

TURNAROUND STRATEGY WITH VALUE MANAGEMENT

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Somewhere out there another business day began. The Executive meeting on Monday morning started on a bad note.

Robert the Managing Director was furious: "Productivity is low, moral is rock bottom and the targets promised are not kept. We have to do something" Worried faces with no response reflected the grim reality.

Robert carried on "we have spent 4 million on Business Process Re-Engineering (BPR) and team building sessions, why are we still in this mess?"

Tony who heads Engineering explained, "Rob, remember Head Office initiated the BPR and I told you then that we will suffer the consequences of this Shotgun Approach. Yes we did register a dramatic reduction in operations cost but most of these savings were obtained through downsizing of the organization and by management and staff taking over extra responsibilities. You know that all of us work up to 14 hours every day just to keep the company going. The BPR did not address the real problem, I may even state that the initiative has done us more harm than good."

Manfred the Human Resources Manager butted in, "I told you then that we needed more team building sessions, the reason for poor performance are the lack of team effort, lack of involvement of staff in the changes implemented, especially in the lower ranks of the organization".

Tony replied "Manfred, please, the last thing I need is to spend a weekend with some Team Building Guru wasting my valuable time in some bush retreat. The last time we had Chris hurting his back so badly he had to stay off work for two weeks and Frank is still not talking to George since the abseiling episode, when Frank refused to go down the rope and George called him a coward".

The Financial Director, Hans confirmed. "I agree with Tony" and added "can somebody explain why I should share my personal feeling with any of you during one of those bonding exercises". "I hate that and anyway when we got back after the last team building session we still had the same problems at work and to be honest I could have spent a more constructive weekend with my family."

Manfred did not agree and said," But a working team is absolutely necessary to succeed, we need the team spirit to manage the problems we have".

Tony interrupted, "I'm not disagreeing with you Manfred, we do need the team spirit but I really think that the traditional team building weekends are a waste of time". "You have to understand that a working team is an end result of doing some fundamentals right in the company". "If you can understand that and accept that 95% of all our people are willing to give their best for the company you will realize that the problem is not with them but with us, Management". "The reason why they fail in their performance is the barriers and/or

bottlenecks they're confronted with every day". "Many of these barriers and bottlenecks have been created through temporary circumstances, incomplete implementation of changes and other short-term solutions". "When we introduced BPR we made the mistake of listening only to the consultants and not to our own people". "We also transferred the responsibility to the consultants, expecting them to provide the results."

Robert reacted by saying, "Yes that's true, maybe it's time that we produce the results for what we are paid for, managing our assets which includes our people. But how can we best rectify the situation?"

Tony replied, "Maybe its time to apply the Value Management (VM) approach". "I had the opportunity only last year to be exposed to the Value Management Methodology when attending a Post Graduate Course at Wits University; maybe I should explain the process in principle to you if you are interested."

The Executives nodded approval and Tony started to explain. "Value Management is measuring its results by measuring Value being the end result of doing something functionally correct for the least cost".

"VM also incorporates the principles of aligning diverse opinions normally expressed in a good leadership scenario".

"The output will be three fold; we get the correct solution to the problem we encounter since we secure the functional correctness before we decide on the solution to be implemented".

"We obtain buy-in and alignment from the people who have to implement and run with the solution through direct participation in workshops".

"Thirdly by getting results we creating trust between individuals and trust will be the first step of getting a team environment which leads to improved moral and increased productivity."

Robert interrupted, "Are you saying that VM can resolve our problems?"

"Yes and no" Tony replied, "similar to team building we have to be honest with each other and not get our egos in a knot when discussing strategies".

"The Environment has to be conducive to open communication between Management and Employees". "Should the Career Limiting Statement Syndrome restrict us we will waste our time". "Additionally all of us have to take the responsibility to make this work, remember VM is just a methodology, we can make it work."

"What is the cost implication to us" Hans inquired.

"We may have to contract a specialist in VM who can assist us in training and facilitation of the process", Tony replied, "but the real cost will be the time we have to spend together".

“Give me some indication of the cost for a VM specialist” Hans asked.

Tony walked to the phone and said, “Let me find out, let me talk to the Guy who lectured us at the University.” dialling the numbers.

