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Mahut Group: A Failed Case of Organizational Restructuring

This case was prepared by Associate Professor Ashok Som of the ESSEC Business School, Paris as a basis for classroom discussion rather than to illustrate effective or ineffective handling of an administration or business situation.

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Everyday as usual, the director of the Mahut Group of industries went jogging on a fine winter morning in the same park where he went as a child with his father. But today was different. He wanted to try a different place to jog — at the beach. As he reached the beach, he reflected upon this unusual start of the day and his business life and wondered with skepticism if he could do things differently in his business, away from the traditions. He asked himself questions like: Could he run his Indian cement business in a different way? If he could, how will the employees accept the change? How would he deal with the staff, who had been with the company since its inception? He then reflected upon the changes in his personal life, for the better, after his marriage to a famous film star, and wondered if something similar could happen to his business and professional life — his two companies could be married and reap positive synergies. He made a mental note to speak to some foreign consultants later that day to see if an effective marriage could take place between his cement companies.

COMPANY BACKGROUND

The US$350 million Mahut Group is a multinational, multi-activity enterprise with a presence spanning four continents viz. Asia, Europe, North America and Africa, and 15,000 employees worldwide. The Group has a presence in India, the UK, the USA, Canada, Uganda and Kenya. The business is diversified, from cement & building materials, sugar, floriculture and horticulture, engineering, electrical cables, to consulting, management and financial services.

The Mahut Group has two cement companies located in Western India. One of the two cement companies, the US$51 million Heera Cement has been a loss-making company ever since its plant was commissioned in 1988. It is with the Board of Industrial & Financial Reconstruction (BIFR). The second, US$39.2 million Moti Cement, commissioned in 1956, is also a loss-making company. Each company has an augmented capacity of 1.2 million tons of cement per annum. The cement sold by Heera Cement is branded as "Heera" while the cement sold by Moti Cement is branded as "Moti". Moti enjoys a marginal price premium over Heera (about US$0.08 per 50 kilograms) and they both vie for the same market. Moti is positioned as a high value cement for homebuilders while Heera focuses mostly on institutional sales and caters to large contractors and building companies. Both the companies' products include Ordinary Portland Cement (OPC) 53 Grade and 43 Grade, Pozzolana Portland Cement (PPC) and Sulphate Resistant Portland Cement (SRPC).

Heera and Moti are structurally and financially independent though they are owned by the same group. Heera was originally set up as a joint venture between the Gujarat Industrial Investment Corporation and the Mahut Group. Moti was a greenfield project started by the Mahut Group. Both the cement plants are located at Heeragram near Veraval in the state of Gujarat. Both plants use the latest 'Dry Process pre-calcination' technology comparable to international standards. The state-of-the art plants make use of machinery which is sourced from reputed international companies. The plants, operating at over 100% capacity, are also one of India's cost effective cement plants. Due to their proximity to two large ports, Porbandar and Veraval/Okha situated on the Arabian Sea coast (see Exhibit 1), the plants have competitive access to export markets of the Middle East, Sri Lanka and the Maldives.

Exhibit 1. Map of India

DEREGULATION OF CEMENT INDUSTRY IN INDIA

The cement industry presents one of the most energy-intensive sectors in the Indian economy. Following China, India is the world's second largest cement producing country. The Indian cement sector has been under strict government control since independence in 1947. Government intervention took place both directly and indirectly. Direct intervention involved control over production capacity and distribution of cement, while indirect intervention involved price control. Three significant policy periods mark the evolution of the cement industry in India. First, the period of total control where both prices and distribution of output were strictly regulated. Second, the period of partial decontrol from 1982 and finally the period since 1989 when all price and distribution controls were withdrawn.

The price and distribution control system on cement, implemented after 1956, aimed at ensuring fair prices to producers and consumers all over the country, to reduce regional imbalances and to reach self-sufficiency in a short period of time. The slow growth in capacity expansion and continued cost increases forced the government to increase the fixed price several times. However, these price increases as well as financial incentives (tax returns on capital) to enhance investment resulted in little or no effect on the industry. In 1977, higher prices were allowed for cement produced by new plants or plants which expanded their existing capacity. Due to the slow growth in the cement industry the uniform price imposed by the government was substituted by a three tier price system in 1979. Different prices were assigned to cement produced in low, medium and high cost plants.

