What gets measured, **gets maximised**

As medium-sized businesses seek to expand and grow, they encounter myriad challenges. **Prahalad Chandrasekharan** and **Arun Raychaudhuri** underline the top five challenges and propose potential solutions which can help these companies optimise productivity and achieve sustainable growth.

Did you know…

- India has the third largest number of medium-sized family-run businesses after the US and China.[1]
- There are, as of 2022, approximately 40,000 registered medium-sized enterprises in India.[2]
- The number of small enterprises that elevated themselves to the medium category increased by 75% from 3,699 in FY22 to 6,474 as of March 2023, signalling an important inflection point.[3]
- As many medium-sized firms strive to rise in terms of scale and growth, India may add 1,000 more companies to the list of large companies.[4]
- Most medium-sized enterprises in India are still run by families.
- Statistics reveal that 70% of family-run medium and small businesses fail before they can make it to the second generation and almost 90% don't make it to the third generation.[5] Reports indicate that 97% of them do not have family constitutions or succession planning documents.[6]
- In the next 15 years, 40% of India's family businesses will undergo a handover from the founder to the second generation of owners, and 35% of them to the third or fourth generation.[7]

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1 India-has third highest-number of family-firms

2 https://www.ibef.org/industry/msme

3 Micro and small businesses in India have grown into mid-sized enterprises

4 https://www.investindia.gov.in/team-india-blogs/growth-imperative-msme-sector

5 https://www.forbesindia.com/blog/business-strategy/why-do-family-businesses-disintegrate/

6 97% of family-run businesses in India don't have succession plan documents: Study

7 Family owned-business-standing-the-test-of-time

As is evident from the figures above, several small and mid-sized companies are at the cusp of transformation. Scaling up business will require these companies to articulate their goals, identify and eliminate business model constraints and strategically allocate resources. It will also entail substantial investments in infrastructure and technology. However, this journey evidently is not without hurdles. Safeguarding the business against unexpected setbacks and establishing a strong market presence are as important as agile decision-making and professionalism to navigate the road to success.

This article highlights some of the challenges that medium-sized firms, operating in the range of around INR 250–500 crore revenue per annum, face and suggests solutions that can help them achieve the required scale and growth.

Growth imperatives

Most mid-sized companies require external investments to help build scale. Many of them have been considering the option of launching an initial public offering (IPO) to pare some of their equity and bring in investments. Garnering investments from equity markets requires them to have financial discipline, a sound operating model, reliable operations, good governance and professional management.

Besides, these organisations need to build a sturdy support system for sustainable growth as many of them have been formed by entrepreneurs from non-technical backgrounds who showed courage and tenacity to build their businesses from the ground up learning through trial and error. As the baton passes to the next generation – who are typically well-educated and eager to introduce more professional systems – there is a desire to ensure a smooth transition, adapt globally recognised best practices and build foundations for a sustainable growth.

PwC India has the experience of working with several mid-sized owner-driven firms, which are on the cusp of transitioning into more professionalised companies, and has assisted them in their growth journey. Among other initiatives, PwC has helped tailor organisational practices to suit the unique organisational needs factoring in the firm's size, the skill level of its workforce, the aspirations of its stakeholders, and its constraints.

Entrepreneurs usually have a high degree of hunger for growth; however, often, they are not able to satiate the hunger due to poor reliability of operations. More often than not, there are enough opportunities, but companies are unable to leverage them due to poor performance delivery. An analysis of the problem reveals several interconnected factors at play such as:

- structure and accountability
- processes and digitisation
- people
- data and information
- sustainability.

At the outset, manufacturing operations leaders should be able to introspect on their current approach and determine if it is enabling an accurate, centralised and fully connected view of its business ecosystem.

Following are five key questions that these organisations need to ask themselves before embarking on their growth journey:

1. Does the organisation have the right operating model in place to attain growth?
2. Does the organisation have the right processes in place to scale new heights?
3. Does the organisation have access to necessary data to make the right decisions?
4. Does the organisation have the right people to drive transformation?
5. Does the organisation have the bandwidth and vision to focus on sustainability?

Insights

1. Does the organisation have the right operating model in place to attain growth?

Case study 1: A family-run organisation wanted to transition from a small to a medium enterprise. Fuelled by the ambitions of the second-generation entrepreneur and supported by the third generation, it wanted to improve its sales figures. As the first step, the team at PwC India devised a plan to understand its organisational structure, operations reliability, and sales delivery before charting out the organisation's growth path to transformation.

The company's structure was evaluated from the perspective of current adequacy and future growth ambitions, along with its existing capabilities. The CEO also acknowledged that there had been a few delays and consequent penalties for late deliveries which had to be factored in.

