Chapter Eight

Discussion and Conclusion

8.1 Location of the study

This study revolves around studying employment relations in the context of competitiveness using the framework of the new institutional economics. Taking cues from new institutional economics, transactions within work organisations forms a main point of analysis, most particularly in dealing with wages, labour transactions within organisations gains utmost importance. These labour transactions operating in a dynamic environment undergoes changes that in turn change the employment relations of the firms.

Various modalities of the internal labour market finds mention here with varying degrees of human asset specificity and non-separability. Although these different forms do not have a temporal element in them, they nevertheless represent different stages of growth. The deepening of the human asset specificity thus, representing a stage wherein the period of existence of the firm matters to a large extent. Also in the long run uncertainty as a factor becomes important. The liberalisation process of the 1990s as a trigger provides useful area of inquiry within this realm. Thus, this study began by making two assumptions- firstly, liberalisation as a process has brought about definitive changes in employment relations in firms and secondly, that there is an implicit link between employment relations and competitiveness of firms.

In the light of this, the study has attempted to use a triangulation approach to gather data in order to gain knowledge of the field being studied. The Indian steel industry has been at the centre of the analysis. The study utilises primary as well as secondary data to bring out the intricacies of arrangements that are being practiced within the firms.

8.2 Areas of inquiry

For the purpose of the study, and as mentioned above, the Indian steel industry is taken up for analysis. The choice of the industry is based on the fact that it is one of the high
growth industries of the country and the world. Growing infrastructural requirements in today’s world is acting as a catalyst spurring demand for iron and steel. The trend is poised to increase further. The Indian steel industry is also one of the first industries to be deregulated during the liberalisation period of the 1990s. This allowed the industry to expand with adequate backup provided through policy formulations. The National Steel Policy 2005 and 2012 are seen as steps towards this direction. This is especially framed keeping in mind the threat that India has from rapidly growing countries like China.

This study utilises the concept of the new institutional economics which tries to draw an understanding of institutions in order to explain the wage and employment relations in an organisation. These institutions are not necessarily only those that are embedded within the organisations per se but are also those which form part of the environment around. Therefore in the context of comprehending changes in remuneration of labour and employment relations (employment contract), it is necessary to amalgamate the study of labour markets in both macro and micro level. In a first step an assessment of labour markets is done for major economies of the world as categorised by the World Economic forum and the Global competiveness index. Secondly, the steel industry and its market position is analysed which also helps in expounding on the labour market characteristics and wage and other non-monetary benefits for the workers. The study presupposes a dynamic interlinkage between the market position of the industry with the labour marker characteristics of the industry. Finally within this industry, two steel firms have been taken up for the study. To account for having a more or less frozen institutional setup within these firms, firms having a long history were selected. Also to account for the variations in the size of the enterprise, the firms were selected as a large and a medium sized enterprise. They however belonged to the same geographical region which makes it easy for comparison.

The analysis of the firms took place within the context of the liberalisation process that came as an exogenous change. In this study, liberalisation is seen as a mere trigger that would account for changes in the institutional setup for firms. The direction in which the firms were to chart territory meant pulling up resources for a drastic turn from its earlier policies. The institutional environment that was framed over the years lay to be
challenged. It also had presented a slew of opportunities that remained to be leveraged based on deepening human asset specificity in terms of increased training and development of the work force. However, both these firms have responded differently.

