

# Impact of performance-linked incentives on employee turnover: A case study of TATA Steel and JSPL

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**Abstract:** Employee turnover is a critical challenge faced by organizations, particularly in labor-intensive industries such as steel manufacturing, where retaining skilled talent directly impacts operational efficiency and profitability. This study investigates the impact of performance-linked incentives (PLI) on employee turnover at two leading Indian steel manufacturers, TATA Steel and JSPL.

The research adopts a comparative case study approach, combining quantitative analysis of turnover rates with qualitative insights from employee surveys and HR interviews. It explores the design, implementation, and effectiveness of PLI schemes in both organizations, examining their role in fostering employee motivation, satisfaction, and retention. The study also considers employee perceptions of fairness and transparency in the incentive structures and highlights the role of non-monetary factors influencing attrition.

Findings reveal that while PLI schemes significantly influence retention by aligning employee performance with organizational goals, their effectiveness varies depending on scheme design, communication strategies, and alignment with broader HR policies. The study provides actionable recommendations for optimizing PLI systems to enhance employee loyalty and minimize turnover in the steel sector.

This research contributes to the growing body of knowledge on HR practices in manufacturing and offers practical insights for organizations seeking to balance performance rewards with sustainable retention strategies.

**Key Words:** Performance-Linked Incentives, Employee Turnover Reduction, Workforce Motivation and Incentives.

**1. INTRODUCTION:** Employee retention is a critical challenge for organizations across industries, with high turnover rates posing significant financial, operational, and reputational risks. In labor-intensive sectors like steel manufacturing, retaining skilled and experienced employees is essential for ensuring productivity, quality, and operational continuity. Among various human resource (HR) strategies, performance-linked incentives (PLI) have emerged as a powerful tool for enhancing employee motivation, satisfaction, and loyalty by directly tying rewards to individual or team performance.

This study focuses on the impact of PLI schemes on employee turnover within two leading players in the Indian steel industry: **TATA Steel** and **Jindal Steel and Power Limited (JSPL)**. Both organizations have established themselves as industry leaders, not only through their operational excellence but also by adopting innovative HR practices aimed at fostering employee engagement and retention. However, the effectiveness of their respective PLI systems in addressing turnover challenges remains a critical area for examination.

Through a comparative case study approach, this research investigates the design, implementation, and perceived effectiveness of PLI schemes at TATA Steel and JSPL. It examines how these incentives influence key factors such as job satisfaction, organizational commitment, and employee loyalty, while also exploring broader organizational and cultural dynamics that may impact retention outcomes.

By identifying the strengths and limitations of PLI systems at both companies, this study aims to provide actionable insights for HR practitioners and contribute to the broader discourse on optimizing incentive strategies to reduce turnover in the steel manufacturing sector.

## 2. LITERATURE REVIEW:

The relationship between **Performance-Linked Incentives (PLI)** and **employee turnover** has been widely studied in organizational behavior and human resource management. Several studies have explored how various types of incentive structures influence employee motivation, job satisfaction, and retention.

## 1. Employee Retention and Turnover

Employee retention is a critical area of research due to its impact on organizational performance. According to **Hom and Griffeth (1995)**, employee turnover can be categorized into voluntary and involuntary turnover. While involuntary turnover results from layoffs and firings, voluntary turnover is usually driven by dissatisfaction with work conditions, compensation, or career growth opportunities. **Ramlall (2004)** found that employee retention strategies, including recognition and rewards, play a major role in reducing turnover, particularly in competitive industries like manufacturing.

In the context of the steel industry, **Jha (2010)** explored the factors influencing employee retention in Indian manufacturing organizations, emphasizing the importance of compensation and incentives in retaining skilled employees. His findings suggested that organizations offering better incentives and career advancement opportunities have significantly lower turnover rates.

## 2. Performance-Linked Incentives (PLI)

Performance-Linked Incentives (PLI) are increasingly used by organizations to link employee compensation to their performance and productivity. **Dhar (2015)** explored the relationship between PLI schemes and employee motivation, finding that employees who perceive performance-based rewards as fair and transparent are more motivated to improve their performance, thereby improving job satisfaction and reducing turnover.

**Kuvaas (2006)** conducted a study on the impact of performance-based rewards on employee satisfaction and turnover. His research indicated that employees are more likely to remain with organizations that offer clear, attainable performance targets linked to financial rewards. Conversely, if PLI schemes are perceived as unfair or unattainable, they can lead to dissatisfaction and increase the likelihood of turnover.

