

Using Management of Change to get Optimum Performance from People

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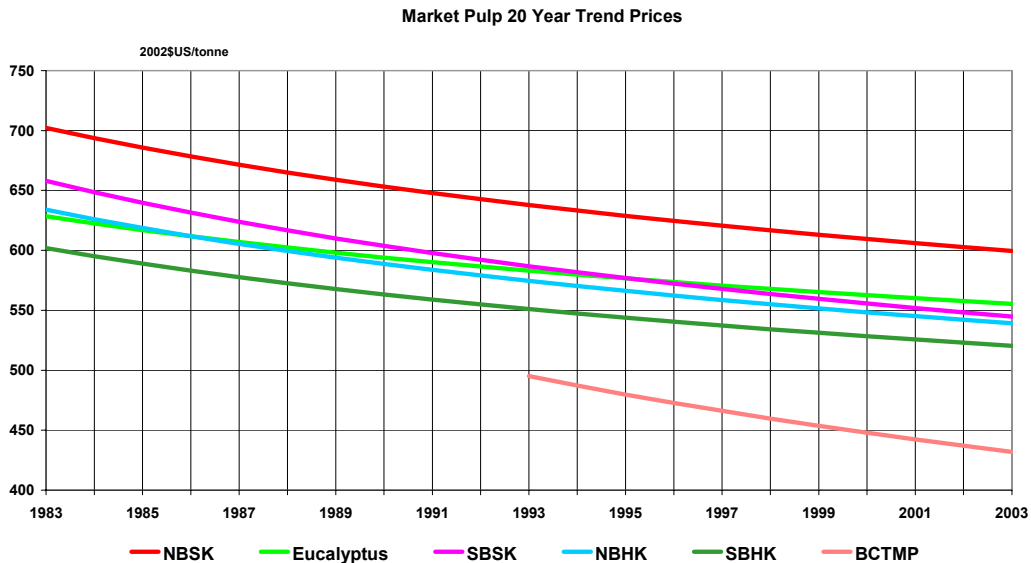
Abstract;

Facilitating change successfully in a mature industrial facility requires clear objectives, a positive approach, stakeholder involvement and time.

The sponsors of this change must choose a leader and key personnel who are dedicated to the goals. Prior to the start of the project the needs of these individuals must be addressed to avoid unnecessary distractions later. Involvement of the sponsors of the project in developing the objectives provides clear direction to the leaders. At the beginning of this process the plan should not be so detailed that it limits the flexibility of the group managing the change process, yet encompasses all of the major goals. The objectives of the change process defined within a clear beginning and ending point must be communicated to all stakeholders. Input from the stakeholders should be used to build and/or adjust the steps necessary to achieve the goals. Flexibility in addressing the needs of the individuals affected is viewed positively easing transitions. The leaders of the process however cannot allow the plan to deviate from the overall goals due to these accommodations and must compensate continually to keep the plan on track. The balancing act entailed in this process requires focus and continuous communication. Rapid change and movement in a mature industrial facility will create insurmountable challenges; the change process must have a measured approach to allow people to adjust to the new reality.

Impetus for Change;

Individual stakeholder experience with specific fixed Pulp & Paper (P&P) assets have resulted in an earned perception of the pulp and paper industry as a mature and stable business. This perception is surprising when we examine the long term trends for pulp pricing. Here we find why significant change has beset the industry that is the cornerstone of economic health in so many communities.



In the above graph we demonstrate that in inflation adjusted dollars the US\$ 20 year trend price paid for commodity pulps is increasing at a rate of 1% less than inflation. The current forecast is that this trend will continue. The pulp industry has been adjusting to declining pricing while dealing with normal inflationary pressures for two decades. There is however no one reason for this decline.

The effect of this is that in the last five years these pressures have caught up to 92 North American pulp and paper facilities which have been forced to close their doors. This change is phenomenal when you consider that the consumption of kraft pulp containing products has increased at an annualized rate of greater than 3% over the last 20 years and is projected to continue to increase at a similar rate for the next 10 years.

World Demand for Paper & Board (Million Tonnes)

	1993	1998	2003	2008	2013	Annual Growth (2004-2013)
Printing and Writing Papers	76.5	94.3	104.4	125.0	146.2	3.4%
Newsprint	32.9	36.4	37.7	42.6	46.2	2.0%
Tissue	15.8	19.3	23.0	27.8	33.4	3.8%
Containerboard	70.2	87.2	100.6	121.5	144.8	3.7%
Other Paper and Board	60.1	65.8	71.3	81.3	91.5	2.5%
Total Paper and Board	255.5	303.0	337.0	398.2	462.1	3.2%

Effect of Current Expansion;

The current driving force behind declining kraft prices is the expansion of the hardwood based pulp and paper industry in South America and South East Asia. The favorable production cost structure of these new facilities is accelerating the pace of change in the pulp industry. The ability of these new facilities to acquire business through aggressive pricing has resulted in exaggerated deflation in the hardwood pulp sector. Thus market forces are driving the hardwood kraft industry in North America to change and adapt.

