

The Impact of Human Performance on Profitability

TAPPI

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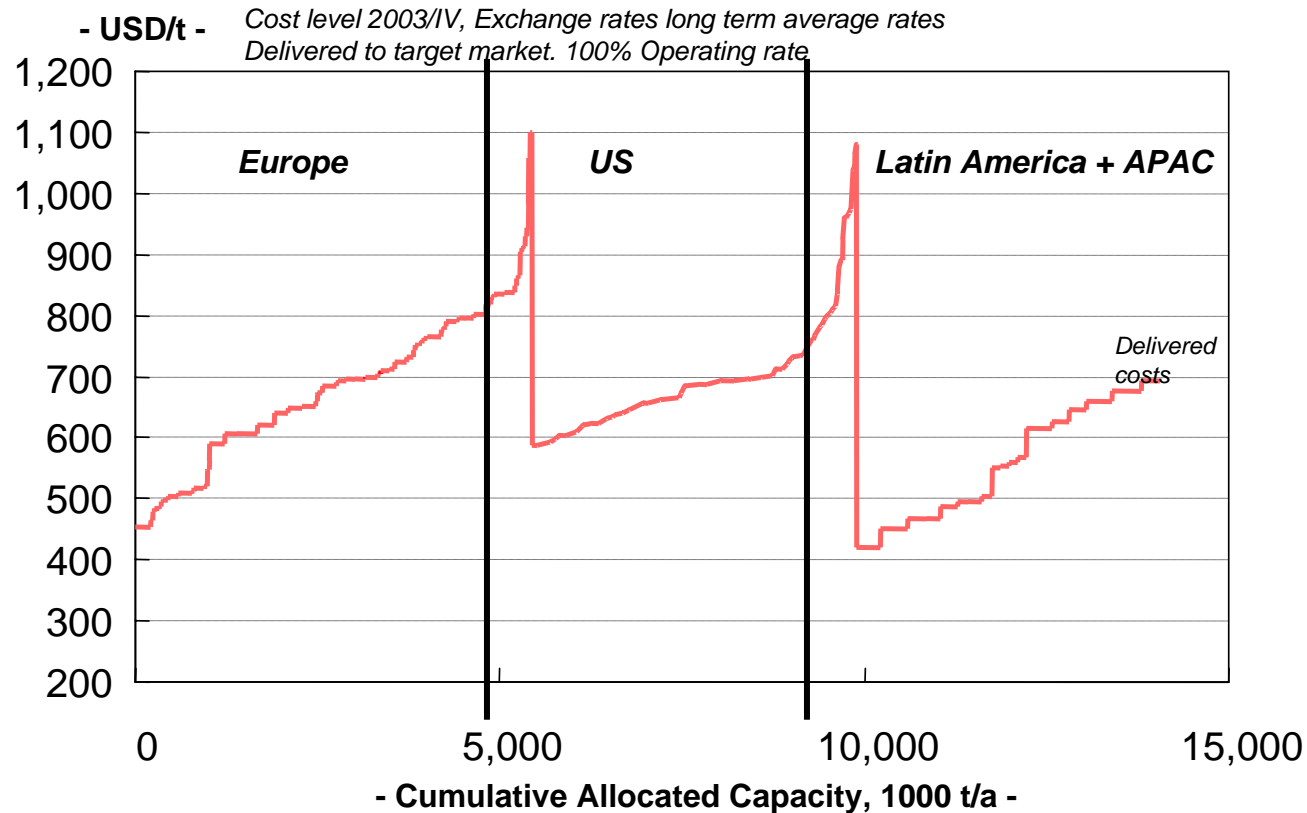
At least 25-30% of the profit variation between business units can be explained by human factors

Key Disconnect – from Industry Survey 2003

There is limited linkage between corporate strategy and the HR strategy – including implications for manpower planning and development.... HR seen as support not strategic. The rapid growth of leading companies (doubling every 'five' years) is accentuating this disconnect

The US Has Competitive Challenges - Example

These are the supply cost curves (long term exchange rate) for mills producing (and delivering) uncoated freesheet to their respective markets. The US supply cost curve is at a disadvantage (not small)