The team recommended a few functions such as product management, technology transfer, and central planning that could be made a part of the organogram and helped devise the functional roles and KPIs. In terms of the sequence of implementation of initiatives, sales came last.

Takeaway: The CEO acknowledged that crafting a suitable organisational model was imperative for facilitating a smooth transition journey.

Building an effective operating model

Since many medium-sized organisations are built from scratch and have a loyal, tenured workforce that have been with them for years together, most work gets done through informal processes. There are unclear boundaries between functions, unclear roles and responsibilities, and people are not driven by objectives.

Given the higher level of involvement of the owner groups in day-to-day operations, there is little empowerment at operating levels.

While the present organisational structure may be adequate for its operations to a certain extent, it may not suffice while scaling up. Organisations need to have the right operating model in place, one that would support growth and debottleneck senior roles from day-to-day operations. This would also involve bringing in professionals from outside and giving them adequate empowerment to build their teams.

As an organisation grows, it also needs to focus on deriving synergies across business units/ functions and focus on core competencies. The leadership also needs to configure an operating model that would comprise functions that they should strategically retain and look for functions/jobs that can be effectively done through a shared service model or through outsourcing. This can help focus on the core functions and get the non-core functions done effectively through systems such as third parties, shared services and centres of excellence. Traditionally, functions such as accounts payable, receivables, talent acquisition, payroll, IT infrastructure management are outsourced by companies, and these can be good starting points for mid-sized organisations. Of late, functions such as engineering, quality control, stores management are also being considered for outsourcing.

Recommendations

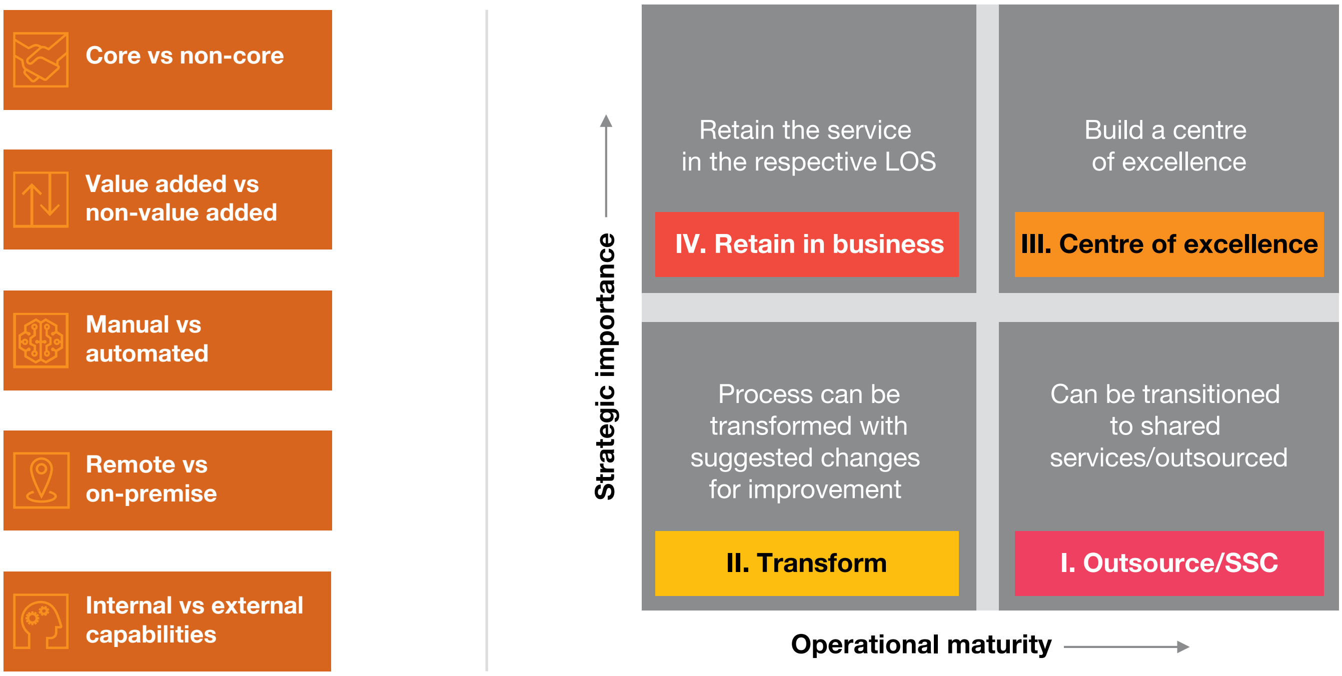
Companies need to build an organisational structure which aligns with their future growth plans. It is important to design an operating model suited to the organisation by:

- creating right functional boundaries
- clearly defining roles and responsibilities
- providing well-written job descriptions
- setting a cascade of goals, KPIs and KRAs up to the managerial level in the first year.

