

# **SMART**

## **JOURNAL OF BUSINESS MANAGEMENT STUDIES**

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**Vol.2**

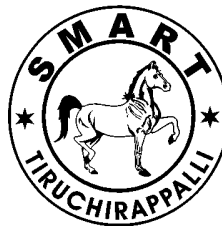
**No. 1**

**January - June 2006**

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**ISSN 0973 - 1598**

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**Chief Editor**



**SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST**  
**(SMART)**

***TIRUCHIRAPPALLI (INDIA)***  
**<http://www.geocities.com/smartbard>**

# **DYNAMICS OF VRS IN BANKING SECTOR : A CASE STUDY IN THE PONDICHERRY REGION**

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## **Abstract**

*This study aims at analyzing the dynamics of VRS among the VRS opted employees of State Bank of India and Canara Bank in the Pondicherry Region. An Attempt has been made to perceive the effects of VRS in a comprehensive form covering various factors like the principles behind VRS, the employees' opinion towards VRS, its impact on personal life, identification of psychological effects in opting for VRS, causes for and effects of VRS, life after VRS and its impact on organizations and on the individuals. A survey was conducted among the VRS opted employees of SBI and Canara Bank in the Pondicherry Region through an interview schedule and data, collected through primary sources combined with the secondary sources, have been analysed, using different statistical tools. The results of the study reveal the employees' views with regard to VRS and its impact on the employees and on the organisations. All the factors considered for this study were found to be almost satisfactory in all cases except in few areas. Suitable suggestions are given at the end of the study based on the observations and deviations found in the study to make VRS a really meaningful and purposeful concept.*

## **Introduction**

Across almost all industries and around the globe, the business world is undergoing radical changes that have gained considerable momentum in the past few years. Businesses that have not been willing to change have been crushed and even large firms that have been around for many decades are now in bankruptcy or undergoing tremendous downsizing. A common theme across all institutions is that they require a willingness to change. Though change is unnerving to many, it is absolutely essential to long-term success in the business world. Global competitive pressures and technological advancements trigger the current changes in organizations. In a protected economy, growth is synonymous with profitability and security. Earlier, organizations focused on production. The focus is now shifting from 'production' to 'productivity'. Organizations have no option but to reduce their manpower to be cost-effective in the changed environment.

## **Technological Developments**

Technology is becoming more and more labor saving, making several institutions more and more capital intensive, which in the past, were labor intensive. Countries, not adapting themselves to the changing environment, would ultimately end up with declining productivity. Technological developments, which increase productive efficiency, are affecting employment in many institutions all over the world. Modernization and restructuring lead to job cuts at the corporate level. One of the major failures of Indian system has been the inability to recognize the implications of technological developments. The unpragmatic employment protection policies have created many long-term problems. Experience the world over suggests that modernization can work only if 'employees' are trimmed sharply. If an institution cannot shed employees, modernization will be saddled with high capital costs and high labor costs, a recipe for bankruptcy. Indeed, the inability of the Indian banks to tailor their

workforce to the level of capital employed has been an important reason why these institutions have not been modernized. It is high time that India corrected the growth - defeating policy of protecting the existing jobs at high social costs.

### **Quality and Outcome Management**

Of all the trends, the push for quality and outcome management is best suited for social programs. What is important to recognize is that changes have just started. The main change agent for quality improvement efforts has been the Total Quality Management (TQM) movement. TQM techniques have helped this shift to simultaneously improve both quality and efficiency.

### **The New Economic Policy (NEP)**

The New Economic Policy (NEP), introduced in India in 1991, has called for a sea change in the structure and functioning of the economy. In order to cope with the situation, a series of short term stabilization and long term Structural Adjustment Programs (SAP) have been introduced as per the recommendations of various expert committees in their respective areas. All these attempts aim at reducing the pains of SAP on the one hand and improving competitive efficiency on the other.

The New Industrial Policy (NIP), which was announced on July 24, 1991 as an integral part of NEP, has introduced significant changes as well as challenges in the industrial sector. These changes have invariably called for structural adjustments even in the labor field leading to loss of jobs, retraining, redeployment, etc. As a result of this, the NIP became a bone of contention between the government on one hand and the trade unions and opposition parties on the other. The latter, however, have criticized the policy as anti-labor without a human face to its credit. Therefore the government, in

order to reduce the sufferings of labor class and at the same time, to create flexibility in the labor market, has introduced the so-called Exit Policy.

