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JOURNEY WITH AN INTEGRATED STEEL PLANT (2001)

My association with this company was just for 6 months. While the going was good, I had to leave the organization for personal reasons.

As soon as I joined the organization, the Chairman of the company wanted me to do a study on the manpower deployed in the Finance & Accounts Department. There were 95 employees, and he felt that more than 25 were not required if we were to compare it with a company of similar size in the West. As a person from outside, he wanted me to study the manpower in the department, recommend a suitable number according to me with supporting Organization Chart. He said I was accountable to him and to no one else, on this task. I did complete the study and recommended an organization with 65 employees. It was accepted and was immediately implemented. The rest of the people were diverted to other departments in the organization. How I went about handling the task is explained in the story, **“Manpower study in Finance Function.”**

The second contribution from me was once again on my favorite concept “Contribution.” Steel prices are subject

to cyclical changes, based on various international and local developments. It may take less than a year, sometimes, for significant changes in either input costs or output prices to change. Unless the organization is alert to these changes, it might lose significantly due to the scale at which operations are carried out. One of such situations, was where I recommended a 30% cut in the production, which was implemented immediately as it meant millions in savings is explained in the “**Optimum Level of Output Story.**”

I. MANPOWER STUDY IN FINANCE FUNCTION

(In the Finance Function, uneven distribution of workload amongst resources, persons carrying out activities independent of underlying processes, poor documentation of work procedures, inadequate exploitation of automation opportunities, person dependency over process dependency, make the function less efficient. In the same analogy, good process focus, making people accountable for sub-processes, instead of piecemeal distribution of tasks among many resources, review of transaction volumes, exploring automation where feasible and redistribution of work responsibilities among resources in an equitable fashion, could make the function more efficient. This article is a reflection of such efforts, which resulted in reduction of manpower by one third.)

After familiarizing myself with the company's business, I took up this exercise. I collected the current organization chart of the department and the list of employees. I circulated the following questions to all the 95 employees in the department, and requested them to write their responses and give the sheets back to me.

Questions

1. List the activities with which you are associated.
2. List the outputs with which you are associated, and recipients of the outputs.
3. List the inputs you need to enable the above and the source of the inputs.
4. Indicate relevant transaction volumes in a month, and the General Ledger Accounts with which you are associated.

5. List the records you are required to maintain.
6. What are current pending workloads and how long will it take to clear them.

Individual Meetings

Once the responses were received, I kept them in the order of the different groups according to the organization chart, and studied each response. After making a note of observations as seen from the details provided, I had individual one to one meetings with practically all the 95 people. It took almost a month to cover all the employees. These meetings were utilized to identify pain points, limitations and what they could suggest to solve the related problems.

The exercise was taken up under 3 components:

1. Business Process Improvements.
2. Extending Computerization, and
3. Employee Role / Responsibility Reorganization.

Findings

Uneven distribution of workloads, peaking of work for one week in a month and no significant work for the rest of the days, opportunity to transfer good part of manual efforts to SAP which got just implemented, some activities which were redundant, and some reports which were no longer required, and a large number of rectification entries at the quarter / yearend as ledgers were not scrutinized on a regular basis. New resources were added as workloads increased, but many employees were handling more than one process, making it difficult to place responsibility for a process to a specific set of individuals.

Recommendations

1. Process changes, including eliminating some of the activities.

2. Introducing validation checks and controls in the ERP, to eliminate errors, manual checks.
3. Changing monthly process cycles like Accounts Payable to weekly, changing physical attendance period for calendar month to 26th to 25th of the following month.
4. Redistribution of workloads, such that a sub-process is handled by a person or a set of people, at the same time ensuring segregation of duties, by ensuring that same individual does not play conflicting roles. For example, vendor invoice passing and cheque issue were given to two different individuals. Further a group of common resources was created for common assistance to all groups, since peak workloads in different groups were at different times in a month.
5. Organized record keeping in soft form with dedicated server space and access controls.
6. Identification of data owners (authority associated with creating the data item), data custodians (responsible for maintaining the data for the data owner) and data users to help in reducing redundancy.

