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Taking Back Productivity

How to Build Leaner and More Efficient Organizations

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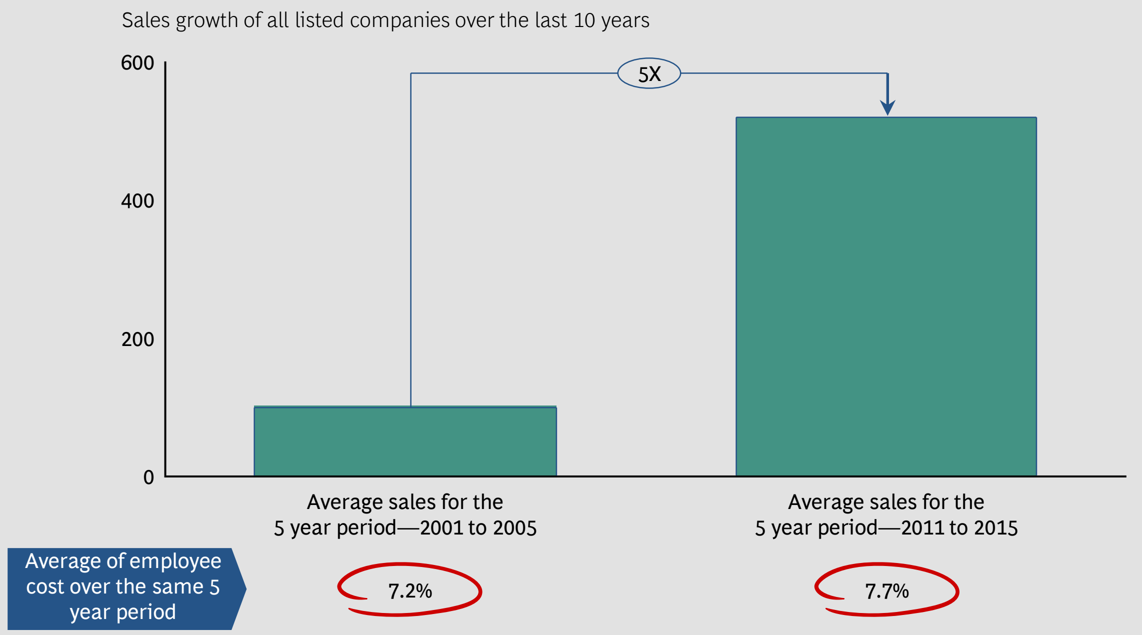
Listed Indian Companies Have Seen No Increases in Manpower Productivity in the Last 10 Years

The past decade has been good for Indian companies, so far as top line expansion is concerned. A study of all listed companies which have reported data over the last 10 years shows revenue has grown by 5x over the last 10 years, as reflected in Exhibit 1. Large Indian enterprises have achieved this phenomenal feat by setting out bold aspirations, building global business models, and focusing diligently on tight execution. However, these companies have hardly seen operating leverage benefits during the boom period. To put it simply, they got fat during the good times. Manpower costs, as a percentage of sales, increased over this period, despite increased adoption of technology and automation.

So, What Could be the Core Drivers of this Lack of Productivity growth?

Our research finds three reasons for this lack of improvement in productivity:

Exhibit 1 | Sales versus Manpower Cost in the Past Decade



Source: Capitaline.

1. **Declining tooth-to-tail ratios:** A large sample of companies we have worked with have seen a 2x increase, on average, in the number of mid-level managerial positions, as compared to the number of front-line positions. For example, a manufacturing organization, with a typical 6-8 percent pace of annual growth in operator headcount, would have registered a 12-16 percent rate of growth in its managerial headcount.

2. **Increasing business complexity leading to complicated structures:** As business complexity and diversification has grown significantly, new, diverse organizational structures have come up. A focus on quality implies setting up of a dedicated quality assurance department; digital initiatives are led by digital teams, and so on. Structures have continued to get more complex and overlaid, with different stakeholders having different priorities—even as ground-level execution teams remain the same.