“ Hi, may I talk to Grant, yes, hi my name is Tony, I attended your lectures at Wits last year and would like to find out how much you charge for your services, yes, really, ok, let me come back to you, yes, thanks, by” putting the phone down.

Tony looked at the others and said. “Those guys are expensive; they charge \$1 000 per day, isn’t that a little much?”

It was Hans who replied, “Tony I guess you didn’t know how much we paid those consultants when we did the BPR, we can accept those fees, but let’s get together with them and discuss details if we all agree that this is the way forward.”

Robert stood up and said: “Do we agree, yes, (all nodded agreement) then Tony would you please coordinate the next step.”

Tony met Grant the following day to discuss the logistics of a VM intervention in the company.

Grant explained that the approach should combine the actual training in VM and the strategic problem solving activity. “It’s much more cost effective for you in the long term” he said, “but the first step is get the Executives together for a one day process overview to be followed by a two days Strategic Workshop”.

The purpose of the workshop is to establish clear direction for the company and the identification of the Critical Success Factors” (CSF’s). The participants would include the Senior Management Team namely Robert, Managing Director, Tony the Engineering Director, Hans the Financial Director, Manfred in charge of Human Resources, Mike the Operational Director, Freddie the Marketing and Sales Director and Cindy the Industrial Engineering Manager.

The initial process overview took place a week later in the Executive Boardroom and Grant explained that the traditional problem solving method might not secure the correct direction the company has to follow.

“We may experience a non-conformance in a system, service or product offering”.

“Corrective measures may not be good enough and it could be necessary to investigate the functional appropriateness before deciding on any actions.” Grant said. “If we understand our real needs we may decide if we have to get smarter or better in what we currently doing or we may realize that we have to fundamentally change what we do”

Another interesting topic was the Value System concept, realizing that we managing a very diverse environment. “If you can see why peoples behaviour gets influenced by the environment and why they adapt to specific coping mechanisms which may be strange to the beliefs of many of us, you may empower yourself to understand the complexity of people you have to deal with” he said.

A questionnaire was handed out the day before for the Executive team to complete and it was with this information the Executives realized how different they were from each other.

Hans, being in Finance had the ideal profile for his job, being particularly strong on details, especially when it came to rules and regulations but did he get himself into stress when dealing with Mike our Operational Director, especially when Mike decided to ignore some of those rules. Mike was an action man and when something had to be done, it was him who got it going.

Robert showed similar attributes to Tony and it was clear to the others that they had the ability to understand very complex situations.

Freddie the Marketing and Sales Director was only interested in materialistic rewards and would have liked for years to be paid on performance, but again the company policy did not allow for such a rule. Freddie was also the Director, who insisted on driving a top of the range BMW, ("I need the car for my job," he said).

Manfred was a people's man, relating to the needs and feeling's of the employees. I guess that's why he works for Human Resources.

Cindy on the other hand was a tough young woman who took her work very seriously, considering that she had to compete in a man's world.

Grant then explained the thinking of many employees, especially those on the lower level echelons.

Understanding the total picture of the complex world we live in they took notes to consider this knowledge before major decisions are taken in the company.

He then took them through the VM process step by step and discussed the upcoming workshop with them.

The first alignment took place when they agreed on the purpose of the VM Workshop. "We need to reduce cost:" Freddie said, "Only then can we be competitive in the market".

"Are we sure what the market wants and do we really provide what the market needs?" Tony said.

The discussion got very heated and in the end they decided on the following Purpose Statement: Regain sustainable R.O.I.

"Do we all agree on the scope of the Purpose?" Grant asked, and all confirmed their support. "In this case, do we need some other people to be involved in the workshop?" he continued, "Remember we may want to involve our staff, an outsider maybe, or any person who could contribute in the discussions".

However the agreement was that the Executive team is representative enough to ensure success in the initial workshop.

Grant mentioned then that the first workshop participation could be represented from a horizontal organizational level, however as soon as we address the critical success factors in the follow-up workshops we have to select the participants from a vertical slice of the organization.

Maira, Tony's Secretary organized a venue in a local Guesthouse, away from the offices but still allowing the team to drive home in the evening. The duration of the workshop was planned from 8h00 to 18h00 for both days with a finger lunch and drinks and snacks in the evenings.

Grant requested two flipcharts to work with and everything was ready to meet the challenge of the first VM workshop.

