

Meeting The Challenges Of Change

Accenture And REFER

accenture



Rail
Case Study

Responding To Change

In the mid-1990s, like many European railway agencies, Rede Ferroviária Nacional, EP (REFER) was facing significant internal and external challenges. Recently spun off from its former government-owned and controlled parent company and under pressure to improve financial performance, operating efficiencies and customer service, rapid changes were needed.

• Consulting • Technology • Outsourcing

Working with Accenture, REFER was able to quickly respond to these challenges and position itself for a strong, new future.

Background — A Period Of Rapid Change

At the beginning of the decade, the European Community (EC) issued a number of directives, with the aim of more effectively organizing and standardizing the infrastructure that would support the common market. In particular, in 1991, European Community Directive 91/440/EEC was issued in regard to railway companies. This directive mandated the separation of various components of each country's railway network as well as specific performance recommendations, with the following goals in mind:

- To facilitate the adaptation of the Community's railways to meet the needs of a single market
- To increase efficiencies in operations and infrastructure

In particular, the directive (and subsequent amendments) required that the following measures be taken:

- Railway undertakings were to be made independent of the state. Although they could remain governmentally owned, they must have relative freedom with regard to management and internal controls over administrative, economic and accounting matters.
- Transport operations were to be separated from infrastructure maintenance and management (including both administrative functions and financial systems).
- Improvements were to be made in the railway infrastructure organization's financial situation, including increased profitability, reduced indebtedness and improved operating efficiencies.

In Portugal, the parent company of REFER, Caminhos de Ferro Portugueses, EP (known as CP), was faced with its own internal issues: decreasing ridership, accumulated financial deficits, an outdated information technology system, and a somewhat non-entrepreneurial mindset. Taken as a whole, these internal and external forces were driving the need for immediate, aggressive changes.



Setting The Stage

The first and perhaps most important step was a necessary restructuring of the parent company. In the spring of 1997 in accordance with the EC directive, the operating and infrastructure portions of the company were separated.

A new company, still government-owned and retaining the name Caminhos de Ferro Portugueses (CP), was created and given independent responsibility for the commuter railways in Lisbon and Porto, medium- and long-distance passenger service throughout Portugal, freight service, and maintenance of its rolling stock (equipment).

REFER, also government-owned, but now wholly separate from CP, was given responsibility for maintenance and development of the railway infrastructure in Portugal in three major areas:

- Infrastructure (asset) creation and development – including responsibility for capital/investment programs, and project and contract management
- Infrastructure maintenance
- Capacity sales – i.e., marketing available track and/or schedules

It also absorbed authority from three previous public agencies that – although also government-managed – were conducting major railway investment projects:

- GNFL, the Gabinete do Nó Ferroviário de Lisboa (Lisbon Agency)
- GNFP, the Gabinete do Nó Ferroviário do Porto (Porto Agency)
- GECAF, the Gabinete de Gestão das Obras de Instalação do Caminho de Ferro na Ponte Sobre o Tejo (Railroad Installation at Tagus River Bridge Agency)

"REFER was undergoing dramatic change at a rapid pace. This situation presented us with significant challenges – but it also gave us the opportunity to make important, lasting improvements in our operations," says REFER President Dr. Manuel Frasquilho.

Beyond issues that resulted from the breakup of the former CP, there were the additional EC and internal pressures to create a more cost-effective, efficient and service-oriented operation. This was a requirement, not only for the future success of REFER in Portugal, but in order for it to compete with other railway companies in greater Europe. Loans, development support, cooperation – all were dependent upon REFER's ability to streamline its operations and demonstrate real improvement in its financial situation.

Although the separation of REFER from CP had been conducted following EC guidelines and – from a legal sense – was completed in March 1997, there were still many practical matters stemming from the division yet to be resolved. For example, the former CP had incurred a great deal of debt as part of its infrastructure projects prior to the separation. How would these remaining liabilities be fairly parceled out between the two companies? Many centralized functions and departments, such as Finance and Purchasing, had common staff, resources, assets and processes. How could these resources be most effectively split between CP and REFER? How could REFER use its resources to develop an optimal organizational structure?

As the President of REFER, Dr. Manuel Frasquilho says, "REFER was undergoing dramatic change at a rapid pace. This situation presented us with significant challenges – but it also gave us the opportunity to make important, lasting improvements in our operations." This positive attitude – understanding that in times of great upheaval there are opportunities to accomplish great things – was a key factor in allowing REFER to negotiate through the next several stages of its development.

