Chapter 2

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Chapter 2

VOLUNTARY RETIREMENT SCHEMES IN INDIA

2.0 Voluntary Retirement schemes in India:

The most popular response to facing global competition in our country has been VRS. Lack of innovation, sluggish response, narrow outlook, laid back attitude, insensitivity to customer needs and expectations and an inexplicable divorce from changing market realities. Cutting the number of people to cut the wage bill and also to cut the waste, inefficiency and idle time which accounts for greater cost. The Government of India introduced a voluntary Retirement Scheme (VRS) in October 1988 within the framework of the guidelines prescribed by the Bureau of Public Enterprises (BPE), Department of Public Enterprises (DPE). The PSEs were free to formulate their own VRS within the broad BPE Guide according to their needs and conditions.

2.0.1. The availability of statistics shows that a large number of employees in many PSEs have opted for VRS. About 81000 employees in 120 PSE had opted VRS in three years time in 1990-91, 91-92, 92-93. It may be mentioned that VRS is useful not only
to loss making enterprises (i.e. the units which are declining or sick) but also profit making enterprises which are facing fierce competition or technological constraints. In fact the implementation of VRS is likely to produce favorable impact in the productivity and profitability of an enterprises whether it is showing profit or loss. It is a bilaterally agreed measure for downsizing manpower so as to adjust it to the specific requirements of relatively more efficient technology. VRS helps in weeding out surplus employees not suitable for efficient functioning in the operation of a new technology or medically unfit workers. It therefore results in a substantial reduction in the labour cost and helps to drive for improving productivity by rationalizing manpower. Example, Bombay Port Trust revealed that VRS resulted in a sizable saving of expenditure on salary, as the bulk of its employees (roughly estimated at 78% of its total strength) had opted for VRS. They also emphasized that there was no negative impact on the functioning of the port trust even though it was being managed with a reduced strength of only about a quarter of its original staff strength. In fact, a greater use of modern equipment led to the improvement of labour productivity as reported by the management of the trust.
2.0.2. Bhilai Steel Plant (BSP), which is the biggest integrated steel plant under SAIL introduced VRS in 1986-87 covering both eligible executives/non Executives and succeeded in shedding a total number of 8963 surplus employees (out of total strength of 54800 in 1992-93) during the period 1986-87 to 1992-93. Thus, through the implementation of VRS this large steel plant was able to achieve appreciable saving in labour cost by downsizing its manpower. However, VRS did not prove to be an unmixed blessing to BSP, as the successive spells of severance provided scope to their relatively young, efficient and talented staff to leave this enterprise.

2.0.3. The Heavy Engineering Corporation Limited (HECL) Ranchi introduced VRS in 1990 covering executives, supervisors and workers. According to the Corporation report of progress the implementation of severance scheme helped HECL to release a total number of 4680 employees during the period 1991 to 1994-95 (up to 02/95). This resulted in a total saving in labor cost to the tune of about Rs.5996 lakhs during the 4 years period from 1991-92 to 1994-95. From this statistical account, it is evident that VRS could be successfully utilized by HECL as an effective strategy for
downsizing manpower. In HECL the VRS is still in progress and this large scale PSE had achieved a fairly ambitious long-term target of saving rupees 12883 lakhs by further downsizing the employees by the end of March 2000.

2.0.4. The Public Sector Steel Authority of India Ltd (SAIL) has announced VRS to its employees from 1/06/99. The scheme was open from 1-06-1999 to 31-01-2000. Eligibility employees who have completed 40 years of age or have completed 15 years of service. Payment monthly income based on basic salary plus D.A for remaining years of service until superannuating. Employees above 55 years well get 105 percent basic pay and DA every month, those between 52 and 55 years will get 85 percent.

SAIL. VRS Scheme in 1998 had attracted 6000 employees. The eligibility for that Scheme was minimum age of 50 years or 20 years of service. The Company has also been running a scheme from 31-3-99. under which employees can take a break for three years for studies or alternative employment, with the option of rejoining SAIL at the end of the period.

