Chapter No. 2.  

VRS: A TURNING POINT IN INDUSTRIAL RELATIONS

a) ILO and Trade Unionism:

The International Labour Organisation (ILO) was established in 1919. It was the result of the Treaty of Versailles that ended World War I. The basic idea behind its creation was to create the impact that universal peace can be established with common efforts.

The Constitution of ILO was drafted between January and April, 1919. It was the work done by the Labour Commission set up by the Peace Conference. The conference was first time held in Paris and then in Versailles.

The Labour Commission was chaired by Mr. Samuel Gompers. He was the head of the American Federation of Labour (AFL). It had representatives from nine countries such as Belgium, Cuba, Czechoslovakia, France, Italy, Japan, Poland, the United Kingdom and the United States.

The Constitution had ideas tested within the International Association for Labour Legislation. The driving force for ILO’s creation was security, humanitarian, political and economic considerations.

There was a great appreciation of the importance of social justice in securing peace. It was against the exploitation of workers in the industrial nations of that time. There was also increasing understanding of the universal economic
interdependence. All nations felt the need for co-operation to obtain similarity of working conditions in countries competing for markets.

By considering the above ideas the Preamble of ILO states:

1. Universal and continuous peace can be established only if it is based upon social justice.

2. Improvement in the conditions of labour against injustice and hardship is urgently required.

3. The failure of any nation to adopt human conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries.

The areas of improvement given in the Preamble remain relevant even today. Some of the important points in that are:

1. Regulation of the hours of work. It explains about the maximum working hours per day and per week.

2. Regulation of labour supply, prevention of unemployment and provision of an adequate living wage.

3. Protection of the worker against sickness, disease and injury arising out of his employment.
4. Protection of children, young persons and women at large.

5. Provision for old age and injury, protection of the interests of workers when employed in countries other than their own.

6. Recognition of the principle of equal remuneration for work of equal value.


8. Organisation of vocational and technical education.

The ILO has made great contributions to the world of work from its early days. The first International Labour Conference held in Washington in October 1919. It adopted six International Labour Conventions. These conventions dealt with hours of work in industry, unemployment, maternity protection, night work for women, minimum age for work and night work for young persons in industry.

The ILO was located in Geneva in the summer of 1920. A capable leader from France Mr. Albert Thomas was the first Director of the International Labour Office. It was the Organisation's permanent Secretariat.

Under his strong leadership, 16 International Labour Conventions and 18 Recommendations were adopted in the period of less than two years.
This early enthusiasm was quickly came down because some governments felt there were too many Conventions. They also felt about the budget which was too high and the reports too critical.

But the International Court of Justice declared that the ILO's domain extended also to international regulation of conditions of work in the agriculture.

A Committee of Experts was set up in 1926 as a supervisory system on the application of ILO standards. The Committee, which exists today, is composed of independent jurists responsible for examining government reports and presenting its own report each year to the Conference. The great depression of 1920s had a lot of changes in the thinking pattern of ILO. Anyhow, at the international level ILO has created a sound background for the trade union movement in India.

In the early stages of Industrialisation after 1760 in advanced countries like UK and USA the need to provide additional benefits other than regular salary was not felt by any industrial organisation. The regular salary and wages paid by the employers were taken as favour made to poor and needy employees.

George Eliot, J. S. Mill and others who were always in support of humanitarian base of wage structure thought that the extra benefits are to be shared by the employees. The literature of socialists like Robert Owen of UK considerably moulded the philosophy of extra benefits. It has a great impact on welfare measures provided to employees in those days.
After the end of World War II International Labour Organisation (ILO) had a lot of impact on social security programme adopted by Govt. of US in 1930. The war had miraculous impact on thinking of employers who used to consider employees as their slaves. They started thinking on humanitarian ground and considered the idea to provide welfare measures widely known as ‘Fringe Benefits’. The theory developed by Adolf Wagner regarding such benefits got popularity in Europe. In U.K. fringe benefits were accepted by the employers on large scale. But still the capitalist employers in U.S.A. were not much in favour of the same.

**Definition and Characteristics of Trade Union:**

The trade union is an association of employees or of independent workers. It is a need based association of workers. It has its long term existence having legal entity. The basic idea is to bring economic benefits for its members. The aims and objectives of trade unions keep on changing according to the needs of the members. Each trade union has its own ideology. Its growth, existence, social and political base market as well as standing depends upon stand taken by it on a particular matter.

According to Section 2 (b) of the Trade Unions Act of 1926, “a trade union is any combination of persons, whether temporary or permanent, primarily for the purpose of regulating the relations between workers and employers, or between workers and workers, and for imposing restrictive conditions on the conduct of any trade or business, and includes the federation of two or more trade unions.”
Thus, a trade union is a media by which employees can collectively bargain with employers on the issues like pay package, working hours, fringe benefits, VRS or CRS and other individual issues. These unions work on economic factors. It’s a shield for the employees to fight against exploitation. However, this defense mechanism is used by the employees for wrong purposes.

The trade union movement though emerged in India in 1890, it took its real pace after World War I. The Trade Unions Act was passed in 1926. There were few registered trade unions in those days. The Act gave legal status to them. The Act gave legal status to the registered trade unions and the status in general public and the employers.

**Trade Union Movement in Post Independence in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Registered Trade Unions</th>
<th>No. of Unions furnishing information</th>
<th>Membership of Unions Submitting returns (in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951–52</td>
<td>4,623</td>
<td>2,556</td>
<td>20</td>
</tr>
<tr>
<td>1961-62</td>
<td>11,614</td>
<td>7,087</td>
<td>40</td>
</tr>
<tr>
<td>1971</td>
<td>22,484</td>
<td>9,029</td>
<td>55</td>
</tr>
<tr>
<td>1981</td>
<td>35,539</td>
<td>6,082</td>
<td>54</td>
</tr>
<tr>
<td>1987</td>
<td>49,329</td>
<td>11,063</td>
<td>79</td>
</tr>
<tr>
<td>1990</td>
<td>52,016</td>
<td>8,828</td>
<td>70</td>
</tr>
</tbody>
</table>


The above table reveals that, in each decade a large number of trade unions got registered as a need of the time. There were many causes responsible for the same. After independence due to partition of India unemployment
increased. The trade union movement gave confidence to the working class that they can demand welfare facilities through collective bargaining. But the poor illiterate workers were unable to understand the cost-benefit analysis of the organisations in which they were working. They were expecting higher wages, better service conditions and extra amenities. This resulted into a large number of strikes and gheraos.

**Limitations of the Trade Union Movement:** Though the trade union movement gained its importance in Indian industrial sector, it was handled in a haphazard manner by most of the union leaders. In many cases, the unions were dominated by local gundas and dadas. Such people with criminal background were unable to handle the element of collective bargaining in its true sense. An expert in trade union movement and the area of trade union movement Shri. V.V. Giri has also noticed some of the defects in trade unionism. These defects can be mentioned as:

1. **Low Membership:** The membership of trade unions in India has low response. When employees are in need, they like to have support from unions.