"Good morning and welcome to the initial VM workshop. Before we start is there anyone who cannot attend the full workshop?" Grant said. "I do have a problem this afternoon" Hans mentioned. "I have to attend a meeting with the Bank Manager, but I could re-arrange the meeting if you think it would be of value".

Grant replied. "I really would appreciate it if you and the others could ensure that you attend both two days without interruption. It will affect our progress and as you will see during the workshop we will be starting to understand the problems and opportunities in a similar way. So should any of you be absent during that time we may lose the alignment between the participants and waste time in trying to explain process and progress to the person re-joining us".

Hans obliged immediately and made a phone call to change the appointment.

"Ok, let us start the process by confirming the Purpose Statement". Are we still in agreement to achieve a R.O.I greater than 20%."

All agreed and Grant requested the participants to honestly express their views on current issues and concerns affecting the company's current performance.

"Some of the issues and concerns we list on the flipchart may be real or only perceptions by some, however we have to address them in a similar way we would discuss the obvious problems." He carried on.

The participants started mentioning some of the concerns they have:

- Lack of skill
- Debtor's control
- Lack of discipline (invoicing, budget)
- Communication (internal)
- Reactive management
- Products: Quality, Standards, Resource allocation / priorities
- Low morale
- Client communication (image)

- High cost of overheads
 - Poor management of staff (motivation)
 - Time management
 - Waste
 - Too many meetings
 - Conflict of priorities
 - Understanding client needs and satisfaction
 - Penetration of industrial / commercial market
 - Selection of clients (80/20 principle)
 - Lack of front end engineering”
- etc.

When the list was finished, over 45 issues and concerns came up.

“Any more concerns?” Grant asked, “If not, let us define a common objective; clarify where we have to be as an organization if we want to succeed.”

Mike suggested we measure our success by the output of production.

Cindy’s comment created quite a stir when she said: “Mike; that is exactly where we went wrong last time. You always reached production targets and still last week you believed we should be successful as a company. Has someone told you that we have over 20 000 units of G27 in the store, with no official orders for them, sitting there costing us arm and a leg just to keep them in the store”.

“Well, Cindy, till you start to understand how an operation is run I suggest that you keep out of that conversation.” Mike replied, “I have being doing this job for the last 30 years and nobody has to tell me how to run my business.”

Grant interjected immediately, suggesting that with all due respect to Mike, Cindy should have the opportunity to explain her point of view before we judge her comments.

A short leg-stretch allowed Grant to talk to Mike, asking him to listen to the other people comments and not let his ego rule his judgment.

“It’s just that all those young engineers think they know everything” Mike confined, “and I know I’m from the old guard but we still know what is right and what is wrong”.

Grant asked Mike to hear Cindy out and that he will give him enough time to justify he’s view afterwards.

Mike replied “I’ll try” and both joined the others again in the VM session.

Grant asked Cindy to explain her theory of good performance measurement.

“By setting an objective we have to measure expected output and the measurement has to be fair to all involved in the improvement process. As an example, the Store Manager is measured against accurate and appropriate stockholdings and there is always the pressure to reduce holding stock”. Cindy continued.” On the other hand the Engineering guy’s need to have spare parts for the machinery Mike is using. When a breakdown occurs and downtime is in excess of 12 hours, just on one machine, it can cost more than keeping the total of selected spare parts in the store, even if the parts are replaced only one’s a year. What I’m trying to say is that both are doing their best for the company but how they measure their performance is conflicting. Therefore we have to think in a holistic way to determine the overall performance measure for our objective and I really didn’t want to attack Mike, it’s just that his comment on that issue was a good example of thinking in within a box.

“I guess you have ruffled some of my feathers,” Mike said, “but yes you got a point, let us see what the ideal measurement could be”.

Grant was sitting in the corner of the room and watched how the group started to interact with each other without him leading every point.

Grant has learned before that his facilitation skills are only needed when conflict is brewing and / or directions and scope is compromised.

He was pleased how Mike adapted to the challenge. Cindy explained her point of view, that maybe a better measurement would be in increased sales, a reduction in product returns, measuring quality or even direct bottom line profit, requiring us to look into the Overhead structure.

Robert added by saying that the Company is measured by Head Office through its R.O.I calculation and maybe it’s time that we apply the same approach on a divisional level.

