

ETHIER INSIGHT

Trends and Implications to Calgary Business

2015 Ethier
Whitepaper



ethier

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Executive Summary

Through our interactions with numerous executives, leaders, companies and industries, Ethier has gained a unique viewpoint into the common challenges and successful business practices in the Calgary marketplace. The purpose of this Calgary-focused whitepaper is to:

- a. Identify common challenges being expressed across the Calgary marketplace.
- b. Provide you with a future view – our suggestions of where you may want to focus your efforts in the upcoming year.

Calgary & Global Market Conditions

The swift and sharp drop in oil prices at the end of 2014 caused a significant shift in industry psychology and increased economic uncertainty causing some companies to restate capital budgets. As in any economic upheaval, there are opportunities for many industries, including agriculture, manufacturing and transportation to benefit from lower oil prices due to reduced input costs. These industries, many of them export based, will see increased investor interest and may identify new opportunities to take advantage of a strong North American economy.

In the hydrocarbon industry, the volume of oil that Alberta produces is expected to grow for several years driving continued investment in processing and transportation infrastructure. In addition to capital projects already under construction, we can expect new oilfield development due to good formations and a strong long-term business case.

For most producers, a key focus will be reducing cash outflows through reduced capital expenditures, cost control and improving operational excellence. For the first time in many years, producers will have the capacity, and the incentive to review their operations and find efficiencies through improved processes, technology and integration.

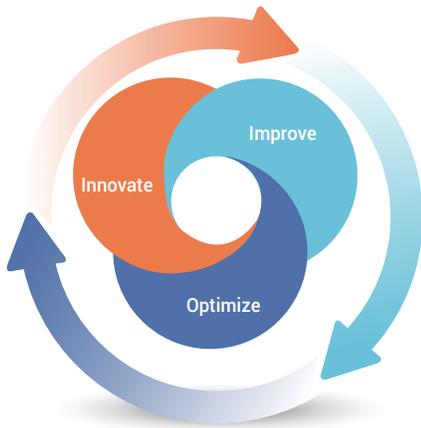
Marketplace Trends Impacting Calgary Businesses

Regardless of type of industry or organization size, we have found that many Calgary businesses are facing similar key issues and challenges. Seven themes represent a synopsis of the key issues that were discussed by our clients and roundtable members over the past year.

1. Challenges with Strategic Execution
2. Aligning Leadership
3. Continuing Challenge of People Capacity
4. Evolution of Organizational Change Management (OCM)
5. Changing Role of the Corporate Information Technology (IT) Function
6. Emergence of Operational Excellence Initiatives
7. Rise of Supply Chain

Business Evolution Model

To better understand how these key issues and trends may impact your organization, Ethier created a Business Evolution Model depicting three business evolution states: INNOVATE, IMPROVE, AND OPTIMIZE.



INNOVATE – This state applies to entrepreneurial organizations or business units in start-up, high-growth, or radical change due to a fundamental marketplace or competitor shift.

IMPROVE – This state is about creating an efficient organization. Your priorities are to streamline operational processes, standardize business processes, and integrate technologies in the drive to grow cash flow.

OPTIMIZE – In this state, your organization considers itself a world-class organization with stable processes, sustainable cash flow and an established culture. Likely, your organization is in a mature industry, where the “low hanging fruit” has been captured and any organizational improvements to improve profits are incremental.

The reality is that most organizations are not in a single state – business evolution is fluid and the model is structured to describe how a business changes over time. The length of time an organization stays in each state is impacted by several factors including corporate strategy and market conditions.

We encourage you to think about your own organization, whether it be the organization as a whole, or the business unit that you lead, to determine where you fit within the model. This will give you an idea of where your organization should be focusing to ensure your supporting systems, people and processes align with your business strategy.

As you think about how you move forward, here are three key factors we recommend you consider:

1. Understand Where You Are and Where You Need To Be

Once the leadership team understands and is aligned with the business strategy, your next priority is to understand your current position, both from an internal and external perspective and analyze the key issues and marketplace trends to determine their applicability to your situation.

2. Identify What You Need to Support Your Strategy Execution

Regardless of industry or size of organization, management teams often find that they are able to create a corporate strategy, but then struggle with their ability to implement that strategy while staying nimble and reactive to the changing marketplace and operating environment.

As you define the tools/ structures/processes needed to support the execution of your strategic program, review the key issues and marketplace trends that may impact your approach.

3. Implement the Appropriate Organizational Culture

The culture of an organization is like an immune system – and it is this system that determines how the organization will react to changes. Great leaders inspire action and create a culture that people are proud to be a part of. Leaders must not only talk about what they want – they need to live it, setting examples and sharing success stories highlighting the need for the organization to adopt a new way of being.

Introduction

Since 1982, Ethier has been providing consulting services to the Calgary marketplace helping our clients realize their strategic goals with a focus on managing change, improving portfolio, program and project delivery and achieving operational excellence. Our current clients include over 25 mid-size and multi-national organizations representing a number of key industry sectors.

For over 15 years, Ethier has been privileged to facilitate a number of Leadership Roundtables. These exclusive, invitation-only groups meet quarterly and allow the members to discuss a myriad of topics and gain insights on successfully doing business in Calgary.

