



# De-Layering at Tata Steel

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**Abstract.** Based on an actual downsizing process of an Indian steel manufacturing major, the case focuses on the process of organizational redesign wherein the executive hierarchical structure is de-layered from 13 layers to five. Communication strategy in support of the business objective is used proactively. The functional, social and psychological impacts of the turbulence caused by the structural changes are clearly evident in the case. The case highlights the need for a pragmatic, professional and ethical approach to using communication in change management.

**Keywords:** organizational communication, organizational change, restructuring, organizational redesign, restructuring, downsizing, de-layering, strategic communication planning, performance management, dialogues.

There is nothing more difficult than to take the lead in the introduction of a new order of things.

Niccolo Machiavelli

## 1. Introduction

On September 3, 1999, Business Standard, Delhi edition, reported a news item titled, "Tata Steel Combating High Personnel Turnover". For me, this wasn't news. Yet I read on, "Tata Steel which is in the middle of a massive manpower downsizing drive is now facing a new crisis in the form of high turnover of white collar professionals. The problem is particularly acute among high profile recruits... Lucrative career prospects are steadily luring away these young professionals from Tata Steel...". As Vice President, Human Resources of Tata Steel, I had known that the problem wasn't as simple as that. There were several issues that needed to be addressed and I had discussed these with Dr. Irani, the CEO, on several occasions. On my retirement in June this year, after 33 years in the steel industry, a capable subordinate, Niroop Mahanty, had succeeded me as VP (HR), but Dr. Irani felt that he needed me as "Advisor" till the restructuring process that we had been working on for the past several years was completed. "Pandey, I want you to continue in the organization as an internal consultant and help us build a high performing organization. We need to focus on both people and processes and see how we can make Tata Steel a strong and growing organization", the CEO had then stated.

## **2. Looking Back**

Dr. Irani had taken over the reins of the Company in 1992. It had coincided with what was probably the most crucial period in post independence economic history of India. The growth of Indian trade, industry and economy had been stagnating due to government controls and state protection through licensing, high tariffs and administered prices. The government had realized that India could no longer remain isolated from the rest of the world economy and introduced economic liberalization and a free economy. Deregulation led to fierce competition as import duties were reduced, foreign technology was encouraged and free flow of goods was permitted within and beyond the country. Such a competition brought about the culture of ‘survival of the fittest’.

With this changing environment, many industries were either forced to close down because of obsolescence of their products or technology and redundancy of skills or inability to keep pace with international standards. Adoption of new technologies and processes and cost competitiveness had rendered manpower surplus. To adapt to the environment, downsizing was one of the restructuring strategies adopted by organizations. Downsizing is a deliberate reduction in the size or complexity of a firm’s activities intended to improve the profitability, productivity and competitiveness of the firm’s continuing operation. It is not merely reduction in employee numbers but also the optimisation of the resource potential of the organization.

In his first speech as CEO, Dr. Irani had envisioned the future of Tata Steel, “In the past, we had assured profits as whatever we made was sold; there was low key domestic competition; we had ownership of low cost raw materials; economies of scale and we had the technological edge comparatively. We had no incentive to modernise as we made comfortable profit. Now, there are market driven realizations, new players, glut in the steel industry, quality, delivery and cost consciousness and ample imports at WTO duty structure. Going forward, it is the better execution capabilities that will help build sustainable competitive advantage. This can be achieved through an ongoing cost reduction programme, capable business processes and ability to be agile and change with the environment...”. He had, on numerous occasions, addressed his senior managers, executives and company employees and given them the big picture. “The future is not there to be ‘discovered’; it has to be ‘designed’”, he would constantly tell them.

I recalled how, in 1994, we in HR were asked by Dr. Irani to evaluate and predict what should be our size by 2002. Task Force 2000 led by Niroop did a zero based manning exercise and examined manpower requirements of every department afresh. Earlier employee cost had never been focused upon. We anticipated that the new structure for the same technological level should be reducing our manpower from 78000 to 35000. The strategy proposed by Task Force 2000 was continued modernisation, cost reduction and increasing labour

productivity through closure of uneconomic plants; rationalising manpower in ongoing plants; outsourcing of non-core activities; improving communication with employees; outplacement and launching of Voluntary Retirement and Early Separation Schemes.

The continuous successful reduction of employees at Tata Steel, since 1994, was becoming a benchmark in downsizing for the Indian industry. We at Tata Steel referred to downsizing as 'Rightsizing', as it had positive connotations and was more in line with business strategy. Euphemistically, classifying these events as rightsizing, smart sizing or its many variants has done nothing to lessen the social and economic impact of reductions in workforce. It was proving a challenge to shift from an era of patronage to an era of performance.

Our image had also proved a stumbling block in the execution of downsizing. Tata Steel, the flagship Company of the Tata Group of Companies is Asia's first and India's largest integrated private sector steel company. Set up at Jamshedpur, in Eastern India, in 1907, Tata Steel is widely recognized as a corporate entity committed to taking care of the interest of all its stakeholders and abiding by its intrinsic values of trust, integrity and excellence. Renowned for its pioneering initiatives in labour welfare and exemplary industrial relations, the company has not lost a single day of work since 1928. Traditional paternalism; fair and honest management; business ethics and philanthropy are widely recognized as the Tata industrial ethos. The company has a vibrant mechanism for two-way communication, participative management through joint consultation and a high degree of commitment towards its social responsibility. All this makes Tata Steel one of India's most respected industrial organizations.