3. **Duplication in work content:** As interfaces between functions develop, we have seen increases in headcount to make the handover between functions work. Engineering, for instance, involves multiple departments, including one for preparation of manufacturing design and another for determining the feasibility of incoming designs. Middle offices have proliferated, increasing the number of handovers in organizations.

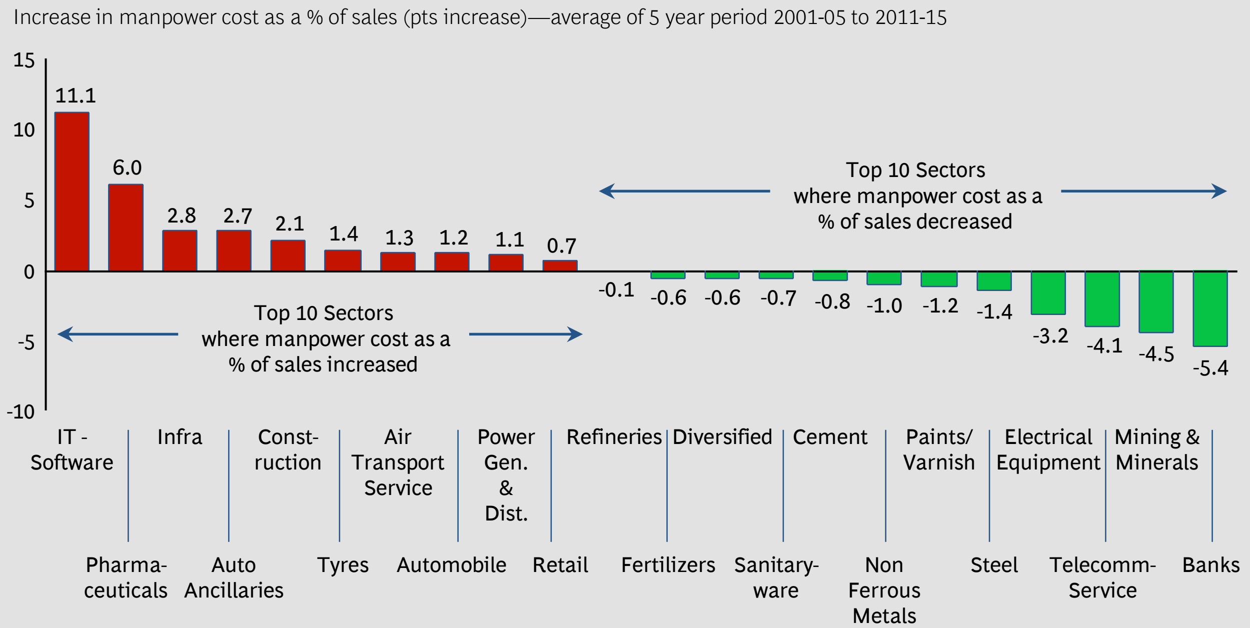
While this lack of operating leverage is a common theme across many industries, as shown in Exhibit 2, the problem is particularly acute in IT, pharmaceuticals, infrastructure, automotive and retail. Between 2006 and 2016, the IT and pharma sectors have seen their manpower costs, as a proportion of sales, rise by 11.1 percent and 6 percent, respectively. And, this spike in overheads has not delivered any disproportionate benefits. Almost all companies feel they have become more bureaucratic, decision making has slowed down, and the task of managing the workforce has only become more complicated.

On the other hand, the industries that have seen the greatest leverage over this period include banking, mining and minerals, and telecommunications. The bulk of productivity improvement in banking has come from public sector banks. This is largely because of the significant number of worker retirements that happened during this period, and to some extent, due to the adoption of IT for enhanced operating efficiency. For other sectors like telecom and natural resources, operating leverage has been driven primarily by a shift from permanent to contracted workforce, as well as by increased outsourcing and automation.

So, Where Do We Go from Here? We Can't Start Firing People, It's Bad for Morale

Before we explore ways of enhancing employee productivity, let us tackle the elephant in the room–nobody wants to embark on a journey of firing people. This reality makes the subject of boosting operating leverage rather tricky for companies to tackle. Even the most brave-hearted Chief Executive Officer (CEO) and Chief Human Resource Officer (CHRO) will think twice before putting shoulder to the task.

