An
Abstract Titled On

“FINANCIAL AND NON-FINANCIAL IMPACT ON
EMPLOYEES AND EMPLOYERS OF VRS SCHEMES
OFFERED BY LARGE SCALE
ENGINEERING COMPANIES IN PUNE”

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By
Mrs. SUNANDA M. NAVALE
B.A., M.P.M.

Under the Guidance of
Prof. Dr. S. U. GAWADE
M.Com, FICWA, M. Phil., L.L.B., Ph. D.

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1. INTRODUCTION

This study is divided on ten chapters. The first chapter is the nature of introduction and provides the necessary background and purpose of the study. Voluntary retirement schemes have now come to stay as a part of policy of the Government of India, the public sector and the private sector. The protests of left political parties and trade unions have remained vocal and feeble. Industrialists propagate and implement VR Schemes; economists advocate them and social thinkers meekly accept them. The VR Schemes are now seen as a panacea for increasing profitability and competitiveness, extending markets and accelerated economic growth.

The genesis of VR Schemes lies in economic reforms introduced in early nineties. In the early period of globalization, India faced a serious balance of payments crisis. This led to seeking financial aid from international agencies. These agencies offered the required assistance subject to the Indian Government implementing economic reforms and fiscal discipline. International political and economic climate as well as the conditions laid down by international agencies required opening of the economy through imports Liberalization, foreign investment, privatization and liberalization of industrial policy in favour of the private sector. Economic reforms were therefore introduced in 1991. A new Industrial Policy was announced in July 1991 and appropriate amendments were also made to the Industrial licensing policy. The economic reforms led to a review of the manpower both in public and private sectors. It was realized that there was excess manpower in the public sector. In the private sector also, liberalization of trade, investment competition, profitability and upgradation of technology required large scale retrenchment of manpower. But the existing Labour laws did not permit this. Lack of necessary will and political compulsions prevented reforms in labour laws. A way was therefore found out to effect reduction of manpower through voluntary retirement schemes, by amending the Income-Tax Act, 1961.

As a result, VR Schemes were implemented on a large scale in private organized sector also. Estimates have varied from 4.5 lakhs to 25.0 lakhs of the surplus labour in both public and private sectors. On a high side this comes almost to one fifth of the existing staff in the organized sector public as
well as private. VRS affected employment in the organized sector. Between 1997 and 2003 there was a fall of 12.45 lakhs or 4.4 percent in the organized sector employment. Continuation of VRS in future also would further reduce the manpower in organized sector.

2. **SIGNIFICANCE AND IMPORTANCE OF THE STUDY**

   The second chapter highlights the significance and importance of the study. Premature retirement of a very large number of academically and technically qualified and experienced manpower employed in the organized sector is bound to have economic, social, moral and other consequences which may affect the social and moral fabric. Studies therefore need to be undertaken to assess the impact of VRS on the concerned units, employers, employees, industry, economy, social relationships and VRS optees and their families in depth.

   This study is therefore a small part of many such studies required to be undertaken on individual and institutional level. Because of various constraints of time, resources, manpower etc, it is confined to the financial and non-financial impacts on employers and employees of VR Schemes offered by large scale engineering companies in Pune Metropolis.

3. **THE IMPACT OF ECONOMIC REFORMS : A REVIEW**

   The third chapter analyses the impact of economic reforms with special reference to VRS. It studies the importance and significance of the VRS phenomena in the overall economic context to know its impact on the economy in general and the organized and unorganized sector employment in particular.

4. **THEORETICAL BACKGROUND AND REVIEW OF LITERATURE**

   The fourth chapter provides the theoretical background and reviews the existing available literature on VRS. It is seen from these studies that none of them is against V.R.S. and by and large the phenomenon of V.R.S. is almost an accepted one. The present study is location specific, limited only to two industries and covers almost all the aspects covered in the studies discussed above. It is therefore more comprehensive and seeks clarity in analysis. It will therefore be supplementary to the existing studies and helpful for comparative purposes.
5. RESEARCH FRAMEWORK

The fifth chapter presents the objectives, hypotheses and the research methodology used.