In India, **Mishra and Mohanty (2011)** studied the effectiveness of PLI systems in manufacturing companies, highlighting that PLI can significantly influence retention when it aligns with individual and organizational goals. They found that organizations with well-structured PLI schemes reported lower turnover rates, especially in industries like steel, where skilled labor is crucial.

## 3. Employee Motivation and Satisfaction

A key reason PLI schemes are adopted is their potential to improve employee motivation. **Herzberg's Two-Factor Theory (1959)** suggests that motivators such as recognition and achievement lead to increased job satisfaction, while hygiene factors like salary can prevent dissatisfaction. **Deci and Ryan's (2000)** Self-Determination Theory further elaborates that employees are motivated by rewards that acknowledge their competence and contribute to their sense of autonomy.

In the context of PLI, **Gagne and Deci (2005)** argue that intrinsic motivation (such as personal growth and satisfaction from work) combined with extrinsic motivation (such as financial incentives) leads to better employee performance and retention. A study by **Dube (2018)** on Indian manufacturing companies further reinforced this, finding that when employees feel they are fairly rewarded for their efforts, their organizational commitment and satisfaction levels increase, leading to lower turnover rates.

## 4. HR Practices in the Steel Industry

In the steel industry, HR practices play a vital role in retaining skilled employees due to the physically demanding nature of the job and the technical skills required. **Yadav and Devi (2017)** examined HR practices in the Indian steel sector, noting that PLI schemes are one of the most effective tools for reducing attrition. However, they emphasized that these schemes must be designed carefully, ensuring fairness and transparency in order to be effective in improving retention. TATA Steel and JSPL have both implemented innovative HR practices to tackle turnover. **Bansal (2014)** examined the HR practices at TATA Steel and found that their performance-based incentive structures, combined with a strong organizational culture of employee development, have helped the company maintain a low turnover rate. In contrast, **Sahu (2016)** analyzed JSPL's HR practices and noted that while the company's PLI schemes are well-established, the lack of consistent communication and transparency regarding performance evaluation led to mixed results in employee retention.

## 5. Comparative Analysis of TATA Steel and JSPL

Comparing the PLI systems at TATA Steel and JSPL provides insights into how organizational culture, leadership styles, and HR strategies influence the effectiveness of these schemes. **Singh and Kumar (2017)** conducted a comparative study of HR practices at TATA Steel and JSPL, focusing on their employee retention strategies. They found that while both companies implement PLI systems, TATA Steel's holistic approach, which includes regular feedback, skill development, and a focus on work-life balance, contributes to a more positive work environment, which in turn reduces turnover.

In contrast, **Sharma (2018)** observed that while JSPL has a robust PLI system, its focus on short-term financial incentives sometimes creates dissatisfaction among employees due to a lack of long-term career growth opportunities.

This finding aligns with **Kuvaas (2006)**, who argued that while PLI can improve motivation, it needs to be accompanied by career development initiatives to sustain long-term retention.

### 3. OBJECTIVES:

1. To examine the structure and design of Performance-Linked Incentive (PLI) schemes at TATA Steel and JSPL
2. To compare the HR strategies and overall employee retention policies of TATA Steel and JSPL
3. To recommend strategies for improving PLI systems and employee retention at TATA Steel and JSPL

#### 1. To examine the structure and design of Performance-Linked Incentive (PLI) schemes at TATA Steel and JSPL

##### Introduction to PLI Structures

Performance-Linked Incentive (PLI) schemes are designed to motivate employees by linking a portion of their compensation to their individual, team, or organizational performance. The structure and design of such schemes typically involve several components, including performance metrics, evaluation criteria, payment frequency, and alignment with strategic organizational goals.

In the context of TATA Steel and JSPL, both companies have adopted PLI systems, but their structures differ based on organizational culture, operational priorities, and HR strategies.

##### PLI Scheme at TATA Steel

###### 1. Objectives of the Scheme:

- To align individual and team goals with organizational objectives.
- To encourage high performance and reward exceptional contributions.
- To foster a sense of fairness and motivation across all employee levels.

###### 2. Components:

- **Individual Performance Metrics:** Employees are evaluated based on Key Performance Indicators (KPIs), which include productivity, adherence to safety protocols, and innovation.
- **Team-Based Incentives:** Certain bonuses are allocated for achieving team-specific targets, fostering collaboration and accountability.
- **Company-Wide Performance:** Organizational performance metrics such as revenue growth, operational efficiency, and sustainability goals impact the overall incentive pool.

