Organizational Innovation:

*Innovative Solution Generation*

***for the***

Eddystone Rail Company

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**Introduction**

The industrial nature of the Eddystone Rail Company suggests an industry that is often spared of innovative processes and management solutions. The very notion of a rail yard conjures up archaic images of unshaven men in one-piece, coal-covered jumpsuits grumpily awaiting their 15 minute lunch break. Stanley steam engines have indeed faded into distant history, but the management and innovative processes found in other industries (i.e. Google) have yet to be found in industrial yards.

There are several ways in which Eddystone Rail Company could improve its process chain/management structure and increase its potential to provide value to all stakeholders (internal and external) of the company:

* Improve Efficiency
* Ensure Consistency of Delivery
* Restructure Employee Value Chain
  + Compensation
  + Benefits
  + Motivation
* Union Contracts

**Process Innovations**

Eddystone/ Enbridge contracts out the transportation of the crude to CSX, which is a Class 1 railroad. In order for CSX to get from Bakken, North Dakota the train has to pass through the Belt Rail Company of Chicago, also known as the Chicago Interchange. According to Steven G. Turnbull plant manager of Eddystone rail company, CSX is not handling this transfer very well and in turn is not meeting the delivery schedule set by Eddystone. Because the plant transfers the oil from the rail cars to the barges rather than store the oil a late arrival of a train can lead to loss revenues and even hurt the relationships made between buyer and consumer.

Delivery Consistency: In order to try and maintain a consistent stream of

deliveries from the current provider we decided that Eddystone should create

a incentive program. This program would not only reward CSX but the Belt Rail Company as well. A penalty would be applied to late deliveries. If CSX were to arrive on time the contract for the program would reward them with a bonus. Also if the Belt Rail Company were to have an entire quarter of exceptional transfers they would receive a bonus for a job well done. If a deadline were not to be met then a flate rate would be applied for services rendered. The real reason for this program is to build the relationship between transporter and business in a way that rewards them for providing business habits that benefit Eddystone but also penalize them.

Another opportunity visible in the business model for Eddystone Rail Company is the process of offloading the crude oil to the storage tank where the crude oil is then transferred to a barge later in the day (or even week). Currently, when a train arrives at the yard, a transfer skid is aligned parallel to the train car and pumps the crude oil out of the tank and into the storage tank. This skid is operated by yard workers and requires technical training. From here they repeat this process 100+ times over.

Offloading Efficiency: We recommend that Eddystone innovate an automated

system that will increase the offloading capacity of the plant. Creating a skid that

operates on a rail system parallel to the rail cars in conjunction with a laser guided attachment valve would decrease the time it takes to manually hook up the valves. Instead of having two skids to handle 100+ train cars we suggest adding multiple skids on the rail system. Handling more cars at one time while still maintaining labor costs. (skids do not require human interaction) By decreasing the offload time increases plant capacity. By this we mean that the sooner the train is unloaded the sooner it is on its way back to Bakken to then return again.

**Management Innovations**

Eddystone Rail Company currently employs a traditional hierarchical management structure. Though this is common for the industry, it is not effective in harvesting positive workplace energy, or generating motivation. Union contracts also pose a problem for the Eddystone Rail Company. Because employees feel protected by the Union, they are lessing willing to work hard, show up on time, or “go the extra mile.”

We have found several ways in which Eddystone Rail Company can manage these problems with innovative solutions:

**Restructure:**

* Eddystone Rail should create a flat management structure (business operations will retain the current executive positions). There will be a single yard manager who will be an “invisible hand” to the workers. He will be minimally involved in the scheduling and day-to-day operations of the workers, but will resolve dispute, or other issues as they occur.
  + Positions previously held by Shift Managers, Safety Officers, Break Supervisors, etc.. will be held in one-month rotations granted by job performance. If an employee shows exceptional productivity and enthusiasm during a month, he is given the opportunity to be a manager for the following month -- a temporary pay increase is given for said month, and more flexible hours are awarded.

**Employee Scheduling and Compensation:**

Employees are currently scheduled 5-6 days a week and given shift hours at random selection. This system leads to inequality in hours/shifts worked, inflexibility, and to a high potential of being overworked.