This change process is not limited only to the hardwood kraft sector. When we examine the relative price differential between hardwood and softwood kraft pulps we find that the 5 year trailing average prior to 2004 was US\$34/admt. With the startup of the new low cost producers the industry is currently experiencing relative price differentials of over US\$95/admt. These unprecedented differentials encourage temporary sector change by the consumer, trailed shortly by capital investment for permanent cross sector substitution. The effect has been to depress the price consumers are willing to be pay for softwood kraft pulp which is the bench mark price for the industry and thus impacting the pricing in all sectors.

Based the current benchmark manufacturing costs for kraft pulp production without significant movement in foreign exchange rates it is now conceivable that every hardwood Kraft pulp mill in

North America will be forced to significantly change how the business is managed or close its doors.

The market place is self correcting and the North American industry is controlling costs and attempting to adjust. Currently in Canada hardwood kraft mills have closed down, taken downtime or where cost effective, changed furnish on swing capacity to produce softwood kraft pulp. This results in increased competition within a shrinking softwood fibre basket. The subsequent increase in demand on this already tight fibre supply is increasing the price paid for available softwood fibre pinching bottom lines further. The competition for geographically strategic customers has intensified, resulting in deeper discounts and lower pricing and thus completing the transference of the pace of change from the hardwood sector into the softwood sector of the industry.

Other factors driving change are substitution alternatives and technology improvements which provide consumers options forcing sector movement and supply/demand imbalances. Geographic shifts in pulp consumer capitalization forces transportation issues and costs upon immobile fixed assets. Shifts in consumer needs have reduced the customer base (Newsprint, Carbon copy paper, Directory) and forcing closure and or grade changes upon immobile industrial facilities.

Based on history there appears to be no end to this cycle for the Kraft pulp industry.

Stakeholders Perspective of Change;

Our experience has been that in the affected facilities management acknowledges that action is required to restore the business to health. As an industry however we have been slow to embrace change preferring to allow others to go first, our mantra is 'the risk outweighs the reward' giving the impression the industry has been reluctant to forge ahead with necessary changes. This is a learned trait based on experience associated with failures and we find as we radiate out from the core management group that this perception of the status quo has permeated our organization. The more removed the individual is from the knowledge of the severity of the problem the more we find that maintaining the status quo is the order of the day.

The communication of the need for change is impeded by as many factors as there are individuals affected. The changes identified are often at odds with the needs and expectations of the stakeholders which can create conflict distracting the stakeholders from the necessary actions to ensure long term survival of the business. Conflict resolution delays the change process further, increasing the sense of urgency and hence the severity of the change required. When change comes it is forced rather than organic as we attempt to rapidly adjust to the new reality. Forced change never achieves the objectives identified and we of course never catch up to the change leaders who have built a culture which encourages change and growth. Our experience indicates that the facility requiring the most change finds a comfortable stopping point in the process after each step change and regroups waiting for the next crisis.

In this process many of the stakeholders have found restructuring to be unpalatable forcing management to take drastic action to protect the secured creditors and stakeholders. This process leads to debt retirement, restructuring and lower operating costs shifting the change process to the new highest cost producers perpetuating the wave of change which is washing through this communities industry. The success rate for attempts at restructuring of this nature however is poor and more often than not results in permanent closure of the troubled facility.

In the P&P industry what is apparent now is the pace and depth of change required to survive. What is not as obvious is who we are competing with for survival?

Change for Change Sake?

When we in the P&P industry do adopt change it isn't always for the correct reasons. We can all cite examples of mills where the change management process does not achieve the desired results. One such mill had experienced 6 maintenance management system changes in 15 years. The maintenance manager had the consultant's reports lined up chronologically on his book shelf as a reminder of change for change sake. Without quantifiable goals and continuity the maintenance in this facility drifted.

Other experiences lead us to believe that where change is warranted long lasting beneficial results are achieved by the stake holders. The concept for a mill was conceived where harvesting an available timber supply had previously been prevented by water shortages. The project team entered into the project knowing that they would have to be innovative and creative. The basic proven manufacturing processes were not fundamentally altered to minimize the risk; a culture of change was created amongst the team who were challenged to be creative. A strong leader drove the process with a clear objective. To this day many of the members of that project team who are now operating the mill continue to be innovative and a leaders in technology and profitability.

Both of these facilities provide insight into the drivers of the change process;

1. Decisive leadership and unwavering support,
2. There was a business reason for change,
3. The team selected had no choice but to succeed going backwards was not an option,
4. The major elements were all proven and alternatives were researched during the project,
5. Contingencies were built into the project,
6. The time table and budgets were conservative, giving time and money for people to react, there were clear examples of how not to change based on well documented failures,
7. The people involved ignored the significance of their accomplishment,
8. The culture of change remains in place.