Begin At The Beginning

At this point, REFER turned to Accenture for assistance through this transition. The immediate need was to assess the company's organizational structure, internal and external processes, and information system infrastructure, all in the context of its financial situation and short- to long-term goals. Several factors, or issues, became immediately clear:

- REFER was dependent on outdated technology for its information systems. Much of the hardware and infrastructure was rapidly growing obsolete, and the software was aging in a similar fashion. Much of the data processing was done using inflexible batch systems that had changed little since the 1970s.
- These outdated systems led to inefficient processes. For example, purchasing costs (both the cost of procuring supplies and the cost of the supplies themselves) were quite high due to redundant efforts and lack of vendor contracts.
- There was very little useful data, beyond standard financial information, available for senior leadership and managers to use in decision-making. It was quite difficult to determine appropriate costs to be charged to service operators or to maintain tight controls on project costs (both real and estimated).
- In response to the information system problems (and prior to the split into two companies), the former CP decided to implement SAP R/3. REFER needed to determine whether to remain on the old system, undertake the implementation of SAP R/3, or identify another enterprise resource planning (ERP) system during the already difficult transition to its new, independent status.
- In order to successfully develop as a company, REFER would need to make a change in its corporate mindset — from a traditional, somewhat bureaucratic organization, to a leaner, more flexible, proactive player in the European railway market. This change in behavior would be critical, as the recommendations of the European Community could open the door to future competition by private entities. REFER needed to be prepared for this new, more aggressive environment.

Making It Happen

According to Jaime Falcão, Accenture Partner, "The opportunity at REFER was very exciting. There was so much that could be accomplished, and in such a rapid time frame, that the entire team was motivated to a high level of focus. We knew that close cooperation and clear communication with the client would be key to this project's success."

Following its review of REFER's current situation and future goals, the team realized that in order to make rapid progress, it was important to determine and prioritize key milestones. Based on these milestones, they could then identify groups of deliverables that would take REFER through a logical progression of focused projects — to its desired state.

"The opportunity at REFER was very exciting. There was so much that could be accomplished, and in such a rapid time frame, that the entire team was motivated to a high level of focus.

— Jaime Falcão, Accenture Partner

Two high-level tasks were immediately identified, both of which were critical to the realization of REFER's business goals:

- Improved systems infrastructure, information management and workflow processes (established in three phases)
- Development of an appropriate, effective organizational structure (including job/position categorization, compensation and employee appraisals)

As for the first task, there was a clear need for an updated enterprise resource planning system, and upgraded hardware to support it, in order to manage REFER's ongoing operations. Although it was tempting to try and patch up its existing system, it was evident that new technology was required in order for REFER to meet its long-term objectives. REFER's leadership decided to implement SAP R/3, as had been the original goal of its former parent company. This implementation formed the first phase of Accenture's work with REFER.

The implementation began in September 1997 under an accelerated timetable. By January 1998, the major modules of the SAP R/3 Financials system — Financial Accounting, Controlling, Materials Management, Asset Management and Treasury — had been implemented and the conversions were complete.

During this phase, REFER and Accenture decided to utilize the standard workflows provided by the SAP R/3 system for most of the ongoing financial processes. Given the rapid organizational changes, obsolete former processes, and continually evolving organizational structures, it made sense to take advantage of the "vanilla" workflows provided by the software. Accenture helped provide the training for all of the staff affected by the new system.

The Accenture team worked with their counterparts at REFER to refine the system and to help them gain greater comfort with its capabilities and requirements.

Following the implementation of these modules, the Accenture team worked with their counterparts at REFER to refine the system and to help them gain greater comfort with its capabilities and requirements. Given the condensed implementation time frame, it was expected that there would be some required post-implementation "tweaking."

Based on the success of this initial phase, REFER decided to move rapidly forward with the second phase of the information systems project: the implementation of the Project System and Investment Management modules.

At the time of the separation of REFER from CP, its parent organization was involved in a number of infrastructure improvement and building projects. In addition, as part of the restructuring, REFER had inherited several other projects from the government agencies it had absorbed. And, importantly, prior to the implementation of SAP, there had been no previous information system used to develop and manage these huge infrastructure projects.

This phase of the project began in July 1998 and was completed by the end of December 1998. A huge undertaking, it required both Accenture and REFER resources to install, test and ultimately implement the technology solution. This effort would result in the realization of two key benefits: Project managers and key leaders could more effectively manage their resources and investments in real time, and the new data collected would assist them in developing baseline measures and controls as they planned future projects.

