

## **A CASE STUDY OF AMUL CO-OPERATIVE IN INDIA IN RELATION TO ORGANIZATIONAL DESIGN AND OPERATIONAL EFFICIENCY**

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# A CASE STUDY OF AMUL CO-OPERATIVE IN INDIA IN RELATION TO ORGANIZATIONAL DESIGN AND OPERATIONAL EFFICIENCY

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## ABSTRACT

Organizational Structure can improve the working condition of an organization and a poor structure can ruin all the possibilities of openness, dynamism and decision-making. Organizational effectiveness on the other hand, is the extent to which an organization, given certain resources and means, achieves its objectives without placing undue strain on its members. Another important role is played by the technology. More an organization is able to adapt itself to the changing technology the better will be its efficiencies.

In the present research paper a relationship between the designs of an organization with its operational efficiency indicators has been examined in the context of Amul. The factors were studied in context to a cooperative form of organization and while comparing with the corporate form, it was found that the design of the basic structure is somewhat different as it believes in the federal form of structure each unit is independent of each other. It is a popular belief that co-operatives are a failure, but Amul with Co-operative Structure is a grand success. Amul has an appropriate blend of policy makers, technology and a support system to the milk producers without disturbing their agro-economic system and ploughing back the profits, by prudent use of men, materials and machines.

Keywords: Organizational Structure, dynamism, Organizational effectiveness, operational efficiency, federal, agro-economic system.

## 1.1 INTRODUCTION

An organization is a social unit or a group of people structured in such a way that they work for achievement of specific goal. Structure can improve the working condition of an organization and a poor structure can ruin all the possibilities of openness, dynamism and decision making.

Organizational effectiveness is the extent to which an organization, given certain resources and means, achieves its objectives without placing undue strain on its members. Another important role is played by communication among the employees and the technology. More an organization is able to adapt itself to the changing technology the better will be its efficiencies. Amul's structure was founded on the basis of cooperative system.

## 1.2 SIGNIFICANCE OF THE STUDY

In the present research paper a relationship between the designs of an organization with its operational efficiency indicators has been examined. It was found that these indicators play a very important role in the success of the organization. The factors were studied in the context to a co-operative form of organization and while comparing it with the corporate form, it was found that the design of the Amul structure is somewhat different as it believes in the federal form of structure each unit is independent of each other.

## 1.3 OBJECTIVE OF THE STUDY

To make study more scientific and systematic the researcher frame following objectives:

- 1) To study the significance of Amul co-operative in India.
- 2) To identify the relationship between organizational design and operational efficiency of Amul co-operative in india.
- 3) To suggest an action plan for smooth functioning of Amul co-operative in India.

## 1.4 RESEARCH METHODOLOGY

To evaluate the success of Organizational Design the two types of data sources are considered. Primary Source as well as Secondary Source. Primary data was collected through a structured closed / open-ended questionnaire and interviews with senior officials of AMUL, its employees and customers.

### Research Design Table

Geographical Area of the research	Anand in Kaira district of Gujrat
Sample population	Kaira district milk producer's union Ltd
Type of Sample	Convenient sampling
Respondents	Employees of different hierarchal level of the AMUL and the producer members.
Size of sample	200 (100 farmers and 100 employees of different hierarchal level of AMUL)
Type of research	Analytical

Secondary data was collected trough internet, news papers, magazines, journals and annual reports.