Objectives Of The Study

The following are the objectives of the study (1) To study the VRS phenomena in an overall context and to study the factors responsible for VRS in the organized sector. (2) To study the nature of VR Schemes implemented by the engineering and automobile industries in Pune Metropolitan region and to compare them with the VR Schemes implemented by the public sector commercial banks and insurance companies. (3) To study the steps taken by the engineering and automobile companies for training and rehabilitation of their employees while implementing VRS, (4) To study the financial and non-financial impact of VRS on VRS optees, residual employees and the VRS implementing employers.

Research Methodology

The following are the hypotheses framed for testing on the basis of available data. (1) VR Schemes have been beneficial on the whole to the companies implementing VR Schemes. (2) VR Schemes have not been beneficial on the whole to the employees opting for VRS. (3) VR Schemes, after their implementation, have adversely affected the residual (existing) employees. (4) VR Schemes have come to stay and have become a regular feature of HR Management.

Pursuant to the objectives and hypotheses both library research and survey were undertaken. As it was not possible to get random samples, six purposive samples were obtained. Their details with size in the brackets are given below. Engineering and automobile industries: (1) VRS optees (200), (2) Residual (existing) employees (100) (3) Employers (9) Public sector banking and insurance companies: (1) VRS Optees (100), (2) Residual (Existing) employees (50) and (3) Employers (5)

Collection of Primary data

Questionnaire method: A structured questionnaire was designed to obtain information from the VRS Optees, Residual Employees and Employers. The
information obtained was presented in tabular form, interpreted and analyse. It was also used to test the hypotheses.

Secondary data:
The important secondary data consists of earlier studies of VRS, penetrating and in depth analyses of the VRS phenomena by various authors in economic, trade union and other fields. Such a data enables comparison with the information and conclusions of this study.

Tabulation and Analysis of Data

Necessary tables were taken or complied from information available from these sources and used for interpretation, analyses and conclusions.

In testing the hypotheses, primary use has been made only of the percentage distributions. Other statistical tools are used only for supplementary purposes wherever necessary. A hypothesis is considered as confirmed if a majority of the respondent’s replies support that hypothesis. Otherwise the hypothesis is considered as rejected. In both confirmations and rejections, conclusions of earlier studies made elsewhere have been used wherever appropriate.

6. V.R. Schemes - A Comparative Analysis

The sixth chapter studies the VR Schemes of the sample companies and presents a comparative analysis of them. It is really not very appropriate to compare the V.R. Schemes of different companies in public or private sectors. The size of each company, financial strength of each company, nature of technology used by each company and past recruitment policies of each company reflect significant variations and it is not advisable to make across the board comparisons. Comparison is however possible and useful in respect of similarly placed companies. Such a comparison is attempted in this chapter.

7. PRESENTATION AND ANALYSIS OF DATA - I: VRS Optees

The seventh chapter analyses the data obtained from VRS Optees. The analysis is carried out under following headings:

- VRS: The Optee - A majority of the optees in the main sample said that VRS was not forced on them. More than one third optees in both the sample opted for VRS on account of personal interest. The average age of the optees at the
time of retirement exceeds 55 years. The optees had on an average put in over 26 years of service at the time of retirement. Financial considerations dominate in respect of preparation for retirement. So is concern towards medical expenses. Almost one third of the optees did not have any additional or part-time activity at the time of retirement.

- **VRS: The Union** - The Unions have not played active role in guiding the VRS optees in respect of advance preparation, investments, vocational training, alternative employment and post-retirement blues. This is the general impression.

- **VRS: The Employer** - No training, financial, vocation, health or stress was provided by the companies according to majority of the respondents.

- **Financial Aspects: Receipts** - The average total amounts received at the time of retirement is Rs.939,187/- per optee in the main sample and Rs.1250000/- per optee in the other sample. This seems to be fairly good and satisfactory.

- **Financial Aspects: Utilization of Receipts** - In general the optees have made rational decisions of allocations to expenditure and investment, have been cautions and prudent. Their investment portfolio reveals them to be more security conscious, avoiding risks, and wanting regular income and cash liquidity.