2.0.5. The Delhi Transport Corporation (DTC) introduced the VRS by pursuing the DPE guidelines in March1992 with two major objectives of scaling down operations and reducing wage cost. The
scheme was applicable to all regular employees (i.e. workers and executives) appointed against regular vacancies in the corporation. Out of total grant of Rs. 90 crores received by the DTC from the National Renewal Fund Rs. 40 crores were spent on 3809 surplus employees who opted for VRS up to 30th Sept 1993.

2.0.6. TATA Iron & Steel Company had given VRS to around 5000 out of 68000 of its strong work force during 1996-97, 1997-98. The company paid Rs. 78.7 crores for the year 1996-97 and around Rs.100 crores during 1997-98.

2.0.7. The Tata group - owned watch major Titan Industries has reduced employees through its first Voluntary Retirement Scheme (VRS) offering in the month of July 2002. The VRS led to a reduction of staff from 3,600 to 3,000. The bulk of employees who accepted the VRS offer were from the company’s Hosur plant. The VRS offer will cost Titan a total of Rs. 44 core over a four-year period. The cost will be borne as a part of the overall working capital requirements of the company.

Titan’s decision to offer VRS is a part of the company’s cost rationalization exercise. The VRS seemed a viable option due to the fact that the company has, in recent times, begun to out source a number of its watch components from outside manufacturers.
According to Titan’s sales head Bijou Kurien, the company’s productivity has also gone up significantly, leaving much of the staff redundant. The company has also recently submitted an expression of interest (EOI) for picking up a 74 % stake that the government is offloading in HMT Watches.

2.0.8. EICHER Tractors is scripting a turnaround strategy after its parents, Eicher Ltd, posted a massive Rs. 54-crore loss, largely on the basis of Eicher Tractor’s poor performance. In its bid to cut costs, the company is planning to offer VRS to 200-odd workers this fiscal, bringing its total staff strength to 1,250. The company has already retired around 400 workers through its VRS, bringing down its total strength from 1,850 to 1,450 in the year 2000. But it’s not the worker who will face the music in Eicher Tractor’ new cost cutting.

Even executives need to watch out. According to company sources, a few non-performing executives could find themselves being eased out of the company. However, Eicher Tractor MD RC. Jain says, the company will outplace poor performers, provide them adequate time to find a role for themselves. “ He insists that the company will continue to be “ humane” in its staff reduction methods.
The Voluntary Retirement Scheme introduced by IPCL to cut down its staff could eat Rs. 120 cores off the company’s balance sheet. Sources told that the entire exercise of reducing the IPCL staff by offering them voluntary retirement scheme on medical ground has cost the company Rs. 120 crores. The company would not be able to capitalize the VRS spend as the new accounting norms specifies that the payout has to be booked in the year when the transaction takes place, they added. Thus, IPCL will have to account the Rs. 120-crore payout to the 1,550 of its employees opting for VRS, in its financial statement for the year 03-04. “This could mean that IPCL’s profit would take a hit during the current year,” sources added. Recently, IPCL had announced a VRS for its 13,150 staffers on medical grounds. With 1,550 opting for VRS, the total staff strength of IPCL would now be down 12% to 11,600. The company had announced a 60-day salary for each year completed by the employee as a part of its package.

IPCL, now Reliance groups company, had posted a net profit of Rs. 204 crores for the financial year ended March 31, 03, an increase of 90 against a net profit of Rs. 107 crores in the previous year. The net sales too rose 6.1% to Rs. 5,029 crores, compared to the previous year.
2.0.10. As part of its cost cutting exercise, Thermax has successfully completed its attack on the wage bill, which forms almost 14 percent of its operating costs. Accordingly, at least 250 middle level management employees have opted for voluntary retirement scheme (VRS). This has cost an aggregate Rs. 10 crore to the company. It has been making sustained efforts to slash material and manufacturing costs. As a result of the VRS, which ended in the fiscal year 2001, Thermax has brought down its staff strength to 1100 from 1350. It hopes to save over Rs. 3 crore annually following the reduction in staff strength.