8.3 Empirical findings

8.3.1 The Global

Country studies on competitiveness reflective of the labour market characteristics of the economy brings to the fore a crucial aspect of labour market flexibility in the debate. Labour market flexibility as comprehended is attuned to basic social infrastructural support systems of an economy which ultimately shapes the nature of the labour market in an economy. As a result different economies present a different picture of competitiveness. For the sake of comparison and examining the lacunae that exists in India an inter country analysis was done. The selection of the other countries i.e. China and the US were based on the definitions in the Global competitiveness index report as promulgated by the World Economic Forum. It divides the country into three basic divisions- factor driven, efficiency driven and innovation driven economies. In this stride, India as a factor driven economy is contrasted with efficiency driven China and the innovation driven United States. Comparisons are sought in terms of the labour market structure of these economies which aids towards enhancing the competitiveness of the economies. It is found that all the three economies have certain pros and cons. When India has the chance of reaping benefits out of its demographic dividend, China and the US are experiencing a waning population that shows a complex position for it in the future. The declining labour force participation rate of India is wary of the population which is opting to come out of the labour force which means that traditionally those who were actively seeking for work are no longer or are abstaining from seeking work. This also points directions to the differences between males and females of the population where the case of labour market imperfections in the form of discrimination is noted. A large number of female populace remains to be systematically outside the labour force of the country. It might take a spiraling scenario where a certain section of population and women in general tend to be steadily excluded from reaping the benefits of the growth story of the country. Not only this, but the results are problematic even for the vice versa
scenario where a low female participation in work amid a high youth population would affect the economic growth of the country. This setting is more or less seen to be absent in the US labour market or has been on the decline where little discrimination was witnessed. Even in terms of China, the situation of women seems to be much better than India. This labour market discrimination also seems to be reflective in the NEET rate of the country where significant differences between males and females were noted. Further, amid the working age population there seems to be a very thin crowd of those employed in the regular wage and salaried class. The segregation between formal and informal sector seems to be apparent. Aspects related to wages and social protection for the vast majority of workers employed in the informal sector then becomes a critical issue. Policy formulations in terms of bridging this gap also need to be pondered.

Further, a wide gap in the percentage contribution of manufacturing sector to the GDP between factor driven India and efficiency driven China is illustrated. Also, there seems to be a steady drop in the trade union density in the US. This is not an isolated incidence in the US alone and questions are raised regarding the effectiveness of unions globally. The waning condition of the unions around the world having different implications for different countries around the world has however brought home the point that the era of the trade unionism is on the verge of extinction. There are serious apprehensions about labour especially in the absence of a welfare state.

Amid this context in India, the solution should not be to focus on the short term gains which can be addressed through easing labour laws and vouching for more flexible labour markets but looking to end persistent lacunae in the economy by strengthening the inherent basic social infrastructure of the economy. This is especially important since the formal-informal dichotomy seems to be vanishing and more and more informal work is being carried out in formal work spaces which are supposed to be traditionally insulated from the vagaries of arbitrariness.

8.3.2 The Industry

Although the manufacturing sector in general has its lacunae, the iron and steel industry is one of the high growth industries of the country. The need for steel as an infrastructural
requirement precedes growth. However, not considering the cyclical fluctuations which the steel industry undergoes\textsuperscript{118}, the position of the industry is quite competitive. The industry was analysed with the help of different variables which presented it as a highly competitive and capital intensive industry. The import data of the industry also suggests that there is a tapering of imports as compared to the exports in the finished steel segment. Also, the total crude steel production in the country is on the increase. All in all, there seems to be a healthy situation of the industry. Usually the characteristics of the industry act as predictors of the position of the work force in the industry.

Secondary data sources from National Sample Survey and Annual Survey of Industries were utilised to capture data on wages of regular formal workers. It was observed that the wage share of labour has been on a decline and has not been in tandem with the value addition that is happening over the years. This showcases the fact that as value addition and hence profits increase of the industry, there seems to be a rise in the exploitation of labour. Further in trying to dish out what actually percolates down to the labour with respect to adjusting to inflation; it is observed that over the years a reduction at the level of (-)2 per cent was observed in the real wages of the steel industry workers. This trend seems to be ubiquitous and not only limited to the steel industry workers. Further wages were also seen to be affected by both industrial as well as personal characteristics of labour such as the state of existence, employment size of firms, type of payment, type of job contract, level of education of workers.

