CHAPTER 2: REVIEW OF LITERATURE
Brief references to different studies in various aspects of the subject matter of the present study will not be out of place at this stage. There are the studies conducted by foreign as well as Indian scholars as an attempt to find out the answers to different aspects of life of employees after voluntary retirement. Here, the researcher has taken some prominent studies and research works which will put some focus on this research work.

Bhattacharya and Sivasubramanian (7) mentioned that India faced a serious economic crisis in 1991. There was steep fall in the country’s foreign exchange reserves to about US$1 billion, equal to the value of only two weeks’ imports. There was a large fiscal deficit close to 10 percent of gross domestic product (GDP) and an unsustainable external balance with current account deficit at 3 percent of GDP. Faced with such a crisis, India adopted reforms involving macroeconomic stabilization and structural adjustment programmes.

They aimed at improving economic performance and at accelerating the rate of economic growth through a transition from an inward-looking strategy to an outward-looking one and from a regime of licensees and controls to a system of incentives and price mechanism. At the core of the programme was a phased deregulation of the financial sector, along with reforms of trade and industrial policies.

Anand (2) emphasized that to initiate reforms in the financial sector, the government of India appointed an expert committee on financial system in 1991 (also known as the Narasimhan Committee I), and it is the recommendations of this committee which formed the basis of the liberalization of the financial sector [Bhattacharya and Sivasubramanian]
The process of reforms in the financial sector was pre-designed with a long-term vision [Mathur (31)]. The recommendations of the Narasimham Committee I in 1991 provided the blueprint for the first-generation reforms of the financial sector. The period 1992-1997 witnessed the laying of the foundations for reforms in the banking system. While these reforms were underway, cataclysmic changes were taking place in the world economy, coinciding with the movement towards global integration of financial services. Against such a backdrop, the report of the Narasimham Committee II in 1998 provided the roadmap for the second generation reform process.

The 1991 Narasimham Committee I in its recommendations, observed: “The committee’s approach to financial sector reform is to ensure that the financial services operate on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. A vibrant and competitive financial system alone will be able to sustain the ongoing structural reforms of the real sector economy”. The committee pointed out to the need for manpower planning to achieve this objective, both in terms of reducing existing staff and curtailing new recruitment.

Lal (23) mentioned that the Government of India took the plea that the establishment cost in nationalized banks was as high as 20.13 per cent compared to 7.66 per cent in foreign banks and 3.04 per cent of private banks. The Union Finance Ministry, therefore asked nationalized banks to prepare a VRS scheme for employees with 20 years of service or for those of 50 years of age and above. A study used the benchmark of Rs. 125 lakh as business per employee (BPE) and came to the conclusion that 22 per cent of the bank employees (numbering 177,405) in 16 public sector banks including SBI were redundant in the year 1998-1999.
In May 2000, the government advised public sector banks to carry out manpower planning and a committee was constituted for this purpose. The Committee placed before government voluntary retirement and sabbatical leave schemes which were cleared in August 2000.

The main features of VRS applicable to all banks were as under:

Eligibility: 15 years of service or 40 years of age
Ex-gratia payment: 60 days salary for each completed year of service or salary for remaining months of service, whichever is less.
Salary: Basic pay + stagnation increments + special pay + dearness allowance (DA)

Mode of payment: 50 per cent in cash instantly and 50 percent in bonds/fixed deposits and deduction of income tax on the amount above Rs. 5,00,000 from cash payment component.
Other benefits: Provident fund or pension as the case may be, gratuity, privilege leave enhancement (maximum 240 days) (Cited in Lal (23))

Lal (23) maintains that while VRS in the banking circle had become a necessity to rectify the maladies and anomalies of the existing system, the general consensus still is that the steps taken were too immediate and hurried without a proper and conscious homework. In the ultimate cost - benefit analysis, VRS has proved costly. It would have boded well if some positive and concrete measures are initiated by bank managements to handle situation.
Chapter 2. Review of Literature

1. A New Recruitment Programme

This would involve taking at higher level specialists and professionals directly from the market for special functions such as foreign exchange, information technology, industrial relations and economics, to meet the challenges of the global economy. Recruiting persons from within is laudable but very time-consuming since this would involve proper training for specialization.

2. Operations Need Decentralization

It will enable different banks to specialize in portfolio management, forex and others to provide better customer service. Competition and refocused business strategies in the near future will make retail outlets offer specialized services that are product-cum-location specific. For this purpose, exclusive savings bank/personal banking branches in residential localities, industrial and SSI branches at industrial estates, corporate finance branches, etc., besides corporate offices, will go a long way to stand up to competition. This will also ensure and conserve the specific skilled staff at designated delivery points post-VRS.

3. Training and Development

Total involvement of human resource with operational development through training programmes leads to acceptability of a common vision and mission. Attitudinal changes, retraining, and re-skilling with special emphasis on marketing and customer orientation is the call of the day. Training programmes (both in-house and out-sourced) are essential not only for the middle and lower cadres, but more so for senior levels because of the
complexities of new skills involved. The Khan Working Group of Universal Banking has recommended induction of human resource development (HRD) professionals in banks on lines of legal advisors to chalk out proper career paths and successful planning. Researchers worldwide indicate that good personnel and HRD policies/practices go a long way in influencing business and stock market performance. A paradigm shift thus necessitates alignment of personnel and HRD policies/practices with vision, mission, strategy, structure and systems, along with regular HRD audit to assess the adequacy and effectiveness of HRD strategies.

4. Reducing NPAs

As mentioned earlier, reduction of NPAs and creation of surplus funds would have eased the burden of VRS and reduced dependence on external commercial borrowing (ECB) or on World Bank’s soft loans - a route which is definitely costlier. The total net NPA calculated of all Public Sector Banks (PSBs) stands at more than Rs. 26,188 crores, as estimated by RBI officials. They have indicated that because of huge VRS expenditure, they may have no option but to ease the capital adequacy norms, which will pressurize the Indian bank’s credibility in the international market. However, it is heartening to note that some banks are attempting to find positive solutions to reduce their NPAs. And in this direction, the Center’s one-time settlement (OTS) scheme for recovery of nonperforming assets (NPAs) has proved to be a boon to banks not only to reduce their NPAs but also to convert them into performing assets.
Chapter 2. Review of Literature

Joshi (21) highlights the visible mood of jubilation among the highest echelons of public sector bank management over the success of the VRS scheme. They feel that they have successfully tackled the intractable issue of overstaffing which was the ‘Achilles’ heel’ in public sector banking. More than 1,00,000 out of nearly 10,00,000 bank employees have opted for VRS.