Concurrent with this second phase of the systems implementation, a third, related effort was underway. Three members of the Accenture team were each assigned to one of three groups of subject matter experts from REFER. These three sets of collaborators were then given the task of analyzing and redesigning key processes in each of three areas:

- Budget control and allocation
- Materials management and procurement
- Infrastructure development and project management

The Accenture team worked closely with REFER's Human Resources group to provide training on the new system for more than 3,000 employees and managers.

Using Accenture's "Process Excellence Principles," they went to work, and by July 1999 the bulk of the processes had been redefined and implemented.

Simultaneous with the primary task of implementing SAP R/3 and developing more efficient processes, Human Resources needed to create an improved position structure, compensation strategy and employee appraisal model. These three closely-linked items would allow REFER to adapt its organization to better meet its new business requirements.

Accenture's team conducted a thorough review of the existing job descriptions, grades and salaries. Using this information, and the anticipated needs of the new company, they developed and implemented a new compensation system, new positions and – most importantly – a new employee evaluation methodology that would bring consistency and clarity to the process. The Accenture team also worked closely with REFER's Human Resources group to provide training on the new system for more than 3,000 employees and managers.

During each of these phases, communication throughout all levels of the organization was extremely important.

Given the rapid organizational changes that were taking place, the implementation of new technology and system tools, and the use of new, improved processes, there was not a single REFER employee whose job remained unaffected.

In order to help build awareness of the activities that were taking place, and to encourage cooperation between REFER staff, management and the Accenture team, a project newsletter was developed and distributed throughout the organization. It was also made available on the company intranet and featured interviews with key team members, project scheduling information, and reported on the achievement of important milestones and other successes.

Positive Results

Despite the challenges facing the newly-created company – or perhaps because of them – the implementation of SAP and the redefined processes have been quite successful. According to Dr. Manuel Frasilho, “REFER was attempting to reach some very aggressive goals, very quickly. We feel that we have not only achieved these goals, but we have now placed ourselves in a position to maximize our resources and lay a path for future accomplishments.”

According to Accenture’s Jaime Falcão, “In many ways, the requirements at REFER resembled those of a start-up company – only on a much larger scale. Fortunately, there was a lot of history, talent and energy already in place. Our goal was to help them use these resources to rapidly develop an efficient, competitive organization.”

REFER is especially pleased with the new processes that have been developed. In conjunction with the information that is now available online through SAP and the company intranet, managers are seeing increased operating efficiencies and using these savings in more constructive areas. In many cases, these improved processes are a blend of former and current best practices, which have helped ease the transition to the new systems.

Some major benefits that have resulted from the implementation of SAP R/3, the redesigned processes and the new compensation structure, include:

- A number of processes that were paper-based – such as capital budgeting, project planning and contract management – are now systems-based, using a unique, company-wide, dynamic tool.
- Automatic budget availability controls are now in place. For example, a warning will occur if a budget reaches the 90%-committed level.
- A manageable number of investment categories have been created.
- For complex investment projects, accurate and consistent breakdowns are now available, and are directly connected to the assets being created.
- Real-time, operational data is now available regarding ongoing projects.
- Automated interfaces have been developed between SAP R/3 and subcontractor systems in order to track information such as work plans, resource prices and quantities, etc.
- Project-related invoices now serve as confirmations only; all contractor and vendor charges are immediately registered when quotes are received.
- Office supply purchases have been decentralized, resulting in faster deliveries and returns, consistent pricing, fewer actual requisitions, and reduced warehouse stock.

These gains have been typical of those experienced in all departments impacted by the redefined processes and new system tools.

According to Accenture Project Manager Fernando Fonseca, "What has been especially exciting in this project is the response we

have received from our partners at REFER. We have gotten excellent feedback regarding the new processes, and this has generated enthusiasm for the establishment of additional performance improvement measures."

Moving Forward

REFER has come a great distance in a very short period of time. From a department within a government-controlled bureaucracy to an independent, forward-thinking company, REFER is meeting the challenges of its history and its future.

There is certainly more work to be done. As REFER continues to move toward its mission of providing cost-effective, competitive railway infrastructure management and development, there will be additional growing pains. However, based on its progress so far, it is well-positioned for future success.

For further information, please contact:

Jean M. Østvoll
Accenture, Global Rail practice

+49 6196 57 6283
jean.m.ostvoll@accenture.com

Visit us at www.accenture.com.
Click on Industries.

©2001 Accenture
All rights reserved.