But, Dr. Irani had been relentless; to him, stagnation of Tata Steel with a 78,000 strong pampered labor force meant organizational decline and possible death. To survive the company had to change. "The emphasis so far has been on creating jobs, not wealth. Now, we will be forced to balance loyalty against productivity. We must not let our past, howsoever glorious, get in the way of our future", he would bellow. The era of lifetime employment was over.

In downsizing the employees, no retrenching was being done. The success of the Early Separation Schemes was due to cooperation by the Labour Union; attractive compensation; effective communication and an excellent design of the schemes that allowed an exit with dignity.

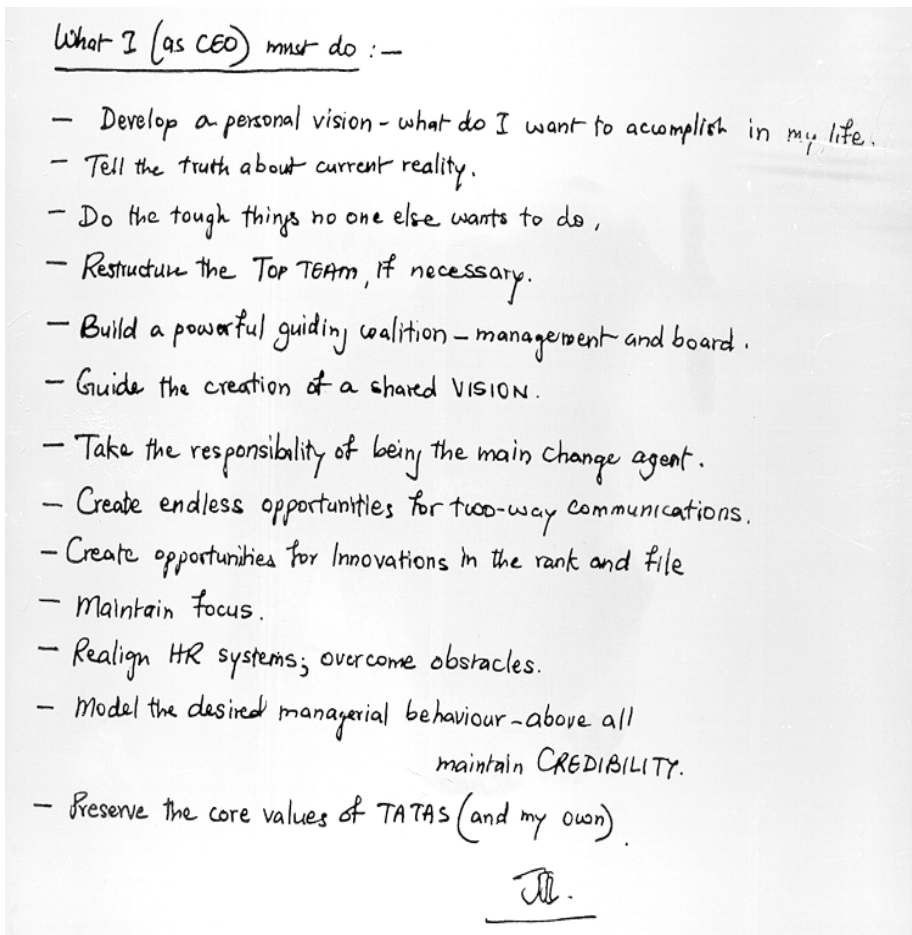
There were complaints, however, at the union office and in the employee ranks at Tata Steel as to why the company was targeting only the blue collared workers in their efforts to downsize when there was a similar need for reduction in the executive cadre of the company. We, in the management, also felt that a fundamental review was necessary to produce a structure commensurate to best practices and appropriate to the various needs that had been identified in the organization. In order to execute this strategy of organizational redesign, external consultants were being hired to lend credibility and neutrality to the change process.

It was to this first meeting of the CEO with the chosen consultants – McKinsey – that I had to rush, this morning.

### 3. Briefing the Consultants

Kumar, the Project Team Leader of McKinsey and Company and I waited for the CEO to arrive. Kumar was intently reading a framed document on the CEO's desk.

*Exhibit 1:*



I explained to Kumar that Dr. Irani had laid out these ground rules for himself in his own handwriting as he spearheaded the change process at Tata Steel. As Dr. Irani walked in, little time was spent in preliminaries.

The CEO commenced his brief, “So, let me define the problem for you. Our present structure is heavily layered and bureaucratic. We are over – staffed, no doubt, but more damaging is the lack of responsiveness to fleeting opportunities in the environment. Our decision-making is not as fast as it should be with everyone looking over the shoulder for approval. Besides, we are hardly attracting any new talent and many of the good executives do not stay on for long. That is why I wish to redesign my organization. By this I do not mean, simply cutting down hierarchies and rendering people redundant. The objective is to redesign job content more meaningfully. The purpose is to rejuvenate the organization by defining richer jobs with fewer hierarchical levels of reporting.

Kumar acknowledged, “The organization redesign strategy will involve elements of de-layering, eliminating areas of work, and job design, so that the amount of work is reduced as well as the organization’s headcount.”

The CEO delineated his ideas further, “There must be clear accountability and autonomy in the structure. It will involve both structural and cultural change. After all, my aim is to improve organizational performance. I also want you to suggest a new system of performance management, which can be linked to a career development plan for each employee.”

