Labour Flexibility in Two Contrasting Organisations

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INTRODUCTION

Globalisation and the changes in production structures, processes and arrangements, has led to major shifting of production and service activities from developed regions to less developed regions, both internationally and nationally. While business in the developing regions, have been benefited substantially by this, the lowering of national barriers to international trade has also compelled all businesses to become much more competitive. The response to competition has been achieved in different ways by different industries and sectors, through technological changes, or reorganization, or Human Resource interventions, and primarily through labour flexibility. According to some, most of these have also strained the work force (Chakravarthi Raghavan, 1998). Reilly [2001, p 42] feels that cost cutting imperatives, more competitive product/service markets and technological innovation are principal drivers behind organizational moves for flexibility. Interestingly, he also talks about push factors in the labour market. In India, the acquiescence of trade unions to contract and casual employment can be viewed as caused by these pushes.

Labour flexibility has been on the agenda of Indian employers for many years, but post-globalisation, it has become a key tool in managerial control over the organization and its performance. In the early 1980s the focus was on reduction of labour costs, primarily through manpower reductions and outsourcing or sub-contracting. During the 1990s the focus was on major restructuring. In the 2000s, the focus is on consolidation and greater control of employer over the uses of manpower and in performance outcomes, through labour flexibility. In spite of the many rigidities in the Indian legal framework, this is now being achieved in various ways, such as through employment structure [reducing permanent employment and increasing the proportion of contract workers, casual workers], new forms of employment [casual daily basis, group contract, individual contract, agency employee], outsourcing [either tasks, or group of tasks, or entire products/services], bargaining separately with different groups of employees over manpower utilization, wage/salary flexibility and productivity [ensuring that different work norms and productivity relate to the wage differentials], intermittent employment/recall of ex-employees, multi-skilling, job rotation, job redesign. Atkinson and Meager [1986] refer to the first two of these as external numerical flexibility.

Some illustrations are indicative. A bottling plant for a top MNC cold drinks manufacturer has focused primarily on numerical and skill flexibility. It employed just 139 permanent employees compared to 450 contract employees in 2008. A newspaper group, with the largest circulation Bengali daily, managed to regain control over the work process by taming its union through a series of actions, combining tough management, promotions, voluntary retirements, wage improvements, doubled productivity, decentralised or outsourced printing, and changes in employment structure. A MNC Chemicals company has used the method of union avoidance to ensure tight control over its workforce.

METHODOLOGY

This paper proposes to study one public sector and one private sector organization to look at the various practices in terms of flexible organization of work place with shifting

job designs and boundaries; skill flexibility; numerical flexibility; outsourcing; worktime flexibility; wage flexibility; and geographical mobility to alleviate regional skill shortages and unemployment [Chung, 2006]

It is hypothesized that while private sector enterprises have combined several aspects of labour flexibility as defined above, the public sector has often depended only on one or two of these aspects. The case studies have been conducted in Kolkata, an industrialised city in Eastern India, mainly based on primary data collected from union and employee sources. It is expected that this study will provide illustrations on the individualized techniques of different organizations or industries. This could indicate that there are no single methods for management to enlarge their control over work and the organization.

The research approach has used the case study method to

a. probe the different tools/techniques/methods used by each enterprise
b. collect supportive data for each technique/method
c. look at the outcome in terms of overall performance
d. probe the employees' angle by interviewing employee representatives and the adverse or favourable impact on them, to understand the balance between employee and employer interests

The companies chosen for comparison are apparently dissimilar. One is a manufacturing organization, while the other is in the service sector. But the reason for their choice lies in the fact that one is a private sector and the other a public sector organization. Both are representative of their respective sectors which have been subject to significant competition and change in the post 1991 period [India's economic liberalization era]. Both are very old companies, having celebrated their centenaries recently. Both are based in Kolkata and have faced the same labour, management, government policy and environment related challenges.

THE COMPANIES AND EXPERIENCES

National Insurance Company Ltd, is one of four public sector general insurance companies in India. The government passed the **General Insurance Business Nationalization Act** in 1972, nationalising and consolidating the entire business, both Indian and foreign, into four companies under a single holding company, the General Insurance Corporation. In 2008, these four together had business worth about Rs 280,000 millions and employment of about 70,000. The other large insurance organisation is Life Insurance Corporation [LIC] with 110,000 employees.

After liberalization of the economy in 1991, 'a managerial concept of open economy, and competition' began to float around in government and public sector industry circles. But according to union sources there did not appear to be any real impact on insurance management thinking since the unions were never consulted about the likely implications. And as had happened with the commercial banks, huge inefficiencies crept into the insurance business, overstaffing led to poor work ethics, branches were expanded without thought of their viability. By 1990s, about 25% of the branches were unviable. The first noticeable change was in 1996 when training was extended and intensified. But resistance to post-training transfers continued from development officers and divisional managers. The bigger challenge came in 2000, when the Insurance Regulatory and Development Act, allowing 26% foreign investment in joint insurance

ventures was passed. Many new joint sector companies emerged. In August 2002 the GIC Amendment Act was passed which removed the holding and control of the GIC over the four general insurance companies.