The state of Haryana showed a lowest weekly wage of ₹300 and Odisha showed a maximum weekly wage of ₹25,000. All the other states lay in between these values. The state of Tamil Nadu showed the highest median weekly wage of ₹3,785 for the entire country. In terms of the relation between the size of the enterprise and wages there seems to be better chances of working in a firm which has twenty or more workers. The quantum of wages received in these registered enterprises also seems to be complemented by greater social security provisions. Amid various modes of payment done in this industry, it seems natural that those workers who are getting regular monthly salary are in a better position than those who are paid in terms of weekly or daily payments. Also the

\textsuperscript{118} See Rohini (2004).
terms of contract having greater number of years showcase better chances of a higher pay than those with lesser duration of contracts. Those workers who have no written contract or are dependent on verbal contracts of the employers get wages but they lack in the continuity of the job which makes them vulnerable to being unemployed. The number of workers having no written contract also seems to be quite high at approximately close to four lakh workers. The level of education of the workers also seems to have an impact on the pay, where the higher the level of education the higher the median weekly wages of workers. The highest paid workers in this industry are those who have a post graduate degree. However, their population seems to be the lowest among all.

Other social security provisions relating to provident and other funds, workman and staff welfare expenses and bonus were also seen. The contribution made towards provident and other funds varies according to the type of organisation. It was observed that public corporations and government departmental enterprise made the largest contributions as compared to others. It was followed by other trusts and wakf boards. Public limited company also to some extent provided with decent contributions towards the scheme, followed by joint family and private limited company. The lowest contribution was recorded from enterprises having individuals as their proprietors. There also seemed a correlation between the enterprises investments in plant and machinery with the bonus that the workers get. The enterprises having invested more than ten crores in plant and machinery gave more a more generous bonus for its employees. Also those enterprises having an ISO certification tended to pay better than those who did not have. However, in totality looking at the social security provisions for the workers of the steel industry showed that more than half of the workers did not have any kind of backup and were not eligible to avail any kind of social security provisions. In a nutshell, it seems that the growth of the Indian steel industry seems to be incongruous with the benefits percolating down to the workers.

8.3.3 The firm

The two firms in the midst of an institutional change following liberalisation process presents a suitable case for analysis. With the wave of liberalisation, however, few changes have been noticed that has direct implications for wages and hence the
employment relations for the firms. Firm A followed a tripartite centralised bargaining prior to liberalisation, however changes in this structure took place around the year 2003 when the firm opted out of the tripartite structure. The new equation post liberalisation has necessitated two important changes in the employee contract. One was the introduction of a new KJ grade and the other was the decision to come out of the national level wage bargaining. These decisions are seen as the response by the firm to liberalisation. Both these decisions have been taken up the management without much resistance from the trade union or the workers.

The introduction of the KJ grade has been taken on the lines of cost cutting strategy of the firm where the management categorically mentions that although the decision is economic, nevertheless workers do not stand to loose out on the deal as they are still getting higher wages as compared to the market median. Also, it provides for a longer tenure but the rate of increase would be less as compared to other conventional grades in the firm. Although currently the number of workers belonging to this grade is lower in number, all the future recruitments would be made in this grade making the earlier existent grade redundant. This particular step is crucial in the sense that it stands in direct confrontation with the institutional environment of the firm that has played a paternal role with its workers right from the start. The way in which human asset specificity is being maintained in the firm through the role of nurturer lies challenged. This kind of segregation among the workers of the firm into different grades would present a challenge for the trade union as well. However, it is seen that the trade union is more interested in maintaining the wellbeing of the old conventional grades only. Representation of the workers from KJ grade in the union is also very rare. Further the global trend of individualisation of industrial relations presents a case of disenchantment of the workers towards the union. In another dimension, the segregation of workers doing same kind of jobs into different grades and pay structures present a kind of discrimination that aids in breaking the unity of the working class.

The second decision to come out of the national level wage bargaining was also taken at the behest of business requirement. The reason given for such a change was that it would be difficult for the firm to continue on the lines of a national level wage since the seventh
pay commission which is due would make it difficult for the firm since it would increase the labour costs of the firm. Such decisions although taken on the line of business requirement, would nevertheless stand to hamper the long standing institutional culture of the firm.

These decisions stand at loggerheads with the institutional culture that has been maintained for so long in the firm. In terms of the response that it has generated from the trade unions and workers are quite different. The trade unions mostly stand to support the management in its decisions. The workers themselves are divided in terms of the perceptions that they have on the management decisions. It overall seems to be the case that the workers stand to be divided in terms of the segregation in the employment contract. The workers who come under the conventional old grade structures talk favourably of the management, while the new age workers from the new grade structure have less affiliation with the firm. The unity of the workers seems to get compromised. Further, in the absence of any credibility of the workers’ collective, the management would seem to gain and that is one the reasons why the management has been able to implement the decision in a smooth and peaceful fashion.

