Chapter 1

Introduction
INTRODUCTION

In today’s competitive economy, organizations survive and prosper by the knowledge, commitment, skills and training of their human resource. In the dynamic business world, competition is inevitable. Yesterday’s best organizations are disappearing from today’s list of the best. Every year the name of the Fortune 500 companies reflects how competition impacts the fate of the organizations. Gone are those days when excellent organizations used to have a lifecycle of excellence for a very long period. Climbing to the top is relatively easier than staying at the top. Many organizations have grown at a faster speed but simultaneously they have failed to sustain their growth. The world-class organizations are those who are ahead of competitions, have managed to maintain sustainable competitive growth. The success stories of these organizations have proved that people make the difference, not the technology. It is the superior talents in the organizations which will make the organization different and will be tomorrow’s prime source of competitive advantage (Bhatia, 2007). The former CEO of Allied Signal, Larry Bossidy has rightly said “At the end of the day we bet on people not on strategies”. HR is a precious asset and is the key factor in enhancing the capabilities of the organization to deal with all the emerging challenges.

Quality and productivity are the two important factors for the survival and growth of any organization. The people are the ones who ultimately take the process through to its rightful goal. Under these circumstances, the HR plays a vital role in improving the performance of the organization (Prasad, 2006). It is the job of strategic HRD to build such a workforce that can facilitate both quality and productivity and thereby helping the organization to compete in the market. The HR plays a crucial role as a strategic business partner, change agent, administrative expert and champion of employees in shaping and directing strategic outcomes to ensure the viability of an organization (Chattopadhyay et al., 2001).

The globalized economy unleashed the competitive forces and vastly changed the business scenario that has resulted in hyper competition. To survive in the new environment, organizations have no option but to hovel several of their inheritances of
the controlled regime. So, every organization has to gear up with new and innovative strategies to survive and grow in this era. In this process, HR plays a crucial role for turnaround of an organization.

1.1 INDIAN ECONOMY AND ROLE OF PUBLIC SECTOR

1.1.1 Growth of Public Sector Undertakings (PSUs)

Considering India's economic, social and demographic reality it is difficult to imagine the Indian economy without public sector undertakings (PSUs). There are 248 central PSUs in different sectors all of which are deeply ingrained into the economy of the nation and their business operations are now an inseparable part of a common man's life. An extensive presence of PSUs in Indian economy can be attributed to the economic policy embraced post-independence. Expanding the scope of public sector to different industries was primarily driven by objectives like developing infrastructure; creating employment opportunities, surplus generation for further investment, reduction of inter-regional disparities, and diversification of the economy and promotion of rapid economic growth. PSUs have been successful in attaining these objectives to a great extent.

However, all 248 central PSUs were not created overnight. Prior to independence, there were only a few ‘Public Sector’ undertakings. These included the Railways, the Ordinance Factories, the Port Trusts, the Posts and Telegraphs, All India Radio, and few undertakings like the Govt. Salt Factories, Quinine Factories etc. In late 1960s and early 1970s, a phenomenal growth in the number of PSUs took place when majority of the large commercial banks were nationalized followed by an analogous move in textile, crude oil refining & marketing and coal mining among others. The number of PSUs increased further in 1970s and 1980s with the establishment of new nationalized companies such as National Aluminium Company, National Thermal Power Corporation Ltd., Gas Authority of India Limited (GAIL) and Rashtriya Ispat Nigam among others. Post-independence, the country was facing problems like inequalities in income, low levels of employment, regional imbalances in economic development and lack of trained manpower. At that time, India was predominantly an agrarian economy
with a weak industrial base, low levels of savings, inadequate investments and infrastructure facilities. A lot of emphasis was given on economic growth along with social development. The method of central planning was adopted in order to attain this. Since the objectives set in the first Five Year plan (1951-56) were not achieved, the process of creating national players in strategic sectors such as oil & gas, heavy industry, steel, banking & insurance among others was initiated to accomplish these targets. Some of the leading and most successful PSUs- ONGC, BHEL, Indian Oil Corp, State Bank of India, NTPC, Bharat Electronics, and Steel Authority of India Limited (SAIL) among others originated during this period (Mulay and Kant, 2009).

