

# Insights into . . .

# performance improvement\*

## for Private Companies

All organizations want to improve their productivity or performance. It's not as difficult as you might think. There are simple steps and inexpensive techniques that all companies would do well to consider.



In the latest *Business Insights Pulse* survey an overwhelming 84.6 percent of respondents said that improving productivity is part of their strategy for the coming year. This statistic is hardly surprising given the current confidence in the Canadian business community. In our annual *Business Insights 2006* survey,<sup>1</sup> 70 percent of companies were looking to grow and expand in the coming year, and 52 percent of the global respondents and 59 percent of Canadian respondents<sup>2</sup> are very confident about their revenue growth prospects over the next 12 months.

But how are companies seeking to improve productivity and how will they know if they succeed or fail—either within their own organization or against competitors? It is worrying that a high proportion of companies are measuring productivity only with general financial metrics because these metrics are not a reliable way of judging performance. And without appropriate metrics, these companies face an impossible task of trying to align their processes with the company's vision.<sup>1</sup>

In our experience some organizations seek short-term productivity improvements; others seek long-term sustainable improvements. Some pursue performance improvement on an intermittent basis, others continuously. Some leaders approach productivity as ambitious organization-wide transformation initiatives, whereas others are more tactical and seek limited improvements in particular processes, business units or functions. What's the best approach?

Improving productivity should be a permanent, active part of the organization at all levels and the most important place to start is to control the controllable. Your judgment on what you will address and what you ignore will greatly impact the level of success you achieve in improving productivity. To get started, consider how you define and

measure productivity and then consider how what you want to improve and how things can be done better. Productivity is a state of mind and should be promoted as such through every level of your business.

Over the last decade organizations, especially those at the larger end of the scale, have employed various performance improvement techniques to improve their results. These include Total Quality Management, Business Process Reengineering, Benchmarking, Activity-based Management and Knowledge Management. They are all valid techniques but they are not essential to performance improvement, and in fact, many of them often fail to achieve their targeted results.

On a more optimistic note, many organizations have learned a great deal about what works in performance improvement. At PwC, we've learned a lot, particularly from our experience working with private companies who in many ways are far better suited to stripping things back to basics than large public companies. This experience enables us to work with private companies to achieve reliable results and often for much less time and effort than one might think this work would require.

### Basically, there are two ways to improve performance:

1. Make your people more productive.
2. Invest in technology and equipment.

#### FOOTNOTES

1. 2006 Business Insights report [www.pwc.com/businessinsights](http://www.pwc.com/businessinsights)
2. PwC Global CEO Survey 2007 [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)

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### The Keys to Performance Improvement Success

We think the best way to improve productivity is to focus on practical activities with proven, measurable results. In this back-to-basics approach aspects will vary in importance from business to business, but the following aspects are fundamental to any performance improvement initiative.

#### 1. Create a performance culture

The most successful organizations are those where all staff are self-driven to achieve high levels of performance. At these organizations, performance expectations are clear, taken seriously, driven down to the individual level, and then reinforced by recognition and compensation programs. These organizations also have measurement of key performance variables and accountability for outcomes. In organizations with a well-entrenched performance culture, there is a constant focus on performance improvement at all levels, with little need for senior management to mount special performance improvement initiatives. Line management and staff are constantly implementing their own improvement initiatives. Organizations that can develop this kind of culture produce above-average performance year-in and year-out.

Usually, the things that are easiest to measure are not the best metrics to confirm that you're executing well against your strategy.

#### 2. Focus on people effectiveness

Ultimately it all comes down to people—their capabilities and their effectiveness.

An organization's success, and in particular, its ability to establish a performance culture, is directly tied to how well the competencies of its people fit the business strategy and how effectively they perform their jobs. A key element of improving productivity is looking at whether you are getting the most out of your people, whether their roles are aligned to your vision and taking the steps needed to optimize competence and motivation.

#### 3. Focus on revenue and innovation as well as cost

Top-line growth is the real test of organizational health—cost cutting merely provides breathing room.

Performance improvement is as much about revenue enhancement and the development of new products and services as it is about cost reduction. The most successful organizations are constantly looking outside their business to check what's happening in the marketplace. This means reviewing and renewing revenue-generating processes, including customer relationship management, selling and sales management and customer service. The most successful businesses also recognize and manage the processes for new product development and commercialization. | [CONTINUED ON NEXT PAGE](#)

## Looking for more information?

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An accurate picture of the current reality is essential to gain competitive advantage.

### The Keys to Performance Improvement Success

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#### 4. Resource, manage and govern performance improvement initiatives properly

Don't undertake a major change initiative if you can't resource and manage it properly.

Under resourcing performance improvement initiatives results in underachievement. This penny-wise, pound-foolish approach creates initiatives that are poorly planned and badly executed. Over time these not only fail, but build a cynicism in the organization towards change. You need to put a proper program management structure in place and be realistic about the quantity and quality of resources needed to gain meaningful change. In addition, you need to establish good oversight of programs—decide what the metrics are before you begin and if you can't measure it then it's probably not worth trying to improve. A critical requirement of performance improvement is to identify realistic targets, ideally based on some form of objective standards, such as external benchmarks.

#### 5. Define and communicate objectives clearly, then empower people to do the job

Top-down direction with bottom-up execution enables bigger improvements that "stick." The communication battle is never-ending.