Subject matter experts at PwC India also assist companies in identifying strategic functions which should be retained through candidacy assessment frameworks. The team also helps structure outsourcing constructs for non-strategic and transactional work.

Figure 1: Parameters to assess the right operating model and functions for an organisation

Parameters



2. Does the organisation have the right processes in place to scale new heights?

Case study 2: A mid-sized process industry recently wanted to redraft its standard operating procedures. The owners of the INR 500-crore firm were deeply entrenched in the day-to-day activities. Smaller ticket items also went to them for signatures, creating severe bottlenecks. In the procurement function, the lead time for placing orders and receiving deliveries was high. There was a lot of manual intervention in the procurement processes. In some cases, policies were leading to more paperwork. For example, mail approvals were followed by hard copy signatures on purchase orders. Coordination with suppliers was ad-hoc – either through mail or chat – and, in the process, people missed out on crucial information.

The team at PwC India re-engineered the entire procurement process, devised SoPs for 18 processes, eliminated non-value-adding processes such as multiple approvals by creating a threshold, redefined procurement policies and authority delegation and applied a lean process design framework. The team has also helped the client in digitising the workflows.

Takeaway: The company acknowledged that its lead time for the procurement process has reduced significantly.

Streamlining the organisational processes

In organisations that are at the cusp of transformation, work often gets executed through informal and undocumented processes. Even if processes do exist, they are generally not well-defined. Companies often try to overcome these challenges internally by implementing SoPs, often resulting in increased turnaround times rather than leading to faster outcomes.

Recommendations

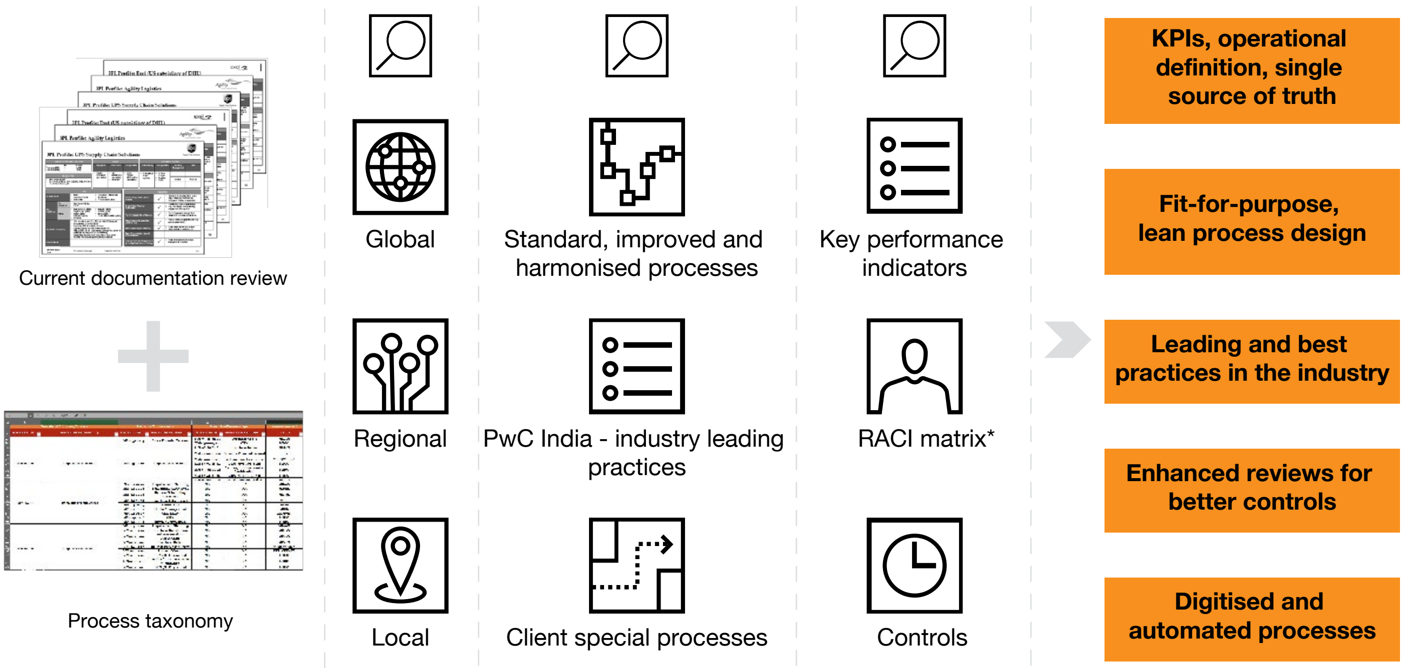
Creating sustainable systems and processes requires a delicate balancing act. On the one hand, organisations need to account for their limitations, such as lack of a skilled workforce or stringent financial return expectations and on the other hand, the processes must be easy to implement and align with the firm's overall objectives. So, it is important to introduce changes that the workforce can quickly adapt to, without compromising on efficiency.