Kumar warned, “We will surely do that, but downsizing and de-layering may impair opportunities for career progression. So, we will need to consider the competencies that we require and the design of the career management programmes to develop these. However, the methodology of communicating these aspects to the employees will be left to you.”

The CEO continued, “At present, Tata Steel is functionally organized with individuals reporting to their functional superiors. An employee’s designation or level is not always related to the value that the job adds to the bottom line. Also, the large numbers of layers in the organization impede growth and the employee’s freedom to operate and take independent decisions. There are total 13 layers in all with approximately 5100 executives. The existing hierarchy in the executive level is vertical with small spans of control. This leads to less job satisfaction. I want to make jobs more challenging by increasing span of control to say, between 5 and 8.”

I elaborated on that, “Have a look at today’s executive structure. There is a Managing Director followed by seven Vice Presidents and 25 General Managers. Senior Deputy General Managers; Assistant General Managers; Deputy General Managers; Divisional Managers; Senior Managers; Managers; Assistant Managers; Deputy Managers; Senior Officers and Officers follow them. Besides the titles, the executives are graded at levels E1 to E7 followed by officers O1 to O6.”

“Titles are important to people as they indicate social status. So, we will continue to keep titles in a flat structure.” Kumar suggested.

I clarified, “These layers are hiding bureaucracies, which increase the communication chain and slow down our response time to problems. They also mask mediocrity”.

Kumar nodded, “I agree, layers and ‘cosmetic’ titles and promotions address employee recognition issues only in the short term. We must ensure that the cream rises to the top and we must set targets and link pay to real deliverables.”

The CEO appeared satisfied, “You are quick on the uptake, Kumar. Send me your brief pronto.”

Kumar smiled, “We will prepare a comprehensive project report on Organizational Redesign. However, we do not have expertise in Human Resources and so you will have to plan on the selection and staffing of the new organization structure separately.”

#### **4. Launching of PEP**

On 1 April 2000, the CEO announced the launch of the Performance Ethic Programme (PEP). It was called Performance Ethic, as it was to delineate a code of conduct relating to performance. The objectives of the programme were:

1. To increase the focus on attracting, developing and retaining the most valuable asset -people. This was to be achieved by:
  - Creating development opportunities for rapid growth of Tata Steel employees.
  - Improving performance management by ensuring that targets are set appropriately, people are evaluated on the right criteria in a transparent manner, performance feedback is specific and actionable and that individual development programmes are made and implemented, and
  - Rewarding high performers adequately while articulating a clear policy for developing and supporting under performers.
2. To improve the pace and quality of decision making by increasing degrees of freedom and accountability.

While the CEO is the key to initiate and support the change process, success of the change process depends on the support he gets from the senior team who will help him steer the change. For the PEP steering committee, we selected persons who were high achievers and had a longer stake in the organization. Also included were all the possible successors to the CEO. A Performance Ethic Team was created and Mishra appointed Assistant General Manager (Performance Ethic). He was to lead the PE Team and report to the CEO. Our first challenge was

how to develop a positive attitude in people towards PEP; establish the urgency for the change and explain the change management process. “To be successful, everyone must have a strong conviction in the change process – everyone must cross the threshold of conviction”, Dr. Irani declared.

Strategic information, as distinct from operational and corporate information is far more emotive as it relates to the direction of the business and therefore to change, and thus has significant implications for employees which can only be well understood through discussion. It was important to establish the urgency for the change among the company personnel and get them all infused with enthusiasm about the present and the future. A ‘Dialogue Session’ was organized with the executives, which, at regular intervals, was normal company practice. These sessions facilitated all officers to vent their grievances, offer their views and suggestions and place demands. The discussions were free, frank and uninhibited. The CEO presented the case for PEP.

“Over the last few years, Tata Steel has focused very closely on protecting its immediate future. Four phases of modernization and huge investment have given us state of the art steel – making facilities. Having strengthened our technology and manufacturing processes, it is time to focus on our people. To realize Tata Steel’s growth aspirations, we need a strong organization with world-class people processes.

Our PE initiative seeks to fulfil these needs. It intends to redesign the current organizational structure and its processes to create a high performing organization of motivated and energized managers. We realize that all these changes will be effective only if there is a radical change in the mindset of the organization that is inured to the concept of lifetime employment.

The PE program has two core elements. First, it proposes a new organizational structure that nurtures growth of businesses, provides more decision-making flexibility, sets clear accountability, and encourages high levels of teamwork among managers and units. The new organisation structure will have five work levels based on their impact on company performance (Impact Levels 1 to 5). PEP will involve determining competencies required for each job in each impact level. This will be followed by assessment of executives for their competencies. Finally, matching the requirement of jobs with competencies of executives will be done and not the other way round. The process will be objective, scientific and systematic. The evaluation will be impartial, transparent and fair. To make the organization truly effective, we need to staff every job with the officer best suited for it. We intend to do this over the next one and half years through an objective, comprehensive and merit based assessment process.

Second, PEP seeks to introduce a new Performance Management System (PMS) and a new Human Resources (HR) policy.

The PMS will set Key Result Areas (KRAs) for every level, define clear measures of performance and targets, and regularize performance reviews whereas the new HR Policy will foster a meritocracy -a system that identifies,

rewards and nurtures strong performers and provides development opportunities for everyone. We intend to introduce appraisals that are transparent and fair, a compensation system that is marked to market and linked to performance, and career opportunities that build skills among our people. Performance feedback based on the achievement of these targets will be linked to every employee's development and compensation.

