

SCHNEIDER ELECTRIC INDIA: LEADERSHIP CHALLENGES

Professor Abinash Panda, Professor Anshul Jain, and Samir Mishra wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Late in the month of May 2015, Samir Mishra was walking the short distance from his air-conditioned cabin to the nearer of the twin sheds that housed the assembly lines of the Schneider Electric plant at Rudrapur. Mishra had called a meeting with his plant managers to review the progress on their production targets. As the plant director, he had received a request from the head office at Bangalore fifteen days earlier, asking him to produce 27,000 units of a popular inverter brand for the month of June. The original target of 5,000 units, set two months previously, had unexpectedly been raised to 7,000 just a month ago, and since the Rudrapur operation was already struggling just to deal with that change in its original production target, this latest order represented a massive challenge both for the plant and for its director.

SCHNEIDER ELECTRIC

Founded in 1836, Schneider Electric (Schneider) was a French multinational corporation that specialized in producing components for energy management and electricity distribution. It operated in over 100 countries around the world and employed approximately 160,000 people. In 2015, the company made a profit of €3.6 billion¹ on revenues of €26.6 billion.²

Schneider Electric had been operating in India since 1963 and had established a 100 per cent owned subsidiary in 1995. The company's growth in India had been inorganic in nature, with several well-known acquisitions, including Conzerv (2010), Zicom (2010), Digilink (2011), and Luminous (2011).

SCHNEIDER ELECTRIC PLANT—RUDRAPUR

A New Plant

The city of Rudrapur was located in the state of Uttarakhand in northern India. The State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIIDCUL) had been formed in 2002 with a

¹ All figures are in euros unless otherwise stated; EUR = €; €1.00 = US\$1.387 on May 2, 2014.

² Schneider Electric SE, *Full Year 2015 Results*, February 16, 2016, accessed May 15, 2016, <http://www2.schneider-electric.com/documents/financial-results/en/local/2015-full-year-results/presentation-fy-15-en.pdf>.

mandate of promoting industries by developing industrial infrastructure in the state. SIIDCUL set up a large, integrated industrial estate in Rudrapur that attracted companies such as Tata Motors, Ashok Leyland, HCL Technologies Limited, and Schneider, among many others. This flood of new business led to significant infrastructure growth in the area, along with an influx of migrants from across India who were looking for jobs in these industries.

Schneider set up its Rudrapur plant in 2009. Availability of land, infrastructure facilities, a cheap labour force, and attractive tax incentives represented the major reasons for Schneider's selection of Rudrapur as the site for its new plant. To quickly set up the operation, old machines from the Bangalore plant were relocated to Rudrapur. Quality testing of products continued to take place at the Bangalore plant during the initial setup period, and eventually, in 2010, this process was moved to the Rudrapur plant.

Schneider divided its business operations in India into three clusters, each of which was led by a vice-president who oversaw operations at eight to 10 factories. Each cluster had three to four directors of operations who were responsible for plant-level profitability.

Initially, all senior plant managers reported to their counterparts at the main plant in Bangalore, Karnataka, in southern India, but this decentralized form of supervision led to a lack of unity of command in the individual plants, a situation that adversely affected operations. In 2010, the plant director at Rudrapur was given complete command of that plant, and all senior managers reported to him (see Exhibit 1). The plant director reported to the vice-president at corporate office.

Early Workplace Culture at Rudrapur

A significant number of Schneider operators had been relocated from Bangalore to Rudrapur in order to run the new plant and train local hires. These workers faced a variety of issues in their new city, such as language barriers and difficulty adapting to the extreme weather conditions of Rudrapur. As a result, they jumped at any opportunity to return to Bangalore. This ongoing shifting of jobs soon created a transactional mindset among the relocated employees, and their performance lacked a sense of ownership and responsibility.

The Rudrapur plant employed over 450 workers, 20 per cent of whom were permanent staff; the remaining 80 per cent consisted of temporary local hires. Because the local workers were not offered any formal training, they found it difficult to match the productivity of the operators who had come from the main plant. This lack of preparation and some human resources (HR) issues resulted in low morale among the workers, who felt unmotivated to improve their productivity. During the first few years of operation at the Rudrapur plant, the corporate culture suffered from the workers' limited sense of connection to the products and to the plant, a low degree of involvement by senior management with the workers, and the workers' dislike of the senior managers' authoritarian leadership style.