However, further increases in the costs of inputs (including those that were under government regulation like fuel, power costs and wage costs) could not be neutralized adequately. The controlled price did not reflect the true economic cost and profit margins decreased increasingly, discouraging investments in capacity and production expansion. A permit system introduced by 14 states and union territories in the 1970s comprised direct control over public distribution of cement to ensure fair supplies to priority sectors, to discourage consumption of cement for non-priority purposes, to facilitate cement availability to small users, and to eliminate black marketing. However, the system resulted in artificial shortages, extensive black marketing and corruption in the civil supply departments.

The system of price control was accompanied by a policy of freight pooling. The price control fixed a uniform price according to estimated production costs at which cement was required to be sold all over the country. This price contained a freight component that was averaged over the country as a whole. If the actual freight component experienced by a particular firm was lower than the element included in the uniform price, producers had to pass on to the pool a sum representing the difference between the uniform freight component price and the freight costs incurred by them. On the other hand, if the actual freight incidence was higher than the freight element accounted for in the uniform price, producers were reimbursed the difference. The freight pooling system promoted equal industrial development all over the country. It supported regional dissemination and ensured that cement was available at equal prices in all parts of the country. It also implied that producers had no incentive in locating production such that transportation costs of cement would be minimized. Market distance became an insignificant issue. As a result of non-optimal location of industries, average costs of production as well as demand for scarce railway capacity increased.

On account of these difficulties in the cement industry the government introduced a system of partial decontrol in 1982. A levy quota of 66.6% for sales to government and small house builders was imposed on existing units while for new and sick units a lower quota at 50% was established. Levy cement was fixed uniformly for OPC and slightly lower for PPC. The balance of 33.4% could be sold in the free open market to general consumers. A ceiling price was set for sales in the open market in order to protect consumers from unreasonable high pricing. Under the system of partial decontrol non levy cement was no longer covered by freight pooling. Furthermore, specific mini cement units were completely freed from price and distribution controls.

Immediately after the introduction of partial decontrol, although the overall profitability increased, profits obtained through non-levy sales decreased with greater availability of cement in the market and continuously rising input costs.

To induce profitability the government subsequently introduced changes in levy obligations and retention prices. At four points in time the government simultaneously reduced levy quotas and increased retention prices. As a result, in late 1988 the levy quota was as low as 30% for units established before 1982 and the retention price had increased substantially. In addition, during 1982 and 1987 the ceiling on non-levy prices was increased occasionally. In 1987, the cement manufacturers association and the government decided that there was no further need for a maximum price ceiling.

Finally, in 1989, the industry was considered to be prepared for free market competition and all price and distribution controls were withdrawn. The system of freight pooling was abandoned and a subsidy scheme to ensure availability of cement at reasonable prices in remote and hilly regions of the country was worked out. By removing all controls in the cement sector the government hoped to accelerate growth and induce further modernization and expansion investments.

With deregulation, installed capacity in the Cement industry increased considerably between 1970 and 2003. Around 118 large cement plants within 50 cement companies and about 300 small plants produced 135 million tonnes (Mt) cement per year as of June 2003. Ownership was mostly private (85% of installed capacity) and centralized for the large plants with four production houses (Larsen & Turbo, Associated Cement Company, Grasim Industries and Gujarat Ambuja) controlling most units. This led to financial and administrative integration of different factories. While in the two-decade period from 1970 to 1990 total installed capacity rose from 17 million tonnes to 64 million tonnes (an increase of 47 Mt), within only thirteen years between 1990 and 2003 it increased to 130 million tonnes (an increase of 66 Mt) of installed capacity (see Exhibit 2).

Exhibit 2. Capacity of Indian Cement Industry Players

Companies	In Million tons
Grasim Industries + L&T (CemCo)*	30.50
ACC	15.00
Gujarat Ambuja	12.5
Indian Cements	8.06
J.K.Group	5.87
Lafarge India Ltd.	4.49
Madras Cements	4.82
Century Textiles	4.70
Jaypee Cements	4.20
Birla Corp. Ltd.	4.11
CCI Ltd	3.85
Zuari Agro	3.15
U.P. State Cements	2.59
Mahut Group	**2.36**
Kesoram Industries	2.10
Mysore Cements	2.10
Orient Paper Ind.	2.00
Andhra Cements	1.24
Mangalam Cements	1.00
Tamil Nadu Cements	0.90
HMP Cements	0.67
Chettinad Cements	0.15
Others	15.99

