September 2013

Raising the bar
A benchmarking study of organisational structures in manufacturing companies

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Of strategy and structure

It is often said that the success of an organisation achieving its goals largely depends on whether its internal structure is geared towards its strategy. Processes, technology, people and culture are sine qua non for predicting the success of the company.
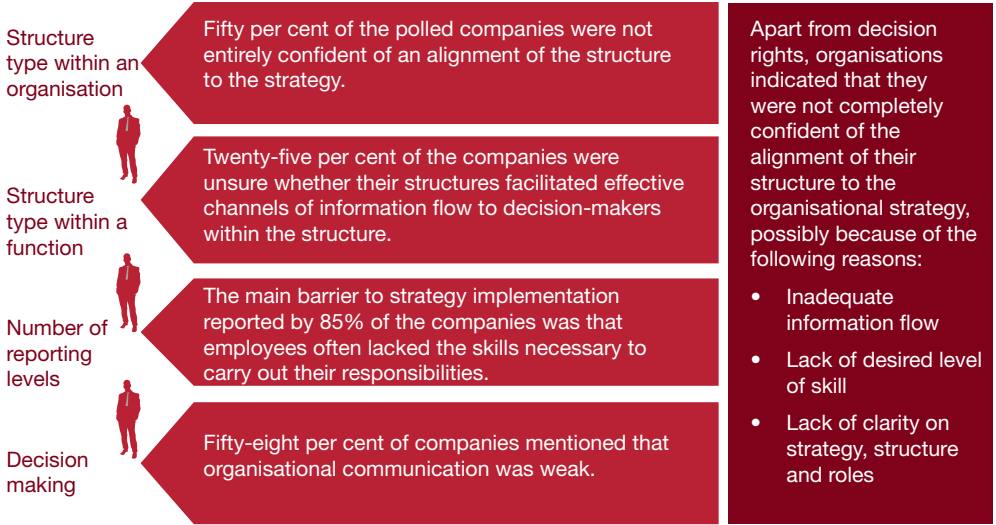
The right people with the appropriate responsibilities affirm the achievements of any organisation. Since the opening-up of the Indian economy, the manufacturing sector has seen iterative shifts in the way it is organised and delivers to the marketplace.

Reorganising an organisation's structure in order to exploit the advantages of geography and establishing an organisation-level strategy has played a key role in aiding the achievement of organisational objectives.

Our report reiterates through its findings the importance of marrying organisational structure with strategy, for sustained growth and effectiveness.
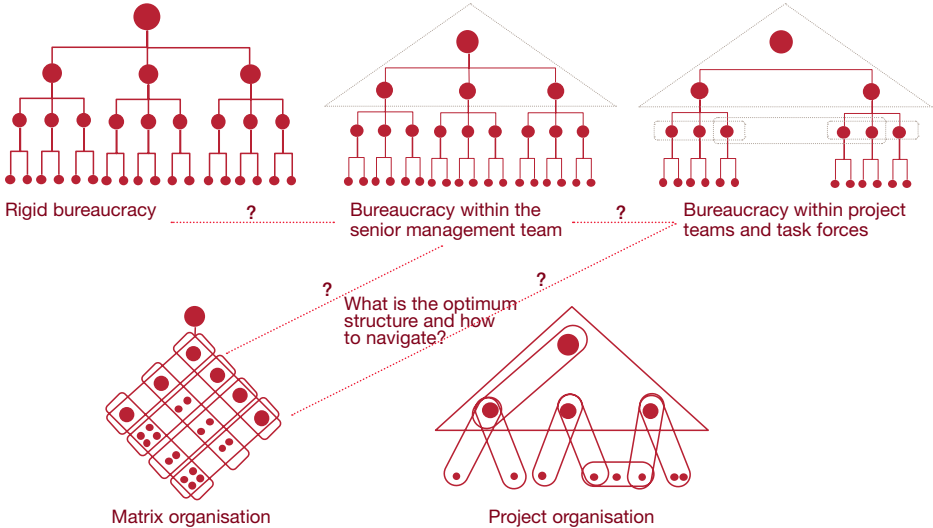
Snapshots

Structure type within an organisation

Eighty per cent of companies reported that they were organised either by function or by product division (with function within each division).

Structure type within a function

Fifty per cent of organisations reported that functions were further organised by sub-functions, while 25% reported that within a function, the work was organised by the product division.

Number of reporting levels

Most companies had four or five reporting levels. In manufacturing companies, the management kept a tight rein over manpower.

Decision making

While a majority of the participants indicated that the structure had the right decision-making spread, 31% reported that the decision rights were not appropriately located within the structure.

- Most of the surveyed companies had a functional structure with four to five reporting levels.

- There was scope for improvement with decision rights within the structure.

- Participants felt that structural effectiveness can be improved by having appropriate and well- defined decision rights across the structure.

