

XIII. COST REDUCTION CELLS

1. Introduction

1.1. The people are the power behind an organisation and, hence, behind the cost reduction drive. If their interest can be captured, the success of the cost reduction programme is ultimately assured. Effective organisation for cost control is based on the psychology of the individual.

1.2. There is actually no one way to accomplish cost reduction. There is, so to speak, no Utopia, no one method that is going to lead to the ultimate in a cost reduction programme. Too often, a search is made for the one idea or application that will cure all its-a search that is really a futile one. Reducing cost and improving the profit picture are invariably the results of many small measures properly applied.

2. How does Cost Reduction Work?

2.1. Organisation for cost reduction may be defined as a systematic arrangement of a dynamic element essential in the operation of any successful business. Broadly speaking, there are seven basic areas in a company which are subject to cost reduction analyses. They are finance and control, sales and marketing, manufacturing products and service, purchasing and personnel. When these areas of business are thought about as the ones subject to analysis for cost reduction purposes, and the reason for the proper organisation of cost reduction is considered, what is basically being considered is the overall company management or the overall company. The areas mentioned concern every facet of the business organisation. When considering cost reduction, there is no business area which can be eliminated. Having reached the conclusion that all the people in the company should be reached, no one individual, no One group, no one section, should be missed in the search, because the cost reduction element

that should be analysed affect each and every member of the business organisation. Therefore, every employee becomes important in the organisational plans. It is round this basic theme that the problems of cost reduction should revolve.

2.2 In any company, the first thought should always be of the people. Any company should take the approach to cost reduction through consideration of its entire people. There need not be any formal programme or any formalised set up. It is the usual practice of some companies to establish cost reduction committees, but it should be understood that any programme of cost reduction has to go to every employee ill the organisation.

3. The Personnel Approach

3.1 The Managing Director of a company emphasised the following points of view: He said his company never held a meeting to discuss cost reduction *per se*, but, rather, that meetings were held or the purpose of looking into specific problems such as wastes, rejects, absenteeism, and particular phases of operations that affected the overall costs and profits, and therefore could very conscientiously be brought to the attention of all employees for the purpose of cost reduction. He felt, further, that the surest way to lose interest in a cost reduction programme was to schedule meetings calling attention to it by that particular name. He felt that the people should be gathered together in small or large groups to hear about things that directly affected them. In this way, he was able to bring them directly into the picture and explain how the things they were doing definitely affected the operation of the company. They could then realise what he was talking about as opposed to a programme whereby cost reduction was constantly emphasised without bringing it to the degree that they, as individuals performing a certain job, could understand how they were a part of this cost reduction proposition. He felt that the term did not hold as much interest to a supervisor or employee unless it is applied to his own department rather than being applied generally to the whole company.

3.2 There is no one more interested of anxious about what is happening than the people down the line who actually do the job. The employees' personal performance and behavior is to be applied to operational costs, and it should be shown how their individual performance relates to overtime, loss of production, labour charges, and wastes. Further, the supervisor employee contact can build the employee's sense of self-importance and identification with the coin any. What has to be done from the cost reduction programme is to try in every possible way to create an atmosphere not so much of cost reduction, but rather of cost-consciousness. If the Managing Director of the company could reach the point where every employee thought of everything he did in terms of spending his own money, great cost reduction could happen overnight.

4. The "Power of People"

4.1. ' The "power .of people" is something that is to be practiced, talked about, and installed in the management group .of a company at all levels. The top management should bring to the attention of all the employees the importance to the business .of each .one as an individual, and the part that each must play in its success .or failure.

4.2. Every effort has to be made to bring the employees into the cost reduction programmers and the plans concerning it. It must be admitted that some one executive in the .organisation has to make cost reduction his prime responsibility. Normally in most of the companies this responsibility falls on the financial Division and .on the finance/cost offer in particular. In any cost reduction programme, the key individuals are the line supervisors in the factory or .organization. To build and develop the programme, it is necessary first to have the Cost accounting system basically sound. Once it is sound frogman accounting viewpoint, it must be ensured that those responsible for the cost elements understand the cost system and believe in its results. It is the awareness and understanding of each phase .of the programme by the people concerned· that is most important. Actually, a good accounting system, .one that is giving accurate and factual information is an elementary prerequisite of proper measurement In .other words, without it how can there be correct measurement, and how can it be known whether costs have increased .or reduced? In this area .of cost reduction programmed the cost accounting; system has to be sound, and equally important.