- **Financial Aspects: Post-retirement Income** - The average monthly salary/wages per optee before retirement was Rs.14725/- in the main sample and Rs.19825/- in the other sample. As against this the monthly income from investments, after retirement, per optee is Rs.4762/- in the main sample and Rs.5925/- in the other sample.

- **Family and Social Aspects** - The data shows that the family friends and relations have been supportive of the VRS decision taken by the optee.

- **Personal Aspects** - The VRS optees continued to remain active and enjoy their leisure time in the company of family members, relations and friends.

- **VRS : Personal Assessment** - In a representative manner, Optees in the main sample have not realised their objectives behind VRS option and would not recommend VRS Option to their colleges. The optees in the other sample
have no doubt realised their objective behind VRS option but would not recommend VRS option to their colleagues.

8. PRESENTATION AND ANALYSIS OF DATA-II : Existing Employees

The eighth chapter analyses the data obtained from existing employees. The analysis is carried out under following headings:

- **VRS : working conditions** - The employers had therefore made adequate planning before implementing VRS. There was no increase in workload. They do not face any problem of communication.

- **VRS: Physical and Mental impact** - The VRS had not affected their physical health but had created tension. There moral was high.

- **VRS: Views** - The VRS phenomenon had nevertheless made them acutely aware about future financial security. They were therefore keen on investments and devoted some time for such steps and decision. Probably 'business as usual' was the mantra they learnt and practiced.

- **VRS: Future possibilities and the employees** - They would not anticipated VRS in Future and they would not recommend VRS option to their colleagues. Nevertheless VRS has made them actually aware of future financial security.

9. PRESENTATION AND ANALYSIS OF DATA-III : Employers

The ninth chapter is devoted to the analyses of data obtained from the employers, and testing of hypotheses. The analysis is carried out under following headings as follows.

- **VRS: The exercise** - Although there were verities of reasons behind introducing VRS, the important one relates to competition, Technology, and Profitability.

- **VRS: The Optees** - The employee think that the VRS was beneficial to VRS optees but admit hardship to them.

- **VRS: The existing employees** - The employers report that the moral was existing employee was high and there was change in work culture also.

- **VRS: The financial aspects** - The VRS was finance from the existing profit. Wage cost have been reduced, profitability has improved.

- **VRS: View and assessment** - In view of some of the employers the VRS needed to be carefully planned.
TESTING OF HYPOTHESES

Accepted Hypotheses:
1. **VR Schemes have been beneficial on the whole to the companies implementing the VRS**: To from all positive replies, all the respondents report that the VRS was beneficial to the company in general. These hypothesis is therefore confirmed.

2. **The VR’ Schemes have come to stay and have become a regular feature of HR management** - `It is seen from these studies that none of them is against VRS and by of them is against VRS. It seems that a majority, 67.0%, respondents employers would like to offer VRS again.

Rejected Hypotheses:
1. **VR’ Schemes have not been beneficial on the whole to the employees opting for VRS’** - According to 89.0% respondent employers VRS was beneficial to the VRS optees. Excepting the single almost important financial and income aspect, all other aspects particularly disabilities. Social, physical, mental etc appear to be positive. It is therefore difficult to say that VR scheme have not been beneficial on the whole to the employees opting for VRS. This hypothesis is therefore rejected.

2. **V.R. Schemes, after their implementation, have adversely affected the residual (existing ) employees-** According to 89.0 percent employer respondents the morale of the existing employees after implementing VRS, is `high’. According to 60 percent respondent existing employees they did not find it difficult to handle the work in the absence of VRS optees. Thus barring the factors of tension and low morale. All other factors do not support the hypothesis.

**10. CONCLUSIONS AND SCOPE FOR FURTHER RESEARCH**

The last or the tenth chapter summarizes the conclusions, reiterates the limitations of the present study and suggests scope for further research. A summary of the important conclusions of this study is given below.