The key to streamlining organisational processes then entails:

- introducing the right processes
- implementing lean processes to improve productivity and turnaround time
- having adequate internal controls.

Experts at PwC India assist in these key process changes and organisational configuration decisions so that the changes are implemented sustainably and systematically.

Figure 2: Accurate process design for improving KPIs and controls



*RACI- Responsibility assignment matrix

3. Does the organisation have access to necessary data to make the right decisions?

Case study 3: An industrial products manufacturer – a second-generation entrepreneur – wanted to scale his business. He did not know how to go about it as the business operated in an environment of low margins and faced uphill competition in terms of well-entrenched large players playing the discounting game.

As long as the company was a small entity with limited stock keeping units, it was possible for the firm to run the business without much investment in the right data-capturing mechanism. However, the firm has recently breached the INR 500-crore mark and is on the verge of transformative growth.

In the initial stage, the PwC India team discussed baseline capacities, order fill rate and inventory turn with the manufacturer to know more about the firm's style of functioning.

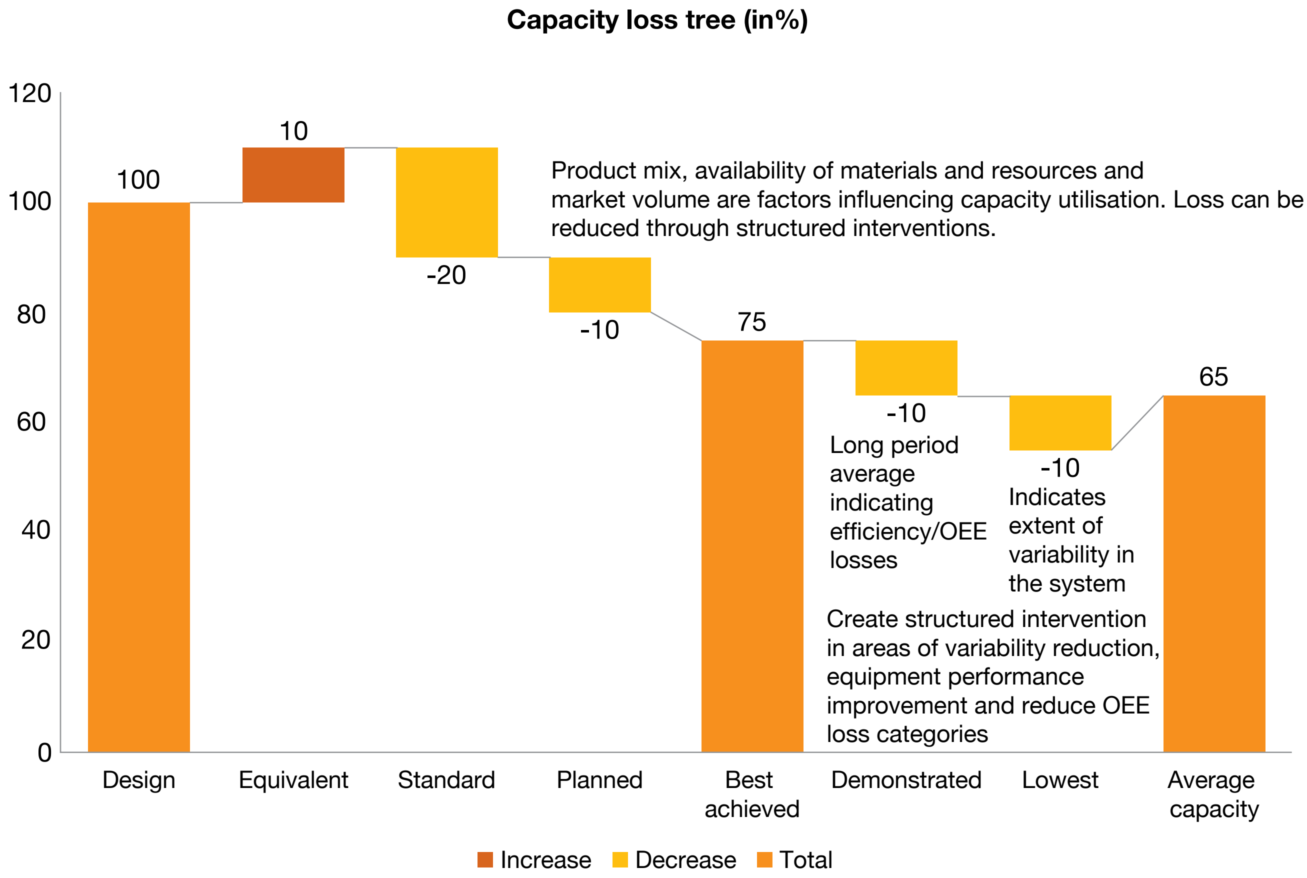
The team learnt that the company was measuring output in terms of tonnes, and not in terms of order fill rate or on-time, in-full (OTIF) performance. Even though the firm knew its inventory numbers, it was not calculating the inventory ageing using concepts such as first in, first out (FIFO) and traceability of work in progress (WIP). This resulted in poor inventory turns. In addition, given the competition, unless the company was on top of product level costs, the leadership was not equipped to manage profitability.