The staffing will happen in three cycles, based on the importance of the jobs in the company's operations, growth and business performance. We would like to emphasize that the importance of every job at any time will depend on the company's strategy, which will continuously evolve over time. In other words, a change in the company's strategy could convert today's not so important job into an important job.

We have begun assessment for the 100 jobs that will have maximum impact on the affairs of the company. We will initiate the process for the next 250-300 jobs in Nov 2000, and for the remaining jobs in the second half of 2001. Officers will be matched against the jobs on the basis of their past performance and future potential. We already have comprehensive information about our officer's past performance. We will use development workshops to assess their future potential. Senior Tata Steel executives will conduct these workshops with support from external agencies specializing in Human Resources.

Over the next one and half years, all officers will go through the assessment process. Tata Steel needs talented and motivated people, and the PE programme is designed to nurture and retain them. While there will be many challenges to overcome on the road to change, we intend to ensure that a career with Tata Steel is the most rewarding."

One senior manager shuffled in his chair, "Does that mean that the implementation of this programme could well end up seeing several executives 'downgraded' in accordance with their job profile?" he queried the CEO. I knew that this was going to be a real cause of worry for us in the management.

"After the work level study, levels will be defined on the basis of their job content. Actually, those who add less value through their jobs would simply fall into a lower level. A certain amount of anxiety is bound to be there till the process is completed. We are putting the jobs in place, not the jobholder. Managers would have scope to function more independently. In turn it is expected to give them a faster route to growth and result in better career development," the CEO replied.

"Another advantage of the de-layering exercise would be in putting a stop to the promotions that take place without any real change in their job content. The process will make decision making faster, as it cuts across barriers that do not add value to a decision, and simultaneously empowers lower levels of management. This means top levels of management will be able to devote more time on their strategic job content rather than adding rubber stamp value to issues that can be managed at the lower level," the CEO summed it up.



“Sir, but why do we need such a large-scale change when we are already making sufficient profits?” enquired a middle level executive.

“That is because we need to keep ahead of developments in the environment. Whatever we are today, we can be better tomorrow” the CEO responded.

As we walked out of the hall, I noticed anxiety writ large on officer's faces. I had anticipated that the first session would be stormy but fear seemed to have reigned. In the private sector, we do not have to coerce or arm twist to make people leave. According to the terms of offer in the appointment letter, we can terminate a job with one month's notice. In earlier dialogue sessions, the CEO had often let out the ‘downsizing’ word. He had often talked of the Company being over-staffed. Executives initially thought it to be rhetoric and that it would pass off as another fad. Now they were reading the danger signals. Through the loud murmuring, I captured two words ‘camouflaged downsizing’.

## **5. Communication During PEP**

Along with the redesigning of organization across functions, identifying new Key Result Areas (KRAs) and selection of most important 100 positions, a transition plan along with a plan for communicating change was also developed.

The CEO would lead the communication initiatives. Communication was planned in content and timing and the planning was to be continuous. The PEP committee would prepare the content of communication. The Corporate Communication Department was the organizer. They would pick up the messages and disseminate to both internal and external environment. Face-to-Face communication was preferred. Intranet would also be used extensively to interact. Grapevine was to be kept track of.

To allay the anxieties of the executives, the CEO started addressing letters every month to all executives and departmental heads and giving them information directly on the process and progress of PEP. The letters were written in the second person for a more direct impact. To every letter of the CEO was annexed a list of frequently asked questions (FAQ's). In Dialogue Sessions and in other fora, the CEO and the PEP Team would explain what PEP was all about. An interactive website on the intranet was created to help people find answers to questions that they might have.

The steering committee made various presentations to different audiences on PEP. While the Team provided knowledge of the process in general, they were silent on specifics. The executives were keen to know what would happen to their particular positions and to them. The steering committee was unable to give any answers at this early stage. If they revealed anything, it would lead to lobbying. The people could get demoralized and their support would be lost, it was feared.

As the first cycle got under way, the major content of communication focused on the basis of organization redesign, the criteria for assessors and the assessment process. This was followed by information about the staffing process.

Besides regular dialogues with executives, a Dialogue Session with the wives of executives was also organized. It was important that they get the facts right as they were important influencers of executives. More than 1000 wives of executives attended and got the facts about PEP from the CEO directly.

The PEP Team often set the agenda for discussions by designing the FAQs, which accompanied the CEO's letters each month. The content of FAQs would be created by the Team and passed on to Corporate Communication Department for circulation. The agenda setting communication model was also applied to the internal campaigns launched by the Corporate Communication Department. The agenda was set to include talk of human resource planning, personal development opportunities and the vision and financial results of the company. The focus was on the positive and the raising of hopes for a brighter future was overlaid as against the absence of talk of severance.

Our policies and decisions; reward and recognition systems; performance management and appraisal systems; career development initiatives would continue to be our silent communicators.

We would also need to train managers to break the bad news to people. That was going to be stressful.