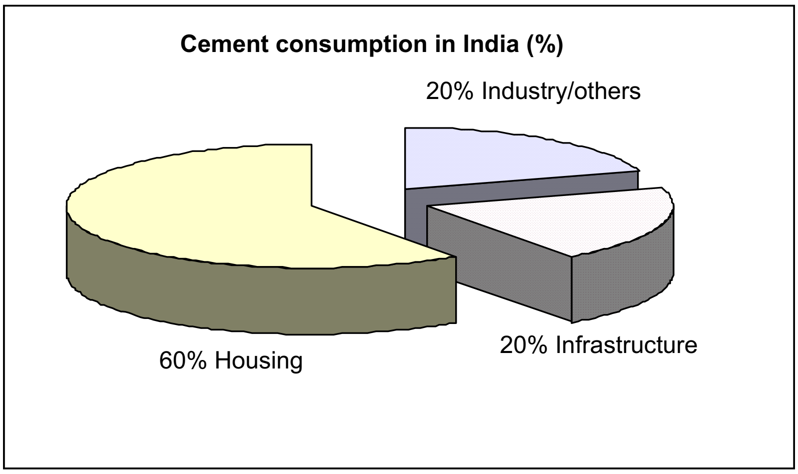
*Grasim Industries (third largest player in India with 14 Mt capacity) acquired Larsen & Tourbo cement business, CemCo (largest player in India with 16.5 Mt capacity) for $458 million marks in June 2003.

INDIAN BUSINESS ENVIRONMENT

Cement is used widely and extensively as a building material in India for household and industrial constuction (see Exhibit 3). Earlier, the public sector consumed over 50% of the total cement sold in India, but in the last decade, its share has come down to 35%. Rural areas consume less than 23% of the total cement. Availability of cheaper building materials for non-permanent structures affects the rural demand. Demand for cement is linked to economic activity in any country. Broadly, it can be categorized into demand for housing construction (homes, offices, etc.) and infrastructure (ports, roads, power plants, etc.). A significant demand for cement comes from infrastructure, hence demand for cement in emerging economies is much higher than developed countries.

With the government facilitating various infrastructure projects (Golden Quadrilateral Project — connecting the states of Gujarat, Maharashtra, Rajasthan and Delhi by high speed rail and roadways), road networks (connecting North-South and East-West corridor by national highways), increase in housing, high growth in the cement consumption is anticipated in the future. In addition, the favourable housing finance is expected to fulfill the vast housing requirements,

Exhibit 3. Uses of Cement in India



both in rural and urban areas. Reduction in import duties is not likely to affect the industry as domestically produced cement is at par with international standards and the prices are lower than those prevailing in the international market.

During the controlled price regime, productivity was low and production was restricted to a single grade of cement. There was a considerable gap between demand and supply. The return on investment was unattractive to bring in new investment in this sector. Liberalization measures energized the cement industry to take up the challenges of growth. New capacities were added. With the opening up of the sector, foreign companies (such as Lafarge, Cemex, Holcim, Italcementi) took active interest in the Indian market. Prices began to fall because of the increased capacity and supply exceeding the demand. As a result consolidation within the industry began. Players (see Exhibit 2 for a detailed list of the cement companies in India and their respective capacities) weakened by competition sold their plants to larger and stronger firms. Takeovers were also witnessed during this period. The slew of acquisitions between 1999–2003 resulted in Gujarat Ambuja taking a stake in Associated Cement Company (ACC), Lafarge acquiring Tisco and Raymond Cement, two of the premier brands in India and Grasim Industries acquiring CemCo, the cement division of Larsen and Toubro. In 2005, Holcim changed the industry dynamics by acquiring a stake in ACC.

INDUSTRY DYNAMICS: DEMAND, SUPPLY AND COMPETITION

Government policies have affected the growth of cement plants in India at various stages. The price of cement is dependent on the cost of power tariffs, freight, and limestone. As cement is a low value commodity, freight costs assume a significant proportion of the final cost. Transporting costs render the prices of cement to distant destinations uncompetitive. Manufacturers usually sell cement at the nearest market first and sell in distant markets only if additional realization is greater than freight costs. Given the cost structure, the key indicator of profitability is the price. The government role in fixing key input costs made it difficult for a company to minimise costs beyond a point.

