

HR and IR Performance

Auto Components Industry



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Summary of key findings



Employee productivity increases with HR/IR capability score



Leadership at different levels is the key contributor for better HR/IR capability



The HR leader makes all the difference!



Indian promoter driven organizations would benefit by improving shop-floor supervision



Contract labor does not reduce cost but depresses productivity



Increasing white collar positively impacts productivity.

Background

Over the last 2 years, Talentonic has worked closely with the auto components sector both directly as well as on behalf of major OEM manufacturers.

The 64 auto-component companies we worked with were tier 1 companies ranging from a turnover of INR 10 crores to INR 1500 crores with an employee strength ranging from 50 to 5000 employees. The list of the companies is indicated in the annexure.

Our aim was to test the hypothesis: ***“HR & IR capability of Auto Component Manufacturers directly impacts business performance and their overall reliability for the OEM operators”***

We initiated the project by working with the OEMs to identify the basic model of HR & IR capability.

Framework used: HR / IR Capability Model for the Auto-Component Sector

- 1. Leadership:** The connect of Top leadership, HR team & Shop Floor supervisor with people.
- 2. Organization Manpower Profile:** Manpower profile with respect to white/blue collar, contractual/on-roll and other demographics.
- 3. People management processes and systems** – The presence of defined systems to manage key people processes like Recruitment, Performance, Talent and Training,
- 4. Health, Safety, Environment and Welfare:** Making the work environment safe, secure, clean and involving employees in key welfare activities
- 5. Compliance with Statutory requirements** like PF, gratuity, ESI, necessary permits, certifications, etc.
- 6. Shop Floor Practices:** Prevalence of key manufacturing excellence activities like Kaizen, 5S, Quality Circle and voluntary involvement of employees in the same.
- 7. Industrial Climate:** The approach that both the management and workmen have towards solving production and people issues.

Organization Analysis

Each organization was assessed on the above defined framework (on a 100-point score) and then categorized basis the score on their HR and IR capability:

Table 1

	#	Revenue Range (INR CR.)	Employee Range (in No's)	Employee Cost % on Revenues
Top 33% (Highest Scoring)	21	39 to 1600	99 to 5574	2.9% to 16%
Mid 33%. (Moderate Scoring)	22	10.7 to 283	36 to 941	5.27% to 33.4%
Bottom 33% (Lowest Scoring)	21	10.3 to 1197	59 to 3658	3.12% to 20%

As is evident from the above table, the HR/IR capability of an organization at a high level does not demonstrate a direct correlation with either size (revenue), employee count and manpower cost.

Key Findings

While differences in technology/ investments/ make-buy / skill level can make a difference to the levels of productivity, any possible impact of these has been ignored in this study and the focus is maintained on the performance of the 64 companies on the 7 HR/IR capability factors.

1

Employee productivity increases with HR/IR capability score

Organizations have been classified based on their productivity levels; measured as total revenue in INR per employee

Fig 1

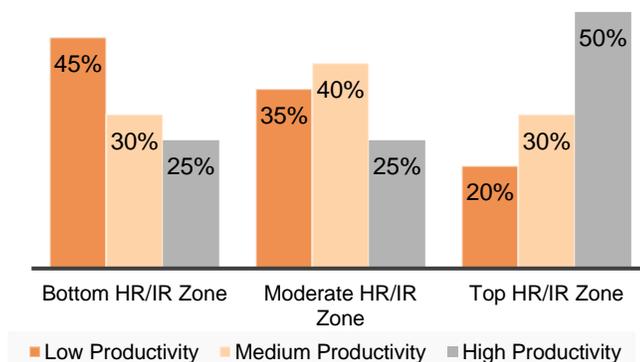


Table 2

Productivity	
Low Productivity	Less than 0.25 Cr
Medium Productivity	0.25 to 0.5 Cr
High Productivity	More than 0.5 Cr

50% of the companies in the top HR / IR zone had high productivity as compared to only 25% of companies in the bottom HR/ IR capability zone. On the reverse, only 20% of the top zone companies have low productivity as against 45% in the low zone.