Production Issues

Workers at the Rudrapur plant were untrained in the latest methods of lean production, and the five basic phases of the "5S" workplace methodology (derived from five Japanese words for "sort," "set in order," "shine," "standardize," and "sustain") were missing. Thus, the overall operation lacked this main component of a lean manufacturing system. Newer managers noted that tools were not stored in the proper drawers and areas, the production line was haphazard, and the production floor and surrounding area were not cleaned to management's expectations.

Rudrapur was located a significant distance from other manufacturing hubs, so it faced the additional problem of long lead times for delivery of materials. This situation, combined with unmet high production targets and low labour productivity, led to a pileup of inventory at the plant in terms of raw material and work in progress. Since the plant output had a seasonal demand, inventory targets fluctuated, a factor that further exacerbated the inventory pileup.

Due to these and other planning-related issues, idle production lines were a familiar sight at Rudrapur. The plant often fell below its production targets and faced a constant struggle to keep the lines rolling. Worker productivity was low, and there were quality issues with the products. The defect rate was high, with customers returning a large proportion of products back to the company. Schneider's head office believed that the problems at the Rudrapur plant were caused by external factors over which the management had no control. For that reason, no corrective actions were initiated by the head office or by plant management.

Acquisition of Luminous

In 2011, Schneider Electric India acquired a major stake (74 per cent) in Luminous Power Technologies India (Luminous), a well-known manufacturer of power back-up solutions for retail customers in India. Luminous was launched in 1988 by Rakesh Malhotra and had sales of approximately 11 billion Indian rupees (€170 million) in the year ending March 2011.³

The company was well known for its power inverters and uninterrupted power supply devices. This product segment had been growing at a compound annual growth rate of over 20 per cent in the last five years and was expected to grow at the same rate for the next decade⁴. India experienced severe power outages during the summer season (April to August), and demand for Luminous products was highly seasonal in nature. Over the course its existence, Luminous had been able to establish a reputable brand name in the power-supply segment.

As a leader in a fast-growing market, Luminous was a good strategic fit for Schneider Electric India. This acquisition helped Schneider triple its sales locally and made it the seventh largest operation in the Schneider group globally.

Prior to the 2011 acquisition, Luminous had appointed Sachin Tendulkar as its brand ambassador in 2010. This brand-building strategy sought to project an image of excellent product quality by associating it with a cricketing legend like Tendulkar.

Luminous planned to introduce a new product in 2014, the production of which was assigned to the Rudrapur plant. Starting in late 2013, the plant began to receive ever-increasing targets of manufacturing components for that particular model, but in line with its past record, the plant kept falling short of meeting those targets, and its product quality fell far below expectations as well. Defective returns were high, which did not bode well for the Luminous brand, which had Sachin Tendulkar as its ambassador.

Mishra Joins the Rudrapur Team

Samir Mishra held a master of science degree in electrical engineering from a U.S. university and had worked with the Defence Research and Development Organisation (India), Mahindra Reva (India), Larsen

³ "Schneider Electric to Acquire 74% Stake in Luminous Power," *Business Standard*, May 31, 2011, accessed May 15, 2016, www.business-standard.com/article/companies/schneider-electric-to-acquire-74-stake-in-luminous-power-111053100138_1.html.

⁴ Ibid.

& Toubro (L&T) Limited (India), and Rockwell Automation Inc. (United States) prior to joining Schneider as its director of engineering in 2012.

In March 2014, Schneider Electric India appointed Mishra as the plant director of its Rudrapur plant. Mishra was given the overarching mandate of turning the plant around—specifically, to successfully deliver on the new Luminous product line. Up to the time of this appointment, Mishra's experience consisted of managing small teams of engineers; he had no prior experience with managing workers at a plant level. Even so, Mishra nurtured a passion for active people management, and he welcomed the opportunity to move from a technical role into one of leadership.