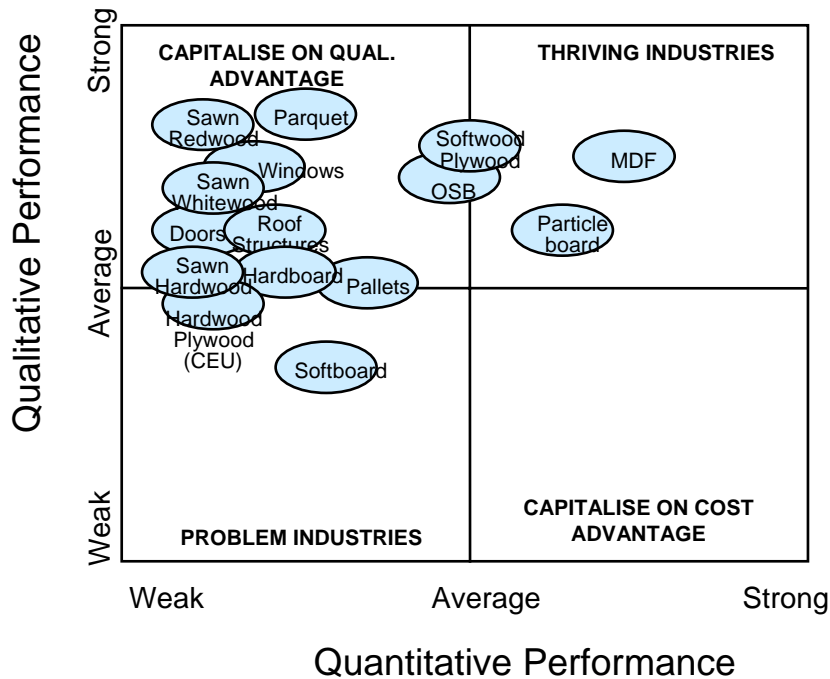


All delivered to target market. Europe = Frankfurt, US = Chicago, Latin America = Chicago, Asia = Hong Kong

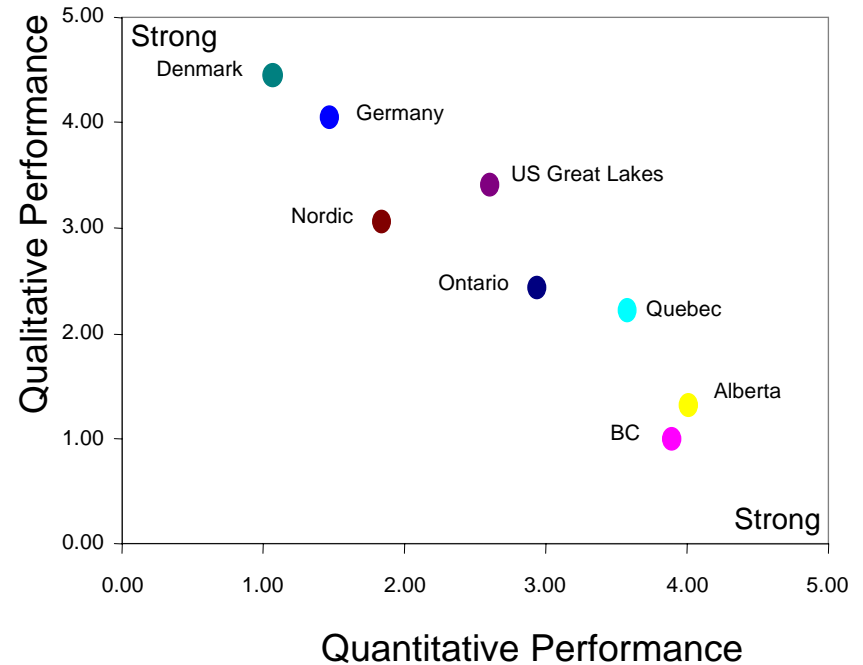
Finding New Routes to Competitiveness...

These two cases show sector leaders have found ways to compensate for cost disadvantage (Quantitative). They seek 'qualitative' leverage through people and processes: skills, competence, technology adoption, design, innovation, relationships, clustering and policy support.