Structure type within an organisation	Fifty per cent of the polled companies were not entirely confident of an alignment of the structure to the strategy.	Apart from decision rights, organisations indicated that they were not completely confident of the alignment of their structure to the organisational strategy, possibly because of the following reasons:
Structure type within a function	Twenty-five per cent of the companies were unsure whether their structures facilitated effective channels of information flow to decision-makers within the structure.	
Number of reporting levels	The main barrier to strategy implementation reported by 85% of the companies was that employees often lacked the skills necessary to carry out their responsibilities.	
Decision making	Fifty-eight per cent of companies mentioned that organisational communication was weak.	

- Inadequate information flow
- Lack of desired level of skill
- Lack of clarity on strategy, structure and roles

Organisation structures are fundamental to translating business strategy into action

Effective structures can be defined on the basis of certain parameters

Structures supporting the business model are critical to marketplace success

Organisations need to gradually navigate their way towards adopting structures that best meet their business requirements
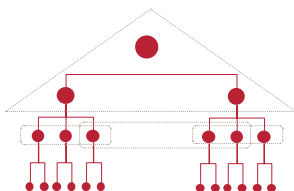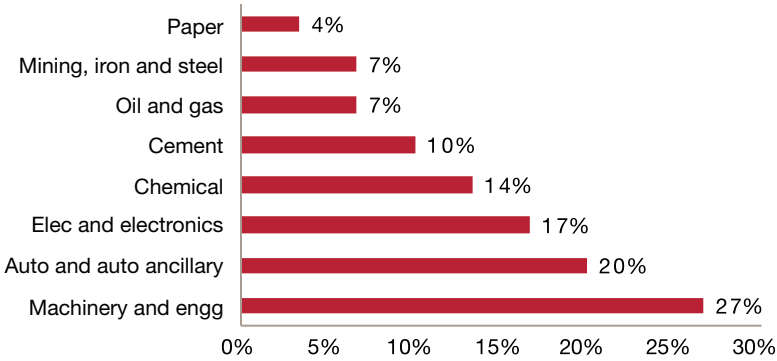

Rigid bureaucracy ? Bureaucracy within the senior management team ? Bureaucracy within project teams and task forces

? What is the optimum structure and how to navigate? ?

Matrix organisation Project organisation

Source: Morgan, G. Imagination

Most companies predominantly reported features across either or both these structures
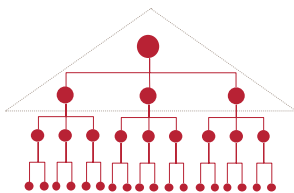
Bureaucracy within the senior management team

Bureaucracy within project teams and task forces

- *While the appropriateness of a structure depends on many factors, in a dynamic business environment, it is imperative that the structure enables innovation and decision-making at a much higher speed than ever before.*

- *This in turn requires that the structure, people and performance be aligned with each other.*

- *The structure of project teams and task forces depicted in the graphical representation, facilitates a more innovative and collaborative working style, but may be less efficient when compared to the structure of a senior management team driving ownership and delivery of processes.*
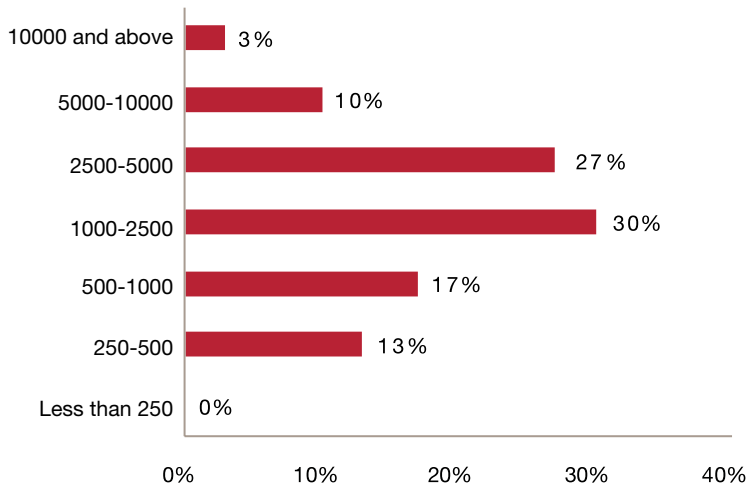
Distribution by sub-industry

Sub-industry	Percentage
Paper	4%
Mining, iron and steel	7%
Oil and gas	7%
Cement	10%
Chemical	14%
Elec and electronics	17%
Auto and auto ancillary	20%
Machinery and engg	27%

Size of companies (revenue crore INR)

