4. Theoretical Background and Review of Literature

4.1 Theory and Practice

4.1.1 Economics, unlike most of the western philosophy, cannot afford to remain purely speculative though logically consistent. The classical economist’s faith in the invisible hand did not help the ‘Great Depression’ in the thirties of the last century and State intervention is now universally accepted in economic matters. Technological progress has long rejected the Malthusian convictions and consequent forebodings. The modern predilection for positive economics and liberal use of mathematical and statistical tools is yet far from achieving predictive efficiency in economic and financial matters. Human prejudice and the so called enlightened self interest of individuals and nations continue to rule economic activities implicitly and explicitly.

The concept of human welfare has nevertheless come to the fore in the last century in particular giving rise to welfare economics and the notion of welfare state. Keynes has given legitimacy and respectability to the State, and modern democracy treats the Keynesian prescription of State intervention as *Vox populi Vox Dei*. In modern times economic theory has cosmetic value only for the State. Its god is political expediency.

But for the economic crisis in eighties, it is a moot point whether there would have been the present economic reforms in India. The Industries Development and Regulation Act, 1951 and the Industrial Disputes Act, 1947 remain on the Statute Book. The Industrial Policy Statements 1980 continues to endorse the Industrial Policy, 1956. It only intends to follow a ‘pragmatic approach’ which is in line with the World Bank prescriptions, globalization and privatization. The World Bank wants the State intervention to be market friendly. Regarding the market friendly approach Paul Streeten observes, “...But free markets are
neutral institutions, which can work for good or ill. Whatever may be said for their efficiency, they are not tender hearted towards their victims.”

The theory and ideology have today a decorative value and remain on paper in all countries whether capitalist, socialist or communist.

4.1.2 The problem is rooted in economic theory itself. Unlike physical sciences dealing with inert matter, economics claims to study human behaviour. Naturally, assumptions and *ceteris peribus* become central to economic doctrines and models. Their applicability in practice where these assumptions do not hold is strictly limited. It is only the analytical insights provided by the theory, which help the policy makers and the economists in formulating plans and policies, and developing workable models where statisticians and accountants have a major say.

Even so some basic conclusions provided by the theory are undeniable in practice. The consumer, whatever his actual calculus, maximizes utility; the producer minimizes costs and maximizes profits etc. But in the market there is no perfect competition, though there is some element of competition. For the firm, competition is the enemy, technology the savior and labour, a disposable commodity. Yet the behaviour is assumed to be rational because there is globalization and competition. Technology has to be upgraded because of competition. Labour has to be surplus and redundant because of technological upgradation. The reasoning is unexceptionable. Theory supports it, policy requires it. Therefore surplus, redundant labour has to go.

But it is man who is central to everything. He is the measure of everything. All theory, all policy, all practices must subserve the object of human welfare and not just growth without equity. The person displaced through VRS is a human being, has dependent members in the family. There is no social security network in India as is obtaining in the

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1 Paul Streeter, Markets, and States Against ‘Mimmatism and Dichotomy’ Political Economy Journal of India, Jan-July 1994
developed countries. If there is a net reduction in employment, in a country plagued by huge unemployment as we have already noticed in the earlier chapter, does it lead to the goal of equity and welfare? Here the following famous words of Mahatma Gandhi have lost their relevance to India, “Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest, and the weakest man whom you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him. Will he gain anything by it? Will it restore him to a control over his life and destiny? In other words, will it lead to Swaraj for the hungry and spiritually starving millions?”

4.2  The Firm

4.2.1  The theory of the firm tells us of the factors of production namely land, labour, capital and entrepreneurship. These have to be harmoniously combined so that they operate in unison to maximize output and profit. Any one of these factors tending to zero marginal productively must be dispensed with. The firm has to maintain its cost-effectiveness. In the present times, technological modernization is the considered solution for maintaining and enhancing cost effectiveness and successfully facing the competition. Reduction of labour force is therefore inevitable. The upgraded technology improves the productivity of existing workforce also and makes quite a few of them even redundant. Therefore theoretically there can be no restriction on the employer's right to downsize employment of labour.

4.2.2  An entrepreneur is in production and market, primarily in his interest. The financial interest, the profit motive is supreme. He is not in a charitable or altruistic activity. His view and vision is bound to be mostly personal and hence myopic. If there are in his view, unreasonable restrictions on the retrenchment of labour, he is bound to find ways and means to get over them. Thus we find that, even with very restrictive labour legislation in
our country, lock-outs are common and industrial sickness is assuming alarming proportions as we have seen in the earlier chapter. Therefore theory, reason as well as practice require freedom to the employer to make a judicious combination of the factors of production, which includes freedom to downsize labour. VRS is a half way house. Even then it should be welcome.