National Insurance is headquartered in Kolkata and was incorporated in 1906. It operates as a Government of India undertaking with nearly 1000 offices and 180 types of policies ranging over four 'lines', such as personal, rural, industrial and commercial.

Table 1 : Financial Results of National Insurance [Rs – millions]

	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Gross Direct Premium [India & abroad]	28700	34000	38110	35630	38270
Market share in India[%]	22.21	21.2	21.14	17.29	15.26
Profit after Tax	1357	771	1312	[-] 1146	4181

[source : National Insurance website]

The results indicate steady profits except in one year. Dividends have been declared each year except 2005-06. But market share has been declining steadily.

Manpower The real manpower problems were primarily related to the management of the large workforce and the work distribution. Unions were perceived to be a block to any change and relations with them continued to be essentially adversarial. Trivialities like minor transfers, absenteeism, lack of completion of minor tasks, and inter-union rivalries, took up most of the IR space. Excessive employee leave and holidays reduced daily availability of manpower. Sanction for new posts had to be obtained from the holding company and an easy option was to hire casual workers. The induction of casual employees to do all kinds of tasks, encouraged by the unions, thus became a habit. These casuals or **daily wagers** were generally relatives or friends of employees including managers. From an initial few, they grew to become a large pool, individuals being employed for a few weeks or days in both the head office or in the division offices. In order to prevent them from claiming benefits [under Indian law, due to persons who work for 240 days in a calendar year], many were allowed to even work under assumed names. The major problem then became the absorption of these daily wagers, adding to the already bloated staff during the late 80s. After 1991 response to the New Economic Policy became more difficult as a result.

The management as well as the major unions ignored the ballooning problem. In 1982, 174 daily wagers formed a union and went to the labour court for regularization of their service. The case dragged for five years till finally a compromise solution on 12th July 1988 led to absorption of 400 daily wagers. The all-India permanent employment of National Insurance at various times was:-

Table 2 : Category-wise Employment in National Insurance

Categories	March 1995	March 2003 [before VRS]	Dec 2007
Class I officers	3487	4313 [665 took VR]	4228
Class II [Development Officers]	3054	2237	2034
Class III [Sr. Assistants/ Assistants/Record Clerk/ Telephone Operators]	10078	9456 [852 took VR]	8076
Class IV [Drivers/sub-staff/ security/ sweeper]	3392	2319 [23 took VR]	2170
Total	**20011**	**18325**	**16,508**

[source : Annual Reports]

The **daily wagers** currently number about 3000-4000 [union estimates], less than 25% of the permanent employment. They are used for a variety of work within the class III or IV categories, full time or part time and their daily wages may vary from Rs 30 to Rs 300. No norms are applicable, and they are not allowed any kind of leave, or any other allowances including provident fund. No records of either their names or date of appointment are maintained or any letters issued to them, payment being made against vouchers. A small number of **Contract workers** are employed by contractors in canteens, electrical maintenance, transport, building maintenance and housekeeping.

Wage consultations as a substitute for collective bargaining take place in this industry. The unions submit their charters of demands separately to the General Insurance Public Sector Association **[GIPSA]**. The consultations are constrained by the conditions provided by the Ministry of Banking and Insurance prior to discussion and the final decisions in the Life Insurance Corporation and in the banking industry. Till 2000 these consultations took place with 32 unions, including officers' associations. After consultations are over, the Ministry of finance issues a gazette notification announcing the issues discussed. After 2004, the introduction of check-off system reduced the number of unions to 11, since only unions getting above 20% membership in each insurance company were eligible to join consultations. Wages were last revised in 2005 with effect from 1st August 2002 to 31st July 2007.

But in all these years according to the unions, there were never any demands from the management to change work practices, improve work ethics, rationalise employment, improve productivity and facilitate transfers, all of them crucial issues in an employment intensive industry faced with competition. Only one **Special Voluntary Retirement Scheme** [VRS] was announced on 1st January 2004, when about 2000 employees availed of the scheme. There had been provision earlier for routine VR for employees on grounds of health or family. Very few had availed of this. Management also merely proposed decentralising wage discussions for the four companies in 2007.

A specific clause was included in the 2005 notification after unions had accepted the idea of need-based transfers. Clause 18 [Gazette Notification, December 2005] states that - Every employee shall be liable to be transferred from one department to another in

the same office, from one office to another office in the same station and to meet the requirement or need of the company or the Corporation, as the case may be, from one station to another in terms of the **Transfer and Mobility Policy.** But there have been very few transfers in reality, possibly due to the growth of vested interests. There is evidence that even senior managers resisted transfer by filing cases against transfer.

