



CHANGING THE CULTURE

How a Performance Management and Cultural Change Programme Transformed The Distribution Function of a Major Retailer

EXECUTIVE SUMMARY

This paper relates the experience of tackling performance and capacity problems in the distribution function of a major retailer by taking a structured and holistic approach to performance improvement. The people issues of motivation, cooperation and culture were given the same attention as systems and infrastructure shortcomings.

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The company was embarked upon a major store development programme and needed distribution to support sales growth and an expanding inventory range. It was recognised that the main distribution centre and its satellite warehouse did not have the capacity in its current form to support growth in the business. In addition to physical limitations, there was a history of adversarial relations between management and union and employee performance problems. The distribution function generally was viewed as uncooperative and a limitation on the business.

The business accepted plans for further investment in distribution infrastructure but equal weight was given to a programme of performance improvement based on cultural change.

The result was a significant improvement in capacity and productivity and a new lease of life for a rather jaded and undervalued part of the business.

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Important lessons were learned including:

- The need to take a holistic approach to treating organisational problems
- Why individual targets must be aligned with company goals
- The vital role of work measurement in the setting of fair productivity targets
- The need for feedback and encouragement to promote good performance
- The value of a continuous improvement programme
- Why it is necessary to encourage and reward cooperation
- How to use an investment project as a source of development opportunities for all employees
- The need to design the management structure to meet the main functional challenges

And finally:

- That improvement in performance will not just happen by itself, it must be managed

The paper concludes that on the evidence of this experience, any mature distribution operation is capable of yielding significant extra value to the business it serves, provided the whole organisation is treated not just isolated symptoms.

SECTION ONE – HISTORY AND EARLY IMPRESSIONS

Background

The company appointed a new Distribution General Manager in 1997 with a brief to thoroughly review the distribution function, improve employee relations and match distribution capacity to the needs of the business over the next five years.

The company had over 400 retail outlets in the UK mainland serviced by a main distribution centre and a satellite warehouse. A programme of high street store closures and their replacement with edge of town superstores was about 75% complete. Inventory range was growing and sales by value were expected to grow by at least 5% a year over the next five years.

The main distribution centre was opened in 1971 and had been considerably modified over the years. There had been major investment in materials handling systems between 1994 and 1996, however, there was still much of the original system and some of the earlier modifications in place.

The warehouse management system had also been upgraded in 1995 to add RF truck management and a narrow aisle management system together with an interface to a miniload control system.

The project had cost over £6m and yet there was an unfinished, piecemeal look to the whole operation.

The satellite warehouse, some twenty miles away, was very run down.

Employee Relations History

The Transport and General Workers Union was very strong and there was a history of damaging strikes in the seventies and eighties which had all been won by the union. This history was very much in evidence in the favourable terms and conditions enjoyed by warehouse staff and in the adversarial relationship between management and union. It was not unusual for example for annual pay negotiations to take so long to complete that one year's negotiation overlapped with the next.

The Management Team

The outgoing general manager was about to retire early after two years installing the new systems. The team inherited by his replacement seemed besieged by impossible demands from the business and an intransigent workforce. Fire fighting took precedence over planning and cynicism was easier to find than cooperation.

SECTION TWO – THE BUSINESS CASE FOR CHANGE

Business Goals

The priority for the business was to continue to build profitability by maximising the pace of the superstore programme and by containing operating costs. The important implications of this for distribution were:

- Supply volumes would grow, extra capacity must be found
- Variety would increase
- Demand volatility would increase
- Distribution revenue costs must be contained

The Outline Plan

An outline plan was put together as follows:

- Review of current status and development of proposals for change
- Development of the financial case for investment
- Design and installation of physical and systems improvements
- Design and implementation of a programme to change the prevailing culture and improve individual performance.

Results Of The Review

Problems were found in almost every aspect of the operation leading to a serious shortfall between distribution performance and fulfilment of the business goals.

