COLUMN | *By Shashank Shah*

CRISIS TO EMPLOYEE WELLBEING

Story of Tata Steel

IF WE DON'T RENOVATE the plant totally, ten years from now, you and I will be standing outside the gates selling tickets to people to come and see the steel museum!", Dr Jamshed Irani, then Joint Managing Director of Tata Steel confessed to J. R. D. Tata, then Chairman, Tata Sons, about the Tata Steel plant at Jamshedpur. JRD had a hearty laugh but grasped the seriousness of the situation. It was the mid-1980s. India was still under Licence Raj. The growth prospects of India Inc. were severely restricted because of government policies.

In its first 80 years of existence from 1907, Tata Steel grew from a production capacity of one lakh tonne to 20-lakh tonne per annum (MTPA). The journey from one million tonne to two million tonne began only in 1958, facilitated by a Rs 52-crore World Bank loan, the largest granted to any country in Asia at that time. In a conversation, Irani lamented that Tata Steel was held back at 2 MTPA production and not allowed to modernise because public-sector steel plants were coming up at Bhilai, Bokaro, Durgapur and Rourkela. In comparison, Japanese steel plants that manufactured about 10 MTPA in 1958, had grown to 100 MTPA by 1980. Just because Tata Steel existed before independence, it was 'allowed to' survive, with the threat of nationalisation looming large. It was in this backdrop that Irani joked about the Tata Steel plant soon becoming a steel museum.

While Tata Steel had the distinction of being India's largest private sector company, it also had the disgrace of being one of the most expensive steel producers in the world. From a labour productivity standpoint, Tata Steel was producing 100 tonnes of steel per man-year, compared to 1,000 tonnes per man-year by some of the efficient producers in the USA. Leading consulting companies called it an 'inefficient operator' in a sunset industry. At a Harvard Business School executive education programme in Mumbai in the early 1990s, several global CEOs suggested to Ratan Tata, who had taken over as Chairman of Tata Sons, that the Tata Group should sell Tata Steel and exit the industry as it may not be able to face international competition post-liberalisation.

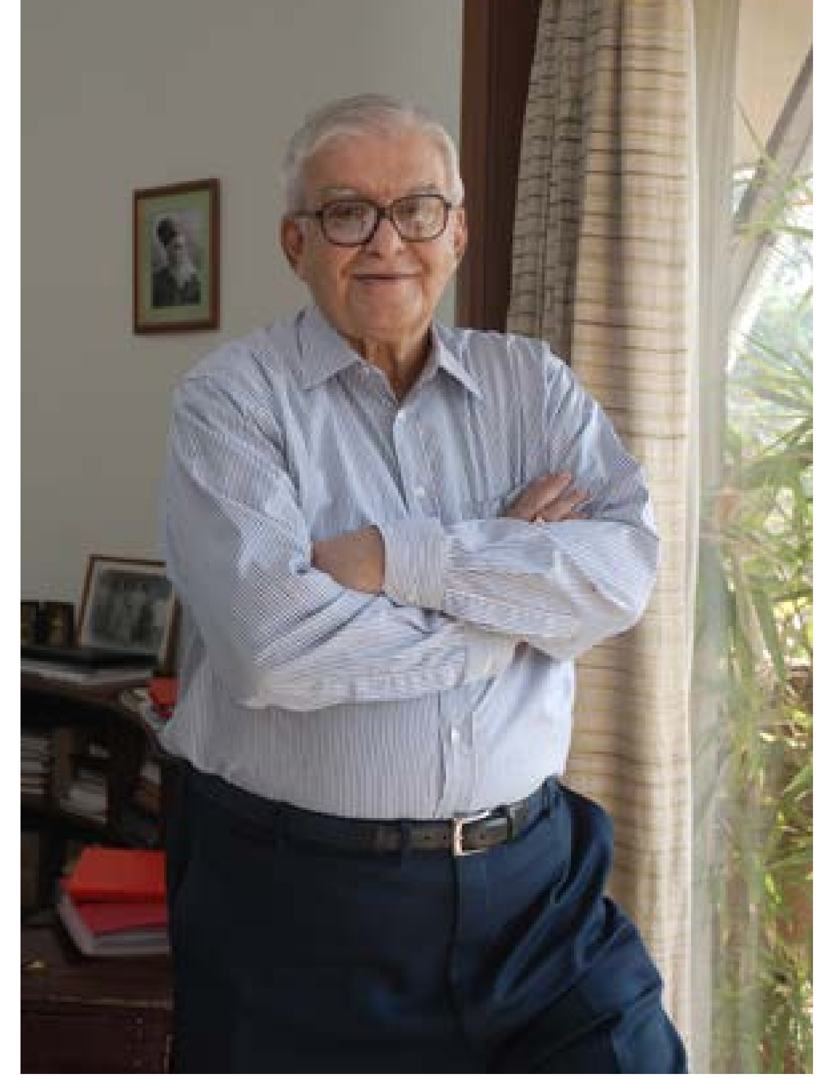
However, before passing the baton to Ratan Tata, JRD had got the necessary board approvals, for a complete Rs 4,000-crore modernisation plan for the Tata Steel plant at Jamshedpur in four phases running to the end of the century. Ratan Tata was determined to build on that. He paid little attention to the 'advice' of consulting companies and global CEOs and decided to transform Tata Steel from being a relic of the 20th century to becoming a trailblazer in the 21st century. In the subsequent two decades, this vision was achieved. Not only did Tata Steel become India's first Fortune 500 company, but also the least cost producer of steel in the world. It won the Deming Prize (2008) and the Deming Grand Prize (2012), the acme of a company's achievements in Total Quality Management, and created history by becoming the first and the only integrated steel company in the world to win this award. While this journey in its entirety has a lot of learnings, in this article, I limit myself to the people issues – the crisis and its culmination.