The PSUs share that was just 10% of the total GDP in 1970s grew rapidly in the following two decades to 25% by 1990s. During the financial year ending March 2009, PSUs accounted for and 12% of the gross domestic savings and 22% of GDP. The share of public sector capital formation in gross domestic capital formation that was a mere 35% at the beginning of the first five-year plan (1950-51) went up to more than 50% during 1970s and remained steady in the subsequent years. The process of liberalization and deregulation that began in late 1980s had gradually reduced the overall share in total fixed capital formation and this accounted for nearly 25% in the year 2008-09. The decline in the share of public investment was basically due to increased efficiency of public sector, and not because of a shift in investment from the infrastructure to less capital-intensive sectors.

The performance of PSUs was satisfactory not only in contributing towards the quantitative targets of production but also in achieving societal objectives like self-dependence in different sectors of the economy such as the growth of small scale and ancillary units, balanced regional development and the formation of technical skills. It has also encouraged social control on trade and industry for restricting disparity in allocation of goods and services.

SAIL traces its origin to the formative years of an emerging nation - India. After independence the builders of modern India worked with a vision - to lay the infrastructure for rapid industrialization of the country. The steel industry, being the backbone of a developing nation, came to occupy the premier position for ushering in
economic and industrial progress. Since the steel sector was to boost the economic growth, Hindustan Steel Private Limited was established on January 19, 1954.

1.1.2 The Steel Industry

Iron and Steel occupy an important position in industrial development, since they provide basic materials for the growth of other industries. They are linked both in forward and backward direction to a large number of other industries.

At the time of independence, India had three major steel plants, namely, Tata and Steel Company (TISCO) at Jamshedpur, established in 1907, the Indian Iron and Steel Company (IISCO) at Burnpur, established in 1918 and Mysore Iron and Steel Works at Bhadravathi, established in 1918 by the state of Mysore. Besides these, there were a number of mini steel plants and re-rolling mills in the country. When the first Five-year plan commenced in April 1951, India had a capacity of 1.8 million tonnes, which was 1 percent of the world’s production. The per capita consumption of crude steel in India was about 5 kg in 1950 (GOI Annual Report, 2008).

Pandit Jawaharlal Nehru, the first Prime Minister of independent India, firmly believed that industrialization ultimately depended upon heavy industries with steel as the base. The Industrial Policy Resolutions of 1948 and 1956 clearly stated that all future growth of the steel industry should be reserved for the public sector. The foundation of the steel industry in India in the public sector was laid after independence on the firm conviction that if the country were to have a totally self-reliant economy, rapid industrialization with special attention to basic and heavy industries was necessary (Mittal, 2009).

1.1.3 Holding Company

A policy statement drafted to develop a new model for managing industry by the Ministry of Steel and Mines was presented in the Parliament on December 2, 1972. This helped in mooting the idea of starting a holding company to manage inputs and outputs under one umbrella leading to the formation of Steel Authority of India Ltd (SAIL). Since its origin, SAIL has been actively involved in laying a sound
infrastructure for the industrial growth of the country. Besides, it has enormously contributed to the overall development of managerial and technical expertise. It has helped in triggering the effect of economic growth by generating input on a continuous basis for the consuming industry.