PLANT TURNAROUND

A Plan for Change at Rudrapur

After taking over leadership at Rudrapur in March 2014, Mishra took stock of its operations. Upon a review of the reports on product returns, he noticed that the plant rejection rate was around 96,000 parts per million. An industry average plant rejection rate of 25,000 parts per million was considered acceptable; the rate at the Rudrapur plant was almost four times that.

Mishra was surprised at this poor state of affairs. Upon accepting the offer to manage Bangalore, he had been assured that while the plant faced a major issue concerning productivity, quality was not an issue. Mishra quickly realized that the head office was not being kept up to date on the quality issues, so he arranged a personal meeting with the plant's quality manager, Anil Rao, to get to the root of the problem. Rao was adamant that the plant's quality issues could not be resolved as quickly as Mishra was expecting. He also complained to the top management that Mishra was interfering in his functional domain. After some discussion with his superiors, Mishra decided to dismiss the quality manager, asking him to leave immediately. Within a week, Mishra had appointed a new head of quality.

From his two decades of experience in working with various organizations across different geographies and cultures, Mishra had derived a three-pronged philosophy for running a successful business. He believed that customer satisfaction drove volume, lean manufacturing minimized waste and motivated the workers, and informed workers were more engaged and, hence, highly productive.

To drive customer satisfaction, Mishra believed the product should have high quality and high reliability. Moreover, these traits should not come at an added expense; the product should be priced competitively. Mishra's time in the United States had exposed him to the principles of lean manufacturing, so he understood that minimizing waste and improving productivity provided effective ways to reduce costs. Finally, he felt confident that employees who had a sense of ownership towards their product and company would be motivated to make sound decisions to improve quality and reduce waste. Mishra knew that if he could successfully implement his three-pronged philosophy, he could improve the state of affairs at the Rudrapur plant.

Dealing with Resistance

Deciding to tackle the HR issues first, Mishra planned to launch a number of HR and learning interventions to empower, engage, and energize the workers and improve productivity at Rudrapur. Most of his interventions were based on the belief that workers perform better when they possess a sense of ownership. Before he could implement his plans, however, Mishra's changes met with some stiff resistance from the most unlikely of corners.

Anit Singh, who had served as the HR manager at the Rudrapur plant since its inception, did not appreciate his new director meddling in HR issues. To his credit, Singh had a proven track record of keeping the plant free from any industrial relations issues. Furthermore, the plant remained non-unionized while all the other plants under SIIDCUL's control were plagued with union issues. Singh was concerned that the plant's temporary employees, who constituted 80 per cent of Rudrapur's workforce, might raise demands to be promoted to permanent status if they began to feel empowered by Mishra's planned HR interventions. In light of these concerns, during discussions between the two men, Singh presented Mishra with some strong arguments against such changes. Singh informed Mishra that the former plant head used to keep workers at arm's length and had a highly directive approach to leadership; he was in the habit controlling the workers through Singh.

Mishra shared, "The HR manager and his style of functioning before I took over were highly controlling and directive. No dissent was [allowed from the workers]. I had to deal with Singh's mindset, which was more challenging than dealing with workers." To deal with Singh's concerns, Mishra invited Singh to his cabin for a discussion over a cup of tea. Before Mishra could initiate the conversation, Singh told him, "You are playing with fire. Temporary workers may create industrial relations issues."

Mishra acknowledged Singh's concerns but went on to request that Singh proceed with the suggested HR interventions. Further, Mishra assured Singh that the HR department would be given the credit for all potential benefits derived from such interventions, and if any of the interventions failed, Mishra was ready to take the blame. Mishra listed the probable benefits, which included lowering the plant's attrition rate, enabling workers to develop a sense of ownership, and fostering a new feeling of security among temporary workers, all of which would improve the engagement level of the workers. Eventually, Singh understood that there would be no personal risk in the interventions, and he agreed to follow through with Mishra's plan.

Human Resource Initiatives

The Collar System

With Singh on board, Mishra started off by rigorously emphasizing a collar system. Trainees in the workforce wore a red-coloured collar on their shirts, which was upgraded to orange and then green when they became experts in their sections and passed the requisite tests. This graduated process was designed to facilitate other HR interventions that involved peer learning and on-the-job training. Public functions were organized to congratulate workers as they graduated from one stage to the next.