Currently, Ethier facilitates 7 Roundtables with over 40 members representing 25 companies and 7 industries:

- Senior IS Management Roundtable (2 groups)
- Application Leadership Roundtable (2 groups)
- Business Process Leadership Roundtable
- Organizational Change Management Leadership Roundtable
- Project Office Leadership Roundtable

Purpose of This Whitepaper

While there are numerous whitepapers about general marketplace trends and observations, there has been minimal discussion about the key issues and market trends specifically affecting Calgary and what leading organizations should be doing to take advantage of the learnings revealed by these trends.

Through our interactions with numerous executives, leaders, companies and industries Ethier has gained a unique viewpoint into the common challenges and successful business practices in the Calgary marketplace.

The purpose of this Calgary-focused whitepaper is to:

- a. Identify common challenges being expressed across the Calgary marketplace.
- b. Provide you with a future view – our suggestions of where you may want to focus your efforts in the upcoming year.

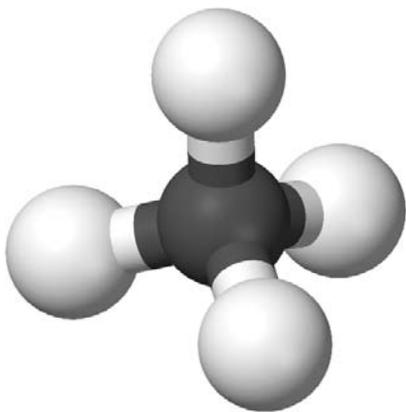


||| Calgary & Global Market Conditions

A significant component of Calgary's economy is driven by the hydrocarbon industry. This includes both direct and indirect industry participants: upstream oil & gas producers, midstream processing and gathering companies, service companies, pipeline firms, and, most recently, railway firms. The strength of the hydrocarbon industry draws in people from other parts of Canada and around the globe which causes growth opportunities for infrastructure firms including electricity generation and distribution, commercial real estate, wholesale and distribution, home construction and retail.

The Growth of the Hydrocarbon Industry

Industries in growth mode drive economic expansion. For about the last decade, due to high world oil prices, the hydrocarbon industry has been in growth mode and Calgary has benefited from that. As oil & gas producers applied technology advancements and improved operating practices, new unconventional energy sources became economical. Domestic and foreign capital flowed into oil sands (both in-situ and mining), tight shale oil and fields rich in gas liquids.



As production increased, new processing and distribution was needed to take our increasing production to markets. Production increased so much, that additional pipeline space was required – not just to the U.S. but to other markets as well – and “market access” became part of our lexicon. The unimagined growth of U.S. oil production, due primarily to surging shale oil production, has changed our lens to “worldwide market access”.

The swift and sharp drop in oil prices at the end of 2014, however, has caused a significant shift in industry psychology and increased uncertainty.

Energy Demand vs. Supply

With oil supply exceeding demand on a worldwide basis, either supply needs to decrease or demand needs to increase to get the market back into balance. As it's often stated “the cure for low oil prices is low oil prices”.

On the demand side, the U.S. economy has been strong and is expected to continue its economic expansion. Low oil prices, on balance, are good for the American economy which should translate into increased exports from Canada improving the overall Canadian economy. Due to softer economies in Europe, Japan and China, the growth in worldwide energy consumption is muted.

On the supply side, it is expected that low prices will slow or stop the development of those hydrocarbon development projects with a weak business case, and fewer

capex dollars will be available for sustaining development, meaning that production from existing formations will begin to drop. Of course, an OPEC supply cutback or unrest in producer nations could cause additional supply reductions.

Impact on Calgary Businesses

So what does this mean to Calgary businesses, especially if you're not in the hydrocarbon industry?

As in any economic upheaval there are opportunities. Many industries, including agriculture, manufacturing and transportation, benefit from lower oil prices due to reduced input costs. These industries, many of them export based, will see increased investor interest and will be poised to take advantage of a strong North American economy.

In the hydrocarbon industry, the volume of oil that Alberta produces is expected to grow for several years driving continued investment in processing and transportation infrastructure. In addition to capital projects already under construction, we can expect new oilfield development due to good formations and a strong long-term business case.

For most producers, a key focus will be reducing cash outflows through reduced capex and improving operational excellence. For the first time in many years, producers will have the capacity and the incentive to review their operations and find efficiencies through improved processes, technology and integration.

IV Marketplace Trends Impacting Calgary Businesses

Introduction

Ethier's client portfolio consists of a broad mix of industries and organizations. We have found that, despite their differences, many Calgary businesses are facing similar key issues and challenges.

The following seven themes represent a synopsis of the key issues that were discussed by our clients and roundtable members over the past year:

1. Challenges with Strategic Execution
2. Aligning Leadership
3. Continuing Challenge of People Capacity
4. Evolution of Organizational Change Management (OCM)
5. Changing Role of the Corporate Information Technology (IT) Function
6. Emergence of Operational Excellence Initiatives
7. Rise of Supply Chain



1 | Challenges with Strategy Execution

Lack of Focus on the Business Strategy

- Many organizations take all the necessary steps to create a well thought through business strategy but aren't necessarily ending that process with a well thought through and supported plan with clear accountabilities to implement the strategy.
- Some organizations lose focus on their business strategy and start to chase other objectives which causes confusion in the organization about the "true" business strategy.
- Many organizations undertake too many initiatives and do not focus only on the key initiatives and projects that are strategically relevant.