Receiving and stock movement

- Poor receiving processes and lack of dock capacity were already stretching appointments lead times to the point where service was being damaged
- Reserve storage was almost full and the RF system was slow to respond
- Replenishment service to picking was slow

Picking and despatch

- The conveyor system was overloaded and had serious bottlenecking problems
- Despatch loading equipment was slow and unreliable

Systems

- The warehouse management system was fragmented and slow
- There was no central control system for the conveyors

Productivity

- There was a lack of pace and urgency among staff

- There were frequent hold ups and interruptions
- There was a heavy reliance on overtime

Management

- There was poor communication between departments
- Fire fighting rather than planning was the norm
- There was no concept of process management

Off site warehousing

- Parts of the satellite warehouse building were not safe to use
- The spend on off site third party warehousing was considerably over budget

Employee relations

- There was a lack of trust between management and staff
- Employee relations were dominated by the union
- Relations were driven by old fashioned attitudes and archaic agreements

Board Acceptance

The Board accepted that its plans for sales growth were jeopardised by lack of distribution centre capacity and that there was a strong case for further investment in infrastructure and systems. But there was also a recognition that, however persuasive the case for investment may be, success hinged on achieving a sea change in culture and that the investment must be matched by an improvement in the performance of every individual member of staff.

SECTION THREE – IMPLEMENTING THE PHYSICAL IMPROVEMENTS

Hardware And System Changes

Priorities for expenditure were based on value delivered to the business. This led to a focus on material flow, process control and dock capacity. The main areas for investment were:

- A new system to enable central control of conveyors and loading equipment
- Additional conveyors to add capacity
- Replacement of dock loading equipment to improve speed and reliability
- A new loading bay

Stock movement capacity was further increased by changing ways of working, including:

- Fast tracking key products
- Optimising fork truck routes
- A more systematic approach to replenishment

Off Site Warehousing

The satellite warehouse was closed and replaced by a larger building two miles from the main DC. The new operation was expanded to include all oversize and seasonal products and the majority of third party space was vacated. The new, larger facility was used to free up capacity in the main DC.

Project Management

The project management team was made up of selected members of the DC team plus representatives of the main contractors and a materials handling and systems consultant.

Members of staff from all levels were seconded to the team as necessary, the aim was to promote ownership of the changes and give as many staff as possible a chance to use the project for their own development. The project became a focus of hope for the future and escape from the interminable problems of the old system.

SECTION FOUR - THE CULTURAL CHANGES

Gaining Trust

Addressing the very real physical and systems problems was an essential precursor to tackling the cultural problems. It was important to demonstrate a willingness to overcome the every day stresses imposed on management and staff by poor systems. This success created a measure of trust and goodwill between the new general manager and the DC team, which was used to strike an implicit bargain.

The essence of the bargain was that the general manager would lead them in tackling the endemic problems but in return they must all be willing to embrace change.

The first test came in the form of the annual pay negotiations.

Using newness as an excuse to ignore the arcane baggage both sides traditionally brought to the bargaining table, the talks were conducted briskly and straightforwardly.

To general surprise, agreement was reached at the first attempt thus clearing away the perennial pay dispute to devote everyone's energy to more constructive activities.

Developing The Management Team

The capacity problems were in truth only partly due to systems and infrastructure failings. The next step in the cultural programme was to engage the whole team in problem solving to find better ways of working, which included working together across departmental and hierarchical boundaries.

A series of management development workshops was set up, where managers and supervisors worked both individually and as teams to solve problems, make presentations and generally stretch themselves. It helped enormously to bring them together as a team and to get them to reflect on the job away from the pressure cooker atmosphere of every day work. It also helped the general manager to appreciate strengths and weaknesses before making the first management reshuffle.

Management Structure

The management structure was changed, creating a new department to bring all the control functions together under one manager. This achieved end to end control of the operation to ensure proper balancing and prioritising of workload. The new department was a focus for warehouse systems knowledge, which improved reaction times to system failures and increased the ability to respond to changes in demand. The status of the engineering manager was enhanced, reflecting the importance of using the improved process controls to increase DC reliability and agility. The Goods In and Goods Out managers were freed from fire fighting to give priority to operational effectiveness, productivity and staff development.

Developing The Shop Floor Teams

The new structure and the beginning of a new management approach started to change the hardened attitudes to management on the shop floor.

This was followed up by three new initiatives for shop floor staff all of them to be implemented by the newly invigorated management team.