EXHIBIT 2 | Manpower Cost as a Percentage of Sales Across Industries



Source: Capitaline.

But we would argue it is important to take a strategic view on the subject. Economic growth is not going away anytime soon, with gross domestic product (GDP) expected to expand by 6-8 percent for the immediate future. In addition, attrition rates still remain, on average, between 10 percent and 15 percent, for most companies. So, for companies likely to grow at 14-16 percent, or 2x the pace of GDP, and facing 10-15 percent attrition levels, a 20-30 percent gain in efficiency is achievable without undertaking a single job cut.

Let us take the example of an organization, with almost 1,000 people, growing sales annually by 15 percent, and envisaging addition of 75 new positions over the next year, based on existing productivity levels. In addition, with attrition at, say, 10 percent, 100 people would leave the company. Effectively, the CHRO would need to hire about 175 people next year.

Therefore, an efficiency exercise that aims for headcount rationalization to the tune of 17.5 percent would result in no separation. This is because the 175 people identified as redundant could be redeployed against attrition–with training–or, in newly identified positions.

Taking a two to four year view on strategic workforce planning can help companies deploy many levers for improving operating leverage, without them resorting to layoffs.

Now Let's Get to the How. Taking Back Productivity

We need to tackle the productivity challenge at three levels, as shown in Exhibit 3, starting from the top.

Level 1—Clean-sheet organization design: Over time, companies have built their organizational structures around people, and as business complexity has increased, these structures have evolved to accommodate more people with diverse responsibilities. These structures are often time 'islands', and do not connect with each other. It is vitally important to design structures from a clean sheet, and then design keeping the strategy in mind and to allow for seamless integration of the priorities of the organization.

Level 2—Middle-management layers, accountabilities & roles: Indian companies have used promotions as retention and compensation mechanisms, with designation changes not accompanied by material increases in responsibility. At the same time, these so-called managers, when promoted, typically have to supervise one junior only, and narrow reporting bands start getting formed across the organization. This not only increases costs, but slows down decision making, resulting in more micro management and lower workforce morale.

Level 3—Getting productivity and minimizing duplication at the bottom layer: Review work content and deployment to optimize resource allocation for a given task. More importantly, review processes, and eliminate shadow departments. Remove duplicative resources, and promote better collaboration between departments by increasing the interdependencies. After all, members of a household with more than one television set will have no reason to collaborate with each other on which show to watch!