Not Enough Disciplined Practices to Execute on Strategy

- Without a broad "portfolio" view, business units often push their own agendas without a clear understanding on the overall impact to the organization or the impact to the delivery of strategic initiatives.
- Often organizations do not have a good view of their current projects, their timelines and how the resources are committed. Without this view, more and more projects are added to "the pile" and then employees are challenged with too much work and are unable to prioritize.

- There is often a lack of focus on the KPIs (key performance indicators) for executing the strategic plan. Either the KPIs have not been developed or they are not being monitored closely enough by senior leadership.

Insufficient Organizational Expertise in Strategy

- Often senior leadership lacks the experience and ability to translate and link organizational strategic goals to business unit/departmental goals, or inversely, are unable to link business unit/departmental goals to organizational strategic goals.
- Leadership may have a vision but they often do not have the management expertise and experience to execute that vision throughout a much larger and complex organization than they had initially joined/founded.

- Many organizations either lack the skills or do not assign the personnel needed to execute the strategy.



2 | Aligning Leadership

Many Leadership Teams Are Not Aligned

- The impacts of a nonaligned leadership team include: absence of trust, lack of clear priorities, departmental projects that are not aligned with corporate direction and wasted resources.
- Many leadership teams have never taken, or are unwilling to take, the time to define common visions, values and objectives that will help drive their decision making.
- Without alignment, employees receive instructions from their leaders that often contradict the directions from other leaders, resulting in organizational confusion.

Many Leadership Teams Do Not Know How to Get Aligned

- Depending on how the organization has grown, many senior leadership groups are dysfunctional because they have not determined how to work together effectively as a team.
- Many individual leaders are lacking self-awareness – they are unable to recognize their own skill deficiencies and patterns of behaviour or understand how that interacts with the other personalities of their fellow leaders and their own teams.
- Many leaders are very uncomfortable to attend or participate in workshops that help expose differences as well as understand how their style can work with other styles.

Some Leadership Teams Are Working Together As “Team One”

- Some organizations in Calgary have invested in a culture where the senior leadership team consider themselves “Team One” (i.e., they are loyal to one another before being loyal to their functional units).
- In those organizations where this practice has been adopted, it has either taken an organizational “crisis” (such as a major business transformation) or the directive of the CEO, along with supporting reward system changes.

The Five Dysfunctions of a Team

Dysfunction #1: Absence of Trust

The fear of being vulnerable with team members prevents the building of trust within the team.

Dysfunction #2: Fear of Conflict

The desire to preserve artificial harmony stifles the occurrence of productive ideological conflict.

Dysfunction #3: Lack of Commitment

The lack of clarity or buy-in prevents team members from making decisions they will stick to.

Dysfunction #4: Avoidance of Accountability

The need to avoid interpersonal discomfort prevents team members from holding one another accountable.

Dysfunction #5: Inattention to Results

The pursuit of individual goals and personal status erodes the focus on collective success.

“The Five Dysfunctions of a Team” - Patrick Lencioni

3 | Continuing Challenge of People Capacity

Many of our engineering labour markets are characterized at the moment by a surplus of recent graduates with little or no experience but a shortage of people with five to ten years of experience. Those people who have specialized, practical experience are in quite short supply right now in Canada.

- Marie Carter, Engineers Canada

Maximum Capacity Is Determined by a Few Key People

- In many organizations, there are a limited number of Subject Matter Experts (SMEs) that define the overall capacity – their availability determines the maximum capacity of the organization at any given time.
- Organizations are finding that they lack the appropriate number of skilled and experienced resources to achieve their objectives.
- Organizations that utilize change saturation tracking processes are able to define the impact to the key SMEs and determine the organization's capacity for change. Once understood, the work can be reorganized to manage the load and risks accordingly.

Recognized Need for Leadership Development and Succession Planning

- Larger organizations seem to have done a better job at succession planning and developing second-in-command leaders that will be ready to take over as baby boomers retire.
- Larger organizations have identified and focused leadership development on key individuals and key roles.
- Small to medium-sized organizations have focused on operational growth and have not implemented enough initiatives to address leadership development and succession planning. They are, however, recognizing this as a risk to their long-term success.

Top Concerns for Employers

- Loss of experienced leaders.
- Loss of corporate knowledge.
- Shortage of technical / specialized skills.
- Shortage of workers.
- Shortage of future leadership talent.
- Loss in continuity – with customers.
- Difficulty fulfilling business demands.
- Difficulty meeting growth targets.

According to research from the University of Alberta

The Canadian Association of Petroleum Producers, which appeared before the Committee in Fort McMurray, reported that the Petroleum Human Resources Council of Canada, which also employs engineers, geologists and technicians, forecasted that it would need between 50,000 and 130,000 new employees by 2020.