Cement is a local product. Any local cement firm is relatively insulated from distant markets because of the high transportation and distribution costs. In the US, average transportation and distribution costs account for almost 25 per cent of the cement price. As a result the sphere of sales is within the radius of 150–300 km from the site of production. This is the reason why cement accounts for not more than 0.20% of total world exports.

There is a trade-off between proximity to markets and raw materials. Accordingly, some cement plants have been set up near big markets despite lack of raw materials. Most of the limestone deposits in India are located in the states of Madhya Pradesh, Rajasthan, Andhra Pradesh, Maharashtra and Gujarat (see Exhibit 1). This has led to concentration of cement units, called 'clusters' in these states. There are seven such clusters in the country and they account for 51% of the total cement capacity.

The Mahut Group is a competitor in the western part of India where its natural market are the states of Gujarat, Rajasthan, and Maharashtra. The major players in this region are Gujarat Ambuja Cement and Associated Cement Industries (with total capacity of 27.50 Mt), CemCo, cement division of L&T (with a capacity of 16.50 Mt), and Grasim cements (with a capacity of 14 Mt). Competition is intense in this region which often results in price wars and loss of profit margins. When losses become unbearable discussions are initiated between the firms to stabilize price. CMA (Cement Manufacturing Association) cartel was formed in March 1998, which fixed cement prices for a 7-day period, this arrangement worked for only 7 months after which it collapsed. The Marketing manager of the Mahut Group pointed out:

> *"CemCo, the cement division of L&T, is the most aggressive player in sales and marketing and undercuts prices according to the conditions in the market. This occurs more in the institutional and bulk sales sector. Gujarat Ambuja enjoys tax benefits from the Gujarat Government, which*

makes it immensely profitable in the cut-throat market. There was an attempt to form a cartel to administer the prices, but the attempt failed."

BUSINESS STRATEGY OF MAHUT GROUP IN THE FACE OF DEREGULATION AND INCREASED COMPETITION

Heera and Moti, the two cement companies of the Mahut Group, are active players in the western cluster (states of Gujarat, Rajasthan, and Maharashtra). Both Heera and Moti not only compete with other competitors like Gujarat Ambuja Cement, Associated Cement Industries (ACC), CemCo and Grasim cements but also compete among themselves. They undercut each other in prices as this is the only way to gain market share.

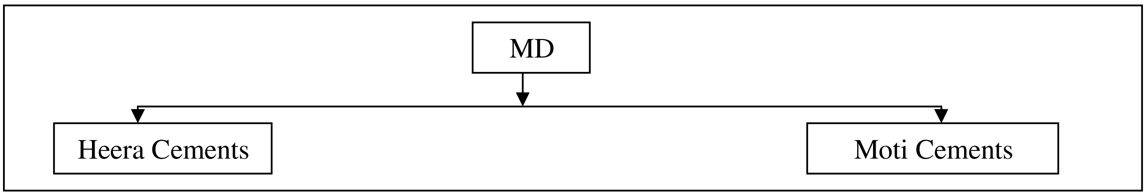
"The two plants of Mahut Group are modern and competitive. The technology is not a barrier, as we utilize the latest automation processes."

The strategic intent of the Mahut Group was to restructure (see Exhibit 4) and turnaround the two companies, put an end to the in-house competition and to focus on external competitors. Due to the intense in-house competition, Heera and Moti had eroded their market share when their other competitors had gained from their competitive conduct. Since Heera and Moti belonged to the same owners, many of the trade secrets were known to managers of both companies. The competition was severe as the managers of the respective companies had to prove their efficacy to their common owners — the Mahut Group. It was often reported that one brand would lure away customers of the other brand by offering special discounts. Though Heera had a lower premium than Moti, infighting and price wars were common between the two brands.