Size	Percentage
10000 crore INR and above	10%
5000-10000 crore INR	7%
2500-5000 crore INR	27%
1000-2500 crore INR	23%
500-1000 crore INR	20%
250-500 crore INR	10%
Less than 250	3%
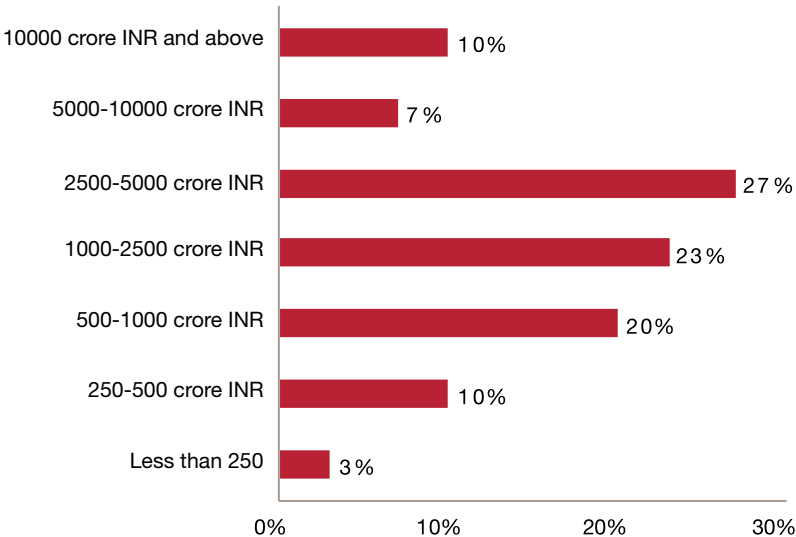
Size of companies (full-time employees)

Company size	Percentage
10000 and above	3%
5000-10000	10%
2500-5000	27%
1000-2500	30%
500-1000	17%
250-500	13%
Less than 250	0%

Position of the organisation

- A single business headquartered in India — 33%
- An SBU of a group of organisation — 30%
- An organisation in a holding company — 37%

About the Indian manufacturing sector

03
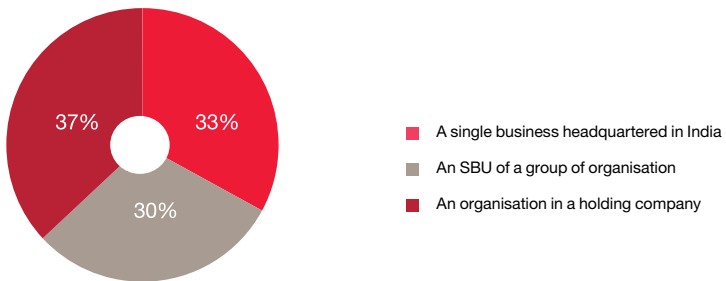
Achieving a balanced and inclusive macroeconomic growth is vital for India in order to emerge as a stable global economic powerhouse. The role of the manufacturing sector in providing the necessary balance and inclusive character to India's macroeconomic growth is undisputed. Manufacturing is increasingly becoming a knowledge and IT intensive sector today. Players within the sector have developed capabilities helping them build highly unique core competencies in order to define their own growth stories. It must also be stated that growth and diversification in the Indian manufacturing sector is not a result of any policy initiative but because of the conditions on the ground that global players are using to their advantage.

Driven by a robust pick in domestic orders and strengthening of international demand, India's manufacturing sector registered moderate growth in February 2013. The HSBC India Manufacturing Purchasing Managers' Index (PMI), a measure of factory production, stood at 54.2 in February 2013, up from 53.2 in the previous month, indicating an improvement in the overall health of the sector.

As the sector evolves, it will be imperative for players to maximise the value associated with their investments made across strategic priorities by building a set of distinctive capabilities for themselves. Skill-building will have to be the core ingredient of any recipe, in order to hone the competitiveness of players. The second ingredient being innovation.