In the case of firm B, the institutional environment has not changed and the firm continues to leverage on the competitiveness that the industry provides. The employment relations in the firm has not seen consolidation and no changes in employee contracts have been done since liberalisation period, unlike firm A. The grades have more or less remained stagnant over a period of time. One might consider this situation to be healthy industrial relations situation however there seems to be no connection between the union leadership and rank and file workers of the firm. Although there are three unions present in the firm, there is a single recognised trade union in the firm in which is presided by the sitting MP of the constituency. Quite likely, this equation seems to change with the coming of elections after every five years. The affiliation of the union also changes with the change of the president. The workers at the shop floor have little say in the running of the affairs of the firm. The management in the firm comprises of a few HR managers who maintain cordial relations with the employees. The management also boasts of having
healthy practices in the firm and having a high impetus given to technology and training for its employees.

Collective bargaining in firm B takes place at a decentralised level of the enterprise. Due to the nature of the trade union in the firm, frequent delays occur in bargaining. Collective bargaining as an institution is underdeveloped and not much impetus is put in this direction. There is not much influence of the union in the firm and it sways in the direction of the management. The firm faces problems in terms of expansion plans where they would have to statutorily provide jobs to the land losers. This is regarded by the management as the biggest problem that the firm needs to address. Also, over few years, the recruitment of the workers have been freezeed. There is also an increasing tendency towards hiring contract workers even for some crucial positions in the organisation. The management partakes in such decisions unilaterally and the union adheres to it.

Safety at workplace as an issue has been plaguing the firm for quite a long time. There have been frequent lapses in safety which results in injury or death of the workers. Causes for such lackadaisical approach towards safety are because the management blames it on the workers and the union is silent about it. No major corrective measures have been put in this direction. Although trainings are provided to the workers in the shop floor, it is more attuned more to gaining efficiency while performing the jobs and less on the safety aspects of it.

From a different standpoint, while firm B having all the deficiencies in its employment relations it remains a leader in its segment which clearly shows disconnect between employment relations and competitiveness for the firm. Competitiveness for firm B are matters that concerns more about the external environment i.e. in the form of infrastructural requirements, favourable government policies, progress in health and education of the work force. One might consider firm B to be riding on the wave of progress in basic requirements and facilities. In another instance, firm B also posits itself in the foreign market due to its increased diversified products. More than half of the products of firm B are exported. While firm A produces finished products for domestic market consumption or act as raw materials for another industry, firm B manufactures products that are intermediaries for the same industry but which largely ends up in the
export market. What comes out is that liberalisation as a trigger that altered the institutional arrangements for firm A has not made any significant impact in firm B.

8.4 Conclusion

This study has used the framework of the new institutional economics to gauge on the employment relations and firm competitiveness scenario in the Indian steel industry. The Coasian framework of looking at transaction costs associated with running a business has been utilised with respect to specifically focusing on labour transactions that take place within firms. These transactions take place in a cost economising manner with regard to the competitive forces of the market. Such a line of analysis is different from the traditional understanding of the boundaries of the firm, with its focus more on the labour employed in the firm. Looking at labour from this perspective also makes a detour from understanding labour from a neoclassical framework. This analysis does not look at labour as a mere factor input in the production process but as individuals who act in rational terms.\footnote{See Kaufman (2010).}

The employment relations of the firms has been analysed using the outline provided by Williamson (2000) which looks at institutional environment and governance structure of the firms. Institutional environment which has been developed and solidified over a period of time has been assessed using the history of the firm throughout its existence. The governance structures have been assessed taking into consideration the employment contracts of the workers of the firm. This method has provided useful cues into determining the employment relations of the firm using the approach of studying institutions.