This, it is hoped, will help banks (a) to reduce average age of their employees, (b) save on recurring expenses of wage bill, (c) dispense with beleaguered / tired employees and (d) create rejuvenated and healthy work culture. Of course, there is a growing concern and even anxiety in the middle management of the banks saddled with redeployment and proper allocation of work among the remaining staff. Nevertheless, it is presumed that the right person will be posted in the right place and the reduced number of employees will get sufficient work for the day and help improve the quality of services in banks. But Joshi (21) also cautions that the pyrrhic victory achieved at a high cost of nearly Rs. 5,000 crore, is only peripheral for overhauling the working of public sector banks because the deeper malady lies in the lack of imagination and effective leadership in these banks. In fact, VRS could have been avoided, had the bank managements adopted a visionary approach and demonstrated the zeal to accomplish the challenging goals. It is necessary to recognize that in India there are yawning gaps on the availability of banking services in different parts of the country. Bank facilities are concentrated in the metro and well-developed towns, while they are miserably lacking in the semi-urban and rural areas. There is immense scope both for (a) extensive and (b) intensive banking, which, because of the lack of foresight and proper imagination in the top echelons of management, has not been fully exploited.
Sridhar (42) reiterates the apprehension that the exodus of staff may increase the workload of those who stay on. Junior staff will have to be trained soon so that they can take on the additional workload. More serious is the fear that banking operations will be seriously affected and in fact, even curtailed, because of the paucity of trained staff. It is estimated that about two-thirds of the 60,000 branches of public sector banks are in rural and remote areas.

The restructuring of the banking industry that is now apace has alarmed those who visualize a catalytic role for the banks in economic development. There are fears that the public ownership of banking, which in 1969 ensured that banks became a part of national economic infrastructure, is now being decisively reversed. Mergers of banks branches, called “closures” by the unions, are resulting in banking operations being totally withdrawn in parts of the country. This is even though in many villages, banks ah s been the only means of state intervention in economic development.

The unions allege that the VRS is in tune with the government’s objective of downsizing the public sector. They fear that the banks would be forced out of the development role that they had been performing. Recent reports indicate that public sector units are likely to replicate the VRS packages of the banks. Moreover, the closure of bank branches shrinks their space. Once this is done, there would be very little to distinguish them from the private and foreign banks, which are mainly confined to the metropolitan and urban centers. Once downsized, and subjected to the planned dilution of government stake, they are likely to be ready for sale to private and foreign banks.
D'Cruz (12) mentioned in her research work that this study aimed at looking at the micro level impact of VRS on bank employees. The attempt was to look at it from the perspective of the employees’ wife and see what it meant for them. This is significant not only because of literature pointing out to the impact of economic reforms on women but also because VRS micro studies use the employee as the unit of inquiry – other family members should also be included as units of inquiry in order to provide multiple perspectives considered to be important as per the writings of family studies experts. Specifically, the study aimed at understanding women’s perceptions of their work, exploring how employment influenced women’s self-concept and studying the impact of women’s employment on their position in the family, in the context of their husband having taken VRS. Data collection was accompanied by simultaneous data analysis, as prescribed in the qualitative tradition. The analysis process during the initial data collection phase highlighted that the concerns of participants were quite different to those anticipated by the researcher, based on the literature describing the impact of New Economic Policy (NEP) on women. On the contrary, contextual factors being quite different, the experiences of participants were also quite unexpected. Given the iterative and inductive nature of qualitative research, appropriate changes in the focus of the study were made in order to capture the subjective experiences of participants and thereby gain insights into their concerns.

Maheshwari and Kulkarni (24) mentioned in their study that liberalization made it almost mandatory to acquire latest technology and new techniques that could significantly reduce the cost of products and improve their quality. Frequently, the shift of technology has been from labour intensive to capital intensive. The thrust to enhance the productivity has been high in all these
efforts. Such productivity enhancement efforts have almost become a necessity for Indian organizations to survive in the market. Having realized that productivity could be improved through the reduction of unsuitable or surplus existing labour for the newly acquired technologies, firms planned for reduction of unproductive labour. Retention of them with upgraded technology would have caused the survival of firms difficult. As a consequence, companies had to find ways to rationalize their manpower to improve productivity and cut their costs quickly. While it is possible to argue, conceptually, to expand the level of activity without adding manpower for productivity improvement, it was a difficult route with increasing competition. Hence, managers frequently found no options but to reduce the unsuitable and surplus manpower though it had been a emotionally painful process for managers and employees both.

Further, manpower reduction in the Indian context also carries many social implications. In a country characterized by one of the highest unemployment rate in the world, employment is also a status symbol in the society. In one of the organizations in Bihar, a northern state of India, employees frequently stated, "... Loss of job also creates problems in the marriage of children. The families of prospective fiancée of our children resist such marriages as our unemployment affects the income of our joint families adversely......"

Further, the existing labour laws prevent the employers from terminating the services of the employees easily. Organizations have responded to this difficulty through Voluntary Retirement Schemes (VRS). Union leaders also appear to have accepted the ground realities of VRS. The management frequently responds the resistance to VRS from unions by projecting a threat to the survival of the organization. Further, the government has also
supported VRS by exempting income tax on the money, received as VRS compensation up to Rs. 0.5 million.

The schemes envisage that unproductive employees would leave the organization voluntarily if compensated adequately for job loss. The success of VRS depends on its ability to attract larger number of targeted employees to accept the scheme at the least cost to the organization. However, such manpower reduction also carries implication for the retained manpower.

[Zamutto and Cameron(43)] The management of these retained employees influences the performance of organizations.

The experiences of organizations also indicate that people who carry a perception of high self efficacy also have high propensity of accepting VRS while the under productive employees may stay with the organization for long time. It is likely to create difficulties to achieve higher performance in the organization.

The objective of this study examines the schemes offered by companies in India to examine the following:

a) What are the characteristics of VRS offered by companies in India?
b) What are the similarities and differences of VRS offered by companies in India?

Chitra (10) mentioned in her study that this dissertation on Voluntary Retirement Scheme(VRS) with special reference to the schemes implemented by State Bank of India (SBI) and State Bank of Travancore (SBT) is an attempt towards an in-depth study and critical analysis of the
subject to highlight the diverse features of the Scheme floated by Public Sector Banks (PSBs) in the year 2000 vis-à-vis both the objectives of the banks and the aspirations of the employees who opted to retire under the scheme.

Voluntary Retirement Scheme is a unique initiative and a bold attempt to accomplish an extremely complicated and arduous task, that of sending home over a lakh of serving bank officers and employees, who formed part of these banks all the years, (extending fifteen or more), without creating least dissatisfaction to the affected employees or spreading an industrial unrest in the Banking Industry. In short the PSBs are not compelling any specific employee to leave service, but in the reverse process the employees willingly come forward attracted by the liberal provisions of the scheme and opt to retire from service voluntarily without any pressure being exercised on them by the management. It is retrenchment in effect, but without pain and anguish to those retrenched.