1.1.4 History of SAIL

When the Government of India decided to enter into the field of Iron and Steel production, it broadly envisaged not to run the firm as a departmental undertaking. Although initially steel project administration was directly under a Ministry of the Central Government, Hindustan Steel was formed as a Limited Company, with President of India owning the shares on behalf of the people of India. Thus HSL was set up on January 19, 1954. To start with, HSL was intended to manage with a single plant that was coming up at Rourkela. For the plants located in Bhilai & Durgapur, the preliminary work was through the officials from Ministry of Iron & Steel. Since April 1957, the control and supervision of the Bhilai & Durgapur Plants were transferred to HSL. The registered office that was originally located in New Delhi, shifted to Calcutta in July 1956 and later moved to Ranchi in December 1959. Initially Bokaro Project was also under HSL. A new entity, Bokaro Steel Limited with the aim of constructing and operating the steel plant at Bokaro, was incorporated in January 1964. The 1 MT phase of Bhilai & RSP were completed by the end of December 1961 while 1 MT phase of Durgapur was completed in January 1962 after the commissioning of its wheel and axle plant. As a result, the crude steel production of Hindustan Steel rose up from 158 thousand tons (in 1959-60) to 1.6 MT (in 1961-62). 2.5 MT phase of Bhilai Plant was completed on September 2, 1967 post the commissioning of its Wire Rod Mill. On 17th February, 1968, Tandem Mill, the last unit of 1.8 MT phase of Rourkela was commissioned. 6th August 1969, marked the completion of 1.6 MT phase of Durgapur after commissioning of furnace in SMS. Thus, with the completion of all these projects, the total Crude Steel output from HSL rose to 3.7 MT in 1968-69 and 4 MT in 1972-73 (GOI Annual Report, 2008).
In 1971, the Department of Steel considered formation of the first Parliamentary Committee to study a significant review of setting up a Holding Company for steel with the following objectives:

- To make rapid escalation in the industrial sector of the economy and of the state; and
- To enable the Government to divert investment into different areas for future development.

In this context, it was acknowledged that the Public Sector had to be made more efficient in functioning so that it might be able to generate far more than it had for the holistic development of the economy.

Further, such a holding company could perform a number of other important functions like planning long term programmes, coordination and control of constituent units, introduction of necessary technological changes, training of managerial personnel and setting up of a Research & Development organization for the Public Sector as a whole. In January 1972, the Government approved the proposal to set up a holding company for Steel and associated input industries taking the above facts into consideration. In view of that, the Government approved the formation of Steel Authority of India Limited in December, 1972. SAIL which was incorporated on January 24, 1973 with an authorized capital of Rs. 2,000 crores was made responsible for managing five integrated steel plants at Bhilai, Bokaro, Burnpur, Durgapur, Rourkela and the Alloy Steel Plant and the Salem Steel Plant. The company was restructured to become an operating company in 1978 (GOI Annual Report, 2008).

Steel Authority of India Limited (SAIL) through its five integrated steel plants accounts for major steel production capacity of India. Three special steel plants at Bhadravati, Durgapur and Salem produce a wide range of special steels, special alloy steels and stainless steel. MEL, Chandrapur, a subsidiary company, is one of the largest producers of bulk Ferro Alloys in the country and there are plans to merge it with SAIL.

SAIL, whose innate strength lies in its technologists and professionals and a trained manpower of over 1.34 lakh including subsidiary, is one of the largest corporate entities
in today’s times. It had a sales turnover of over Rs. 5,555 crores during 2007-08. (www.sail.co.in)⁹.

1.1.5 Rourkela Steel Plant (RSP)

Rourkela Steel Plant (RSP) was the first integrated steel plant of SAIL in the public sector in India. It is located in the north-western tip of Odisha at the heart of a rich mineral belt. It was set up with German collaboration having an installed capacity of 1 million tons in Rourkela. Afterwards, its capacity was enhanced to 1.9 million tons.

In the mid-1990s, the plant was modernized with a number of new units having state-of-the-art facilities. A number of the old units were also revamped for effecting substantial improvement in the quality of products, reduction of cost and ensuring cleaner environment.

RSP was the not only the first plant in SAIL but also first plant in India to incorporate LD technology of steel making. It is the first steel plant in SAIL and the only one currently where 100% of slabs are produced through the cost-effective and quality-centric continuous casting route. At present, RSP has the capacity to produce 2 million tonnes of hot metal, 1.9 million tons of crude steel and 1.67 million tonnes of saleable steel (www.sail.co.in)¹⁰.

1.2 TURNAROUND MANAGEMENT

1.2.1 Definition

“A corporate turnaround has been defined as the recovery of a firm’s economic performance which is followed by an existence-threatening decline” (Pandit, 2000; Walshe, 2004)¹¹,¹². A turnaround situation is said to be one where an organization suffers declining economic performance for a long period of time, as a result of which the performance level dips so low that the very survival of the company is threatened unless serious efforts are made to improve its performance. Achieving turnaround calls
for a completely different set of skills to look into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life.

