# CASE 2 : CORPORATE PLANNING AT SAIL, 1989—93

It was the February of 1993 and Dr Sengupta had mixed feelings. As the Senior Deputy Director with the Steel Authority of India Ltd., a public sector undertaking, he was in charge of the corporate planning activity in the organization. On one hand he was elated because after two and a half years of hard work by his team, the Corporate Plan 2005 document had been finalized [a brilliant document he thought personally], had been accepted formally by the Board, but on the other hand he was depressed because of the impending revision of the numbers : was this to mean that all the work had gone to waste ?

In 1993, SAIL was a mammoth public sector undertaking. [ It still is !] Turnover 12000 Crores, Output close to 10 million tones of crude steel, 2,00,000 employees, nine plants, 14 departments and in 1996 would be classified as one of the "navaratnas" of the Government. While it had formally be set up in 1972 , it could trace its roots back to 1954, when Hindustan Steel Limited was set up with the task of constructing and operating three steel plants in Rourkela, Bhilai and Durgapur. Bokaro was added later on. As were, MEL and VISL. The sheer diversity of the product mix and the volume of production [ in any given year, SAIL would be moving close of 50 million tones of raw materials ], was mind boggling. As his Chief Economist had one remarked, "*you have to see the rolling mills of Bokaro, to really understand the sheer dimensions of operations*"

In 1980s, the steel industry was in midst of transition. Still predominately influenced and controlled by the Public Sector, of which naturally SAIL was a powerful player, the private sector had a dismal and residual presence. Legislation restricted the entry of the private sector into the capital intensive but profitable blast furnace route [ BF-BOF ] of steel making. The private sector was free of course to enter into the alternate route [ the DR-EAF ], which was quite energy intensive and had all the associated problems of energy shortages. The result was an industrial structure that was highly skewed. SAIL and TISCO, were the major dominant players accounting for over 65% of the total market. The rest of the market was fragmented. Even within this market, the major producers were subject to administered price control, where the Joint Plant Committee of the Ministry of Steel would determine the prices of steel in consultation with the main producers, taking costs of production into account. [ a possibly apocryphal story recounts once of a jocular remark of Russi Modi, CMD of TISCO, "Thank God for SAIL !" ]. Distribution too was tightly controlled, with most of the distribution powers being held by the Development Commissioner of Iron and Steel, a post usually held by an IAS officer of the rank of Joint Secretary. Thus controlled production, prices, distribution and investments were the market characteristics that Krishnamurthy was functioning against[1].

Within this framework, thinking about profits was something that did not come naturally to SAIL employees. Planning again was not part of the culture of the organization. And before Krishnamurthy, planning meant the annual production plan. Planning was basically supply side determined, most of the industry worked under a corruption of Say's Law that "Supply will create its own Demand" : "***what can be produced can be sold***". Planning was also in volume terms, prices and profitability having little inputs in the determination of the strategic choice.

---

Case prepared by Prof. Ajit Prasad, Faculty, International Management Institute, New Delhi.

Case material has been prepared to serve as a basis for class discussion. Cases are not designed to present illustrations, of either correct or incorrect handling of managerial problems.

Before 1985, the fortunes of SAIL had been mixed. Productivity was low and output had stagnated. Capacity utilization was low [ in the range of 60-80% ]. Morale was low, and the company, despite the presence of administered prices, had made continuous losses. In 1985, Krishnamurthy was asked to take over this giant monolith. With months of taking over, two priorities were clear. First if SAIL was to turnaround, it would have to grow, and this growth would have to come from additions to capacity, and second, for adding to this capacity, substantial investments would have to be made. Resources and investments were going to be very important.

Corporate planning in SAIL laid its genesis to this. In 1986, Krishnamurthy created the Corporate Planning Directorate, separating the planning functions from Operations. The subsequent task was more difficult : finding someone to head the function. Krishnamurthy's choice eventually fell on Arvind Pande, [IAS, 66MP], then Joint Secretary with the Prime Ministers Office. The offer was also convenient to Arvind Pande, it came at a very opportune time : he was due to be repatriated to his home cadre, and his wife, a professional in her own right was loth to do so.