Organisations will need to find ways to define and develop capabilities as they take calculated risks and innovate along their growth trajectories.
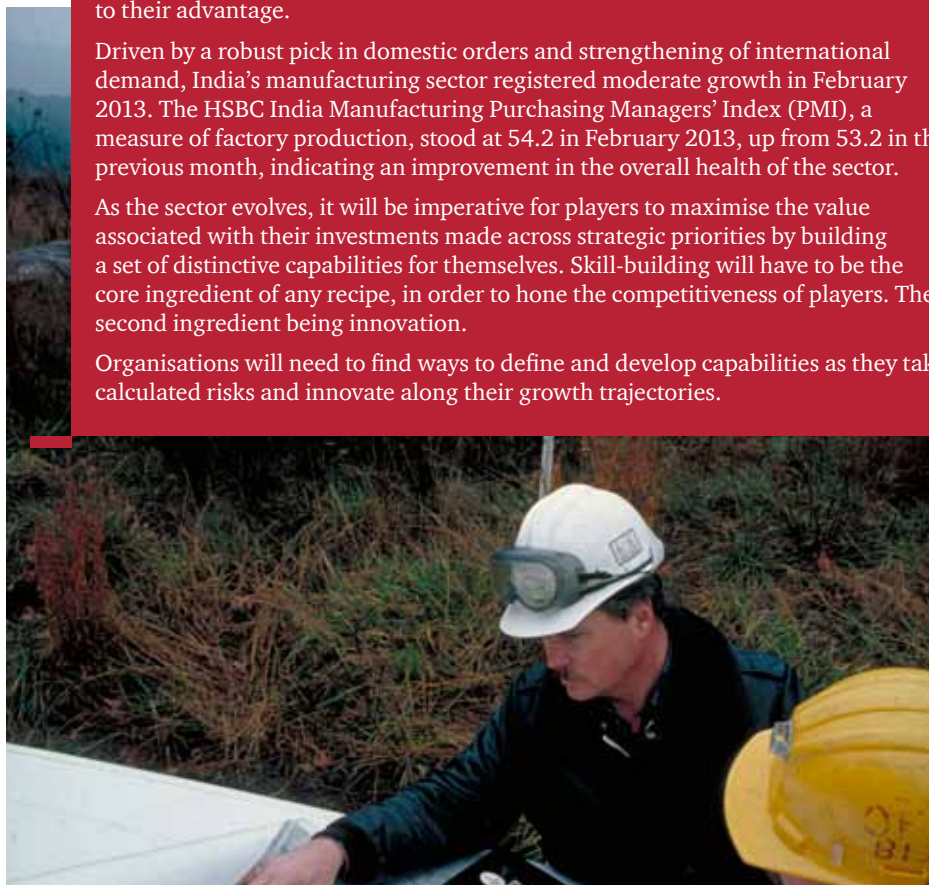
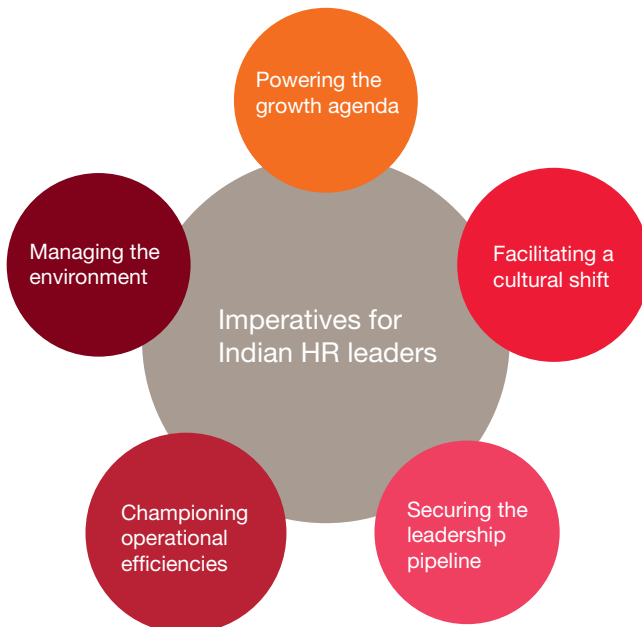## *Partnering to create responsive relationships*

The Indian manufacturing environment is influenced in a big way by various factors.

Sharp fall in the PMI

Fractional increase in production

Accumulation of pre and post production inventories

Fractional increase in labour force

Power cuts and poor vendor performance
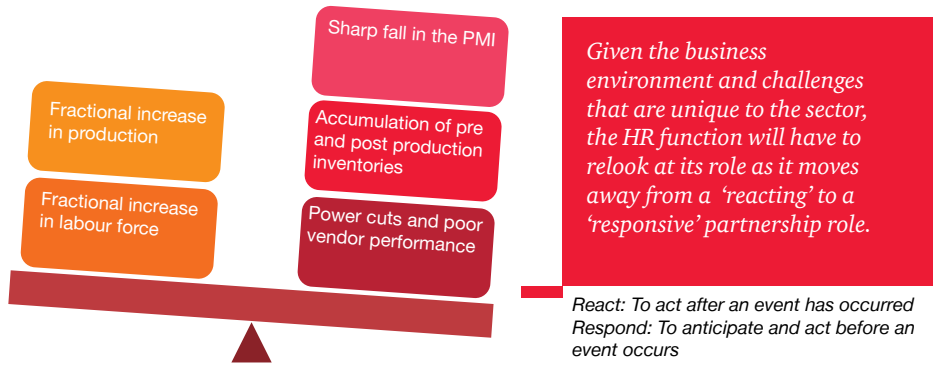
Source: HSBC Purchasing Managers' Index (PMI) for Manufacturing Companies

Given the business environment and challenges that are unique to the sector, the HR function will have to relook at its role as it moves away from a 'reacting' to a 'responsive' partnership role.

React: To act after an event has occurred
Respond: To anticipate and act before an event occurs

Human resource implications

HR enablers for effective organisation structures

Powering the growth agenda

Managing the environment

Facilitating a cultural shift

Imperatives for Indian HR leaders

Championing operational efficiencies

Securing the leadership pipeline

Business focus and structural challenges

04

Businesses can build its focus by aligning strategy with structure

Organic growth with a predominant focus on product development is the key focus for manufacturing companies.