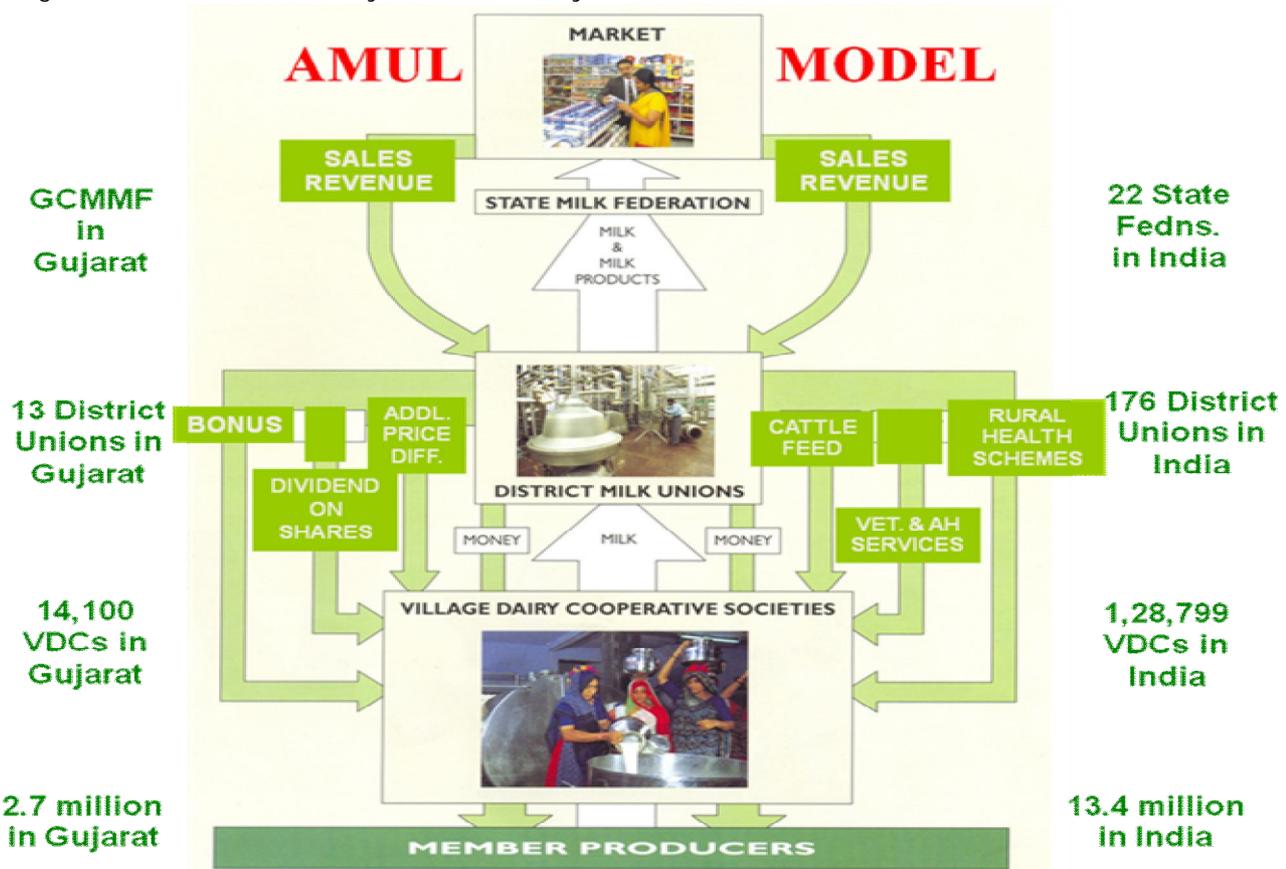
## 2.1 ORGANIZATIONAL DESIGN

Organizational design is a formal, guided process for integrating the people, form of the organization as closely as possible to the purpose of an organization. It is used to match the organization seek to achieve. Through the design process, organizations act to improve the probability that the collective efforts of members will be successful. Organizational design involves the creation of roles, processes and formal reporting relationships in an organization.

**2.1.1 THE AMUL MODEL**

Amul has a Co-operative form with a blend of professionalism. In the corporate form of an organization the shareholders are non-participative members whereas in this form the members are the participative owners of the organization. There are basically three tiers a dairy co-

operative viz., the village society- procurement unit, the union- which is the processing unit and the federation which is the marketing unit all being an institution in itself. The institutions at each tier have the bond of organic and inter-institutional linkages and obligations which provide sense of purpose and directions in their activities. To manage these units efficiently the leaders felt a need of the professionals. These professionals have a hierarchy similar to that of the corporate structure with the managing director as their head. The Managing Director of all these units is appointed by the board of directors. The board of directors comprises of the farmers members who come from the respective societies. So, at each level the decision making lies in the hands of the producers only, which give them a feeling of ownership to them.



**2.1.2 COMPARISON OF AMUL MODEL WITH OTHER CO-OPERATIVES**

In this study a comparison has also been done on the working of other states co-operatives with that of the AMUL Model. It was found that the basic Anand Pattern is the same everywhere, but the professional management is different from the AMUL model. In the case with other dairy cooperatives the managing Director of the federation which is apex body is an IAS on

deputation. As he is not in one federation permanently that does not give him the feeling of ownership which is very essential for a co-operative to be successful. Since in most of the co-operatives the government still has share, so various representatives are there in the board of directors and they become the decision making authorities. The elections of the village society, union and

federation are not politicized at GCMMF, whereas in other states these are influenced by the political parties at the state. At AMUL the employees are hired by their own recruitment pattern by the Human Resource Section whereas st other milk co-operatives there has not been any recruitment since last many years. The recruitment system is dependent on state government.

