CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Process-Based Management

CONSOLIDATED SUPPLY AND DISTRIBUTION COMPANY (CSD)

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MANAGEMENT ACCOUNTING GUIDELINE | CASE STUDY

CONTENTS

The following case is based on a real organization. The names and the content have been modified for illustrative purposes.

Background

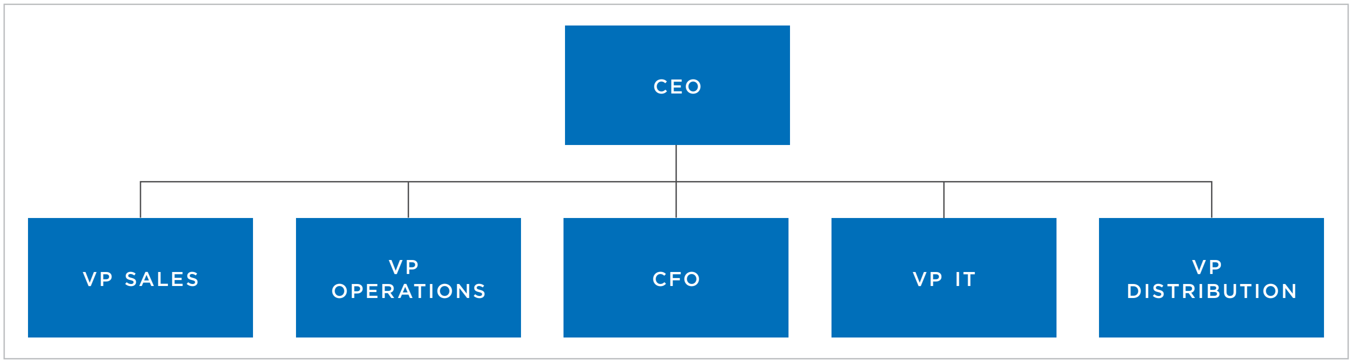
Consolidated Supply and Distribution Company (CSD) is a paper distribution organization based in a suburb of Chicago. Last year, the organization had revenues of $120 million and 300 employees. CSD supplies paper products to companies in the Chicago area and four adjoining states. Orders are placed through sales representatives, customer service representatives (CSRs), and through CSD's website. Most of the organization's products are ordered through CSRs for next day delivery (around 40 percent of orders), with the remainder having a two- to five-day lead time. Inventory management and warehouse operations are important to meeting customer delivery requests. In addition, order fulfillment and product delivery need to coordinate product deliveries from multiple facilities as well as direct ship from vendors.

George Dunn, the CFO of CSD, used the guideline on Process-Based management (PBM) for guidance on how to address the shortcomings in his organization's processes, such as delivery performance, managing costs, failed promises to customers by the sales department, and the lack of communication across departments. The intended realignment will help the company apply the drivers of resiliency, adaptability and innovation to ensure its sustainability (per the RAISE philosophy).

Discovery at CSD

Dunn decided that focusing on process could help the organization. He did not know how to begin so he engaged the services of external consultants. After a few discussions, Dunn and the external consultants agreed to conduct a one-day interactive PBM work-shop for the management team (Figure 1) to discuss what functions of the organization would become process-based, and the impact it would have on the rest of the organization.

FIGURE 1: CSD MANAGEMENT TEAM



The agenda for the workshop included:

- What is PBM?
- How does an organization become process-based?
- How to define and classify the organization's processes.
- How to integrate the organization's initiatives?
- Why should the organization become process- based?
- What does a process-based organization look like?
- What are the next steps?

Each agenda item had exercises to engage the management team and create an output that would later be used to launch the process efforts. The team developed a list of the organization's processes, which included:

- the starting point and ending point of each process,
- process categories (identity, priority, mandate and background),
- the customer of each process, and
- initiatives that supported each process.

At the end of the workshop, the management team was enthused about the potential to focus on process. Most importantly, they were willing to support the effort. Dunn was given the task of developing a plan to launch the process efforts in the organization. The management team needed to stay engaged, and part of the plan was to identify the management team's ongoing role.

Setting the Foundation for Process at CSD

Working with the external consultants, Dunn developed a plan for the first six months. Some of the main actions included in the plan were to:

1. Form a process council to lead the overall effort. This group will be comprised of senior leaders. This group would meet at least monthly.
2. Launch a new process team each month to address the six prioritized processes. Each team would consist of eight to ten people with a total of 50–60 employees being exposed to process efforts in the first six months.
3. Create a process office that will support the process efforts on an ongoing basis. This includes developing the process toolset, supporting the process teams, developing and providing training, and identifying other skills required (such as facilitation). Dunn identified two individuals to provide that role (and the process council agreed). The external consultants would train the process office during the first six months.

The initial role of the process council was to:

1. Develop, implement and sustain the communication plan.
2. Identify the list of processes for the organization, and classify those processes (the initial list was developed at the work-shop. However, there was not agreement on definitions and boundaries and, therefore, the task of reconciling these differences was left to the process council to resolve).
3. Prioritize the processes for improvement.
4. Set a target for improvement in the first year (the target was set at $750,000 of improvements identified and $250,000 of improvements implemented).

