****

9B17C029

hari krishna diamond cutting: retaining talent in times of crisis

Nikita Sharma and Archana Shrivastava 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.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2017, Richard Ivey School of Business Foundation Version: 2017-07-27

Dear God:

We pray to you today, that the diamonds or the diamond jewellery we make/manufacture, the buyer/person who wears them, and the maker/artisan as well as seller may always remain happy and at peace.

Corporate Prayer: Hari Krishna Exports Pvt. Ltd.

In June 2014, Mahesh Kumar, chief production manager at Hari Krishna Exports Pvt. Ltd. (HKE), a diamond manufacturer and exporter in India, looked out at the beautiful green campus spread across 50,000 square metres surrounded by a state-of-the-art wellness and fitness centre, a gymnasium, cricket grounds, a meditation centre, a health and physiotherapy centre, a swimming pool, volleyball courts, a Krishna (Hindu god) temple, running tracks, and employees moving around with smiles on their faces. He reminisced about the challenges faced by the company after the global financial crisis in 2007, when Indian exports had suffered a setback. The diamond market in India was reeling from the pang of recession. Many diamond-processing units in Surat[[1]](#footnote-1) were shut down, leaving thousands of workers jobless and pushing some of them towards crime and despair.[[2]](#footnote-2) The situation turned precarious with the existing diamond-cutting units struggling to survive. Thousands of diamond manufacturing workers employed in Surat were compelled to find other work. There was panic among diamond manufacturing unit owners as well as diamond artisans. Frequent reports in the media added more panic to the existing situation. The faith and trust of the workers were badly shaken. HKE stood at a crossroads where it faced a tough challenge between low growth and profitability, and its duty towards its employees.

The economy had begun improving after 2011, which led to an increase in demand from Western consumers. The market also revived, but despite the recovery of the diamond-cutting industry and an excess demand for workers, Gujarat faced a shortage of around 200,000 workers.[[3]](#footnote-3) HKE also faced an acute shortage of workers. The increase in demand was a great opportunity for the diamond industry to expand not only in India but also globally. However, because of the past global crisis, workers were skeptical about coming back to work in the Surat diamond industry. The scarcity of skilled manpower had led to increased poaching and loyalty hopping and, as a result, retaining existing employees had become a big challenge. The attrition rate was in the double digits, and the situation at HKE was no different. It also faced the challenges of getting the right talent as well as retaining its best craftspeople. As chief production manager, Kumar was aware of the situation and of the challenges the company might face, but he was confident of the various initiatives that the company, under its able leadership, was planning to take. He knew that these initiatives would get HKE out of its predicament. He critically evaluated the words (in the Gujarati language) “*Meri factory heerey bananey ki nahi hain, manav bananey ki hai*” (“My enterprise’s endeavour is to build human beings, not mere polished stones”) spoken once in a meeting by Savji Dholakia, chairman and founder of HKE. Kumar wondered about the strategies adopted by HKE to face these challenges after 2011.

Background

Diamonds were one of the world’s major natural resources. An estimated US$13 billion[[4]](#footnote-4) worth of rough diamonds were produced every year. With India being the world’s largest hub for cutting and polishing diamonds, the industry was “well supported by government policies and the banking sector with around 50 banks facilitating nearly $3 billion of credit to the Indian diamond industry.”[[5]](#footnote-5) Unlike other countries, Indian artisans were skilled in working on small-sized diamonds.

The Surat diamond industry in India, which cut and processed 80 per cent of the world’s rough stones and procured raw materials mostly from Belgium, faced its worst crisis in 2008. The demand slowed due to the recession, and some companies moved to processing big stones (solitaires). During the peak of the recession, 400,000 workers were laid off in Gujarat.[[6]](#footnote-6) Slowly the market improved, and with a revival in demand from Western consumers, a section of the industry began to shift from small-carat stones to solitaires. However, the units faced an acute shortage of workers. Out of 450,000 workers employed in 4,500 units, attrition until 2010 was 40 per cent.[[7]](#footnote-7) The workers who were laid off were afraid to come back. The overall scenario of the diamond industry in India was uncertain. The impact of the recession on the diamond workers and their family members was extreme. Reports on various aspects of the crisis of diamond workers were a regular feature in the print media. Most of the first-generation diamond workers were either illiterate or semi-literate, had no idea about their place in the diamond production network, and did not know where the rough diamonds came from or where they went. There was information asymmetryamong the diamond miners, polishers, retailers, and consumers. Workers had no idea about the concept, causes, or consequences of the recession. Due to the low level of education and lack of alternative skills, workers found it difficult to get proper alternative employment. Those workers with agricultural land went back home and engaged in farming. About 50 per cent of the workers went back to their native homes and others took up alternative employment available within Surat and nearby cities. Due to all of these circumstances, when the diamond industry started picking up, the industry felt an acute shortage of skilled workers.