Cooperatives works for the same purpose i.e. maximising return for milk producers by adding value in different ways in the whole value chain. The organisation design is done taking into consideration the mission of the organization. That is why the design is done in such a way so that there is maximum participation of its members and the benefits can reach the members in a proper way.

Even at the profit-sharing level, the distribution is made in proportion to the volume of business contributed by each member; therefore, bonuses etc. are determined from the value of the commodity supplied by the members. This in turn ensures that while the co-operative does business, it also makes its members quality conscious.

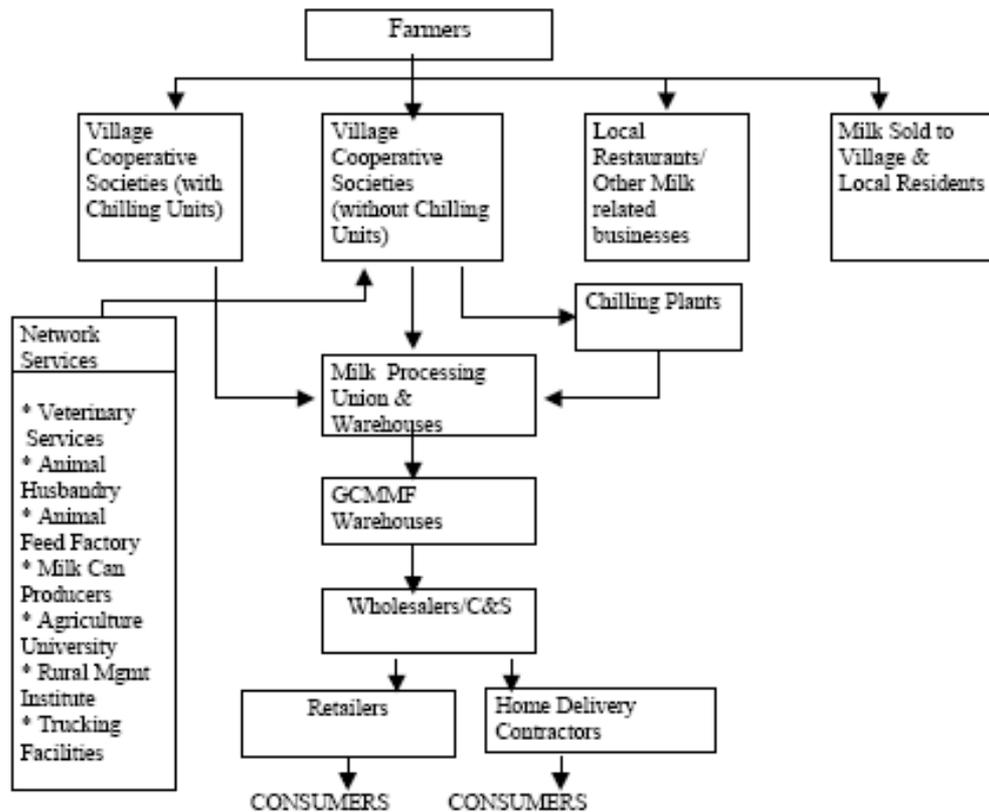
In Anand Pattern Co-operatives, while the producers themselves determine the policies, the opportunity is

provided to the professionals to implement the policies as well as to manage the operations

**3.1 OPERATIONAL EFFICIENCY**

Operational Efficiency of an organization is based upon the nature of a firm's operations strategy. This comes from the mission of the firm itself and is tied to the notion of achieving competitive advantage through operations. A key subsequent decision is what type of process a business needs. Design must follow strategy; so given priorities from the strategic plan, a process can be designed that will support these priorities. There should always be flexibility in the strategy adopted by an organization. Strategies ensure organizational effectiveness and efficiency because with the help of strategies the resource can be put to the best of their efficiency and maximum contribution to organizational objectives. Thus, strategies ensure that resources are put in action in a way in which they are specified. The strategies can be implemented only when we have a proper organizational design.