Dunn and the consultants decided that facilitated workshops over four consecutive days were needed. A process team consisted of six to ten people, with one appointed leader. The team members would be a cross section of people from departments who were involved in the process. A team member would be on the team for 18–24 months (although it would be a part-time role). The workshop would help the team define and map the current "as is" process; analyze the process (i.e., cycle times, existing measures, and identify issues); identify any additional capabilities to be included in the new "to be" process; define and map the "to be" process; and identify the process changes and include them in a transition plan document.

The process council spent the initial council meeting developing a relationship map that displayed all the processes and how the processes were linked. This allowed the process council to prioritize the processes for analysis and improvement. They agreed that the first process to be improved would be intra-facility transfers. This process involved moving product overnight among five different warehouses in four different states to ensure next-day delivery to its customers.

The process council formalized nine members of the process team (after receiving approval from these individuals' department managers). The vice president of operations was identified as the process owner and had to work closely with the team. Process team 1 launched its efforts the following month.

The Move to Transition

Process team 1 (launched to improve intra-facility transfers) followed the facilitated workshop approach that Dunn had identified. The consultants facilitated the session and the process office supported the effort. The output of the intra-facility process team included 12 process changes, most of which could be implemented in the next six months. On the last day of the session, the process team presented the changes to the process council for approval; 80 percent of the changes were approved immediately. The process council then told the team to start implementing the changes and to provide the process council with a monthly status report. Any interim issues were funneled through the process owner for resolution.

Members of the process team had never been through an exercise like this before. They each understood their piece of the process, but not the whole end-to-end process. They also had never been asked for their input on how they could improve their work. They were still skeptical the process council would actually let them implement what had been approved. They were also concerned with not having enough time to implement the changes because of their regular work commitments.

At the next monthly process council meeting, the members discussed their experiences, and the feedback they had received regarding the first process improvement session. Overall, the feedback was very positive. They thought a few of the changes were not worth the effort, but they did not want to interfere with the team output. The issue regarding time commitment had also been raised. After much discussion, the council agreed that each team member should commit 20 percent of his or her time to the implementation. The process owner would convey this to the rest of his/her team members, as well as to the managers. If this caused an issue, they would backfill a position as needed.

As the teams moved through implementation, they agreed on the following guidelines:

1. The two team members assigned to each process change would develop more detailed project plans, if the change needed it.
2. The team would meet for two hours every other Monday. If someone could not be onsite, they would call in.
3. The team would refine the process measures at these meetings.
4. Any items requiring follow up would be tracked, and reported on.

This first process team (inter-branch transfers) identified annual savings in excess of $600,000. As well, there was an assumed improved level of customer satisfaction; however, the team did not try to quantify this metric.

Over the next three months, additional process teams were launched. Process team twowas formed to improve the order fill rate in order fulfillment process; process team three was tasked with improving the sales process to increase sales per employee; and process team four's goal was to improve inventory flow within the warehouses.

These teams followed the same approach. Process owners were assigned to each process before it launched, and process team members were selected from a cross section of the departments impacted by the process. Individuals could only be part of one team, so many in the organization were involved within these four teams. The process office provided training to the team before they started, so the team members understood the approach as well as the expectations.

The process council met each month to address issues and resolve any conflicts the process owners couldn't resolve. However, it became clear when the fourth improvement session was completed that they needed to slow down. There were now over 40 process changes being worked on, and team members were getting stretched; at this point around 20 percent of the company was involved in the process activity. The process council decided the next session would not start until later in the year.

At the next process council meeting, the consultants led a discussion of the need to start building cross-process linkages. With four processes being improved and managed, the teams encountered cross-process issues. As the teams continued to implement changes, they also started to develop and report process measures. The measures also showed that the processes were cross-dependent. The consultants used the relationship map developed by the process council to show the linkage between processes. The relationship map was continually being updated, and the discussion of process linkages was an ongoing item for the process council.

The process office and the consultants continued to work with the process teams to help them through implementation issues. Sessions were held with the process team leaders to review the implementation process for the process changes. Since each team learned from the prior teams, the implementation processes were continually updated.

The process office also worked with the teams to help quantify the impact of the changes. The process council had set the goal in year one of $750,000 of identified savings and $250,000 of implemented improvements, and the teams were well on their way to meet and exceed these targets. They found that without good data to start with, quantifying the change often became a challenge. However, even as they started to see a positive impact from the process improvement efforts, overall results for the company continued to deteriorate.

The teams developed great data on the processes, which could be used both to measure the process, as well as to highlight areas for future improvement. An example of this data was in the sales process. The team made some assumptions during the improvement session, and then validated it afterwards. They determined ratios that the best sales people achieved 20 leads to get five appointments, and five appointments to get an order.

What they also determined from reviewing data was that these ratios varied widely across the sales staff, but those with the best results had patterns that were close to these ratios. The rest could learn from the best, which led to further definition of the sales process, and training on that process. It also led to ongoing tracking of these (and other) statistics to better manage the sales process.

