



Practical Improvement of Productivity in Russian Businesses

AEB Working Group on Modernization & Innovations

October 29, 2018
Moscow

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Lovely child has many names:

- **Productivity**
- **Efficiency**
- **Quality management**
- **Toyota Model**
- **Lean Management**
- **Business Performance Improvement**
- **Business Process Re-engineering**
- **Change management**
- **Etc. Etc.**

= All part of the same!

Why focus on Productivity?

- Russian growth 1998-2012: Investments & consumption
 - Money from oil, gas & other raw materials

Issues:

- Cyclical economy, Rouble \approx Oil & gas price
- Raw material economy
- Russia not harvesting on its big HR capital
- Balance: **Investments \approx HR Capital**

Future: 'Mixed Economy' (IMF, WB, Min Econ Dev, CBR, + other clever Organisations & Russians)

- Sustainable domestic growth – Improve productivity!!!
 - **Productivity gap (WB): Approx. 3.0 x OECD average**
 - **Energy Efficiency gap (IEA/OECD): Approx. 2.7 x OECD average**
- Policies supporting transformation
- New Budget Rules

Aage V. Nielsen

- **Education:**
 - Student, Aarhus Katedralskole, Denmark
 - Cand. Scient. Pol., Aarhus Universitet, Denmark
 - DAES, Diploma of Advanced European Studies, Economics, College of Europe, Brügge, Belgium
- **Experience with Russia, 1987-Now**
 - Rebild Marketing Management, (BakConsult), 1985-92, Copenhagen
 - PA Consulting Group, Mang Dir, Moscow, Russia & CIS, 1992-94
 - Arthur D. Little International, Sales & Buss Dev Dir, Moscow, 1994
 - Vitus Bering Management, Moscow, 1995-Now
- **AEB, Association of European Business in RF, 1997-Now**
- **DBC, Danish Business Club, 1997-2006, 2016-Now**
- **Business Performance Improvement Russia**
 - USSR & Russian enterprises, First project 1989
 - European & Scandinavian subsidiaries, First project 1994

Business Performance Improvement

Business Performance Improvement

- Short Term - Business Performance Improvement

Quality & lean management

Technology & Products

Energy Efficiency & Renewable Energy Technologies

Business Development

How and how NOT to do business in Russia

Entrance strategy and market penetration

Sales /marketing /distribution

Business model & set-up incl. establishing production

HR Management & Development

Corporate structure & organization

Coaching, training & development

Recruitment & Executive Search

Management assessment & testing

Business Analysis

Pre-Feasibility studies and Feasibility studies

Markets Research & Analysis

Qualitative market research – Interviewing customers, distributors, suppliers, etc.

Fact finding visits

Benchmarking and analyses: Competitors, operational and costs efficiency, best practice in industry, etc.

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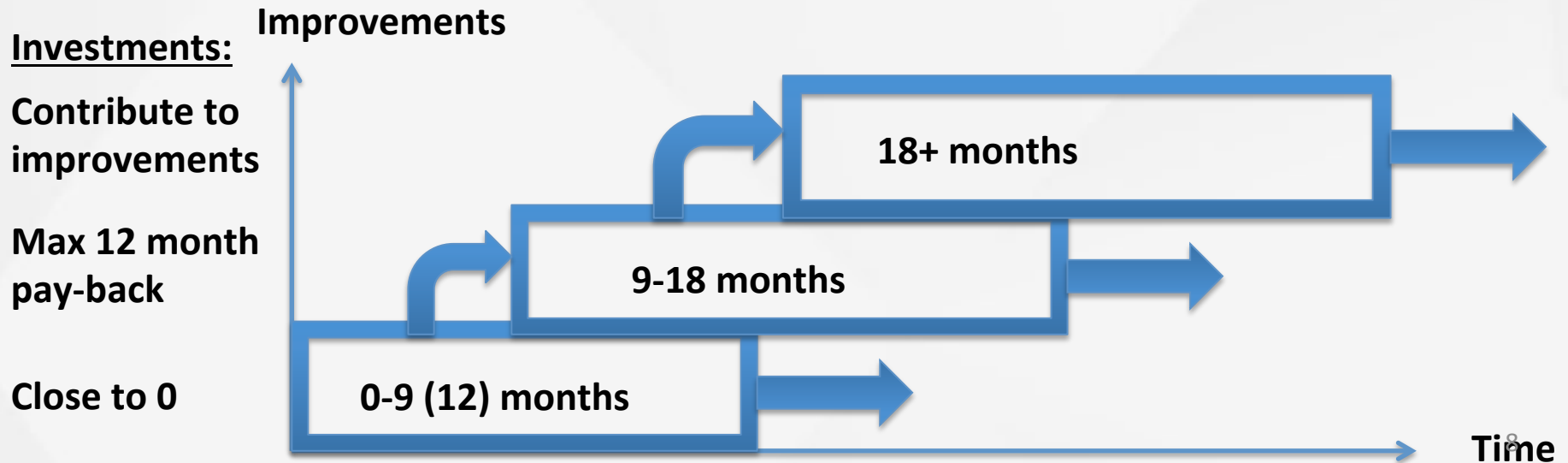
VBM - Business Performance Improvement

