get really sustainable behaviour changes you have to change the way people think"

Business Development Mikki Klempa backs this up by commenting, "You don't just wait around expecting people's attitudes to change, you start doing things differently so they can see and experience the advantages of change with their own eyes."

Whilst Proudfoot has never been the type of consultancy to dole out advice and leave companies to just get on with it, client support has become increasingly important in our offering. In 1994 the decision was taken to appoint a dedicated project taskforce team for every UK project. This has proved so beneficial that the same set up is now used in every country we work in. "We recognise it means so much more for a CEO to see his own staff presenting ideas," explains Luiz Carvalho, "and this has significantly boosted the sustainability of our work."

Tools and Technology

Technology has obviously come on a long way too, even in the past couple of years. In fact John Xerri still remembers how when he first started at Proudfoot people would crowd around to see what a computer looked like! Now we rely on faster and evermore effective communication through the use of email, intranets and other web assisted methodology. For example, Proudfoot has a highly efficient system that catalogues a summarised report of each project to form a vast database of knowledge. In contrast John Xerri states, "When I joined the company this knowledge bank was all in people's heads. That was fine when you could easily contact the person in question, but when those people left the company that knowledge obviously went with it."

It's important though to stress that IT isn't always the solution. In fact it can cause more problems than it solves, if it hasn't been properly thought through how people will actually use a system. Mikki Klempa states, "Proudfoot doesn't aim to be at the forefront of technology, we value people skills and expertise over technology. We try to work with what a client already has where appropriate, rather than simply encouraging them to invest in the latest technology and expect that to fix everything." Likewise Peter Isaac observes, "You can have the best technology but it's all down to people. New technology is no substitute for good people."

Sometimes it is merely necessary to educate or encourage a client to use technology they already have. A classic example of this is where companies have spent millions on ERP platforms and then don't use them. Peter Isaac observes, "If people can't relate to a system it won't work. A great example of this is when IBM called us in to help implement one of their own systems! The solution was to get people to think differently so that they welcomed the new system."

It is also true that some of old methods still work best, such as the ever-popular use of brown paper. CEOs are always inundated with endless printouts but the brown paper technique is far more visual. As many people think visually, laying out a company history in a pictorial way helps them see things in a whole new light.

Global View

The growth of globalisation means there is always someone who is working at producing something faster, cheaper, smaller or more reliable than you are doing today. Where previously companies weren't really impacted by what was happening in other countries, now the dynamics of bust and boom around the world often make a huge difference. The world feels much smaller because competitors can be anywhere, rather than just those on your doorstep.

Peter Isaac points outs, “The old adage of ‘if it ain’t broke don’t fix it’, is outmoded. It is now more truthful to say, “If it ain’t broke break it because someone else surely will so you might as well get ahead of the trend.” A couple of years back Charles Handy commented that over a third of Fortune 100 companies would not exist within seven years. Now Peter believes this has been reduced to around five years, showing that constant change is essential and will only get faster with increased globalisation. There’s also the realisation that whilst India and China are lagging about ten years behind first world countries, they will undoubtedly be the economics powers of the not too distant future.

Even though all this change is occurring John Xerri claims, “I’ve worked with over 150 different businesses around the world and one thing I see time and time again is that fundamentally the issues facing different companies are the same. Be it a coalmine in Australia or a European car factory, if you filter out the differences you’ll find out that underneath they all have similar concerns requiring the same business principles.”

Current Climate

So with such a fast changing world are clients still asking for the same things? Well yes and no, Mikki Klempa has certainly noticed a few changes in what clients are looking for. He comments, “A recent client in the insurance business wanted us to look at reducing policy cycle times and find ways to get new products to market quicker. In the past a business like this would all have been about rate change.” He also had another client in the energy business looking for strategic initiatives to reduce his supervisors” long working hours and give them a healthier work life balance, rather than for any financial gain for the company.

Another popular request is for investigations into supply chain outsourcing. To cope and gain from globalisation clients are increasingly looking to find out which countries to outsource to. Proudfoot advises them on where would best fulfil their needs by analysing skill sets, equipment requirements, shipping costs and raw material sourcing etc.

“Be it a coalmine in Australia or a European car factory, if you filter out the differences you’ll find out that underneath they all have similar concerns requiring the same business principles”

As far a top line growth is concerned Proudfoot believes that the key is to encourage sales people to get out and see more potential clients and close more deals, concentrating on the bigger deals. We train and coach our clients to be more effective in meetings by really engaging their clients through a thorough understanding of their business.

Today we also see far younger CEOs who are being given shorter and short timescales in which to prove themselves. Facing such pressure many of today’s CEOs regard accepting the assistance of consultancies such as Proudfoot to be the norm, with the positive attitude of simply bringing in the experts to help. Even with this very accepting attitude we believe that while CEOs will often buy they don’t want to be sold to, they just want to see for themselves what makes sense for their business.

Thankfully that’s where we excel. Our unchanging principles, in an ever-evolving world, make us a consistent source of expertise that our clients have come to rely on. ■

maximise future performance

through BPM and ERM integration

The Sarbanes-Oxley Act forced a heightened focus on the financial risks within an organisation. Many companies have limited their primary consideration to those financial risks thus adopting a narrow approach to risk management. Ignoring or minimising operational risks when evaluating a company's performance and future prospects can leave management blindsided by events that erode shareholder value. In order to obtain a holistic, forward-looking, accurate view of what events may impact the business and hinder the achievement of strategic goals, companies should adopt a more comprehensive prospective outlook and integrate operational risks into their overall business performance management (BPM) strategy.