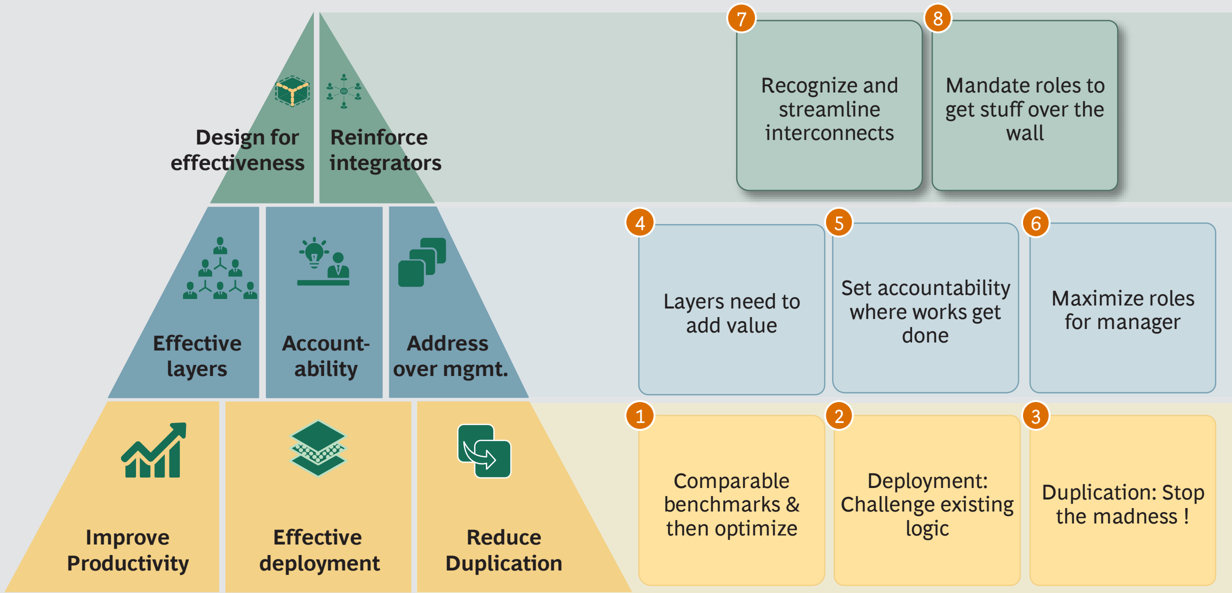
That's not enough, I need some details

A relentless pursuit of organizational simplification requires tight execution around the eight dimensions cited in the productivity framework, as shown in Exhibit 3. We will elaborate on each dimension with an example, sharing the real-world problems we have observed and how to address the same.

At the bottom level, we see three levers:

1. Productivity Improvement: Productivity Benchmarks typically tell the story that someone else is more efficient than you, but they rarely tell you why. The challenge is that most benchmarks are focused on output metrics, such as tablets / FTE and tonnes / FTE. And, everyone knows that rarely has anything to do with work content, but is more impacted by product mix and other factors. In our view, for benchmarking to deliver the desired impact, companies need to take an output metric, and break it down into input processes. For example, the pharma industry widely quotes tablets / FTE as a key metric, which frankly is a useless benchmark since product mix plays a bigger role in determining output of a plant. However, once you segment the tablet manufacturing process into a set of core underlying workflows like granulation and compression, you can then compare each plant's hour-wise manning efficiency for each process. Such an approach allows for an abstraction of work content that is comparable. Consequently, plant operators will be able to learn from each other on how to ensure better hourly manning of an operation, be it through automation, multi-skilling or other levers. Now you know not only why you are inefficient, but what steps you can take to address this issue.

Exhibit 3 | Levers to Improve Productivity



2. Effective Workforce Deployment: Corporate thinking on resource deployment has evolved rapidly over the last decade, as new digital and communication technologies have gained traction. Moreover, staffing models have not been reconfigured. Take the instance of a company that runs the traditional six-week rotation between morning, swing and graveyard shifts. What if they were to run permanent morning and swing shifts, and a reliever graveyard shift where workers are compensated disproportionately? The company could get more diverse from a gender representation standpoint, as its ability to recruit women in the permanent shifts would dramatically improve. Productivity, too, would likely see a significant uptick, with the relearning arising out of rotations getting streamlined with handovers being more permanent. And, the overall workforce morale would improve because people can pick and choose the life they want. Now, wouldn't that be an interesting model to at least experiment with?

3. Duplication Reduction: Role duplication across the Indian business world has now proliferated to a point where it borders on insanity, with shadow organizations taking root everywhere. You have both manufacturing and QA seeking to ensure robust investigations into poor quality, while manufacturing and procurement are following up with the same vendor. It does not just end there. Like we highlighted in the case of design and engineering, work duplication is now commonplace across all functions–even in sales, when it comes to subjects like product launches and regulatory preparations. Not too hard to spot, these functions are normally measured on "coordination" and largely convene meetings.

At the middle-manager level, three levers will make a difference:

4. Effective layers: Any management layer needs to add value, in order to justify its incorporation. Begin with this premise, and initiate a clean-sheet design of what each supervisory layer needs to do. Then take your existing organizational roles, and map the same to this design. You will find redundant layers have crept up, not because they are required, but because they were needed as people got promoted. These excess layers slow down decision making, and obfuscate reality–imagine how many levels of filtration a message goes through before it reaches top management. Eliminating them not only would generate notable cost benefits, but also significantly expedite decision making and business agility.