In terms of flexible manpower utilization, union sources say that several employees are already performing tasks beyond their allotted duties without additional benefits. For instance senior assistants [class III] are in some divisions performing the tasks [temporarily] of vacant positions like Accounts Officer or even branch manager. A scheme for job-rotation was drafted in the mid-80s but nothing materialized.

Outsourcing in the General Insurance industry is primarily by way of third party administrators [TPAs] for medical insurance claims. The unions oppose this in principle contending that TPAs are redundant and the work can be done by class I and III employees, many among whom have little work to do. Unions also claim that while client base has grown, there has been no attempt to redesign job profiles of employees to help in business growth.

Gross Monthly Wages including Dearness Allowance and other benefits under the Notification of Dec 2005, for Sub-staff at entry level [Class IV] is **Rs 6839** and for Clerical staff at entry level [Class III] is **Rs 8484** [source: pay slips of employees]**.** Casual or Irregular employees get a maximum of **Rs 2500 per month** if they get work for all the working days.

Compared to this public sector company, the situation has been quite different in the private sector units which took the whole process of liberalisation very seriously, demanding change through the process of collective bargaining. One such company, **Eveready Industries India Limited** [EIIL] is one of India's reputed FMCG companies, manufacturing dry cell batteries (carbon zinc, rechargeable and alkaline batteries) in various sizes, and flashlights (torches). The company has market shares of nearly 50% and 85% respectively in these products. Production has declined in the last two years [to 676 million units in 2006-07 and just 272 million units in 2008-09] from a level of about one billion. Originally set up as Union Carbide, a legacy that it would rather not refer to at all after the horrific Bhopal Gas tragedy in 1982, the company celebrated its centenary year in India in 2005. Union Carbide's 14 plants all over India were acquired by the current owners in the early 1980s and renamed as Eveready after its popular battery brand. Currently, the company has nine establishments all over India, two of them in West Bengal. The company has recently forayed into trading in mosquito repellants, packet tea, dish-wash detergents and Compact Fluoroscent Lights. The **Financial Results** indicate that in spite of a rise in net sales the company has been in the red in the last two years.

Table 3 : Financial Results of Eveready Industries [Rs – millions]

	2005-06	2006-07	2007-08
Net Sales	7328.1	8397	8471.8
Profit/Loss after tax	796.6	(-) 225.5	(-) 193.2

[source : company website]

There has been a fall in demand in both major products [batteries and flashlights] due to higher prices of major raw input, zinc [imported from Peru] and competition. However, a new plant with 3.6 million battery units was commissioned in April 2007 in North India.

Manpower The company believes in rewarding merit-based performance and in actively improving employee skills. The major challenge for the company appears to be the retention of employees. Total all-India employee strength in 2006-07 was 2500 increasing to 2800 in 2007-08.This company has taken the business of restructuring, and labour rationalisation very seriously to remain competitive.

Of the four plants which were located in West Bengal, two units were in the northern part of the city and two in the south eastern part. Of the two northern units, one was sold off some years back and the other is nearly closed since stick flashlights for the cinema industry and large batteries for domestic torches have no demand. The company began offering Voluntary Retirement to all the workmen of these two units. By the late 1990s employment was brought down to about 1200, through a judicious mixture of natural separation, voluntary retirement and transfers to other plants. By 2002 further reduction to about 700 had been achieved. Today only a skeletal staff await shift to the south-east units where both plants are running. Of these, the newer plant [established in 1975] produces batteries and the older plant, called Metco, produces metals and ores used in batteries. In terms of numbers of permanent employees below managerial ranks for all the four plants, it can be surmised that from about **2000** permanent employees in four plants in early 1990s, employment reduced to a little less than **1200** in 2002 and less than **400** in 2008**.** Compared to this there are nearly **200** contract and casual employees.

The unions perceive the company as retaining the Union Carbide or MNC culture, valuing every minute of manpower utilization. The acceleration of **Change Management** was visible to employees from around 1991. The organization was restructured and a Basic Training Program (BTP) launched for deployment and implementation of TQM practices. TQM was institutionalized in all the manufacturing units. World Class Maintenance (WCM) management system was initiated in 1997. In addition, small group activities [SGAs], quality circles [QCs], Kaizen, 5-S, were all gradually implemented, with generally good results. Workers today agree that they have been given continued training in cost cutting, quality improvement, wastage reduction, efficient production methods and appeared to be proud of being involved in an efficient system. Their only cause for concern was the lack of vision on the part of management in the face of falling demand for traditional products. A Federation of employees of Eveready Industries was formed several years ago with all the unions of all the plants in India. But when the Federation demanded uniform wage and benefits, management applied pressure and the Federation was ultimately disbanded in 2000-01.