Grant noted the various measurement options down on the flipchart and asked the Participants to decide which one is most appropriate and fair to everyone. They decided to accept the existing measurement of R.O.I and agreed on a 20% return.

Grant requested a time period in which the target of 20% has to be achieved. Manfred suggested that we need at least 24 months to implement such an improvement.

Tony’s reaction was rather strong and he said: “Can we afford to wait that long? If we not get our act together within 18 Months we have no business left to run”. Freddie agreed, pointing out that through globalization we could be targeted by Head Office to close down if no improvements can be secured within 18 months.

Manfred however complained that we have not the skills and resources to implement the required changes and anyway there is now budget allocation currently to employ more people.

Robert was getting agitated with Manfred on his short term thinking and told him straight: "If we can justify a turnaround of this Company, we will find the resources to implement the changes required, leave that problem to me, I can handle this."

Grant immediately added: "Manfred, imagine this is your Company and you could go to the local bank and raise enough money to turn your Company around, would you?" "Yes if it's justifiable"

Then he asked. "You mean I should see the whole scenario like my own business case and I base my decision on that?" "Yes" Grant replied. "Well then I agree with Tony, Freddie and Robert." "How about the others" Grant asked. "I agree" They all said. "Well then let's write down what we have agreed on," circling first the 20% on the board followed by the R.O.I. and the 18 months that he translated into an actual date.

The objective read the following:

Increase XYZ PTY Limited R.O.I to 20% before the 15 January 2005.

"Is that it?" asked Hans, "I was expecting a more exciting statement from this exercise".

"Well, let's test it against your requirements; if we achieve the objective are we having a business you want to be part of?" "Yes" all replied and Grant explained that an objective is not measured against its length but against its content. So long it's measurable, attainable, fair and accepted by all and within a time frame you have a good objective.

"I guess we deserve a break." Robert announced, leading them into the garden for a cup of tea and some scones.

After the break Grant systematically addressed all the issues and concerns with the participants and translated them into Results to Achieve:

- Optimize procurement process
- Re-structure Organization (operational/divisions)
- Reduction in waste
- Marketing Strategy
- Effective planning process
- Enforce administrative responsibility
- Enhance communication (Management / staff)
- Improve time management skills.

"You know, since we talk about areas in which we have to improve, let's talk about the problem I have in the market "Freddie said." About every tender I prepared and issued to the big companies was rejected due to our non-existing equity plans, I know we did some inroad when we promoted Cindy to Industrial Manager but I guess we did this because she is a very good Industrial Engineer and Manager.

However I do need some help from you all to assist me to fast track on integrating more black and women representation into our management team." Hans replied and said.

"Where do we get those people on short notice?"

Manfred joined the conversation and explained: "To get the correct representation on our

management we have to start with our own people and we need to establish and follow a recognized program of implementing an Equity and Empowerment plan.”

Grant asked if he could include that comment as a result to achieve and all agreed. “Ok, then let’s continue” he said and added more statements on the board as given to him:

- Quality assurance
- Appropriate product offering
- Eliminate unnecessary overheads.

Then Grant asked us to list Results to Prevent:

- Loosing good, young people to the competition
 - Delay in implementing solutions
 - BOHICA syndrome (bend over here it comes again)
 - Sacrificing long term goals with short term strategies
- Etc.

Grant requested everyone to think hard on the availability of resources we have not considered yet but would assist us in achieving our objective. He also made us aware to be honest with each other when we have to deal with constraints. “List them all, be sure we are aware of the potential resources and the constraints before we continue” Grant said.

Done that, all of the Participants could see a clear direction put together incorporating a clear objective, results to achieve, results to prevent or avoid available resources and constraints.

Grant confirmed that in VM terms they had completed the Objective Matrix and that the next step would be to identify the functional requirements to successfully achieve the objective.

Mike got a bit restless and commented; “When do we talk solutions, I have been here for the whole morning and we still do not know where we going.” Tony interjected and said: “Mike, the first time I went through a VM exercise I reacted the same way you did and believe me, looking back at the project we did at the University, we were frustrated as can be. But in the end we recognized the benefit of the systematic approach of making sure we talk and understand the same strategies.” Grant added: “The VM process is very difficult for people who have limited time to attend a workshop like today.