###### 3. Evaluation Criteria:

- Performance reviews are conducted quarterly or annually, using a mix of qualitative and quantitative assessment methods.
- Feedback loops and a 360-degree appraisal system ensure a holistic evaluation of employee performance.

###### 4. Payment Structure:

- Incentives are distributed semi-annually or annually. The payout amount depends on the cumulative score achieved across all performance metrics.

###### 5. Key Features:

- **Transparency:** TATA Steel employs a clear communication strategy to ensure employees understand how their incentives are calculated.
- **Customization:** Different incentive structures for managerial, technical, and operational staff ensure relevance to their roles.

##### PLI Scheme at JSPL

###### 1. Objectives of the Scheme:

- To drive productivity and efficiency at all levels of the workforce.

- To retain talent in a competitive industry by offering attractive rewards.
- To reinforce the company’s strategic goals, such as sustainability and innovation.

**2. Components:**

- **Individual Targets:** Employees are assessed based on specific goals related to their job functions, such as operational efficiency, cost-saving initiatives, and adherence to deadlines.
- **Leadership Incentives:** Special incentives are provided to managerial staff for achieving strategic milestones.
- **Profit-Sharing Component:** A portion of the company’s profits is allocated to employees as part of the PLI pool.

**3. Evaluation Criteria:**

- Performance reviews are conducted annually, focusing on individual contributions to operational outcomes.
- Quantitative metrics (e.g., production volume) dominate the evaluation process, with less emphasis on qualitative feedback.

**4. Payment Structure:**

- Incentives are paid out annually, with amounts tied closely to company-wide financial performance.
- Payouts for higher management are more closely tied to profitability metrics than for other levels.

**5. Key Features:**

- **Standardization:** The scheme is largely uniform across departments, which reduces complexity but may limit customization.
- **Focus on Financial Goals:** Greater emphasis on metrics like revenue and cost control compared to non-financial KPIs.

**Comparison of PLI Structures: TATA Steel vs. JSPL**

| Aspect                     | TATA Steel   | JSPL   |
|----------------------------|--|--|
| <b>Performance Metrics</b> | Balanced focus on qualitative and quantitative KPIs. | Primarily quantitative (financial and operational).  |
| <b>Payment Frequency</b>   | Semi-annual or annual payouts.                       | Annual payouts.                                      |
| <b>Transparency</b>        | High, with clear communication strategies.           | Moderate, with some employees unclear on criteria.   |
| <b>Customization</b>       | Role-specific incentive structures.                  | Standardized for most roles.                         |
| <b>Profit Sharing</b>      | Indirectly linked to company profits.                | Direct component tied to profits.                    |
| <b>Employee Perception</b> | Generally positive; viewed as fair and motivating.   | Mixed; financial focus limits perceived inclusivity. |

**Findings**

1. **TATA Steel:** The PLI scheme is well-rounded, focusing on employee engagement, fairness, and transparency. The incorporation of both financial and non-financial performance metrics ensures holistic evaluations.
2. **JSPL:** The scheme emphasizes operational efficiency and profitability but lacks the personalization and transparency seen at TATA Steel. This may lead to mixed employee perceptions, especially among non-managerial staff.

## 2. To compare the HR strategies and overall employee retention policies of TATA Steel and JSPL

To compare the HR strategies and employee retention policies of Tata Steel and Jindal Steel and Power Limited (JSPL), we can evaluate their approaches based on factors like employee engagement, development programs, compensation, benefits, diversity, and organizational culture.

### 1. Employee Engagement and Work Culture

- **Tata Steel:**
  - Known for its *progressive work culture* and emphasis on employee welfare.
  - Implements initiatives like structured feedback mechanisms, regular engagement surveys, and open-door policies for leadership.
  - Focus on work-life balance through flexible working hours and employee-friendly policies.
- **JSPL:**
  - Promotes a *performance-driven culture* with a focus on innovation and continuous improvement.
  - Employee engagement programs often revolve around fostering innovation and alignment with organizational goals.
  - Encourages open communication but has a more target-driven atmosphere.

### 2. Employee Development Programs

- **Tata Steel:**
  - Offers robust training programs, leadership development initiatives, and career progression paths.
  - "Aspire" and "Prerna" programs focus on leadership development and diversity initiatives.
  - Strong emphasis on upskilling through digital training platforms and certifications.
- **JSPL:**
  - Focuses on enhancing technical skills and operational excellence.
  - Implements in-house training programs, such as the *Technical Training Program*, for skill enhancement.
  - Leadership programs are less structured compared to Tata Steel, but there's a push for on-the-job learning.