Leadership at different levels is the key contributor for better HR/IR capability

Leadership is a combination of Business leadership, HR leadership and Shop leadership. This one factor has the highest impact on the overall HR/IR capability score, and by implication on employee productivity. It was observed that higher the leadership score, higher is the positive impact on the overall HR /IR capability score (highest correlation, around 12%-14% more than the next impacting factor).



As the leadership score increases, all other factors increase as well, this has an enlarged impact on the Overall HR/IR capability.

The HR leader makes all the difference!

Connect of the HR Leader with the employees, plays a key role in influencing the HR/IR environment in the organization. The stronger the connect, the higher is the strength of HR and IR capability in the organization



The HR popularity was evaluated on a scale of 1 to 5, scores less than 2 were identified as Low popularity, 3 as medium and scores above 4 as High HR Leadership Popularity. category and was plotted with the HR / IR capability zone (Bottom, Moderate and Top)

Table 3

HR Leadership popularity	Bottom Zone	Moderate Zone	Top Zone
Low	63%	37%	0%
Medium	39%	39%	22%
High	14%	24%	62%

Considering the Top zone companies on HR / IR maturity, a good 62% of the companies had an HR leadership which was popular amongst the employees. However, the trend completely reverses at the Bottom zone companies on HR / IR maturity. In this set, 63% of the companies have a low popularity of HR / IR leadership.

4

Indian promoter driven organizations would benefit by improving shop-floor supervision

In Japanese organization, the shop floor leadership and the top leadership are equally capable whereas in Non-Japanese organizations the focus is much more on the top leadership, and there is a need to improve the overall capability of the shop floor leadership.

The focus of the two cultures is quite evident in the data of these Companies. The Top Leadership and Shop floor leadership in all the companies was rated on a scale of 1 to 5 based on the connect that they had with the employees and the control/ influence that they had on the production and support teams.

Table 4

Average Rating	Japanese Organizations	Non- Japanese Organizations
Top Leadership	3.41	3.61
Shop Floor Leadership	3.41	3.12

In Japanese companies, “shop floor leadership” is as strong as “top leadership” in its ability to influence operations. Whereas, in case on non-Japanese organizations, the top leadership clearly wins in importance and shop floor leadership has an opportunity to perk up in influencing operations.

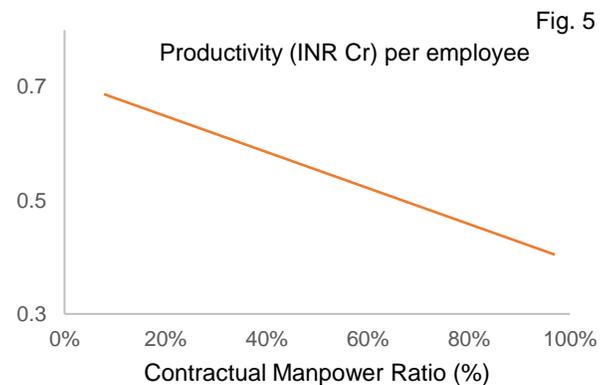
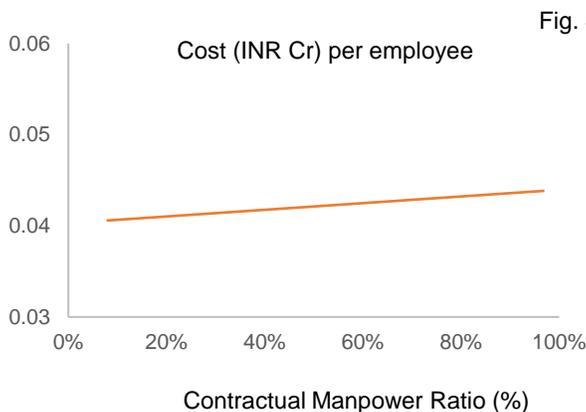


5

Contract labor does not reduce cost but depresses productivity

The generally belief that the incidence of contract labor reduces the per employee cost for the organization is not true. However, the contractual labor significantly impacts (negatively) the productivity of the organization

Most of the companies employ contractual labor to reduce the overall manpower cost and improve flexibility. The same however, is not true. As the contractual manpower increases, the cost per employee does not go down but increases marginally.