Genesis of the Crisis

In its journey to becoming a world-class organisation, rightsizing the labour force was a vital element. After taking over as Chairman, Ratan Tata enquired about the workforce size. It took a few months before the number 80,000 emerged. In the 1960s and 1970s, labour was cheap and to placate the powers that be, the company willingly gave jobs. This was the primary reason for the massive labour force at Tata Steel. Till wages were low, that wasn't a problem. However, in the early-1980s, the wage bill increased to Rs 200 crore. JRD exploded.

Wage agreements were linked to the public sector. With Tata Steel and SAIL being the only two players, the wages decided during the joint meetings had to be given. The colliery wages were governed by the coal wage board, which was again nationalised. There was little control on deciding the wages. Moreover, as part of the Tata culture, the company gave more than what was recommended. Furthermore, there were redundancies galore. For example, Tata Steel had some 3,000 secretaries and office boys. All these contributed to the rising wage bill. Given that the quantum of wages was non-negotiable, the workforce size had to be reduced to manage costs.

There was also a tradition at Tata Steel, once written into the agreement with the union that every retiring worker (having completed 25 years of service) could nominate a person (son or daughter) to take his job. It wasn't just lifetime employment; it was inter-generational employment! The Tata culture of not retrenching people and its agreements with the union limited any option of laying-off workers *en masse*. The socio-economic consequences of such a decision would also be immense as there weren't many employment opportunities in Jamshedpur outside the Tata plants. Therefore, persuading its workforce to voluntarily separate was the only option. But why would anyone give up such a stable job at Tata Steel? The separation option had to be even more attractive than the job! That's what the top HR team designed.



Dr J. J. Irani: personally addressed several meetings with workers to share his concerns about the dire situation

Photograph by Tribhuwan Sharma

Candid Conversations with Employees

Irani personally addressed several meetings to share his concerns about the dire situation. He recalled one such meeting at the plant. "*After I explained my plan, one of the workers stood up and shouted, 'We understand why you are doing it and how the company is gaining. But you are taking away the jobs of my children!'* Immediately, on an inspired moment I shot back, 'Look, if you don't do it, your job and my job is at stake. So, forget your children, think about yourself.' That was the turning point." At another meeting he drew a parallel with the recently installed ICU equipment in the Tata Main Hospital. "*Our company is in an ICU. You can get out of an ICU in two ways. One is to take bitter medicine and undergo a painful surgery with the hope that one day you would be able to walk out on your own. The other way is not to do anything and leave it to God's will. In that case, there is a possibility that you will go out horizontally straight to the burn-*

ing ghat. Which way do you prefer?' The narrative was clear. The management was honest. In his presentations with union leaders, Irani shared details of the cost, sales, profits/losses, expense per employee, and potential expenses with the rising wage bill. He also presented facts about competition and international benchmarks vis-à-vis the company's performance. The workers understood the enormity of the situation. He asked for suggestions on possible alternatives. The workers had none.

> The solution that Tata Steel proposed to tide over the situation was the Early Separation Scheme (ESS). The scheme was a mega-success. By 2006, Tata Steel's labour force had reduced to 38,000 from 80,000. In just over a decade, over 40,000 workers had left happily

The Smart Separation Scheme

The solution that Tata Steel proposed to tide over the situation was the Early Separation Scheme (ESS). According to ESS, the entire workforce was divided into three groups. For those above 55 years, they would get their existing salary until the retirement age of 61 years. Those below 55 and above 45 years, would get 1.2-1.5 times their salary until retirement. Those below 45 years, would get 1.5 times their salary until retirement. If they died before the notional date of retirement, their families would continue to receive full payment until the retirement date. As for medical services, those who continued to live in Jamshedpur, the company would continue to provide free medical services for them and their dependent family members. For those leaving Jamshedpur, the company would provide free medical insurance. Also, those accepting the severance package, had to vacate company accommodation. However, they were given three years' time to find alternative housing. After accepting the package, the worker could even take another job..