Once workers arrived at the green-collar level, they became members of a high-powered group that could directly approach senior management with suggestions for ways to make the plant run more smoothly. Senior managers were asked to forward these suggestions to the director within 24 hours along with a brief analysis and plan of action to ensure quick decision-making and implementation. By quickly implementing many of the workers' suggestions, Mishra established himself as a leader who believed in empowering others. The implementations had the added effect of instilling a sense of ownership among the green-collar workers, who numbered about 60.

Training Programs

Another intervention that Mishra initiated—one that he liked to call the "Duality of Training"—was essentially peer learning. The green collars were specifically given the task of training the red collars, which fostered close interaction between the trainees and the skilled workers. Plant engineers used to sit in on

these training sessions to evaluate the trainers. The engineers' input honed the skills of the green-collar workers and made them expert at their tasks.

Mishra also asked the line leaders to swap positions with operators on the line for a few shifts each week, calling the process "Face the Management." This intervention was initially opposed by the line leaders, who felt that performing the tasks of an operator was a demotion. Mishra also heard concerns that temporarily allowing operators to run the line might create issues among the operators and line leaders. By outlining the expected learnings from the job-swap process, Mishra was able to defuse the tension around the process, and things went smoothly forward.

Operators were expected to understand and appreciate the challenges faced by line managers, and thanks to the job swap and managing the production line for a day, the operators realized that the job of line leader was not as easy as they had previously believed. Similarly, line leaders were exposed to the pain points of the operators and to the issues these workers faced in performing to their peak capability. Over a period of several such rotations, this intervention fostered a sense of mutual respect between the operators and line leaders in place of the previous animosity. The process also facilitated empathy and meaningful communication in the workplace, which had been missing up to that point.

Communication Efforts

Mishra implemented a policy of having an open house each month, where the plant's workforce and the management team would discuss plant issues. At these meetings, Mishra shared Schneider Electric's vision for the plant with the workforce and regularly highlighted how the workers' career goals were in sync with the vision of the plant. The goal was to instill a sense of belonging and cohesion across the workforce and bind the disparate groups with a shared vision.

For his part, Mishra started a daily routine of walking throughout the entire plant and assembly lines, mingling with the workers. He was open to discussing any issues the operators faced on the line, and he tried to come up with on-the-spot solutions. This daily communication removed the power distance perceived by many of the workers, who finally began to see the management and workforce as a single team with a shared vision, striving to improve the future of the plant.

THE CHALLENGE

Production Targets at Schneider

The Schneider India marketing function was an independent vertical that reported to the senior vice-president of marketing, based out of the Asia-Pacific region headquarters in Hong Kong. Schneider India's marketing management team received a quarterly target based on the average yearly revenue target that had been fixed for its business operations. This number was reviewed and updated on a quarterly basis, taking into consideration the actual production target as well. Based on this quarterly number set for Schneider India's marketing team, each cluster was assigned a revenue target. Further down the line, the respective marketing managers, who were each responsible for one or more plants, set the product forecast based on the clients' needs.

The production target-setting process was dynamic and was linked to the revenue target set for the entire Indian operation. The production target of the plant was reviewed regularly, and the targets for various months were updated in advance after a review process (see Exhibit 3).

An Unexpected Jump in Demand

Soon after Mishra joined the team at Rudrapur, in March 2014, the Bangalore head office set a June 2014 production target of 5,000 units of finished goods for the new Luminous product (see Exhibit 2). Two months later, in May 2014, this target was revised to 27,000 units. The sudden spike in demand was due to the Luminous team's aggressive marketing efforts for the new product, and it was essential not just to fulfil the demand but to fulfil it with quality products.

Mishra and his management team were shocked by this sudden change in expectations. Several people felt that the plant could not supply the increased demand, and they asked Mishra to negotiate lower targets with head office. Off the record, senior management at the head office suggested the same approach, advising Mishra to formally ask head office to lower the plant's production targets. One senior executive from the head office privately advised him against accepting the order at all since failure to fully meet Luminous's request could cost Mishra his hard-earned professional reputation.