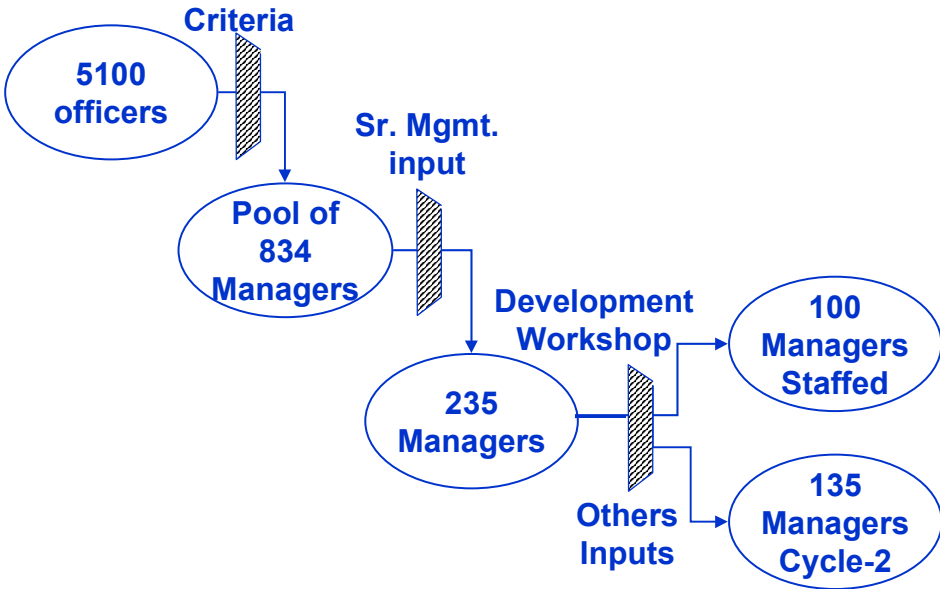
Constant feedback was to be sought. In a letter to all the executives, the CEO announced the appointment of four senior executives as "Listening Posts". "If you have any concerns or feedback that you wish to communicate, please do not hesitate to speak to one of them. We believe in Tata Steel that one must have courage to speak one's mind, and the confidence that we will not be victimized for doing so, but if you so desire, your name will not be revealed," the CEO appealed.

## **6. The First Cycle**

The first cycle was completed by November 2000. The design of organization structure and assessment and staffing of top positions had been decided. A criterion for top positions had been applied to all 5100 executives and 834 managers were short-listed. Senior Management along with CEO debated each of the 834 cases and achieved consensus on 235 candidates. In the next round, 235 candidates went through multiple rounds of analyses and discussions at assessment centres. Of these 100 managers were selected while the remainder would be considered in the next cycle.

Exhibit 2:

## OVERVIEW - CYCLE-1



The objectives of the matching process were to staff the best person for each position; identify and staff, young, high potential talent and create cross functional and cross business opportunities while maintaining a degree of stability in the organization.

### 7. The Communication Dilemma

After the selection of the top 100 was done in November, 2000, it was debated whether the management should announce this selection immediately or keep it confidential and directly order the implementation of the staffing on 1 April 2001. There was a debate on how much to communicate and to whom all.

I felt that it would be difficult to keep this selection a secret in this small industrial township. Others felt that we needed to manage expectations of employees by timing the release of information and we should reveal the selection a little later. But, there was also a need to use these selectees for doing selections for IL3. They could also be used as opinion leaders to snowball the process through cascade briefings. We realized that there were limits to transparency in executing decisions.

A decision was taken to communicate only to IL1 and IL2 selectees. A special Dialogue was conducted with these IL1 and IL2 selectees and the CEO told them about their selection. They were also informed that this communication was to be kept confidential. However, word got out. It looked like a deliberate leak. Later, the CEO had to admit in another dialogue that the selection had been done. People felt that the management had not been forthright and felt hurt even though they were aware of the statistical possibilities through the steering committee presentations.

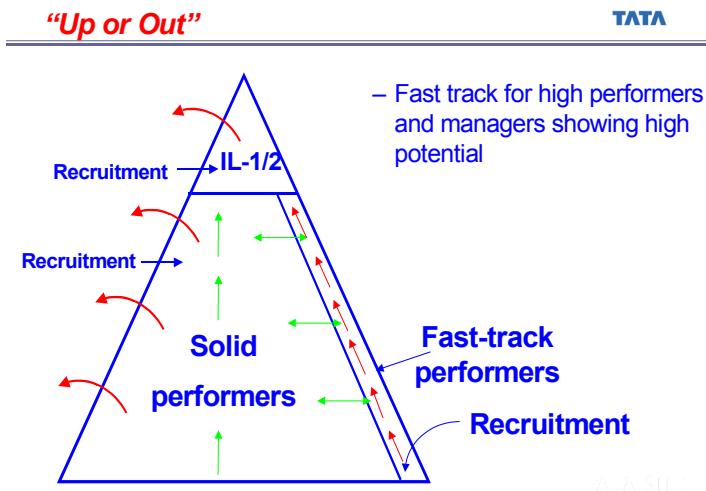
For the selection of IL3, as we had planned, another consultancy, Eicher, with expertise in the Human Resources area was brought in. They trained our in-house assessors and helped in the assessment process.

### 8. The Management of Performance

I made it a point to sit through all dialogues as it was the best mechanism for feedback. In one dialogue session with the junior executives, Niroop explained the nuances of the Performance Management System.

The Company is putting behind it the laissez faire system of operation. We were never able to quantify every person's contribution. Accountability was therefore clouded. This was because too many people were doing too few jobs. There can be no passengers now. Through PEP, we have to outpace a few people who are good. They hold tickets but the coaches in the train have to be reduced. Now, two tracks are open to managers. There is a fast track for high performers and managers showing high potential and a normal track for average performers. There will be frequent transfers at the same level to ensure job enrichment and exposure to multiple functions.