4.3 Labour

4.3.1 As already stated, there is universal agreement that human labour is a fundamental source of wealth. It is one of the two living factors of production besides the entrepreneur. By and large however labour is in the weakest bargaining position. For an employer it is an item of cost to be reduced to a minimum, if it cannot be eliminated altogether, say, by automation. The tensions and problems whether in a production unit or in economic system arise from these divergent interests. In modern times labour tends to be militant through organized trade union activity and some check is exercised thereby on the unbridled actions of the employer. Even so in the face of competition, sickness or closure of the unit, the bargaining power of the labour is reduced almost to zero. This is what we witness in the VRS regime.

Another undesirable element amongst the labour is disregard towards efficiency. It is said that if the employer would ideally want output without employees, the employee would also ideally want income without or with minimum work. Consequently, adequate attention is not paid towards labour productivity. The overstaffing or the flab witnessed in recent years in public sector undertakings, banks and even private sector undertakings shows the extent to which we have ignored staff planning and work-study methods. But for the compulsion of economic reforms and VRS these matters would not have even been noticed. A vibrant welfare economic system requires not only full employment but also full productivity.
4.3.2 The emphasis of an entrepreneur or the economist is on growth and productivity, and not on employment. The ease with which the Government, the public sector and private sector units have been able to implement VRS at various levels shows how lukewarm is our regard for the human element involved. Labour indeed is only an item of cost. Even Prof. Galbraith in his famous book *Affluent Society* says “If the marginal urgency of goods is low, then so is the urgency of employing the last man or the last million men in labour force.”

Because of poverty and low level of literacy, a substantial section of India's labour force is illiterate and unskilled. That is why, the Father of the Nation emphasized that the poor of the world cannot be helped by mass production, but only by production by masses. ‘We do talk of economic reforms with a human face’ but the words are hollow since the facts are otherwise, as we have seen in the earlier chapter in respect of growth of employment and unemployment. That is why India ranks 127th among 177 countries, even today, in respect of Human Development Index (HDI).

4.3.3 It is often said that the major cause of unemployment in developing countries such as India is the deficiency of the stock of capital in relation to the needs of growing labour force. But it is also argued with equal force that lack of capital can explain a low level of productivity, but it cannot explain a lack of work opportunities.

4.3.4 A major cause behind redundancy of the existing labour is attributed to the upgradation of technology. It is the substitution between capital and labour, mostly in favour of capital, which makes the otherwise adequate labour, surplus or redundant. This situation can be avoided to a greater extent by the choice of technology which is labour intensive. Unfortunately however, labour intensive techniques do not necessarily maximize output. Further at the firm level, an entrepreneur would rather prefer capital to labour since dealing with the latter is much more complex.
Therefore issues of employment and technology have to be regulated only by the Welfare State. But the pace of technological progress and the recent information technology revolution often overtake the State and the policy makers. The policy makers habitually opt for the soft side of the equation, and the problem of employment does not receive the priority it deserves.

4.4. Technology

4.4.1 The breath-taking progress of technology in general and information technology in particular has made all of us and the policy makers oblivious to the issues of abundant labour force and choice of technology. Whether it is economic reforms or economic development, we tend to take technology as simply given. Mahatma Gandhi’s quotation at the beginning of the first chapter deserves repetition here. “Every machine that helps every individual has a place but there should be no place for machines that concentrate power in few hands and turn the masses into mere machine-minders, if indeed they do not make them unemployed.” We have also referred to another quotation above in the section on labour, namely, “The poor of the world cannot be helped by mass production, but only by production by masses.” This unmistakably points to the choice of technology beneficial to India.

4.4.2 Yet upgradation of technology is considered something holy and sacred, not to be questioned and at whose altar labour must be sacrificed. There are ready justifications of globalization, liberal imports, WTO regime, cost overruns due to out-dated technology etc. The entrepreneur is a minimiser of cost and maximiser of profit. Social responsibility of business is just a platitude for him. Anything that erodes profits has to be discarded and anything that enhances profits must be adopted. Maximizing output per labour is the goal. How can he be persuaded to use labour intensive techniques? In the face of these realities, the task force constituted by the Planning Commission under the Chairmanship
of Dr. Montek Singh Ahluwalia on Employment Opportunities, dwelt on the enlargement of the organized sector employment as the main vehicle of employment generation for the coming twelve years. It is this sector where VRS is operative, and where there has been maximum reduction in employment. This sector is bound to use modern technology as it is its wont.

