CHAPTER VI

THE RATIONALIZATION POLICY, HUMAN RESOURCE MANAGEMENT AND THEIR IMPACT ON THE DEVELOPMENT OF INDUSTRIAL RELATIONS

6.1 INTRODUCTION

One of the major problems in Indian industry is the co-existence of various types of technology in the same industry. While this creates problems relating to wage fixation, it also creates problems for rationalising manpower or standardising technology. Rationalisation in its early usage meant rational use of inputs in a plant and the rational distribution of its output to meet market demands and simultaneously achieve cost reduction. But with time, the term emerged as something quite comprehensive, including planned production, pooling of research, scientific and technical know-how, centralised regulation of finance, modernisation of production processes and sales, together with the optimum utilisation of manpower. In short, rationalisation techniques can be applied to men, materials and methods. In 1927, the International Economic Conference included labour efficiency, standardisation of products, conservation of raw materials and power, simplification in distribution procedures, eliminating burdensome financial charges, within the concept of rationalisation. ILO's advisory
committee on management defined rationalisation as 'any reform tending to replace habitual antiquated practices by means of methods based on systematic reasoning'. But in popular conception, it appears to be most closely associated with labour utilisation.

Certain other terms associated with the concept of rationalisation are modernisation, automation and mechanisation. Automation is generally applied to an industrial process which provides data from its own operation and feeds it back to its own controls. It is essentially a self-correcting system. A good example is a thermostat, which switches off electrical connections when a certain temperature is reached. Against this, mechanisation refers to the concept of replacement of manual operations with mechanical ones, which may or may not involve automation. Modernisation is a more comprehensive term and can apply to all aspects of industry, with or without mechanisation or automation, though generally involving substantial technological change. Modernisation can be as simple as a product change or a change in the chemical component of a particular product, which may not even involve a major technological change. Underlying all these concepts in the increase in efficiency generated by changes and an increase in capital intensity. All of them also involve changes in manpower utilisation, sometimes major changes in employment structure and manpower quantity and quality. Since other kinds of change do
not involve resistance or confrontation, it is the manpower changes which have drawn the maximum attention whenever the issue of rationalisation emerges.

### 6.2 RATIONALIZATION POLICY

The concept of rationalisation featured in the first three Plans. The Plans recognised rationalisation as a necessary evil and outlined the various restrictions that should govern it. For example, the First Plan proposed as its basic elements.

(i) technical examination of work-loads,

(ii) stress on natural separation,

(iii) liberal separation allowance to those who opted for it,

(iv) provision of alternative employment to persons affected,

(v) retraining arrangements, and

(vi) sharing of gains resulting from changes.

There was a subtle change in the Plan proposals thereafter and the Third Plan observed that no real advance in standards of living was possible for workers without a steady increase in productivity. Without this, any increase in wages, generally beyond certain narrow limits, would be nullified by a rise in prices. Workers should, therefore, insist on and not resist the
progress or rationalisation in their own interest and in the larger interests of the country.

Rationalisation also figured in the tripartite labour conferences more than once. At the 15th ILC in 1957, the model agreement to guide employers in regard to rationalisation was adopted. The conference committee at the time deliberated on this issue and suggested the following precautions:

(i) there should be no retrenchment or loss of earnings of existing employees, except for natural separation or wastage. Alternative jobs should be provided, subject to agreements with employees,

(ii) the benefits of rationalisation should be equitably shared between community, employer and worker,

(iii) there should be proper assessment of workload by experts (mutually agreed upon) and suitable improvement in working conditions,

(iv) the company may seek to make changes in machinery, layout and organization for efficiency and rational use of labour and material, without violating any law,

(v) reasonable notice of change should be given to workers with full information regarding the nature of the proposed change, date of changes, proposed duties of workers concerned and job assignment, under ID Act,
(vi) employer should furnish all information on the number of reductions to be made and the effect of this on existing jobs in various departments,

(vii) after notice, employer should freely discuss all changes and provide all required information as demanded by workers,

(viii) unions should present their arguments within a week after the discussions,

(ix) the unions should be given opportunities to assess the actual changes effects on workload, and the earnings of affected workers, and

(x) if there are differences, dispute procedure should apply.