* Eddystone Rail should create a system in which employees are given the ability to pick their own hours on a first come-first serve basis. They will have a given number of hours they are required to work per week, but the hours they choose are of their own free-will.
* Eddystone should also reevaluate their compensation packages. Our source has informed us that they pay a relatively low wage (the lowest allowed by the Union contract) and that when recession hit in 2007, the average wage paid to employees was decreased to compensate for economic downturn. Eddystone should invest in the future of their company by increasing their worker’s wages. This will increase the value they deliver to their employees, increase productivity, and ultimately increase value delivered to consumers.

**Union Contracts**

Eddystone Rail Company employees are all protected by a Union. They felt the need to unionize because their job pays poorly, provides bad benefits, and often demands too many shifts per week. If management made employee satiety and happiness a primary goal, Unions would not be organized.

That being said, Eddystone should negate the need for Union contracts by:

* Implementing the above employee scheduling/compensation reform
* Limiting the number of hours one can work in a given week
* Ensuring employees get a lengthy lunch break and two shorter breaks per day
* Providing employees with a comfortable break room/lounge where they can rest between jobs, or nap during their break

**Business Model Innovations**

Eddystone Rail Company transports light sweet crude oil from the Bakken region of North Dakota, to the Pennsylvania Rail Yard. Business Model Innovation for Eddystone Rail Company would be that with high standards and safety, the company needs to increase current facility from 80,000 barrels per day to 160,000 barrels per day. This would allow Eddystone to bring in and sell more oil which is imperative because in most cases the oil can be sold before it even reaches the yard.

Current revenue system for Eddystone Rail Company is the selling of the oil to local refineries likes, Delta, Sinclair Oil Company or Monroe Energy. Because the company is so new it is tough to see where the demand lies contracts could be made for a selected lot of the incoming barrels to those refineries who pay the most. We would want to leave a lot available to sell with demand but by doing the contract Eddystone knows that oil is sold and have the option to sell the “emergency stash” used for refineries looking to get extra quotas.

Since they have a high cost structure for their operating and maintenance costs, they can reduce some costs by hiring full time maintenance workers rather than unionized contractors. By hiring the on site employees they would have estimation cost for labor, with that it would give the company a standard labor projection.

Eddystone Rail Company has had many offers thus far to sell their rail yard to other companies in the industry. Instead of selling Eddystone should create new key partners to help expand their value proposition. This benefit Eddystones revenue model along with influxing the yard with work creating greater opportunities for their employees.

For the future, Eddystone Rail Company can open their own oil refinery, since they are the sole provider of sweet crude oil to Philadelphia region. and rest would have to be dependent on the foreign imports, they can highly benefit themselves by producing cheapest fuel.

**Final Selected and Proposed Innovation**

Our final selected innovation for Eddystone Rail Company is the reformation of current management structure and employee compensation/benefit packages. Although there are some inefficiencies within the loading/offloading process, there isn’t enough room for innovation that would significantly impact the prosperity or profitability of the company without adding to the cost structure. The innovations we chose are designed to keep costs low due to the already inflated budget of 24 million dollars to 119 million dollars.

Studies has repeatedly shown that companies who spend more money and energy increasing the value of their employees lives gain better positioning in the eyes of consumers and, ultimately, are more profitable in the long-run.

The current model in place at Eddystone Rail Company is designed to minimize overhead costs, while still employing a large work force. While this system does work, the conflict arises when evaluating the long-term stakeholder interest, versus the short-term stakeholder interest. Assuming the interest of the company is long-term profitability, it is better to view your employees as investments, and not expenses.

Our group believes that the value added by increasing expenses associated with employee satiety is well within an appropriate cost:benefit ratio. Improving employee working conditions, wages, and benefits will significantly decrease the turnover rate which translates to less money spent on hiring/recruiting, liability policies, and workers compensation insurance.

This proposition aligns with Eddystone Rail Company’s mission of providing their consumers with the best crude oil. Their consumers will have greater faith in the product if they see the care that Eddystone places in providing value to their own employees.