**3.1.1 DYNAMIC LOGISTICS SYSTEM AT AMUL**



Any dairy is able to survive if the amount of milk procurement increases. For this various aids have been

provided by the unions to the farmers like cattle feeds, the mineral mixture powder, the veterinary services, for

better breeding of the cattle they have artificial insemination. It has been found that all these inputs have helped in the production of milk. The procurement at Amul has increased from 41.42 lakh kg to 64.38 lakh kg resulting a growth of 55.42% in last 10 yrs. In Gujarat, the village societies have got so much profit that they have a fund from which they are able to contribute some money for the upliftment of their village like opening a school, building a hospital etc. This gives a good impact on the villagers and encourages them to become a part of the co-operative. These village societies are a link between the members and the union. The co-operative helps the farmers to get remunerative price as well as continuous market for the milk. In addition to the price of the milk they also get a bonus at the end of the year from the profit of the organization. The professionals utilize it by diversifying the products and finding suitable market. To further improve the efficiency of the procurement the organization has used the technology for this. Every society has its own computerized system where the testing of milk is done and payment is made according to the quantity and quality. Milk being a perishable commodity it is necessary to preserve it properly. To maintain its quality the society maintains a Bulk Milk Cooling system which preserves the milk below 40°C. This also reduces the expenses of the transportation as the society which has this unit the van goes only once a day to collect the milk. Further to prevent the sourage of the milk the union has its own chilling centers which help in preserving the milk procured from the far off societies

### 3.1.2 QUALITY MANAGEMENT

Quality is very important for any food industry. Quality implies maintenance of functional values of the product as well as improving the style of management by keeping customer in focus. The milk producers of the member unions have a commitment to achieve quality in basically six priority areas – Cleanliness of the dairy cooperative societies, Planning and Budgeting of the Dairy Society, Artificial Insemination Service, Quality Testing and Milk measurement at Dairy co-operative Societies and Management Practices and Self-leadership Development. This TQM movement has also been extended to the wholesale dealers by organizing workshops for them. Quality circles that work in tandem with the sales force. This movement also involves the process of policy deployment known as Hoshin Kangri. This involves strategy formulation and implementation, involving every member of the value chain.

### 3.1.3 E-REVOLUTION

AMUL is the first company in the co-operative form to adopt the e-revolution. In this information-communication-Entertainment age, the barriers between the business organization and consumers, between manufacturers and end-users are all breaking down. This is what was started fifty years back by AMUL by eliminating the 'middlemen' and bringing the 'producers' closer to the 'consumers'. The organization believes in innovations in product as well as process. For rapid communication access to Veterinary Health Assistance they have introduced the GIS facility. The adoption of the electronic milk testers to ensure efficient testing and measurement of milk constituents is a step in this direction. This is first organization to have its own website – [www.amul.com](http://www.amul.com) They have nationwide cyberstores, functioning in some 120 cities, and an AMUL cyber stores gifting service capable of serving consumers in more than 220 cities, on special occasions. This has been possible by creating an IT network, which links the production, centres with sales offices and dealers by VSAT and e-mail connectivity.

### 3.1.4 BRAND –A POWER

Brand is the power of any organization. This can be developed only with the marketing skills and by giving the customers value for money. This was done with the formation of GCMMF in 1974. It became the marketing unit of the organization helping in the centralization of the marketing of all products except liquid milk which the unions had to do on its own. AMUL has a strong support of the rural Managers for IRMA. This institution also forms an integral part of the AMUL model. This institute has helped sufficiently in building these traits at the federation and conducting Management development programme. The distribution channel is well equipped with 48 depots situated in five zones.



**Exports:** AMUL has the export of products also. The organization is getting the APEDA award for excellence in exports of dairy products.

**Growth Dynamics :** According to the study conducted it was found that the revenue has increased from Rs.2218.52 to Rs.8005.36. The exports have also gone up by 50% and the foreign exchange earnings have crossed a mark of Rs. 100 crores. Amul is the no.1 most popular brand in the country and in this process the organizational design has been instrumental. As the survey indicates approximately 80% of the employees report that the operational efficiency is the outcome of the dynamic organizational structure of Amul.

**Table 1.1 Showing the growth dimensions of AMUL**

Year	Sales (in billions)	Milk Procurement (in million Kg)	Production of Milk(in million MT)
2011-12	116.68	10.30	127
2010-11	97.74	9.45	112
2009-08	80.05	9.28	110
2008-07	52.55	7.37	108

#### **4.1 AN ACTION PLAN TO STRENGTHEN THE RELATIONSHIP BETWEEN ORGANIZATIONAL DESIGN AND OPERATIONAL EFFICIENCY**

Like any other organization Amul too has its own strength and some grey areas. The strength of Amul lies in the dedication of its producer members, the technology, the supply chain management, the values, the HR initiatives taken by the organization, their visionary leadership.