Notwithstanding the Third Plan statements on the link between wages and productivity, the ILC in July 1966 reaffirmed the 1957 principles. Again in May 1967 automation came in for pointed discussion in the standing labour committee and it was recommended that the model agreement should continue to largely apply. On employers' insistence, the issue was raised once more at the April 1968 ILC and the model agreement was reviewed in July by the standing labour committee. Unions were of the opinion that since there was a large volume of unemployment and there was a shortage in technological and capital resources, the general orientation of policy should be against automation.
Over time, court interpretations of law provided tribunals with the powers to create legal precedents and they could order reinstatement of dismissed workers. Tribunal decisions involving such reinstatement were upheld by the Supreme Court in a test case in 1953. These criteria were made more precise in the Indian Iron and Steel Company Ltd. vs their workmen case in 1958, where it was held that the management had the power to direct its own internal administration and discipline, but this power was not unlimited. In a case of dismissal, a tribunal could intervene if:

(i) there was want of good faith,

(ii) there was victimization or unfair labour practice,

(iii) the management was guilty of a basic error or violation of a principle of natural justice, and

(iv) based on the materials, the finding was completely baseless or perverse. Thus, even though tribunals could not examine any fresh evidence, they could examine the procedures followed by managements in taking disciplinary measures and check on the four factors. In the matter of punishment too, the tribunals could interfere only if the punishment was palpably unjust.

A tripartite committee set up by the National Productivity Council subsequently laid down broad guidelines for sharing the gains of productivity increases after rationalisation. These guidelines were:
(i) it must not compromise the prospects of continued economic growth,

(ii) it should not merely be co-sharing between management and labour but also consider the community, society and government,

(iii) it should be as impersonal as possible, and

(iv) it should be widely publicised and take into account the difficulties likely to occur.

There was however, no unanimity on the quantum of shares. The main view was as follows:

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<thead>
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<th>Guide</th>
<th>Description</th>
<th>Percentage of Gains</th>
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<tr>
<td>1.</td>
<td>Productivity bonus to workers</td>
<td>30 to 40 per cent</td>
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<td>2.</td>
<td>Capital reinvestment for development</td>
<td>20 to 30 per cent</td>
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<td>3.</td>
<td>Dividends on capital</td>
<td>20 per cent</td>
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<tr>
<td>4.</td>
<td>Reduction in prices for consumers</td>
<td>20 per cent</td>
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But these guidelines were not unanimous. For example, according to some members, if the existing reserves were more than 50 per cent of equity, then labour should get 40 (per cent) and only 20 (per cent) could be transferred to reserves. But if the reserves were below 50 per cent of equity,
then labour should get only 30 per cent. The dissenting note to these main recommendations refused to allot any thing for dividends and felt that the 20 per cent allotted for dividends should be shared between industry and the community. On labour's share too, the dissenting note suggested 65-75 per cent, if the wage level was below the need-based level, reducing to 55 to 65 per cent, if between minimum wage to fair wage, and to between 45 to 55 per cent if over living wage level. It was the chairman of the committee, Leslie Sawhny, who suggested a compromise of 40 per cent. V.M. Dandekar of the Gokhale Institute in a public statement suggested no variations in labour's share and advocated the 30+30+20+20 formula. Since there is no consensus in any case, a rough distribution of gains can be accepted from this formula. But reality would ultimately dictate the issue. In a recessionary situation, which is also highly competitive, industry may be compelled to transfer a much larger share of the gains to the consumer, as has been seen in the case of automobile pricing in early 1999.

In 1969, the national commission felt that the dualism of the Indian economy should be continued with selective reationalisation in the more capital intensive large sector, and leave out the traditional labour intensive sector, which provided so much of the employment. The exact words were that it should be highly selective at the current stage of our development and the schemes for rationalisation should satisfy the following conditions:
(i) it should accommodate all labour that may be rendered surplus,

(ii) it should result in higher productivity and efficiency,

(iii) it should improve the level of earnings of the workers by giving them a just proportion of the gains, and

(iv) it should lead to reduction in costs and be of benefit to the community.

6.3 HRM AND INDUSTRIAL RELATIONS

In the context of conventional industrial relations, the changes are even more difficult to translate. In an essentially divided organisational society, with multiple unions in many large organisations, the HRM concept appears next to impossible to implement. The big gap between the top echelons of industrial enterprises and the lower rungs, the lack of training facilities and the different perceptions about the role of the labour officer have compounded the problem. The relationship between the personnel department and the union leadership has generally been the mainstay of the industrial relations system. This was compelled by the situations where personnel managers had to face not just a couple of union leaders but a whole bunch of them and balance several unions' demands against one another. But industrial relations is not confined to this. The real problems lie in the shop floor and the inabilities of line managers to get work from subordinates. The small, but constant, irritations due to union rivalries on the
shop floor or inter-departmental problems based on personality clashes, are the real problems that line people would like to address.

To improve labour productivity, training, workers' performance appraisal, counseling in problem cases, labour flexibility, redeployment and cost reduction are needed. Job hygiene factors, like canteens, need to be improved. For quality improvements, QCs need to be introduced. But these are isolated interventions or tools which do not by themselves lead to a fundamental change in organisation and management systems. Obviously, communication programmes, participative decision-making and union partnership are essential for any kind of improvement in industrial relations.