Paradoxically, one of the first tasks of the Corporate Planning Directorate was to find suitable office. In 1986, SAIL had offices spread all over the city, the HT house at Curzon Road, Express Building in B S Z Marg, etc. After much debate and deliberation, and direct intervention ant the Chairman's level, it was decided to surrender part of the second floor, albeit cramped, to the freshly inducted recruits of Corporate Planning Directorate.

Said A J Malhotra, Dy Manager [who was pulled out of the Central Marketing Organization], in the initial days, it was difficult even to get a peon, let alone an officer to do the work !. Ravi Garg, who followed Arun from Finance, was equally upset at the loss in the facilities that his new assignment presented. Nevertheless over the months, things settled down.

The First Corporate Plan was prepared, and presented. ***Corporate Plan 2000*** was a repetition of history. The National First Five Year Plan had been an agglomeration of projects : an accounting plan. SAIL's endeavor was none more. It was a collection of numbers, but nevertheless a **good** collection of numbers. it gave Krishnamurthy the teeth to fight the Project Appraisal Division of the Planning Commission, for money so badly needed for investment [ in the 1980s all investments in the Public Sector had to be cleared by the Public Investment Board, of which the PAD in the Planning Commission was the first step] and with the much needed money, things were on the go in SAIL.

Corporate Planning was not the only job that was entrusted to the Directorate. External interfaces was an important task. Parliament questions, ministerial replies etc consumed much of the time of the officers, inasmuch as Pande felt the need to strengthen the Directorate. Additions came in the form of an Economics cell, started by Anita George, a bright MBA from Boston. Sanjay Sinha, from the Policy Group was tempted to move over, as was Anoop Sharma. Prasad came in as the Senior Economist from the Planning Commission and S C Sharma, from the Ministry of Industries joined as the Economic Advisor. Corporate Planning would now function as a "think tank" for the company.

---

[1] From 1991 onwards the structure of the industry changed drastically. Free licensing, even of the BF-BOF route, withdrawal of FEF, and the APM led to the setting up of large capacities, in excess of demand, especially in the profitable HR Coil segment. On the external front the collapse of the Soviet Union, and the resulting economic crisis thereof, led to international prices being depressed and there was evidence of large scale dumping. These events however took place after the Plan had been published.

With personnel firmly in place, things started to happen in the CP Directorate. Business environment scanning started in a serious manner, with a bulletin being published for top management. Diversification started being looked at afresh : there were projects of Caprolactum and Carbon Black at Bokaro, Almora Magnesite at Nainital, and other joint ventures. Fresh approaches were made to improving productivity through the direct intervention of the Organizational Systems group, a small cell in the Directorate created to look at ways in which enhancements could be made in productivity levels.

The activities of the Planning Units having stabilized, it was decided undertake the ambitious target of revising the Corporate Plan 2000. In 1988, work on the Second Corporate Plan started. The Directorate decided to go about the process in a more scientific manner, making this a strategic plan rather than an accounting plan. In the approach note to the Plan, Prasad, the Chief Economist, wrote "*the planning process must rest on scenarios and be able to generate multiple options. One of the weaknesses that we have had do far is that we have never been able to suggest prioritization of projects : let alone the specification of a Plan B*"

In 1988, it was decided that it was decided that given the changes that had taken place in the environment, there was need to revise and update the plan. Thus Corporate Plan 2005 was initiated, with the objective of providing both a production and investment plan to the company. The second plan exercise was a mammoth one. It was to be a participatory exercise, using a bottoms up approach to the planning process rather than the traditional top down approach.

Some highlights of the planning process were :

1. In 1989, an ***approach paper*** was prepared and circulated listing the approach and the priorities that the new plan would have. This was debated at a number of top management workshops, and a final theme developed.

2. Given the crystallized approach, planning cells of the nine units were called for consultations at Corporate Office, and given instructions that each unit should prepare a Corporate Plan for itself under the assumption that it was a stand alone unit. This plan was to be termed as the ***Unit Perspective Plan, UPP***. Each plan should specify the vision, the resources required and the plan that its has to reach that vision. This was to be an unbounded exercise and units were told to do a lot of deliberate day dreaming. Each plan should also be broken down into functional plans, covering areas like operations, finance, raw materials, personnel etc.