And the grey areas include certain structural as well as operational bottlenecks which need to be tackled by Amul for smooth & steady operations and for taking the organization to new heights. On the basis of in-depth analysis of operations and based on the feedback collected from the farmers, vendors, employees and officers at Amul. The following actions were suggested for improving the efficiency.

##### **4.1.1 Mission Statement**

As viewed by the employees mission plays a very important role in effective working of the organization. Amul has recently started making members and employees aware of the mission statement of the organization, but at certain levels people are not aware about it. Amul should try to disseminate its mission statement to member & employee so that they can contribute their best for attainment of mission & objectives of Amul.

##### **4.1.2 Enlargement of Membership**

The number of producer members at Amul has been increasing but on having a closer look we can find the percent growth has been decreasing. This might block the future growth of the organization. They can conduct cultural shows showing the developmental aspects of cooperatives. They can organize free cattle care camps for them which may motivate the villagers to become members.

##### **4.1.3 Participative Management**

Although the structure of GCMMF demands participative management and it has been, of course trying to implement it. On the one hand, participative management involve much time impost yet there they need a clearly defined the areas where participation management can be implemented. On all critical areas affecting participative decision making whereas routine decisions can be taken by the managers in the spot.

##### **4.1.4 Changes in Cooperative Law**

The cooperative act had been framed some eighty years back by the colonial government. It was under the pressure of these farmers the English government had to form a cooperative. The Englishman did not have faith in the Indians, so they included in the cooperative act that the registrar of the cooperatives would be a member of the board. In independent India, we must understand the role of cooperatives in rural development. The real development can take place when we depoliticize the cooperative act.

##### **4.1.5 Avoiding Delay in Decision Making**

Decision making plays a very important role in the growth of the organization. Right decision at right time is very important. Generally delayed decisions spoil the urgency and significance of the methods in question. GCMMF is advised to spot the decisions where from decision making is much warranted. Only with firm

decision making Amul can stay much ahead of its competitors.

#### 4.1.6 Availability of the Products

Amul has been trying to make the products available to its customers easily. In this context they have opened Amul Parlours so that its products are available to its customers under one roof. From the survey it has been deducted that although Amul is doing all such efforts but still the availability has increased in western parts of India and in Metros but still rest of India these parlours have a problem of Non-availability due to which they are not able to meet the consumers demand. Amul must increase its milk production base and processing capacity so that they are able to meet the growing needs.

#### 4.1.7 Awareness in Unexplored Areas

Although Amul has been doing lot of projects for the awareness of the people in regards to cattle care and better breeding facilities. But unfortunately these programs have been concentrated in those areas which have higher literacy rate. The remote areas which are the potential zone for milk production must be taken up by Amul. Extensive programs should be done to attract the farmers to become members of the society. Some demonstrations or some experience of the producers like them should be taken there to share their experience. This way they can be convinced easily

#### 1.4.8 Coping with the Competition

The largest share of Amul's turnover comes from Fresh Milk and then from butter, one of the earliest product. If Amul has to increase its turnover, it has to concentrate on increasing its fresh milk sale which will be done only if the procurement of the milk increases.

#### 1.4.9 Product Development

Although Amul believes in innovation, but still in many segments requires upgradation in some of the aspects. Amul chocolates and Nutramul hardly has 10% market share which is far behind their competitors. Moreover this 10% market share of Nutramul comes from the army supply. The malted drink is mainly dominated by

Bournvita. Most of the people they are not aware of their Nutramul brand. They should have advertisement campaign in this segment first to make the consumers aware of the product. They can also have a feedback from the consumers what they want from the product. In this way they can capture the market and will be able to compete with the other companies.

#### 1.4.10 Availability of Power

Although Amul has developed itself a lot in the field of Information Technology, still it has been realized that the acceptance of the technology is difficult in the villages which are slightly backward. There are problems of electricity also. For this they can have proper power back-ups and they can even use generators. They can also request the electricity department for the supply of electricity for running the BMC unit and the chilling plants during the peak times of collection.