As the first step, the team helped the client to improve working capital management by devising the right traceability for materials, right from gate-in to gate-out. This included defining the data collection mechanisms and implementing governance mechanisms. The data included elements such as raw material stock levels, ageing, WIP stock levels and process scrap.

Given the credit cycles and low margins, the team figured that for additional growth the systems would need to generate more cash than the current rate. Accordingly, the client was advised to improve inventory turns to release cash to help fund future purchases. Next, the team worked with the client on its procurement and planning

Takeaway: The client now goes by the motto – what gets measured, gets improved – and has implemented this in the company's operations.

Figure 3: Bridging gaps to help organisations achieve a higher capacity utilisation



philosophy, keeping in mind on-time, in-full and inventory as a measure. In about four months' time, the client improved its inventory turns by 20%.

Making data-driven decisions

Lack of a data-driven culture can often turn out to be a major obstacle for firms seeking to scale and grow in revenue. Even when data is collected, most organisations do not know how to measure the outcomes from the data. While financial indicators are generally collected as these can be quickly noticed on a profit and loss statement, many operational indicators are seldom collected or collected in a limited way. Therefore, in manufacturing, what the organisation thinks of as its capacity and what the true capacity actually is are often miles apart.

Such organisations also struggle with the ability to fixate on a particular source of data and create a single source of truth.

Several companies tend to ignore crucial indicators such as cost of poor quality (COPQ), order to delivery lead times (OTD), OTIF performance and overall equipment effectiveness (OEE).

Such organisations also struggle with the ability to manage the supply chain, which keeps getting complex as medium-sized firms grow. Adopting advanced supply chain management practices, such as real-time monitoring and collaboration, and data analytics can enhance the visibility of actions within the chain.

Unless organisations work on measuring what matters, understand the source of these measurements, and make these measurements come through systems digitally, there will always be confusion and mistrust over data, and a reluctance to act on what the data reveals.