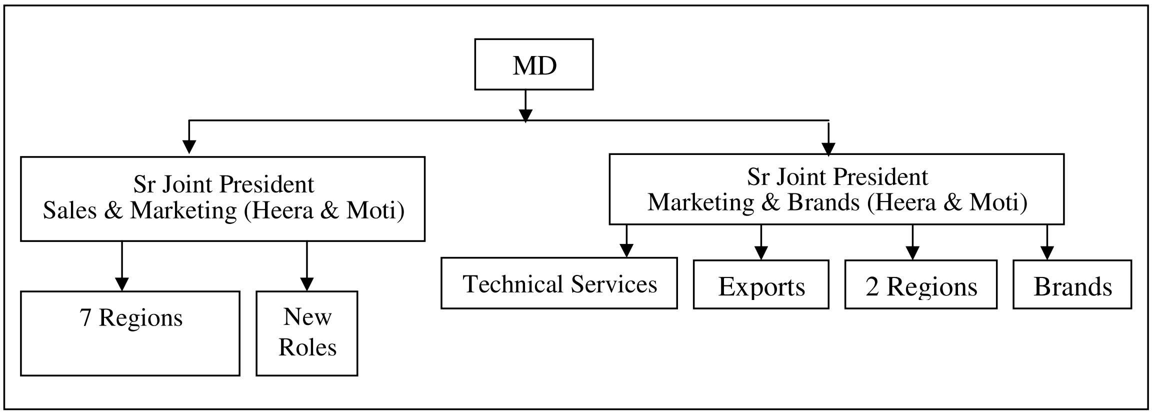
Due to the rise in competition from external competitors and the gradual erosion of market share a conscious decision was taken by the top management to find a "synergy" between the two companies. The companies were different

Exhibit 4. Organizational Structure

Before Redesign:



After Redesign:



entities in terms of structure, manpower and target markets. But synergy was needed in order to improve productivity and cost-saving. As part of a major restructuring process, the group hired an American consulting firm, in March 1998, to find "synergies" between the two companies and help them turnaround.

After six months of discussions with different stakeholders of the Group and a study of the opportunities and threats in the environment, the consulting firm submitted its report in September 1998. Its main recommendations were:

— merging the sales and marketing divisions of the two companies
— creating a new division called "Brands" to promote, position, and build the two brands together

— redefining the structure of the organization to accommodate changes caused by the "synergy"
— defining new roles and redefining old roles
— redeploying of personnel to support the new structure
— creating key positions like Director, Technical Services, Director, Market Research

Restructuring had become a necessity. In the words of the Director, HR of the Group:

> *"The market was being consolidated at an alarming rate. Gujarat Ambuja became the market leader in the Indian Cement Industry after acquiring 7.5% stake in Associated Cement Company. Lafarge bought Tisco and Raymond cement. We needed to consolidate as well. The portfolio needed to be re-looked at. Market dynamics had changed and it was fiercely competitive. It was a buyers' market with cutthroat competition. Brand strategy was never looked at earlier. It will be one of the key success factors."*

RESTRUCTURING PROCESS

The main recommendation of the consulting firm was to bring "synergy" in the marketing function to leverage cost, logistics, manpower deployment, office space, etc. The HR Department took an active part in the restructuring process. The Director, Corporate HR played a key role in the change process redefining the organization structure, job roles and descriptions, new positions, and manpower. The corporate HR undertook initiatives to position this change internally by conducting competency exercises of all managerial and field personnel. This was done to gauge required competencies for the redefined positions in the redesigned organizational structure. After the competency profiling, key changes were made:

— The Managing Director of the Group was appointed from Moti.
— Sr. Joint President, Sales, was appointed from Moti (responsible for overall marketing in the state of Gujarat).

The appointed Sr. Joint President, Sales superceded the Sr. Joint President from Heera.

— Sr. Joint President, Marketing (outside the state of Gujarat) was appointed from Heera. Outside Gujarat state sales comprised a very low percentage of total sales.
— A post of General Manager (GM), Brands was created. The GM, Brands was appointed from Heera and was responsible to achieve brand targets (positioning the two main brands in the market, hold surveys for awareness and recall), make promotion plans and monitor the progress of the brands.

The restructuring process was implemented from 1st October 1998. The Director, HR orchestrated the restructuring process from the corporate headquarters in Mumbai. But, at the regional office in Ahmedabad, the restructuring process was coordinated and implemented singlehandedly by the Sr. Joint President, Sales. HR Department was non-existent at the regional level and most of the HR activities were coordinated from HQ through one administrative person. There was an Industrial Relations department at the plant level. The administrative person, other than maintaining records, hospitality for managers, also acted as an intermediary between the staff and the Joint President, Sales in terms of HR interventions. E.g., (s)he was in charge of communicating the role/job changes and the new roles of the staff that were issued by the Sr. Joint President, Sales.