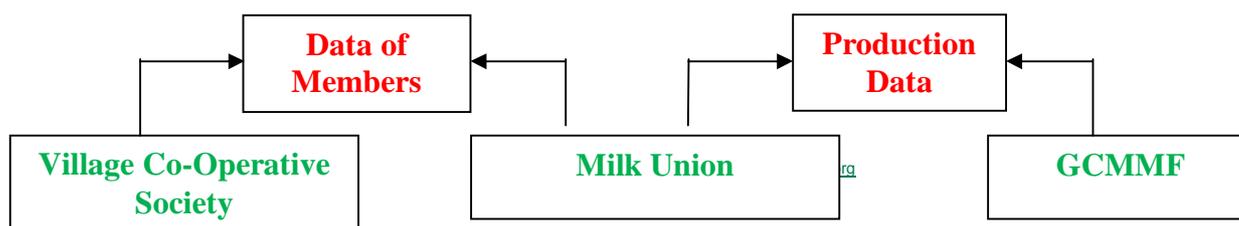
#### 1.4.11 Attrition Rate

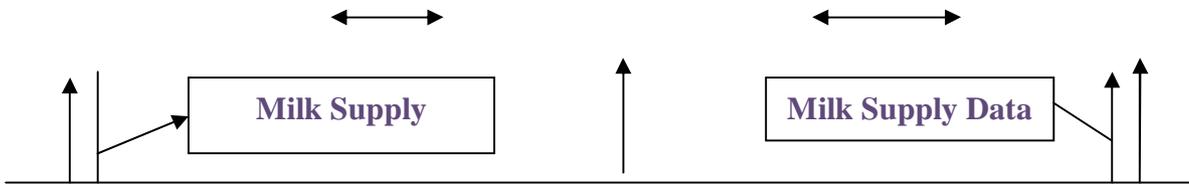
Manpower is the force of the organization. In case of Amul producer members are the most important factor. The organization works upon the principle of giving maximum benefits to its members, but professionals play an equally important role in the success of the organization. They also have to be satisfied in order to realize the dreams of the producer members. The rate of attrition at Amul is high. The salary and perks are not at par with that of the multinationals. Amul has started with taking a bond for three years with the employees who are inducted. The promotions must be on the appraisal basis and with every promotion; the increment amount should be good enough to retain back the employees.

#### 1.4.12 Supply Chain Management

Although Amul has a very good supply chain with a good number of Retailers and wholesalers, but the number of depot which they have in each state is low as compared to the demand of their product. In bigger states also they have only one depot which is not sufficient to cater to the requirements of the retailers. In order to meet the demands of the customers Amul must increase the number of depots which they have.

### The Superior End of Value Chain of GCMMF





### UNINTERRUPTED INFORMATION FLOW

(Adapted from the paper ICT application in a dairy industry: The e-experience of Amul)

#### 1.4.12 Application of Six Sigma

Amul has implemented TQM very successfully, but this concept has grown old. In order to succeed in this competitive environment Amul must use the concept of Six Sigma, which means putting the customer first and using facts and data to drive better solutions. Six Sigma generally focuses on three key areas: Improving customer satisfaction, reducing cycle time, reducing defects. Improvements in these areas usually represent dramatic cost savings to businesses, as well as opportunities to retain customers capture new markets, and build a reputation for top performing products and services. *This is a system that combines both strong leadership and grassroots energy involvement.* This system is not owned by the senior leaders or middle level management; it takes place at the front lines of the organization. This will help the organization to put more responsibility into the hands of the people who work directly with customers.

#### 1.4.13 Improving Human Resource

In a cooperative organization the farmers are more important than the professionals, as the latter are the employees of the former. It is the prime duty of every employer to see that their employees are satisfied. Although Amul has a good system of induction and training of the employees as well as the wholesalers, but they do not have a continuous development program for the executives like any other organization. To develop the people and to increase the effectiveness of the working, Amul should have a training centre where they can have a regular training programs for the employees as well as for the wholesalers and retailers. This will enhance the productivity level.

In the end the researcher recommends that organization should have a centralized training centre for the training of the farmers as well as the employees. This will enable them to organize continuous workshops for them. This will also enable the farmers and the members to be well

aware of the latest technological development in the field of dairying.

#### 5.1 CONCLUSIONS

Looking back at the path traversed by AMUL, the following features make it a pattern and model for emulation elsewhere. Producing an appropriate blend of the policy makers, farmers board of management and the professionals, bringing the best of the technology to rural producers, providing a support system to the milk producers without their agro-economic system and plugging back the profits, by prudent use of men, material and machines. Even though growing with time and on scale, it has remained with the smallest producer members. AMUL is an example par excellence, of an intervention for rural change.

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