   However, when they are fully satisfied with the policies of employers or individually they are not in need of any grievance to be solved they do not favour any trade union. The following table shows a panic membership review of the unions.
% distribution of trade unions according to membership.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Below50</td>
<td>22.2</td>
<td>21.5</td>
<td>21.3</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>50-99</td>
<td>20.1</td>
<td>19.2</td>
<td>19.0</td>
<td>2.6</td>
<td>2.4</td>
<td>2.2</td>
</tr>
<tr>
<td>100-299</td>
<td>29.4</td>
<td>31.4</td>
<td>31.1</td>
<td>9.5</td>
<td>9.8</td>
<td>9.3</td>
</tr>
<tr>
<td>300-499</td>
<td>9.3</td>
<td>9.5</td>
<td>9.2</td>
<td>6.6</td>
<td>6.4</td>
<td>5.8</td>
</tr>
<tr>
<td>500-999</td>
<td>9.6</td>
<td>9.3</td>
<td>9.8</td>
<td>12.6</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>1000 - 1,999</td>
<td>5.1</td>
<td>4.6</td>
<td>4.6</td>
<td>12.9</td>
<td>11.2</td>
<td>10.4</td>
</tr>
<tr>
<td>2000 - 4,999</td>
<td>2.9</td>
<td>2.9</td>
<td>3.1</td>
<td>16.1</td>
<td>15.0</td>
<td>15.6</td>
</tr>
<tr>
<td>5000-9,999</td>
<td>0.5</td>
<td>0.8</td>
<td>1.1</td>
<td>6.6</td>
<td>9.9</td>
<td>12.4</td>
</tr>
<tr>
<td>1000-19000</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>14.4</td>
<td>11.4</td>
<td>10.2</td>
</tr>
<tr>
<td>2000 and above</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>17.6</td>
<td>21.6</td>
<td>21.6</td>
</tr>
</tbody>
</table>

(Source: *Labour Welfare, Trade Unionism and Industrial Relations* by – Punekar, Deodhar, Saraswati Shankaran)

**2. Poor Financial Position:** The lower amount of membership results into poor financial position of trade unions. There is no other source of funding for the trade unions. When the union is unable to collect the required amount of funds, it cannot provide required facilities to its members.

For instance, to file a legal suit in supreme court the expenses required are huge and beyond the capacity of unions.

The following table explains the financial scenario of these trade unions.
Low Income in Percentage From different sources

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1957-58</td>
</tr>
<tr>
<td>Membership fees</td>
<td>70.0</td>
</tr>
<tr>
<td>Donation</td>
<td>18.1</td>
</tr>
<tr>
<td>Sale of Periodicals, Books, etc</td>
<td>0.4</td>
</tr>
<tr>
<td>Interest on investment</td>
<td>10.9</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(Source: *Labour Welfare, Trade Unionism and Industrial Relations* by – Punekar, Deodhar, Saraswati Prakashan)

3. Absence of full time office bearers: The trade unions are unable to appoint full time office bearers due to weak financial positions. The part time office bearers who devote their limited time for the administration of unions are not professional in nature. They do not have capacity to understand the value of collective bargaining. They are unable to put forth the exact issues of the unions in right direction. This all adversely affects the strength of the unions.

Thus, the trade unions face many fundamental problems.

Measures to improve the trade union movement: The trade union movement does not work efficiently without understanding the loopholes in its way to progress. The following are some of the measures to improve the trade unionism:
1. **Strength lies in Unity**: ‘United we stand’ is the principle to be followed by the trade unions. There should be a single union to fight against exploitation. If not the different unions should come together for a common objective. If such collective efforts are directed towards the desired direction, it results into achievement of objectives.

2. **To remain free from unwanted politics**: The trade unions are generally controlled by some or the other political party. Such control is vested interests which are against the true welfare of employees. All the unions are therefore, expected to remain free from political control to have independent entity.

3. **Leaders from members**: The Unions are basically formed for the welfare of workers. But the political leaders by leading the unions utilise the united power of workers for their personal benefits. They misguide the poor and illiterate workers for the personal benefits. Therefore, the union leaders should not be the political leaders. On the other hand, the union leaders should be selected from the worker members only.

4. **Single union policy**: When the number of unions are more the power collective bargaining gets divided. The collective strength is diverted and the confused workers find it difficult to support a particular union. Therefore, the various unions should be assimilated. At least for some common objectives they should come together.

5. **Responsible workers**: The trade unions always look into the matter of collective bargaining from the view point of workers. They always feel that, the managers are wrong and the workers are right. But the workers are expected
to change the attitude and making the thinking positive they are expected to concentrate on progress of the organisation. in that case they become more responsible and they deserve to fight against the management if any wrong happens to them.

**Industrial Disputes in India:** When the employers and employees are unable to settle the disputes amongst them, the employees go for strikes, go-slow, gheraos, demonstrations, pen-down strike etc. The annoyed employers always like to teach lessons to the employees. They go for lay-offs, retrenchment, dismissals, lockouts, shifting of plant to other states etc. These industrial disputes create tension and social problems by disturbing harmony and peace in society at large.

**Causes for Industrial Disputes:**

1. **Higher Wages:** Indian business houses do not like to pay wages in proportion to profit made by them. They earn enormously but pay very less. Similarly, employees once start getting huge amount of salaries and wages, they go on demanding endlessly. Thus, the demand for higher wages from the workers is the basic reason behind the industrial disputes.

2. **Demand for bonus:** Employees always feel that they have right on the profit of the organisation in the form of bonus. They do not accept the fact that they are given with sufficient amount of salary and other perquisites. For the demand of bonus they enter into conflict with the management. It is the another important cause behind industrial disputes.
3. Demand for good working conditions: Demand for good working conditions like welfare measures is to be satisfied by the employers. It is the provision given in the Factories Act, 1948. The said Act suggests reasonable working hours, necessary safety measures, paid leave and good quality canteen etc. In most of the cases these facilities are not provided in proper condition due to which industrial unrest arises.

**Industrial Dispute in India due to various causes.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages &amp; Allowances</th>
<th>Bonus</th>
<th>Personnel Retrenchment</th>
<th>Indiscipline Violence</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>30.4</td>
<td>6.9</td>
<td>29.3</td>
<td>--</td>
<td>33.4</td>
</tr>
<tr>
<td>1971</td>
<td>34.3</td>
<td>13.1</td>
<td>23.0</td>
<td>1.4</td>
<td>27.2</td>
</tr>
<tr>
<td>1976</td>
<td>23.0</td>
<td>14.0</td>
<td>22.7</td>
<td>3.5</td>
<td>25.8</td>
</tr>
<tr>
<td>1681</td>
<td>28.1</td>
<td>8.0</td>
<td>21.3</td>
<td>9.4</td>
<td>33.2</td>
</tr>
<tr>
<td>1990</td>
<td>24.2</td>
<td>4.0</td>
<td>15.9</td>
<td>15.6</td>
<td>40.3</td>
</tr>
</tbody>
</table>


From the above table it can be observed that, during the period 1966-1971 the industrial disputes were maximum out of the conflicts arising out of issues related to wages and bonus. Due to emergency in 1976 industrial disputes due to economic demands declined. In the year 1981 wages and bonus stood for around 30% of total industrial disputes.

Retrenchment means to remove workers from the job mercilessly. In the year 1961 around 32% of the total industrial disputes took place only out of the
matter of retrenchment. The percentage of this problem kept on changing but it was only 16% in 1981.

The other causes like work pressure, demand for amenities, labour laws etc. were the other reasons for industrial unrest. It was 22% in the year 1961. But due to wars and draught it became 40% during the year 1972. It was 22% in the year 1981.