On the other hand they will make time to attend meetings with all kinds of people trying to resolve the problems arising every day.

Would they have started the right way initially, made sure all understood the real problems, solutions and expectation they would be busy focusing on new improvements and not on fire fighting activities their so use to it.”

Mike responded by saying: “Well, you may have point here, but please when will we see some results?”

Grant said: "It's nearly lunch time and after lunch we define the real cause of the problem through functional thinking. Depending on the outcome we may even finish today with clear directions and opportunities which can be carried forward into various projects where the strategies and implementation plans can be established."

Mike was satisfied and all of them got up to go for a good lunch in the main Dining Room.

The lunch chosen included lots of light food with some nice variation of snacks and cool drinks.

After lunch Grant referred back to the lecture given on the initial VM overview. "From the information gathered so far we have to list the functions required to achieve the objective, utilizing the information from the results to achieve and the results to prevent and turn them (ideally) into two word definitions (verb – noun)".

The list of functions got defined as follows:

- A.) Reduce Procurement Cost,
- B.) Optimize Organizational Structure/Resources
- C.) Develop Marketing Strategy,
- D.) Review Planning Process,
- E.) Streamline Administration
- F.) Enhance Communication
- G.) Define Roles
- H.) Implement Equity Plan
- I.) Secure Quality
- J.) Re-define Product Offering
- K.) Reduce Overheads
- L.) Eliminate Waste

Grant was pleased with the input he got from the participants and explained that from over 45 Issues and Concerns they reduced the information into 11 functional requirements.

"To narrow down the requirements to the real cause an evaluation of the function must take place" He said. "To do that we evaluate each function against each other, apply a rating and determine the functions with the highest score".

"This will give us the Critical Success Factors and I expect that from the function listed we may have to address only about 5 of them." He carried on.

"But let us start the evaluation now so we can complete this exercise before 18h00 tonight." They got stuck into it and some real arguments started when they realized what they thought were not what the others would agree on.

Grant had his hand full in managing serious arguments between the participants knowing quite well that this was the critical point of all the discussion they had so far and if facilitated correctly would end with them experiencing the first step of moulding into a working team.

After three hours of evaluation a tired group of managers counted the score. Grant asked for the highest scores and draws a graph on the board, placing the functional definitions in the correct sequence, creating a cause and effect relationship between the functions.

“As you can see, the following functional requirements have scored the highest score and reflect you real cause of the problems, where as the others would treat the effect only on how you currently run you business.” Grant explained.

The Basic and high secondary functions were as follow:

- Optimise Organizational Structure and Resources
- Develop Marketing Strategy
- Streamline Administration

“What about the Equity Plan and some of the other functions”. Mike enquired.

Grant explained. “These functions will be addressed within the three selected major functions, especially the Equity issue.

The Marketing Strategy and the Organizational Structure has to incorporate these requirements.”

“So what your are saying is, without a sound Marketing Strategy and the Organizational Structure the Equity plan may not work”. Mike asked.

Grant replied. “That’s quite correct; again it’s the cause of the problem we have to address. Because of the lack of a clear Marketing Strategies and no proper Resource allocation no Equity plan was implemented.”

Mike nodded agreement and Grant continued “Now, as mentioned to Mike before lunch, we are now ready to establish three working teams with carefully selected participants from within the organization and led by one of the Executives.

I still will assist in the facilitation process but the responsibility will be with your Executive Team to lead and support”.

Robert and the others agreed and they prepared a clear purpose statement and expectation for each of the three projects with a list of participants and a team leader.

“Well, I hope you attained the required alignment to focus on the real issues of your business” Grant said.

And I do hope all of you found the exercise useful and constructive”.

Robert stood up and replied. “ On behalf of myself and the team I really like to thank you the way you have handled the facilitation and yes we all agree that within only a day a clear understanding of the required direction was obtained.

But more important, it is the first time that we had an open but structured approach to a problem and we really believe that we gained enough alignment between us to secure the success of this project”.

Grant thanked Robert and the others for the kind words and closed the session with the following comment. “Remember, we have done some good work today; however we need to succeed with the follow-up projects ensuring tangible results which translate to a trust relationship between the people who have participated in the projects.

And what will be the end result? A Real TEAM”