3. At the corporate office "expert groups" were formed to look at each functional area across the whole organization. Thus the "***expert group***" on productions would be required to look at the production plan of the whole company without any plant biases. Ditto for finance and other functional areas. There were a total of nine functional groups.

4. In 1990 a series of workshops were held at the management Training Institute at Ranchi were consistency was looked at among both the unit level plans and the "expert groups". There rounds of consolidation exercises were done. In 1991 December, Dr S R Jain led the board of Directors through the presentations and finally approved the Corporate Plan numbers. ***The final plan over its entire period had an outlay of over Rs 42,000 Crores.***

5. The levels of investment had run into some rough weather. To some it seemed rather ambitious. Unfortunately some of the "some" were decision makers. Naturally, Director Finance was very hesitant to accept the targets. Dr S R Jain, the Chairman also had his own reservations, about whether it would be possible to push this target through the PIB.

6. In a series of workshops held at Ranchi, the Corporate Planning group had to work hard, to push the consolidation figures through. The task had been laborious, it was never easy bringing to convergence fundamentally divergent views. The Final plan had ***investment allocations*** of 20,000 Crores for the $8^{th}$ Plan, 16,000 Crores for the $9^{th}$ Plan and 7,000 Crores for the first three years of the Tenth plan.

7. The consolidation exercises had not been easy. Naturally, Bhilai and Bokaro had objected to toning down of their investment plans. In some cases there were radical differences in the technology that should be adopted. PBCC Vs Stamp Charging was one. There were also variances in the external competition scenario that were presented.

8. In 1992, while preparing the final plan document, the economic environment changed. Delicencing of the industry had started : *operations wanted to rework the numbers*. Import tariff rates had gone down : *marketing wanted to rework the numbers*. Exchange rates had changed : *finance wanted to rework the numbers*. Nucor had come out with a new technology : *projects and R&D wanted time too to rework the numbers*. Individual units too started to clamor about wanting to change the Plans.

9. The Corporate Plan was accepted wholeheartedly by the board in 1992. Corporate Communications films were made and circulated. Groups from Corporate Office went to the plants for making presentations and clarifying any doubts.

10. Late 1992, the exercise finished. Dr S R Jain, had retired, and M R R Nair took over. Mr. Nair had been Director Personnel when the planning exercise started. When the numbers were approved, he had been MD, Bokaro.

11. The Corporate Planning Group at the Corporate Officer was given the Best Group Award at a simple but impressive ceremony on SAIL day. Heads of Planning Cells at the units were given promotions as and when they fell due.

12. In May1993, following the change in the Government, fresh estimates were to be made for the $8^{th}$ five year plan. The Finance Directorate gave a five year investment proposal of Rs 13,000 Crores. Things were more or less the same, but IISCO had been dropped.

The writing of the document itself had also been a substantial exercise. Two sets of the document were released. Set A, which contained the investment chapter and was released to a select few, and Set B, without the investment chapter, which were for general circulation. It was Prasad, who led the writing team, who insisted on separate chapters for assessing the operating environment, the strategy statements, the functional activity plans, and giving credence to the then imperatives, specific chapters on ***Value Addition in SAIL***, and ***Environment Management***. The last chapter ***The Constraints to Growth***, listed some major factors why the plan targets may not be met. To drive home the point it was decided that the subtitle : "***Growth with Profitability***" would be mentioned on each page of the document.

The forward by the Chairman, S R Jain, recorded: ".. This Cooperate Plan [perspective 2005] specifies a blue print to take the company into a further high growth path. Distinct from the earlier Plan, the document identifies not only the targets, but more important the **"strategies"** that need to be adopted…"

Again



“Change is the hall mark of any growth process. ***Managed change*** will be one of the strengths that SAIL will exploit to retain the spirited growth..”

In all, over 12 executives had worked continuously for 2 years on the preparation of the Corporate Plan at Corporate Office alone. The numbers that must have worked in the units were probably more to the tune of 50-60. As Sinha, the economist remarked, the sheer volume of data and paperwork generated, succeeded in bring out a lot of ideas about the organization. An important spin-off was the bringing the planning functions across units closer.