**Industrial Disputes Act:**

When the difference of opinions goes on increasing on a large scale it is difficult for government machinery to react on its working. Disputes between employers and employees adversely affect the required quantum of production. Finally, it slows down the growth rate of national income and the overall growth of the economy. To provide a permanent solution on this matter the government of India passed a special act named as the Industrial Disputes Act in 1929. It is highly essential to know about the provisions given in the said law.

**Amendments in Industrial Dispute Act:**

The Industrial Disputes Act was passed with a view to solve the industrial disputes. Initially it had impact of British Rule. After independence the government of India found many changes to be made in the said act. Therefore, it was amended in the year 1956.

The law has provided various elements to solve the industrial disputes such as:
1. **Works Committees:** The establishment having 100 or more employees can form such a committee. It has representatives of employees on its board. The committee tries to solve the dispute amicably. The idea is to settle the matter in a win-win situation. The role of committee is always to solve the conflict without keeping any of the concerned party dissatisfied.

2. **Conciliation officer:** Conciliation officer plays pivotal role in the process of settlement of Industrial Disputes. He is appointed by the government for a specific region. He may be appointed for a particular industry. He is expected to bring together employers and employees on the same platform to express their views. By open discussion method with the element of compromise he is expected to resolve the matter under dispute. Whatever may be outcome of the settlement procedure, he has to report to the government i.e, the settlement may be successful or not. He has to give valid reasons to government to settle the issues.

3. **Board of Conciliation:** The board of conciliation is appointed by government to settle disputes. The board has in its panel one chairman and two or four representatives of employers and employees. The Board has to analyse the dispute and try to resolve it. The report to concerned authorities is a must for the chairman of the board. The outcome of the efforts may be positive or negative.

4. **Labour Courts:** The labour court is set up by the state governments to solve industrial disputes at the state level. The general matters taken up by such courts are suspension of employees or any such problem. They are
expected to resolve the matter very fast. The verdict given by the judge is reported to state government.

5. **Industrial Tribunals**: The industrial tribunals are set up to solve the industrial disputes between employers and employees. They are set up at two different levels. Their jurisdiction is different. They can be classified as the national tribunals and State tribunals. The state government is expected to appoint its representative in industrial tribunal. His rank is of 'High Court Judge'. Similarly, the same type of representative is appointed by the Central Government. The biggest advantage of such tribunals is, the final verdict given by them is to be accepted by both the parties in dispute. They have to follow the procedure given by the tribunal as a solution on their problem.

6. **Court of Enquiry**: Generally, it is expected that the disputes are to be settled by the concerned parties amicably. When by using the conciliation procedure the disputes remain unsolved, the same is send to the court of enquiry. Here, the root cause of the dispute is found again to resolve the same.

7. **Joint Management Council**: The joint management council is the most practical way to make workers to participate in the decision-making activity of the management. By this workers come to know the problems faced by managers and administrators. The saying, ‘grass is always greener on the other side’, is applicable here.

Once the workers’ representatives actively participate in the process of decision making, they become much co-operative with the management staff. They help in making the industrial relations much cordial and conducive. It
reduces the wastes, increases the productivity and finally results into higher profits and good understandings between the parties.

**8. Code of Discipline:** The Code of Discipline is the media for the settlement between employers and employees. It voluntarily develops mutual trust and sense of understanding between employers and employees. The practice of actual negotiation is followed under code of discipline. The Indian labour Conference in 1958 developed the idea of code of discipline. Indian trade unions association has well accepted this code of discipline as it has the remedial capacity to solve the matter of industrial disputes.

**9. National Arbitration and Promotion Board:** This board is the media by which employers and employees through their representatives try to settle their disputes. The board consists of the representatives of employers, employees and the Central and State Governments.

**10. Central Industries Relations Machinery (CIRM):** This board is set up for maintenance of industrial relations. It always works for the increase for the membership of trade unions. The important functions of CIRM are to look after settlement of disputes, to settle strikes and lockouts and to look after implementation of provisions given in Industrial Disputes Act, Works Committees, lay off, recovery of dues, retrenchment etc.

**Workmen Compensation Act of 1923:** The industrial workers are prone to risks and uncertainties taking place while working on the shop floor. The Workmen Compensation Act was passed in 1923 by the then government to provide Compensation to the workers in case industrial accidents and injury.
The amount of compensation to be paid depends upon the wage level of the injured worker. The depth of injury and the age group of the worker are the basic factors that are also taken into account.

At the time of the partial disablement the aggrieved party gets 50% of the wages for a maximum period of five Years. The protection of this Act is not applicable to the workers who get benefits under the Employees State Insurance Act of 1948. The provisions of this act are applicable to workers working in mining activity, plantations or rather for the workers in unorganised sector.

The National Wage Policy:

The government of India has formulated National Wage Policy for the justice to be given to the workers. The said policy has two different views. A particular view is termed as narrow view whereas the other one is as a broad view.

In the narrow sense, the policy deals with the specific objectives. These objectives aim at better living for workers. It covers both organised public and private Sector.

In the broad sense, the policy formulates guidelines for the wage fixation of workers both in organised and unorganised sectors.

The Objectives of National Wage Policy:

1. To eliminate the unfair practices involved in the payment of wages.
2. To ensure the payment of minimum wages to workers in all sectors i.e. agriculture, industry and service sectors.

3. To reduce the wage differentials between organised and unorganised sector.

4. To reduce the disparities between salaries and wages of employees working in private and public sectors.

5. To co-ordinate the wage level of the workers and employees as per the cost of living index number so that the wage disparity can be minimised.

6. To prevent the use of extreme level of capital intensive techniques by protecting labour intensive techniques.

7. To minimise the wage level disparities within the industry.

8. To permit bilateral collective agreement at national level to reduce conflicts amongst the workers and employers.

9. To encourage the incentive wage system to increase the productivity and real wages of the workers.

10. To encourage the promotions of the workers by conducting the skill development programmes.

**Bhootlingam Committee Report:**

The Janata Party Government appointed a committee under the chairmanship of Mr. Bhootalingam to study the labour problems in India. The committee submitted its report in May 1978. The committee studies the problems of
workers and industrial disputes arising out of that. The following are some of the suggestions given by Bhootilingam Committee.

1. **Minimum Wages:** Similar to Bhootlingam committee Chakraborty committee also had studied the problem of industrial disputes. As per the recommendations of Chakraborty committee minimum wages should be Rs. 200/- per month at 1974 prices. Bhoothalingam Committee observed that, the minimum wages should be Rs. 150/- p.m. apart from differences in the reports of both the committees; the basic idea was to protect working class at minimum wage level.

2. **Fair Wages:** Bhootligam Committee and Chakraborty Committee say, the minimum wages means lower limit of wages that a worker must receive. Similarly, higher wages means, the maximum wages what a company can afford to pay. The actual wage limit remains between these two. Similarly, it depends upon the factors like the level of national income and distribution, the coverage of unions in industry, prevailing wage rates, productivity of labour, the place of industry in the economy and so on.

3. **Wages and Productivity:**

It is the thumb rule that, wages are to be paid to employees according to their productivity. When due to the efforts taken by workers the productivity is raised, they are eligible to demand additional wages. However, as per the suggestions given by Bhootlingam Committee, the wages are to be paid by considering productivity of labour but also profitability of the individual firm and the industry in general.
4. Wages and Per Capita Income:

By considering various labour studies and specifically the report of Bhootlingam Committee wages were revised by government legislations which were mandatory for all the organisations. As per the available real wages and per capital income the real wages are increased by 51% in 1980 as compared to 1960s prices.