Competitiveness of the EU Woodworking Industry

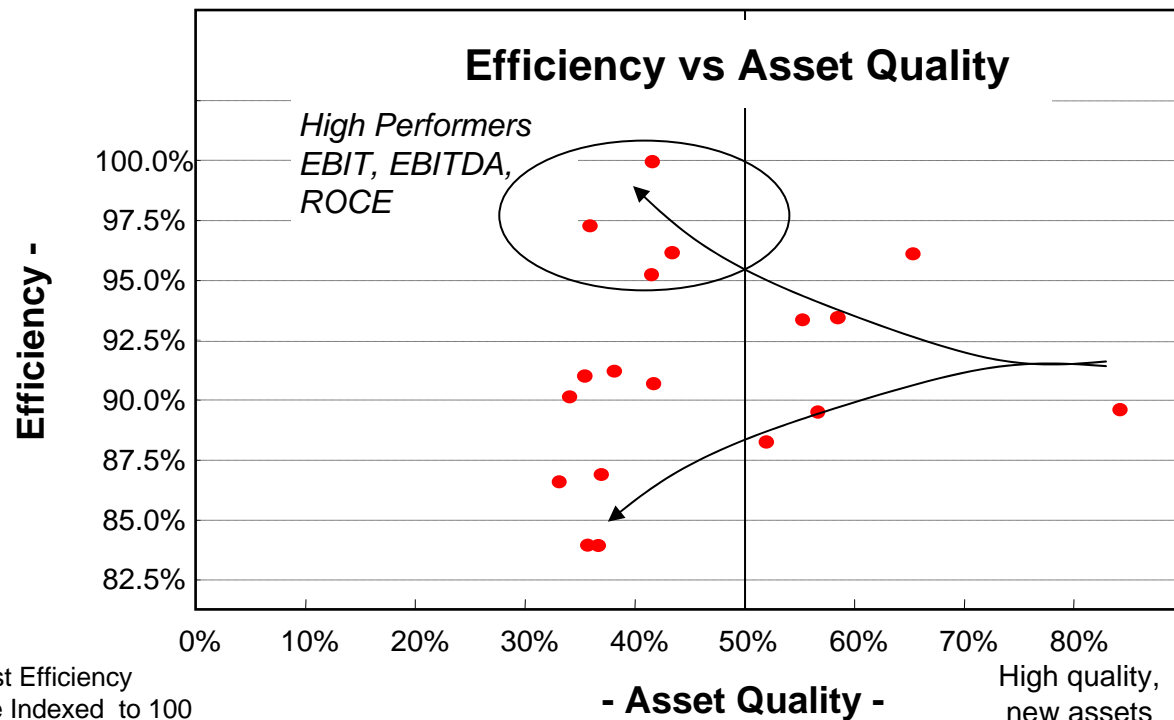


Competitiveness of Value Added Wood Based Industry



A Significant Part of the Solution is Human Performance

Actual operational assessment shows at least 25-30% of the variation in profitability can be explained by human factors. In this example, best performance was achieved with lower quality assets

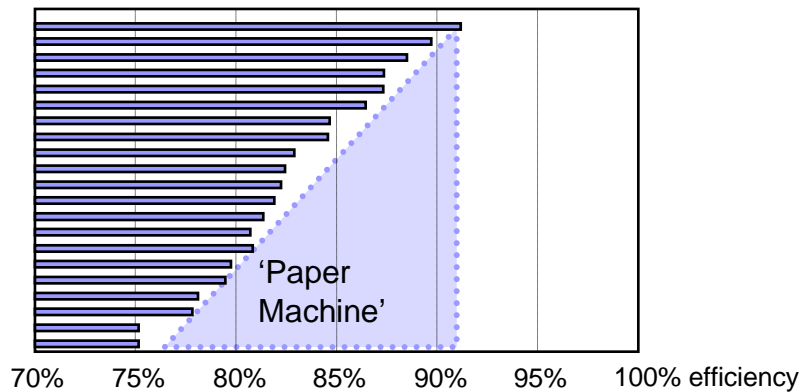


Note. Highest Efficiency
Performance Indexed to 100

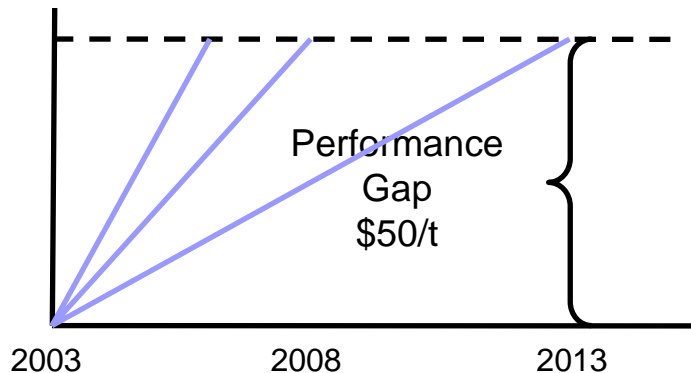
- Local teams can form themselves into highly effective profit centres – compensating for asset disadvantages.
- Global variation exceeded regional variation – additional leverage is available through globalisation

Improved Human Performance Leads to Growth

Bringing efficiency performance up to best practice across a company portfolio creates gains (in this real case) equivalent to a new machine. Accelerating the achievement of the gains, pays for it.