Small beginnings in this respect can be made when physical conditions of work are changed, not as a sop to welfare concepts, but in response to employee needs expressed specifically. Unions continue to exist, but managers can communicate directly with the workers, rather than putting suggestions or proposals to unions and expecting them to convince workers. Managers themselves must convince workers. The change in not merely dropping the we-they feelings, but a genuine rethinking of workers as capable nature and willing people, who only need to be convinced that it is in their best interest that the enterprise develops and grows. This obviously not an easy task. Workers and unions, used to adversarial relations and the bargaining table, will not be convinced easily.
Athreya suggests an industrial harmony model, which involves a three dimensional approach and breaks up industrial relations into compartments

- Employee relations, which involves executives and their relations with their subordinate and the work team. HRD interventions should aim at creating a community feeling.

- Industrial relations, which normally involves collective bargaining and the formal methods used by managements to maintain relations with their unions. This has to be extended to include joint planning and partnership with unions through formal and informal communication and discussion programmes,

- Members relations, which involve a recognised union's interactions with its own members. Often a gap may develop between the two. HRD should aim at reducing this gap, integrating members into the union and encouraging the union leadership's close contacts with members, with the ultimate objective of creating a responsible industrial citizenship.

But these represent piecemeal changes. This leads to the question, can HRM be applied to existing companies with traditional industrial relations focussing around union-management relations, where its main instrument is collective bargaining? For an answer, it is necessary to look at the major differences between conventional industrial or employee relations and the
system sought to be established by HRM or HRD. Storey attempts to outline the specific distinctions.

But and large, this model provides a guideline for the areas in which changes would be required. It does not indicate that all the elements or dimensions would change automatically with the introduction of HRM practices and structures in an enterprise. Rather, it represents a change in orientation in many of the activities usually carried out under the old system. For example, the introduction of HRM or HRD does not mean that enterprises refuse to sign collective agreements. But while under the conventional approach, the signing of the agreement was treated as the ultimate activity, under the new system, the importance of the contract is reduced, since managements no longer depend solely on it. The objective is to go beyond the agreement and get much closer to workers. The agreement is more of a record and a minimum common plank.

Other human devices are used to integrate workers into the system. The second dimension is also similarly changed. Rules do not get jettisoned. What changes is lesser dependence on rules to achieve organisation goals. With work flexibility desirable, the aim would be to overlook rules under certain circumstances if they prove obstructive. For instance, there may be set procedures under the old system for doing a job. Under the new system, the procedure is not discarded. It is merely disregarded if it becomes
necessary to ensure flexibility. Managers would not be required to stick to procedures if business requires otherwise.

In fact, the manager's role, rather than his task, changes substantially. Under the conventional system, the manager has to see whether workers are completing their quantitative assignments and use deterrents when necessary. Under HRM, the manager does not see the worker as somebody who has to be controlled or punished, but sees himself as a guide and helper, so that the worker can achieve his targets. He nurtures his subordinates. This reduces the superior-subordinate relationship to a teacher-protege relationship. Sisson (1990), in particular, stresses the enabler, empowerer or facilitator role, and the shift in focus from collective to individual.

Where the strategies are concerned, there are major changes in orientation within the enterprise of HRM is introduced. Under the conventional system, the focus of a management's attention is usually the unions and how relations with them can be maintained. The underlying feeling is that unions may prove to be an obstruction in the management's immediate objectives of achieving targets. Under the new system, the focus shifts to the customer. This does not mean that the union and its problems disappear. What happens is that the union is not looked upon any more as a possible obstruction is, but as a partner in meeting the customer's requirements. Of course, managements have to do several things to bring
about this change, communication being a major method in this process. Unions are to be counted on this side of the barrier, jointly facing the customer or addressing the issue of market share. Activities change from fire-fighting to joint management.

One of the major changes is that line managers become central to industrial relations activities. The old personnel manager does not become redundant. Activities and roles change. Line managers not only achieve production targets, they talk to their subordinates about their role, their problems in the workplace, create opportunities to explain the business process to subordinates and highlight their role in the total system. Their own role is to try and transform workers into willing and committed persons, and create facilities for achieving targets. They cannot rely any more on circulars issued by the personnel department. Communication has to be direct and face-to-face. But standardisation is not the key target. The manager would himself have to be much more involved in his subordinate's role and allow initiative and variation in methods. This would convince subordinates that they are unique and their opinions have value.

The usual elements like pay, working conditions and job classification become integral to the entire system. Selection and recruitment become very important activities, since personality becomes crucial to achieving organisation goals. Training and, in particular, development also become
crucial to reorient existing employees to greater competence. The emphasis on quid pro quos to achieve tasks change. The manager's role is not to bargain with workers, exchanging higher overtime pay for timely completion of task, but to make it easier for him to complete the task on a continuous basis. Worker motivation would depend on the task itself and how interesting it could be made.