HKE had an expansion plan to grow from diamond manufacturer to diamond jewellery retailer with a global reach. It wanted talented, skilled craftspeople to produce diamonds according to international standards in terms of quality, purity, and design. Adopting organizational policies and practices to support its strategy would not only retain its skilled craftspeople but also attract new talent.[[8]](#footnote-8)

Overview of the Company

With a vision to put the country in a position of domination in the international diamond market, HKE was incepted in 1992. Dholakia had a vision of maintaining long-lasting relationships with all HKE’s stakeholders by using a robust market positioning to achieve great success (see Exhibit 1).

The company provided high-quality certified and non-certified polished diamonds in more than 10 different shapes, from 0.01 to 10 carats, in IF to I3 clarity, and from D to M colour to diamond wholesalers, jewellery manufacturers, diamond retailers, and consumers (see Exhibit 2). Every diamond sold was supported with an in-house faith-grading certificate along with third-party certifications from GIA, IGI, HRD, and other labs upon request. Revenue was generated by the sale of polished diamonds in 74 countries, with a turnover of $766 million in 2013–14 and $1.01 billion in 2014–15 (see Exhibit 3).

HKE had been a direct customer of mining companies like De Beers Company, Diamond Trading Company, Dominion Diamond Company, Rio Tinto Group, and Alrosa Diamond Company and had been receiving a direct and continuous supply of natural rough diamonds from them.

HKE STRATEGies and PRACTICES

Manufacturing

In the 20th century, the cutting and polishing industry was based on one person, one process, where each worker would carry out an individual process, i.e., one worker would do planning, the second would do the sawing, the third the bruting procedure, the fourth the table polishing, the fifth the girdle polishing, and so on. This system involved at least seven to 10 workers for polishing a single diamond. HKE introduced a new standardized operating procedure based on one person, one diamond, wherein each worker was responsible for cutting and polishing the entire diamond from start to finish. This system involved one individual diamond engineer to polish a single diamond. This new method of manufacturing reduced the need from 10 workers to as few as four workers for manufacturing a single diamond. The new standardized operating procedure ensured that every diamond was subjected to the same value-added process along with a just-in-time system to reduce cycle time, waste less time between processes, prevent inventory blockage, and enhance the skills of employees learning new processes.

Leadership

Dholakia, eldest of four brothers, could not complete his studies beyond his primary school. From the beginning of HKE, Dholakia concentrated on his stakeholders, whether it was the customers, employees, or society at large. His working philosophy had always been to treat all his employees the same way he treated his own brothers and children.

He was visible and easily reachable. His popular leadership trait included walking down the assembly line and being with the people by having lunch with them, holding monthly meetings, organizing motivational speeches for all his employees, or participating in various fun-related activities. He looked at his employees as partners.

Gaurav Duggal,chief administrative officer of HKE, commented that the organization, while being highly focused on productivity and performance, had always been relaxed in its atmosphere. Dholakia was the first among a few who adopted state-of-art technology early and emphasized training and education for all his employees. He commanded and focused on performance and delivered the best to HKE’s customers. He allowed mistakes and believed in providing ample opportunity to his employees to create and add value in every piece of diamond HKE worked on. Adopting a unique performance-based incentive system meant that the higher the value created, the higher the profit shared among employees. In the industry, the average salary was $219.93, but at HKE, based on performance, the average salary was $879.70 in financial year 2013–2014.