Interestingly enough, the subsequent Special Group on Targeting, ten million employment opportunities per year appointed by the Planning Commission and headed by Dr. S.P. Gupta has the following recommendation in its Report in 2002, “To sum up the employment strategy for the future, to meet the Plans’ employment goals has to encourage the use of labour intensive and capital saving technology in general, and to rejuvenate the growth of unorganized sector in particular, which at present accounts for 92 per cent of the country's employment, and enjoys more than seven times labour intensity per unit of production as compared to the organized sector.”

Even so, the same report observes further, “However the unorganized sector needs to be made more productive in order to sustain itself against domestic and international competition by proper choice of programmes and policies compatible with India's economic reforms and the WTO Rules.” This is an indirect hint of the technological upgradation even in the unorganized sector. As regards the organized sector, the report observes, “The case for encouraging the growth of the organized sector is certainly supported by its capacity to invest in major infrastructure (in most cases they are capital intensive) to give support systems to the rest of the economy, but for the generation of employment, their growth cannot be regarded as the answer.” Thus while there is some broad thinking on the use of capital intensive technology, there is yet no clear thinking on the choice of technology.

It is found that even in the areas which should be left to labour intensive technique and to small entrepreneurs, the multinationals which prefer
low technology, quick profit, large volume of products and regular demand throughout the year are entering in a big way. Their entry in ordinary consumer goods such as ice cream, agarbatti, food processing, mineral water, soft drinks in recent years makes this point clear. The policy of de-reservation also contributes to this phenomenon. Although it is known that the growth of small scale industries using relatively labour intensive technology is comparatively much higher in reserved items than in unreserved items, the Government has in recent years dereserved items such as ice-cream, biscuits, synthetic syrups, a number of automobile parts, corrugated papers and boards, vinegar, poultry feed, rice milling, dal milling, agricultural implements ready-made garments etc. Technological modernization in these areas is bound to result in the redundancy of labour.

4.4.4 The question of the choice of technology and the use of policy and regulative measures is indeed complex. Yet to provide jobs to crores of unemployed youth in the country and to feed the burgeoning crores of people below the poverty line, in depth thinking and quick measures on this issue brook no delay. There is merit in the view that, if techniques with greater employment content are preferred, it will raise the level of consumption. This will stimulate further investment and accelerate economic growth as well. Even so, it must be obvious that labour intensive techniques do not ensure maximization of output. The other alternative is the blind adoption of modern technology disregarding the critical issue of unemployment and poverty. E.F. Schumacher observes in this respect as follows, “... the poverty of the poor makes it in any case impossible for them successfully to adopt our technology. Of course, they often try to do so and then have to bear the more dire consequences in terms of mass unemployment, mass migration into cities, rural decay and intolerable social tension. They need a different kind of technology, a technology with a human face, which instead of making human hands and brains redundant, helps them
become more productive than they have ever been before. Schumacher therefore recommends intermediate technology, and says, “The technology of production by masses making use of the best of modern knowledge and experience, is conducive to decentralization, compatible with the laws of ecology, gentle in its use of scarce resources and designed to serve the human person instead of making him the servant of machines. I have named it intermediate technology to signify that it is vastly superior to the primitive technology of bygone ages, but at the same time much simpler, cheaper and freer than the super technology of the rich.”

This is a challenge for the inventors, engineers, entrepreneurs etc. As Schumacher rightly observes, “Any third rate engineer or researcher can increase complexity; but it takes a certain flaw of real insight to make things simple again.” The implication of the use of such a technology (whether you term it as intermediate or appropriate) goes beyond the sphere of production. One cannot but repeat the words of Aldous Huxley in this respect, quoted in Small is Beautiful by Schumacher, “Suppose, it becomes the acknowledged purpose of investors and engineers, to provide ordinary people with the means of, ‘doing profitable’ and intrinsically significant work, of helping men and women to achieve independence from bosses, so that they become their own employers or members of self governing co-operative group working for subsistence and a local market ... This differently oriented technological progress (would result in) a progressive decentralization of population of political and economic power. Other advantages (would be) a more humanly satisfying life for more people, a greater measure of genuine self governing democracy and a blessed freedom from the silly and pernicious adult

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3 ibid. (p.127)
4 ibid. (p.127)
education provided by the mass producers of consumer goods through the medium of advertisement.