Based on the recommendations of the consulting team, technical experts, industry experts and market research personnel were recruited. These posts were created to add value and credibility to the two brands. In the words of Director, Research & Technical Services:

> *"The consultancy report contained among other issues; how to turn around the financial health of the Group by creating "synergies" in marketing, branding and projecting the two companies as a Group and restructuring HR. The main aim was to cut cost, but without any retrenchment and without any additional recruitment in the general category. It meant redeploying personnel efficiently and gearing the sales personnel. New recruitment was restricted to only*

senior level posts. Technical support was to be enhanced. The sales function was to be more customer friendly."

Market information was usually collected from the 70 member sales force team (Heera and Moti combined). Information was collected from printed literature, cement reports and market intelligence (traders, distributors, etc.). Market scanning mechanisms existed but were not effective. One of the senior managers reported that:

"Management is not cost conscious, extensive wastage is done due to their slow decision-making process. Delays in decision-making process are caused because of lack of teamwork and power concentration at the top. All the decisions are taken after the validation by the MD. Though this transfers the risk of major decisions to the top management it is an ineffective process."

The Brand Manager quipped about the state of communication:

"Mahut Group is quite poor in both external and internal communication. Our main competitor is very active in this sphere and often our group gets negative or no publicity even when there is substantial good news to be declared (like first cement plant in the state to have ISO 9000 certificate). Our public relations officials are not as proactive as they should be."

After the restructuring, a new Brands department was formed to build, sustain and position the brand image of the two products. Compared to its competitors, Mahut Group had always taken a backseat in informal interactions with industry associations, bureaucrats, politicians, traders and dealers. After the restructuring, efforts were made to improve participation in all these spheres. As the Brand Manager pointed out:

"There is ample scope for interactions. But often interactions turn out to be personal rather than being related to the group. After the redesign process, there are new initiatives within the group to meet the important stakeholders like engineers, architects, house builders, masons. To provide knowledge to stakeholders on the group affairs, the

Technical Services developed literature to be distributed to customers and the press. But it is unprofessionally done compared to our competitors."

Decentralization was not evident as of Dec–Jan 2000 (after the restructuring process had officially started) as most of the middle managers were still directly reporting to one of the two Joint Presidents. The plant managers had dual reporting structures, one to the Joint President and the other to the MD.

Delegation of authority was minimal and all decisions were made by the two Joint Presidents. There were HR Vice Presidents at the plant level reporting to the Director HR at HQ. HR and its interventions were needed at the regional office level, although there is doubt about HR's utility in such a centralized, authoritative system. Specialists (like geologists, engineers, quality control) usually left the Group within the first 3–4 years of their joining the group. On interviewing one mining engineer who had worked for the Group reflected:

"The salary was very high for specialists while there were many problems related to the salaries of the workers at the factory level. I left the company because my wife was told to be "on duty" when the wife of the Executive Vice Chairman came to visit the regional office to inaugurate a function. I was working for the company and not my family."

The owners and the management style of the Sr. Joint President at the regional and factory level created the existing culture in the organization. There were issues relating to caste and regional bias. The culture of the Group, according to many managers, is paternalistic with scope for lifetime employment. The owners were referred to as the "seths"[1]. Rules could be bent if one could reach the "seths" directly. But this occurred rarely as the "seths" occasionally met the MD or the President of the two companies. One of the managers elaborated:

[1]In India, the term "seth" signifies the big-boss of the company. The big boss is the owner, the food-provider of his/her employees. The word "seth" connotes a paternalistic feeling towards the owner of the company, specially in family-owned companies.

"Before the restructuring, Moti was run in an autocratic style with strong focus on marketing even to the extent of bending rules. Heera was also run in an autocratic style, but it was done within proper systems and procedures."

The owners of Mahut Group were equal opportunity providers and believed in long-term employment. One of the managers referred them:

"as 'generous management'. They do not want people to leave the organization and would give autonomy in running the business. The "seth" is concerned about the welfare and well-being of employees."

There was no culture of retrenchment and the owners spoke about a paternalistic culture. But the "seth's" concerns regarding human capital were not transmitted downwards. Most of the top and middle managers had worked for the company since its inception and stayed on until their retirement. The MD along with some influential top managers ran the business. Very few committees existed for decision-making. Most of the decisions were taken unanimously by the middle managers in consultation with the Joint Presidents. Important decisions were taken with the consent of the MD. The concept of doing business was simple:

"To sell cement in the market by any means."