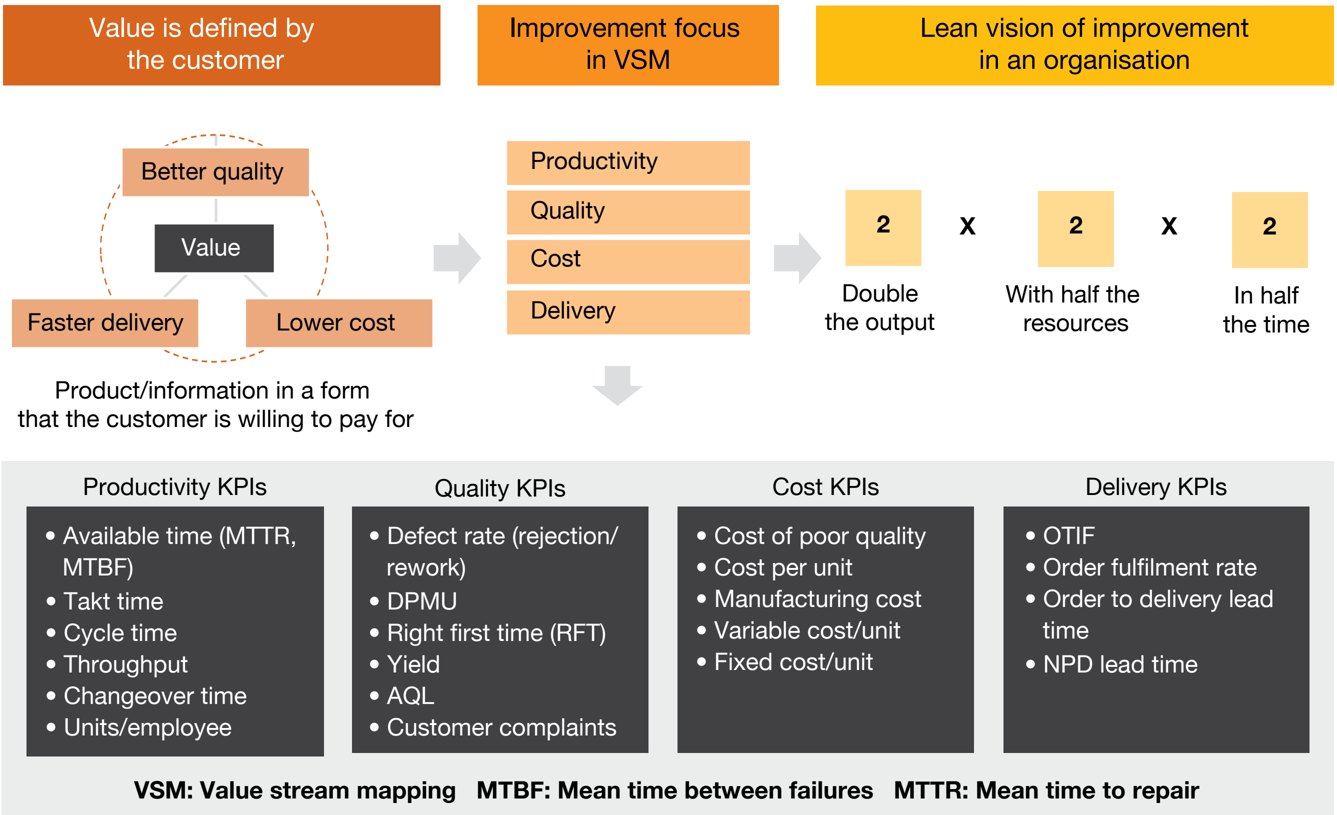
KPIs, serving as the foundation of performance tracking, reveal their true power when they are meticulously aligned with growth objectives. These metrics must fluidly adapt to an ever-evolving business landscape as they provide a transparent perspective on performance, unmasking opportunities for targeted improvements.

Recommendations

Decisions, if anchored in data, can help companies accurately predict market changes and boost return on investments. PwC India uses its extensive KPI library and helps clients measure what matters, where it matters. What is then needed is:

- building a culture of data-driven decision-making by facilitating the process of designing the right data collection points (for example, cycle time on a bottleneck machine)

Figure 4: Adopting appropriate measures is crucial for desired metrics of delivery, quality and cost



Takt time: The rate at which you need to complete a product in order to meet customer demand
DPMU- Defects per million units

- automating data collection as much as possible (for example, through supervisory control and data acquisition)
- building the right management information system and review structure (what gets measured and reported daily, weekly, monthly and the audience for each category or report).

4. Does the organisation have the right people to drive transformation?

Case study 4: A mid-sized readymade garment manufacturer in Bangladesh was grappling with effective task execution and needed help with employee allocation and retention. In this industry, work is usually labour- and skill-intensive. As attrition levels are generally high, it entails continuous training for new recruits as well as upskilling of the existing workforce.

The PwC India team used its knowledge skill abilities (KSA) framework for the operating team and ensured that the daily tasks get executed effectively. Based on the skill index, the PwC India team assisted the company in its efforts to identify training programmes tailored for its employees. Recommendations included subject matter expert-driven trainings, multi-skilling, job rotation and training through demonstrations which was followed through with pre-defined training effectiveness checks at appropriate frequencies.

Takeaway: The tailored programmes not only helped maximise output, but also improved the line productivity management skills of supervisors.

Optimising resource allocation

People are the building blocks of any organisation. Given the ever-increasing complexities in supply chain and operations, only the right talent pool can help the company navigate these challenges and attain sustainable growth.

In many mid-sized organisations, there was a lack of skilled resources for certain roles. While these organisations did reward loyalty by elevating people to shoulder additional responsibilities, they didn't have a structured process to evaluate their skills and competencies before aligning them to new roles.

Change management enables people to understand the skills and competencies required to adjust to the new roles and challenges which arise as an organisation expands its operations and changes its ways of working.

Concurrently, talent management also emerges as a crucial aspect to hire skilled professionals amidst rapid technological progress. With each new initiative or programme, certain skills are likely to be found wanting in an organisation's existing talent pool. Addressing this concern isn't merely about pinpointing areas of deficiency. It is about designing and implementing strategies to bridge these gaps by aligning the workforce with the dynamic demands of the business.