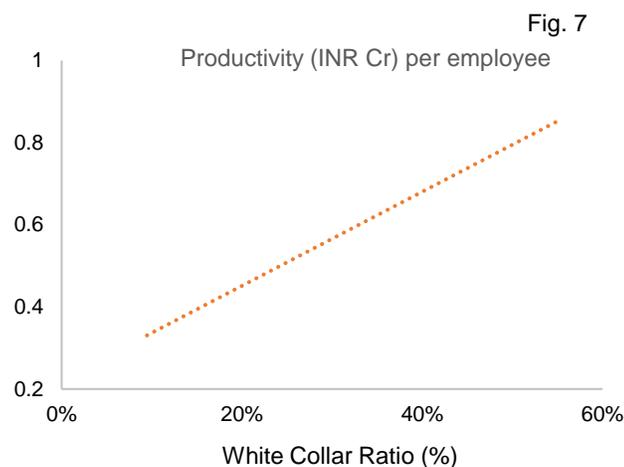
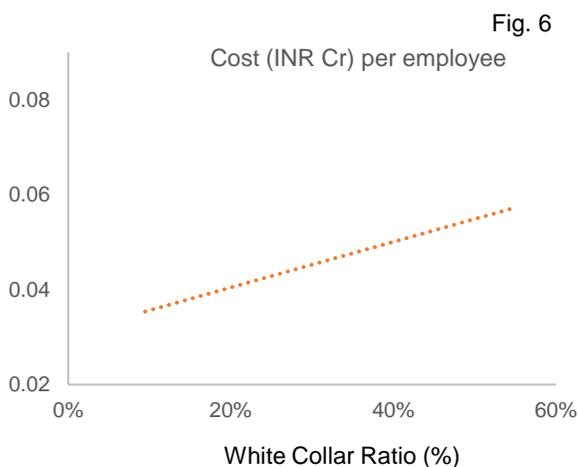
However, increasing the contract manpower has a detrimental effect on the overall productivity of the organization. It falls sharply from INR 0.7 Cr per employee to INR 0.4 Cr per employee as the contractual manpower ratio increases from 10% to 80%.

6

Increasing white collar positively impacts productivity.

Increasing the White Collar to Blue Collar ratio, directly impacts the productivity of revenue per employee.

Increasing the white-collar ratio to the total headcount appears to have some conflicting results, some intuitive and some counter intuitive. Obviously increasing the white-collar ratio leads to an increase in employee cost. However, and perhaps this was counter intuitive, increase in white collar percentage has a direct impact on productivity of INR per employee. In fact, the slope of the productivity curve is steeper than the slope of the cost curve. Possibly telling us that the benefits of enhanced skill, experience and supervision outweigh the cost demerit of higher compensation.



Conclusion

There is an HR/IR Capability model consisting of seven elements, which has been established and tested on 64 auto-component companies. Results show that the model is validated and accurate and capable of predicting business performance in terms of employee productivity.

The results also show how crucial leadership (Business, HR & Shop Floor) is in improving the business performance. We always knew this but here is the statistical proof!

Some of our intuitive understanding and opinions got tested. Does contract labor reduce cost? Does white collar impact cost & productivity positively?

As we continue doing this work, we will keep adding to our data base, and as new insights emerge, we will continue to share them.