Dholakia was aware that, so far, the Indian diamond industry had been dominated by relatively uneducated people, but in order to grow and be recognized in the global market, the industry needed change in its socio-demographic makeup. Understanding the challenge, he took a lead in setting up a training institute to train and groom young people to be part of the industry. In 2014, he announced that he would train 100 handicapped girls free of cost and employ them at HKE.

Workplace Environment and HR Policies

In 2009–10, HKE realized that people were learning the trade and leaving for the competition, as the Indian economy was coming out of recession, and the demand for skilled people was high. Due to production inefficiency, the company’s HR department changed its policies. The company adopted policies that focused on employees and their families. The broad objective of the policies was to maintain the well-being of the employees—physically, mentally, and spiritually. As Dholakia said:

Our approach is not just towards corporate social responsibility but employee-centric responsibility, i.e., to see how the needs of our employees are fulfilled. What we have given to our employees is nothing compared to the effort put in by these people.[[9]](#footnote-9)

The group decided to follow a unique performance management system, where the performance of every individual was appreciated and acknowledged. Its high performers were rewarded with cars, jewellery, and apartments as annual Diwali (an Indian festival) bonuses.[[10]](#footnote-10) Surat Diamond Association president Rohit Mehta commented, “It suggests the worst is over, and the sparkle of the festival season is here to stay.” He further elaborated:

Most leading diamond firms have indeed been offering generous Diwali bonuses over the past decade, which has helped lower the attrition rates the industry was notorious for, but Dholakia’s gesture was unique and would boost the image and morale of the entire industry in Surat, whose 4,000 units and six lakh [600,000] workers polish 90 per cent of the world’s diamonds.[[11]](#footnote-11)

The company’s management system had been transparent, whereby employees could access their own yearly performance appraisal. Policies were drafted and implemented evenly for all employees, from senior executives to shop-floor artisans. Some of these policies adopted by HKE included free health check-ups, regular thalassemia camps for all staff members, life insurance, free lunch, and two sets of uniforms per year.The group opened the Hari Krishna Group Hospital with free medical facilities to help needy people and offered free medical care for every employee. In 2010, the company also introduced insurance coverage of $153,900 to 346 employees who had been with the company for the last five years. In 2012, the company started providing yoga, meditation, music, and stress-relieving therapy free of cost to all its employees irrespective of their status or position in the organization. Rules like wearing helmets while driving two-wheelers and abstaining from alcohol and tobacco became mandatory. Workers not following the rules were liable for punishment. Employees were allowed to send free messages by phone to spouses to confirm specific work dates and arrival and departure times for work, as they punched their cards for attendance. The company’s policies were not limited to the workers alone but were extended to their families too. Free travel and accommodation to Haridwar (a Hindu religious place in India) and other spiritual places, twice a year, for the parents and spouses of employees, scholarships and prizes to deserving wards of employees, and free books and stationery for all employees’ children were some of the policies implemented by the HKE Group.

HKE Spirit

Rooted in the Indian ethos of passion, care and trust, HKE had a core value of FAITH—faith, acceptance, integrity, trust (transparency), and honesty. A recently recruited employee who had worked previously with other diamond manufacturing organizations commented:

Before joining HKE, it was difficult for me to believe that any organization could have a culture where employees’ needs are put on such high priority. Here the performance of [an] individual is appreciated and generously rewarded. This is the place where not only [the] employee but his family [are] equally respected.

According to HR, sincere efforts had been made to preserve values and ensure that everyone, from top management to apprentices, followed the core values and respected one another. Even top management including the chairman, founder, and managing director of the company was found wearing the same uniform and taking lunch with others in the same cafeteria. The family spirit was introduced in many ways. Open communication forums, employee-friendly policies, and policies that ensured the physical and mental well-being of every person reflected the spirit of HKE.

Recruitment Process

In 2011 HKE brought a change in its recruitment process. All recruitments were made through reference. Candidates having a proven academic track record with honesty, dedication, and passion to master the craft of diamond manufacturing were recruited. The labour market was mostly dominated by uneducated artisans who had learned the craft by sheer practice. However, HKE preferred experienced people with integrity. Emphasis was put on recruiting graduates who had better analytical and cognitive skills to learn new technology that was being adopted by the diamond industry. The selection process was unique; during recruitment two essential things were looked into: skills (experience) and integrity. Candidates were given an explanation and orientation on the corporate core value—FAITH—with both a written and an oral commitment. Then, before being assigned the work and finalizing the value of the diamond piece they would be handling in their work, these candidates were exposed to a unique training and mentor scheme in a three-month probationary period.