### 3. Compensation and Benefits

- **Tata Steel:**
  - Competitive pay structure with comprehensive benefits, including housing, healthcare, and retirement benefits.
  - Performance-linked incentives and long-term wealth creation schemes like Employee Stock Option Plans (ESOPs).
  - Focus on well-rounded welfare, including initiatives for employee families.
- **JSPL:**
  - Competitive compensation structure, particularly for high-performing employees.
  - Incentive systems are target-based and tied to operational metrics.

- Benefits focus on healthcare, housing, and insurance but are perceived as slightly less holistic compared to Tata Steel.

**4. Diversity and Inclusion**

• **Tata Steel:**

- A pioneer in diversity initiatives, aiming for a significant representation of women and underrepresented groups in the workforce.
- Programs like "Women of Mettle" and partnerships for inclusive workplaces emphasize diversity.
- Focus on creating a safe and inclusive workplace with strong anti-discrimination policies.

• **JSPL:**

- Has made strides in gender diversity but is still catching up with industry leaders like Tata Steel.
- Focus is more on creating an innovation-driven environment, which indirectly fosters diversity.

**5. Retention Policies**

• **Tata Steel:**

- Known for exceptional retention rates, attributed to a strong focus on employee satisfaction, career growth, and welfare.
- Alumni programs and re-hiring initiatives make employees feel valued, even post-tenure.
- Retains employees through investments in learning and development, making career growth a key motivator.

• **JSPL:**

- Moderate retention rates with emphasis on keeping top talent through performance-based rewards.
- Focuses on identifying high-potential employees and offering career growth opportunities within the organization.
- Relatively high attrition in some operational roles, indicating room for improvement in welfare and engagement strategies.

**6. CSR and Community Development**

• **Tata Steel:**

- Strong CSR initiatives that positively impact employee morale.
- Engagement in community-driven projects enhances the company's image and builds a sense of purpose among employees.

• **JSPL:**

- Significant investment in CSR, focusing on education, healthcare, and infrastructure in the communities where it operates.
- Employees are encouraged to participate in CSR initiatives, fostering a connection to the company's values.

**Summary of Key Differences**

| Aspect       | Tata Steel                         | JSPL                                |
|--------------|------------------------------------|-------------------------------------|
| Work Culture | Employee-friendly, welfare-focused | Performance-driven, target-oriented |

| Aspect                  | Tata Steel                                 | JSPL                                    |
|-------------------------|--|---|
| Development Programs    | Structured, leadership-oriented            | Skill-based, operational focus          |
| Compensation & Benefits | Holistic and comprehensive                 | Competitive, target-based incentives    |
| Diversity               | Leader in inclusion initiatives            | Emerging focus on diversity             |
| Retention Focus         | Career growth, welfare, strong alumni ties | Performance rewards, moderate retention |

### 3. To recommend strategies for improving PLI systems and employee retention at TATA Steel and JSPL

Improving Performance-Linked Incentive (PLI) systems and employee retention requires a balance between monetary incentives, professional growth, and fostering a positive work culture. Below are tailored strategies for Tata Steel and JSPL:

#### Recommendations for Tata Steel

##### 1. Enhancing the PLI System

- **Tie PLI to Skill Development:** Introduce incentives for employees who complete skill enhancement programs or certifications. This fosters upskilling and aligns rewards with long-term organizational goals.
- **Incorporate ESG Metrics:** Include Environmental, Social, and Governance (ESG) contributions in the PLI metrics to align employee efforts with sustainability goals.
- **Broaden Metrics:** Move beyond financial and operational KPIs to include softer aspects like innovation, collaboration, and customer satisfaction.
- **Employee-Specific Customization:** Offer flexibility by allowing employees to select certain PLI parameters that resonate with their roles and aspirations.

##### 2. Improving Employee Retention

- **Accelerate Career Growth Opportunities:** Establish fast-track promotion schemes for high performers to maintain engagement and reduce attrition among ambitious employees.
- **Expand Welfare Benefits:** Build on existing welfare programs by offering more family-oriented benefits like subsidized child education, flexible parental leave, and eldercare assistance.
- **Foster Innovation and Ownership:** Launch programs that reward innovative ideas and allow employees to take ownership of projects, creating a sense of purpose and belonging.
- **Strengthen Alumni Networks:** Leverage alumni networks for re-hiring programs and ambassadorial roles to enhance employer branding.