Not Enough Focus on Attracting and Sourcing New Talent

- The retirement of many boomers (the two groups closest to retirement are compressing together – those that delayed their retirement due to the stock market crash, and those aged 53-63) and a competitive Calgary market will make the attraction and retention of experienced resources more challenging.
- Many organizations have a simple hiring strategy – just recruit good people from other organizations. In a growing and competitive economy this “strategy” is not sustainable.
- Organizations are increasingly tapping out their ability to offer higher salaries and other benefits as an attraction for new employees. The strategy of throwing money at people is running its course because of decreasing margins.

4 | Evolution of Organizational Change Management (OCM)

Increased Adoption of OCM Principles but Uneven Execution

- In 2011, in Calgary, OCM emerged as a specialized skill set that was recognized for its ability to help project teams and organizations implement change in a more effective manner. Many organizations now say they are trying to practice OCM.
- The idea is still sound but execution has been uneven due to hiring inexperienced people (as experienced Change Management practitioners are difficult to find), the lack of a commonly accepted OCM approach and varying degrees of management support.
- The market experienced a PROSCI certification “backlash” because people initially did not understand the certification and assumed it meant that these were experienced practitioners. When they did not meet expectations, the support for OCM diminished.

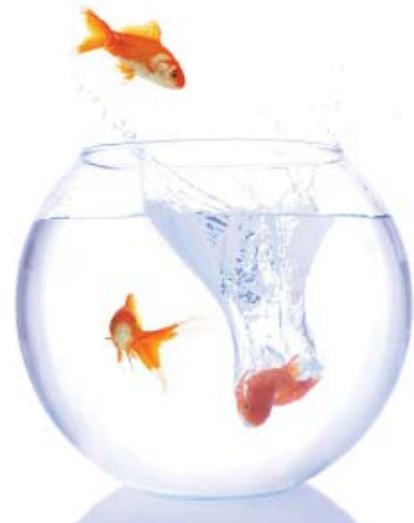
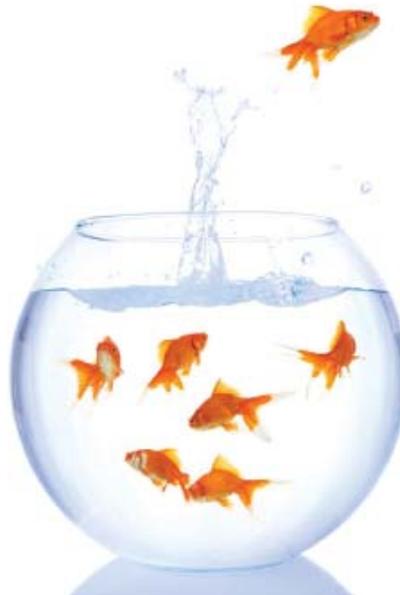
Lack of Consistent Organizational Support for OCM Practices

- There is a continued need for executive sponsorship and funding to set the “tone at the top” about the importance of OCM to organizational success.
- Many leaders are challenged with the rate of change and are inexperienced leading organizations through business transformations and large scale changes.

- Many business groups believe they don’t need to consider “change” and that it should “just happen”.
- Many Project Managers still view change management as a source of delay and added cost to their projects.
- Despite OCM’s focus on achieving benefits, it can be challenging to measure and articulate the return on investment (ROI) of OCM.

Organizational Ownership of OCM is Often Unclear

- Depending on the organization, OCM is often housed in the HR group, the Corporate IT group (usually in a PMO) or in a Business Transformation group. Where OCM is housed often dictates the “style” of OCM that is adopted.
- Because each group often advocates a different “style” of OCM, it is difficult to get a common approach for OCM across the organization which leads to more confusion and lack of adoption.
- At a practitioner level, there is a skills overlap, and a continued lack of clarity of accountabilities across traditional HR roles (e.g. Communications, Training, Organizational Design/ Organizational Effectiveness) and Change Managers that needs to be addressed.



Increasing Complexity of Vendor Relationships

- The role of Corporate IT is becoming more about managing vendors and less about doing the work themselves.
- With the rise of Software as a Service (SaaS) applications, business units are more often dealing directly with vendors who are seen to understand their business better because they focus on specific business functions. Corporate IT is often left to integrate solutions selected by the business after the fact.
- Often SaaS and Infrastructure as a Service (IaaS) solutions require complex vendor agreements and the impact of those agreements are not fully understood by the business groups. Corporate IT becomes responsible for enforcing the contract terms, but is often not part of the original negotiations.

Legacy Systems and the Challenges of Integration

- Corporate IT is burdened by a number of legacy systems that are difficult to change and are not designed for today's mobile technology.
- Integration complexity has risen as Corporate IT struggles to consolidate the "interim" legacy solutions that do not tie into corporate data structures or corporate security requirements.

- As organizations embrace cloud software and infrastructure solutions, it is increasingly challenging for Corporate IT to integrate these new systems into their existing environments.

"Cyber risk has moved to the world's number 3 risk overall."

- Lloyd's Risk Index 2013

Increasing Importance of Cyber Security

- Cyber security has never been more complex as organizations shift to hybrid cloud infrastructures and Corporate IT faces new challenges to manage the growth of mobile devices and protect a growing store of digital assets.
- As IT infrastructure is outsourced, control of data becomes much harder to protect. When it's in the cloud, organizations trust other people to keep their data safe and if they make a mistake, confidential data may be exposed.
- Corporate espionage is viewed as an acceptable business practice by many nations. These countries view hacking as a means for competitive advantage to obtain intellectual capital or corporate strategic and financial information related to mergers and acquisitions.