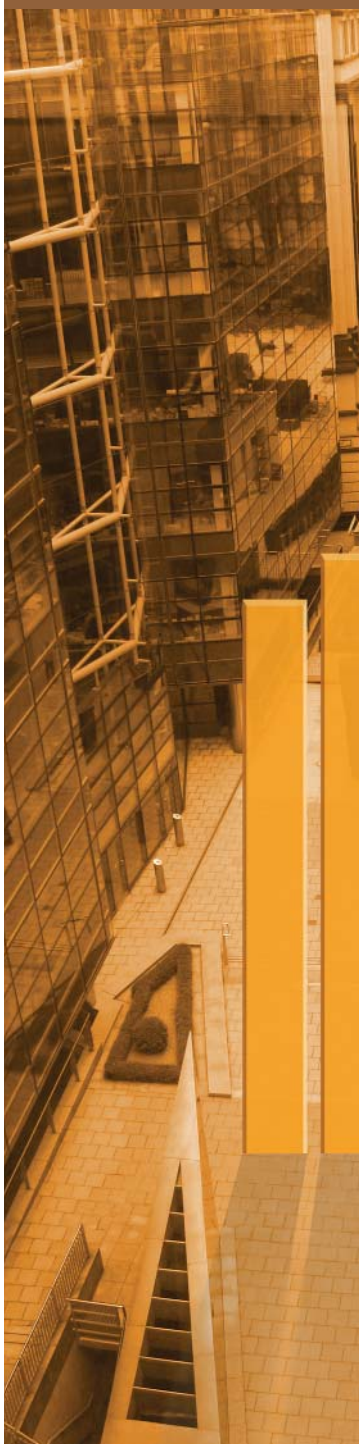
> "Ignoring or minimising operational risks when evaluating a company's performance and future prospects can leave management blindsided by events that erode shareholder value"

Integration captures past, present and future performance

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) recommends that Organisations proactively manage risks by implementing enterprise risk management (ERM)–practices that identify potential events that could affect the organisation and manage the risks associated with such events–across the enterprise to provide reasonable assurance that company objectives will be met.

A comprehensive approach to risk management can strengthen a company's BPM efforts by preparing it for events that traditional financial forecasting and planning processes would miss. Business performance management focuses primarily on performance monitoring to ensure that business objectives at various levels of the organisation have been achieved with minimal variance from plan, so many of the key performance indicators (KPIs) captured in management reports reflect only historical performance data.

ERM, in contrast, evaluates the risk profile of the company across all of its departments and lines of business. The key risk indicators (KRIs) that ERM processes generate are predictive indicators of future



performance. Therefore, an organisation that uses a combined BPM and ERM system to support management decision-making is basing decisions on a complete picture that includes past, present and future performance. Looking at a company's KPIs without fully understanding the risk environment in which it operates can leave management open to surprises that can rapidly dominate the organisation.

The benefits of a joint approach

Companies that employ both BPM and ERM frequently inherently disconnect the two, especially at the senior executive and board levels. United, the two processes can provide a number of compelling benefits. First, since managing business risk is integral to managing business performance, companies that include risk assessments in their financial planning and forecasting can develop a realistic expectation of their future performance and clearly see the environmental factors that are most likely to affect their profitability. Second, proactive management of performance and the creation of shareholder value are possible only when BPM and ERM are fully integrated with a company's routine management activities and daily operations. When performed separately from BPM, ERM remains an add-on that is frequently not well executed. Fortunately, joint ERM and BPM projects are more practical today than ever before due to more affordable and userfriendly technology. Historically, one of the biggest obstacles to combining these activities has been the consolidation of all necessary information from disparate software platforms, locations and business units. In the past few years, the Internet and the XML data markup language have become increasingly popular gateways for information exchange. Some software vendors now provide extract, transform and load data capabilities through XML protocols, which facilitate data management and eliminate the need for costly interfaces to pull information from multiple platforms into a single application. In addition, sophisticated new data management applications can bring information together from a variety of databases and multiple platforms to give end users a single view of the enterprise. ■

This article first appeared in Knowledge at Work, a quarterly publication by Parson Consulting. Knowledge at Work is produced once a quarter and covers topical financial management issues. If you would be interested in receiving a copy please email alast@parsonconsulting.com

9 Nine steps to integrating BPM and ERM

1. If you don't have one, establish an enterprise-wide risk management infrastructure
2. Develop a risk management reporting system that covers all levels of the organisation–from the department/business unit level up through the entire enterprise
3. Determine which types of reports the executive committee and board will need and which ones should remain at the department/business unit level
4. Decide what information will be needed to effectively identify and evaluate risk. Determine if this data already exists or whether it needs to be captured
5. Examine BPM metrics and databases to see if there is any duplication with ERM metrics
6. Develop a conceptual report on an integrated BPM-ERM reporting system that covers all levels
7. Determine if the organisation has the skills sets and availability to develop an integrated reporting system in-house or whether outside assistance will be needed
8. Ensure that appropriate management processes (e.g., individual, divisional, etc.) are in place to reinforce the integrated BPM-ERM approach within the company culture
9. Engage senior executives, particularly the CEO, in the process since their sponsorship is essential to success

60 1946-2006 years of expertise

proudfoot consulting™

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We help people increase their productivity.

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