Fundamental idea & concept:

- **Start improve from what you have**
- **Start from tomorrow**
- **Management, operational management, team management**
- **Procedures & policies, processes & systems**
- **Change for doing better now & speedy**
- **Improve cash-flow from Day-1**
- **Generate cash for further improvements & investments**
- **Very 'Hands-on-approach'**
- **VBM-team: Former/Existing CEOs, COOs, other line-managers**

Business Performance Improvement (contd.)

- **Improvement opportunities & Action Plan**
 - How fast contribute to improvements
 - Resources & costs needed for implementation
 - Improved cash-flow
- **Short Term Improvement**
 - Turn-around program



Case 1 – Building Materials

Full-scale Buss Perf Improvement: Production, Sales & Distribution:

- Bought plant with 1,200 employees
- High-down time & unplanned shot-downs & lot of “waste-products”
- Cultural conflict – “old” versus “new” staff
- CEO: “When I turn left, wheels turn right!”

Main findings:

- “War”: Production & maintenance \approx 20-30% loss in production
- Communication barriers/filters & discretionary bonuses
- Operational management logistics & stock

Results:

- Overall productivity increased 30% first 12 months
- +25% higher revenue – Quality improved + production loss reduced
- Motivation of managers & staff: +30%

Case 2 - Facility Service

Full scale Turn around (Short Term BPImp):

- Bought facility service company, 1,300 empl & 10% net profit
- Changed for IAS: Net profit down to -18%

Main findings:

- Contracting & calculation process 'flawed'
- Many customers 'grey & black'
- Lack of critical mass business (several oblasts)
- Business Processes – many loops

Results:

- Improved service proposition – higher contract contribution
- Focus on 'White' customers – no lossmaking contracts!
- Improved contracting & calculation process \approx +10% profit points
- Improved business processes & systems: Optimization & Efficiency
- Year 1 (15 months): Net profit 0%, Year 2: +8%

Observations from Business Performances in Russia

- **International management skills & culture + Russian engineers = Winner!**
- **New generation of young Russian professionals & managers know how to improve productivity!**
 - **Will be allowed?**
- **No excuse for not improving productivity!**

Observations Business Performances in Russia

Productivity improvement challenges:

- **Owner Role versus Executive Management Role**
 - Often messy – lowering productivity
- **New Top-Manger – clean the ‘Chess board’**
 - Often huge loss of knowledge & experience
- **Organization, management culture & style:**
 - Many management layers (≈ 2.5 times EU)
 - Lead by example? – Better than stick & threats
 - Businesses processes – defined & clear?
 - Delegate responsibility?
 - Top-Down culture & low cross-functional communication
 - Mistakes not accepted – Learn from mistakes
 - Penalties & discretionary bonus is demotivating
 - Middle management & operational culture and skills

Observations Business Performances in Russia

Productivity Improvement challenges (contd.):

- Russian suppliers' performance very big issue
 - OEMs need to go for foreign suppliers
- Production Quality & Efficiency:
 - Improve operations (make same high quality every time delivered at time)
 - Operational skills + Standard processes & procedures
 - Industry & agriculture
 - Training of operators, foremen and group/team leaders
- Improve performance of existing equipment & resources versus “New toys”
- Service & maintenance improvement:
 - Costs up to 35+% reduction in production efficiency
 - Reduced product quality

Improving productivity – External issues:

- **Corruption, state companies >60% of GDP, weak judiciary, etc.**

- **Increase competition**
- **Attract more FDIs**
- **Facilitate Innovation & good ideas**
- **Facilitate transition from innovation to business**
- **Facilitate and grow SMEs & Entrepreneurs**
 - **Improve safeness & reduce bureaucracy**
- **Improve external financing infrastructure**
- **Etc.**

Thank you for your attention!

Questions?