The newer plant is currently running at about 50% capacity, not due to inefficiency, but due to a planned slowdown in production due to lower demand and the existing recession. But employees claim that while earlier they loaded about 40 batches now they load about 80 per day. The plant currently employs 231 permanent workers [numbering about 450 in the early 1990s, declining to less than 400 in 2000]. Managerial staff too has declined from approximately 60 in 1990 to 50 in 2000 and now to just about 25. However this plant depended solely on natural attrition and a ban on new recruitments. Initially, after liberalization, demand had increased, new machinery was inducted and capacity increased by 50% to 24 – 27 million battery units. But instead of inducting new permanent employees the management opted for contract employees.

Many of the current contract employees have now completed nearly 20 years but continue to remain on contract. No appointment letters were issued, but they have identity cards. The contractor workers number 174 on the roster grouped under 18 to 19 contractors. While they work in 153 positions, 21 fill in vacancies due to absenteeism or leave. All are unionized under a separate union from 1997. These contract employees are used flexibly in any kind of job ranging from machine operations to sweeping and cleaning. They are covered by one agreement [last agreement in 2004] signed by their union with all contractors under the overall supervision of the company. A new pact is under negotiation. The permanent employees are covered by a separate agreement.

Wages/ Benefits of regular and contract employees of Eveready Industries For a full working month, the entry level minimum gross wage is **Rs 10,949** [hourly rate Rs 32], the maximum **Rs 13,253** [hourly rate Rs 41] and the average **Rs 12,229**. Compared to this, contract employees working as operators get gross wages of **Rs 4391** [source: pay slips of respective workers and primary information from workers themselves]. Statutory social security like Provident Fund, Gratuity, Employees State Insurance, Tea, Snacks, Shoes and Uniforms are provided to both categories. The current recession has reduced actual working days [due to selective shift stoppage] by 5 to 6 per month and introduction of the Control System from August 2006. This has led to a decline in incentive earnings.

In the nearby Metco plant working hours were increased from the statutory 8 to 8 ½, in the 1990s, after prolonged negotiations with the unions to ensure that running machines would be handed over to the personnel of the next shift. This reduced power consumption since furnaces remained hot and were not allowed to cool down. Today this plant employs about 70 permanent workers [20 permanent and another 50 upgraded from casual ranks]. These casual employees are not under an agent or contractor.

Comparing the two companies is interesting:-

Type of Flexibility	**Tools/me-thods used**	**Eveready Industries**	**National Insurance**
Numerical flexibility or reduced numbers	VRS, natural attrition,	About 75% reduction in two decades through several VRS in plant closure or sale and natural attrition	Reduced by 15% from 2001 level. VRS used only in 2004
Flexibility in Employ-ment structure	New forms of employment such as contract or casual or Outsourcing	Nearly 33% currently as Contract and some Casual employment. Outsourcing reduced for battery cases. Better manpower utilisation	Less than 20% as Casual employment with a few contract workers. But Outsourcing to TPAs, and underutilization of existing manpower
Flexibility in labour utilisation	Speed-up, transferability between departments, multi-skilling, job rotation	Substantial speed up and increase in workload for all and total flexibility in use of contract workers . Skill flexibility to some extent among all workers	No regular practice in spite of union demands for job rotation. Skill flexibility only through system of departmental examinations for individual employees
	Flexible work hours or part-	None	Only for Casual employees

	time		
Geogra-phical flexibility or mobility	Transfer clauses in agreements and transfer practices	Except managers, relatively less for permanent employees, between departments or plants except in case of shut down or closure.	Transfer and Mobility concept introduced only in 2005 notification but in reality routine transfers without effective manpower utilization.
Wage Flexibility through collective bargaining	Flexible bargaining practices,	Very flexible since Federation disbanded and Plant specific Agreements. Clauses on workload, manning, shift control, increased hours, wastage and cost reduction	Single all India agreement for all four companies and branches and no flexibility for individual companies or locations. No clauses on productivity or utilization.
Labour Cost flexibility	Differential wages and reduction in total labour cost	Separate agreements with permanent and contract workers and consequent labour cost reduction as about 33% of workforce on contract. Good pay levels.	Very low wages for casual employees who are less than 20% of total employment. Hence little impact on labour cost. Pay levels much lower than in private sector company

Conclusion In comparison it appears that the private sector company has made the greatest changes in terms of numerical flexibility, flexibility in employment structure, wage flexibility through bargaining, and significant reduction in labour cost. In contrast the public sector unit has made greater effort to outsource, but not necessarily to make operations more efficient or cost effective. It has achieved marginal flexibility in numbers and structure. Ironically, the public sector's overall financial performance is better than that of the private sector company, primarily because it operates in a growing market. As far as employees are concerned, existing permanent employees are quite satisfied with the changed situation and contract or casual employees feel lucky to have retained some regularity in employment.

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