4.5 The State

4.5.1 In almost six decades after Independence, there is an increasing tendency to look askance to the State and the Government for the redressal of every grievance - social, economic or political. In its freedom fresh exuberance, the Government leadership also developed megalomania and nurtured the popular tendency through a maze of legal and regulatory framework and entering activities for which it was not well equipped. The objective of accelerated development was no doubt noble. But the approach was often doctrinaire and rigid. In any development process in a developing country, success depends largely on people's education and participation. Development cannot be something thrust from above.

The primary function of the State was law and order, maintenance of internal security and protection from external aggression. The twentieth century saw a great expansion of the role of the State. The Russian revolution gave a supremely dominant role to the State with ideological backing. The means of production came completely under the control of the State in USSR and other Communist States. This phenomenon was limited to these States only till the Great Depression of the thirties when Keynesian prescription of State intervention for correction of market mechanism was accepted even by the capitalist economies.

The emergence of welfare economics with the concept of Welfare State further expanded the role of State. The newly independent States in dire need of accelerated development had a strong appeal for socialist ideology. India was no exception. India had a visionary political leadership with high intellectual calibre. It opted for a socialist pattern of society and set-up a Planning Commission to plan and direct accelerated development.

\(^{5}\) *ibid.* (p. 21-22)
economic development. The planners were quite specific in their pronouncements, “The adoption of the socialist pattern of society as the national objective as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the State, in the present circumstances, could provide, have also to be in public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area.”\(^6\) Again, “The private sector has to play its part within the frame-work of the comprehensive plan accepted by the community.”\(^7\)

The international bodies such as the United Nations and the World Bank, GATT, WTO etc. also assumed and emphasized the role of State in their pronouncements “Governments play a vital role in development, but there is no simple set of rules that tells them what to do.”\(^8\) Functioning of a vital public sector in secondary and tertiary activities, a regulatory framework for the economic system and provision of public goods such as health care, education, drinking water, power etc. have thus come within the ambit of the role of the State. Of course, there are widespread variations in circumstances, history, culture and resources among the countries of the world. Every country therefore determines the areas and the extent of market and State intervention depending upon its specific situation and the stage of development. Thus State's role in secondary and tertiary activities and its initiative and regulative status are today universally accepted phenomena. This has raised, in turn, expectations from the State. The State is today seen not as a premier institution but the only institution to cure all the ills of the economy and the country. The State is also largely responsible for nurturing this misconception.

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\(^6\) Govt. of India, Planning Commission, Second Five-Year Plan (1956) p. 29

\(^7\) *ibid*. (p. 22-23)

The eighties saw some major economic and political developments, which forced some rethinking on the role of the State. The disintegration of the Soviet Union and East European countries, the pragmatic approach of China, general economic slow down and the increasing need of developed economies for extended markets etc. have led to the popular slogans of globalization, liberalization, privatization, disinvestment etc. What is interesting in India is that practically all the statutes and regulatory framework set-up to subserve the objective of socialist pattern of society remain on paper without dismantling. And yet a new era is ushered in with gusto. Therefore it is the primary responsibility of the State today to strive towards the removal of poverty, reducing the ever increasing number of persons below the poverty line, reducing unemployment creating vast employment opportunities, removing regional imbalance, encouraging investment and strengthening social security mechanism. The Government has recently made a beginning in respect of employment by introducing employment guarantee scheme on a limited scale. Even this is for the rural areas. The Government has however consistently evaded the question of strengthening the social security mechanism to bring it on par with that of the developed economies. This is a great drawback when interest rates are drastically reduced, voluntary retirement schemes are encouraged, employment opportunities are shrinking and there is a progressive reduction in organized sector employment both in the public and the private sectors. VRS or even retrenchment would not invite severe adverse reaction where such social security mechanism is active and efficient. It has already been discussed in the earlier chapter how the quality of employment is also deteriorating because of the shrinking proportion of organized sector employment in the total employment, rising proportion of casual labour and the predominance of marginal workers in the work force. Large-scale implementation of VRS in the organized sector has a
further deteriorating effect on this quality of employment. It is myopic and wrong to view employment only from a mercenary angle. As Jonathan Porrit rightly observes in his introduction to ‘Small is Beautiful’ by E.F. Schumacher, “Work means so much more to people than the relatively straight forward business of getting paid for selling one's Labour. In any industrial society psychological benefits such as security, fulfilment, status, solidarity and conviviality are all delivered primarily through the jobs that people have or the work they do.”