Training

Given the emphasis on selecting the candidates based on core values and references, training became an integral part of HKE. All new hires, irrespective of their experience, had to undergo extensive orientation training before induction into HKE. As opposed to the more commonly practiced standard procedures of training often seen in other companies, training at HKE was customized according to the needs of all new hires, keeping in mind their different capabilities, exposure to technology, and experience with different facets and carats of diamonds.

During the first week, employees were assigned a task according to their experience and were monitored by heads of various processes—namely, planning, cutting, polishing, and others. The work was compared using benchmark standards that, in turn, defined the area and the intensity of developmental needs of the employee. Training was internal, and most of the interventions were decided by the in-house development and training division, where the new hire was exposed to the study of gems, the application of technology and software, process understanding, and time-to-time feedback from in-house trainers as needed. In this way, all new hires essentially were exposed to the values, vision, and culture of the company.

Training was structured in such a manner that if the new hire could not match the existing standards of HKE after three months, a senior expert was assigned as mentor; this mentor diligently taught and guided that new hire to a satisfactory performance level.

Communication System at HKG

Dholakia believed that the quality of communication flowing between top, middle, and low-level teams had a significant impact on employees’ relationship to HKE and their performance. This was particularly important when times were tough, as employees could become demotivated if they saw negative stories about their company in the media. HKE had an open-door policy and a strong feedback mechanism. The upper management team took special efforts to keep in touch with lower ranked employees. The existence of a mentoring scheme ensured that information, ideas, and resources were shared; internal organizational communication processes were made open, effective, and adequate. Employees could freely approach their seniors on any matter without hesitation.

Meetings and interactions between top and middle management happened on a weekly basis to share the latest agendas and provide timely updates on decisions and other important matters. Every first week of the month was kept for departmental meetings, and performances were shared openly. The chairperson shared his goals and objectives in the informal meetings in large gatherings.

Kumar shared an instance where crisis communication played a crucial role: “There was a time when new machineries were introduced and the employees were not ready to accept them. Special workshops were conducted to convince the employees and satisfy them.” HKE introduced a well-defined system to ensure that the company regularly conducted employee surveys to evaluate employee satisfaction.

Communications were not only used by senior managers for giving instructions downwards, but also for passing on business strategy so more people within the company understood how HKE was working towards its objectives. The communication process worked equally the opposite way, from lower to higher levels, with open management in a team-oriented workplace where employees and their ideas were listened to. Internal communications within HKE also provided a mechanism for discussion and negotiation, enabling employees to discuss issues within the workplace. The team brief was frequently used to keep employees informed of research on important issues and subsequent proposals.

Enterprise Resource Planning System

To facilitate the flow of information among all business functions inside the organization and link it to outside stakeholders such as customer and supplier systems, the business group implemented an enterprise resource planning system. In-house management information systems were designed to develop sophisticated software application systems that helped integrate business processes, make a central database with no duplication of data, allow ease of use, sustain a standard look, and provide a powerful reporting tool across the whole organization.

the next step

While everything appeared smooth, Kumar had many questions running through his mind. With the rapid changes that were happening in the market, how would HKE be able to adopt the changes happening so quickly in product design, technology interfacing, or strategies? The company had, in short, a clear formula for success that had served it well since the turn of the century. Stuck in the modes of thinking and working that brought success in the past, Kumar felt the company might simply accelerate all its tried-and-true activities with a unified sense of its strategies and values, its relationships with customers and employees, and its operating and investment processes. But as an experienced manager, he also knew that the prosperity of any company depended upon a fresh competitive formula that should be adapted from time to time—a distinctive combination of strategies, processes, relationships, and values that set it apart from the crowd. He felt that positive feedback could reinforce managers’ confidence that they had found the best way and could embolden them to focus their energies on refining and extending their winning system.