Recommendations

Successful organisations invest in a comprehensive competency development programme. For them, the mandate is to:

- do a skill/competency assessment
- conduct a job and competency evaluation
- assess progress constantly through a strong performance management system.

Figure 5: To ensure that people are equipped to deliver on their role's expectations, a KSA assessment followed by a training plan is paramount

- Identify unique roles

Role description

- Role wise analyse the tasks

Task analysis

- Identify knowledge and skills (KS) for each task

Knowledge and skill requirement

- Classroom
- OJT – on the job
- AR where applicable

Training method identification

- Mapping of Individual wrt KS requirement

Profile mapping and gap analysis

- Multi-skilling
- Reinforcement trainings

Training plan and execution

- Effectiveness measurement
- Improvement plan

Training effectiveness

Accordingly, they redefine the skills with an understanding of the knowledge and behaviour required for each role.

The team at PwC India, with its competency framework, identifies the gaps and facilitates a comprehensive competency development programme for the company along with mechanisms to evaluate the effectiveness of these programmes.

5. Does the organisation have the bandwidth and vision to focus on sustainability?

Case study 5: A manufacturing company which owns a number of presses and generates about INR 450 crore in revenue wanted to streamline its process of production with sustainability at the heart of the initiative. Though the process of production was sequential, the placement of workstations and machines were non-sequential resulting in a criss-cross flow of materials on the floor. The distance which the material travelled also increased the greenhouse gas (GHG) emissions of the organisation since the material was transported through forklifts and other energy consuming mechanisms. The team at PwC India calculated the transportation index (the distance an average material travels on a floor without value addition) and devised the right layout and material flow path to minimise the transportation index.

Takeaway: The distance covered by the material was reduced by 50% compared to the baseline.

Undertaking sustainability initiatives

Today, discussions in boardrooms are not complete without the mention of sustainable operations. While sustainability has several aspects, in a manufacturing context it revolves around having the right focus towards 'consuming less' for the same output. If an organisation is able to improve yields, it reduces material consumption. If a manufacturing set-up is able to improve equipment availability, it can produce more with the same set of resources.

From a design perspective, it involves engineering the product in such a way that it reduces total cost of ownership for both the organisation and the consumer.

The focus on the eight wastes of lean and making a conscious effort to minimise each category of waste not only improves turnaround times and reduces costs but can also help improve sustainability. For example:

- If the waste of transportation is reduced, it can help reduce Scope 1 GHG emissions.
- If the waste of motion is reduced, it can help improve the 'social' in ESG by helping improve employee well-being.
- If the waste of over-processing is reduced, it can help reduce consumption of resources and energy and is a direct sustainability benefit.
- Similarly, the reduction in waste of overproduction and inventory contributes to the reduction in Scope 2 and Scope 3 GHG parameters.

The waste of overprocessing is directly attributable to a sub-optimal design. This has an impact not only on resource consumption, but in many instances also enhanced lifecycle costs.