**Approach Towards Optees**: Premature retirement of a very large number of academically and technically qualified manpower employed in the organized sector is bound to have economic, social, familial and other behavioral consequences. It needs therefore to be gainfully employed or self employed.
Banks, financial institutions, consultancies, investment agencies etc. have to be more pro-active in respect of employment, self-employment and investments of the retirees. At industry level also, industries associations, chambers of commerce etc. should make efforts for reabsorbing the surplus manpower elsewhere and in future vacancies.

Sample Companies – Financial Aspects:

a) VRS Optees: A majority of the respondents were financially quite well off before retirement and were getting a salary of Rs. 10,000/- pm or more. On an average, the total amount received by the optees on retirement was 4.66 times their aggregate income per annum before retirement. In general, the VRS optees have made rational decisions of allocations to expenditure and investment from the aggregate amount they received on retirement. Their investment portfolio shows them to be more security conscious, avoiding risks and wanting regular incomes and cash liquidity. The post-retirement income from investments, of the VRS optees in the main sample, is less than one third of their salaries before retirement. About one-third of the optees have no other source of income only 45.0 percent optees had new part/full time jobs. Over three-fourths of the existing employee respondents were happy with the compensation given to the VRS optees.

b) Employers: Although there were a variety of reasons behind introducing VRS, the most important reasons were of increasing profitability and facing competition. There is a general consensus that productivity of the companies increased after implementing VRS. There is a general consensus that the companies were able to reduce wage costs as a result of VRS. Improvement in profitability after implementation of VRS has been confirmed unanimously by the respondents.

Sample Companies – Non-Financial Aspects:

a) VRS Optees: The data shows that the family, friends and relatives have been generally supportive of the VRS decision taken by the optees. The VRS optees continue to remain active and enjoy their leisure time in the company of family members, friends and relatives.

b) Existing Employees: The working conditions did not deteriorate after the implementation of VRS. The existing employee did not suffer from any physical
or mental illness after VRS. A majority of them did experience tension, but their own replies show that there was little cause for tension. The morale was no doubt low, but it could be viewed as a temporary phenomenon.

c) Employers: A majority of the employers interviewed, have introduced new technology after VRS and this has led to overall increase in productivity.

VRS – An Assessment:

a) VRS Optees - It has been stated above that while the VRS optees did suffer financially after VRS, the non-financial impact of VRS was certainly not adverse. The financial aspect does seem to dominate their thinking and assessment on VRS. A majority of the respondents in the engineering and automobile industry samples have said that they did not realize their objectives behind VRS option. The major reasons for non-realization of their objectives include unproductive expenses after retirement, fall in interest rates, losses in financial scams and non-materialization of expected returns on investment. All these reasons are economic or financial. The reasons behind the realization of the objectives by the minority are proper planning and investment, happy retired life and family support.

An overwhelming majority of the respondents clearly say that they would not recommend VRS option to their colleagues. This personnel assessment is in a way their final judgment regardless of their replies to other questions. It stands to reason as well, because it is not an indictment but a correct appreciation of VRS based on personal experience.

b) Existing Employees: The respondents were happy with the compensation given to VRS optees and agreed that resistance to VRS was declining. They had no apprehension of VRS being forced on them; neither would they plump for VRS even if offered. The VRS phenomena had no doubt shaken them and made them think more seriously about future financial security.

c) Employers: According to the employer, respondents VRS was beneficial to the VRS optees. The VRS however needed to be carefully planned. Their objectives behind VRS were fulfilled. The VRS was therefore beneficial to companies also. In their assessment, VRS in the organized sector would certainly benefit the economy in the long run.
Training and Rehabilitation of Employees:
No training – financial, vocational, health or stress related was provided by the employers according to the majority of VRS optee respondents.

VRS Optees and Trade Unions:
The employer respondents have reported that they did hold discussions with the concerned trade unions while implementing the VRS. But the role of trade-unions in the whole VRS process seems to have been only marginal and less than constructive. The trade unions have failed in playing an active role in guiding the VRS optees in respect of advance preparations, investments, vocational training, alternative jobs and post retirement blues.

Mrs. SUNANDA M. NAVALE
Research Student
INDSEARCH, Pune

Prof. Dr. S. U. GAWADE
Research Guide,
Director, DYPIMR, Pimpri, Pune