It was implemented in the first stage by 26 out of the 27 PSBs, with the sole exception of Corporation Bank. The VRS scheme of SBI or SBT is not different from the rest of the PSBs in terms of the basic content of the benefit-package or other terms offered. But in view of different size and culture of the individual PSBs the variable features are mainly in the manner of response that the scheme received from their respective employees. Thus everything of the core elements of VRS as recommended by the Government are common and applicable in to the schemes sponsored by all the PSBs including SBI and SBT. It has therefore become necessary to study the background of the circumstances leading to floating of VRS scheme by the Government-owned banks, which constitute of 80% of the banking system in India.
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While presenting the factual data about VRS programmes acclaimed universally as having been successfully implemented by the PSBs, an attempt is made to critically analyze and assess the scheme from different perspectives relating to the fulfillment of its conceived objectives, the implementation strategy adopted, the post VRS scenario in the banks, and a study of the wisdom and merits of accepting VRS by about a lakh of bank men in terms of their own future prospects. They have discounted years of future cash flows assured and inherent in continued service with the bank, for the instant benefit of a lump-sum bargain. Is it a wise step beneficial to them in the long run or have they out of greed cut the goose that was laying one golden egg per day in the fond hope of getting all at once? This is attempted to be answered in this thesis.

Oza (35) emphasized in his study that something which he consider serious is happening but most people seem to be wholly unaware of it. That is the recently announced Voluntary Retirement Scheme for the staff of the public sector banks. What is shocking is that the retirement benefits that will be paid out to these men and women will be very large; in my view, these payments amount almost to plundering the country. They will retire voluntarily and we, the people, have to pay compulsorily. He tried to ascertain the details of the scheme and its effects. He made efforts to get the printed literature, but completely failed; it is very nearly impossible to get such information from almost any governmental agency. What he therefore did was to have informal discussions with some staff of banks and carefully checked it with some others. The details which he has recorded below were therefore mainly accurate but there may be minor errors of facts which will not affect his main argument.
Something has to be done about the banks and the retirement gifts. There are various possibilities although there is no guarantee that any of them or even all of them will have any degree of success. First, we must lobby with the leaders of public opinion in this country, and the politicians if at all they would listen, and tell them what we think. Another is a well drafted and thoroughly researched public interest petition before the Supreme Court, demanding simply, that the government and the banks should publish, without technicalities, a full statement of how much all this will cost, year after year, to get rid of the staff who should not have been there in the first place. If the Supreme Court were to give a decision in our favor, the public will come to know how much all this will cost us. The third possibility with a very thin chance of success is the Gandhian method - start withdrawing money from banks.

In any country, if about 20 per cent of the depositors insisted on closing their accounts fully, the bank will not be able to honor the claims. Why this is so is something which requires the basic understanding of how the banks function. Close your accounts and pay the money in post offices or cooperative banks. The Gandhian element in this method is that you don't cooperate with what you see as evil; it is called non-cooperation. The last possibility is that a few bank men themselves will see through this game of robbing the country, and will themselves revolt and tell their bosses that
“enough is enough”. This almost never happens, since selfishness blinds everyone, but in India anything can happen!

Maheshwari and Kulkarni (26) mentioned in their study that companies in India have responded to the challenges of globalization in various ways. One of the strategies to survive in the market was to reduce the cost by reduction in the number of employees with the help of Voluntary Retirement Schemes (VRS). This paper examines different types of VRS offered by the companies in the year 1999-2000 in India. It also examines the effect of VRS on the profitability of companies. Findings are based on the VRS of 30 companies from diverse sectors. Findings indicate that there is no fixed pattern of VRS among companies in India. Different companies adopt different forms of VRS. The implementation of VRS also differs significantly between companies. The results indicate that framing an attractive VRS by offering high compensation to employees is not important. The success of VRS depends on how possible remedies the scheme is implemented and the perception of the persons opting of VRS and the survivors. The key concerns for the successes of VRS are effective communication, building trust among employees about procedural justice and involvement of multiple stakeholders.

Aggarwal (1) explained in his study that the objectives of the banking reforms in India suggested by Narasimham Committee II were to keep banks financially sound while encouraging more competition and reducing government ownership of state banks. Among many management and structural issues, it also suggested that a voluntary retirement scheme (VRS) may be introduced in the banks to reduce over manning, wherever necessary.
As a result, all public sector banks (PSBs) in India except Corporation Bank introduced VRS on a non-discriminatory basis. More than one hundred thousand bank employees in different cadres accepted it and were allowed to retire under the scheme. This article, based on a primary survey conducted in a few selected Indian States, attempts to find out the impact of VRS on public sector banks and its exiting employees. The results point out that although customer service and efficiency in the banks has become better, VRS has adversely affected the existing employees because of increased workload and work responsibility. However, business per employee and profit per employee in public sector banks has increased and now they have low non-performing assets (NPA). The Profit analysis concludes that the differences in the household characteristics are some of the plausible reasons why some employees opted for VRS, while the others though eligible, did not find it attractive.

Banknetindia (4) team stated that VRS in Banks was formally taken up by the Government in November 1999. According to Finance Ministry on the basis of business per employee (BPE) of Rs. 100 lacs, there were 59,338 excess employees in 12 nationalized banks, while based on a BPE of Rs. 125 lacs the number shot up to 1,77,405. Finally now Government has cleared a uniform Voluntary Retirement Scheme (VRS) for the banking sector, giving public sector banks a seven-month time-frame. The IBA has been allowed to circulate the scheme among the public sector banks for adoption. The scheme will remain open till March 31, 2001.

It would become operational after adoption by the respective bank board of directors. No concession has been made to weak banks under the scheme. The scheme is envisaged to assist banks in their efforts to optimize use of 72
human resource and achieve a balanced age and skills profile in tune with their business strategies.

As per estimates the average outgo per employee under the banking VRS scheme would range between Rs. 3 lacs and Rs. 4 lacs. However, the aggregate burden on the banking industry is difficult to work out, as one cannot estimate how many employees would finally opt for the scheme. To minimize the immediate impact on banks, the scheme has allowed them the stagger the payments in two installments, with a minimum of 50 per cent of the amount to be paid in cash immediately. The remaining payment can be paid within six months either in cash or in the form of bonds.

As per the scheme all permanent employees with 15 years of service or 40 years of age will be eligible to avail of it with ex-gratia amounting to 60 days salary. Employees eligible for VRS, but who do not want to avail themselves of the scheme, have been provided with the option of choosing to go on a sabbatical for 5 years While the right of refusal to give voluntary retirement has been granted to the bank management, recruitment against vacancies arising through the VRS route has been disallowed. Banks have been asked to undertake a complete manpower planning exercise before offering the VRS scheme.

