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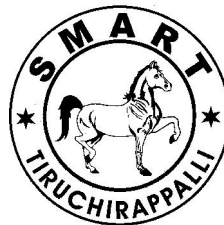
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SOCIAL IMPLICATIONS OF VOLUNTARY RETIREMENT SCHEME - A CASE STUDY OF SELECT PUBLIC AND PRIVATE SECTOR ENTERPRISES

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Abstract

VRS has now become a basic component of the labour adjustment strategy of both public and private sector enterprises to weed out inefficiency and make the industry more competitive and cost-effective under the new economic set up particularly in the light of the threats posed by MNCs. But the object of introduction of VRS and the establishment of NRF has almost failed. There is no proper planning as well as implementation of VRS in the units. As per the IMF & WB, the retrenched workers should not be left alone but counselled, re-trained and re-deployed along with attractive monetary benefits and other benefits. Contrary to this, the life of vast majority of VR employees is distressing and painful. The financial hardships led to incomplete education of children. There was a sense of bitterness due to profoundly reduced income level. This had the effect of deterioration both in the quantity as well as quality of food to the family members. Unemployment generated a feeling among VR employees that they had failed in the role of a father as the breadwinner and in fulfilling the material needs of the household. These economic hardships pushed them into a vicious circle and in some cases led to child labour while the government has been trying to eradicate this.

Introduction

Since independence, India's public sector has had a key role in the country's development. Until 1991 it had a quasi-exclusive monopoly in important areas of the economy viz. heavy manufacturing, banking, insurance, power, telecommunications, transportation etc. The major role that the public sector enterprises have had in the economy, the pre-1991 regime which protected public sector enterprises from external and domestic competition by extending special privileges, political support ably supplemented by the strength of unions in the public sector and the like, all contributed to extensive employment and overstaffing. The extent of overstaffing is conservatively estimated to be one-third of the total employment of PSEs.

Due to this unwieldy and unscientific size of manpower in public sector, the wages and personal cost adversely affected the profitability of the companies. The industrial sector recorded

a negative growth rate of -1.10 %, while overall economic growth dwindled to 1.10 % in 1991-92. The union government disclosed that the cumulative dividend from the Central Public Sector for the decadal period 1991-2000 was Rs. 17,000 crores on investments exceeding Rs.2,30,000 crores. The annual returns on this huge capital employed works out to less than one per cent. The last three decades have seen widespread criticism of the performance of the Indian public sector on many counts including redundant workforce.

Under these circumstances, top priority was accorded to the reform programme to reduce the excess manpower. The Government of India initially toyed with the idea of exit policy but abandoned it due to the strong resistance by the trade unions and politicians. It found the Voluntary Retirement Scheme (VRS) or the 'Golden Handshake' as the convenient instrument to get over the problem. In fact, the VRS was projected as the painless substitute

for exit policy and the Government brought in heavily budgeted VRS schemes for the PSE's. VRS has now become a basic component of the labour adjustment strategy of both public and private sector enterprises to weed out inefficiency and make the industry more competitive and cost-effective under the new economic set up, particularly in the light of the threats posed by MNCs. However, workers cannot be retrenched at will. The ILO's Convention (1982) and the Ramanujam Committee (1991) recommended that, as far as possible, such workforce be retrained and absorbed in other places under the same management and if the retrenchment becomes inevitable, the process be made less painful by providing adequate social protection.

Voluntary Retirement Scheme (VRS)

A legal exit policy really disturbs the organised sector and what the Government has settled for is an unstated exit policy, the corner stone of which is the VRS and the contract system. In both the public and private sector, the Government has promoted the concept of workers being cajoled into 'voluntary' termination of their employment for a price higher than the normal terminal benefits. VRS is an ideal route to sidestep the rigorous sections of 25(N) and 25(O) of the ID Act, where permission for labour shedding is mandatory.