Closing the Efficiency Variation across (Worldwide) Operations Creates the Equivalent of (at least) 1 New Worldscale Operation



Sustained Business and Improvement Processes. Closing the Performance Gap Faster than Competitors, Creates the Funds for 15% Growth.

(Note: Improvement target USD 50/t achieved in 3,5 or 10 years, Total capacity 3 million t/a, Discount rate 8%/a. NPV of achievement in 3 years = \$380 Mn)

Measuring Human Performance

The metrics come from four drivers, which combine into a human performance index. We need all four to get human performance. This index is quantifiable and can be used across various businesses in the sector as well across sectors themselves

Competence - Capability - the skill set

Organisational Efficiency – the effective team – efficient organisations

Alignment (with Strategy) – the purpose, leadership, working climate

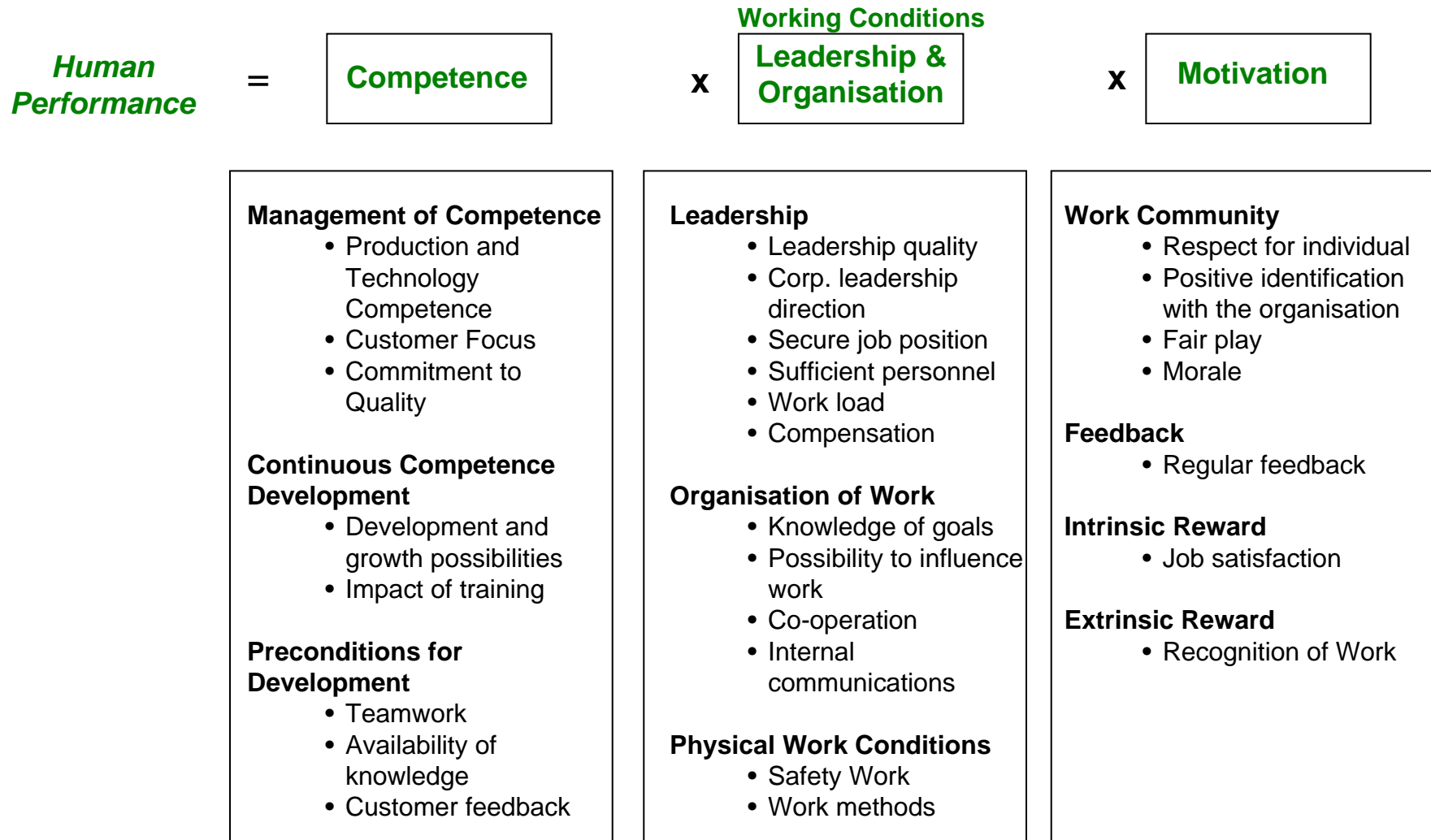
Motivation – the energy – to achieve, to innovate, to change – puts the ‘NPV’ into (**sustainable**) business



**Human
Performance
Index – HUPO***

(*Jaakko Pöyry Consulting is working together with IC Insight, a human performance specialist, to support and promote the importance of this in achieving profitable businesses in the paper sector. These projects use measurement of a human performance index – HUPO – which has been developed by IC Insight and applied by JPC in its project work).