Focus areas for growth

Focus area	Percentage
Organic growth in existing domestic markets	97%
New product and service development	80%
New M&A, joint ventures and strategic alliances	43%
Organic growth in exisiting foreign markets	43%
New operations in foreign markets	27%
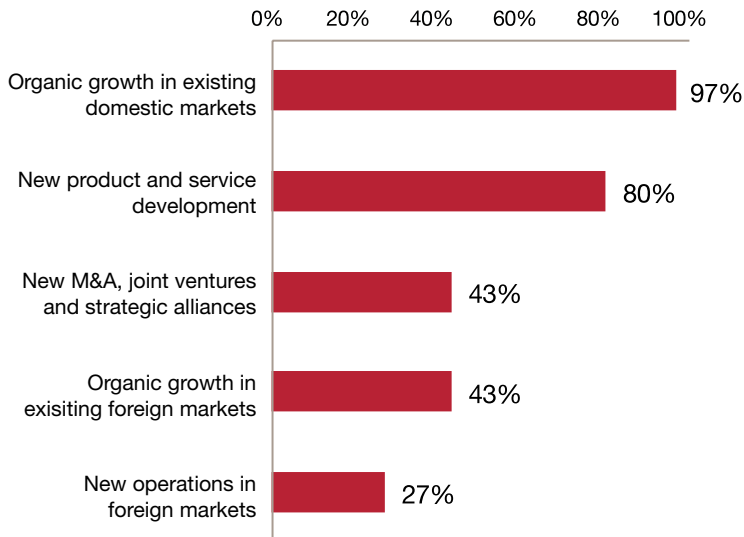
Consistent with the current conditions, companies predominantly want to gain a strong foothold in their home ground before venturing out.

About half the companies polled were not entirely confident of the alignment of the structure to the strategy.

Is your structure aligned to strategy?

Does not support and is not aligned	0%
Very low support and alignment	7 %
Supports and is partially aligned	43%
Supports and is fully aligned	50%

Gaps in the alignment of strategy to structure have been reported to be due to the lack of information flow and lack decision rights at the right positions and right levels.
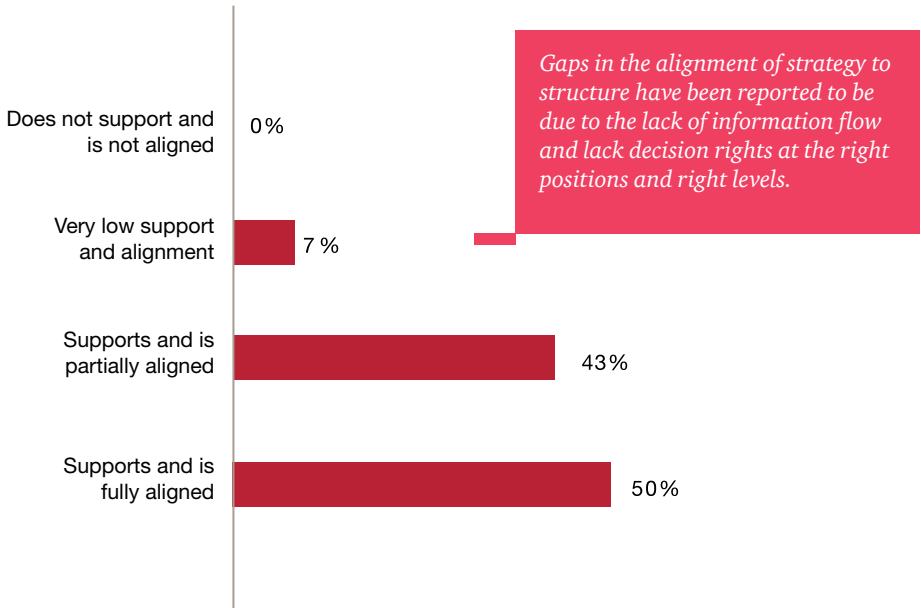
However, they must first address the barriers to strategy implementation

What are the barriers to strategy implementation in your organisation?

Is your structure aligned to strategy?

Employees sometimes lack the skills to clearly carry out the responsibilities	81%
The organisational communication between levels and functions is weak	56%
Projects and teams lose sight of the strategy while purs uing their goals	48%
The organisational budgets and plans are not linked to the strategy	11%
Employees are not convinced of the strategy	4%
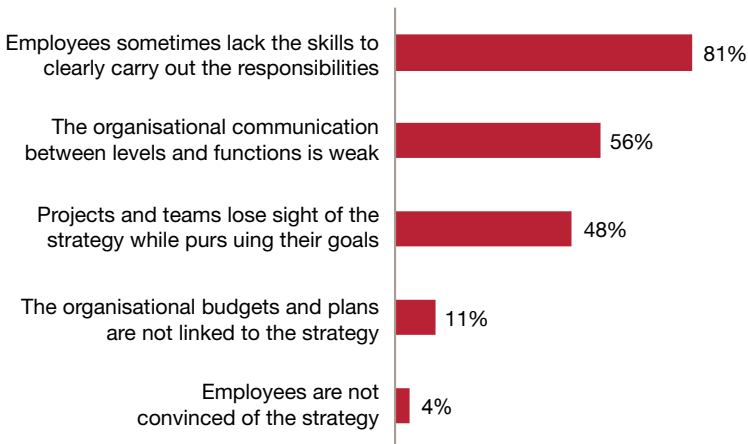
- *Availability of desired talent tops the list as a predominant barrier*
- *Cross-functional communication and lack of relevant cascade of goals are other barriers that have been cited*

A strong leadership team, who effectively communicates the vision, strategy, structure (roles and responsibilities) and performance long with robust hiring and development mechanisms will clear much of the barriers to strategy implementation.

The quality of business outcomes hinges upon the quality of decisions taken

Sixty-five per cent of companies were unsure about the information flow, but however leaned on to the side of optimism.

