Building a Leaner Organization

A compelling case study of a company that used sharp focus on organization design principles to reduce its white-collar staff cost by 15% but retained, if not improved the organizations response time

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Background

The client is an established manufacturer and supplier of high precision components and assemblies. They operate in the automotive & industrial and aerospace sectors with multiple manufacturing units. The company reported approximately Rs. 400 Cr. revenue and Rs. 20 Cr.+ PAT in FY18 and employs 2500+ personnel (including both white and blue collar). The company caters to Tier 1 OEMs domestically and has a high export value, which is approximately 35% of total revenue.
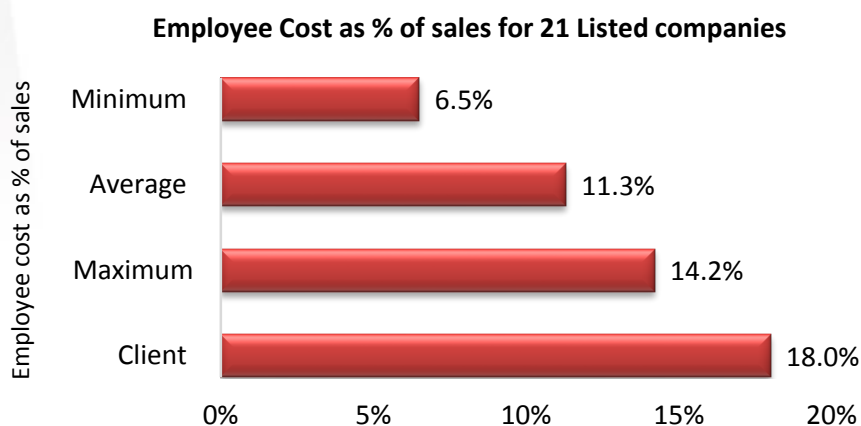
A downturn in the automotive industry in FY 19-20 had a significant impact on most of the organizations in this sector and affected their operations. This led to high pressure on EBITDA margins and decrease in profit numbers.

Problem Statement

Client wanted to have a strong control on material cost as well as manpower cost for achieving operational efficiency. Together, a problem statement was formulated stating – "**How to side step the strong location constraints (which cannot be solved in the medium term) but still identify the opportunities for crunching the white-collar organization structure?**".
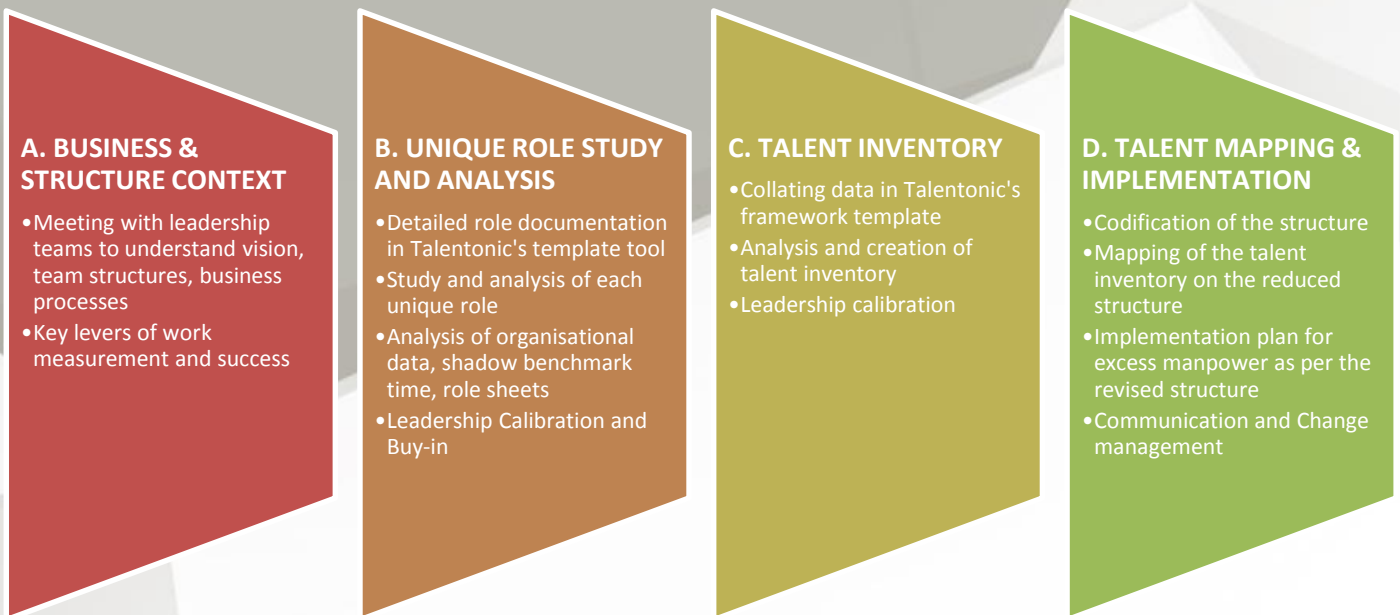
Further discussions with client, helped us break the problem statement into 4 broad problem areas:

1. **High manpower cost**. Client's manpower cost was approximately ~18% of revenue. This was on the higher side when compared to industry benchmark of less than 12% of revenue (refer *Figure 1*).
2. **Fragmented location strategy**. Having a high number of manufacturing units for a turnover of less than INR 300Cr created inefficiencies in the structure. Highly fragmented operations, and in many places the structure has wrapped itself around locations rather than best practice, synergy or functional integrity.
3. **Lack of governance around organization structure**. As the company grew, organization structure evolved but no formal documentation, justification or rationale was captured. In fact, no one "owned" the structure and took responsibility for its cost or effectiveness. This led to poor traceability of talent, and random application of the principles of organization design. (span, levels, interface management)
4. **No measurement of manpower efficiencies**. Lack of formal performance management system led to inefficiencies in manpower, as the job/role activities were not reviewed regularly. No one was tracking workload or non-value added.

Employee Cost as % of sales for 21 Listed companies

Figure 1: Benchmark Employee Cost data

Our Approach

A. BUSINESS & STRUCTURE CONTEXT
- Meeting with leadership teams to understand vision, team structures, business processes
- Key levers of work measurement and success

B. UNIQUE ROLE STUDY AND ANALYSIS
- Detailed role documentation in Talentonic's template tool
- Study and analysis of each unique role
- Analysis of organisational data, shadow benchmark time, role sheets
- Leadership Calibration and Buy-in

C. TALENT INVENTORY
- Collating data in Talentonic's framework template
- Analysis and creation of talent inventory
- Leadership calibration

D. TALENT MAPPING & IMPLEMENTATION
- Codification of the structure
- Mapping of the talent inventory on the reduced structure
- Implementation plan for excess manpower as per the revised structure
- Communication and Change management

Two teams from Talentonic worked together for 5 months, analyzing organizational data, visiting the plant locations, meeting with various levels of leadership and different role holders. Ultimately, the following **levers of manpower efficiency** were identified:

1. **Span of control and rationalizing levels of supervision.** Low span of control and very limited differentiation was a design principle which helped us reduce one layer of supervision in Operations.

2. **Transfer of learning between different locations**. In operations, supply chain, Production Planning and Control (PPC), quality and even in processes like outsourcing, we were able to find better practices within the firm and align other locations around the same logic. These we found were personalized innovations in structure without any governance.

3. **Thorough workload analysis (both time and volume)**. After analyzing the role activities our teams discovered multiple activities where either transactional volume or time to process was assumed higher than actually observed. It was proposed to eliminate these overestimations and load balance the organization on more realistic terms (a snippet of our analysis is shown in *Figure 2*). We were able to achieve this using transaction data and reduce the number of people required for an operation.

4. **Core and non-core activities.** Some roles were spending as much as 60% of their daily time in doing non-core activities like internal co-ordination and meetings. Such activities were identified and rationalized to create buffer in a role so that the role can take on extra responsibilities.