Prabhu (37) mentioned in his write-up that the study noted that progress in assets sales had been very poor and the asset values were deteriorating rapidly. For instance, in nine PSEs, which had been selected for closure during the first phase of reforms, had assets over Rs. 1,000 crore, but these were being wasted, it said. The voluntary retirement scheme (VRS) introduced by the State Government in some of its industrial units has had a
negative impact. The VRS has reduced the earnings and the standard of living of families whose heads opted for the scheme.

Nearly 70 per cent of the employees who opted for VRS did not get new employment, and only a few opted for self-employment to sustain the family income. The income of employees came down by 55 to 65 per cent after they opted for VRS and the consumption level reduced by 20 per cent, a project study, "Karnataka Public Enterprise Reform Programme (2000-03)," by the World Bank, New Delhi, and the Institute for Social and Economic Change, Bangalore, has found.

The study covered PSEs such as NGEF, Mysore Lamps, Karnataka Soaps and Detergents Ltd., Karnataka Vidyut Karkhne, and Mysore Electricals Ltd., located in Bangalore. The fall in the income of employees forced their families to cut down expenses on telephone, entertainment, consumption of milk, egg, and non-vegetarian food, and reduced the participation in social functions such as marriage of relatives and friends.

Employees in all income categories opted for VRS. But the number was more in the higher income category and the higher age group (50 to 53 years). This was because of the high VRS money they could get. People in the middle-income category took VRS because of poor health, bad habits, or for clearing debts. In contrast, those in the low-income category, the "inefficient", and poorly educated ones decided to leave the job due to the perceived uncertainties resulting from privatization. As private managements stress on higher efficiency, those in the low-income category opted for VRS fearing that they may be retrenched without any benefits, the study points out.
Bhat (6) mentioned in his study that the VRS has been considered as boon by many and as curse by a few optees of the scheme and their dependents. This study is articulated with objectives to study the status of employees from the coastal Karnataka who opted to VRS and its impact on the employment, consumer market and structure of unorganized labour market, on the kinship relations and on the rural economy as such due to investment made by the optees out of ex-gratia and receipt by the employees. The introduction of VRS has been considered as boon by many and as a curse by a few of the optees and their dependents. This study is therefore undertaken to understand the status and category of employees from the coastal Karnataka who opted to come out on VRS and the impact of VRS on the life of the recipients/optees, impact of the arrival of optees who are educated and knowledgeable people in the employment and consumer market, their influence on the structure of unorganized labour market and the impact of pre-retirement on their kinship. The study also intends to look into the impact of the VRS scheme on the investment pattern by the optees in rural area/economy and how the society reacted to the arrival of educated manpower in the rural setup etc., An attempt is also made to analyze whether the educated and experienced people in secure white colored business could effect to change in the rural leadership to utilize the time available at their disposal. The study also made an attempt to analyze which class, caste and education level of people got affected and could manage the post VRS scenario systematically. Rightsizing of manpower and application of computer aided technology was considered more seriously in almost all the industries.

This was seriously taken up during the year 2000-01 by public sector Banks in India through Voluntary Retirement Scheme to reduce the manpower cost.
which lead around 63000 people to come out from the formal white colored employment and many of them were at the peak of productive age and from rural areas. Such of the prescheduled entry into rural sector is believed to influence the existing socio-economic equations in the rural society with the introduction of capital and entry of new knowledgeable manpower and leadership. The VRS by three major public sector Banks originated from Coastal Karnataka had caused large number of educated persons from the region return to the market with knowledge and capital which necessitated due mechanisms to rehabilitate these persons to maintain socio-economic balances. Bharatiya Vikas Trust, the NGO committed to the social cause proposed the analyze the impact of VRS on the rural fabric and to reflect for policy initiation whenever VRS is introduced for mitigating any possible dismantle of the social setup.

BergerGeoffder et al (5) mentioned in their study that most adults do not achieve the levels of physical activity currently recommended for a healthy lifestyle. Population surveys suggest that there is a linear decline of activity levels with age, yet physical activity has many health benefits for older adults. If these are to be more widely adopted among older people, health policy and promotion require an understanding of the factors that influence decreasing activity with age. This study examined the patterns of physical activity of 699 participants in the West of Scotland Twenty-07 Study who were aged 60 years when interviewed in 1991 and followed up four to five years later. It examined the factors that influenced whether or not the subjects achieved currently recommended levels of activity, by applying random effects models with a seasonal adjustment. It was found that higher levels of physical activity associated with a healthier lifestyle, and that socio-economic factors played a minor role in determining the level of physical
activity. A substantial amount of physical activity occurred at work but was lost by those who had retired, for while those who were not working were more physically active at home or at leisure than those in work, the majority of the sample did too little physical activity outside work to compensate for the loss of work-based activity. One conclusion is that health promotion initiatives that encourage people to become more physically active should be targeted at those who are about to retire.

Ranu (39) explained in his study that the financial markets the world over have undergone dramatic changes in the last 2-3 years. The sub-prime crisis that hit the US in August 2007 spread across the globe in no time. India, too, did not remain immune to it, and the Government of India and the Reserve Bank of India (RBI) had to declare some urgent fiscal and monetary policies to arrest the moderation in growth. But the global economic system received another jolt when the US investment bank Lehman Brothers collapsed in September, 2008 and the liquidity crisis evolved, shaking the confidence lending institutions had in the economy.

Measures taken by the RBI:

Like other central banks in the world, the RBI too announced various stimulus packages and trimmed policy rates such as CRR Repo rate and Reverse Repo rate to ensure proper functioning of the economy. Since October, 2008, the CRR and Repo rates have been slashed to 5 per cent and 4.75 per cent, a drastic cut by 400 basis points (bps) and 425 basis points respectively. This has provided banks ample room to cut their lending rates but the lenders have not passed the benefit on to the borrowers.
A decline in the confidence level:

A buoyant stock market, rising commercial vehicle sales, improved IIP number, inflow of foreign money etc. may indicate a boost in the economy, but the balancing do not seem to support this trend. For example, let's take a quick look at the year-on-year (y-o-y) growth in the country's non-food credit (also known as Commercial Sector credit). The figures confirm a slide from its peak of 29.4 per cent in October, 2008 to 17.5 per cent by March, 2009. This means the non-food credit expansion was lower in comparison to that of 23.0 per cent in 2007-08 and also could not meet its projected target of 20 per cent for the year 2008-09. This change in credit flow could be ascribed to the several factors below. Despite the different measures taken by the RBI and the Government, banks have not gained enough confidence to lend up to a desired level. However, the increased activities in different sectors and easing of foreign inflows in the current quarter have given a new hope to commercial banks which are now confident of achieving the desired credit target in the current fiscal year. Driven by a pick-up in the domestic consumer demand the IIP number rose for April'09, confirming that the economy is on the road of recovery. All these signs show that the situation will change for better as the time passes, bringing benefit to the consumers of all levels.

