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Earnings Improvement Outcomes Can Be Significant And Predictable

Bob Nardelli of past GE fame and now the CEO of Home Depot probably says it more convincingly than most leaders when he pronounces:

“There is infinite capacity to improve upon everything you do.”

Bob’s words should be a welcome salve to all leaders who have made great gains over the past several years. It seems that no matter how much progress we make, there are still fruitful opportunities for improvement in front of us. Our consulting experience further reinforces this. Those clients who are most successful before we begin, make more improvement during our time together.

The earnings challenge that we work on day after day is a worthy opponent. Bob’s belief provides us a vision, yet even those with the best intentions and brightest intellects regularly succumb to inadequate bottom-lines. Benefits from strategic plans, cultural programs, infrastructure investments, even acquisitions and divestitures are often negated by less than desired profitability. As we observe the progress that new technological breakthroughs and new product introductions make, we see that many are soundly beaten by the innate strength and tenacity of cost eating up more than its expected share of revenues. What can we learn from the many experiences we’ve all had in this area?

We must begin with the recognition that earnings generation is difficult. Everyone in our organization has the opportunity to diminish them. Everything that we do has the opportunity to drain away profit. In today’s world of sophisticated computers the mere touch of a keyboard spends our valuable resources faster than ever. When completing an activity, employees can spend more than they should, take a less-than-optimal approach, can be a bit more enamored with a product or service than is warranted. All these actions cost us resources that will never again return to our coffers. A little bit

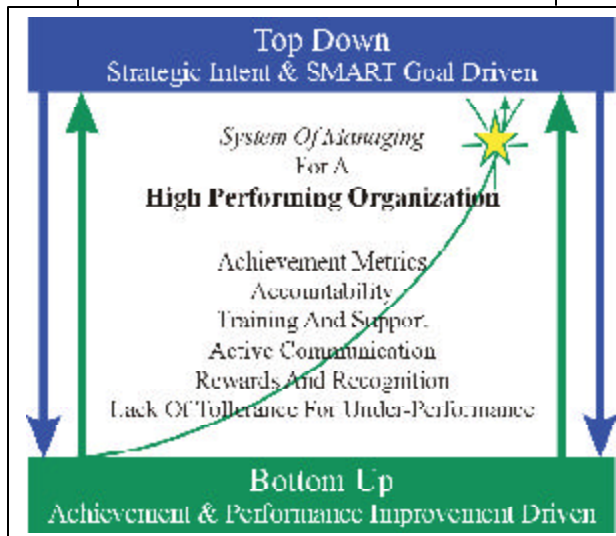
here and there can add up to a problem by month end. All employees participate in this profit degradation even when they do not perceive themselves doing so. Any earnings improvement program must therefore address the comprehensive organizational challenge recognized here.

Earnings success stories seem to always contain the same three high-level elements: 1. They begin with a leader that has a clear goal that is typically beyond what the organization can believe in. 2. The organization is supported and empowered to meet and exceed these goals; and 3. There is a “System Of Managing” put in place that

expectations. It stimulates the positive behavioral response needed to overcome a problem so organizationally comprehensive.

2. **Bottom up improvement.** True achievement and perpetuation come from improvements beginning at the bottom of the organization. With a clear goal from the top, an organization appropriately equipped with problem-solving tools, root-cause analysis and insights from other industries can make the gains needed to close the gap between existing and desired performance. Accomplishments here are most beneficial when framed as a paradox, i.e. more earnings with higher levels of customer satisfaction, lower cost with higher quality and on-time delivery performance.... The fundamental strength of the organization is what is being improved.

3. **The “System Of Managing.”** What goes on between the top down goals and the bottom up achievement always seems to determine the ultimate level of earnings produced. The elements within this process that seem to add the most value include: achievement metrics - credible measures of the progress being made (or not made) in each area of the business; accountability - clearly defined for each team and participant; training and support - employees typically have limited experience in understand-



clearly measures and rewards the performance of those involved. Let’s take a closer look at each of these elements.

1. **Clear goals with stretch.** This is a key component in the “behavior management” process. We can never make our organizations become more efficient or effective, but if we ask us to become so, challenge us to become so, the cultural barriers to improvement begin to soften. It will take encouragement, support and a clear plan of action for employees to “buy in” to the improvement program. It will have appeal because most want to be on a winning team and the new goal clearly improves on past

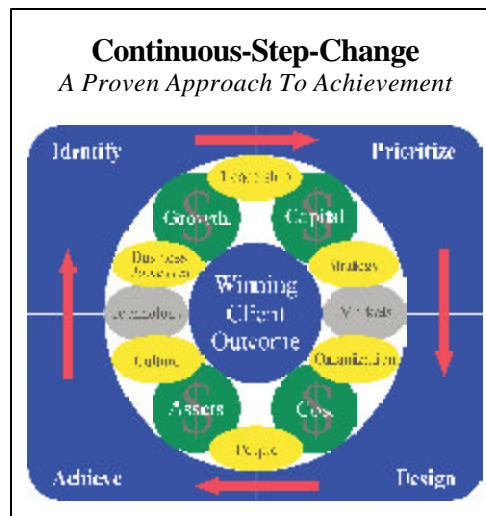
ing what improvements are possible and need assistance in overcoming long-standing barriers; active communication - they must hear the goal message over and over again and must have open channels through which to express their issues and concerns; rewards and recognition - done best these will become proactive team performance awards; lack of tolerance for under-performance - we must do something about those who decide not to play.

Earnings improvements are not easily attained but with the necessary elements leaders outperform their expectations. With Bob as our inspiration may our profits multiply.

Rutherford Consulting

Rutherford Consulting is a global management consulting firm that helps successful leaders and well-managed companies *identify, prioritize, design* and *achieve* a significant step-change in their competitive position. Typically, the client has defined those areas critical to success and wants to do what is required to improve the performance of their business and effect cultural change. Quite often however, the efforts to design and implement particular strategies to realize this vision are unsuccessful, due to internal organizational and cultural barriers and missing skills and capabilities. In addition, employees lack of varied industry and cross-functional experience can contribute to this challenge.

Our clients tell us that our approach has not only energized their organizations for appropriate action, but has also substantially reduced the time required to successfully achieve these improvements and created the environment for accelerated growth and learning.



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- The attainment of significant measurable and sustainable results.
- Step-change performance improvement.
- Organizational learning, tools, skills, measures and the confidence to accelerate future gains in competitiveness on their own.
- Strategic and operational insights leading to performance breakthroughs.
- A lasting legacy of success for themselves and their organizations.

Rutherford Consulting works together with you to make otherwise unreasonable industry and market demands achievable. Experience has shown that both tangible and intangible benefits are needed to accomplish the new level of business performance you desire.

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