2. Significance and Importance of the Study

2.1 Significance of the Study

2.1.1 The need for in depth studies on the voluntary retirement schemes has been stressed while concluding the first chapter. VRS constitutes an element of the economic reforms and the new industrial policy. There is no need to go into the voluntary retirement by employees solely on their initiatives under the normal statutory provisions for such retirement, which has been there since long in the rules of state and central Governments and some private organizations.

2.1.2 The significance of the VRS under study arises from the fact that it is the employer who offers the VR Scheme to the employees and provides a special package to those employees who opt for retirement. The initiative is from the employer who is obviously interested in downsizing the manpower in his organization. Secondly, when some units in an industry resort to VRS and implement it, it puts pressure on other units in the industry. Competition, technological upgradation and cutting losses or enhancing profits, maintaining or augmenting the market share are the major considerations which induce other units to follow suit. Thirdly, it is only those units, which are financially strong enough to pay the compensation package to the optees of VRS, who can consider introduction of the VR Scheme. Obviously loss making, sick or otherwise non-competitive industrial or service units cannot think of such a measure.¹

Fourthly, the VR Scheme has to be approved by the Chief Commissioner of Income Tax under Section 10 (10c) of the Income Tax Act to enable the retiring employees get tax benefits which is a major attraction for the employees in accepting the scheme. Fifthly,

¹ The National Renewal Grant Fund, a component of National Renewal Fund, makes payments only to public sector industrial units facing sickness; to financing VRS.
although the purpose behind offering VRS is to reduce the strength of employees, its nature is different from retrenchment. In retrenchment, it is the employer who decides as to who should go. It gives him the freedom to retain quality manpower. The VRS has to be offered across the board. Refusal of permission for voluntary retirement is quite arbitrary and without the authority of law. Retrenchment is a provision under the Labour laws while VRS is permissible under Income Tax Act. Sixthly, though termed ‘voluntary’, it may be that more often than not there is an element of coercion and fear of future loss behind acceptance of VRS by the employees. Finally, the process of globalisation, relatively cheaper imports and dismantling of industrial licensing to a great extent have forced the domestic industry to increase its competitiveness, productivity, efficiency, technological capability and profitability. Downsizing which is considered necessary to achieve these objectives has also been permitted by the Government through the VRS route. This is bound to have significant impact on organized sector employment. Whether the surplus employees get absorbed in the small scale sector, self-employment or join the ranks of the vast army of the unemployed depends on the growth of economy, reduction of inequalities and effective policy measures by the Government. Will this process create new jobs in the organized sector? Will it increase exports or will the domestic market get flooded by cheaper imports? These issues assume significance because of their likely impact not only on the economy but also on the societal structure, regional imbalance and the rural urban divide. The studies on VRS from various angles therefore assume greater significance in the present context. They will provide the necessary feedback to the government, the employers, the economists and the social scientists and provide vital inputs for corrective measures.

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2.2. Importance of the Study

2.2.1 Voluntary Retirement Schemes constitute a part of the economic reform process that have been generally welcomed by the policy makers, industry and the economists. One wonders whether this is a result of the myopic view or the lofty vision provided by the statesmen, economists and social scientists at the dawn of Independence. The country opted for democracy and socialism in framing its Constitution. The goal was to establish a socialistic pattern of society and a welfare state. The Directive Principles of the Constitution clearly lay down that the State shall, in particular, direct its policy towards securing

a. that the citizens, men and women equally, have the right to an adequate means of livelihood;

b. that the ownership and control of the resources of the community are so distributed as best to subserve the common good;

c. that the operation of the economic system does not result in concentration of wealth and means of production to the common detriment.

The long term objectives setup by the Planning Commission, established soon after the Constitution was adopted, are to increase production to the maximum possible extent so as to achieve higher level of national and per capita income, to achieve full employment; to reduce inequalities of income and wealth; and to setup a socialist society based on equality and justice and absence of exploitation. Successive plans adhered to these objectives and the Govt. policies remained consistent with these objectives. Prof. B.S. Minhas, a former member of the Planning Commission, acknowledges this fact in his book Planning and the Poor in the following words, “Securing rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the values and attitudes of a free and equal society have been among the objectives of all our plans.”
As a consequence, the public sector was designed to attain commanding heights in the economy; labour laws were made primarily to offer adequate security and justice to the workers and the private sector was regulated through industrial licensing policy and important legislation such as M.R.T.P., FERA, Industrial Disputes Act etc. to subserve those objectives.

2.2.2. There was a dramatic shift in the policies pursued by the Government after almost four decades. Economic reforms, second generation economic reforms, new Industrial Policy, VRS, technological upgradation have become the watchwords since then. It is more than a decade now since these reforms were introduced. Have they contributed to increased employment, reduction of disparities in income and wealth and enhanced social security measures? Are they contributing to social justice? These questions assume importance and need in-depth studies. Are we treating ‘technology’ simply as given without due consideration towards the teeming unemployed millions of human beings in the country? Are economic growth and profit maximization our sole concern to the exclusion of providing greater employment opportunities, reducing poverty and administering social and economic justice?