The fresh thinking that led to a company’s initial success could be replaced by a rigid devotion to the status quo, and when changes occurred in the company’s markets, the formula that had brought success might not work. Another dimension that Kumar visualized was to look at the dynamics of the transitional power structure in place at the organization. Now his major concern was how HKE would sustain its work culture and environment to retain its best employees and leverage the best in this competitive scenario.

Exhibit 1: Organizational Structure

Source: Created by the authors based on company documents.

**Exhibit 2: Organizational Matrix**

Source: Created by the authors based on company documents.

**Exhibit 3: Hari krishna Group’s Financials**

|  |  |  |  |
| --- | --- | --- | --- |
| **US$ Million** | **2012–13** | **2013–14** | **2014–15** |
| Rough purchases | 327.54 | 642.20 | 850 |
| Polished purchases | 3.63 | 30.56 | 50 |
| Rough sales | 9.80 | 3.60 | 10 |
| Polished sales | 362.24 | 673 | 865 |
| Jewellery sales | 65.30 | 89 | 135 |
| Turnover | 437.34 | 765.60 | 1,010 |

Source: Created by the authors based on company documents.

1. Surat, a port city previously known as Suryapur, was the economic capital and former [princely state](https://en.wikipedia.org/wiki/Princely_state) in the [Indian state](https://en.wikipedia.org/wiki/States_and_territories_of_India) of [Gujarat](https://en.wikipedia.org/wiki/Gujarat). [↑](#footnote-ref-1)
2. Ruddar Datt, “Global Meltdown and Its Impact on the Indian Economy,” *Mainstream Weekly* XLVII, no. 15 (March 2009), accessed June 19, 2017, www.mainstreamweekly.net/article1261.html. [↑](#footnote-ref-2)
3. “Gujarat’s Diamond Industry Faces Acute Shortage of Skilled Workers,” Hope Ummid.com, August 7, 2010, accessed June 19, 2017, www.ummid.com/news/2010/August/07.08.2010/surat\_diamond\_industry\_faces\_labor\_shortage.htm. [↑](#footnote-ref-3)
4. All currency amounts are in U.S. dollars unless otherwise specified. [↑](#footnote-ref-4)
5. “Gems and Jewellery Industry in India,” India Brand Equity Foundation, December 2013, accessed March 17, 2015, www.ibef.org/archives/detail/b3ZlcnZpZXcmMzU4MTAmNDM4. [↑](#footnote-ref-5)
6. Dave Parag, “Surat Diamond Industry Decides to Offer Performance Bonus to Check Attrition,” *The Economic Times*, April 7, 2010, accessed May 11, 2015, http://articles.economictimes.indiatimes.com/2010-04-07/news/27614937\_1\_surat-diamond-association-diamond-industry-skilled-workers. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. “Indian Diamond Industry,” Indian Mirror, accessed May 11, 2015, www.indianmirror.com/indian-industries/diamond.html. [↑](#footnote-ref-8)
9. “Am a School Dropout, Says Diamond Merchant Everyone’s Talking About,” *NDTV*, October 22, 2014, accessed June 15, 2015, [www.ndtv.com/surat-news/am-a-school-dropout-says-diamond-merchant-everyones-talking-about-683114](http://www.ndtv.com/surat-news/am-a-school-dropout-says-diamond-merchant-everyones-talking-about-683114). [↑](#footnote-ref-9)
10. “Surat Diamond Trader Gives 500 Fiat Puntos as Diwali Bonuses,” *The Economic Times*, October 20, 2014, accessed June 15, 2015, <http://economictimes.indiatimes.com/industry/auto/news/passenger-vehicle/cars/Surat-Diamond-trader-gives-500-Fiat-Puntos-as-Diwali-Bonuses/articleshow/44886703.cms>. [↑](#footnote-ref-10)
11. Basant Rawat, “A Bonus as Bright as Diwali: Diamond Czar’s Rs 3.6-lakh Gift Each to 1268 Employees,” *The Telegraph*, October 24, 2014, accessed June 15, 2015, www.telegraphindia.com/1141024/jsp/nation/story\_18957645.jsp. [↑](#footnote-ref-11)