Exhibit 3:



Some of the questions that were raised by the audience were:

Q. “I am still not clear on the implications of being staffed in a particular impact level? If I am in a lower impact level, should I consider myself demoted?”

A. “Managers are not IL2 or IL3, jobs are. The impact level of a job will henceforth drive all elements of HR, including performance management and compensation guidelines. If you are in a lower impact level, it is because there were others whose profiles fit jobs in the higher impact levels better than yours did. The staffing has been done based on a fair and objective process of people measurement at Tata Steel. Those who improve their competencies, demonstrate good performance and have a good fit with the job profile will be staffed to higher impact levels as and when these become available. By the same logic, under performing managers at higher impact levels and “over-stayers” – those who remain in a position for too long, and have not been found suitable for horizontal and vertical movement – will need to make way for prospective candidates for their jobs.”

Q. “How can I move up from my current job to one at a higher impact level? How will candidates be selected for future vacancies?”

A. “Once a job gets vacant, the most suitable person will be selected. “Promotions” in today’s parlance will be less, but significant opportunities for personal growth are the value proposition. A systematic process of developing coaching and mentoring skills within the organization to facilitate a culture of development is under consideration. However, you will need to recognize that the entire organization has gone through a comprehensive staffing exercise. As a result, the extent of opportunities that open up over the next two years will be limited to natural attrition and the separation of under-performers. Therefore, unless there is a special situation, you should not expect to move during this period.”

“That’s too long a wait,” someone in the audience mumbled.

Q. “We have heard that representation and decision reversals have occurred even after the staffing circular was issued. Why was this done?”

A. “In any human process, in spite of the best efforts and objectivity of those involved in designing and executing it, a very small fringe of error is likely to creep in. Where the CEO felt that it was necessary in the interests of justice, certain changes have been made. The process itself was designed to include this correction mechanism. The CEO has personally stayed away from the matching process deliberately, involving himself only in reviewing the outcome.”

Q. “Why isn’t there sufficient transparency in the matching process? We hear that all department heads are vying for their own favourites?”

A. “The process of matching is iterative. Names are short listed based on the assessment and other factors, a consideration set of ‘test fit’ names is thrown up for each job and the best fit made. A change may be required later during the matching process, because a better fit may be found for the person in another job. This would result in the need to ‘refill’ the previous job. While this iterative process continues, over several weeks, confidentiality is paramount. A person “test fitted” in a particular position would justifiably be aggrieved if somebody else is placed in what he sees as ‘his’ job. You will therefore appreciate that we need to strike a balance between confidentiality and transparency. Please do not pay attention to rumours.”

I knew that this observation of department heads vying for their favourites was true. We had received recommendations for up gradation from the Chief Minister of the state government too. Some weightage was being given to those whose fathers had served in Tata Steel; some were accommodated on humanitarian grounds and some of the employees of local tribes who had come up to the officer levels were also favoured. However, where compromises were being made, the positions were being confidentially marked in red on our charts to indicate that the position will disappear after the present incumbent leaves the Company. Political influence from within and without the organization could not be entirely avoided. Our credibility suffered due to the changes that took place after some people represented.

Despite these aberrations, the staffing was an objective and systematic process. The presence of consultants for selection added credibility to the process. The organization design had been created first and the elimination of people and positions followed later. People were judged along varied parameters – managerial assessment; functional assessment; learning ability and past performance. The reduction was not purely objective as we took subjective inputs also. Evaluators who did not know the individual did objective evaluation and this was followed by team of in-house evaluators who knew the past record of service and learning ability of the individual.

Many good people had to go because they did not fit into the framework. I wondered whether we were being too mechanical. Officers were losing faith and confidence in the organization and were demoralized. For those who stayed, much more communication needed to be done to explain what promotion meant in the new concept.

## **9. Special Dialogue with the CEO**

A special dialogue session for PEP was held on 23, March 2001 at the Tata Auditorium for all the executives to communicate the progress of PEP and the work that lay ahead.

The CEO opened the dialogue, “The restructured organization is de-layered. Many jobs have been merged. There are some executives who will not fit the competencies required of the jobs. We have decided not to push down senior persons to lower impact levels. The natural outcome will be that some executives will not find a place in the new organization as on 1 May, 2001. The partings are painful but we will be humane and generous. The separation will be with dignity, decency and support. A very generous Early Separation Scheme (ESS) package is being offered to those leaving. The outcome of Cycle 1 and Cycle 2 is that a total of 1050 managers have been matched to positions – 10 to IL1; 120 to IL2; 360 to IL3 and 460 to IL 4. About 22 vacancies in IL2 and IL3 would be directly recruited from outside. The months after May 2001 will be challenging. We have to create the organization redesign and staffing for IL 4 and IL5. We expect to complete implementation of the current PEP by 1 November 2001.”

By May, around 170 executives had been found to be “redundant” or not to have any impact on the future performance of the Company. Jobs of these executives would be severed with full financial support. In subsequent cycles 350 more would go.

An attractive ESS package was developed and posted on the intranet for out placed officers. A transition support center was also set up. A placement agency was hired to provide support by way of counseling, resume preparation, coaching placement and entrepreneurship development.