In brief, by considering the suggestions given by Bhootlingam Committee report the real wages were raised more as compared to per capita income. This happened due to special attention given to workers in unorganised sector.

INDUSTRIAL LAWS:

Indian handicrafts were world famous. Hindu and Mughal dynasties nourished a large number of local artisans with their art. But Industrial Revolution in Europe and arrival British Rule damaged the Indian economy by completely extinguishing the handicrafts.

British rule brought machine made cheaper goods in market. They started factories in India. The new factory system brought modern economy i.e. money economy. Textile Industry, steel industry, ship building industry, cement industry, sugar industry etc. and many more were started in British rule.

However, due to policy of ‘ruling’ the British people always considered Indians as slaves. The workers were paid low wages, daily hours of work were not fixed, no extra benefits or welfare facilities were provided to them, they were
removed without intimation and without allowing them to defend their offence. Therefore, after Independence the Industrial laws are made from time to time in order to give justice to the workers.

**Factories Act 1948:**

Factories Act 1948 was the first step towards the developmental steps taken by government of India for the betterment of workers. The said act became baseline for the further rules and regulations made for the welfare of workers.

**Objectives of the Act:**

1. Construction of factory building as per government sanctioned and approved plan.

2. Protection of workers from industrial and occupational hazards.

3. Hygienic and clean atmosphere in the factory premises.

4. Welfare of the workers by providing various facilities like potable drinking water, canteen facility at subsidised rates, transport facility, recreation centers etc.

5. Fixed and limited hours of work


7. Appointment of factory inspectors to inspect the plant and machinery.

8. Provision of necessary staff to avoid overburdening of workers.
Provisions regarding Health of workers in Factories Act:

Section 11 to 20 deals with the provisions of ensuring health.

1. Cleanliness (Sec. 11):

It is necessary to keep the factory premises neat and clean. It is not only principally correct but also statutory requirement in the law. The following are the parameters of cleanliness:

a) Wet floor should be drained through drainages.

b) Dirt and dust to be continuously removed by sweepers.

c) The entire structure of the factory to be maintained and repaired periodically.

2. Disposal of Wastes:

It is compulsory as per the law to dispose off the waste. The set rules are to be followed for disposing these wastes as there is a possibility of damaging the environment in this process.

3. Ventilation:

It is necessary by law to provide proper ventilation to the work place. Use of exhaust fans and chimneys to send toxic gaseous elements up into air it is necessary to pay attention towards the factor of ventilation.

4. Moderate Temperature: It is necessary to maintain the level of temperature at moderate scale especially when it is at the place of furnace. It
is necessary to use temperature measuring instruments to take required actions to control the heat in the air.

5. Dust and Fumes:

Normally, in each manufacturing process the dust and fume is emitted. It is injurious to the health of workers. The organisation is expected to take due care in controlling dust and fumes.

Expectations from Trade Unions:

The role of trade union movement is generally restricted with protecting and improving the wages and conditions of work. The union should look after the interests of workers and also protect them ‘on the job’ and ‘off the job’. Likewise, in Japan they should provide complete and due care out of which morale of the workers gets boosted to the optimum level.

The various hurdles like problems related to health, family, health of parents, crèche, housing, transportation, the problems like divorce etc. are to be given due attention so the worker can devote with dull capacity to the work.

There should be planned efforts to develop the standard of living of the workers. Not only the financial standard but also overall personality of an individual is to be developed.

It’s a need of time to educate workers by conducting adult literacy classes. Educational programmes are to be organised for the children of workers. For
the housewives who are the family members of the workers, coaching and counseling with proper training is to be given to develop women entrepreneurs amongst them.

When various such efforts are made from all the dimensions, the real peace and harmony is developed by replacing industrial disputes. Various seminars and conferences are to be arranged for financial planning of workers which is required for the benefit of their old age. They should not have feeling that they are exploited.

Trade unions in the present days have not remained aggressive. They have practiced positive and practical way to deal with each and every problem. By abiding all government rules and regulations they expect the employees to develop themselves and well prepared to face any type of difficulty.

To conclude, trade unions have to be progressive, practical, realistic, objective oriented, worker friendly, ready for discussions and negotiations with the employers and rational in demands which makes them more popular and trustworthy. Trade unions must extend their sphere of work by planning for family members of the worker employees as when the family is happy, contented and co-operative the worker gets assured about due concentration on work. Fully satisfied and motivated employees can give better productivity as a result of which the overall production and finally Gross National Income increases. Trade unions are responsible thus for the economic development
of the country. Recent studies have shown this positive change in the mind of trade union leaders.
b) Wage & Salary Administration:

Wage and salary administration means to evaluate the performance of an employee and to arrange wage or salary structure accordingly. It aims at the establishment of an equitable labour-cost structure by which cost-benefit ratio of an organisation can be studied. Thus, managers study the employee needs and required motivation to have proper base for wage and salary administration.

Wage and salary administration is a very exhaustive concept. It includes job evaluation, job specification, analysis and study of wage structure, payment of incentives and fringe benefits, profit sharing and the critical analysis of compensation paid.

Objectives of Wage and Salary Administration: The wage and salary administration done for the employees should have some logical base. It has to be made according to the scientific cost analysis. It has the following objectives.

a) Objectives to Employers:

1. The scientific wage and salary administration raises and maintains employees’ morale and motivation.

2. Due to proper wage and salary administration labour costs can be minimised.
3. The employee oriented wage and salary administration provides higher wages which attracts qualitative and qualified staff.

4. The scientific wage and salary administration reduces conflicts and disputes related to wage inequities.

5. Trade unions’ demands can be faced and tackled by explaining them the basis of wage programmes.

b) Objectives to Employees:
   1. With proper wage and salary administration job and promotion hierarchies are established for rational pay structure.

   2. With proper use of wage and salary administration employees are paid according to their abilities.

   3. With proper wage and salary administration quality and performance becomes optimum by which the possibilities of favouritism can be minimised.

The important concepts related to Wage and Salary Administration:
The term ‘wage’ refers to the remuneration paid for the services of labour in production.
The term ‘Salary’ is the remuneration paid to clerical, administrative and professional staff.

The term ‘Compensation’ denotes, money paid to an employee in the performance of work. It also includes various types of benefits and services provided to employees.

The term ‘wage levels’ means the money on an average an employee earns.

The term ‘wage structure’ or ‘grade’ means the comparative wage relationships within a particular group. This grade can be made according to organisation.

There are several methods of wage grade such as:

1. Factor Comparison Method.
2. Classification Method.
3. Point Method.
4. Ranking Plan Method.

**The Process of Wage Determination:** The process of wage determination is always logical, scientific, performance-based and is very systematic in nature.

The following are the steps involved in determining wage rates:

1. Job analysis.
2. Wage surveys.
3. Study of problems related to wage structure.
4. Rules of wage administration.
5. Assigning of grades to each job.
6. Payment of guaranteed wage to each employee.
7. Explanation regarding wage structure to each employee.