Mathew (30) mentioned in her study that if you're a part of the new generation of 'young-old', those who have passed the age of retirement, but are still young at heart, here're a few good ideas for you to check out:
1. Earn some money:

Homemaker Lalita Kapoor had no plans of working till she hit her 50s. Her daughters were busy with their lives and she had a full-time maid who helped her in the house. When she saw people her age and even older earning, she began to 'feel useless'. So when her daughter started her own line of clothing, Lalita decided to join in with managing customers, tailors and accounts. Soon she discovered she actually enjoyed 'working'!

So, she decided to strike out on her own and do something she enjoyed and had a talent for. It had to revolve around food. Today she caters for parties, taking in special orders that she executes with enthusiasm. Says her daughter, delighted at this change in her mother: 'She can't yet boast of an income that warrants filing tax returns, but the fact that she is working towards earning money at a time when others are looking at taking up 'time pass' hobbies, is incredible!' 

2. Try something new:

Carol, 62, always had a penchant for teaching himself new skills. As a teenager he taught himself how to swim simply by observing others in the pool. After 31 years in the Indian Army, the colonel decided he wanted to get acquainted with the computer and the world it opened up; something most of his contemporaries were wary about. He bought instruction manuals and read up everything he could, on the subject. With the help of young relatives, he has now initiated a ‘family’ website, where family news is posted.

There are also contact details of relatives the world over, in addition to his family tree. His latest venture is to teach senior citizens to 'conquer' the 79
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Internet. 'Old people are often afraid of even touching the computer! They feel they may press an incorrect key and 'ruin' the whole thing! I want to help them realize that though we may not be as adept with the machine as our grandchildren are, we can certainly 'use' the computer to pursue activities that interest us and stay connected with family and friends!'

3. Help the people:

After a career in the World Bank as regional programme advisor in Washington and Delhi, Rekha Dayal, 62, has a busy post-retirement portfolio. Part-time consultant and a doting grandmother, she decided to help young women of the lower socio-economic group enter the organized sector. Her idea was to move them out of the low-paid unorganized sector, to growth sectors, such as IT and hospitality. She began with teaching her own house help.

Realizing that English was the language of professionalism, she insisted on speaking with the young girl only in the language. Soon the girl started responding, first haltingly, then with more confidence. Within just a year, she could read English-language magazines and is today poised for a better life. For a woman who has battled breast cancer, Rekha is remarkably positive in her outlook. One of her goals is to write a book on her struggles and her victories. Rekha says the one tool to battle all ills is a positive, proactive mindset. Little wonder then, she decided to follow up on her love for Hindustani classical music by enrolling herself in an institute. She even earned a distinction in a recent exam! 'The competition is stiff, even though my youngest classmate is five,' she laughs.
Koss-Feder (22) observed in her study that at year's end, many women are preparing to take stock of their retirement savings after a year and some of a dreary economy. Yet a new study reveals that most women do not believe they have the know-how to adequately assess their needs.

Many women are taking stock at the close of what has been a dismal year economically to take stock of their financial resources and assets especially the funds they have put away or not for retirement.

However, many women may believe they do not have sufficient understanding of their finances to adequately assess their needs, according to a recent study. In fact, while 85 percent of women consider retirement security very important, only 25 percent feel they know the amount of money necessary to provide it, according to a recent Prudential Financial study of 400 female heads of households across the country. There are no comparable statistics available about men. The study, conducted and released to the public, also showed that fewer than 4 in 10 women are very knowledgeable about the variety of retirement products available to them.

"Women need to better understand and be more educated about what they will need to comfortably retire, so that they can take control of their financial futures," says Gail Farkas, the Newark, N.J.-based vice president of marketing for Prudential Financial. "They have to examine their long-term financial goals and work toward those goals."

To do this, women need to accurately assess their financial situation including assets, cash flow and expenses, Farkas adds. They also should be planning for their long-term care and pay attention to estate planning for their futures and their children's futures. Only 14 percent of those surveyed have done detailed financial planning by creating a will, estate, or trust plan, 81
and only 24 percent fully understand these services. However, 73 percent of women surveyed did say that passing money down to their children is important.

Women with Children Should Plan Differently Than Those Without

Widow Lydia Mallett, 48, chief diversity officer at General Mills in Minneapolis, knows how important estate planning is, since she is in charge of her finances for herself and daughter Noel, 11. She began working with a financial planner about five months ago. Since then, she has redone her will, taken out long-term disability insurance and invested in low-risk life insurance products.

"Since I have to plan for my own retirement and for my daughter’s future, I am working to learn and understand more about retirement products so that I can make wise decisions in our best interest,” Mallett says. "I must do this for both of us."

Like Mallett, female heads of households need to figure out how they will generate cash flow when they retire. They should examine their pension fund, potential Social Security payments, 401(k) plan, and other assets to see how much money they will be bringing in each month to pay able to pay their bills and support their lifestyle down the road, says Diahann Lassus, co-owner of Lassus Wherley and Associates, a New Providence, N.J. financial planning firm. Figuring out how much cash will have available down the line will determine what can or cannot be spent over the years and how much should be saved to allow for a comfortable retirement, she adds. Lassus also suggests taking a basic financial planning course at a local community colleges or high school.

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Elaine Malek, 52, president of a human resources and educational consulting firm in Milwaukee, realizes that she needs to plan very carefully for her senior years and beyond. Since she lives alone and is divorced with no children, she has no obvious caretakers as she ages and no immediate heirs to her potential estate. Malek has carefully divided up her current assets between her two sisters, six nieces and nephews and 10 grandnieces and grandnephews. Other steps she has taken: buying long-term care insurance to help preserve her assets, leaving her home to one of her sisters in her will and designating a close friend to receive her prized Latin American art collection.

"You have to spell out everything in the most precise detail in your estate when you don't have kids, since there is no logical line of succession," says Males, who has worked with a financial planner. "You can't wait until it's too late to plan for your later years or it won't get done."

Consider financial needs before retirement

In addition, set 5-year, 10-year, and 20-year personal and family financial goals, recommends Westbury, N.Y. financial planner Judith Beckman. "Are you saving for a child's college, or a home, or for starting a business? Ask yourself these important questions as you set your goals and plan your finances," Beckman says. Take advantage of savings vehicles such as tax-deferred accounts, Beckman notes. Also, have savings that can be easily tapped in case of an emergency.

Women who may not be that confident in their investing knowledge also can join local investment clubs, as a way to pool resources with other women, suggests San Luis Obispo, Calif. financial planner Bob Wacker. The National Association of Investment Clubs makes referrals to local chapters. "By 83
investing together, women can learn more and they share the risks," Wacker says. "You always want to be learning as much as you can about your finances."