Cross-functional teams were absent. The Mahut Group was not accustomed to work within a team-based system as individual managers reported directly to the Joint President. At the time of the interviews, there was no Management Information Systems (MIS) in place. But MIS and IT networks were being introduced. People had official e-mail addresses but were not functional yet. Control systems were weak and there was ample scope for misuse. As one of the managers pointed out:

"One of the Joint Presidents had two new semi-luxury cars when he was entitled to one while the other Joint President had an old, semi-functional car."

The organization had clear power and hierarchical relationships. The management was reactive to some situations but non-reactive to others. Very few managers spoke about proactive decision-making. One of the reasons for non-reaction was the existence of lobbies within the organization. Power was concentrated with the MD who was closer to the "seths". Before the restructuring program was launched, both Heera and Moti competed with each other to be in the good books of the "seths", often undercutting each other in many respects causing price wars between themselves.

Gujarat Ambuja, its main competitor, had been organizing "Mason's meet" for the past 10 years. They held "Influencer's meet" where masons were invited along with architects, engineers, technical service personnel. After the restructuring program was launched, Mahut Group initiated some communication exercises on the lines of its main competitor. Small teams of the sales and technical services were formed to provide "nirdesh"[2] and distribute small handbooks highlighting technical details and precautions. A big summit of the dealers was also held every year. One of the managers reflected:

> *"Why should we always be a follower and never be the leader?"*

HUMAN RESOURCE AT MAHUT GROUP

In the words of a manager,

> *"There are a lot of opportunities for HR interventions in this Group. They are vital. It remains to be seen when they are acted upon."*

Recruitment, Selection and Promotion

> *"Historically recruitment was done through personal contacts often to further individual and ulterior motives. As a result recruitment was not based on professional*

[2]Nirdesh" in Hindi (the official language of India) means "instructions".

parameters like qualification or experience. Most of the personnel lack the desired and required competencies for the posts they occupy."

The recruitment process was not formal. Same was the case with the process of selection. People were moved from one post to another and were forced to report to managers of the so-called "rival" company. Reporting structures had been drawn up, job profiles were written, but the personnel were unable to understand how to make them functional and implementable. This was due to the fact that the main target area had been the marketing function in the restructuring process while all the other functions had been downgraded to accommodate the new redesigned organization structure.

Promotion policies were not discussed, as the respondents were not very clear about it in the aftermath of the redesign process. Earlier promotion was done on an individual basis based on his or her personal contacts with the bosses.

Retraining and Redeployment

Retraining was a key focus area in the group after the restructuring. The respondents reported that the retraining and redeployment programs were for key personnel of "Heera" and "Moti". The Director of HR recalled:

"Retraining is a weak area like commercial orientation, customer relationship, analytical skills, goal setting and individual counseling. There is some redeployment but not enough and it can be looked into only after both the companies move into the same office."

The main objective of retraining was to redeploy personnel from the two companies to gain maximum advantage in terms of competencies in the new organization structure. But both companies had a long history of rivalry and there was a strong bias regarding being either a "Heera man" or a "Moti man". Restructuring efforts took a back seat. Redeployment happened not necessarily according to the competencies that were mapped, but based on power relations and lobbying within the Group.

Performance Management System and Compensation

Performance appraisals were not taken into consideration seriously. The respondents did not want to speak about appraisal forms as they felt that the Joint President would be the best person to talk about them. Compensation was always a sensitive issue. The Director of HR retorted:

> *"Compensation has not been touched upon during the restructuring process. Salaries have remained the same. Heera and Moti have different policies regarding compensation and are guided by their individual personnel policy."*

The two companies had different compensation structures. After the restructuring, although people were working in the same office, with similar portfolios, compensation structure and payrolls were entirely different. Employees were aware of the different compensation packages, systems and processes. For example, respondents reported that as systems and processes were different for the two companies, Heera employees got their pay on the 10th of the month while Moti employees received their salary on the 20th of the month. After the restructuring, though employees were sharing the same office space, this continued.

Rewards were market linked only for the sales personnel. There was confusion about the sales cycle — whether it should be limited to only booking of sales or the full circle of booking and collection of money. Previously salesforce booked orders and showed them as results. Often order booking by the sales force did not match the collection by the finance department. After restructuring the whole cycle was handled by the sales force from booking of orders to collection.