2.0.11. Railways announced Voluntary Retirement Scheme in 1977.

2.0.12. Oil & Natural Gas Commission, one of the richest public sector undertakings of the Government of India, has more or less a permanent Voluntary Retirement Scheme which allows its employees to opt for voluntary Retirement Scheme.

2.0.13. Madras City Corporation too has a Voluntary Retirement Scheme also Bombay and Calcutta Port Trust.

2.0.14. Prime Minister Atal Behari Vajpayee, on 16th December 2000, while inaugurating the 73rd Annual Session of Federation of Commerce and Industries (FICCI) said many Public Sector Units (PSUs) have adopted attractive VR Scheme and a similar one is
needed for government employees as the government need to reduce jobs by 10% by 2004.

2.0.15. One of the major problems for sick PSUs and sick Private Sector companies is that they do not have the money to come forward with attractive VR Schemes. In the case of Nizam Sugar Limited, Hyderabad (a state government Undertaking) the departee employees were offered land as compensation against money.

2.0.16. Hindustan Steel Limited, and Air India Limited have come forward with schemes, which permit specified category of employees to be on leave without pay for specified time period, which would help them in searching jobs before departing from the company.

2.0.17. It is only a few years back that Government and PSU revised the retirement age from 58 to 60 years on the basis of the recommendations of the Pay Commission. There is need to review and reverse this decision as the country’s policy for employment of the youth in Government, PSUs and Private Sector rather than giving VRS compensation to employees who are above 58 years.

2.0.18. 1050 people took VRS form Maruti Udyog Limited two years back. Several of them kept their relation along with the company by starting Maruti Service Stations or taking up jobs at the Company’s dealerships.
2.0.19. The target fixed for VRS as per the Air India board memorandum in its 85th meeting held on January 11, 2003, was 1000 employees as on November 2003. 248 employees have been relieved under VRS. Civil Aviation Minister Rajiv Pratap said, the Scheme is also open to Pilots/Engineers. The total strength of Air India till October 2003 was 15,727.
2.1 **Voluntary Retirement Schemes in Maharashtra with special reference to Mumbai**

2.1.1 Maharashtra is witnessing a sharp decline in manufacturing, with factory activity shrinking by almost 10 percent annually, senior state government official has said. Due to global economic slump around 3,427 units had closed shop by June 2002.

2.1.2 Labor leaders, however, dispute the impression that the decline in the manufacturing sector is responsible for growing unemployment. "Manufacturing has not come to a complete halt as it is being projected. Take the case of Bombay Dyeing mill. Although the mill has closed down its towel unit, the product is available everywhere." Said Sachin Ahir, president of the Rashtriya Mill Mazdoor Sangh and a NCP MLA. According to him, jobs lost in one area have generated gainful employment for some in other part of the state.
2.1.3. A survey of closed industrial units in 32 districts across the state reveal a grim scenario in the Konkan region. Of the 8,425 units in Mumbai, Thane, Raigad, Ratnagiri and Sindhudurag districts, an alarming 1,482 closed down till 2002.

2.1.4. In Thane district, 1,193 units of 6,365 closed shops. Pune division ranked second in industrial sickness.

In order to overcome this situation most of the Indian and multinational companies started reducing manpower by introducing and implementing Liberal VRS.

2.1.5. E-MERCK India Ltd, all workmen employed at drug and chemical company Merk’s manufacturing facility in Taloja, Maharashtra have opted for a Voluntary Retirement Scheme (VRS). About 142 employees took VRS, which opened on January 20, 2003. The VRS was only for unionized employees at the plant.