MEETING THE CHALLENGE

Convincing Head Office

Mishra did not want to let the Luminous order slip away from the plant, and he was keen to take up the challenge in spite of being advised against doing so. He spoke to his management team and presented them with a roadmap for how he planned to execute the order.

Mishra's plan included the introduction of a learning culture through a people-process intervention and the launch of a lean production concept that included a re-engineering of the production process. The members of the top management team were convinced by Mishra's enthusiasm for meeting the challenge, and they handed Mishra free rein to implement his ideas at the plant. They did, however, advise Mishra to act with caution. They realized his strategy would have to be put into place immediately, before the plant's issues hurt the market for the new product.

Convincing the Team at Rudrapur

Despite considerable advice to the contrary, Mishra decided to push ahead. He saw an opportunity in this challenge. Having tasted initial success with the HR interventions, he felt this production challenge represented a growth opportunity for the plant. Mishra called his plant management team together for a meeting, where he announced his intention of accepting the target, and he discussed his plan to meet it. Immediately, the heads of two departments—procurement and production—raised their protests.

The procurement manager, Vikas Choudhary, was among the strongest opponents of Mishra's plan to forge ahead with the increased order. Choudhary argued that accepting the increase in demand at the plant's current production level would impose a severe inventory shortage on the plant, and purchasing large amounts of raw materials in such a short span of time would be very expensive. The suppliers would demand a significant premium, and freight costs would also increase significantly to ensure the faster transport of goods. Added to all of these logistics issues was the possibility that Rudrapur's routine suppliers would not have the spare capacity to be able to match the plant's short-term demand.

Rakesh Razdan, the production manager, pointed out that the production line in its current configuration did not have the capacity to produce even half the output expected from the plant. Mishra accepted these

concerns as genuine and appreciated the thoughtfulness of his managers during the meeting. He gave the responsibility of finding solutions back to the managers themselves, promising them his full support in their efforts to meet this challenge and pointing out the benefits of being able to successfully re-engineer the current processes to meet such a demand spike.

Creating Production Efficiencies

The plant management team quickly realized that improvements in worker productivity alone could not match the required demand; it was time to implement lean and agile production techniques. Razdan was given the task of studying each process in the assembly line and identifying those that were creating bottlenecks. Upon finding a bottleneck, he was given the authority to redesign the process and workflows to effectively “debottleneck” the line. Razdan also undertook an action study by observing the workers as they performed their tasks on the line. This activity allowed him to identify the processes that needed to be re-engineered to improve worker productivity. Razdan found many simple changes that could be quickly implemented. Minor changes (for example, moving a raw-material feeding tray from a position below the line to a platform alongside it) improved worker productivity and line capacity significantly.