**Framing of Wage Structure:**

Wage structure cannot be framed every now and then. It has to be fixed and confirmed. Timely changes are expected in the same. However, if the same is altered continuously, its reliability comes in trouble.

The following points are to be taken into account before framing wage structure:

1. The jobs to be placed in each of the pay grades.
2. The actual money value to be assigned to different pay grades.
3. The number and width of the ‘pay grades’.
4. The extent of overlap of ‘pay grades’.
5. The willingness to pay above, below or equal to the average prevailing wage rate in industry;
6. Wage ranges providing for increase in merit.
7. The possibility to provide single wage rates.
8. Differentials between pay plans.
Though the wage structure is discussed and implemented, it develops the feeling of jealousy, comparison and dissatisfaction. It is the general opinion that there should be a single and comprehensive ‘pay grade’ to be followed by the entire organisation. However, it is more realistic to have several pay grades by considering individual differences.

Belcher and Atchison quote that, “Some companies pay on the high side of the market in order to obtain goodwill or to insure an adequate supply of labour, while other organisations pay lower wages because economically they have to or because by lowering hiring requirements they can keep jobs adequately manned.” 1

Mescon mentions, “The supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and on-going wage concepts since, in essence, all of these remuneration standards are determined by immediate market forces and factors.” 2

Livernash points out that, “Broad groups may be illustrated within manufacturing as : (1) managerial – executive, administrative, professional, and supervisory; (2) clerical; and (3) factory, within each broad group, narrower groups are obvious. Within the factory groups are maintenance, inspection, transportation and production. Within production are certain smaller groups varying with the nature of the industry.” 3
Thus, we can say, many experts have supported the idea of ‘range’ in pay structure. There is a need to establish such ranges as it motivates the hard working employees.

**Advantages of ‘Range’ in Pay Structure:**

1. The concept of range attracts well-qualified and experienced employees from other competitive organisations.
2. Performance differences between employees can be explained.
3. Flexible decisions and planning can be made.
4. Overlaps in pay rates can be easily identified.

However, there are some factors which criticise the flexible wage rates developed by the ‘range’ factor. The base of criticism is, it creates inequality amongst the workers. The factors which are against this inequality and favour uniformity are the mobility of labour force between the regions, problem of reliable information, different unions creating different policies and so on.

A sound wage policy is expected to establish fair differentials in wages based upon job profiles. The general factors which are taken into account for the wage and salary administration are:

1. Job Requirements,
2. The attitude of management.
3. The cost of living.
4. Ability to pay.
5. Psychological and social factors.
7. Prevailing market rate.
8. The living wage criterion.
10. Trade union’s bargaining power.
11. Skill levels available in the market.

Principles of Wage and Salary Administration:
Wage and salary administration is generally done through a committee specially organised for the same. Executives from higher level management are appointed to look after the same. Following are the principles of wage and salary administration:

1. There should be a procedure for hearing complaints related to wages.
2. There should be equal pay for equal work.
3. There should be definite plan for wage differentials.
4. Unbiased revision of wages.
5. The wages to be according to prevailing wage rates in the market.
6. The wage structure should be flexible.
7. The wage plan should classify between jobs and employees.
8. Recognition of individual differences in the form of ability and contribution.
9. The trade union should be informed about the procedure to set wage rates.
10. The wage should be sufficient for the worker and his family.
11. Prompt payments of the dues to the employees.
Theories of Wage Payments: There are various theories of wage payments used by various organisations. Wages are paid either on the basis of time or on the basis of piece rates. Many experts have given different theories on wage payments. Some of them are:

1. Subsistence Theory: David Ricardo (1772-1823) developed subsistence theory of wages. The theory is also known as “Iron Law of Wages”. The theory says, if workers are paid more than the subsistence wage rate, the number of workers would increase. The result would be lowering down of wage rates.

Similarly, if the wage level falls below the subsistence level, the number of workers would decrease. This will happen as many of them would die out of hunger, malnutrition, diseases etc.

2. Wage Fund Theory: This theory was developed by Adam Smith (1723-1790). Adam Smith wrote his famous book ‘Wealth of Nations’ in which he propounded the development of nations and related wage levels. He is called ‘father of modern economics’.

The basic assumption behind this theory is, the wages are paid out of a pre-determined fund of wealth. This wealth is a surplus lying with wealthy persons in society. This surplus comes out of savings.
3. **The Surplus Value Theory of Wages**: The surplus value theory of wages was developed by Karl Marx (1818-1883). Karl Marx has his great contribution to the field of economics.

According to this theory, the labour is a product / factor of commerce. This product / factor could be purchased on payment of ‘subsistence price. The price of labour i.e. wages can be determined by the time needed for producing a product.

4. **Residual Claimant Theory**: Residual claimant theory was developed by Francis A. Walker (1840-1897). The theory takes into account four factors of production i.e. land, labour, capital and entrepreneur.

Residual means the balance or remaining. Wages means the amount of value created in the production. It remains after payment is made to all the factors of production.

5. **Marginal Productivity Theory**: The marginal productivity theory was developed by Phillips Henry Wicksteed from U.K. and John Bates Clark from U.S.A.

According to this theory, the actual wages depend upon the demand and supply of labour.
According to the theory as long as each additional worker contributes more to the total value than the cost in wages. It pays the employer to continue hiring such labourers. When this all becomes uneconomical, the employer may go for the superior technology.

6. The Bargaining Theory of Wages: The bargaining theory of wages was developed by John Davidson. According to this theory, wages are determined by the relative bargaining power of workers or trade unions and the employers. If the bargaining power is very high, the wage level may increase or vice a versa.

7. Behavioural Theories: Behavioural experts constitute a group of experts like Marsh and Simon, Robert Dubin, Eliot Jacques and so on. They have presented their views on the payment of wages and salaries. They conducted many research surveys for the same. According to them the payment of wages depends upon various reasons related to the work behaviour of the employees.

The concept of Minimum Wage, Fair Wage and Living Wage: The wage structure involves different terms. The important terms in wage structure are:

1. Statutory Minimum Wage: Statutory minimum wage is the wage determined as per the procedure prescribed by the Minimum Wages Act, 1948. The procedure is different for the different categories of workers.
2. Basic Minimum Wage: Basic minimum wage is also called as bare minimum wage. These wages are to be fixed according to the awards and judicial pronouncements of Industrial Tribunals, National Tribunals and Labour Courts. Once they are announced they become obligatory on the employers.

3. A Minimum Wage: A minimum wage should provide for the sustenance of the worker’s family, for his efficiency, for the education of his family, for their medical care and for some amenities.

4. Living Wage: A living wage is a standard of living that would ensure good health for the worker. It is applicable to his family also. It’s a measure of comfort and education for his children. It is a protection against misfortunes. This wage level naturally indicates a high level of living.

4. Fair Wage: The concept of fair wage implies the rational wage structure. According to the committee on fair wages, “Fair wage is the wage which is above the minimum wage but below the living wage”. It is required to provide bare minimum facilities with better quality to the employees.

Types of Wages: The concept of wage can be classified in different types according to its way of calculation. These types are:

1. Time Rate Wage System: Time rate system is practical in nature. Under this system, workers are paid according to the work done during a certain period of time. The payment is made at the rate of work per hour, per day, per
week or per month. Here, time period spent by worker is taken into account and not the actual work done.