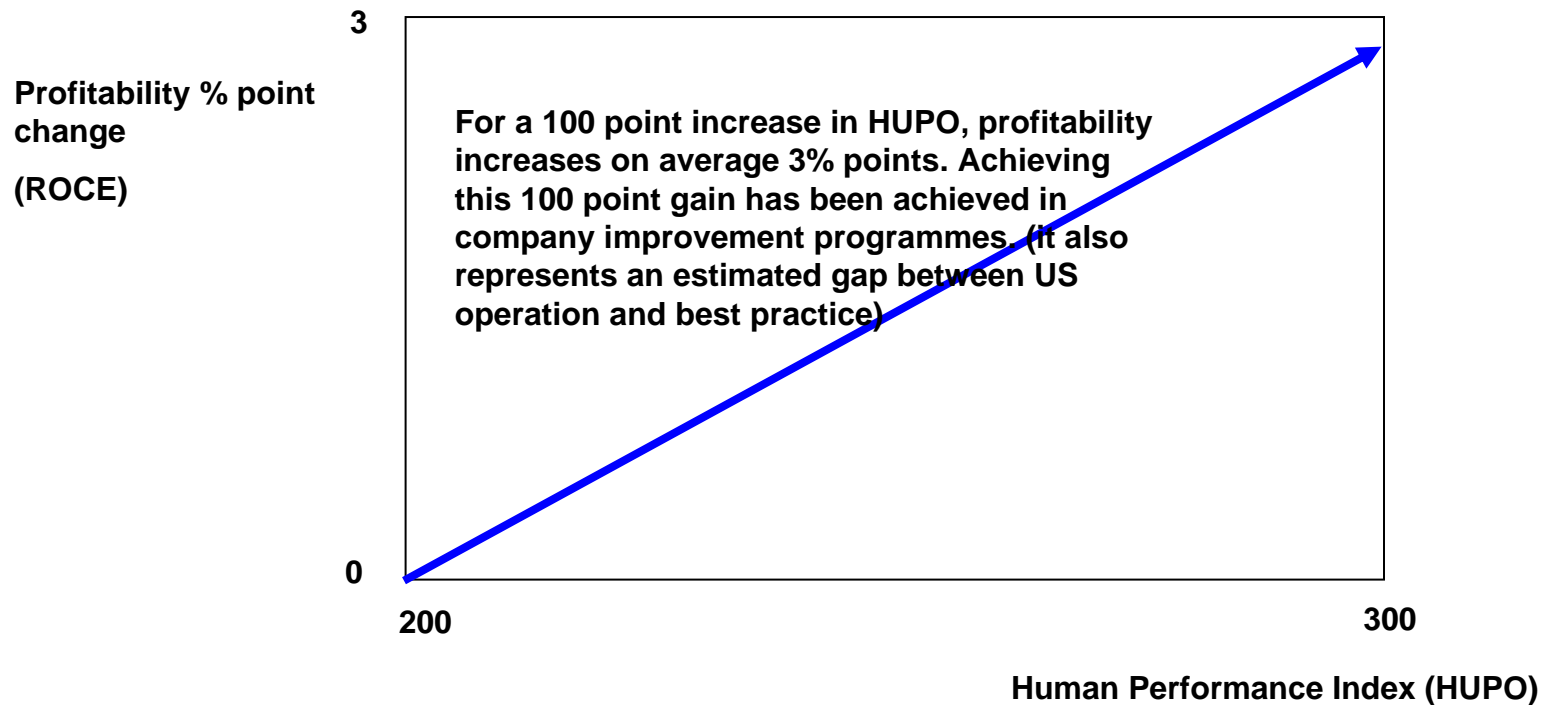
Basic Structure – Key Paramters



Human Performance Index

Human Performance has been measured across the paper industry: local and global operations, businesses (paper, packaging, specialties, converting), also across other sectors.

As human performance improves, so does profitability



What is the Human Performance Index (HUPO) ?