Innovation Management is Becoming a Core Capability

- Innovation Management is now seen as a table-stakes capability. Businesses are expecting Corporate IT to provide technological improvements through future-focused capabilities and technologies to support business objectives. This is a significant change in what CIOs are expected to deliver.
- Corporate IT is no longer expected to just react to business demands, it is expected to be a value-add contributor by identifying business challenges and introducing innovative technologies to solve business problems that the business may not yet fully understand.
- Many organizations do not have processes for the creation of an innovation capability for projects in the concept phase, outside of the standard portfolio management process. Often these projects fail to meet standard project prioritization criteria because they are more strategic in nature, may not have a high capital spend and cannot prove ROI in the near-term.

6 | Emergence of Operational Excellence Initiatives

Increasing Pressure on Margins

- In many industries, costs are being driven up because of labour scarcity, materials prices and currency depreciation, while revenues are flat or declining. This means margins are getting squeezed and operational inefficiencies are being exposed. The adage “margin hides all sins” no longer applies.
- In the desire to implement business and technology projects quickly, many organizations sacrificed operating efficiency to focus on getting projects into production and generate revenue. This resulted in inefficient processes and higher operating costs which now need to be reworked.
- Maintaining the “social license to operate” is becoming an organization and industry imperative. With increasing regulatory and environmental policies, the costs associated with understanding and complying with the policies and regulations are increasing.

Increasing Visibility into Operations to Control Costs and Optimize Performance

- Organizations are recognizing the importance of measuring performance and managing costs through KPIs and tying those metrics to key corporate strategic objectives.
- Organizations are increasingly focused on managing the “digital enterprise” through the management of key asset-related data to improve decision making across the enterprise. This often requires collaboration between Operations and IT systems.
- Some organizations are implementing more predictive capabilities by monitoring real-time information on equipment and operations and applying analytics to detect problems before they occur.

Reducing Operational and Execution Risk

- Organizations in Calgary are working harder to develop a tighter strategic focus leading to the selection of fewer core operating areas or initiatives that are better aligned to the corporate strategy.
- Execution risk has increased as there is increased scrutiny and expectations on corporate performance including safety, environmental emissions, community engagement and corporate reputation as well as the traditional execution metrics.
- Organizations are recognizing the importance of a skilled and engaged workforce to improve organization operations and project execution and are focusing more efforts on developing a high-performance culture through training and ongoing change management.



Increasing Importance of Supply Chain

- Supply chain management is gaining operational importance as organizations look to cut costs and drive efficiencies throughout the organization.
- The primary identified benefits of supply chain management include increased capital efficiency, improved project logistics management and reduced ongoing operating expense.
- In the oil & gas industry, it is estimated that 90% of an organization's spend goes through supply chain processes. An organization that is able to save 1% of its total spend can realize significant cost savings.

Changing Relationships with Suppliers

- Supply chain relationships are changing. In the old days, deals were done based on relationships and a “handshake”, but the days of easy margins are gone and this drives the need for reducing supplier costs.
- The challenge for organizations is to reduce the number of suppliers they do business with to create economies of scale (from a buying perspective) while balancing the risks that are inherent in reducing the number of suppliers.

- Manufacturers are increasing efforts to sell directly to the end customer. Some distributors are being squeezed out of the market unless they find innovative ways to add more value to their customers.
- Often the emergence of a new technology can force an organization to identify a new set of suppliers, with new supplier contracts that can cause havoc in the supply chain. In these situations, organizations are collaborating more with suppliers to bring innovative technology and solutions to the table.
- Pricing is certainly important in a supplier-customer relationship, but some organizations are giving a higher priority to comprehensive product catalogs, logistics performance, inventory management and product quality.
- With the move to centralized warehousing, coupled with large scale construction projects, logistics expertise has replaced vendor management as the desired supply chain management skillset. The cost of outages and the resulting schedule delays often far exceeds the cost of the delayed material.

Increasing Focus on Centralization

- Centralized purchasing and centralized warehousing are becoming industry norms as organizations have become more sophisticated and continue to look for increased efficiencies.
- Organizations in Calgary are still feeling resistance to centralized supply chains – field offices and Corporate IT are resisting the loss of control and the end of relationships with local, independent suppliers.

V Business Evolution Model

Introduction

While these seven Calgary marketplace trends apply across different industries and types of businesses, how they impact an organization depends on the organization's competitive position, its maturity in its own marketplace, and its own outlook of the marketplace direction.

To better understand how these trends may impact your organization, Ethier has created a Business Evolution Model depicting three evolution states: INNOVATE, IMPROVE, AND OPTIMIZE.

Innovate

This state applies to entrepreneurial organizations or business units in start-up, high-growth, or radical change due to a fundamental marketplace or competitor shift. Your people are risk-takers and the culture is to make quick decisions based on marketplace opportunities. You operate with ad-hoc processes and fewer operational constraints. Your focus is about growing revenue, developing the business model, proving/improving technology and creating workable operational processes.