A third of the companies polled were uncertain of the efficacy of the existing distribution of decision rights with individuals across the organisation.

Does your current structure support the right information flow to the people making the decisions?

- Definitely yes — 12 %
- Probably yes — 65 %
- May be — 12 %
- Probably not — 6%
- Definitely not — 6%

Are decision rights appropriately distributed within the structure?

- Not at all: 6%
- Yes, in some of the functions: 24%
- Yes, in most of the functions: 53%
- Yes, across the organization: 18%
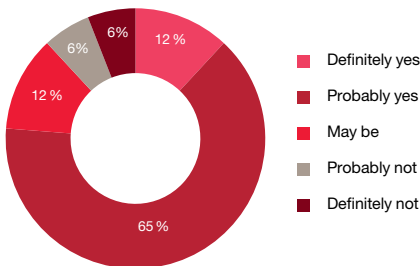
Lack of a clear information flow is indicative of a dire need for a more facilitative organisational structure, leading to critical information gaps.
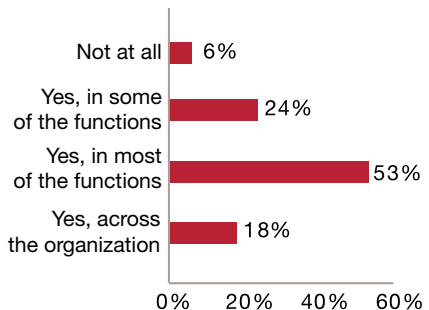
Lack of clarity in decision rights poses a key barrier to strategy implementation. Structured hierarchies with ready access to information for decision making is key to the working of this sector.

Integrating cornerstones of the structure is critical for a competitive advantage

Integrating cornerstones of the structure is critical for a competitive advantage.
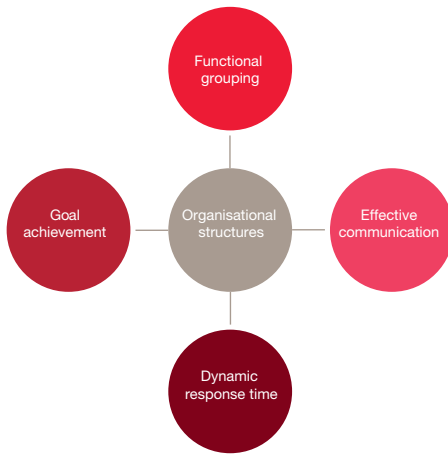
- *Structures in the manufacturing sector are typically defined along different production lines.*
- *All survey respondents were of the opinion that structures designed along production lines ensured the following:*
  - *Functional specialisation*
  - *Real-time communication*
  - *Response generation through standard operating procedures*
  - *Hierarchical decision-making*

Robust structures bring operational efficiencies and ensure profitable growth...

What kind of an organisational structure has your organisation adopted?

Structure	Percentage
Market divisional	0%
Process	4%
Geographic divisional	4%
Matrix	13%
Functional	39%
Product divisional	39%

0% 5% 10% 15% 20% 25% 30% 35% 40% 45%
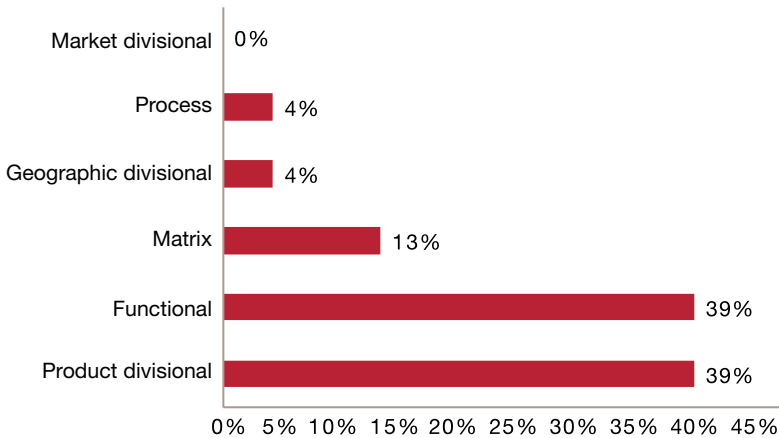
- *Functional or product divisional structures were found to be the most common way of grouping employees in the manufacturing sector.*
- *This is because they ensured economies of scale.*
- *Within the product divisional structures, organisations grouped work by function.*

Traditionally, functional or product-divisional organisations are hierarchical in nature, with some form of line management. Such a structure makes room for the following:

- Allows for economies of scale, in-depth skill development or specialisation
- Involves high coordination and a fairly high degree of centralisation in decision making
- Works best with stable markets, narrow product lines, and well-understood customer requirements

… as they embed key organisational functions for an enhanced product delivery…

Predominantly present functions

Seventy per cent and above companies polled the following functions as being present or partially outsourced

Moderately prevalent functions

Thirty to seventy per cent of companies polled the following functions as being present or partially outsourced:

Scarcely present functions

Less than 30% of the companies polled the following functions as being present or partially outsourced:

- Procurement
- Human Resources
- Production, Production Planning
- Logistics/Supply Chain
- Quality Assurance, QA/QT
- Employee Health & Safety
- Maintenance
- Business Development
- Testing
- Engineering, Technical/Industrial Design
- Finance
- Accounts
- Sales & Marketing
- Information Technology
- Legal

- Research & Development
- Marketing
- Sales
- Customer Service/CRM
- Public Relations
- Facilities
- Security
- Technical Audit
- Finance & Admin
- Promotions/Medical

- Brand and advertising
- Innovation centre or centre of excellence
- Brand and media
- Customer service centres Call centres

Companies combine functions to suit their context.