5. **Removing overlaps.** Same/ similar activities being performed by multiple roles (refer *Figure 3*). Huge amount of time being spent on preparing MIS by multiple roles in Finance in an SAP environment. Receivable follow up with Client being done by multiple roles in Finance, Operations and Key Area Manager (KAM). Material coordination activity being performed by multiple roles in the absence of a strong PPC organization.
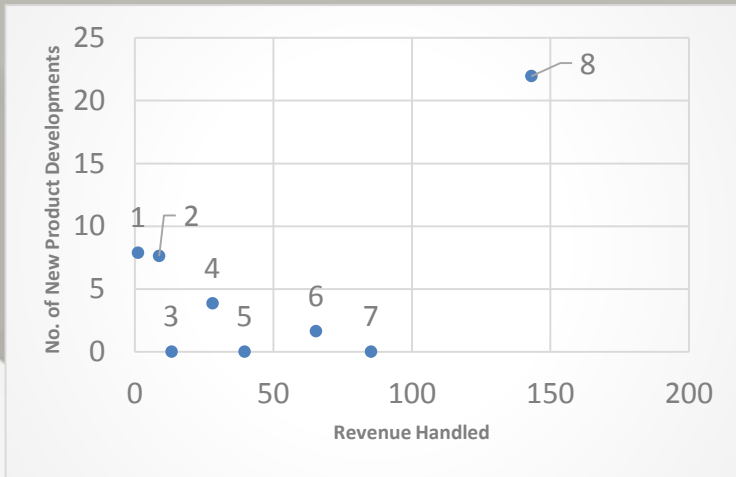
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Figure 2: Snippet of our work load/ activity analysis

Process	Activities	Activity carried out by		
		Cell Head	Coord.	Cell Head Plant 2
Man Management / Utilization	CFT meeting with operators regards line rejection and rework and customer complaint if any communication.	Y	Y	
	Arrange man power as per critical parts and as per OTD plan	Y	Y	
	Plan the shift list and re arrange the list.	Y	Y	
	Discussion about operators about leave and absenteeism M/C UTILISATION	Y	Y	
Machine Utilization / Output Monitoring	Plan the machine loading	Y	Y	
	Setting plan as per m/c loading and customer urgency and criticality	Y	Y	
	Output analysis (hourly, ShiftWise, OEE etc.)	Y	Y	Y
	Engagement and productivity of operators			
	Follow up the m/c maintenance issues and problem solving	Y	Y	
Input to FI as per Planning	Cross check the parts at Fi for visual inspection and check the offering book Rework planning	Y	Y	
	Dispatch Plan against the Requirement	Y	Y	
	Discussion with Line Supervisor and FI supervisor As per daily dispatch issues and If any material shortage & criticality.	Y	Y	
	Customer complaint review	Y	Y	

Figure 3: Snippet of our work Overlap analysis

Business Benefits

1. There was a 18% fixed cost saving for the client on a staff manpower cost base of approximately INR 20 Cr.
2. An organization structure that is lighter by 20% (around 60 positions removed).
3. A talent inventory to ease the process of filling the new proposed structure and to fund the future talent requirements of the firm.
4. Structure codification and change management controls so that the structure does not drift into deterioration once again.
5. Alignment in the internal leadership team in moving certain location-based structures (like New Product Development, Purchase department) to expertise driven corporate functions.
6. Roadmap for consolidation of plant operations to drive further savings in both white collar and blue-collar staff.

Our Learnings

1. Organization structures can grow in size and cost without a custodian. Adding roles at different locations without proper analysis and justification of role content can create parallel structures and create inefficiencies.
2. Lack of a proper formal organization structure or HR processes around manpower planning, and reporting can create ambiguity on role and accountability.
3. Instead of reducing headcount, remove positions from the structure. That is a sustainable and more stable solution for the long run.
4. People assessment / talent inventory along with a new structure facilitate a faster realization of the business benefits. You take better manning decisions.
5. It is important to create an internal buy-in with the leadership team. In doing so, prioritize recommendations to gain acceptance and swift implementation.

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