**Merits of Time Rate Wage System:**

1. It provides stable income to the worker.
2. It is easy to calculate wages to be paid to workers.
3. The workers can concentrate on the quality of work to be done.
4. As all the workers receive wages as per time devoted by them, jealousy arising out of differential wages can be avoided.
5. The workers work slowly and steadily therefore, no rough handling of machinery or equipments is possible.

**Demerits of Time Rate Wage System:**

1. The expert workmen are unable to show their merit.
2. Workers have different abilities but they are paid equally. Therefore, better workmen will have no incentive to work better.
3. The labour charges for the same job do not remain constant.
4. The total expenditure on wages cannot be calculated as it varies per person.
5. Due to no time control on work, there is always a possibility of evasion of work.
6. It is impossible to assess the relative efficiency of workers for the purpose of promotion and recognition.
2. **Piece Rate Wage System:** According to the piece rate wage system, workers are paid according to the amount of work done. It is generally taken into account on the number of units produced or processed. It does not consider the time taken by the worker in manufacturing the product.

**Merits of Time Rate Wage System:**
1. The direct labour cost per unit remains fixed.
2. Minimum supervision is required as workers know effort-reward relation.
3. The workmen are paid according to their efficiency by which they are encouraged to increase his production.
4. To maintain continuity of work workers take care to avoid breakdown of the machinery.
5. Due to the larger output the total unit cost of production comes down.

**Demerits of Time Rate Wage System:**
1. Excessive speeding of work may result in frequent wear and tear of plant.
2. To earn more workers work fast by frequent wear and tear of machines and equipments is possible.
3. There is a maximum chance of deterioration in the quality of work.
4. There is a chance of loss of efficiency due to rat race in completing the work.
5. This method is not favoured by workers as the fixation of piece rate by the employer is not done on a scientific basis.
6. Workers work at a great speed by which they consume more power, damage equipments and results into wastage of materials.
7. Trade unions are against of such methods as it develops rivalry among workers which is harmful for unity required by unions.

3. **Balance Wage Payment Method:** We have seen in the above paragraphs that both, time rate and piece rate wage systems have their own merits and demerits. Therefore, a unique method is required to balance both the methods. The balance wage payment method is a combination of time and piece rate wage methods.

Under balance wage payment method the worker is assured for time rate or with an alternative piece rate. If the wages earned of a worker calculated at the piece rate are more than the amount which he would have earned if paid on time basis, he gets benefit for the balance. In short, the worker receives wages as per the piece rate or time rate whichever is higher.

**Wage Differentials:** Wages given to all the employees cannot be the same under any circumstances. They differ in different employments and occupations. They are different in different industries and localities. They are different for workers working in the same type of employment. The difference between wage rates offered to different persons is called ‘Wage differentials’. These wage differentials can be stated as:

1. **Occupational Wage Differentials:** The concept of occupational wage differentials indicate that as the different occupations require different qualifications and qualities wages are bound to differ. The different types of
work patterns need varied levels of skill, it involves different levels of responsibility. Therefore, wages are normally fixed on the basis of the differences in occupations. Sometimes, dignity involved in the occupation and profitability of the firm also matters.

2. Inter-firm Wage Differentials: Inter-firm wage differentials indicate the relative comparison in wage rates. The wage levels of workers in different organisations in the same occupation are taken into account for studies. The basic causes of such wage differentials are:

- Supervision,
- Cost of production and general profitability,
- Difference in the quality of labour employed,
- Imperfections in the labour market,
- Differences in the efficiency of equipment,
- other non-labour factors.

3. Regional Wage Differentials: Regional wage differentials arise when workers in the same industry and occupation staying in different geographical areas are paid differently. Regional wage differentials are dependent upon the economic development of the area and the pattern of wage payment in other industries.

Regional wage differentials is the outcome of different working conditions. These factors can be summarised as:
• Unsuitable climate,
• Sub-standard housing,
• Planned mobility of labour.
• Isolation from developed area,
• Disparities in the cost of living,
• Problem of the availability of manpower.

4. **Inter-Industry Wage Differentials:** Inter industry wage differentials arise when workers in the same occupation, with same grade, in the same locality but in different industries are paid differently. Such differences arise basically due to skill differentials.

5. **Personal Wage Differentials:** It is the basic norm in the society that in democracy all the individuals are to be treated equally. But finally the element of individual differences remain as it is. These differences arise because of differences in the personal characteristics of workers. Though all the workers work in same plant for years together some inherent qualities make them differ from each other.

**Elements of a Good Wage Plan:** We have discussed in the above paragraphs different wage plans. It is necessary to implement a good wage plan by an organisation to reap benefits out of it. The essentials of a good and ideal wage plan can be mentioned as:
1. A good wage plan should be relatively stable in nature.
2. It should be capable of easy computation of wages and the other benefits.
4. It should be arranged with quick release of remuneration to employees.
5. It should be easily understood.
6. It should be capable of motivating the employees.
7. It should be balanced in nature.
8. It should be capable of providing justice to the sincere and hardworking employees.

Components of Executive Class Remuneration: The remuneration paid to blue collar working class is called ‘Wages’ whereas remuneration paid to white collar employees is termed as ‘Salaries’.

The executive remuneration consists of four factors such as:

1. Salary and allowances,
2. Bonus,
3. Incentives,
4. Perquisites.

Regular monthly salary is the first component of executive remuneration. It is assumed to be calculated through employee evaluation. It serves as the basis for other types of benefits.

Bonus is the extra and additional payout for the efficiency shown by the employees. In this competitive world executives have a great chance to show
their abilities. They work hard for the organisation. Therefore, to compensate their efforts, bonus is paid. Each and every organisation has its own unique bonus plans. Sometimes, reputed companies offer their shares to their executives as bonus.

Perquisites constitute a major source of income for executives. All lavish amenities like car, driver, reimbursement of various expenses, medical allowance etc. come under perquisites.

Executives are compensated for the various expenses incurred by them for various purposes. The range of such perquisites differs from industry to industry. Such payments are in the form of –

- Reimbursement of medical expenses though incurred at a very costly hospital.
- Free well-furnished accommodation, conveyance and servants.
- All the cost of the education and training taken by the executives for their own knowledge enrichment.
- Educational and sports scholarships for their children,
- Allowances for the business magazines, educational CDs and books;
- Consultancy in legal, taxation and financial areas;
- Extra allowances for the entertainment of customers and for dining out;
- Recreational area including swimming pool and gymnasium;
Thus, regular salaries, bonus, stock purchase options and profit-sharing as a percentage of the net profit are some of the popular methods used to compensate executives. Of course, salary is the most common and popular method of compensation. It is determined by mutual agreement between the executives and the employer. It does not only consider the regular work done by the employee but also the sales made or boosted by him, the control over cost of production, reduction in overheads and the profit targets achieved are also taken into account while going for executive compensation.

**Bonus Related to Performance:** Bonus is generally given according to the overall profitability of the firm. The employees with high credentials or with average efficiency get the same amount of bonus or it varies as per the salary paid to them. Sometimes, it is calculated as a certain percentage of the profit.

The Indian organisations announce bonus on an average between 30 per cent to 50 per cent of the basic salary. In India it is given to employees before Diwali. Bonus can be given to employee to encourage him. For the bonus payment following conditions are applicable:

1. The amount paid as bonus is closely associated with the performance of an employee.
2. The amount paid is also associated with the level of company’s performance;
3. The amount paid is also related to the level of individual performance;
4. The amount paid after taxes shows a rise above the base salary level;
5. The amount paid is attached to the base salary.