Support organisational decision-making

The operating environment of the business or industry largely determines the extent of centralisation in decision making.

Top 10 centralised functions

Function	%
Promotions/media	80%
Brand and media	80%
Legal	78%
Public relations	77%
IT	75%
Customer service centres and call centres	66%
Innovation centre/ centre of excellence	66%
Technical service	62%
Research and development	60%
Brand and advertising	60%

> Most functions that were centralised were the support functions indicating that organisations desire to have common support processes for financial efficiency and common services.

Top 10 partially centralised functions

Function	%
Technical audit	60%
Engineering	53%
Marketing	45%
Finance and accounts	45%
Production	42%
HR and admin	41%
Procurement	40%
Logistics and supply chain	40%
Planning	38%
Security	37%

> Functions that were partially centralised were adopted in order to meet the requirements of proximity to the functions' customers to provide localised service with a strong back- end centralised team.

Top 10 decentralised functions

Function	%
Sales	66%
Maintenance	53%
Sales and marketing	50%
Finance and admin	50%
QA, QT	45%
Marketing	45%
Customer service and CRM	42%
HR and admin	41%
Finance	40%
Admin	40%

> Functions that were decentralised were adopted in order to meet the requirements of proximity to the functions' customers that were geographically or divisionally structured.

Operational efficiencies may also be built by outsourcing of functions

A glimpse of the outsourced sub-functions amongst the survey respondents.

Production	HR and administration
• *Fabrication* • *Loading or unloading* • *Part production* • *Engineering design* • *Test certifications* • *Low-value drawing jobs*	• *Front-line sales teams* • *Retail sales* • *Field operations* • *Sales agents on outsourced rolls*

Sales and marketing	IT
• *Medical* • *Payroll* • *House-keeping* • *Time office* • *Catering or canteen* • *Security and gardening*	• *IT services* • *Network and hardware* • *Maintenance* • *Application development* • *SAP support*

Outsourcing, in manufacturing is normally resorted to with the aim of the following:

- *Reducing and controlling operating costs*
- *Compensating for the dearth of or unavailability of internal resources*

Benchmark of structural characteristics

06

Percentage of companies that have one level of reporting	Percentage of companies that have two levels of reporting	Percentage of companies that have three levels of reporting	Percentage of companies that have four levels of reporting

Reporting levels within organisations impact the line of sight

	1	2	3	4
Finance and legal		20%	41%	28%
HR and admin		32%	24%	23%
Customer services		15%	56%	12%
Branding and promotion		44%	22%	22%
IT		13%	40%	20%
Support		35%	21%	21%
Sales and marketing		17%	31%	35%
Procurement and logistics		30%	30%	24%
Production		28%	39%	19%

0%   20%   40%   60%   80%   100%

■ 1   ■ 2   ■ 3   ■ 4   ■ 5   ■ 6   ■ 7   ■ 8
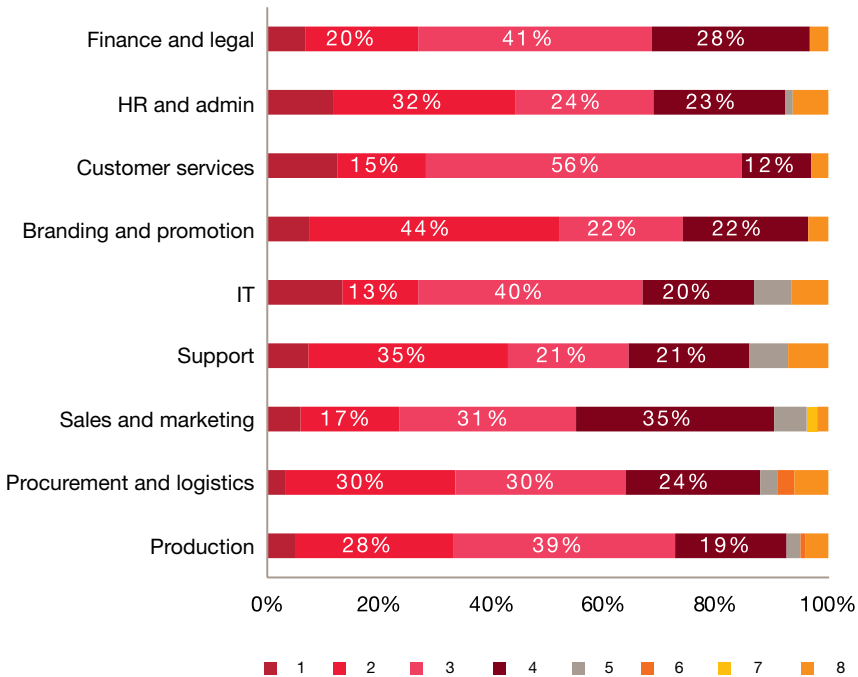
Almost all functions showed an even distribution between two, three and four reporting levels below the head of the organisation (the CEO) that is, including the level of the CEO, the most prevalent number of levels were three, four or five.