The company still employs about 70 people in the management cadre at Taloja for whom a separate severance package has been announced, a senior company executive said. The total VRS outgo on both kinds of staff will be in the vicinity of Rs. 20 crore. Of this, the VRS package for unionized employees will
amount to about Rs. 13 crore. The company did not indicate its next step, if all 70 opt for the package offered to them. “We are working on alternatives,” said R.L. Shenoy, finance director, Merck. The unit makes leading Merck brands like Neurobin and polybion, which will now be outsourced. “This will help us to save cost.” Mr. Shenoy said. After the latest move, the percentage of Merck’s production being outsourced will rise from 45% to 60%. At its peak, the Taloja factory employed 600 people. Merck has pared staff at the plant in the last four years. This is the third VRS that is being offered at Taloja. The first was for employees of the chemical unit in 1999 after which Merck closed down the chemical-manufacturing unit.

2.1.6. CEAT, the country’s second-largest tyre maker, is shedding employees, retiring high-cost debt and hiking product prices in an attempt to stay competitive and increase its share in a volatile market. Mumbai-based Ceat, which is a part of the Rs. 6,700-crore RPG Group, has reduced its workforce by 225 employees and will pare its down further in the coming months, senior company officials said. “the total headcount was 5,100 employees till 2001, when I joined the company. This now
stands at 4,875 people as on April 1, 2003”, managing director Paras K Chowdhary said.

The company further cut this to 4,625 people by the end of the fiscal year 2003. The cost of bearing this rationalization exercise amounted to about 2 % of the revenue. “our VRS to the unionized category was about 6 crore while that to the management cadre amounted to a much less figure of about Rs. 50 lakh”. Mr. Chowdary added.

Company finance vice-president K.J. Rao said the restructuring was needed as the industry had just come out of a major slump and costs were rising. “We still have to factor in forthcoming increases in raw material costs”. He added variable cost in tyres are very high with raw materials, like natural rubber, fabric and carbon black, forming nearly 70 % of the cost. Ceat hiked prices in June and July 2003 by 1% the restructuring also includes retiring high-cost debt. “We have already started by reducing inventories and receivable by Rs.100 crore, thereby cutting interest costs.” managing director Mr. Chowdhary added. Ceat will make a Rs. 50-crore payment this year as part of its total
debt stand at Rs. 550 crore. The tyre scooters and motorcycle - when its joint venture unit with Goodyear was shut down. "Our share in this pie came down to 7%. We will, however, take it up to 15% by outsourcing from other facilities", Mr. Chowdhary said.

2.1.7. Mukand on cost-cutting spree. 205 line up for VRS'. Mukund chairman Rahul Bajaj is currently on a cost-cutting spree. Soon after the cut in production at its Kurla Unit, the company, which is in the second phase of a belt-tightening exercise, has been able to rope in 205 employees for a voluntary retirement scheme (VRS) at the Kalwa plant as on 31-03-2001. The scheme could result in an outgo of Rs. 5 crore approximately for the company. This would be excluding the other amounts due to the employees like provident fund, gratuity and the like. The total employee strength at Kalwe is 1,250.

2.1.8. I.T.C., Parel had implemented VRS successfully by offering to its 800 out of 840 employees in the year 1987-89.

2.1.9. Ciba Geigy plant at Mumbai, which employed about 900 workman, closed entire operation at their Bhandup plant in the
early 1993, through attractive VR scheme by offering in the form of pension and other benefits.

2.1.10. One of the unique features of the voluntary retirement schemes which have been adopted by the companies to attract the employees to retire under voluntary retirement scheme is introduction to 'an early bird' incentive provided by Rhone Poulenc (formally known as May&Baker) like medical benefits including hospitalization facilities to the employees retired under its VR scheme even after retirement up to the age of their normal retirement, introducing scholarship scheme to the employees until they graduate etc. The scheme also offered 100 grams of gold to those employees who had remaining service of 49 to 54 months.

2.1.11. Over 100 workers at Boehringer Mannheim’s Thane facility have opted for the voluntary Retirement Scheme offered by the new Ajay Piramal -led management as a part of ongoing restructuring exercise before its merger with the flagship, Nicholas Piramal. Some other companies also successfully implemented VRS such as Sandoz (India) Limited, Batliboi & Company Ltd., Godrej Soaps Limited, Boots Pharmaceutical.