Improve

This state is about creating an efficient organization. Your organization has redundant systems and processes due to rapid organic growth or acquisitions that have not been integrated. Your people are focused on doing the right things in a planned and orderly manner. Your priorities are to streamline operational processes, standardize business processes, and integrate technologies in the drive to grow cash flow.

Optimize

In this state, your organization considers itself a world-class organization with stable processes, sustainable cash flow and an established culture. Likely, your organization is in a mature industry, where the "low hanging fruit" has been captured and any organizational improvements to improve profits are incremental. Your focus is on sustainable growth through integrated enterprise systems and processes that promote sustainability and continuous improvement.

State Transition

The reality is that most organizations are not in a single state – business evolution is fluid and the model is structured to describe how a business changes over time. It is possible that a large established organization might place themselves in the OPTIMIZE category but within the same organization individual business units would identify with the INNOVATE or IMPROVE states – for example new business units. The length of time an organization stays in each state is impacted by several factors including corporate strategy and market conditions.

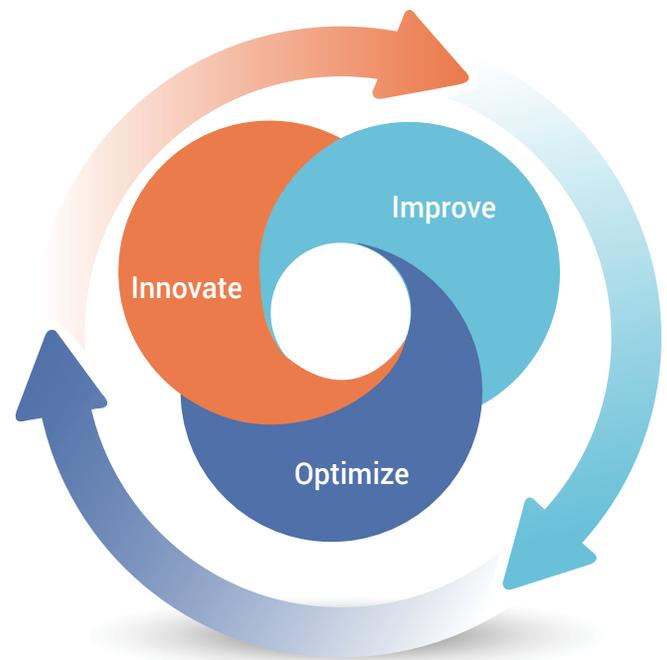
Reflection

We encourage you to think about your own organization, whether it is the organization as a whole, or the business unit that you lead, to determine where you fit within the model. This will give you an idea of where your organization should be focusing to ensure your supporting systems, people and processes align with your business strategy.

As you think about how you move forward, here are some key questions that you need to consider:

- Do you know where you currently are and where you need to be?
- What do you need to support your strategy execution?
- Do you have the appropriate organizational culture to achieve your goals?

Business Evolution Model



	Innovate	Improve	Optimize
Culture	Entrepreneurial	Efficiency	World Class / Best-in-Class
People's Focus	"Get 'er done!"	Do the Right Things	Group Performance, Meaningful KPIs
Financial Focus	Grow Revenue	Grow Cash Flow	Grow Profit
Operational Focus	Prove Viability	Reduce Redundancy	Continuous Improvement
Market Share	Grow	Select Specific Markets	Sustainable Growth
Production	Develop Capacity	Functional Efficiency	Enterprise Efficiency
Capital Investment	Attract	Prioritize	ROI
Governance	Ad-Hoc	Maturing	Structured
Challenges	Capital / Manage Growth	Integrating & Fixing Legacy Systems	Staying Nimble, Avoiding Inertia
Leadership Style	People in Authority are Responsible for Leadership	Leadership is about Discussion and Compromise	Leadership is a Collective Activity
Risk Tolerance	High	Medium	Low
Decision Making Approach	Agile	Planned	Consider Sustainable Systems
Level of Integration	Low	Medium	High
Use of Standardized Policies, Processes	Minimum / Ad-hoc	Repeatable Processes	Enterprise Integration
Level of Effort to Complete Major Change	Low	Medium	High
Risk Management	Tactical	Understanding Interconnects	Risk Management Systems
Technology	New Paradigms	Integration	Enterprise Systems

1 Understand Where You Are and Where You Need To Be

Chinese proverb: 'When the wind of change rises, some people build walls. Others build windmills.'

There have been a number of changes in the Calgary marketplace and it is important to take some time to reflect on this as you plan how to navigate your organization through changing times.

The number one priority is to ensure the leadership team understands and is aligned with the business strategy. As Steven Covey noted in his book "Seven Habits of Highly Effective People", begin with the end in mind.

- What kind of organization does your business strategy envisage?

Perhaps your organization is still in the INNOVATE state and the goal is to grow the business to a point where the organization may need to shift into the IMPROVE state.

- What would need to be in place (e.g. people, processes, technologies) for the organization to achieve its strategic goals?

Once you understand the business strategy, your second priority is to understand your current position, both from an internal and external perspective and analyze the marketplace trends to determine their applicability to your situation.



As you assess your current organization, consider some of the questions identified in the market trends.