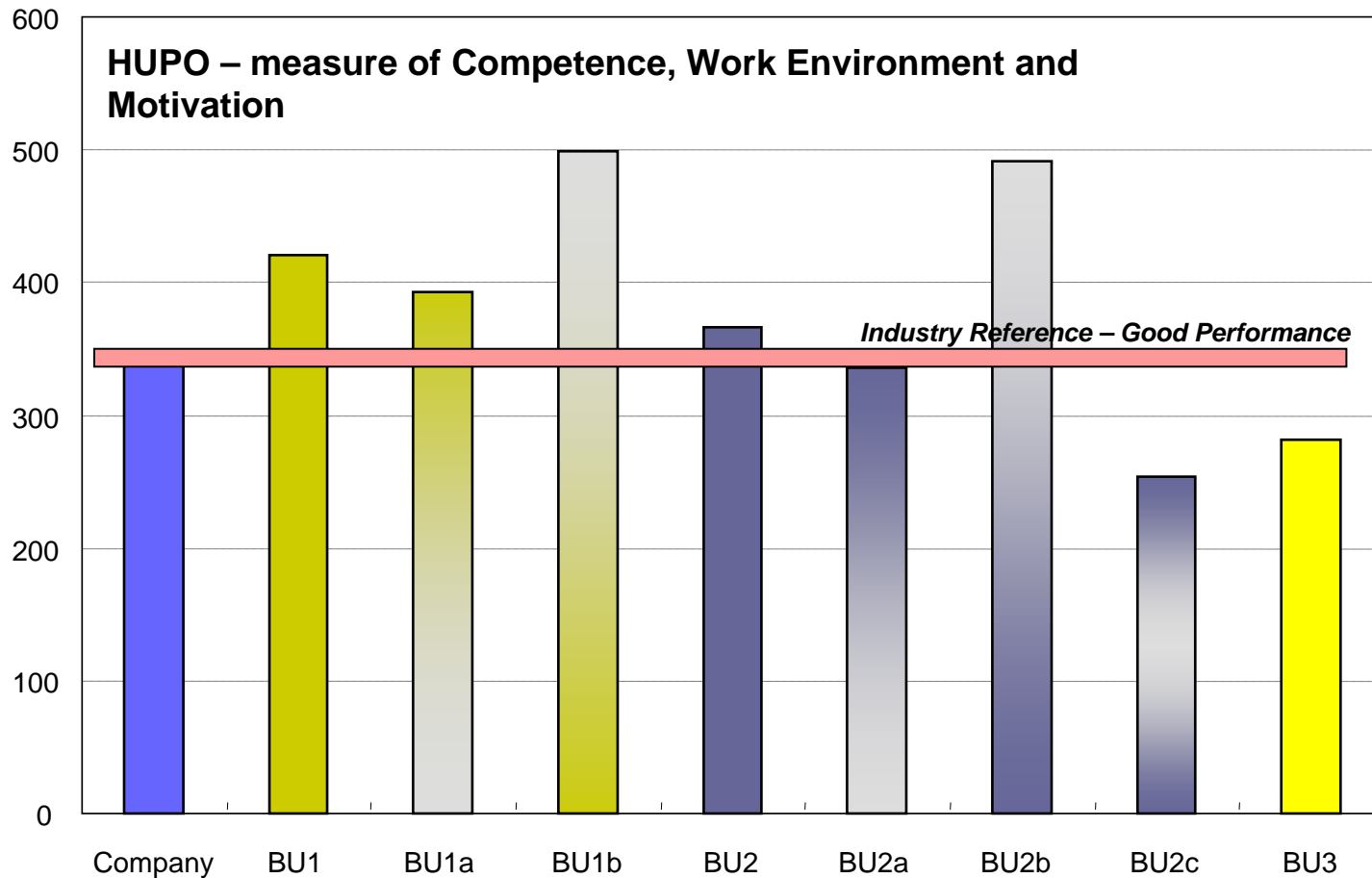
HUPO Index



- Statistical base – extensive mill studies correlating profitability with human factors
- Simple - 47 key factors selected – reduced from 130 human factors – one index #
- Profitability linked – HUPO explains 25% of profit variation between ops.
- Predictive – linked to mid term profit performance
- Standardised – benchmarking, common resolution – action plans, policy initiatives
- Accountability - Return on human investment, performance improvement, scorecard
- Hierarchical – Individual...function...business unit...company...group...sector
- Tested across global companies, business units, manufacturing and secondary processing.
- In operation since 1997 – iterative measurements over 6 years – continue to validate the human performance:profitability linkage.