4.6 Review of Literature

4.6.1 There are therefore, a number of angles from which the phenomenon of VRS needs to be studied in depth. It is in this context that one finds quite inadequate attention paid to the studies on VRS by both business and academia. It is therefore rightly observed that despite its increasing popularity, field based scientific literature on VRS is sparse in our country. International literature on downsizing is reported to deal with mostly on how to downsize effectively and secondarily on the impact on those who have lost their jobs and those who remain in the job after downsizing. The context in which downsizing is implemented in developed countries is quite different and the impact also less severe because of a strong social security mechanism obtaining there. Apart from the question of its availability it has a strictly limited value in Indian context. It is therefore proposed here, to review only some of the literature available on VRS in India.

4.6.2 A gist of the following studies with necessary observations thereto, is provided in the following paragraphs.


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4. ‘Voluntary Retirement in Banking Industry’, An Introspection. by V.P. Shetty, Chairman and Managing Director, UCO Bank. Presentation made before Chief Executive Officers' Forum, BECON - 2002, Kolkata.


8. ‘Voluntary Retirement Scheme and Workers Response (A Study of Bombay, Thane Region)” by Vasant Gupte, Arvind Shrouti, and Kumar, Friedrich Ebert Stifling, New Delhi, 1994 Maniben Kara Institute, Bombay.


The studies at Serial No. 1 to 3 are primarily concerned with strategy, procedure and law in connection with the implementation of VRS. The study at S. No. 4 is a candid introspection on VRS in Banking Industry.
Studies at S. No.5 to 9 deal with the character and impact of VRS in general. The last three are location specific studies.

4.6.3. In ‘Exit without Exit Policy’, Dr. Rajen Mehrotra deals with the need and strategy for restructuring of industrial units in the context of new industrial policy and global developments. He argues that the restructuring exercise undertaken by enterprises is not necessarily due to global competition alone. It is also due to domestic competition and an effort towards cutting the fat in an enterprise for survival and growth. He also draws attention to the major problem of repositioning of manpower involved in restructuring. After discussing the perception of various agents and actors involved in VRS, he brings into sharp focus the consequence of VRS. According to him, there will be a shift in employment from large and medium scale sector to small-scale sector. The study mostly deals with the aspects of initiating and implementing VRS and tangentially with the impact of VRS.

4.6.4. In ‘Golden Handshake’ R.P. Siddhanti terms the VRS as golden handshake and traces its background development. He advises the employers to go in for VRS only as a last resort. After discussing the whys, whens and hows of VRS, he concludes that, while reduction of manpower is an economic and business necessity for the employer, it has also a social and human angle besides just industrial relations. The VRS should therefore be introduced and implemented with a human touch and full social responsibility with conscious and sustained efforts for the retirees, rehabilitation, redeployment and retraining. This study is mostly supplementary to the earlier study of Dr. Mehrotra.

4.6.5 C.S. Venkat Ratnam has made a substantial contribution by focusing on the legal aspects involved in VRS. He observes that several organizations have had problems in implementing the VR Schemes largely due to inadequate appreciation about the management's rights and responsibilities in accepting, rejecting and communicating decisions on VRS. He then reviews some judgments on VRS relating to
employee's discretion, refusal for VR, employees' rights, coercion in VRS etc. He further draws attention to some grey areas and concludes that organizations which have done their study well, laid down clear cut eligibility criteria and communicated the ground rules have had no problems in administering the VRS provided they do not discriminate against individuals within the applicable categories.

4.6.6 In his introspection on VRS in public sector banks, Shri Shetty discusses the background behind VRS and says that surplus employees (estimated at 25 per cent by various committees and experts) was identified as one of the main reasons for low profitability of public sector banks. Relatively high establishment costs and low business per employee were serious pointers in support of the opinion. It was therefore felt that right sizing would pave the way for recruitment in the specialized cadre covering technology, forex, venture capital, e-commerce, money and securities management etc. Therefore, as a remedial measure the public sector banks come out with two schemes. Sabbatical Leave and VR Scheme, with the objective of optimizing on human resources, achieving a balanced age and skill profile, reducing costs and improving profitability. The net impact of VRS was appreciable reduction in staff strength but at a cost. It also affected the equitable distribution of employees across the organization. However the spontaneous and overwhelming response to VRS underlined the fact that there was need for an early separation scheme on the part of employees also. He concludes by observing that manpower rationalization on the part of the banks on a regular basis is the imperative for the banks to adjust with environmental changes in the industry and the economy.

His discussion centres on the problems of the employer mainly and indirectly suggests retrenchment whenever necessary.