Salient Features of the Scheme

- ✓ It is strictly voluntary and no one can be compelled to accept it.
- ✓ It is also not possible to selectively apply it to certain individuals only.
- ✓ But the levels, the units, and age-groups to offer VRS may be selected by the management.
- ✓ Along with the lumpsum payment, terminal benefits like Provident Fund, Encashed Accumulated Leave, Gratuity, and cost of shifting to hometown should be paid.

- ✓ The ex-gratia is subject to tax beyond Rs.5 lakhs and it is permitted to offer less or raise the figure. However Rs.5 lakhs and above will burden the departing employee with income tax.
- ✓ The vacancy caused by VRS should not be filled.

The policy of downsizing manpower involves many procedural guidelines viz., (a) length of notice intimating severance (b) methods of selection of employees who are found surplus based on scientific industrial engineering studies (c) compensation packages (d) relief for post VRS hardships (retraining and redeployment). Unfortunately, the policies formulated so far do not seem to have considered all these aspects in an integrated manner. The emphasis has been on the reduction in the wage bill and the downsizing of manpower. Voluntary retirement may lead to the best workers leaving the public sector and the unwanted staying back. As regards wage bills driven decision, there is a need to benchmark the company against industry, national and global standards. The need of the hour is to evolve and apply transparent criteria for identifying the people who must leave the organization as '*We should not get smaller alone but should get better too*'.

On the other hand, implementing a successful VRS is not easy. The scheme has to be an attractive proposition for employees to accept it. The management needs to possess good counselling and communication skills to implement the scheme effectively. The society's responsibility for the retrenched workers does not cease with the provision of a financial compensation package. The displaced workers need to be helped in being meaningfully redeployed either in wage or self employment, because the consequences of the loss of job will affect not only his family but also the society at large since reduction of manpower has double-barrelled impact on society i.e. loss of

tax revenue and increase of additional public expenditure on welfare activities. Against this background, the present study has been undertaken to elicit the impact of VRS on community as a whole.

Design of the study

To examine the myriad aspects of the VR employees, the present study was designed in a broad-based manner. Three large scale manufacturing units – HSL, BHPV and CFL (two in public sector and one in private sector) which are known for their importance, technology, size, quality of human resource and contribution to the economy, have been selected.

These units, which are located at Greater Visakha, have a standing of over four decades. A sample of 280 VR employees was selected from the selected three units consisting of 40 executives, 66 staff and 174 workmen. Convenience Sampling Method was used for selecting these sample respondents for this study. Besides, a cross section of management and union representatives were also contacted and their views were elicited. Data were collected with the help of three elaborate schedules and personal interviews with the respondents.

Broad objective of the study

The main objective of the study is to delineate all the facets of VRS. The study is aimed at examining the socio-economic profile of the respondents and to enquire into the impact of the VRS on the employees and their families and the way they are coping up in the post VR period. The study is also designed for generating first hand information to ascertain the socio-economic status of VR employees. It is hoped that the results of the study may help the organisations and policy makers to review the programmes and to make appropriate changes in the policies while implementing VRS. The study also focuses on the human problems involved in the process of rehabilitation so that

suitable modifications may be suggested which make the schemes more attractive and less painful to the employees.

Major findings of VR study at HSL, BHPV and CFL

I. Profile of VR recipients

More than 70% of the respondents hailed from village background and migrated to Visakhapatnam. Out of the total sample, nearly 43% belong to backward community and about 69% belong to the age group of above 50 years. Nearly 54% of the respondents have technical education. About 77% of the respondents have a family size of 4-6 members. 77% of the respondents are in the income bracket of Rs.4,000 to 6,000. In respect of 92% of the sample, total income of the household is synonymous with the salary of the respondent and around 70% of the respondents are indebted.

II. Factors prompting VR

A major issue that has been discussed and debated especially among the unions is regarding 'voluntary' nature of the VRS. Is the decision taken by the employees for voluntary retirement really voluntary? Typically, the unions, and many a time, the employees have been arguing that it is not voluntary. It is generally believed that globalisation and liberalisation policies, amendments in ID Act., competitive market conditions, allurements by management etc., persuaded some of the employees to opt for VRS. The announcement of VRS policy also comes very handy in this respect. Under these circumstances, many public and private sector employees end up with VR and attribute this phenomenon to various factors.