### **The Exit Policy**

Exit policy refers to the policy regarding the retrenchment of the surplus manpower resulting from restructuring of institutions. Exit policy has become a widely debated subject in India, covering the compensation for the employees who leave the institutions as well as the measures for their rehabilitation. Surplus manpower is a major problem of many institutions in India. Survival in a competitive system demands cost efficiency improvement and cost reduction in every possible way. No wonder it has become necessary to downsize the labor force due to modernization.

### **The VRS - Conceptual Explanation**

VRS is the corner stone of exit policy. Earlier, it was visualized as a component of exit policy which complements and acts as parallel to the formal exit policy. But gradually, it has become the exit policy itself where workers leave the industry after getting five to seven lakhs as a price for their resignation. At present, VRS has become a prominent means of downsizing or right sizing of labor. It is an opportunity given to employees to retire voluntarily. Along with lump sum amount, some quantity of gold also is being offered to the workers in the name of VRS and hence the scheme came to be called VRS with Golden Handshake. This is also called by different names like Voluntary Separation Scheme, Early Separation Scheme, etc. However, the workers have branded the scheme as Compulsory Retrenchment Scheme with an Iron Hand Shake by highlighting some of the adverse implications of the scheme for labor.

## **Meaning of Voluntary Retirement Scheme (VRS)**

The word 'retire' has been defined in the concise oxford dictionary as 'cease from office or give up office or professional employment'. "Voluntary" means without compulsion. Therefore, VR is an act on the part of the employee to give up employment willingly and without compulsion from the employer. It is a unilateral act on the part of an employee to terminate the contract of employment with employer. VRS enables an institution to rationalize workforce strength, attain cost effectiveness and adapt themselves into the modern world of technology. Particularly, in times of sluggish business periods and economic crisis, VRS has succeeded in helping recovery and stimulating growth in the short run.

## **Voluntary Retirement Scheme in Indian Industries**

In India, ill health, family problems or an urge to start one's own business have mainly prompted many workers to seek voluntary retirement from time to time. On the other hand, management tries to tackle the problems of business recession, industrial sickness or technology-induced labor redundancy by adopting voluntary retirement strategy as a means to reduce the labor cost and implement the new economic policy which is in operation since 1991. This has necessitated massive structural adjustments in a large number of industries which are faced with problems of uneconomic production.

These adjustments forced many organizations to implement VRS and switch over to state of the art technology, which gives higher production with lesser number of workers. This in turn helps the growth of organizations to achieve productive efficiency and competitiveness. In the present distressing situation, there are two hard options before the

struggling organizations - either to 'ship-out' or 'shape-up'. In the first alternative, closing down of the institution will mean a permanent loss of jobs for the entire workforce and loss of invested funds for the entrepreneurs. The second alternative at least gives a chance to the enterprise for survival with reduced manpower and increased cost efficiency. It also holds out some prospects of re-employment of surplus labor through expansion in the long run.

In India, policies formulated so far to tackle the problems of redundancy do not seem to have been considered in an integrated manner. The emphasis has been on the reduction in the wage bill and the downsizing of manpower, which is mostly unrelated to the skill for utilizing the installed capacity, and hence proved ineffective in facilitating structural adjustments. In fact, the retirement of qualified and skilled workers covered by VRS has adversely affected the operational efficiency of some firms.

## **'DOWNSIZING' FOR MANAGERS**

This decade has been a decade of 'downsizing' the number of management levels and widening the span of control of managers. In the absence of rapid expansion, these managers are being offered VRS. Initially the institutions making losses or very low profits were getting into the VRS bandwagon but now even profitable organizations have announced VRS. Generally, VRS is expected to give Golden Handshake to the departing manager.

## **Major Drawbacks of VRS**

One possible drawback of the VRS is that efficient employees would leave the company while the inefficient may stay back; the efficient employees would be hopeful of getting alternative jobs outside while the inefficient may not be very optimistic.