Moti had been downsized by 25% through a conscious effort on recruitment freeze and redeployment. Heera was overstaffed and a voluntary retirement scheme (VRS) scheme was introduced. No one was willing to opt for VRS from Heera. Due to the uncertainty created there was distrust and confusion about roles, job clarity and reporting structure. In the words of the HR Director, when asked about the structure of HR and its role in the Group:

> *"HR is a key player. In our group we have uniform personnel policies, procedures, common training programs, mentoring plans, simultaneous performance appraisal for both companies (though the financial years are different for both) and reward policies. The objective of HR is to be a line manager and play the role of a mentor."*

The contradiction between the words of the Director, HR and the prevailing state revealed that the Mahut Group and the Director, HR wanted to have uniform policies, systems and procedures but it was difficult to implement due to the difference in the organizational culture at the two companies.

AFTERMATH OF RESTRUCTURING

After restructuring sales plummeted by 20%, market share fell sharply. The reason reported was, after any change, there is a transition before the change process takes effect. Though the sales team was fully united, there was a lack of motivation. Morale of managerial and non-managerial personnel — based on indicators like absenteeism, turnover, strikes, employee cooperation with management — was at a low level. None seemed to be aware of their individual roles. Some were looking for opportunities outside.

Technology and Innovation

> *"The productivity after restructuring was the same in both plants. Both plants are extremely competitive and have won awards (see Exhibit 4). Efficiency in the plants is being looked into and is not a key issue."*
> **—** Director, Technical Services

In terms of innovation, Moti came out with a brand called "Chota Moti" which was essentially to brand the loose cement being sold in the market. It was a packet of 5-kg cement, an innovative idea in the beginning. But soon they realized that the packaging cost of "Chota Moti" was eating heavily into the profits. When the Brand Manager

Exhibit 4. Awards won by the Mahut Cement Companies

Heera Cement Limited — List of Awards

- ISO 9002 Certification from RWTUV, Germany for Quality Systems.
- ISO 14001 Certification from RWTUV, Germany for Environmental Management System.
- National Productivity Award for Best Production Performance 1995–96.
- National Productivity Award for Second Best Productivity in 1994–95, 1995–96 & 1996–97.
- CAPEXIL Award for Export Recognition, 1995.
- Indira Gandhi National Memorial Award for Excellence in Indian Industry.
- In addition to the above, the Company has received about 50 Awards from Indian Bureau of Mines and Director General of Mines Safety for Mining in relation to Pollution Control, Soil Management, Safety, Operations & Aforestation etc.

Moti Cement Limited — List of Awards

- ISO 9002 Certification from RWTUV, Germany for Quality Systems.
- ISO 14001 Certification from RWTUV, Germany for Environmental Management System.
- National Productivity Award for Best Production Performance 1995–96.
- National Productivity Award for Second Best Productivity in 1994–95, 1995–96 & 1996–97.
- CAPEXIL Award for Export Recognition, 1995
- Indira Gandhi National Memorial Award for Excellence in Indian Industry.
- In addition to the above, the Company has received about 50 Awards from Indian Bureau of Mines and Director General of Mines Safety for Mining in relation to Pollution Control, Soil Management, Safety, Operations & Aforestation etc.

tried to discuss this issue with the Joint President, Sales he was made to understand that the packaging cannot be altered as it had been inaugurated by the wife of the Executive Vice Chairman. When asked about the sorry state of affairs and about the differences between Mahut Group and other successful cement companies in the same region, the unanimous answer was:

> *"We are not professionally managed, the others are. The others are fast implementers."*

One of the managers went on to say:

> *"There is no role clarity. Work has been allotted inappropriately. There are no discussions or participative decision-making and the decisions are imposed on us. There is a bias in allotment and that is why the company's performance is suffering. Be assured the consultants were used as a tool for ulterior motives in the power struggle. The gainers are few while losers are many. Plenty of money was paid to another consulting company for implementing enterprise resource planning (ERP), but there is no sign of it."*

FUTURE ISSUES

With the consolidation of the cement industry and the entry of international companies in the Indian market, both Heera and Moti have to synergise as one company. But how does Mr. Mahut do that? He did try to professionally restructure the company, with the help of internationally renowned consultants, but what else can he do? Should he look out for potential buyers in the market place or should he revamp the entire branding to concentrate on the existing share of the market?