As Dr Sengupta looked at the glossy cover of the new Corporate Plan, he could but stop the gushing feeling of pride. It had been a tough job, but worth it. The final document, when presented to the visiting World Bank team had drawn much appreciation. The Directorate had grown from strength to strength over the years. Apart from the core planning functions, more power had been added in the form of the Computer Services Division being asked to report to it. The Quality function became an important part of the Directorate as did the MOU function which involved substantial interaction witrh the Ministry of Steel.

The recent communication by the Finance Directorate was however a source of worry to him. Following a recent meeting with the Working Group of the 8$^{th}$ Five Year Plan, the resources available had been pruned down. The Investment outlay for the perspective plan would have to be curtailed from 20,000 Crores to 13,000 Crores for the 8$^{th}$ Plan Period.

As Dr Sengupta made his way to the scheduled meeting with the Chairman, he could not help wondering on the futility of the whole exercise. The ink had not yet dried on the Corporate Plan Document, and there was already talk of revising the figures. Dr Sengupta shook his head regretfully at the inevitability of events.

# THE KEY PLAYERS IN THE SAIL STORY

**Dr V Krishnamurthy :** Formerly with BHEL, and MUL, also Secretary, Heavy Industries, was brought in by Rajiv Gandhi , to turnaround the perennial loss making company. A charismatic leader, he used all techniques to motivate employees, and delivered profits. Started Corporate Planning in SAIL by bringing in Arvind Pande as Director Corporate Planning. Left SAIL in 1989 to become Member Planning Commission. Vision : *"SAIL to become the third largest steel producer in the world.."*

**Dr S R Jain** : An internal man, joined as management Trainee Technical and grew with the organization. In between, was also CMD of HEC and CIL. Came back as Vice Chairman SAIL under V Krishnamurthy and then succeeded him to Chairman. A technologist at heart, Famous Quote : I wear to hats, one as Chairman, the other as a technologist. You can come and see me any time if you want me to wear the technologist hat." Was content to make profit of one crore per day. Vision : *" SAIL to become the technology leader in the industry.."*

**Mr. M R R Nair** : An internal man. Joined as Management Trainee Personnel. Was also the youngest Director on the Board. Was also MD Bokaro. Succession to Chairman was not automatic. Reportedly had to face stiff competition from the current Chairman, Arvind Pande. During his tenure, profits went into the four figures. Vision : " … *focus on Customer satisfaction…..*".

**Mr. Arvind Pande**, [ IAS, 66MP ] in 1993 the Vice Chairman and Director of the Board. Joined SAIL in 1986, having resigned from the IAS. Last positing, Joint Secretary Prime Minister's office. In SAIL started off as Director Corporate Planning and then assumed charge as Director [Personnel and Corporate Planning]. In between also held concurrent positions MD Rourkela, IISCO and Director in Charge Raw Materials. Succeeds Nair as Chairman in 1997.

# A BRIEF ON SAIL AND ITS UNITS

**SAIL** : SAIL was originally set up as a holding company, with HSL and BSL. Later on the Holding Company concept was dropped. It is now a vertically integrated company, which was recently awarded the status of a "navaratna" company.

**BSP** : [1959] Bhilai is the original "Russian" plant. At 4.0 mt capacity it produces long products and plates. Long products are wire rods, bars, structurals, etc. and are used primarily in construction. Plates are used in ship building and flooring. Profit making

**DSP** : [1960] Durgapur is a long product plant [ 1.5 mt ] as well a s producing railway materials : It was set up with British aid and technology. It has recently gone in for substantial investment for completely revamping the iron and steel making process. Loss making, but with this new investment, costs have come down. Skeptics say however that capitalization of this investment will see that this unit never makes profit.

**RSP** : [1961] Rourkela was set up with German assistance, It has a capacity of 1.6 mt, and is probably the most versatile plant in the SAIL fold, producing a large variety of flat products, as well as CRGO sheets and also space application steel. There is also a fertilizer plant attached to the steel plant. Breaks even. Substantial investments required to upgrade technology.

**BSL** : [1973] Bokaro was originally planned to be set up as a separate company, with USAID help. At the last minute, this project was aborted and the Government turned to USSR. It is now a 4.00 mt plant, producing primarily flat products , such as HR cold, CR Sheets etc which are primarily used in the white goods industry, consumer durables etc. Profit making, but of late has started only breaking even. However there is substantial excess capacity in the HR market. Capital investment undertaken in terms of introducing concast.