The entire scheme was designed by the personnel department headed by S. N. Pandey. The management's role was limited to outlining the retrenchment policy and giving approvals. R. B. B. Singh, then deputy president of the Tata Workers' Union, called it the best scheme in the country. The scheme was so attractive that exits had to be curtailed. The leadership wanted high performing candidates to remain, so they decided who would leave and who would stay. Commenting on the lavish package, some of Irani's industry peers told him, 'Jamshed, you either have too much money or too little brain!' However, Chairman Ratan Tata firmly stood behind the initiative despite short-term risks.

Given the massive pay-out the package entailed for the company for long years, one would wonder at the quantum of money it saved. The key saving was through the constant amount of salary paid to employees until retirement, instead of increasing salaries based on inflation and market parameters. Added to this, the savings on payroll taxes, contribution to pension and provident fund, savings on housing and free facilities given to employees significantly contributed to cost-cutting.

Throughout this decade-long exercise, Irani participated in quarterly meetings where he addressed groups of 300-400 union representatives. They would often enquire about the final target. Had he revealed that from 80,000, the company wanted to reach half the number; there would have been an uproar! So, he would tell them that he had not arrived at a final figure. To give him the benefit of doubt, he too did not know the final figure. The HR team worked on department-wise annual targets.

From IR to HR Management

A similar scheme was implemented for the 6,000 strong managerial workforce at Tata Steel. Designed in collaboration with McKinsey & Company and Eicher Consultants, this initiative was called the Performance Ethic Programme (PEP). The key objective was to transition from Industrial Relations Management to Human Resource Management. These managers were people who had spent decades in the company and lived as part of one large ecosystem. To mandate them to leave for strategic reasons was unprecedented in the Tata way of business. The company even addressed the spouses of the employees to convince them of the imperative behind taking such a decision. The manpower surplus was obvious. In the early-1970s, there used to be only one general manager. By the time PEP was implemented, there were 129 executives with the designation 'general manager'. Over the years, to satisfy employees, notional promotions had been given to people doing the same job.

In the delayering exercise, HR processes were put in place. Key Result Areas and 360-degree reviews were introduced. The objective of reducing hierarchical layers was to ensure quicker decision making, and speedier promotion for high-performing candidates. Managerial competency and leadership assessment techniques were used to identify candidates. Those getting discharged were provided professional help with their biodata and finding jobs elsewhere. The 18-month-long exercise led to a reduction of 1,000 managers.

Tata Steel: The plant set up at Jamshedpur in 1907 went through a four-phase modernisation process

Workers' Reactions

The scheme was a mega-success. By 2006, Tata Steel's labour force had reduced to 38,000. In just over a decade, over 40,000 workers had left happily. Of these, 10,000 were through normal attrition, retirement, and death. About 30,000 workers accepted the scheme. It was an unheard-of initiative where thousands of employees left the company every year, without any protests or loss of production.

Highlighting the success of the scheme, Irani observed, "*It was not that the union was a pet union of the management. They didn't agree to everything we wanted. But in this, they were with us because they could see that we were careful in selecting the first few workers for the package. If you are successful with the first 500 or 1,000, they spread the word. Word of mouth is far better than writing essays on the benefits of the scheme.*"

Global Recognition

In an era when mass lay-offs were commonplace in developed economies, Tata Steel's bold decision to engage with workers and devise an amicable approach to downsize 40,000 workers was adjudged as one of the greatest business decisions of all times in a special compilation by *Forbes* in 2012. It was considered at par with landmark decisions taken by iconic companies like Apple, Ford, and Johnson & Johnson.

Key Learnings

Tata Steel's decision not only made it globally competitive, but also created enormous goodwill as a fair corporation. In 2004, when the Tata Workers' Union and Management celebrated the historic occasion of 75 years of industrial harmony, President A. P. J. Abdul Kalam presided over the event that honoured a relationship built firmly on cooperation and coordination.

A key learning from Tata Steel's decade-long strategy to reduce its excess manpower is that solutions to such crises come at huge institutional costs. Such outcomes may not emerge with focus on short-term financial benefits. However, they have the power to redefine industrial practices in the long-term. To achieve this end, leadership must be willing to sacrifice, engage with core stakeholders, and collaboratively devise solutions in the larger interest. BW

The writer has been Visiting Scholar, Harvard Business School and Copenhagen Business School; and a Fellow and Project Director at the Harvard University South Asia Institute. He has authored three books