Case – Across Businesses in a Company

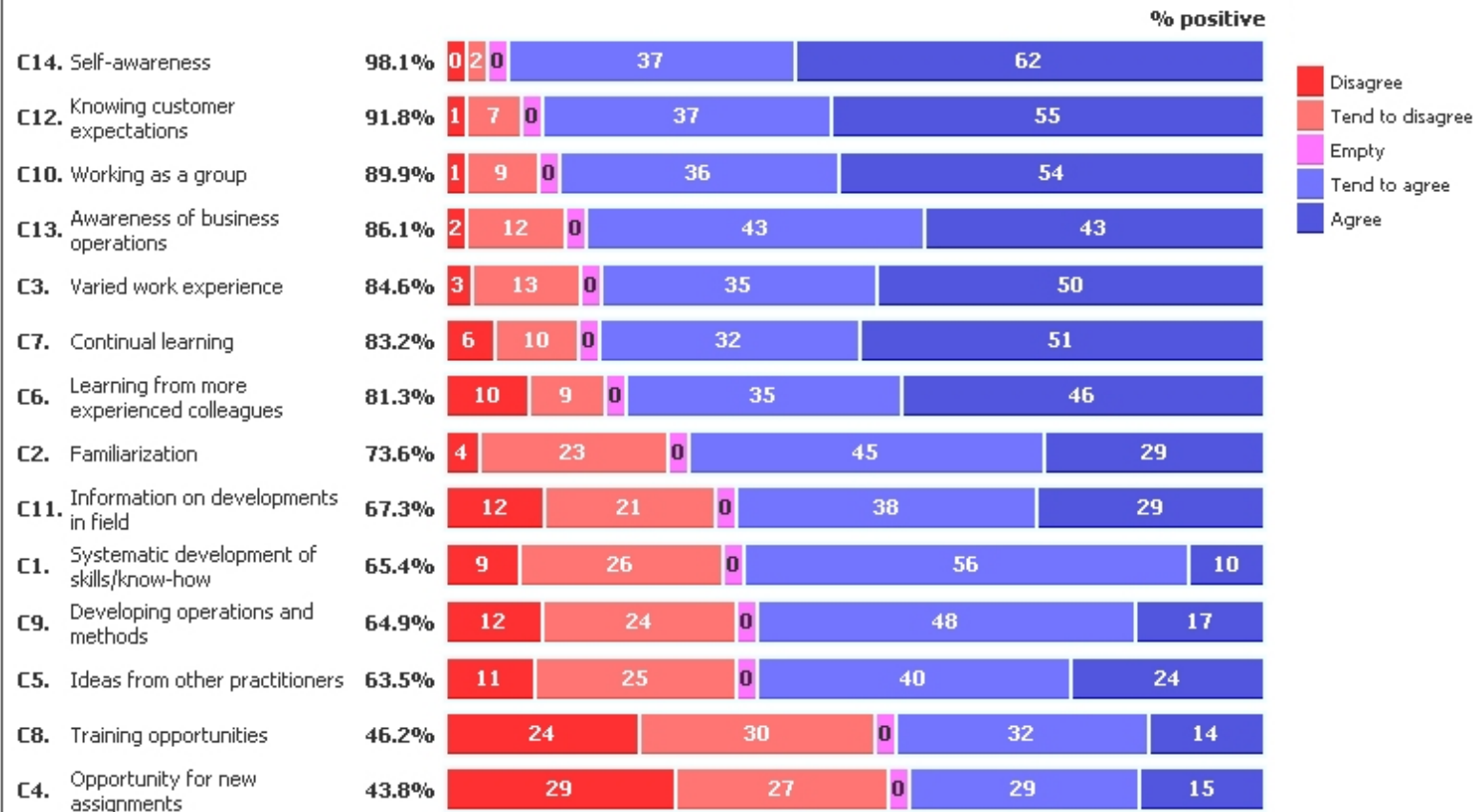
In this case study, the company overall is a good performer relative to benchmarks. Some parts of the company excel, others struggle – this difference is key to performance improvement. Results can also be presented and analysed individually by Competence, Work Environment and Motivation



