

# LALU SCRIPTS INDIAN RAILWAY'S TURNAROUND



**Brand:** Mehta Solutions

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## Short Description

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In December 2006, as many as 137 undergraduate students from the universities of Harvard and Wharton gathered to listen Indian Railways minister, Lalu Prasad Yadav at Rail Bhavan. These foreign universities had expressed to know how Lalu converted the loss making Indian Railway into Rs. 20 billion profit making organization within 2 years, without increasing fares.

Mr. Lalu Prasad Yadav explained students in Hindi and his speech was translated in English by his aids. However the students of various countries questioned the sustainability of his model, they asked Lalu why he could not turnaround Bihar in the 15 years rule of Rashtriya Janta Dal (RJD) in that state, while he changed railways within 30 months. Lalu said, 'Bihar needed an outside push. It had too many problems, while the railways had a lot of potential. It is like an empire'. Jeffrey Immelt, the chairman of General Electric, who visited Rail Bhavan recently, was surprised that the Rail Bhavan is now talking about unit cost, volume increment and competition. The IR has just become the second most profitable public enterprise after ONGC.

Indian Railways is the world's largest employer, providing 1.6 million jobs, one of the largest and busiest rail networks in the world, carrying 18 million passengers daily. Yet it has, so far, stayed ahead of global recession. Thanks to Mr. Lalu Prasad Yadav for a job

well done. He has surprised many by emerging as one of the top performing ministers in Prime Minister Manmohan Singh's cabinet. He is being credited for the impossible—the turnaround of the monolithic Indian railways.

When he took over as Railway Minister in 2004, the 156-year old Indian Railways was dismissed as a hopeless, loss-making organization, with too little revenue, too many problems and too many employees. IR was spending 91% of its income just on salaries and maintaining an aging organization. In 2001 the Rakesh Mohan Committee headed by former Reserve Bank of India deputy governor Rakesh Mohan, termed India Railways a "white elephant", with a debt of Rs 61,000 crore (\$12.3 billion) and even predicted fatal bankruptcy by 2015.

Now many are surprised by the successive landmarks set by the Indian Railways. In last four years, IR has turned in a cumulative cash surplus before dividend of Rs 68,778 crore (\$13.9 billion). Out of this Rs 15,898 crore has been paid as dividend, Rs 39,215 crore has been invested in rail infrastructure and Rs 13,665 crore has been added to fund balances to reach Rs 20,483 cr. One of Rakesh Mohan Committee members, IIM's Professor G. Raghuram, now has all praises for Lalu. IIM Ahmadabad, recognized Lalu's turnaround of Indian railways, and made it a case study for its students.

### **What did the minister do to turnaround Indian railways?**

In a nutshell,

- Refused to hike fares. Shored up earnings by carrying more passengers and freight.
- Increased the load carried by a goods wagon from 81 tonnes to 90 tonnes. This gave an additional earning of Rs 7,200 crore.
- Upgraded tickets if seats were going vacant in the upper class. So, waitlisted passengers could be allotted seats.
- Maintained passenger profile so that bogies could be taken off or added to trains according to seasonal demand.

### **Lalu's Success Secrets**

The explanation for his success lies in his down-to-earth attitude and rustic wisdom. Lalu puts it in his inimitable style: "My mother always told me **not to handle a buffalo by its tail, but always take it by its horns**. And I have used that lesson in everything in my

life, including the railway ministry."

Lalu says "I approached the ministry like a common man with no technical expertise. I was clear about one thing—I would not increase passenger or freight fares. It did not require rocket science to understand that the railways could increase its earnings by carrying more passengers and freight. **The solution lay in increasing volumes and not the cost,**" he says.

We can learn the following management tips from Lalu's success.

## **Lalu's Management Tips**

### **Choose the right people!**

Lalu quickly realized that he needs points man (A man who operates railway switches) in the ministry and choose a Bihar-cadre IAS officer, Sudhir Kumar, as his officer on special duty (OSD) and gave him a free hand to execute his ideas. A Delhi School of Economics alumnus, Kumar also holds a degree in business management. He has given a professional and workable shape to Lalu's earthy ideas. But he credits all of it to his boss's genius. He says Lalu, not only thinks out of the box but also takes bold decisions.