Annexure

Company No.	Total no of employees	Annual Revenue (INR Cr)	Manpower cost as a % of sales	Cost per employee (INR Cr)	Productivity (INR Cr)	White collar Ratio	Contractual Manpower Ratio
1	80	10	4%	0.01	0.13	34%	47%
2	36	11	28%	0.08	0.30	33%	79%
3	92	20	13%	0.03	0.21	20%	80%
4	59	26	13%	0.06	0.45	41%	0%
5	138	27	12%	0.02	0.20	37%	91%
6	210	32	20%	0.03	0.15	18%	76%
7	235	35	8%	0.01	0.15	15%	9%
8	99	39	11%	0.04	0.39	34%	85%
9	125	45	5%	0.02	0.36	19%	0%
10	115	46	6%	0.02	0.40	43%	100%
11	370	58	10%	0.02	0.16	12%	94%
12	190	65	6%	0.02	0.34	22%	38%
13	242	66	18%	0.05	0.27	28%	72%
14	154	68	10%	0.04	0.44	36%	90%
15	197	68	10%	0.03	0.35	37%	62%
16	425	85	7%	0.01	0.20	12%	100%
17	550	85	11%	0.02	0.16	18%	94%
18	168	90	10%	0.05	0.54	14%	67%
19	469	100	12%	0.02	0.21	25%	41%
20	423	100	8%	0.02	0.24	12%	70%
21	186	100	10%	0.05	0.54	29%	76%
22	197	102	6%	0.03	0.52	13%	79%
23	196	103	17%	0.09	0.53	19%	92%
24	478	105	33%	0.07	0.22	30%	28%
25	513	108	10%	0.02	0.21	10%	92%
26	449	114	9%	0.02	0.25	21%	97%
27	423	124	15%	0.04	0.29	13%	93%
28	572	129	10%	0.02	0.23	19%	80%
29	853	130	15%	0.02	0.15	12%	32%
30	657	132	15%	0.03	0.20	29%	75%
31	242	132	10%	0.05	0.55	21%	97%
32	498	140	10%	0.03	0.28	20%	70%
33	627	144	6%	0.01	0.23	19%	97%
34	182	150	5%	0.04	0.82	34%	79%
35	253	150	5%	0.03	0.59	12%	56%
36	150	173	4%	0.05	1.15	21%	73%
37	359	191	8%	0.04	0.53	28%	16%
38	598	193	18%	0.06	0.32	32%	86%
39	238	207	9%	0.08	0.87	23%	60%
40	679	215	6%	0.02	0.32	13%	48%

Annexure

Compan y No.	Total no of employees	Annual Revenue (INR Cr)	Manpower cost as a % of sales	Cost per employee (INR Cr)	Productivity (INR Cr)	White collar Ratio	Contractual Manpower Ratio
41	793	216	13%	0.03	0.27	9%	48%
42	221	220	6%	0.06	1.00	55%	58%
43	941	225	13%	0.03	0.24	14%	64%
44	616	230	12%	0.04	0.37	12%	88%
45	437	235	9%	0.05	0.54	27%	83%
46	807	253	8%	0.02	0.31	18%	77%
47	536	280	7%	0.04	0.52	17%	49%
48	1159	280	9%	0.02	0.24	28%	91%
49	772	280	16%	0.06	0.36	26%	64%
50	438	283	5%	0.03	0.65	16%	74%
51	429	296	7%	0.04	0.69	22%	82%
52	621	311	13%	0.06	0.50	19%	69%
53	453	332	3%	0.02	0.73	15%	82%
54	489	345	9%	0.06	0.71	20%	63%
55	332	400	8%	0.09	1.20	13%	88%
56	565	417	13%	0.10	0.74	12%	83%
57	338	549	4%	0.06	1.62	45%	33%
58	2462	576	15%	0.03	0.23	15%	56%
59	387	644	3%	0.05	1.66	47%	8%
60	1451	1100	11%	0.08	0.76	30%	79%
61	5574	1144	13%	0.03	0.21	14%	58%
62	3658	1197	14%	0.05	0.33	27%	62%
63	920	1294	6%	0.08	1.41	23%	85%
64	1159	1600	7%	0.10	1.38	22%	43%