- Multi skilling, to match the need for greater staff flexibility to meet workload peaks
- Temporary supervisor development, a programme to identify potential future supervisors and to allow staff to try themselves out in development centres before taking on new responsibilities
- The formation of continuous improvement teams, ad hoc teams drawn from all levels and all departments to solve specific problems

These initiatives developed the sense of team working, provided outlets for self development and involved everyone in improving the way work was done.

Measuring Work

There had previously been no concept of measured targets other than rather simplistic lines per hour and pallets per hour targets applied to some but not all staff. It was demonstrably unfair and largely counter productive in raising productivity since there was no basis upon which to change targets (except downwards).

Work measurement was therefore introduced as a way of evaluating alternative methods and setting fair targets.

For the union, the senior shop steward had no experience of work measurement and was wary of the idea. He asked to bring in a full time union official who ended up supporting the measurement programme provided it was applied fairly. To ensure that there could be no accusations of unfairness, the programme was conducted in a completely open manner with everyone allowed to see the results and to challenge them if they wished. Surprisingly perhaps, there was much less objection from the staff, who accepted it for what it was, an essential step in improving the ability to run the operation. Any arguments over standards were dealt with by remeasuring and the results were invariably, if sometimes grudgingly, accepted.

In parallel, electronic time and attendance recording was introduced. The system recorded start, finish and break times using swipe cards and electronic terminals. The terminals had keypads for recording moves between sections and units of work done. The system interfaced with payroll and paid for itself in less than a year through administration savings alone. It freed up supervisors from mundane record keeping, allowing them to concentrate on management. To disarm any suggestion of 'us and them' all staff including management used the new system. Previously there had been a paper signing in procedure applied to shop floor staff only and separate work cards added up manually.

Targetting

Armed with a new set of work standards and the means to record work accurately, targets were then introduced, tailored if necessary to individuals. Through a process of monitoring, coaching and feedback through assessments, performance was raised by at least 15% in the first year.

Assessments

Annual assessments with six monthly reviews were implemented for all staff. Previously only managers had been assessed and their targets were vague and often irrelevant to the business. To start, managers were set measurable, achievable and realistic targets based on company goals. They were coached to cascade the targets right down to the shop floor so that specific targets set for their entire team supported their own targets. There were regular briefings on company goals so that staff could clearly see how achieving their own targets contributed to company performance. Warehouse staff were typically targeted on their work rate, accuracy, attendance record and contribution to continuous improvement. They could also be given targets on self development and team working. Any shortfall against targets was treated initially as a coaching issue. There was no link between performance and pay for warehouse staff although there was for supervisors and above.

Catch Someone Doing Something Right!

One of the hardest things to achieve was to persuade supervisors and managers to praise good performance in at least equal measure to finding fault. Managers with confidence in their own ability were much more likely to use praise as a way of encouraging their team. The best way to give confidence to managers was to start the process by being positive about their performance. It helped that, after years of

criticism from the rest of the business, the improvement in distribution was being appreciated and commented upon. It was important that this good news was briefed down as a source of pride in the function.

Flexible Hours

A system of annualised hours was introduced into the highly seasonal new satellite warehouse. This allowed hours of work to be matched to the peaks and troughs of demand without paying overtime premiums or bringing in large numbers of temporary staff.

SECTION FIVE – RESULTS

Productivity And Capacity

In simple terms, productivity rose by over 30% in two years. The capacity of the entire distribution process was increased by about 50%.

As it turned out, distribution demand grew much faster than expected. Distribution service and reliability were now at historically high levels and the business sought to take more product away from direct supply and service it instead through the distribution centres. Distribution had to find new ways to handle this extra demand, mainly by forging a new, more collaborative relationship with the Supply Management function and with suppliers themselves. Greater confidence in distribution meant that supply managers could be persuaded to run on shorter lead times leading to reduced stock levels. A supplier compliance programme was also initiated, which improved the flow of stock through goods in.

The new work standards allowed managers to match staff to workload more accurately. Multi skilling gave them more options in balancing staff to workload. This gave the whole organisation much more agility to respond to customer demands.

A continuous improvement programme encouraged a constructive questioning of established ways of working. Work measurement was an objective tool for measuring the effect of changes in methods. In this way for example, the value of accurate slotting of products in the pick face to optimise walking, reaching and lifting, was proved. Distribution was under pressure to create more pick slots for new inventory ranges, accurate slotting was vital in making the most of valuable space.