Officers who survived could be segmented into three broad categories. The first was the group which moved up in the impact levels and were happy; the second category were the people who stayed in the same positions and felt relieved and the third category of people included those senior officers who had been brought down in the impact level. This category also included the seniors who found juniors coming up beside them in the same impact level. Even this meant a demotion to these seniors.

So the complete hierarchical tree stood disturbed. The major chunk of disgruntled employees would be in Impact Level 5, which was now at the lowest rung. Many employees in this group were reported to be considering leaving the company as after having put in many years of service, they found themselves again at the bottom of the organizational structure. With people leaving, structural holes would develop in the communication structure. Networks and relationships with stakeholders would get disturbed. Those who stay back as ‘Survivors’ in the organization would ‘grieve’ for their colleagues. They may be anxious about their survivability too. Some of the ‘good’ and useful people would also go. We would need to address the communication needs and concerns of the survivors too.

When I discussed with the CEO, the issue of communication with survivors, he stated, “The message to survivors is that unless we all perform there wouldn’t be anymore survivors. Even now we are still downsizing, so all those people who are there, are not, shall we say, immune to the fact that they cannot continue forever. One has to also create the impression that even if they go, it does not matter. So, it should be looked upon as two parallel schemes. If you continue, it is okay; if you don’t continue it is also okay.”

## **10. Leadership Succession**

A letter was issued from the CEO’s office on 1 June 2001, signed jointly by both the CEO and the CEO designate. It read:

The first phase of PEP has been completed, and has resulted in a reorganized structure of the company, the fundamentals of which are creation of two Strategic Business Units: ‘Steel’ and ‘New and Allied Businesses’; Creation of the Corporate Services Function; Decentralization of the Marketing & Sales, Finance and Human Resources functions for each business unit; De-layering and appropriate staffing of the new structure.

... On 1 May, Tata Steel made the transition to the new organization. Implementing a change programme of such magnitude calls for resolve and courage, and the entire organization has passed muster admirably... During the first few months, several transition issues will arise... are unavoidable and you will need to handle these in a localized and mature manner... CEO and CEO designate will be communicating to you on a periodic basis. PEP team will ensure that the communication plan is adhered to. The PEP team will interact with you if you have any queries... there is bound to be significant anxiety regarding cycle 3. We appreciate these concerns. In order to address these, we are putting in place a fair and objective process, will be more transparent about the methodology, and will expedite the exercise to the extent possible without compromising quality.

In mid 2001, after nine years of steering change at Tata Steel, Dr J. J. Irani handed over the reins to Mr Muthuraman, the new CEO. Mr Muthuraman’s style was democratic. Dr. Irani, in contrast, was a strong dominating personality and was held in awe. His uncompromising personality was needed for the change process, when hard decisions regarding the business had to be taken. But in the aftermath, a more conciliatory approach was needed and the new CEO, Mr. Muthuraman had a high empathy level.

Queried by a journalist on his achievements at Tata Steel, Dr. Irani stated, “... the most important thing for me was to earn others’ respect, not popularity. I could build credibility and more importantly take hard decisions in the interest of the organization as a whole. Even those who were affected by my decisions accepted



because they knew I had acted in good faith. This way people respect you even when they may not like you.”

Mr. Muthuraman was accessible, patient and open to communication. The CEO adopted an open door approach where aggrieved officers could meet him. People felt relieved after meeting the CEO even if they could not get full redressal of their grievance.

As several queries pertaining to functional evaluations, matching process and to past performance were raised, a team of senior executives under a Deputy CEO constituted a “Redressal Cell” to consider each case on its merit, and advise the PEP Team accordingly. Their decision was to be taken as final. Out of about 4000 people that had been graded for staffing, 500 representations were received. This was considered high. Some complained that line managers either did not have time for them or were avoiding their questions or giving them false hopes. Some wanted a change in the reporting relationship where a person would have had to report directly to somebody who previously reported to him. Some wanted another opportunity in the same impact level. Others wanted a reassessment under PEP.

## **11. Feedback Session on PEP**

The new CEO called for a feedback session on 9 June 2001. All the Deputy CEO’s, VP (HR), Chief of Corporate Communication, the PEP Steering Committee members and the officers appointed as “Listening Posts” attended. Feedback received from the executives through formal and informal channels were to be discussed, analyzed and listed for action.

The CEO spoke grimly, “A lot of conflict has arisen in the gradation of the impact levels. We have a lot of representations coming in from individuals as well as departmental heads. Most are requesting for a re-examination of the impact levels of persons working under them. I shall be reviewing these requests personally. Meanwhile, what is your assessment of the mood of the people?” The CEO looked questioningly at Niroop, the VP (HR).

The VP (HR) spoke, “I will have to be honest. The mood is not upbeat as any change is uncomfortable. Right now, the emotional state of the people is like having gone through a washing machine. Survivors are very cautious. People have become less communicative. All are tensed up. What is required is a year of stability to soothe them.”

“And what is your feedback, Mishra?” The CEO enquired.

“Prospective IL4/IL5 personnel are feeling like ‘left overs’. There is no focus on them, no body is ‘painting the future’ for them. Besides there must be over 100 ‘very good’ people left from the group which has already been assessed, many of whom could not be assessed and fitted in up to IL3 – they need reassurance.” Mishra answered.

“What are the complaints about the assessment process?” The CEO probed further.