6. The amount paid is based on an easily understandable method of calculation.

7. The individual is provided with complete information on the relationship between bonus and performance.

8. It is conveyed to the employee that the bonus of the next year may not be the same rather it may be more or less depending upon his individual performance.
c) VRS as tool of Cost reduction and Productivity Improvement:

**Rewards and Labour Welfare:**

An individual basically works to earn money. Earning is his basic objective behind any economic activity. Of course, creativity, job satisfaction etc. are many elements related to this economic activity. The same earning is given different names like salary, wages, bonus, allowances, perquisites, reimbursement etc.

The same earning for the employee, on the other hand, becomes pay for the organisation that has given employment to him. The same pay can be technically considered as ‘Reward’ for the sake of convenience. This reward is a broader term. It includes a word of appreciation, testimonial, citation or trophy given in a programme, promotion, increment any other benefit offered to the employee in appreciation of his efforts and dedication.

Rewards are little different than regular salary and wages. Rewards are classified in different forms such as:

1. **Intrinsic Reward and**
2. **Extrinsic Reward.**

Extrinsic Rewards are further classified as:

1. **Financial Rewards and**
2. **Non-Financial Rewards.**
Financial Rewards are further classified as follows:

1. Performance Based Rewards and
2. Membership Based Rewards.

Membership Based Reward are further classified as

1. Implied membership based reward and
2. Explicit membership based reward.

The above terms can be explained as:

**Intrinsic Rewards:** Intrinsic rewards are the rewards given in the form of money. These are paid directly to the employees. They are independent in nature. They are paid to an employee depending upon his individual performance.

**Performance Based Rewards:** The rewards which are directly linked with productivity are called ‘performance based rewards’. These rewards are also called as ‘compensation’. The examples of performance based rewards are piece rate pay, wage incentive plans, bonus, allowances, fringe benefits etc.

Generally, the word ‘reward’ or ‘compensation’ are similar in use. However, when a reward is associated with the performance and paid in terms of money it is called as ‘compensation’. It is an extrinsic form of reward.

These performance based rewards are extrinsic in nature. They are paid along with other financial benefits. Many research activities were conducted
on motivation after independence. They have noted that extrinsic rewards are independent by nature.

**Membership Based Rewards:** This reward is the compensation paid for being a member of the organisation in which the employee is working. The organisation has no connection to performance or productivity while giving rewards to best performing employees. These rewards are classified into two types such as implied rewards and explicit rewards.

**a. Implied Rewards:** According to many experts in management as per the traditional ideas rank pay, seniority pay and profit sharing was based on performance. However, irrespective of performance based pay some rewards were given only on the basis of seniority and position held in the organisation.

**b. Explicit Rewards:** Cafeteria type rewards, other benefits and services come under this category. We will be discussing these rewards in more details in this chapter itself.

**Principles of Extrinsic Rewards:**

As the extrinsic rewards are important for an organisation for the motivation of workers, it necessary to study their principles which are:

**a. Absence of Favouritism:** These rewards are paid exactly on the basis of free and fair evaluation of an employee on the basis of performance itself.
b. Equity and Fairness: It is the theme behind these rewards that, the jobs of equal value must be equally rewarded. As per this condition all jobs must be evaluated on the basis of individual skill, capacity to take efforts, nature to shoulder responsibility and capacity to adjust with prevailing working conditions.

c. Linking Motivation Theory: This ideology is directly linked to equity theory of wage payment. In Indian organisations wage discrimination is quite common.

e.g., less payment to females than males, more payment to seniors without evaluating their efficiency etc. This discriminating wage policy adversely affects the morale and motivation of the workers. Therefore, wages linked to the efficiency definitely motivate employees.

Non-Financial Rewards:

Financial rewards are salaries and wages, bonus, allowances, profit sharing etc. All the time financial rewards do not motivate employees. Sometimes, rather once the financial urge is satisfied to some extent the employees are motivated for such non-financial rewards.

Non-financial rewards include facilities like well furnished accommodation, chauffer driven cars etc. These rewards do not involve payment of money to the employee. Therefore, they are called 'non-financial rewards'. They require
money to be spent but it is spent by the organisation and not by the employees.

Financial rewards raise financial position of the employee. However, non-financial rewards make life of the employee better and comfortable. The employees who receive non-financial rewards always remain centre of attraction as they have their own status.

Non-financial rewards cannot be given to everyone or as per the legal status. They are given at the complete discretion of management. These non-financial rewards improve motivation. Many psychological research studies have shown that, this reward system is common though there are differences in skill and capacity. Instead of becoming rivals employees try to gain such rewards by improving individual performance. These rewards are sometimes given emotional touch to make them more fascinating.

**General Classification of Labour Welfare Measures:** Different authors and experts in Human Resource Management have classified Labour Welfare measures under different categories. However, the classification suggested by International Labour Organisation is considered here for the convenience of research studies. This classification is as follows:

1. **Extra-Mural Benefits:** These benefits include benefits like social security, medical reimbursement, life and vehicle insurance, family pension, attractive contribution to provident fund, leave travel allowances, maternity leave and
hospitalisation expenses, compensation against any physical injury, discount coupons etc. Employees get motivated out of such benefits and work more sincerely.

2. **Intra-Mural Benefits:** The intra-mural benefits are known as services. These services can be mentioned as:

- Safety shoes and clothes,
- Canteen facilities at subsidised rates,
- Transport facilities,
- Rest rooms for workers especially female workers,
- Changing rooms,
- Crèches due to which female employees become more comfortable,
- Clean and neat toilet blocks,
- Wash rooms with bathrooms, basin and mirrors
- Bath rooms with proper cleanliness,
- Bank extension counters,
- Schools with good educational facilities,
- Recreation centers,
- Auditoriums.

3. **Statutory Measures:** There are certain welfare facilities made mandatory by the government which are called as statutory welfare measures. They are made compulsory through the enactment of legislative laws and regulations.
4. Voluntary Benefits: Voluntary benefits are the facilities provided by the employers at their own. They are like rest pause, paid holidays, rest period like compulsory vacation after completion of tiresome projects, coffee break in daily schedule etc. Though these benefits appears to be very simple and ordinary they raise morale of the employees.

5. Mutual Welfare Facilities: There are certain benefits which are mutually accepted by both employers and employees are called mutual welfare facilities. e.g. paid vacations, compensatory leave, etc. They require work schedule to be arranged accordingly.

Evolution and Growth of Labour Welfare Measures in India:

In 1961 Employers Federation of India conducted a study about welfare facilities provided to workers. This study revealed 20 per cent to 30 per cent of wages bill in 1960 constituted welfare benefits. In those days facilities like felicitation of workers completing 25 years of service, annual bonus, festival advance and gifts on important festivals etc. were considered as welfare benefits. These benefits were so attractive that research studies have quoted that large scale migration took place from rural to urban India.

These welfare measures affected Indian society completely. It created a lot of sociological problems. These migrants were in need of welfare services. They were already frustrated due to agricultural uncertainties and financial problems. They were highly impressed by friendly and helping approach of
industrial organisations. It was a milestone in the progress of industries in India.

Following are the important stages in evolution of labour welfare measures in India:

1. In 1881 Indian Factories Act, 1881 was enacted.

2. 1890 Recommendations of Bombay Factory Commission got introduced.