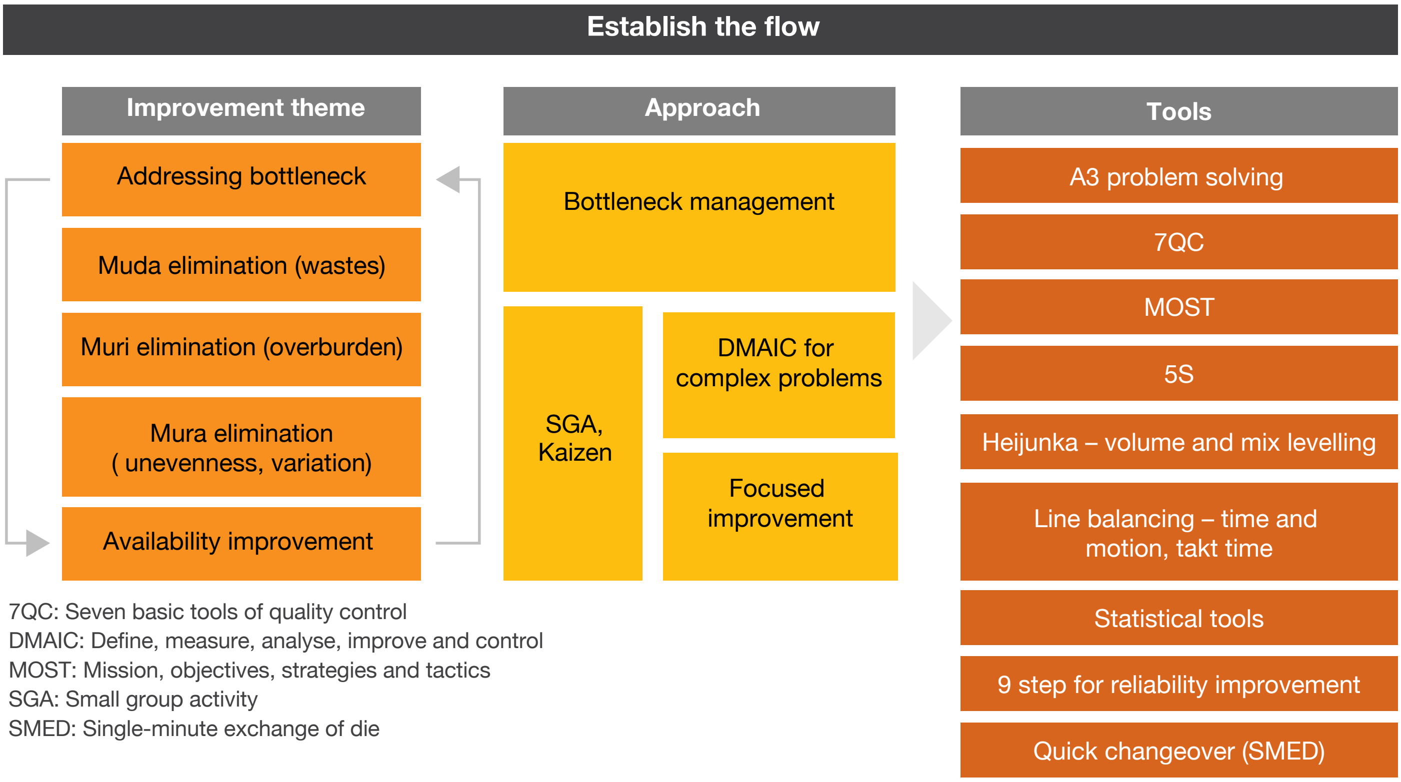
Recommendations

It has been observed that many mid-sized firms are reluctant to invest in methodologies such as total quality management (TQM), total productive maintenance (TPM), Lean or Six Sigma. These are often perceived to be applicable only for large organisations and the processes at these mid-sized firms may not support a full-scale implementation of these practices. But mid-sized firms also need to:

- consume less for the same output
- produce more with the same set of resources
- invest in methodologies such as TQM, TPM, Lean or Six Sigma to minimise each category of waste.

PwC India is committed to making these methodologies more accessible and suitable for the client's specific needs, ultimately ensuring that they can reap the maximum benefits.

Figure 6: Operational ESG involves reducing resource intensity through various interventions



7QC: Seven basic tools of quality control
DMAIC: Define, measure, analyse, improve and control
MOST: Mission, objectives, strategies and tactics
SGA: Small group activity
SMED: Single-minute exchange of die

Creating a well-defined roadmap to transition from local to global

The initiatives across the five dimensions discussed above are not one-time activities. These need to be evaluated at regular intervals and aligned to the changes in the business context. Companies should be able to dynamically adjust to the changes and should frequently assess the adequacy of the five dimensions.

This is where a neutral, unbiased perspective often provided in the form of assessment and backed by frameworks and insights of third parties, can come in handy. Often these frameworks are constantly amended as per the changing needs of the business.

The outcomes of such an assessment will either validate the leaders' point of view or be an eye-opener to them and their teams. It can also provide significant room for improvement by bridging the gaps between current practices and best practices across maturity levels, paving the way to create a roadmap for improvement and growth, empowering client teams to plan and execute strategic actions with clarity and confidence.

In order to derive true value from such endeavours, consultants on-site should tailor their approaches and solutions as per the individual client's needs. The aim is not to deliver ready-made solutions but to foster an environment of continuous learning and development and ensure that the workforce is equipped with the necessary, up-to-date skills for success.

A robust operations management strategy can therefore act as a solid foundation that enables a firm to adapt, thrive and seize opportunities in today's dynamic and fast-changing business landscape. Operations management also plays a vital role in risk mitigation as it equips a company with the aptitude necessary to anticipate and respond to potential disruptions and setbacks, ensuring business continuity. By optimising processes, streamlining workflows and enhancing resource allocation, companies can identify potential bottlenecks and inefficiencies and empower the organisation to make data-driven decisions and improvements swiftly.

Over the years, PwC India has taken on the role of actively assisting India's burgeoning businesses to prepare them for the global stage. The team at PwC India strives to bridge the operational gaps and unlock the potential within these organisations, enabling them to evolve from being successful domestic firms to becoming competitive global corporations.

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