- Is your leadership team aligned and how successful has your organization been in executing strategy?
- Do you require significant changes to operations, technologies and supporting functions to reach the desired state?
- Are you aware of the market and all innovative technologies / alternatives in your marketplace?
- Are your people and processes suited for your current state (e.g. INNOVATE vs. IMPROVE)? If your strategic goals require you to move to a different state, do your people have the desire, capacity, knowledge and leadership required to make the state change?

Using the Business Evolution Model

- 1 Determine where you are now in the Business Evolution Model. Where do you need to be?
- 2 Identify the innovative technologies / alternatives in your marketplace.
- 3 Which market changes are impacting you directly? Indirectly?
- 4 Do you need to streamline and find efficiencies or do you need to launch a major business transformation?
- 5 What are going to be the blocks that will limit your ability to succeed? What are you going to do to overcome these?

2 Identify What You Need to Support Your Strategy Execution

What is strategy execution? Strategy execution is a hot topic in management today. In fact, the Conference Board's recent Survey of CEOs revealed that chief executives are so concerned about strategy execution that they rated it as both their number one and number two most challenging issue. For anyone who's tried to execute strategy, this finding should come as no surprise: it's estimated that more than 60% of strategies are not successfully implemented.

Regardless of industry or size of organization, management teams often find that they are able to create a corporate strategy, but then struggle with their ability to implement that strategy while staying nimble and reactive to the changing marketplace and operating environment.

- What is the degree of change required to move from your current state to the end state outlined in your business strategy?

- Are there enough disciplined practices in your organization to successfully execute the strategy?
- What are the tools/structures/processes needed to support the execution of your strategic program?

As you define the tools/structures/processes needed to support the execution of your strategic program, several of the key issues and market trends may be relevant and worth considering.

- Who is accountable for the execution of the strategic program?
- Who are the key people in the organization that need to be freed from operational responsibilities to focus on the strategic initiatives?
- Is the strategic program significant enough to warrant an enterprise focus on organizational change management?
- What are you going to stop doing?



Using the Business Evolution Model

- 1 What type of governance model is appropriate to plan and lead your organization through the execution of the strategic program?
 - a. Are your project delivery standards and governance right-sized for where you are in the market?
 - b. Do you have a mature portfolio management process that supports you in prioritizing work? Should you?
 - c. Do you look at the combined risk of the projects and changes in your portfolio?
 - d. Do you have a project management office or a change management office? Should you?
- 2 What is the required operational focus needed to control costs and optimize performance?
- 3 Do you have the appropriate technology and information management systems to support the business attaining the desired position in the marketplace?
- 4 Do you have the right organizational design (e.g. right people in the right roles) to support achieving your strategic goals?
- 5 Does your planned initiative support the business unit's strategy and align with the corporate business strategy?

3 | Implement the Appropriate Organizational Culture

“If you hire people just because they can do a job, they’ll work for your money. But if you hire people who believe what you believe, they’ll work for you with blood and sweat and tears.”

- Simon Sinek

There is a saying attributed to Peter Drucker that organizations are wise to remember: “Culture eats strategy for breakfast”.

The culture of an organization is like an immune system – and it is this system that determines how the organization will react to changes. Some organizations rally to resist the need for change, relying on organizational inertia to keep things stable and following the status-quo. Others embrace change easily, adapting organizational structure and practices to take advantage of new market opportunities.

- What is the organizational culture you require to successfully execute your strategy?
- How aligned is your current organizational culture to your target culture and will a culture change be required?
- If required, how will you execute a culture shift to minimize resistance and gain support?

Great leaders inspire action and create a culture that people are proud to be a part of. Leaders must not only talk about what they want – they need to live it, setting examples and sharing success stories highlighting the need for the organization to adopt a new way of being.

As you assess your organizational culture, consider some of the key issues identified in the market trends.

- Is your leadership team aligned on the type of culture they want to instill in the organization?
- In order to achieve the desired culture, what leadership development and other organizational training is required?
- Have the desired personal attributes been identified and incorporated into hiring and staff retention programs?
- Do you have the “right people on the bus” to deliver the strategic objectives?
- Do you have the internal change management and leadership expertise to plan and lead this level of organizational change?

Using the Business Evolution Model

- 1 Do you have the appropriate culture for the state you are in (e.g. entrepreneurial, efficiency, best-in-class) and the state you want to be in?
- 2 What new behaviours need to be in place to achieve the target culture?
- 3 What is the level of effort required to make this change? Are your people emotionally invested in the status quo or do they desire the move to the new culture?
- 4 Do the governance model, leadership styles and decision-making models need to adapt to support the target culture?
- 5 Does the risk tolerance and belief in policies and procedures align with how you want your people to act in the target culture?



VI Closing Remarks

Calgary continues to be a dynamic marketplace and Ethier is pleased to be a part of the community through our consulting services and industry roundtables. Through this whitepaper, we have outlined the key issues and marketplace trends that we believe will continue to impact your businesses in 2015.

We have also challenged you in our Business Evolution Model to critically examine your current position and identify what actions you need to take to successfully implement your business strategy.