**IISCO** : The Indian Iron and Steel Company [ est. 1918 ] located at Burnpur in West Bengal was originally funded by the British and nationalized in 1972. It was brought in as a subsidiary in 1978 within SAIL. Loss making. SAIL has been trying for some time to hive this unit off. JICA, Swaraj Paul, Mittals, etc all have turned down this offer. Located in W Bengal, this unit has strategic importance in terms of politics. Requires lost and lost of investment.

**MEL** : Maharashtra Electrsmelt, located in Chandrapur, near Nagpur. Manufacturing Ferro alloys, a vital input in the steel making process. Perennially loss making. But of strategic importance to prevent cartellization of the other players in the market. Loss making.

**VISL** : Vishvisweriya Iron and Steel Limited. Located at Bhadrawati, Karnataka. State owned, SAIL acquired initially 40% of the share, now holds 100%. Perennially sick, mainly due to high tariffs and consumption of power. May break even, after the introduction of a new blast furnace.

**ASP** : [1965] Alloy Steels Plant, Durgapur. Uses small electric arc furnaces to produce special and alloy steels. Losing market share to domestic production and imports. High cost producer and thus loss making unit. Requires massive capital and technology injection.

**SSP** : [1980] Salem steel plan was set up using French technology. Gets slabs from ASP and abroad, rolls them into stainless sheets. Only brand that is consumer friendly in India.. Requires technology injection. Some talk of going in for backward integration to meet demand in the south Indian market. Initially profit making, but due to high costs, loss making now.

## HIGHLIGHTS OF THE CORPORATE PLAN 2005

In light of the new policy environment of an “open” regime, the strategic long term mission of SAIL has been recognized as growth with profitability

The emphasis is on maximization of internal generation of resources through increased production, sustained enhancement of quality of products and services and harnessing the market potential in a competitive environment.

The growth strategy identified in the planning horizon upto 2005 is aimed at exploiting the latent potential of SAIL plants through further modernization and technological upgradation. No greenfield capacity will be created.

The production of crude steel from the five integrated steel plants will grow to a level of 18.9 mt in 2004-05 from 9.87 in 1991-92. The corresponding saleable steel targets is 17.5 mt from 7.48 mt. The share of flat products in saleable steel will be 73.4% in 2004-05 compared to 56.5% in 1991-92.

100% of the crude steel production in the ISPs will be through the BOF route, and 97% of the crude steel will be processed through continuos casting. Obsolete and energy intensive open hearth furnaces will be phased out.

The plan aims at a 30% reduction in specific energy consumption and a doubling of works manpower productivity by 2004-05.

Increased production will mean an increased demand for raw materials. The requirement of iron ore will increase to 32.3 mt, while that of coking coal and limestone to 20 mt and 9 mt. Coal imports will continue.

The targets for exports will grow to 3.5 mt, equivalent to 20% of the saleable steel production, making SAIL a net foreign exchange earner.

The capital investments for new schemes meant for modernization and expansion of SAIL steel plants and the captive mines during the period 1992-2005 is envisaged at around Rs 23,200 crores, and for the service units like RDCIS, CMO etc, at around Rs 1950 crores. In addition the subsidiary units like IISCO, VISL, and MEL would require approximately Rs 10,000 crores for their modernization. The total internal generation in the planning period in SAIL, excluding subsidiaries is expected to be Rs 36,000 crores.

The gross margin to capital employed ratio is projected to improve from the current level of 17% to 32% by the terminal year. ..

The plan envisages the payment of dividend of 30% [on equity] by the terminal year of the Plan.

## ISSUES FOR DISCUSSION

1. Examine the efficacy of the elaborate planning process in SAIL .

2. Evaluate on a scale of 1-10, the success of the Corporate Plan.

3. If Dr Sengupta were to repeat the exercise all over again, what should he do ?

4. What is the importance of the Vision exercise in the detailing of the Planning process?

5. Are numbers sacrosanct in the planning exercise. What is the difference between planning and strategic planning?

6. How can planning be used to create sustainable competitive advantage? Is this being created in SAIL.