4.6.7 Shri Tushar K. Mahanti made a study of the sample of 200 companies and found that the reduction in workforce through VRS has helped the sample companies to reduce employees' costs. The aggregate
expenditure on salaries and wages fell by 5.1 per cent in 2001-02 over that in 2000-01. There is a shift towards capital intensive and knowledge based technology which made the traditional workforce redundant. The study refers to a number of other studies indicating that the capital efficiency of Indian industries measured in terms of incremental capital output ratio had improved in post-reforms years. Clearly the role of labour had received a setback in the new production process. The reforms and the VRS have made future uncertain, and this uncertainty, the author observes, made the workers wiser. As a result they were now opting for VRS rather than going for work stoppages lest they might lose their jobs as well as the financial benefits offered to them. The number of industrial disputes had also come down sharply in recent years as a result of this development.

The study finds VRS beneficial to the companies, their preference for capital-intensive technology in a labour-surplus economy and rather involuntary improvement in industrial relations.

4.6.8 Shri M.V. Srinivasan in his study ‘Voluntary Retirement and Workers’ Welfare’ examines the VRS and the National Renewal Funds (NRF) which are designed to provide minimum substances security to the retired individual and his family.

In the author's opinion the VR Scheme cannot be implemented without at least, the tacit approval of representative trade union. But it is also seen that sometimes the workers legalize the VRS by accepting it en masse. This happened in Sri Ram Mills. The acceptance of VRS is seen to depend primarily on the attractiveness of the monetary incentives offered and the performance of the company. He refers to a study by K.S. Chalam in 1996 in Vishakhapatnam according to which complaints were recorded by some VRS workers who came for retraining under NRF that invisible discrimination affected their prospects of promotion in the organization where they were working. Thus an atmosphere of discrimination and apathy towards the socially disadvantaged groups is
found to force most of the workers of these groups to opt for VRS (‘National Renewal Fund and Welfare of Working Class’: *Economic and Political Weekly*, Dec. 7, 1996).

Quoting *Economic Times* dated 22.8.1998, the author observes on the basis of example in Steel Authority of India (SAIL) how public sector undertakings use inherent coercive measures of internal communication exercises to encourage the employees for VRS. The following factors have been identified as leading the employers to introduce VRS: general recession and its after effects, decline in demand and profit, severe competition at global level, need for improvement in labour productivity and reduction in costs, avoidance of sickness and losses, achieving economies of scale by centralization of operations, mergers and amalgamations, regaining of market shares etc.

The author dismisses the contention that the main objective behind VRS is to send out those who cannot be retrained to new skills, and observes that the liberalization policy, in its anxiety to modernize, restructure and globalize the products of Indian industry, is wasting the precious labour force that could have been modernized through retraining. He also feels that precious skills and abilities of the retrenched workforce are equated with worn-out physical capital that may not be susceptible to repair or modernization.

The study concedes that the private sector companies have been able to reduce their surplus work force by giving many attractive incentives and heavy compensation. Even so quoting S. S. Aiyer (*The Times of India*, 22.9.1990 quoted in Gurbir Singh's article ‘Who Needs Exit Policy, Anyway’ in *Economic and Political Weekly*, June 10, 1995) the author says that the VRS will pay for itself in a very short time.

He refers to the protests of some trade unions against the automatic exemptions under Section 10 (10c) of Income Tax Act and their insistence on exemptions on a case-by-case basis to ensure that no exemption is given to companies using the VRS route to close
operations and sell the land and other assets. The unions also complained that no safety net or re-training programmes were introduced by the Government, as promised in the 1992 policy. This aggravated the unemployment problem. This leads to a situation where the State is subsidizing closures and job losses.

The study finds that the operations of the National Renewal Fund (NRF) are not at all satisfactory and supports the suggestion of the International Management Institute, New Delhi for a focus sharper on rehabilitation and renewal programmes. The Parliamentary Standing Committee on Industry has also been critical about the utilization of NRF (The Statesman dated 14.7.1998). Another study conducted by the Society for Economic and Social Transition for the International Labour Organization observes, “The level of present NRF operations is too low, just scratching the surface of labour problems in the restructuring process.” (The Statesman dated 27.10.1998)

This is a good study but it is more in the nature of a critique and fails to illuminate on alternatives or solutions.