5 Multiple Management Concepts - Cost Reduction Cells

5.1 To have an effective cost reduction, the company has to operate under a plan called "multiple management" Multiple management means, as the term indicates, management by many. In addition to the top management executives there should be subsidiary middle management cells. There may be a cost reduction tell' for the factory, and a cost reduction cell for the sales. These are subsidiary or secondary levels .of management. They are a perfect training ground following executives. They give all the time who participate from all the various departments, a greater knowledge .of the company as a whole. Their experience and understand rig are broadened to a greater extent than would be possible if they were restricted department and only got out of it as their particular jobs might demand spidery cell system is one of the greatest helps in cost reduction, because basically the ideas that the executives of these cells work on are cost, reduction ophidian The improved methods, their improved machinery, and the studies of cost and expense factors accomplish great savings for the company. To cite an example in one the companies, the factory cell by means of a thorough and detailed study made a

unanimous recommendation that the company should invest in machines which are called "over-wrap machines". These machines take a dozen cans of spices or bottles of extracts, and wrap them in manila paper as opposed to the previous method whereby these products were placed in a cardboard packer. It is a much faster operation, and does a neater job with fewer employees. Actually, in less than a three-year period, the savings made through labour savings and savings through the use of paper will repay the required company investment. So it can be seen that this subsidiary management group can indeed help in the overall cost reduction programme. The same will be true in the case of/other boards. They do similar types of cost-saving activities, and the company cost reduction programmes will be benefited by their ideas.

6. Meetings Provide Incentives

6.1: In addition, monthly meetings of all employees may be convened lasting for approximately two to three hours. All the employees throughout the building may gather for these meetings in the cafeteria or the auditorium. These meetings may be for many purposes. They should keep the employees advised of what is going on, and keep them up-to-date on the latest happenings in the many areas of the business. Their attention may be brought to certain current events. The employees may be given suggestions and ideas on what they can do as individuals to do a better job with reduced costs, and help to increase the overall profit of the company. In a company with a network of sales offices all over the country, every salesman who sells the products throughout the northern part of the country, was brought to the headquarters. There are about three week-end meetings lasting a day every week. The main thing the company attempted to do in these meetings was to tell their salesmen about their company, and review with them the financial results of the year. The Managing Director of the company and other top officers spoke to them, and the Chief Labour Officer brought to their attention the company's programme of human relations activities. The sales department had a half-day .to discuss with them aspects of the marketing area. But again in the financial presentation, it was brought to their attention exactly how they had done as a group, how they had done as a region, and what would have happened to the company in total if they had done a little better. Al so emphasised were reasons why they should be particularly interested in their cost of operation as well as their sales results.

6.2 These various types of meetings present an opportunity to use a number on varied methods of informing the employees, and to solicit their continued assistance in achieving constant cost reduction and increasing cost awareness.

7. Profitable Suggestion Plans

7.1. If one accepts the premise that nobody knows the job as well as the man who is doing it, then the cost-conscious executive should take whatever steps he can to

capitalise on the reserve of employee know-how. The suggestion plan provides a means for the employee to express ideas about his job, and through awards, publicity, and recognition he is encouraged to use this means over and over again.

7.2. If a suggestion plan is to be effective, the following requirements must be met:

7.2.1. The objective of the plan must be decided at the outset.

7.2.2. The programme must have the complete backing and participation of all people at every level in the organisation, if not as suggesters and award-winners, then as boosters and sellers of the plan.

7.2.3. There must be a systematic, workable process for investigating and evaluating suggestions.

7.2.4. There must be a thorough and expeditious follow-up of all suggestions, whether accepted or not.

7.2.5. Payments for accepted suggestions must not only be reasonable and fair, but must also create sufficient incentive.

7.2.6. There must be agreement on the degree of participation by supervisors and technical personnel.

7.2.7. The plan must be continuously promoted and revitalised.

7.2.8. Ground rules must be carefully worked out and publicised to ensure consistency and fairplay, and to minimise disputes or misunderstandings.

7.3. The suggestion system is normally handled by the junior and factory boards.

As necessary with a suggestion system, these boards are constantly thinking of new ideas and new ways to create interest in submitting suggestions among each and every employee. No one knows more about a particular department or operation than the supervisor of the department and the employees within that particular operation.

7.3.1. If we continually show progress over a period of time-and we have no utopia in this field-even with all of these things that we do, we will benefit greatly, 'and all of our effort will be rewarded. We feel confident that we are going about the right way, and that we must continue in our efforts to reach every employee. There is no one who can sit in an office or walk through a plant and figure out where will be cost savings should and could be. But, on the other hand, if efforts of all types are used over a period of time to encourage everyone in the organization to be cost conscious, many cost reduction savings will be realised.

8. Summary

8.1. In summary, these are the points essential in the organisation of cost reduction.

8.1.1. One person has to be responsible. That person must think constantly in terms of cost reduction, and seize every opportunity to bring the subject to the attention of all employees.

8.1.2. Top management must have interest, cooperation, consideration, and a firm belief that cost reduction is worthwhile and necessary. At the same time, they must have patience because ideas create more ideas, and every idea does not produce the desired result. But the more ideas there are, the more opportunity there is to get worthwhile results.

8.1.3. A cost reduction programme must encompass all employees-each person that is a part of the organisation.

8.1.4. All possible means must be used to make all employees cost-conscious, and cognizant of the need for cost awareness.

8.1.5. There is no single way to fulfill the needs of obtaining cost reduction. It has to be a combination of many ways.

8.1.6. It has to be a continuous operation. It cannot be started and stopped at will, but must be worked on constantly. There must be constant effort to improve, and to think of new methods.

8.1.7. Cost reduction ideas must always be "glamorised" in order to make them appear new and different, and to increase and create greater interest on the part of the employees.