A company has to go for turnaround when it is not able to choose an appropriate response to encounter both external and internal challenges, and converting them into opportunities wherein it is operating. The turnaround strategy emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are enveloping but not yet critical. Under these circumstances the HR plays a vital role in improving the performance of the organization. The HR plays a crucial role as a strategic business partner, change agent, administrative expert and champion of employees in shaping and directing strategic outcomes to ensure the viability of an organization (Prasad, 2006).13

Today’s businesses are under unprecedented pressure due to competitive environment to perform and organizational decline is not uncommon. Survival of the corporations is in threat unless organizations gear up with new and innovative strategies to improve performance in this era. Turnarounds mean substantial changes in performance in the shortest possible time. The corporate turnarounds are often highlighted for their financial restructuring and their business decisions. However, it is realized that employees are the life, blood and soul of the organization. A successful change has to enlist the support and strength of their employees in driving the involvement.

Successful turnaround of an organization requires organization quickly turning strategies into action and creating an environment that maximizes employees’ commitment for change. In this process, role of HR in developing organizational capabilities, which in turn, pave a way for successful turnaround, can be crucial. HR as a turnaround specialist can play lead role of change agent by replacing employee resistance with the excitement of change and by engagement of employees through high involvement work practices (Bhatia, 2007).14 Such interventions engage employees to provide a strategic advantage over its competitors.

A turnaround situation can be said to be one where a company suffers deterioration in economic performance for a prolonged period of time and the performance level dips
so low that the survival of the company is at stake unless efforts are made to restore its performance (Manimala, 1991). Accomplishing turnaround requires completely different skills for identifying the causes of decline and formulating appropriate strategies for transforming the company thereby infusing a fresh lease of life. It may be emphasized here that the path-makers in these cases had the support and the strength of their employees as co-travelers in the turbulent journey of turnaround (Maheshwari and Ahlstrom, 2004).

1.2.2 Role of HR in Turnaround

The task of HR in a turnaround is to restore employees’ confidence in them and vice versa. A corporate decline can be reversed through HRM interventions primarily concerned about people within the organization and the processes they employ so as to achieve the objectives of an organization. The HRM functions such as communication, employee training and development, organizational diagnosis, employee relations, culture, employee empowerment and appropriate compensation systems will help in corporate turnaround (Maheshwari, 2000).

1.2.3 Humane Turnaround at RSP

In about two years during 2002-04, the Rourkela Steel Plant (RSP) achieved one of the most remarkable turnarounds in the history of Corporate India. (www.steelworld.com). In fact, what happened there is rather unique. While turnarounds in industry and business are not uncommon, the process through which it was achieved at Rourkela is not what is commonly seen. To comprehend this, one has to actually understand, first of all, the circumstances that had the steel plant in their stranglehold and the kind of desperate situation that existed there. Rourkela Steel Plant (RSP) was the torch-bearer of the public sector steel industry in India epitomizing the industrial revolution for the emerging Republic of India. The construction of the Steel Plant, then a part of the erstwhile Hindustan Steel Limited (HSL) and now a unit of SAIL, started during the mid-fifties of the 20th century, in collaboration with leading steel plant designers from the Federal Republic of Germany.
1.3 THE PRESENT STUDY

The present study is organized with a view to find out the reasons for incurring losses and the related industrial problems in the RSP and the initiatives of the steps that the authorities of the plant have taken for bringing turnaround and sustaining it during the period 2001-2008.

RSP was facing technological obsolescence and to continue to remain competitive in the marketplace, even internationally, it had to undertake modernization. The modernization took place in two phases, one from 1988-1994 and the other from 1994-1999. This incurred an expenditure of Rs.4200 crores which was met through loan having very high rate of interest. This was further accompanied with burden of depreciation which appeared in the accounts from the year 1995-1996 (RSP 2005)18. The plant was also facing problems like low capacity utilization, recurring fires, breakdown, mal-operations, militant unionism, low motivation and morale of employees. There was also fear amongst employees, lack of strong leadership at all levels, low respect and commitment for RSP (Mishra, 2011)19. These all threatened the very survival of the plant.