The role of leadership is to establish goals and motivate people. Ideally leaders should let those affected by any changes define and implement the specifics of the program. Giving ownership to those who have to live with the outcome is the most powerful way of ensuring ultimate buy-in. Senior management needs to understand when to get out of the way, and when to step in to guide.

Once a case for change is established it must be communicated to everyone who will play a role so they know what's in it for them. Too many companies think one-way communication from the top is adequate. The communication battle is won in the trenches, in one-to-one interactions between employees and their immediate supervisors or managers. This means the process must be driven all the way down through an organization with a great deal of effort to ensure consistency of message. It also requires honesty, even when the news is bad.

#### 6. Implement a balanced performance measurement system

Measuring performance effectively is the basis for ongoing improvement.

One of the fundamentals that reinforce ongoing performance improvement is a performance measurement system. This system must measure the right things at the right level with the right frequency. Performance measurement should be relevant, accurate and balanced, and should measure not only financial outcomes, but also drivers of performance related to customers, people and innovation. The key thing to remember when developing metrics is to ensure they encourage people to do their jobs in a way which contributes to the overall business goals. They should encourage accountability and ownership and at the same time get people excited and engaged in contributing to the company.

#### 7. Be obsessive about sustainability

Sustainability is not just about being corporately responsible; it is also about ensuring value for the long term.

Always look at the longer-term impact of decisions, from the perspective of how current operations will affect sales, customer relationships, human capital, the environment, and the communities in which the organization does business. Focusing on sustainability is not just about being a good corporate citizen—it is also about ensuring the sustainability of returns by identifying and managing issues that could affect your long-term profitability.



#### Let's talk.

I've been helping organizations improve their performance for more than 20 years. As an employee, as an executive and as part of PwC's Vancouver-based Performance Improvement practice, I've participated in and led numerous projects that have generated great results. Through this experience, I've become adept at helping companies develop creative approaches to engage employees and create conditions for sustainable performance improvement.

Let's talk about performance improvement.

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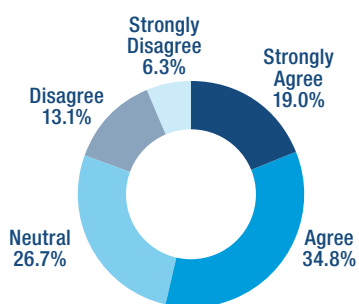
### Register to take part in our next survey.

The Business Insights programme is Canada's largest survey of private company business issues. To be included in our next online or telephone survey, email [pwcpulsesurvey@ca.pwc.com](mailto:pwcpulsesurvey@ca.pwc.com) with your details or log on to [www.pwc.com/businessinsights](http://www.pwc.com/businessinsights) for more information.

# Pulse Survey of Business Insights

This report contains the results of the recent Pulse Survey on Performance Improvement.

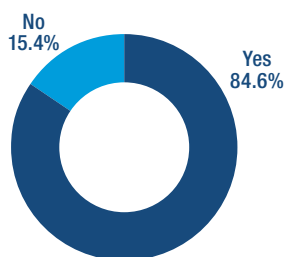
The comparison between US and Canadian productivity is relevant to me and my business.



Just over half the respondents feel that the comparison between US and Canadian productivity is relevant. A little over a quarter were neutral on the issue and the remainder did not find the comparison of relevance to them. There are slight differences by size of company and the smaller businesses find the issue least relevant.

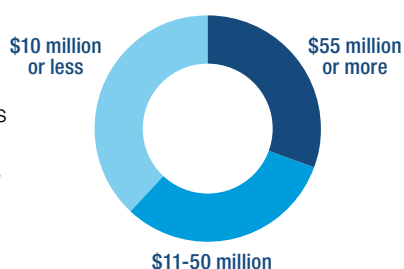
Additional responses suggest that comparisons to other major markets such as Japan or India would be more appropriate and a number of companies with operations in both Canada and the US feel there is not a gap within their organization.

Productivity is part of our strategy for the coming year.

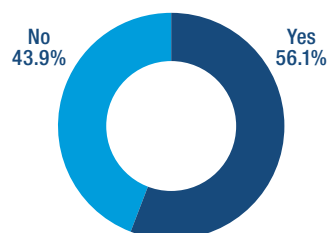


It comes as no surprise that the majority of all companies regardless of size or location have productivity improvements in their strategy for the next year.

Respondent Profile by Company Revenues



We have metrics to track productivity.



However while 84.6% of all companies are looking to improve their productivity, only 56.1% have productivity metrics. The remainder of businesses rely on general financial metrics. While 72% of the larger companies with revenues over \$51 million had specific measures in place, there are still strong signs businesses are not aligning their operations with their strategy and are consequently missing the chance to maximize their performance. This lack of measurement is corroborated by the 2006 Business Insights survey<sup>1</sup> which found only 43% of businesses have specific and measurable targets for all their business critical areas.

Metrics to Track Productivity (% of responses)

	Yes	No
\$51 million or more	72.1%	29.7%
\$11-50 million	53.6%	46.4%
\$10 million or less	45.2%	54.8%

FOOTNOTES

1. 2006 Business Insights report [www.pwc.com/businessinsights](http://www.pwc.com/businessinsights)