Financial commitments are found to be a predominant reason in nearly 35% of the respondents who were weighed down by their debts because of the monthly salaries dropping down substantially due to withdrawal of

overtime allowances and other incentives. Another predominant reason for opting for VR is fear of uncertain future. Though VRS is termed as voluntary in nature, the reason for opting for VRS in over 12 % of cases was not really voluntary. The employees did not accept the scheme by their volition or sweet will. The acceptance was a result of fear of one kind or the other.

A little over 10% reported 'other reasons' comprising factors like allurements by management, pending court cases etc., as having motivated their decision for VRS. Knowing the weakness of the employees for lump sum money, management of some plants systematically allured employees by showing to them the purse that they would receive if they opt for VR. An attractive sum of compensation coupled with psychological pressure engineered within the organisation may be the reason for opting for early separation without creating political or legal hassles for the management.

Social obligations and family issues are also stated to be important reasons for VRS, as family problems and customs might induce the respondents to withdraw from the job market with a low level of compensation. In other cases, pending disciplinary court cases are reported to be an influencing factor for VRS. Less remaining service, dissatisfaction in job, desire to become an entrepreneur, better job prospects, return to native place and sickness and old age have also influenced to some extent the choice of VRS

IV. Compensation package

The quantum of VRS compensatory package is crucial in determining the attractiveness of the scheme. Higher the quantum of monetary benefit, larger would be the number of employees opting for VR. The modalities of VR scheme and the monetary compensation differ from unit to unit. The computation method of VR compensation

package is by and large uniform in all the PSEs as it is governed by the policy of the State but in the private sector enterprises, the package and eligibility criteria are different. As regards the units under study, HSL and BHPV follow the DPEs guidelines i.e. 45 days pay (basic + DA) for each completed year of service or the monthly salary (basic + DA) for the remaining years of service which ever is less or Gujarat model scheme where employee can get 35 days for each completed year of service and 25 days for the balance of service left until superannuation. In both the cases, the compensation, however, should not exceed the salary for the left over service. In the case of CFL, the compensation is 52.5 days for each and every completed year of service subject to maximum limit of Rs.5 lakhs. In all the three units, one time lump sum payment is made at the time of VR.

It is found that around 42% have received VR compensation between Rs.3-4 lakhs. However 32% reported that the VR package was between Rs. 1-2 lakhs. In the case of HSL, an employee received on an average a sum of Rs.2.3 lakhs as total compensation, which was lower than the overall average (Ratnam, 1992).

V. Utilisation of VR benefits

The pattern of utilisation of compensation received decides the lifestyle of these employees. Proper planning and prioritisation in the utilization of the money for different purposes is essential for VR employees lest it may at times defeat the basic purpose for which some of them opted for VR. It is found that 27% of respondents spent their VR money for redemption of old debts. This is followed by 19% who utilized the amount for marriage of children and 18% for discharging social obligations and miscellaneous expenses. Thus it can be concluded that most of the respondents squandered away the bulk of their VRS money on unproductive purposes partly because of compelling social circumstances and partly

because of prodigal habits, causing untold sufferings to themselves and their families.

However a comparison between reasons for opting for VR and the utilisation pattern of the VR compensation gives a different picture. It is interesting to note that 63% of the respondents utilised their terminal benefits for discharging financial commitments such as clearing of debts, marriage of children and for other social obligations. On the other hand, nearly half of them (35%) reported that the major reason for accepting VR is for discharging financial commitments. This clearly shows that the reasons for accepting VR do not coincide with the utilisation pattern of VR compensation. This is because of lack of proper counselling before and after VRS by the organisation or Employees Resource Centres (ERC).