We believe “Business Excellence” is about creating a great business strategy and executing it well to achieve the organization’s strategic goals. How you define “great business strategy” and “strategic goals” depends on your marketplace position and your desired state in the Business Evolution Model.

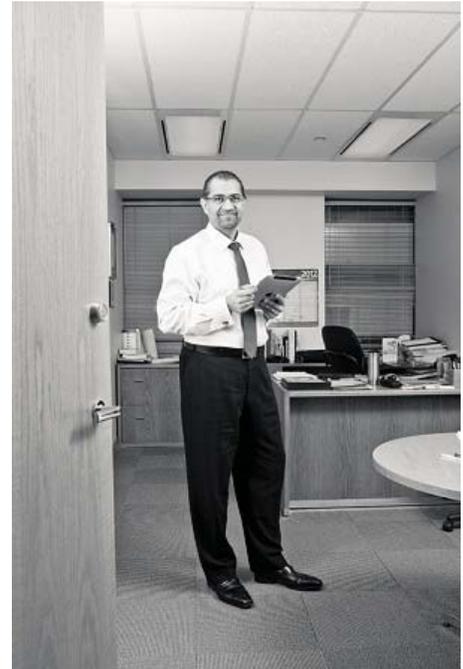
We leave you with this final thought – it’s about balance.

Balance across your:

- business strategy,
- supporting organization, systems and processes,
- people and culture, and
- governance model.

We propose that a consistent and balanced “fit-for-purpose” approach across all the above elements is more likely to achieve your desired business results than a “world class” business strategy with a weak supporting organization, systems and processes.

We hope that you found this report informative and thought provoking. Feedback on this whitepaper would be very much appreciated.



Please send comments to:

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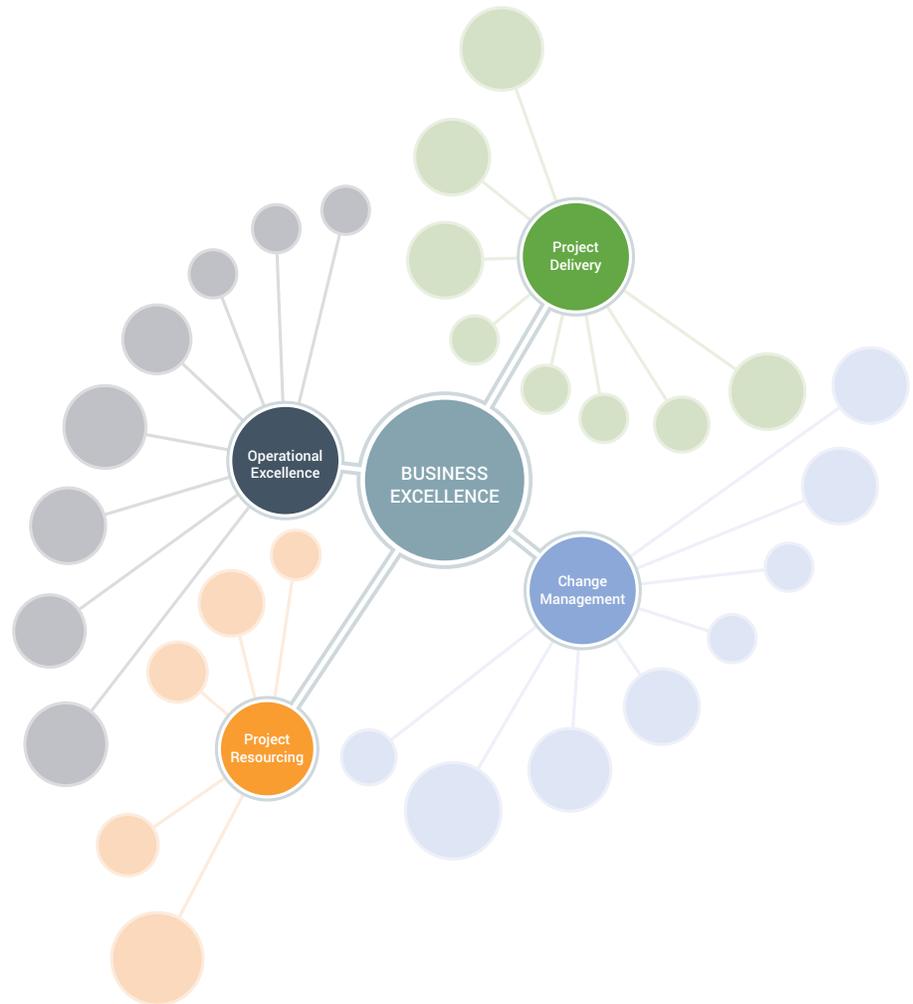
VII Why Ethier?

Ethier is a premier consulting firm that drives business excellence

For over 30 years, we have helped our clients realize their strategic goals with a focus on managing change, improving portfolio, program and project delivery, and achieving operational excellence.

Our team of senior consultants brings a blend of experience, business acumen, and domain expertise to deliver business initiatives that consistently meet or exceed clients' expectations. Working in collaboration with clients to adapt and prioritize efforts to meet business and project-specific needs, Ethier ensures a fit for purpose approach that delivers the desired results.

Ethier is proud to be recognized as one of Canada's Best Managed Companies.



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