The Voluntary Retirements Schemes are directly connected with the reduction in employment and upgradation of technology. They are primarily aimed at industrial restructuring. But this industrial restructuring must be consistent with the social responsibility of business. According to H.R. Brown social responsibility is defined as, “Obligation of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of a society.” Business entity is expected to undertake those activities, which are essential for the betterment of society.3

2.2.3 It is, however very well to lecture businessmen about their social responsibility but be myopic to ignore the overall context and the

problems faced by businessmen. No businessman will remain in business if it does not fetch him adequate returns. The process of globalisation, substantial reduction in import duties and international competition directly affect his business and profitability. Goods are being manufactured at significantly cheaper rates by using advanced technology by the developed countries and these goods are flooding Indian markets.

Indian businessman is using relatively obsolete technology. Labour productivity is also low in his view. Consequently he faces unequal competition. It is necessary for him to reduce costs, upgrade technology, increase productivity and maintain profitability to face increasing competition. He therefore finds VRS as one of the ways to achieve his objectives. It is, therefore, important to know the various reasons, their generality or specificity, the correctness of perception and the net effect on the business entity of the implementation of VRS.

2.2.4 VRS provides greater incentives and benefits to employees to induce them to accept the VRS. On account of differences in size, technology, market, profitability etc., the VR Schemes cannot be identical and are bound to reflect varieties in the inducements offered. The same organization is seen to offer progressively liberal or restrictive VRS over a period of time in the light of experience. It is important to identify common factors behind various VRS and to analyze the specificities to find their roots, which may be industry specific, technology specific, size specific or management specific. Such a study will provide important clues not only to the businessman, but also the industry and the government.

2.2.5 In the context of social responsibility it is important to know the extent to which the employer has made the separation of employee less painful. What is the nature of help provided by the employer to the employee to obtain either alternative employment or become self-employed? Is the help offered adequate? Is there nothing offered beyond compensation?
Has the employer summoned experts for adequate counselling of the employees in respect of alternative job, self-employment, investment of bulk of funds received on retirement and the creative and optimum utilisation of time by the retirees? These are important factors economically, financially as well as socially.

2.2.6 The implementation of VRS in an organization impacts not only those who accept retirement but also those who continue to work. It affects the size, operations and the work culture of the organization as well. The employer needs to take adequate steps to ensure that this impact is minimized not only in the interest of existing employees but also in the interest of his business. It is important to carry out detailed studies to examine these aspects as well.

2.2.7 There are behavioural, familial, societal and moral consequences also of VR Schemes particularly when their numbers start multiplying. The untimely retirement may have traumatic effect or beneficial impact on employees. It may improve or worsen their financial status. It may induce them to go in for further training to increase their employability or to start new business. It may result in depression, lack of respect in family and society and unproductive utilisation of time. The retiring manpower is often qualified, skilled and experienced. It is the duty of the society and the State to provide them gainful employments or self-employment. Banks, financial institutions and consultancies, investment agencies have to be more pro-active and helpful in respect of employment, self employment and investments of the retirees. At industry-level also efforts can be made to train these retirees and absorb them in future vacancies. The industry, Industries Associations, Chambers of Commerce, the government, and the employees and their unions can examine the legal and procedural framework of the VRS to make them less cumbersome. It is important to study these aspects.

2.2.8 The effect of a series of VRS in different locations may tend to affect the regional balance. The impact of VRS will differ in metros, mofussil
areas etc. The regional aspect of the impact of VRS therefore needs to be carefully studied in the context of development and regional balance as well.

The age, gender and educational distribution of the retirees needs also to be studied to know whether those retiring are mostly those nearing superannuation, young, educated, skilled and normally healthy. It has important familial, societal and economic consequences.

2.2.9 ‘It is also important to study the impact of VR Schemes on organized trade union actively and industrial relations.’ It appears that in the wake of economic reforms and VRS, the militancy of the trade unions has declined significantly. Although it is argued sometimes that the VRS cannot be successfully implemented without open or tacit approval of the trade unions, the facts show that the employees do not subscribe to the view of trade unions in the matter of VRS and take their decisions in spite of opposition to VRS by the trade unions. It is reported that the entire workforce of Sri Ram Mills accepted the VRS, although their major union opposed the scheme tooth and nail. More recently i.e. in the year 2000 the massive response of employees in the public sector banks to the VRS in spite of the opposition from the trade unions, has forced the latter to review their opposition to VRS. The data on man-days lost due to strikes and lockouts also shows a declining trend in the man-days lost during the last decade.

2.2.10 There appears to be some merit in the contention of the trade unions that the income tax authorities tend to clear the VR Schemes of employers under Section 10 (10c) of Income Tax Act almost automatically. They ought to go deeper into the VRS proposal on a case-by-case basis. The exemptions of the tax to employees retiring in response to VRS, amount to a loss of revenue to the State. If the VRS are cleared without due consideration to the aspects of employment, social security and the overt and covert motives of the employers, it will
only mean that the State is not only encouraging but also subsidizing closures and losses of jobs.

2.2.11 In brief, the significance and importance of the VR Schemes and the rise in their numbers in recent years need to be studied from various angles. The various aspects discussed above affect not only the industry but also the overall employment situation, industrial relations, employees, trade unions, the society and the economy. Such studies should not only be encouraged but also sponsored by the State, the industry, and the social and academic institutions at large.

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