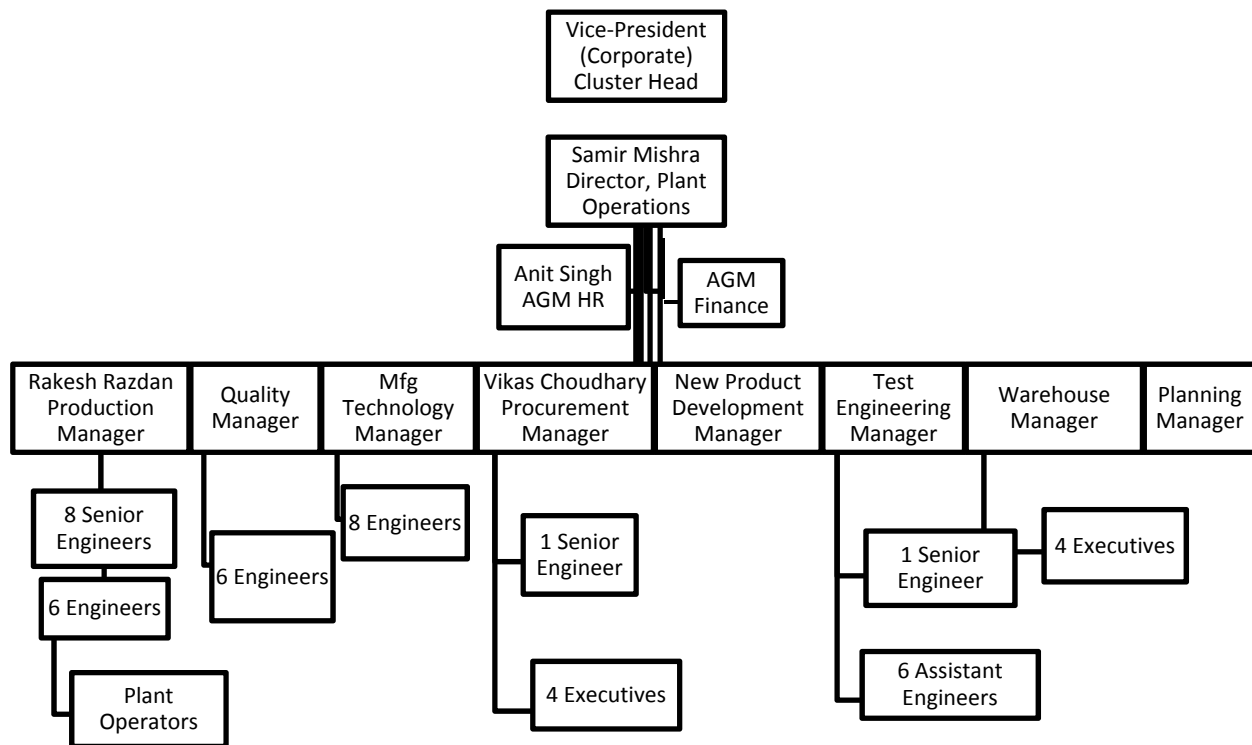
The line operators were responsible for correctly aligning and installing electrical components inside the inverter bodies. The plant’s own research and development team shared the operators’ feedback (for example, regarding the placement of various components inside the inverter) with the research and development team at Luminous, and these two teams jointly improved the product layout to make it easier and quicker to assemble. The testing bench for the inverters was also shifted to the Rudrapur plant from the Luminous offices, thus enabling quicker identification and correction of assembly issues.

Choudhary was asked to expand Rudrapur’s current group of raw-material suppliers. Finding it difficult to bring new suppliers on board in a short period of time, he decided to ask Luminous to share its own list of suppliers. The Luminous management team initially balked at this request but soon complied when they realized that their latest product launch would collapse if they did not assist the Rudrapur plant. Two of the new suppliers were located in Pune and Vadodara, in western India, so Choudhary decided to visit them personally to persuade them to help the Rudrapur plant with its high inventory requirements in the short term. To save time, Choudhary hesitantly asked Mishra for permission to travel by airplane instead of the usual train. Mishra approved this request on the spot and commended Choudhary for his commitment to the endeavour. Seeing Mishra follow through on his promise of support was a morale booster for the entire management team.

THE PATH FORWARD

Mishra and his team had made a lot of progress in improving the overall function of the Rudrapur plant, but there was still a long way to go, and a huge production hurdle had yet to be crossed. It remained to be seen whether Mishra would be successful at turning the plant around and fulfilling the challenging order. Were his interventions likely to succeed? Could Mishra have adopted a different approach to meet the challenges?

Professor Abinash Panda and Professor Anshul Jain are faculty members at Management Development Institute (MDI) Gurgaon, India. Samir Mishra is vice president of ACME India.

EXHIBIT 1: ORGANIZATION STRUCTURE OF THE RUDRAPUR PLANT

Source: Created by the authors

EXHIBIT 2: PRODUCTION TARGETS FOR LUMINOUS'S NEW PRODUCT LINE IN 2014

	Target Month						
Estimation Month	January	February	March	April	May	June	July
January	3,500	4,000	2,000				
February		1,000	1,000	1,000			
March				4,000	3,000	5,000	
April					4,000	7,000	2,000
May					9,000	27,000	9,000

Source: Created by the authors

EXHIBIT 3: RUDRAPUR PLANT PRODUCTION PER MONTH IN 2014

Month	Production
January	500
February	1,472
March	325
April	5,780
May	5,820

Source: Created by the authors