In the first place, VRS aids the process of pushing the entire job market towards the unorganized sector and thus enlarges the pool of contract labor. Employees who have accepted VRS and take up new jobs are also being forced to work on a contract basis. In this way, the workers lose job security, better safety and health conditions and receive a poor pay packet. The contract system is the escape route by which the companies continue to give themselves the option of *hire and fire*. When it becomes clear to employers that there may be no legal exit policy, contract labor in the unorganized market ballooned uncontrollably.

The trade union leaders argue that the method used by many companies to implement the VRS does not justify the use of the word *voluntary* as majority of the employees are forced to leave and hence, the scheme has been criticized as *compulsory retrenchment scheme*. Another major problem of VRS is that the best personnel are being bribed to leave the industry (GOLDEN HELLO) and the most inefficient are reluctant to accept VRS.

Several empirical studies pertaining to VRS by institutes like Sri Ram Institute of Industrial Relations, New Delhi, Gandhi Labor Institute, Ahmedabad, Maiben Kasa Institute, Bombay and even the micro-level experience of industries like Tata Steel, NTC, HMT, SAIL, etc. have identified the major drawbacks of the VRS, in the light of which a more scientific policy of VRS should be formulated.

### Statement of the Problem

It is against this background that the researcher decided to undertake a detailed study of the dynamics of VRS with reference to bank employees. The reasons for VRS, its impact on the employees and on the organization, the investments pattern of the VRS opted employees and the life after VRS are the areas of this study.

## OBJECTIVES OF THE STUDY

The objectives of the present study are:

### Primary objectives

- To examine the underlying principles behind VRS.
- To analyze VRS and productivity in the context of knowledge and skill management.
- To study the life after VRS - the dual impact on organization and on the individual the end of career or a bend / turn in life.

### Secondary objectives

- To analyze whether the objectives of the scheme are fulfilled
- To find out whether the coverage of the scheme is satisfactory.
- To identify and document the ways in which the scheme could provide much more satisfactory results.
- To analyze and understand the shortcomings of the scheme and to give suggestions to improve the effect of VRS.

## Research Methodology

The researcher is interested in making an analytical study on Voluntary Retirement Scheme (VRS) with special reference to the VRS opted employees of the State Bank of India and Canara Bank in Pondicherry.

### Research Design

In this study, the researcher has used both descriptive and exploratory research design.

### Type of Universe

The respondents for this study were VRS opted employees of the State Bank of In-

dia and Canara Bank in the Pondicherry region. The employees considered for this study were from the categories of Sub-Clerks, Clerks, Officers and Executives.

### **Sampling Unit and Size**

The sampling units for the study consisted of 33 VRS opted employees from the State Bank of India, 34 VRS opted employees from Canara Bank, 20 existing employees from both the banks and 13 family members from both the banks of Pondicherry region. Thus, the total sample size for the study was 100.

### **Data Collection and Data Sources**

Both primary and secondary data have been collected for the study. Primary data have been collected mainly from the VRS opted employees, their relatives and from the in-service employees and officers of the two banks. Secondary data have been sourced from various documents like Government Reports, IBA Bulletins, Journals, Magazines and Web sites which deal with VRS.

### **Tools Used For Data Collection**

This study was conducted with the help of an interview schedule as a tool of primary data collection. The interview schedule was fairly exhaustive. It addressed the respondents' socio-economic characteristics, demographic details, causes and effects of voluntary retirement, the investment pattern of VRS opted employees, impact after VRS, reasons for opting for VRS, views on post-VRS scenario and morale of employees.

### **Analysis of Data**

The collected data were edited and transcribed by the researcher using different tables and charts. Statistical techniques like percentage analysis, factor analysis, cluster analysis and z-test were used by the researcher to analyse

the data..

### **Limitations of The Study**

During the data collection, the researcher faced the following problems. Due to time constraint, the study was restricted to Pondicherry city. The sample size was restricted due to the non-availability of respondents at the time of the survey. The voluntarily retired respondents were settled in various parts of the land and some of them had migrated to their native places. Hence the researcher could not find enough respondents for the data collection.

### **Findings of The Study**

The study established the following findings

#### **Socio - Economic Characteristics**

- Respondents in the age category of 55-60 opted for VRS in large numbers when compared to other categories of age in connection with the study.
- A majority of clerical category of bank employees had opted for VRS in both the banks at the time of the study among the respondents.
- Many respondents in the age category of above 30 years of service made use of VRS.