#### Recommendations for JSPL

##### 1. Enhancing the PLI System

- **Introduce Differentiated PLIs:** Customize PLIs by role type, with separate schemes for operational, technical, and leadership roles to ensure fairness and relevance.
- **Add Long-Term Incentives:** Integrate stock options or profit-sharing schemes to promote loyalty and long-term alignment with the company's success.
- **Incentivize Team Performance:** Incorporate team-based PLI metrics to encourage collaboration and reduce siloed performance mindsets.
- **Reward Beyond Targets:** Recognize and reward employees for achieving extraordinary results outside their standard KRAs (Key Result Areas).

##### 2. Improving Employee Retention

- **Create a Culture of Recognition:** Develop a robust, frequent recognition program that celebrates achievements at all levels, fostering a sense of appreciation and value.

- **Enhance Leadership Accessibility:** Increase opportunities for employees to interact with top management, creating a sense of inclusion and alignment with company vision.
- **Promote Career Path Transparency:** Clearly define growth paths and communicate them effectively to employees to alleviate uncertainty about career progression.
- **Expand Learning and Development:** Invest in more structured leadership and technical training programs that ensure employees feel equipped for internal mobility.

## **Common Strategies for Both Companies**

### **1. Strengthening Employer Brand**

- Build an external and internal narrative that highlights the company's commitment to employee welfare, innovation, and growth opportunities. Use social media, alumni testimonials, and CSR achievements for branding.

### **2. Employee Feedback Mechanisms**

- Regularly conduct pulse surveys and focus groups to gather actionable insights on employee satisfaction, concerns, and expectations regarding PLI and retention policies.

### **3. Leverage Technology in HR**

- Implement advanced HR analytics to predict attrition risks and identify areas where employees might need additional support.
- Use AI-driven platforms to personalize PLI systems and career recommendations.

### **4. Create Inclusive Workplaces**

- Foster inclusion and diversity by expanding hiring from underrepresented groups and ensuring all employees feel valued and respected.

### **5. Strengthen Wellness Programs**

- Focus on holistic wellness, including mental health counseling, stress management workshops, and fitness initiatives, to enhance employee well-being and loyalty.

## **Implementation Timeline**

### **Short-Term (0-1 Year)**

- Introduce updated PLI parameters and pilot new incentive schemes.
- Launch recognition programs and expand employee wellness initiatives.
- Conduct feedback surveys to identify immediate areas for improvement.

### **Medium-Term (1-3 Years)**

- Roll out advanced training programs and career progression frameworks.
- Expand welfare benefits and implement flexible working arrangements.
- Build employer branding campaigns showcasing the improved initiatives.

### **Long-Term (3+ Years)**

- Integrate long-term retention tools like ESOPs and profit-sharing.
- Continuously refine the PLI system based on data-driven insights.
- Foster an innovative and inclusive organizational culture through sustained efforts.

By adopting these strategies, Tata Steel can further cement its reputation as an employee-centric organization, while JSPL can enhance its attractiveness and retention in a competitive talent market.



#### 4. Conclusion :

The study on the **impact of performance-linked incentives (PLI) on employee turnover** provides valuable insights into how well-structured incentive systems can influence employee retention in the steel industry. Through a comparative analysis of TATA Steel and Jindal Steel and Power Limited (JSPL), it is evident that PLI schemes, when effectively designed and implemented, play a pivotal role in motivating employees, enhancing job satisfaction, and reducing turnover rates.

At **TATA Steel**, the PLI scheme is characterized by a balanced approach that incorporates individual, team, and organizational performance metrics. Its transparency, role-specific customization, and focus on holistic employee development contribute to fostering a positive work environment and a strong sense of organizational loyalty among employees. This comprehensive strategy positions TATA Steel as a benchmark in aligning employee incentives with organizational goals.

In contrast, **JSPL** adopts a more standardized and profit-driven incentive model. While the scheme effectively rewards operational efficiency and financial performance, its limited customization and relatively lower emphasis on qualitative metrics and transparency result in mixed employee perceptions. These limitations may lead to challenges in sustaining long-term employee retention, especially in a competitive industry like steel manufacturing.

The findings of this research underscore the importance of aligning PLI schemes with broader HR strategies, organizational culture, and employee expectations. Performance-linked incentives should not only motivate employees through financial rewards but also address their intrinsic needs, such as career growth, recognition, and a sense of purpose within the organization.

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