4.6.9 The proceedings of the Seminar ‘To identify problems and prospects of rehabilitation after voluntary retirement’ refer to the study by Shri Ram Centre for Industrial Relations and Human Resources, made in 1993-94 in fourteen industrial centers of various States. According to this study, workers opted for VRS mainly due to apprehension of closure of firms or due to personal reasons such as poor health, clearance of debt, education/marriage of children etc. It was found that those who were skilled or otherwise resourceful could secure either wage employment or self-employment. But many others were in real distress. This was probably because over 50 per cent optees had 30 years or more service and belonged to an advanced age group. The Govt. initiative through NRF was not enough and it would be necessary to involve NGOs having a missionary zeal in workers’ rehabilitation. An important suggestion made at this seminar was for setting up a Rehabilitation Insurance Scheme.
This is a commendable field-based study highlighting the reasons for opting for VRS, post-retirement condition of workers and the need for intensive, effective measures for rehabilitation of workers.

4.6.10 The authors of the Study on VRS collected 30 Voluntary Retirement Schemes offered by 30 companies for content analysis, had discussions with managers, employees and trade union leaders of concerned companies and also examined the performance implications of the schemes after a time lag of two years. Their analysis measuring performance on PAT/Total Assets, revealed that the textile sector showed maximum gains after VRS. Pesticides, fertilizers, agrochemicals, automobiles and services performed worse after VRS. A majority of the companies had reacted to the changes in external environment through VRS and could not plan the process of VRS adequately. This resulted in decline in their profitability. The study found that no fixed pattern had evolved for VRS among Indian companies. All the companies had some unique characteristics in their VRS. The ownership of the companies made no difference to the success of VRS.

The study recommends proper planning of VRS. The companies should be clear in their objectives of offering VRS and these should be explicitly mentioned in their schemes. The schemes should be transparent and the management should remain open for clarification and dialogue to develop mutual trust. The compensation given should be fair enough and presented in a humanistic manner. They should also provide advice on investment to VRS optees.

The study is commendable in that it makes some concrete suggestions based on their examination, disillusions and analysis.

4.6.11 Kaustav Dey and Pranabesh Dey study the effects of VRS on productivity and profitability of a firm. They observe that the Corporate India has tried to project VRS and consequent labour downsizing as an answer to the revival of the company fortunes. There should, therefore,
be some improvement in the organizational performance after implementing the VRS. This could be measured over a period of time through various performance indicators from the financial picture as presented by the company. The study therefore tries to ascertain if any relation existed between a company offering VRS and its subsequent improvement in performance in the phase after VRS. They selected nine companies from a wide variety of sectors and regions to reduce any sectoral, regional uniqueness over a given period of time. The time period selected was 1990-2001 within which VRS was offered, to help capture the picture before and after the implementation of VRS in the company.

“A firm's performance over a given period of time can be assessed by studying proper financial indicators of performance. The authors chose for their analysis a technique (*Du Pont Analysis*) that breaks the financial indicators ‘return on assets’ and ‘return of equity’ in to the basic components that determine profit efficiency, asset efficiency and leverage, in an attempt to isolate the causes of the strengths and weaknesses in the firm's performance. Their analysis shows that there is hardly any evidence in favour of the contention that VRS enhances the bottom-line that in an Indian firm downsizing through VRS does not invariably lead to an increase in profitability. It cannot also be confirmed that VRS in general leads to an increase in productivity. They advise therefore, that any straight jacketed approach to the process of labour restructuring would not give the desired results unless it is properly thought over, carefully planned and judiciously implemented. The study selects an important aspect relating to VRS and attempts an in-depth analysis. There are however a number of variables affecting the financial performance of the firm and it would be bold to pronounce any definitive judgment on the basis of a few variables only. The study is however commendable in that it provides some definite indicators to study the effects of VRS on the performance of a firm.
4.6.12 Voluntary Retirement Scheme and Workers Response (A Study of Bombay Thane Region) is a location specific and much quoted study. Its objectives were to study the background of the VR Schemes and details thereof to find reasons as to why workers opted for VRS and to study the experience of the workers who opted for VRS. The study is based on a sample of 100 VRS optees from eight companies.

The study found that in 62 per cent of the cases, retirement was not really voluntary. This is in spite of the fact that 69 per cent of the optees were over 50 years of age. The reasons behind accepting VRS were fear of uncertain future, systematic allurement by management, financial needs, dissatisfaction with job, sickness and old age, dream of business etc. Except for the fear of uncertain future expressed by 62 per cent of the sample, all other reasons were cited by less than 10 per cent respondents. The study found that a vast majority of the retirees were having a bad time and repented their decision. A majority of the retirees could not get alternative employment. A majority of those who entered business, lost their investments and became bankrupt.

This is a location specific concrete study and concentrates on the workers' side while the earlier study (4.6.11) dwelt on the profitability of the firm. Such partial studies are useful and enable in-depth analysis. The studies should however aid policy decisions by the employers as well as the Government to enhance their utility and relevance.