VI. Post VR status of employees

The aftermath of VRS is more painful for the employees as reported by recent studies. A vast majority of employees who opted for VRS had a bad time. Against this background, an attempt has been made to unveil the socio-economic conditions of the respondents' life consequent to their voluntary retirement. The post VR status is dependent upon the various parameters such as income, age, formal education, health, employment market and the activities planned for post VR activities etc. Pre and post VR counselling also play an important role.

a) Post VR employment

49% of the respondents could secure post-retirement employment i.e., 29% in wage-employment (wage-employment includes daily and casual labour) and 20% in self-employment (self-employment includes small business and tea stalls). The rest of the voluntarily retired respondents (51%) are not engaged in any economic activity. Most of the respondents who obtained wage employment joined in unorganised sector for low wages/salaries.

b) Impact of VRS on Social Status

Losing a job is a major source of stress in a person's life. It can generate a feeling of loss of self worth and reduced importance. The job, apart from being a source of livelihood, also determines the social status in the community. It also becomes the basis of evaluation by the family members as well as by others. Job loss thus paves the way for a perception of loss of the worth of the individual. Apart from the financial well being, emotional and physical health is likely to be affected. In this regard, the quality of life after VRS has been probed and questions were asked to the sample VR employees regarding their social life, interaction within the family, reaction of the family members and manner of spending time etc. The overall picture that emerges is that VRS had a negative impact on the social and emotional life of the VR employees. More than 50 % of the respondents were not satisfied with the present status perceived from the psychological and social view points.

c) Family relationship

About 68% of respondents felt that the family relation has changed and they are not enjoying the same position in the family that they had enjoyed earlier. The respondents attributed the change in the family relations to a number of factors such as fall in income level, lack of gainful employment, advanced age, deterioration of health and loss of status and authority in the eyes of children.

d) Social standing after VR

70% of the respondents reported that they have noticed a vast change in the attitude of society. They felt that they have gone down in the esteem of others and in some cases the respondents who remained unemployed after taking VRS were looked down upon as idle members and others were not enthusiastic to have interaction or social contacts with them. In a way, they felt that they were socially isolated.

e) Post VR re-training and re-deployment

Retraining is only a means to an end, the ultimate aim being redeployment. Only 32% out of 280 respondents reported that they have attended the training programmes conducted by NRF-ERC and merely 12% got redeployment (55% in self-employment and 45% in wage employment) among the respondents who attended training programmes.

National Renewal Fund (NRF)

NRF was established towards the end of 1992 with a view to providing social safety net and undertaking rehabilitation programmes for VR employees. It is also expected to provide financial assistance to the PSEs to pay for VR compensation and other terminal benefits. One of the major objectives of the NRF has been to provide funds for employment generation in both the organised and unorganised sector of the economy. Between 1992 and 2000, the expenditure pattern of NRF reveals that 92.80 % of the total expenditure (Rs.3060 crores) was utilised for compensation payments of VR employees. Only 7.20 % has gone for non-VR activities. Even this expenditure has declined year after year. Thus the principal objective of NRF to help in retraining, counselling and redeployment of displaced workers and employment generation has almost remained neglected.

Conclusion

The foregoing analysis reveals that the life of vast majority of VR employees is distressing and painful. The fall in income levels, unemployment and low quality of employment (among those who were redeployed) contribute to their misery. The financial hardships led to incomplete education of children and child labour in some cases though the government has been trying to eliminate child labour. There was a sense of bitterness due to profoundly reduced income level, which was painful to all the family members. This had the effect of

deterioration both in the quantity as well as quality of food to the family members. Further it can be concluded that post reform period led to substantial increase in casual labour force. The performance of NRF in providing rehabilitation facilities to the VR employees is far from satisfactory, are too low, just touching the surface of the labour problems involved in the process of manpower redundancy. No counselling and training for redeployment was made available to the VR employees either by the organisation or trade union representatives to mitigate the problems in the post VR period. The role of trade unions in the case of VRS is found minimal. It is suggested that unless these human resources are utilised and retrained in such a way to contribute to the society, it is difficult to expect economic and social progress of the nation. It is also suggested that the consequences of the loss of a job will affect not only the family but also the society at large since reduction of manpower has double-barreled impact on communities where jobs are lost and it leads to loss of tax revenue and increase of additional public expenditure on welfare activities.

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