5. Accountability close to the action: As people get promoted, they move away from the action on the ground, leading to delayed decision making. For example, when someone becomes a manager, they typically would like to come in the general shift, even though their judgement is required during production shifts, characterized by a dynamic operating environment. With general-shift managers not in charge of decision making at the shop floor, delays in issue resolution abound, as operators wait for guidance from the former. The same dynamic plays out in the interactions between sales office and head office, store versus corporate, as well as in shared services and support functions. Companies must ensure decision making is as close to the ground as possible, holding managers accountable for not being there when it matters. In the above example, BCG worked with the concerned company to create an organizational structure where decision making was largely delegated to the shift supervisor, to ensure better, on-the-ground accountability. Such an approach may not yield much in terms of efficiency gains, but it certainly pays rich dividends with regard to faster decision making.

6. Address over management: Ideal spans of control and organizational layers should be defined and implemented, to optimize managerial strength. Companies need to eliminate narrow roles, and specify a precise scope for each managerial role. Various options can be tried out in this regard, including regrouping teams, removing a layer and disbanding existing roles, eliminating hierarchies, and increasing team size. Companies should apply these principles across managerial positions, in order to be able to truly simplify their organizational structure.

At the top, companies need to ensure coordination:

7. Design for effectiveness. Companies must tackle the 'islands' that get built across the enterprise over time, by embracing a clean-sheet design philosophy. While organizational structures keep evolving in line with changing business requirements, firms need to regularly take a step back and review the setup from scratch. The focus here should be to institutionalize a structure that supports the company's strategic intent, as well as its existing growth trajectory. Enhancing agility in decision making will be critical as companies scale up and try to tackle the issue of increasing business-model complexity. When designing these structures, companies will do well to also think through succession planning simultaneously.

8. Reinforce integrators. Over the years, coordination structures like the middle office have proliferated in companies. However, these structures rarely have teeth, getting reduced to entities that basically arrange meetings on an ongoing basis, become an annoyance to operating teams and contribute significantly to cost spikes. Going forward, companies need to put in place new, empowered coordination mechanisms. For example, when the design team transfers technology to manufacturing, it should be held accountable for the end outcome, and not absolved of the responsibility by introducing a middle-office. In fact, if design has resources that allow them to test manufacturability in the design environment, take them away. They will then have to work with manufacturing to get the design transferred, and not resort to finger pointing. Deploying reinforced integrators with teeth will ensure handovers are efficient, bad behavior is called out, and process execution accelerates for better results.

Show me the money

Leading companies are already reaping substantial benefits on the productivity front by pulling these different levers. Some of our clients have adopted these practices to boost manpower effectiveness by 25 percent, lowering costs and empowering employees.

Overall, companies can accrue five tangible benefits by striking the right balance between effectiveness and efficiency, through improvement in employee productivity:

Faster decision making. Streamlined organizational design can improve effectiveness by ensuring faster decision making, in turn reducing the process turnaround time to the tune of 25 percent. Moreover, it will ensure senior managers are closer to the action, leading to faster implementation of decisions.

Enhanced accountability. A clear demarcation of work between different departments and functions can remove double work and shadow organizations. Assigning clear accountabilities will eliminate any ambiguity between different roles, thus helping employees realize their true potential.

Better employee morale. Entrusting employees with broader responsibilities would motivate them to bring greater creativity and enthusiasm to work. As a result, they will have an increased sense of ownership around their work, paving the way for a more engaged organization. A motivated workforce would also mean lesser number of decision makers and more doers, where self-managed employees are less dependent on their managers for daily chores.