Organisations having two or less reporting levels need to evaluate if their structure is efficient and not overburdening its employees, while those with more than five levels of reporting may have to evaluate the redundancy in levels, which may be causing duplication of work, bureaucracy and delay in decision-making.
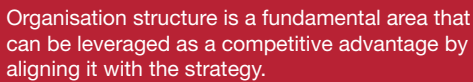
Structure and attrition are mutually exclusive of each other

Attrition	Percentage
12% and above	35%
10-12%	7%
8-10%	21%
6-8%	7%
4-6%	14%
2-4%	7%
0-2%	7%
0%	0%
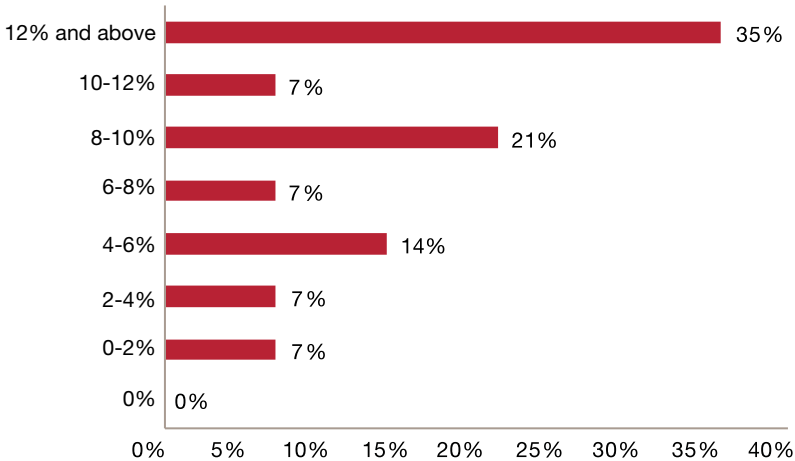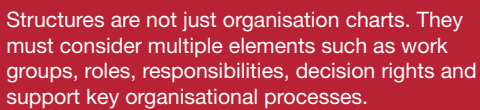
Thirty-eight per cent of companies reported an attrition of 12% and above,
with the general trend of attrition being 8% and above.

• *There was no definitive cor-relation between the type of organisation structures and the levels of attrition within organisations.*

• *However, the general trend of attrition is seen to hover around the eight per cent mark.*

Conclusion 08
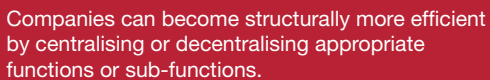
Organisation structure is a fundamental area that can be leveraged as a competitive advantage by aligning it with the strategy.

Structures are not just organisation charts. They must consider multiple elements such as work groups, roles, responsibilities, decision rights and support key organisational processes.

Structure with appropriate decision-making spread promotes a healthy organisation.

Companies can become structurally more efficient by centralising or decentralising appropriate functions or sub-functions.

Appendix

For the purpose of this report, functions have been broadly grouped under related super-functions to aid in effective analysis

Production

Production

Production planning

Quality assurance

Testing

QA and QT

Maintenance

Planning and engineering

Customer Services

Technical services

Audit, customer service, CRM, customer service centres and call centres

Sales and marketing

Business development

Marketing, sales

Sales and marketing

HR and admin

human resources, admin, HR& admin, facilities, security

Employee and health safety

Support

Research and development

Innovation centre or centre of excellence

Finance and legal

Finance

Accounts

Finance and Accounts

Finance and Admin

Legal

Information technology

IT and networks

Reporting levels and bands

Manager

Deputy manager

Assistant manager

Supervisor

Grades reporting into the same role have been taken as common level
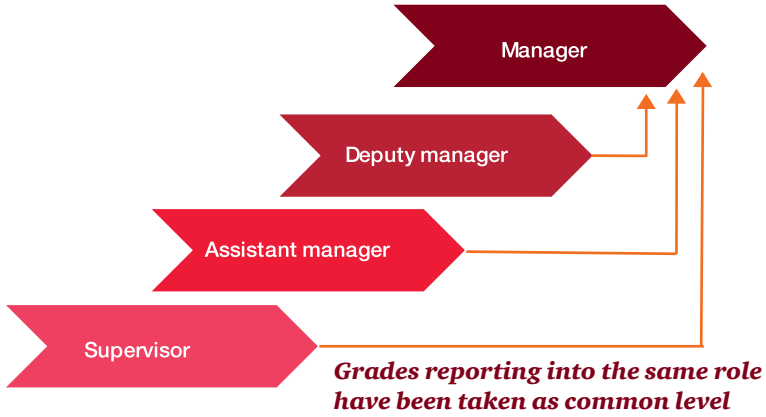
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