Cultural Change

There was now a much more open style of management while at the same time, much more was demanded of all staff. Many staff took advantage of development opportunities, and since 1997, all junior and middle management vacancies have been filled from within. For the first time, distribution staff were being considered for, and getting, head office jobs. The culture became one of continuous improvement, change became the norm, and poor standards were no longer accepted. The whole operation looked better; there was pride in the building and pride in the team.

The union, although still influential, no longer held the same powerful position they once had. Instead, they were approached as partners in the change management programme with the intention of moving them away from an adversarial relationship with management to a collaborative one.

SECTION SIX - LESSONS LEARNED

Some valuable lessons have emerged from this experience.

Alignment of Targets

It is important to start with a clear understanding of the goals of the business and then:

- Align the function with the business goals
- Align individual targets with the functional goals
- Set demanding targets and do everything possible to help people achieve them
- Keep all staff up to date with progress towards business goals

Take A Holistic Approach

If there is something fundamentally wrong, treat the whole of the organisation not just isolated symptoms. There is no point for example, in trying to make an organisation more responsive to demand if there is still in place a deep rooted hostility to change and rigid unreliable processes.

Encourage Cooperation

Use every available opportunity to involve people in decision taking and the change process. Use complaints and problems as an opportunity to give people the chance to put things right. Give them feedback on their ideas and if there is doubt, let them try them out for themselves and reach their own conclusions.

Challenge negative attitudes and encourage praise when it's due.

- Encourage self development and use every opportunity to give people a challenge
- Design a management structure where responsibilities are clear
- Reward cooperation between departments
- Drive decision taking and problem solving as far down the hierarchy as possible

Manage Change

Design a change management programme and commit the management team to implementing it.

- Make communication a priority

- If there is a union representing the workforce then build them in to the communication process
- Listen to feedback and do something about it

Design The Right Management Structure

Design a structure that:

- Makes accountabilities clear
- Encourages cooperation
- Manages the process
- Gives specialists, such as engineers, the right status

Design in Flexibility

Design flexibility into the processes by:

- Identifying and opening up bottlenecks
- Leaving some warehouse capacity to deal with urgent jobs
- Having excellent warehouse systems knowledge in the team
- Training staff in multiple skills

Use Work Measurement To Set Accurate And Fair Targets

Without measurement it is impossible to be fair in setting productivity targets. It is impossible to keep informally produced targets up to date; changes in methods always lead to rapid erosion

- Targets must be relevant to the methods and equipment used
- Targets must be demonstrably fair
- Measured standards should be used to prepare coaching and counselling programmes
- The same level of effort should be demanded across the whole operation
- Measured standards should be used to evaluate alternative methods and systems

Promote Good Performance Through Feedback

The secret to good feedback is to be as quick as possible in giving it.

- Always be able to answer the question, 'How am I doing?' at any time
- If someone does well, make sure they are told about it
- Use league tables and other comparisons to encourage healthy competitiveness
- If someone submits an idea, thank them, follow it up and let them know what was done with it and why

Run A Continuous Improvement Programme

Set up and actively manage a programme to encourage ideas

- Use complaints as a stimulus to forming an action team
- Form ad hoc teams around the owner of the problem or the originator of the idea
- Set targets for everyone to be involved in action teams
- Make action teams cross functional
- Ignore formal hierarchies in setting up teams
- Reward good ideas with recognition

Use New Investment As A Source Of Development Opportunities

Make sure everyone affected by new investment is encouraged to take a part in its implementation

- Train the whole team in new systems not just those directly affected
- If there is a choice of equipment, let the users make the decision
- Enlist users to write new operating procedures

In Conclusion

Performance improvement doesn't just happen. It has to be managed.

All organisations are made up of a complex network of people, systems and relationships. To improve the effectiveness and efficiency of the whole organisation requires treatment of the whole organisation.

The lessons learned from this case study can be applied to any mature organisation going through fundamental change in its business model. They would particularly apply if distribution limitations were a serious impediment to achievement of business goals or if significant opportunities were recognised for improving business performance through a step change in distribution performance.

This study demonstrates that, employing a similar performance improvement programme, any distribution operation is capable of yielding significant extra value to the business it serves.