Arora (3) reported how leading organizations such as L&T, M&M, NTC, SAIL, Voltas and TELCO are implementing VRS. The scheme has been extended to private sector in 1993-94 as an option for shedding manpower. The private sector employers can choose the levels, units and age-groups to offer it to their employees. As regards public sector, it is allowed by the Department of Public Enterprise (erstwhile Bureau of Public Enterprises) that the employee obtaining VRS up to Rs. 5 lakhs be exempted from the payment of tax. Take the case example of SAIL.

SAIL shedded over 18,000 workers during 1986-87 and 1992-93. As Mr. R. Nair, Chairman, observes, "We had visualized that technological changes would necessitate a lower number of workers”. The company attempted to identify the target as first step. It set a lower age limit of 40 for unskilled laborers, 43 for skilled laborers and administrative personnel, 46 for junior managers and 50 for middle and senior managers. It was believed that managers above 46 were not clearly productive. As soon as the VRS zone was demarcated, the next step related to pinpointing the individuals. The idea of a VRS was not just to downsizing indiscriminately but also easing out non-performers. The line managers were empowered to identify VRS candidates. Thus, at its Bhilai plant, it divided its work force into six categories in under the leadership of a personnel manager and the line manager. Accordingly, by combining the plant’s 50 departments, it was possible to smoke out workers who were chronically sick or were prone of alcoholism or absenteeism or turned in poor performance. Attempts were
made to convince them of the merits of accepting a VRS. In addition, the approval of the unions was also obtained. Of course, the unions were not favorable to it. To quote Nair, "The unions did not oppose the scheme because it was voluntary", Attempts were also made to include attractive benefits in the severance package. The most important thing ensured was that it appeared fair to the employees. Accordingly, it built into its VRS excellent medical package: entitlement of an employee and his spouse to a hospitalization coverage of Rs. 80,000 and Rs. 3,000 worth of non-hospitalization treatment every year for an annual payment of Rs. 200.

There were concerted efforts to motivate the managers at SAIL. Indeed, without their full involvement, it was a very difficult task to implement VRS. To quote Krishnamurthy, "I had more problems with the managers at SAIL than with the union." They were convinced that a lower headcount would mean higher productivity. The company also introduced productivity–linked incentive schemes to motivate managers for operating in learner environment. It also ruled out fears relating to crises of talent stemming from the VRS by initiating a massive retraining and redeployment scheme. As Nair observes, “Without a proper manpower planning system, you cannot enforce a VRS”. Of course, there were some side-effects. It lost its talented managers who opted for VRS and joined competitors: Essar Steel and Lloyds Steel which were then setting up their plants. The lesson is that the VRS should not be allowed to managers when rivals are recruiting them. Conclusively, the SAIL has successfully implemented the VRS at the directives of the Department of Public Enterprises.
Ramachandran (38) mentioned in his study that India’s private and public sectors jointly face an unbending, but explicable, funding problem. The burden imposed on the private sector by salaries, perquisites and pensions in the government sector has begun to make it increasingly difficult for the private sector to fund investments that are necessary for spurring and sustaining high growth. The unbending funding problem may undermine the capability of India’s private sector and India Inc. to keep pace with the rest of the world. The burden of salaries and perquisites to their present employees and pensions to their past employees has already made it very difficult for the Central and State governments to fund investments in public infrastructure that are necessary to support the growth aspirations of the private sector. The unbending funding problem may undermine the economy’s capability to keep pace with the rest of the world and is principally the result of the elitism that characterizes employment in the government sector. Payouts of salaries, monetary perquisites and pensions of a large magnitude and the cash value of non-monetary perquisites make employees of the government sector the highest paid in the aggregate economy.

Most employees in the government sector earn five times as much as those in the private sector. The ratio of modal incomes in the government sector to modal incomes in the private sector is 5.08. Relative to the incomes in the private sector, employees of India’s government sector earn the highest in the world. The first question is if India’s government sector is the most productive in the world relative to the private sector.
Maitra (28) reports how to manage organizational exit. It is a very terrible situation to handle an organizational exit. However, it is an inevitable problem because a company’s greatest asset suddenly becomes its greatest liability. When a CEO attempts to squeeze out inefficiencies whenever possible, his axe will invariably fall on the people who are bloating its wage bills, hampering productivity and damaging profits. It has become almost difficult for any company to offer a life-long employment. The market forces compel the company to reduce the workforce as a strategy to improve its financial health. These forces make it imperative that the company goes to the upgradation of technology, application of business process reengineering and adherence to alliance and joint ventures. All these measures involve reduction of manpower. This indicates an urgent need for evolving an effective system of managing organizational exit based on the principles of consistency, compassion and cooperation. This is essential to maintain the morale of people who are staying back.

While initiating the exit programme, attempt may be made to obtain the right reason: incompatibility high wage bills or internal restricting or both. Then, the next step is to determine “how many” and “which” employees must be asked to desert the company. As regards wage bill-driven decision, there is need to benchmark the company against industry, national and global standards. In this context, ratios such as wages-to-sales, wages-to-costs and wages-to-production may be quite relevant. The findings must be presented to the employees to justify the downsizing decision. Attempt may be made to evolve and apply transparent criteria for identifying the people who must desert the organization. It will beneficial to protect the junior managers by their years of employment in the company. In the case of senior managers, the performance appraisal can be used to ease out the
non-performers. Irrespective of the level of employees, there is need to manage the psychological and social fallout for them. There must be proactive measures to resolve this complex process—counselling through the cycle of depression, anger and demotivation, building confidence for seeking another job etc. There is need to deal with other issues such as design of severance pay-packages, introduction of early retirement schemes with immense benefits, provision of outplacement service enabling managers to find alternative employment and use of exit interviews to obtain relevant feedback on the exit process. Last but not the least, the people staying back must be motivated by redefining jobs, providing higher salaries and evolving a new manpower deployment plan as a continuous process.

Dubey and Parthasarathy (14) report how corporate India prunes its workforce in the absence of a viable exit policy. In the opinion of S.N. Pandey, former Executive Director, TISCO, “Whether you treat you workers as a ticket number or not, you cannot reduce them under the law of the land”. Likewise, G.B. Pai, Advocate, Supreme Court observes, “Voluntary separation from services constitutes the only legal means of shedding excess manpower”. Based on these and other viewpoints of practitioners, Dubey and Parthasarathy summarize the best practices as follows:

Do not make fresh recruitment of workers to give the right message to the trade unions.
Ensure to always keep a line of communication open with all the trade unions.
Remove the suspicions of workers by communicating with them directly.
Evolve a severance package with incentives for training and redeployment.

Do not exert pressure to intimidate workers into leaving.