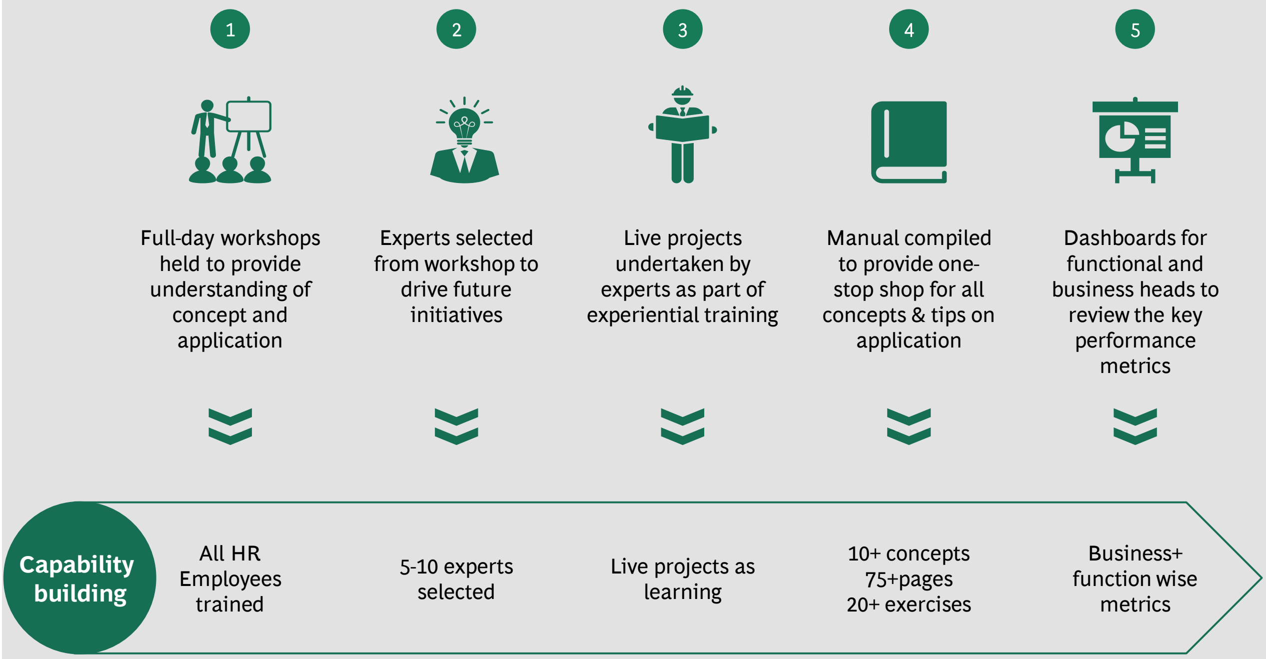
Breakdown of silos. Rolling out integrators will help bridge organizational fault lines, ensuring right flow of information between departments and boosting transparency. The top management will have to take the lead in orchestrating a change in mindset, where destructive silos prevalent across the enterprise make way for an integrated workforce pursuing shared goals.

Cost optimization. Concentrating on personnel and indirect costs can yield cost savings of as much as 15 percent. Major cost buckets of interest in this regard include personnel costs of business and support functions, as well as non-personnel costs centred around G&A.

Before you go, can you enable my team?

Executing this assignment is not a onetime exercise. Tackling manpower costs is an

Exhibit 4 | Building Capabilities In The HR Team



ongoing activity, and therefore, it is vitally important for the HR team to remain in charge of this undertaking. Typically, such an exercise as seen in Exhibit 4, is carried out through classroom-based training, followed by assessments to identify HR leaders with an aptitude for the subject. Detailed training and live projects are then conducted to ensure the relevant expertise is embedded into the organization.

Beyond training the experts, all the knowledge built is captured in manning models, and through workbooks, to ensure that new manning requests go through the same model. In order to avoid any system creep, HR and Business dashboards, tracking key metrics, are regularly reviewed, in line with the goal of simplifying organizational structures. Policies are defined around promotions and addition of new positions, to avoid any complications in roles and responsibilities down the line.

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In summary, the time is now to begin to focus the lens on productivity and to ensure companies continue get the return on investment they have seen in the past on employee costs. We at BCG have seen CEOs and CHROs rise up to this challenge, dramatically changing the way of working in companies leading to effective organizations and productivity improvements. If you would like to have a discussion on this, please don't hesitate to contact the authors below.

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