Firm competitiveness has further been analysed borrowing from the global competitiveness index. Firms have been segregated into three broad categories of factor-driven, efficiency-driven and innovation-driven. All firms based on the institutions both internal and external to the firm and core competencies can be measured in these lines. Factor-driven firms utilise on the already existing capabilities of the economy. Little effort is being put into enhancement of the capabilities of the firm. Efficiency-driven
firms capitalise on the existing capabilities and build further on them through enhancements in the skill and productivity of the workers. This is also reflected in the continuous growth over the years in terms of the increases in market share of the firm in the industry. The innovation-driven firm is largely based on progress in technological sophistication and investments made in developing R&D further.

This study has thrown light on the aspects concerning employment and competitiveness in the Indian steel industry. Although the study defined competiveness and employment relations as distinct phenomenon, there are obvious intersections of the two. In order for businesses to thrive crucial support from having healthy employment relations is deemed necessary. It is a matter of time that employment relations gets attuned to the business and the market outside and likewise businesses also get boost from the employment relations scenario prevalent. A relation of complementarity that could coexist emerges. This relation is close to what Douglass North (2005) claims to be the ‘adaptive efficiency’. This ‘adaptive efficiency’ in many ways is far more liable and receptive to changes in the institutional matrix as compared to allocative efficiency of traditional economics. Thus, the study began by making two assumptions, firstly, in a dynamic environment liberalisation as a process has brought about changes in the employment relations of firms and secondly, employment relations and firm competitiveness are interlinked. Both these assumptions have been tested in the study.

In this study, the two firms that have been selected present varying experiences. In the context of liberalisation, the large sized firm A underwent changes in its employment relations which are contrary to its established position. The rationale given for this is to maintain competitiveness of the firm. The medium sized firm B, however, presents a scenario which has hardly changed. It would seem that firm B has remain untouched by the wave of liberalisation. An analysis of the product market opens new avenues towards understanding the phenomenon. In this regard, the explanation lies with the nature of product and the value chain of the product manufactured. The produce of firm B is mostly linked towards foreign exports which forms a crucial ingredient towards having no change in the institutional matrix. In other words, firm B thrives on it being placed in the factor driven category of firm competitiveness since it has no incentive to move
beyond than merely enhancing basic indicators. In many cases, enhancement of basic indicators would not be necessary. On the other hand, firm A which is placed in the efficiency driven bracket of firm competitiveness has definite incentives towards moving in the innovation driven bracket. The trade unions of both the firms have been submissive in their stand and have hardly been accountable as a decisive stakeholder in the process. Workers on the other hand have voiced their opposition to the stand of the union in firm A whereas in firm B the workers have largely been indifferent towards the union.

An important implication of this finding is that firms which are seen as homogenous entities are not always so. In traditional neoclassical economics where markets and firms are seen as more or less same entities, institutional economics might also err in viewing firms as a homogenous group. Variables related to the size of the firm, institutions prevalent, nature of product manufactured, value chain of the product manufactured also plays an important role. A holistic analysis of the firm on these accounts can enhance our understanding of the firm.

The study finally looks at the link between employment relations and firm competitiveness. Firm A provides a dynamic complementary link between the two where enhancements in employment relations can facilitate the development in firm competitiveness and developments in firm competitiveness can alter the employment relations. Firm A presents a case where there is a waning employment relations scenario congruous to the threat to the institutional environment developed over time. Enhancements in firm competitiveness dictate a push towards decay in the employment relations for the firm. However, at this point in time there is definitely an intersection between the two. The future might, however, present a different picture altogether. Firm B presents a case where there is no relation between competiveness and employment relations. The competitive position of the firm is not reflected by the employment relations scenario of the firm. This presents a curious case wherein developments in the competitiveness of the firm rely more on external factors and product market structure than on internal dynamics within the firm.
8.5 Further scope of the study

The present study has showcased an alternate path of assessing employment relations and competitiveness of the firm by particularly focusing on various institutions that govern them. Although it has weaved employment relations and competitiveness in one fold to make assessments for the study, it can also involve other factors into the picture. These factors are largely dependent on the type of industry that is chosen for the analysis and based on the industry chosen the variables can be increased from more than two. Further, some definite avenues for future research can be seen with specific focus on the size of the firm and the value chain aspects of the firm. These are thought to provide light on our existing understanding of the firm and thereby beckon attention.