This is an example of a focused group of people accomplishing significant change time will tell if they can maintain this culture where others have failed.

Reason for Change;

The average mill has trouble convincing employees to change the simplest of tasks, procedures or thoughts. People do not resist all change; they resist change that they do not understand. People do not resist change that negatively impacts them, they resist this kind of change when they cannot see the benefit for others either. We have often heard an employee say 'lay me off instead of him he has a family to support'. When we speak of the people involved in this process we cannot use absolutes, individuals will behave in their best interest but as a group they will work for the good of the collective. People do not resist meaningful change; they resist change for change sake as the maintenance manager in the example above showed.

A clear goal or objective is necessary for even the smallest change. People do not blindly follow leaders for very long anymore. The reason for change must be unambiguous, if people have trouble understanding the objectives of action items they will question the motives of the leaders, they will enter the process with misgivings and doubt, if not open hostility.

The Pace of Change;

Controlling the pace of change is the key to success. Where a culture of continuous change is established, encouraged and rewarded, organic change is continuous and rapid, slowing the pace of change is fundamental to success. In the bureaucratic, mature organizations that exist in most P&P facilities the pace of change must be accelerated. The pace of change however must be set

based on the responsiveness of the stakeholders; inappropriate timelines will result in resistance and failure to achieve the goals.

People change and evolve everyday of their lives it is a slow steady process that we ignore. The change process in a mature industrial setting must be the same, no major moves or announcements; a steady methodical change process which is explainable and meaningful is advocated to achieve the broad goals of the plan.

Developing a Plan;

The plan must be based on a demonstrable need. Benchmarking exercises and common industry metrics will provide the management team with indices to be used for identifying deviations from accepted norms. In every plant centers of excellence and examples of solid change management expertise exist. For the leaders of this process these areas will form the nuclei for growth and promotion of change. Tapping these resources, broad scope action plans must be developed. The plan must be broad based and cover all cost sectors. Meaningful change cannot be borne by a few of the stakeholders leaving others untouched. Be bold in planning but conservative in promising deliverables when communicating the goals. Any plan of this nature that delivers 2/3rds of the calculated benefits has succeeded. Once the general frame work of the plan is in place using a consensus approach it must be accepted and or modified by the sponsors. Discussion on the consequences of failure and success must take place. The sponsors of the program require a clear understanding of the contingencies and how they will be used. A base of support must be built early in the process and expansion on this base should be continuous.

Communication;

A communication plan must be developed to deliver the plan's objectives to the stakeholders. The plan must reach all stakeholders to achieve the acceptance necessary and to prevent undermining your efforts at a later date or time.

Prior to beginning the process of change there is no requirement to address all details. The project team is not expected to have all of the answers. The changes to be effected require the input of the stakeholders. Allow individuals and groups to contribute to the process, task leaders must develop detailed plans which encompass the needs of the stakeholders. A spirit of creativity and understanding must be fostered by the leaders of the process. This is a time consuming process but necessary.

Ensure that the objectives are clear and do not give false hopes. Terms of reference for all involved are critical to the success of the input process. Explain the limitations facing the leadership and discuss the contingencies and the reason they exist. The leader must be positive and direct in the approach.

Involvement;

To reduce the resistance to change people must be involved, allow flexibility with in the plan to modify action items recognizing input and creativity. Allow the stakeholders the opportunity to personalize the action items. Be prepared to accept the consequences of your choice to involve the stakeholders within the terms of reference prior to proceeding, once involved the stakeholders will resist any attempt to discontinue this process.

Focus;

The consequences of adjustments of the plan must be continually assessed against the goal(s). The contingency for the project must be used for any changes that detract from the timeline and objectives. Tracking of progress is critical to success and maintaining support from the sponsors and stakeholders. Regular progress reports and analysis will result in fewer demands for updates and dilution of focus.

Managing People During the Change Process;

The key element in all of these processes is do the people trust you, will they follow your leadership. In the affected communities the emotional reaction of individuals with limited options are understandable.

The management of the facility must stand up and lead, over communicate the plan, be flexible, positive & compassionate during this process. They must not bend the rules, show favoritism, or be negative.

Summary;

Change in the North American pulp and paper industry is inevitable. There will be casualties along the way. Benchmarking of the facility will identify the areas and degree of change required. It is important that the stakeholders understand that the pace of change is being dictated by the facilities with elevated production costs moving down the cost curve. Failure to respond to this competition will result in an accelerated pace of change and degree of change necessary to maintain viability of the facility.

Individuals will resist the changes being made if they do not fully understand the objectives, the need and the sense of urgency. When the majority of the people recognize the merits and flexibility of this management of change process they will respond positively to decisive leadership and the minor resistance which develops will be overcome.

People change and evolve everyday of their lives it is a slow steady process that they do not acknowledge is taking place. The change process in an industrial setting must be the same, no major moves or announcements, a steady methodical change process which explainable and meaningful as necessary to achieve the broad goals of the plan.