4.6.13 Political Economy of Voluntary Retirement - Study of Rationalized Workers in Durgapur is also a location specific study concentrating on the workers' side. It involved the rationalized workers of metallurgical, engineering and chemical industries in both public and private sectors in Durgapur in West Bengal. The sample consisted of 629 rationalized workers out of which 602 had opted for VRS. After discussing the background of VRS the study presents a socio-economic profile of the rationalized workers. From the employers’ point of view VRS is a measure to shed off work-force whose marginal productivity is zero and
to maintain cost effectiveness. The study arrives at the conclusion that
the structural adjustment programme in India warrants an employment
restructuring that creates turmoil in labour market and uncertainties for
workers. The study finds that the workers in the organized sector have
largely been coerced to accept VRS. The compensation received by the
workers is poor. A sizeable section of the retirees had specific
commitments far non-productive expenditure. The balance of
compensation received after meeting these commitments was quite
inadequate for starting a self-employment venture. There was no sign of
new jobs being created. It was therefore more likely that this workforce
would swell the reserve army of unemployed, thus enhancing the social
cost of the structural adjustment programme in India.

Such location specific studies can be very useful for location specific
policy measures. They can also help inter-regional comparison as also
point out common features. Industry-specific studies on similar lines
need also to be undertaken.

4.6.14 “Voluntary Retirements Schemes in Industry with special reference to
selected industrial units in Pune Industrial Belt’ is an unpublicized thesis
by Shri. S.R. Chandak. The author’s objective was to study the
background of VRS reasons for employees opting for VRS, the post
VRS status of employees and VRS as a mode of restructuring the labour
force. The reference period was from 1982 to 1986. The study was
based on a sample of 130 VRS optees, discussions with the employers
or their representatives, experts etc. The study confirmed the hypothesis
that VRS mode of restructuring the labour-force is comparatively easier
and without tears. The author concludes by observing that the reality
today is that VRS has a meaningful payback period for both the
enterprise and the employees. The best way for enterprises to predict the
future is to create it by restructuring. A majority of the workers felt that
VRS was a golden handshake, but the trade unions do not subscribe to
this feeling. Some social stigma did attach to VRS optees but VRS does
help solve their economic problems. In the final analysis VRS is the best available option for restructuring manpower in the market driven economy. He however advises the management not to lose sight of the human aspect while implementing VRS.

The findings of this study regarding the workers' reaction differ from those in respect of earlier studies in Thane-Pune and Durgapur and other studies. The reference period is also much earlier to the ushering in of economic reforms and providing income-tax concessions. It highlights the fact that restructuring of labour force did not begin only after the economic reforms were introduced, and that the industry did carry a burden of redundant work-force even in the eighties and earlier. Recourse could also be had to Labour and Industrial Disputes Acts even earlier for rightsizing. The economic reforms and income tax provisions only accelerated the process. This study is useful for the present study for comparative purposes in that it deals with Pune industrial region.

4.6.15 It is seen from these studies that none of them is against VRS. By and large the phenomenon of VRS is almost an accepted one. The financial burden of VRS can be more than made up by future reduction in the wage bill. There is a general consensus that the word ‘Voluntary’ is a misnomer and that the workers were coerced into opting for VRS and that psychological factors such as uncertainty of future, financial loss, discriminatory treatment primarily and personal factors such as sickness, financial needs etc. secondarily, together with the element of financial incentives persuaded the workers for opting for VRS. A majority of the retirees were from 50 plus age bracket. Very few retirees could successfully get self-employed. It was very difficult to get alternative employment. Post retirement economic condition was worse because of lack of savings and unproductive expenditure from the lump sum retirement benefits. In general the workers repented their decision to opt for VRS.
There was a need for employers to carefully plan for VRS and to make it transparent. The problem of repositioning of remaining staff needed very careful attention. One of the draw-backs of the VRS was that competent, qualified and skilled employees tend to opt for VRS while others remained behind. It is interesting to note in this context the observation of Kaustubh Dey. The studies of American and Canadian companies show that the companies have not been able to achieve their goals they had thought about while going for downsizing. Gains in productivity and profitability have been either erratic or not achievable. The conclusions of his own study are along similar lines (4.6.11). What actually has been the effect of downsizing over the years on the companies, industry is still not very clear. Further studies on the basis of performance indicators need to be undertaken.

The present study is location specific. It is limited to only two industries and covers almost all the aspects discussed earlier. It is therefore more comprehensive and seeks clarity in analysis. It will therefore be supplementary to the existing studies and helpful for comparative purposes.

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