Process team 1 produced a process measures flash report (initially just to the process council) in the fourth quarter. It took longer than the teams initially thought to agree on the measures and gather data. As they continued to work through the implementation of the process changes they began to see results improve. They also discovered that results would sometimes get worse before they got better.

Approximately six months into the improvement work it became clear that 20 percent of a team member's time was not enough time to implement the changes. Team members were continually being pulled from the process improvement work to deal with their day jobs, which created a situation where improvements had been identified but were not being implemented due to human resource constraints.

The process council tried to backfill where they could. The reality was that although implementation was taking more time than they anticipated, the process council did see progress.

The process office also started spending time with the process council (at the monthly meetings) and the process owners and team leaders developing the ongoing process to be followed to manage processes on an ongoing basis. Each of their roles would evolve as the teams moved from identifying changes to implementing changes to the ongoing management of the process.

Such a concerted effort demonstrated how the drivers of resilient and adaptive drivers (the drivers in RAISE) were fulfilled as part of CSD's overall objectives to ensure they were both strategic and long-lasting, able to withstand and adapt to the ever-evolving demands of both customers and the changing dynamic of the market.

Year Two

As the process efforts moved into the second year, the process council determined that enough headway was being made on teams to launch the next process team. In January, a new team was launched.

A significant event also occurred in February, with the CEO (who had been very supportive of the PBM initiative) announcing his retirement. The vice-president of sales, who was supportive, but not totally on board with PBM, was announced as the new CEO. One of the first questions he asked the process office was how the process data could be used to identify where the organization could reduce headcount. According to a recent study, the organization had more headcount per sales dollar than their competitors. All along, the communication to employees had been that the process efforts were needed to grow the organization; now it may be used to cut headcount.

Trying to push the process efforts forward, Dunn got agreement from the process council to have the external consultants facilitate the company strategy session in late March. Part of the objective was to use this strategy session to identify where to focus and leverage the process efforts going forward. During the strategy session, it became clear there were questions about continuing to dedicate so many resources to the process improvement efforts. The company needed to increase sales, and some on the sales side thought the process efforts were hindering this effort.

There was a solid operating plan that came out of the strategic planning meeting, which continued to move the process efforts forward. A new target was set to achieve $800,000 of savings from the process improvement efforts in the second year. Dunn continued to make the case that the organization needed to be better at serving its customers, which would in turn lead to better customer satisfaction and improved margins. Improvements in the sales process would also allow the sales people to be more efficient and productive.

The process teams continued to make headway. Teams one and two had implemented most of the improvement ideas, and were now managing their processes. These teams continued to meet on a scheduled basis to address issues, and produced periodic flash reports, which were posted to the company Intranet and discussed at the monthly process council meetings. Teams three, four, and five continued to make headway on implementing their process changes, and move through the same progression as teams one and two.

The organization announced the acquisition of Northwest Paper Company, a smaller competitor that overlapped some of CSD's market, but also brought a new region into the company. Northwest had one location (headquarters and warehouse) 60 miles from CSD headquarters. Dunn, who had been involved in the due diligence, proposed the process teams be involved in deciding how to integrate the operation together.

The process council agreed, and the teams were now tasked with coming up with plans to integrate the new company into their processes.

The impact on the teams varied. Teams one and two, which were in an ongoing management mode, were able to quickly determine what needed to be done and proposed changes that could be accomplished before the projected closing date in June. However, the other teams struggled. Since these teams still had work to do to finish the implementation of their process changes, the task of integrating Northwest took their efforts in another direction, which resulted in a shortage of human resources necessary to complete the implementation of the initial process changes.

It also became clear that Northwest had very different processes, mindset and culture, which needed to be addressed if the acquisition was to be successful. Management saw this, and agreed to run the two companies separately in the near term, with a scheduled integration of two entities over the course of the year.

At this point there were a number of issues starting to surface, specifically:

- The implementation of process changes slowed down with the new focus on implementing the acquired company.
- An eight percent reduction in force was implemented to bring sales/employees in line with competitors. This workforce reduction put stress on the remaining resources as well as created some concern about how the process efforts were being used (e.g., to reduce headcount rather than improve process).
- Financial results continued to deteriorate.
- A sales mindset was beginning to overcome the operations mindset Dunn was trying to put in place, as the new CEO was not as committed to the process efforts as his predecessor. As the firm continued to underperform, the new CEO reverted to what he knew best: focusing on increasing sales.

At this point, the process efforts appeared to be losing momentum. The teams were being redirected to address acquisition issues — department managers, as opposed to the process teams, were also addressing many of these issues. The process council meetings became less frequent, and the focus moved away from status of implementation and process measures to acquisition issues (and not from a process context).

This publication is one in a series on *Process Based Management*. The entire series of **overview**, **guideline**, **case study 1** and **case study 2** are available on our **website**. For additional information or for general inquiries, please contact us at **mags@cpacanada.ca**.

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