### **Don't Micro Manage, Delegate your work, take calculated risks!**

According to his officers, "Lalu has not taken any step that was not known in the railways. Other ministers dithered over various policy changes which could have brought additional revenue. Quite unlike them, Lalu went ahead and took those risks, but in an extremely calculated manner. He also placed complete trust in his officers, and did not at all hesitate in delegating responsibility and powers".

### **If you do not milk the cow fully, it falls sick!**

One of Lalu's most controversial decisions was to increase the load carried by a goods wagon from 81 metric tonnes (MT) to 90 MT. His logic: "If you do not milk the cow fully, it falls sick." He reasoned that wagons were being overloaded anyway—and hence subjected to risk of accidents—and the money being pocketed by corrupt officials. So why not load it officially? This one decision earned the railways an additional Rs 7,200 crore.

### **Think out of the box**

Lalu's decision to upgrade passenger tickets subject to availability of seats in the upper class was opposed by the board's finance commissioner. The minister and the OSD both explained to the finance commissioner that "An empty wasn't earning any money. If

lower class tickets were upgraded, then more waitlisted passengers could be accommodated, earning additional revenue”. This system was successfully implemented after trying it out on the Delhi-Mumbai Rajdhani”.

### **Do what makes sense**

Another decision which met some resistance from the board members was the doing away with the detailed examination of a train at its final destination even after a short run. It was decided that a passenger train would only be examined after every 3,500 km, and a freight train after every 4,500 km. A railway official explains "Laluji saw no logic in the earlier practice. A train from Jammu to Kanyakumari was examined after 3,000 km, on completion of its journey and another train from Jammu to Amritsar, for example, had to be examined after 250 km. Each train examination takes 16 hours. Lalu's idea was to save time and have the wagons free to run for a longer time”.

### **Information is wealth if used properly**

Lalu and his officers have introduced simple but effective techniques. For example, they introduced the passenger profiling system, enabling the railways to increase or decrease the number of coaches in a train according to demand. So a service to Jaipur may need fewer coaches during summers when traffic is low. However, these coaches can be added to a Dehradun-bound train where there is a rush in these months. Says Lalu: "This was a simple decision to take but nobody was really doing it since it required some changes in the railways computerized reservation system. All the data was available, it only had to be generated and used properly."

### **Lalu's ambition**

Mr. Lalu Prasad Yadav many times expressed a strong ambition to become the country's Prime Minister. In his recent interview to NDTV, when asked by newsmen whether he will again become the Railway Minister after the forthcoming elections, Yadav said, "what will happen, where will I go, what God has destined and what is written on the forehead, anything can happen. “

"But, one day I will become the Prime Minister of the country. I have no 'maara-maari' present or future."

Lets us hope Lalu will become Prime Minister of India in the near future and turns around every sector to make India a super power.

### **Question 1:**

**Despite all the recent publicity commanded by Lalu Prasad Yadav and Indian**

**railways about it turn around, railway platforms and train remains overcrowded and filthy, the waiting of passengers awaiting berth confirmation remains long in most instances, and punctuality of train remains as elusive as ever. Can the capacity of Indian railway ever match the travelling population of the Indian masses?**

**Question 2:**

**Do you think IR is more likely to compromise on passenger comforts in its current drive for better capacity utilization**

**Question 3:**

**The Garib Rath experiment by Indian Railways is for long-distance trains. The low-cost airlines are targeting traditional railway customer primarily on the long routes. In your view, what would be the likely outcome of this Garib Rath experiment**

**Question 4:**

**What kind of competition can be posed by the air freight industry in the near future to IR's freight business, which is its biggest revenue earner?**

**Details**

**1. Case study solved answers**

**2. pdf/word**

**3. Fully Solved with answers**