Mishra responded, “The feedback collected indicates the following perceptions and accusations amongst the employees regarding assessments and staffing:

- There were inconsistencies between different panels in assessment. This has affected the objectivity of the outcomes.
- The outplacement list reveals that the process gave low weightage to technical knowledge and commitment.
- The objectivity and competence of some assessors is questionable.
- We exposed our people to an unknown instrument for this assessment. In addition, during the assessment, functional ability was given no weightage.
- The Maintenance group has taken a great beating in terms of impact levels and numbers. The balance between Marketing and Operations is also skewed in favour of Marketing.
- There is a feeling among some people that they lost out because they were indispensable to operations and so could not be released for the top priority jobs and that therefore they were not identified through any of the filters for cycle 1&2 assessment.
- There is a perception that those who had access to special channels and used them to make representation were at an advantage.”

The CEO raised his eye brows, paused and then questioned the Chief of Corporate Communication, “So what are your inputs from the environment?”

The Chief of CC asserted that his interactions with the survivors indicated that the workload on survivors has increased and there was no compensation for extra work. Employees feel that the new grades of pay are just eyewash; it is just under different heads. The process had been very traumatic to all. Stories were doing the rounds of how people’s jobs were being abruptly terminated. The terminations were a stigma on the individual himself and the family. The message had not yet gone across to town that those who are being separated are not bad people; it is just that there are fewer jobs. He said he had heard a lady say to her husband, “You could not save your job?”

The Head of Organizational Design, who was a member of the PEP committee, submitted, “People want more transparency. There is definitely a

reduced sense of belonging and loyalty. Some people are feeling humiliated. There is no more job security. At all levels there is unhappiness. Since the job market today offers very less choices, particularly for people of higher age groups, people cannot leave. If there were enough opportunities, I guess, people would leave.”

A Deputy CEO commented, “Many in the senior management who were not part of the steering group felt left out and do not seem to have developed a sense of ownership about the process.”

The VP (HR) added, “We recruited a person from a multi-national company based on the old structure. He left before joining once he realized that he would be in IL4. He said that he saw no future for himself in Tata Steel. Many still feel that five impact levels are too low for an organization of this size and complexity.”

“There are suspicions about the consultants too. Many felt that we listened to consultants rather than to our own people. PEP had no precedent. McKinsey sold the idea to the management and it came through. The consultants did not perceive the social and psychological impact of the new organizational design,” another Deputy CEO declared.

The Head of Organisational Design commented: “The rumours were about the figures that were to downsize. Officers were expecting 30-40% reduction. Officers were happy when we stated that we are reducing by 20% only. This was a huge relief.” The ambiguity had been incidental. Could this be used as a communication strategy to ensure greater acceptance, I wondered.

“What are your views, Pandey?” the CEO looked at me.

“I think we should define measures to evaluate the success of the programme objectively. Thereafter use of research is key to effective diagnosis. We should have a survey process to get more accurate feedback” I suggested and added, “We have gained on many fronts. Let me also say that the changes that are taking place are what people within the organization wanted. They said, “give us a real job”. People would get promoted without a real change in their jobs. Second, they said, “we do not have a proper appraisal system”. There was no target and no way to measure performance. One person could have been judged against a tougher yardstick than another. The process of giving each person a Key Result Area has been a mammoth exercise and there will always be an inherent fear to measure and get feedback on performance. Third, we were told that the ‘compensation system is too socialistic’. We have taken care of that as well. I think the process allows for greater recognition of employees. Now performance linked payment was planned in addition to the assured part. Earlier increments were across the board but now individuals would be graded annually. The average age of executives has also come down. The company made changes when it was strong. What is important is that we did it before we were forced to. The dust is settling and the process has been more or less accepted – we in the management should show no guilt and should lead with confidence.”

“Let us get down to the action plan now, gentlemen!” The CEO announced.

The Chief of Corporate Communication recommended, “So far we have concentrated on telling people what is to happen, about levels and outplacements. I think, now we need to spread the word about the opportunities that are there for people within the company. We must focus their minds on the positive aspects. There has been too much of looking inwards. We have to focus on what Tata Steel is going to do.”

The CEO’s mobile rang. He picked it up visibly annoyed and spoke briefly.

“Well Gentlemen, I have been called away urgently. I want all of you to understand clearly that no target for rightsizing has been fixed and that it would be a continuous process. The number of people required in the Company would vary from time to time, As far as the feedback is concerned; we need to take serious note of the gaps in communication that are leading to misgivings and misunderstandings.

As you know, we adopted a rightsizing process in the Company that was both humane and business effective, which left the Company stronger as a result. We treated employees as human beings and not merely as ‘human resources’. Things of the heart that such change evoked were not ignored. Our speech and actions were of course not without business sense. Now that PEP is being executed, I would like a similar diligence being applied in the handling of human affairs in this project. I think all of you have got quite a challenge. So, I would like you to please put your heads together and come up with an actionable plan as soon as possible.”

**Post Script:**

The final structural transition was as follows:

<u>Before PEP (13 Levels)</u>		<u>After PEP (5 Levels)</u>	
E1	27	IL 1	10
E2 – E3	105	IL 2	98
E4 – E5	385	IL 3	367
E6 – E7	689	IL 4	1082
O1 – O6	3769	IL 5	2272
Total	= 5100 officers	Total	= 4300 officers

While about three per cent of the gradations were found to be due to deliberate misjudgment and subjectivity, the overall assessments had been fair. Over the years, the transition to the new structure stabilized and was culturally accepted. The Company continues to excel along productivity and profit parameters.