A turnaround program spread over a three year period was constructed to achieve the objective of bringing RSP from a non-performing to a performing state. The program named “Regenerating Strength with people” which involved around employees emerged out of a firm belief that people constitute the most powerful force in taking an organization forward, even when the concern is highly technology centered. The programme was spearheaded by setting ten priorities. These were employee motivation and pride, leadership practice, plant maintenance and equipment health, environmental relations and organizational change, small investment schemes for maintaining current operations, strengthening secondary streams of cash generation, operational and purchase cost reduction, sustained operation and consistent production, sustaining the benefits of Operation Vijay and enhancing gross margin and net sales realization (Chatterjee, 2006; Mishra, 2011)20, 21.
To ensure that employees were updated with the financial results of the plant, a series of carefully structured interactive workshops were conducted to discuss the change initiatives and sensitize the employees towards the implications of specific activities that caused loss of revenue. These initiatives helped in creating an environment that generated a strong determination amongst the employees to put in all their efforts for accomplishment of higher levels of production by maximizing the volume of production, cutting down cost, minimizing waste and retaining market share of products through improved quality.

The turnaround process was conceived and given a shape in the year 2001 when Dr. Sanak Mishra joined RSP as the CEO. Under his leadership, a number of initiatives were taken for the turnaround of the plant. The human resource aspects of the turnaround were one of the most significant components of the reform process. The present study intends to study in detail the role of HR in the turnaround process of RSP.

1.3.1 Objective and Methodology

This present research work aims at an in depth study of the turnaround efforts with special reference to HR interventions made at Rourkela Steel Plant. It tries to study the intensive efforts that have been made to revive the Rourkela Steel Plant, which had been incurring losses since 1995-96. It also tries to find out the effectiveness of HR initiatives in turnaround process of RSP. Further, this study attempts to find out the triggers that initiated the turnaround process, to study the dimensions of managerial response to turnaround process and also suggest a new model of HR interventions in turnaround process of any steel industry with reference to RSP.

The study has been organized with the help of both secondary and primary data. All relevant secondary data have been collected from published sources and accessing different websites. The required primary data has been collected through field survey. The data were analyzed with the help of SPSS.
1.3.2 Scope of the Study

The scope of the study relates to analysis of the existing state of affairs of the large scale public sector steel industries in general and that of RSP in particular. Although the public sector steel plants has done a commendable job in terms of vast infrastructure that they have created for national development, over the time, their operational efficiency and profitability have come down. Many reasons can be cited for this state of affairs. The most important reasons are the inherent weaknesses of Government owned organizations. They are overstaffing, political interventions, lack of involvement, inefficiencies, non-performance and the usual bureaucratic deviations and lack of professionalism. PSUs in India have mostly functioned as Government department and have never considered them as commercial organizations. The above deficiencies are also found in RSP and this study has been organized to identify the deficiencies of RSP in terms of performances and profitability and to ascertain the measures taken by the company administration for rehabilitation and future growth.

The scope of the study is to determine the factors responsible for the non-performances of RSP and the measures applied by the company for restructuring and the efficacy of these measures towards turnaround.

1.3.3 Chapterization

The thesis is presented in seven chapters including the present introduction chapter.

- The first chapter introduces the perspective of the research.
- Second chapter discusses the various studies undertaken by different scholars and authorities on the organizational decline and turnaround management and the research methodology adopted for the study.
- The third chapter gives a brief overview of Rourkela Steel Plant (RSP).
- The fourth chapter discusses the various HR interventions taken as part of the turnaround process of RSP from the year 2000-01 to 2004-05.
- The fifth chapter discusses the various HR interventions taken for sustaining the turnaround process of RSP from the year 2004-05 to 2007-08.
• The sixth chapter does the empirical evaluation and discusses the findings of the entire study.
• The seventh and the last chapter discuss the summary and conclusion along with recommendations.