Maitra (27) reports how leading organizations go about easing out CEO’s without creating a succession crisis at the top. He cites Jhaveri, former MD (ICICI Securities) who warns, “Business families have removed CEO’s whom they dislike for personal reasons. But this should stop”. Likewise, Sanjiv Goenka, vice-chairman (RPG Enterprises) asserts, ”If a CEO is lagging behind, do not blame him. The rules of business are changing fast, which many managers are unable to understand.” Notwithstanding this, several CEOs were replaced recently. K.L. Chugh is no more ITC’s CEO. Jaydev Raja is no longer Coca-Cola India’s CEO. Gurcharan Das is also no more Proctor & Gamble India’s CEO. Russi Mody is not longer TISCO’s CEO.

But how to replace them? An unhappy CEO can spell danger for a company after he is sacked. Take the example of M R Chhabaria Group. The frequent exits of its CEO’s had made it difficult not only to find CEOs but even to obtain senior executives. The angry ex-CEO may leak sensitive information to the competitors or to the law reinforcement agencies. Therefore, it is necessary to deal with him in a dignified way even if he is asked to go. At the very outset, a dialogue should be initiated for the proposed exit of the CEO. Invite him for informal lunch or dinner at home. Gradually make him convinced as to why the company needs a new CEO and ask for his recommendation. If the CEO has a health problem, the matter is easy. He can be simply told that the company is concerned about his health and wants him to take life easy. However, it is advisable to keep the decision to replace the CEO a closely-guarded secret. Ensure that he is able to find a
job. Indeed, a mutually–designed separation helps both in many ways. The transnationals effectively replace the CEO by sending him on a foreign assignment. The company may also set age limit for the retirement of its CEO. In the 5700–crore Lever Group, the CEO steps down the month he turns 60 irrespective of his performance or potential.

Chatterjee (9) reports how leading organizations (such as HCL, Whirlpool and AIMIL) layoff their human resources without hurting them or their corporate images.

1. HCL:

In the opinion of Sujit Bakshi, Director (HRD), HCL Corporation, “If a business unit has performed poorly and the competitor’s business is growing, we will not hesitate in replacing the CEO”. Far from carrying fat, the body HCL is constantly scanned for sickness and flabby muscle is either “knocked into shape” or “knocked out”. As Bakshi further points out, "We are ruthlessly performance-oriented. I have outplaced many people who have proved to be yesterday’s people". As a result of its performance-oriented retrenchment system, it has become the prototype of entrepreneurial corporation.

2. Whirlpool:

Whirlpool took management control of the Rs. 443 crore Kohinoor of India and reduced its 2500-strong white collar workforce by 40 percent through restricting. Attempts were made to conduct several meeting with workers explaining company’s aims, strategies, competitors and need to restructure.
In such a interactive session, it was stressed that changed formed a way of life. To quote Ashoke Khanna, vice-president (HRC strategic planning), “When we took over, there was insecurity. We had to make over employees understand that for any improvement in processes, plants and activities, change is a must. While some jobs might go, new opportunities would be created”. Gradually the message seeped in and the confidence was restored. It was followed by a voluntary retirement scheme in 1995. Tempted by the offer, applications flooded in. Based on skill analysis, 50 to 60 percent of them were accepted and thus, 1000 were allowed to go. A reassurance drive was initiated to boost the morale of the remaining employees. Soon, the Whirlpool’s plant was back in business.

3. AIMIL:

The Associated Instrument Manufacturers India Ltd. (AIMIL) initiated an extraordinary manpower rationalization exercise. The manufacturing division was the starting point – out of 250 staffers, only 45 were retained. The redundant staffs were offered a new deal. They were given contracts to supply material-testing instruments. Attempts were made to form eight clusters of entrepreneurship, each consisting of 8 to 10 retrenched managers or engineers. These groups were provided the machines and the support required for production and was housed within the company’s complex. Enough business from the company was guaranteed to match the level of manager’s earnings at the time of retrenchment. Of the 205 people retrenched, 185 took the offer, only 20 people were sacked. Within six months, the manufacturing division emerged to be profit-making. Within 3 years, each group was spun off into an independent business unit. Thus, the
ex-staffers of the company have become its vendors. This change was brought out as result of Arvind Varma’s efforts who joined the company as an executive director in 1979. In 1991, he turned his attention to the company’s marketing division. Initially, he offered a golden handshake, which was accepted by 24 managers. Then, incentive-based compensation packages were evolved. After this rationalization, the company’s manpower deployment was sensible.

VRS versus Trade Unions

Of late, trade unions have become critical to the working of the VRS. Singh (41) considers VRS as a disaster from the workers viewpoint. To substantiate his statement, he cites the findings of a research study conducted by Maniben Kara Institute in April 1994 in Thane region (Mumbai). It was found that 57 per cent of the workers opting for the VRS could not find any attractive employment and of the remaining 43 percent who could, most of them were in contract or casual jobs which paid very poorly. Most of those interviewed reported that the bulk of the money received from the VRS was spent in paying loans or lost in business which never materialized.

The Tata Steel Experiment on VRS

The Early Separation Scheme (ESP)

Dutt (15) mentioned in his study that till the early 1990’s, Tata Steel was always run as a welfare state: even now it runs everything from housing to schools to hospitals and even civic services in the steel city of Tata Nagar.
For a company with this kind of public responsibility thrust on it, handing workers the pink slip can be a daunting task. But in work as in separation, Tata Steel has evolved its own unique style of dealing with employees. Its early separation scheme (ESS) for workers offers a lesson in corporate responsibility in difficult times.

The reason why Tata Steel’s ESS works – it may still have some years to run - is simple; the company saw the writing on the wall early, and planned to cut its labour costs over a long period of time instead of just adopting a slash-and-burn strategy. Between 1995 and 2001, the company managed to reduce its work force from 78,300 to 47,300. As on April 1, 2002, the figure should have dwindled further to a shade under 47,000.

Why Does It Work ?

And surprise; it did not cost the company a bomb to implement. Reasons are clear cut. The company realized early on that the big payoffs in VRS programmes come not from savings on direct costs, but indirect ones. The cost of ESS would have been enormous had it been a one-time payment. But what Tata Steel did was not offer a lump sum package, but a salary-like structure under which employees continue to get paid their wages, but not the incremental indirect payments like gratuity and superannuation, bonus, or provident fund contributions.

In Tata Steel as in every other big company, the indirect component of the wage bill tends to high. For every rupee that the employee receives as salary, the cost to Tata Steel is around Rs. 1.60. Hence the benefits of the ESS can be felt within months of implementation. Employees salaries are
paid out of the revenues of various departments to a central pool which is then debited in the annual accounts of the company. In any given year, the amount debited on account of ESS is around Rs. 120 crore. In 2001, Rs. 122 crore was debited on account of the ESS. This is the central cost of the scheme.