#### **Causes and Effects of VRS**

- Majority of the respondents have said that heavy workload and family commitment as the reason for opting for VRS.
- It was found out in the survey that most of the respondents received 10-15 lakhs as VR compensation package.
- The study reveals that a majority of respondents utilized VR package towards clearance of debts and creation of fixed deposit.

#### **Impact After VRS**

- The reaction of family members to the

decision of VR is found to be agreeable among the employees of both the banks.

- Both the banks' employees are of the opinion that good service was being provided by their previous banks after VR.
- Majority of the respondents of both the banks felt that they did not face any problem after VRS.
- The appraisal system in both the banks was found to be satisfactory by the respondents.
- The respondents of both the banks agreed that there was an exit interview when they decided to quit.
- Except for few respondents in Canara Bank, others have said that VRS was not a stick for work loiterers.

#### **Reasons For Opting For VRS**

- The opinion among the respondents of both banks differed with regard to VRS taken as a good opportunity to "retire happily".
- The respondents viewed the fast technological changes to be acceptable.
- Employees of both banks feel that changes will be manageable and they are not going to cause pressure on anyone who had not opted for VRS.

#### **View on Post VRS Scenario**

- Respondents feel that the trade unions' role will be much lesser when compared to pre-VRS period.
- Respondents of both banks had difference of opinion with regard to the improvement in work culture in banks after VRS.

#### **Morale of Employees**

- Respondents of both banks differed with regard to the clarity of organization policy.
- Effective communication of policy throughout the organization was different between both banks.

- The respondents of both banks differed in the opinion about sharing decisions by superiors with subordinates.
- Respondents' view on the awareness of banks with regard to the problems of subordinates was found to be the same with both banks.
- There is difference of opinion between both banks' respondents with regard to comfort in working condition.
- The respondents' view on the co-operation between management and employees was found to be varying among the respondents of both banks.
- Respondents of both banks differed with regard to the recognition for the work being done by employees of banks at the time of work.

#### **Suggestions and Recommendations**

The following suggestions and recommendations are made by the researcher in order to improve the effect, impact and implications of VRS:

- Both the banks should lay down their policies more clearly and intelligibly.
- Both the banks need to communicate the policy and procedure in an effective manner and ensure that it reached the employees by a feed back system.
- All the decisions taken by the officials need to be shared and conveyed to the employees.
- The banks should devise methods to recognize good employees and award them so as to encourage all employees to perform at their best.
- Management can be much more co-operative with employees in its day-to-day operations.

- VR package can be increased to the satisfaction of the optees.
- Employees feel reluctant to take VRS due to absence of good investment awareness.
- Banks can identify employees for VRS and counsel them to take up VRS.
- Employees, who left the bank through VRS, may be outsourced for the activities of the bank.
- Modifications like full computerization and modernization are to be initiated.

### Conclusion

India's financial services industry is dominated by the banking sector that contributes significantly to the revenues of this industry. The backbone of any economy can be best evaluated by the strength and flexibility of its banking structure. In the Indian context, banking is the cornerstone of the overall economic growth of the country. Before liberalization, the Indian banking structure was largely controlled and parameters like branch size and location were given paramount importance. The Indian banking industry has come a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e) borrowing and lending. The banking industry in the country is undergoing dramatic transformation. New entrants are able to take advantage of the benefits of latest technology and adopt business models to reach dizzy heights. The intense competitive retail environment is forcing banks to increasingly become customer-centric. Banks are exploiting technology to improve customer

service, design flexible and customized products, increase sales opportunities and differentiate themselves in a market where product features are easily cloned. As in any service industry, the human resource is the crucial resource in the banking sector. Not only is this so because of the need to serve with efficiency and courtesy a very large number of customers with varying requirements, but also because of the increased complexities of banking business. Another factor adding to the complexity of managing banking business today is the growing use of information and communication technology. The implication of these developments on the quality of human resource needs in banks is obvious, which in turn leads to cut short employees for cost reduction and introduce quality service using latest technologies.

No doubt the planners, administrators, managements of banks, bank employees and other appropriate agencies would find this study and its revelations very interesting and informative for further refinement of the process of VRS so as to make it more meaningful and purposeful.

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