HUPO Index – Outputs - Example

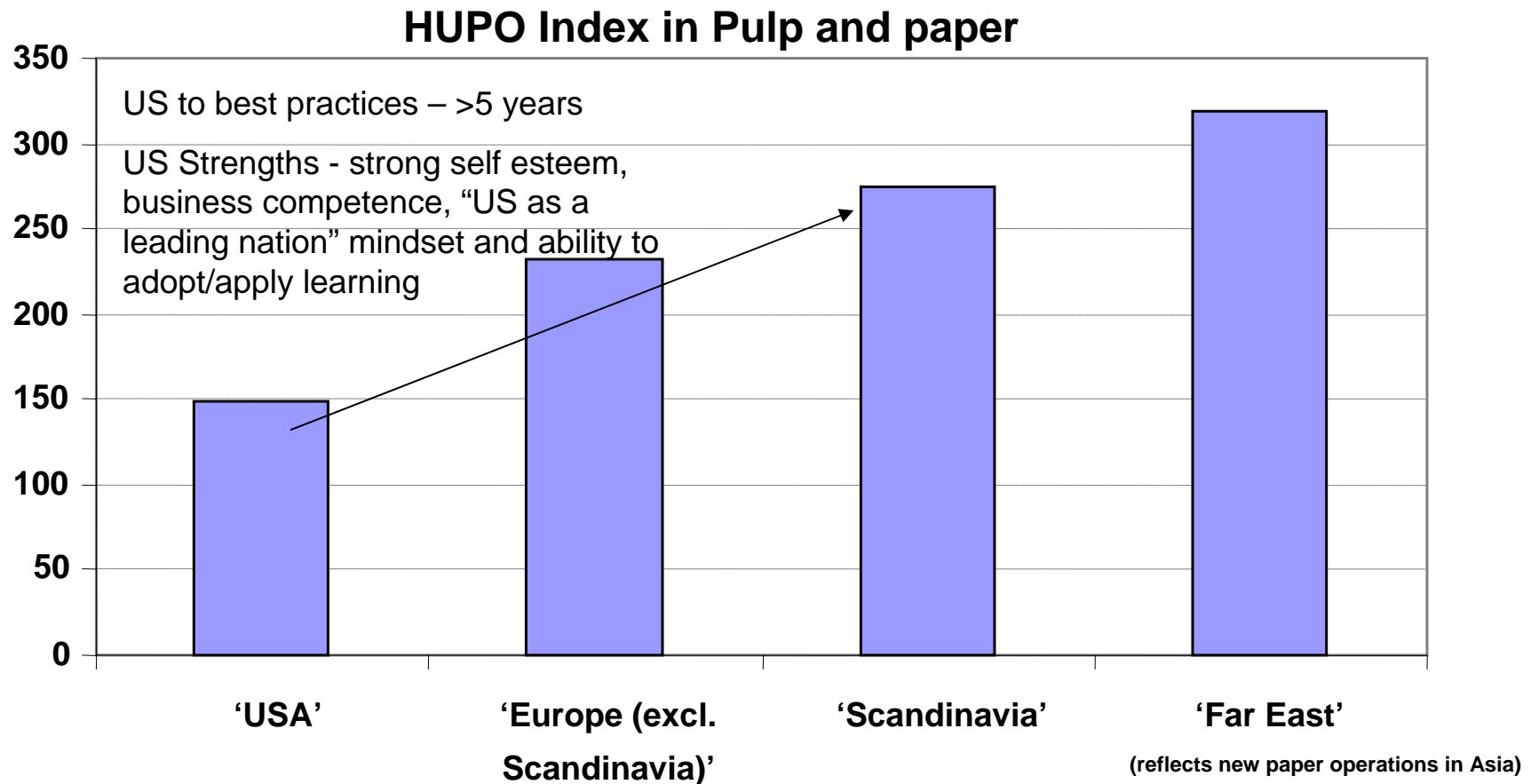
The results for Competence assessment. This indicates to managers and employees the areas for improvement, and also focuses the work programme.

Competence



Case – Paper Industry Across Regions

This is preliminary work – examples of operations in countries – not national numbers. Why the differences ? Education level in the industry, management culture, relative age of the industry in the region. The spectrum reflects a range from stagnation to nearing best practice, to new and highly motivated workforces



Installing the HUPO Process in Your Company

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Pre-project

- Clear concept with all 'Stakeholders'
- Set confidentiality profile

Design

- Define targets – the key hypotheses to test
- Define the Population – Classify the survey form – Design optional survey questions
- Define the sampling intensity – **pilot sample**
- Define the resampling intensity – action programme of impact measurement – 6,12 months

Survey

- Clear implementation with 'Stakeholders'
- Set website for inputs – access, passwords
- Present process and input survey forms (website) to interviewees – set deadline

Interpretation

- Surveys processed and results posted (confidentiality profiles)
- Review results - undertake workshops, communicate
- Bottom-up interpretation through Competence, Leadership, Organisation, Motivation

Action plans

- Decide actions plans – thermometer.
- Formulate these by 'stakeholder'
- Schedule and milestones

Implement

- Programme implementation
- Resample – scheduled build-up or full sample

Contact

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