Had Tata Steel not introduced VRS in 1995, all its profits, especially in 2001-2002, would have been swallowed up by salaries. In short, Tata Steel would have been in the red for the first three quarters of fiscal 2001-2002. Instead, the bottom line looks healthy because of productivity increases. Capacity has increased marginally by 10 percent merely by getting more heats from the furnaces. In 1995, productivity was at 93 tonnes of crude steel per man year. In 2001-2002, it stood at 196 tonnes. Saleable steel was at 79 tonnes per man year in 1995; by 2001-2002 it had risen to 189 tonnes.

How was it introduced?

How did the company sell the idea of the ESS? Through relentless communication to workers from all forums – through channel T (the local Jamshedpur channel), newsletters, and communications from the managing director and deputy managing directors through the intranet.

But whom did the ESS target? Surprisingly, there is no target group, but normally it is the 40-45 plus age groups that opt for early separation. The company claims there is no coercion. If an employee is redundant, he is told that this is not due to his inefficiency but because times have changed.
What are the other Benefits with it?

Apart from the regular salary, the pill is sweetened by offering ESS takers three years education costs if the company’s school seat is vacated. Medical benefits at Tata Medical Hospital are available for those who stay in Jamshedpur and on insurance card is offered to the rest. A Rs. 3 lakh advance payment is made from an employee’s salary interest-free for those who have to vacate the company house. Many people who opt for VRS prefer staying in Jamshedpur due to these multiple benefits. For those who want to look for further employment, there are on-site consultants who help them write better CVs. Little wonder, employees have taken exit in their stride.

Maheshwari (25), faculty, personnel and IR, IIM (Ahmedabad) visualizes that the focus in VRS is shifting from production to productivity. His perspective can be summarized as follows:

Why is the VRS Trend Increasing?

The current changes in organizations are triggered by global competitive pressures and technological advancements. In a protected economy, growth was synonymous with profitability and security. Organizations were focused on production/ output. Work stoppage was a potent tool with unions in such an environment. Managers responded to union threats through fresh indications to achieve their targets of production as the propensity to unionize is lower in freshly inducted employees. The focus is now shifting from “production” to “productivity”.

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What is the best way to do VRS?

The activity set for this purpose will also depend upon the prevailing conditions in an organization. In organizations where the unions are militant, discipline is sloppy and technology is stable, it will be important to have selective retirement plans. Maheshwari cites an example of a company where VRS was internally called an SRS (Selective Retirement Scheme). Managers were asked to identify low performers. Subsequently these employees were coaxed to apply for VRS. Coaxing is frequently resorted to in organizations in India due to the high unemployment rate and lack of social security system.

In general, one can effectively trim manpower by linking HR policies with organizational strategy, developing a skill database and identifying people who possess the required attitude and skills and those who don’t providing support to people to upgrade their skills and change attitudes to enhance employability and involving people in their career plans.

Why is there need for psychological counseling and post-VRS action?

Counseling does help if provided by a trusted and skilled counselor. Post-VRS placement help is important not for pure monetary reasons but also to enhance the feeling of self-worth.
What are the benefits and costs of VRS?

Manpower reduction is primarily aimed at financial improvement in organizations. A typical VRS has a playback period ranging from 18 months to 24 months. However, studies indicate that organizations continue to decline even after such reductions. One of the main reasons for the same is detrimental effect on the survivors who perceive a violation of their psychological contract with the organization. They express concerns about higher expectations of work performance, lack of job security and long term job prospects. The survivors’ reactions surface in the form of lower morale, a decrease in psychological participation in the organization’s goals, guilt feelings about their colleagues who were not so fortunate, bitterness, anger and frustration.

What is the right way to sell VRS to employees

In Indian conditions, VRS acceptance will remain in the last resort with employees unless it is extremely attractive. Positive display a intent by organizations to help retired people will be helpful.

Mishra (33), HR head and director, Birla Management Corporation Ltd., is of the opinion that the real savings in VRS are in indirect cost. His perspective can be summarized as follows:

Has corporate sector handled downsizing poorly?

There have been many instances of downsizing that have not been well-thought out. Very often this happens when a new CEO takes charge and he
wants to produce immediate results on the bottomline. To achieve quick breakeven or turnaround, he may downsize or cut staff with short-term ends in mind. Whenever change happens at the top, especially when a company is going through a crisis situation, these kinds of things may happen.

Do companies need a policy on downsizing?

We are in the process of evolving a common approach to VRS and rationalization. Mishra thinks that companies have different obligations to various categories of people - - people above a certain age, or those who left other careers to join us. We need to have a policy in this regard.

What is the right way to handle VRS and exits?

Companies have to think clearly about how they will implement job cuts, who will do the jobs of the workers or managers who leave, and whether the right skills exist after the downsizing. Without this thinking, downsizing would not make sense. Secondly, companies tend to ignore the psychological and sociological counseling dimensions. While companies can do some of this, Mishra thinks that the government’s labour departments must also rethink their roles. If downsizing is now acceptable at the policy-level, we cannot have a labour department that is merely talking about conciliation, arbitration and selling disputes. They need to concentrate on counseling workers.
Is VRS worth the money?

The real savings in a VRS are not so much in direct costs — where the payback periods could be two to three years — but in indirect and overhead costs — the savings in management time by having to deal with fewer employees, the reduced need for office space, office infrastructure, etc. The direct cost savings sometimes tend to be partially offset by agreements with unions, who may demand concessions for employees.

What is Birla’s VRS at the Nagda staple fibre division?

The company reduced around 1000 employees out of 6800, including around 65-70 managers. It expects a payback period of around 2.7 years.

Why is there a need for VRS payments and investment advice?

Once the VRS plan is announced, we need to organize some investment counseling since people are getting large amount of sums of money need to know where they can invest it. It is advisable to give VRS money in lumpsums since the break with the company is clean and there is no confusion about the finality of the separation. There is a practical aspect to it. Often it is difficult to track people once they leave a company. But there is also a different issue. When you track people after they leave, sometimes they may keep the hope that they can return — and there could be other expectations. This is one reason why we prefer lumpsum payments to annuities.
How did the group handle the Birla Periclase closure?

Sometimes, it is possible to absorb people internally, but not always. In the case of Birla Periclase, the group had to close down because the entire economics of the project went away with Chinese dumping of manganese. With the local HR chief taking a personal interest, the group actually went with the employees’ CVs to various Birla units. More than 50 percent of the staff of 300-odd got placed. Even the rest were placed outside the group but with companies in the vicinity.

Sherman (40) provides explicit guidelines for managing exit embracing the following points:

- Designing VRS
- Planning Separation
- Pre-VRS Counseling
- Financial Counseling