Revised Organization

The revised organization had 65 employees. It did have greater scope for reducing the number further, but was contingent upon various initiatives like extending automation to more areas in SAP, to be implemented. About 30 employees were transferred to other functions like store, materials and so on.

Transition was smooth and no bottlenecks were experienced. A post implementation audit was recommended, to be taken up after about 6 months to ensure that no critical activity had been dropped out in the process of revising the organization structure.

II. THE OPTIMUM LEVEL OF OUTPUT STORY

(This is another instance of the concept of “Contribution” helping an organization, significantly and materially. Where the organization catered to different markets (in this case Exports and Domestic markets), with different price realizations, and the product cost structure being different with different sources of energy, how a meaningful analysis helped in cutting down losses to the tune of ₹40 million per month, is explained here.)

For a steel plant, the major item of cost is energy. This plant had a capacity of about 2.2 million tonnes per annum. The source of energy was natural gas. It had two vendors for supply of natural gas. One was GAIL (Gas Authority of India Limited) and the other was an organization in the private sector. Supply from GAIL was adequate for producing 100,000 tonnes per month. From the second vendor, the plant was meeting the production requirement of the remaining 40,000 tonnes per month.

The company was serving both domestic and export markets. Its domestic sale was about 100,000 tonnes per month and the remaining 40,000 tonnes was exported.

The company had a costing department, which was collecting inputs for costing and was generating fortnightly or monthly costing reports. Clubbing the realization of domestic and export sales, it reported the following as the contribution per tonne for one of the months in the year 2000 as In Table 7.1.

Table 7.1

Volume in MT	140,000
Gas Source	Both Vendors
Realization Per MT (Rs)	14,500
Variable (Gas) Cost	9,200
Contribution (per MT)	5,300

When I was asked to review the Costing function in the company, I noted that the report on Contribution was prepared, taking into consideration averages for overall realization between domestic and exports as well as the average Gas Cost considering both the sources of gas. Going into details, I noted that realization per tonne was different for domestic and export sales. Similarly, gas cost was also different between the two sources. In fact gas from the private source was much more expensive than the gas from GAIL. Making an assumption that we could use GAIL gas for domestic sale, and the private gas for Export sale, I tried to look at contribution for domestic and export sales separately. On this assumption, Contribution per tonne for Domestic and Export sales appeared for the year 2000, as in Table 7.2.

Table 7.2

Year 2000	Domestic	Export	Overall
Monthly Volume (MT)	100,000	40,000	140,000
Gas Source	GAIL	Private	
Realization per MT (Rs)	15,100	13,000	14,500
Variable (gas) Cost	8,500	11,000	9,200
Contribution per MT	6,600	2,000	5,300

If we could assume that we would use GAIL gas for domestic production and the private gas for Export, it showed significant variation in contribution, contrary to the average picture. This was the status based on the steel prices prevailing

in the year 2000. But in the year 2001, there was a steep fall in Realization, for both Domestic and Export Sales. Please see how the picture appeared in the year 2001. See Table 7.3.

Table 7.3

Year 2001	Domestic	Export	Overall
Monthly Volume (MT)	100,000	40,000	140,000
Gas Source	GAIL	Private	
Realization per MT (Rs)	13,100	11,000	12,500
Variable (gas) Cost	8,500	11,000	9,200
Contribution per MT	4,600	Nil	3,300

While the average realization dropped for both Domestic and Export sales equally, because of the assumption we made that we would use private gas for production to export, this operation became unviable.

Variable cost considered here was mainly the gas cost. In fact, there were other costs which were variable in nature, and clearly export operations were unviable, and by eliminating purchase of gas from the private source and correspondingly cutting down on export, the company was able to see significant savings. Other variable expenses were to the tune of ₹1,000 per MT. Thus on 40,000 MT on production reduced meant a saving of ₹40 million per month! While it made sense to export and operate at 140,000 tonnes per month in the year 2000, revised market conditions clearly justified cutting down the activity level in the year 2001. The management accepted my recommendation and immediately cut down the production to 100,000 tonnes per month, till the market situation changed.

This is the 4th and the last of my stories on Contribution. Out of the 6 organizations I worked, in 4 organizations, this concept added significant value through its application. That is why Contribution is a concept I love most.