3. In 1891 The Factories (Amendment) Act, 1891 was introduced.

4. 1914-18 was wasted in World War I.

As per the principles in economics in post war period many economic changes take place. These were observed during this phase such as:

- Rapid industrialisation.
- Rise in profitability.
- Stagnant wage rates.
- Strike after war.
- Consciousness amongst working class regarding their rights and duties.
5. In 1919 International Labour Organisation (ILO) was established for social justice.

6. In 1920 AITUC was established.

7. In 1922 Indian Factories (Amendment) Act, 1922 was introduced with additional provisions on labour welfare.

8. During 1929-31 the Royal Commission on Labour was appointed under the Chairmanship of J. H. Whitley.

The Whitely Commission Report was published on 14\textsuperscript{th} March 1931 which had suggested many important steps to improve working conditions of Indian Labour.

9. In 1934 Factories (Amendment) Act, 1934 was introduced which had complete impact of provisions given by Whitley Commission.

10. During 1934-44 Gandhiji was very much serious on labour welfare in India.

11. In 1944 Labour Investigation Committee was formed to examine the social conditions of Indian labour.
12. The Philadelphia Declaration was accepted by ILO in May 1944. It is known as ‘Grand Charter of Labour’. This declaration added dignity to labour community by saying that labourers are not be considered as the commodity but dignified human beings.

13. In 1945 the World War II came to an end. The labour force got more dignity during this period.


15. In post Independence period central trade union organisations encouraged Labour Welfare activities.

16. Though many trade unions established after independence, those which could survive in ling run are:
   INTUC established in 1947.
   HMS established in 1948.
   UTUC established in 1949.
   BMS established in 1955.
   CITU established in 1970.

**Constitutional Provisions Regarding Labour Welfare:**

Indian constitution has provided for a large number labour welfare measures such as:
**Article 41:** This article speaks about various provisions that a labourer must get. It speaks about right to work, right to education and public help in case of unemployment, old-age pension, sickness and permanent or partial disablement.

**Article 42:** The Article 42 speaks about humanitarian atmosphere at the work place. The government is expected to secure just and human conditions of work. It is expected for maintaining relief to the working class.

**Article 43:** The government is expected to secure by necessary legislation the factors like living wages, work environment with reasonably good standard of life and full enjoyment with leisure, social and cultural opportunities.

**Benefits of Labour Welfare:** Labour welfare is an integral part of motivation. It has following benefits:

1. **Real Income Controls Inflation:** Welfare measures provide various facilities to the worker for which they need not spend. The income that a person receives in terms of money is called ‘money income’ whereas the income received in terms of benefits is called ‘real income’. Such real income indirectly boosts the purchasing capacity of an individual by which they do not feel the burden of inflation.
2. **Quality of Work Life (QWL):** The workers receive through various welfare facilities life support facilities. Such facilities make their work life much more qualitative. These facilities are medical facilities, educational opportunities and social security.

3. **Empowerment:** Empowerment means strengthening of the human life and to make it more comfortable and uplifted. Empowerment involves interest, commitment and competence. It increases intrinsic motivation.

4. **Stability of Employment:** Welfare measures encourage the workers to work hard. It reduces the labour turnover and labour absenteeism. They remain happy and contented which reduces the possibility of strikes, gheraos and go slow.

5. **Industrial Harmony:** Welfare measures develop a good impression of facilities and benefits provided to the employees in the eyes of government, trade unions and the society at large. Such measures develop a sense of belongingness amongst the workers. It motivates the workers to work hard in a peaceful manner which turn raises industrial harmony.

6. **Mental Health:** Mental health means the various qualities with an individual. Welfare measures improve mental health by providing scope for discovering hidden qualities. This happens as the workers are happy and satisfied with the amenities received by them. Mental health improvement consists of providing
scope for personal qualities like dance, art, music, photography and many other extra-curricular activities.

7. **Physical Health:** Welfare measures include sports activities. In general, workers involved in sports develop an urge to maintain their health in fit condition. Sports events conducted in the organisation itself and continuous practice required for the same automatically improves physical health of workers and as a result healthy work culture is developed.

8. **Increase in Productivity:** The various measures like recreation, health and counseling reduce industrial tension. It makes the workers happy. As a result the individual capacity increases. Such motivated individuals increase productivity of labour in general.

**Principles of Labour Welfare:** Labour welfare is a very delicate and sensitive subject to handle. It has certain principles. According these principles if the welfare activities are introduced, it results into overall development of the organisation. These principles are:

2. Principle of Efficiency.

8. Principle of Integration and Coordination.


**Extra –Mural Welfare Benefits:**

Nowadays, salary is not the motivating factor for employees. They feel it's a direct and legitimate reward for the work performed by them. Allowances and perquisites are also not much fascinating for them as they feel these all benefits are for the extra time devoted by them.

The benefits like paid vacation, leave travel allowance, paid sick leave, medical insurance coverage and family pension are the benefits which attract them to work more. These are called ‘benefits’. Not only the above benefits but they expect cultural programmes and activities, housing loans at reasonable rate of interest, quality canteen facilities, better schooling of their children, well equipped hospitals, facilities like banking etc. These are called ‘services’.

The above mentioned benefits and services are membership based rewards. These are given to all employees without considering employees performance. After liberalisation and globalisation Indian organisations started spending unlimited money on benefits and services.
The corporate entities have to spend on these benefits and services as these are ‘dissatisfiers’, as explained in Herzberg’s theory of motivation. The presence of such services may not be effective but its absence demotivates the employees. Benefits attract the employees to the organisation.

In addition, they play an important role in retaining them in the organisation. These benefits and services reduce the problem of labour absenteeism and turnover.

After the World War I the idea of such benefits and services emerged and started developing. The basic idea of management people was to make the workers happy and satisfied and at the same time to keep them away from trade union movement.

The benefits given to workers can be classified into three categories such as: 1. Statutory Benefits, 2. Voluntary benefits, and 3. Flexible benefits.

Let’s explain these benefits in detail:

1. **Statutory Benefits**: These benefits are compulsory as per the provisions in law:

   a. **Social Security**: Social Security measures are the statutory benefits offered to the workers. Industrial Dispute Act, 1947 and Plantation Act, 1951 some of these benefits. They are:
• Medical care,
• Family Benefit,
• Sickness benefits,
• Old-age-benefit,
• Survivors Benefit.
• Employment benefit,
• Benefit for injury at Employment,
• Maternity benefit,
• Invalidity benefit,

b. Compensation against injury at Employment: Workers Compensation Act, 1923 provides for statutory compensation against injury happened during the course of employment. The affected employee is given medical as well financial support if such injury takes place.

c. Maternity Benefit: It is the special right given to women workers. This benefit is applicable to women working in factories, mines and other establishments. It is provided under the Maternity Benefit Act, 1961.

It covers all those who are not covered by Employees Service Insurance (ESI).

For a female employee the said Act provides six weeks leave prior and after delivery with full pay. She is also entitled to medical cover as well as bonus or other financial benefits during this period.
**d. Provident Fund:** Provident Fund is the benefit in lumpsum the employee receives after retirement. Following are some of the existing laws and legislations associated with provident fund:

**Coal Mines Provident Fund and Bonus Scheme Act 1948:** This scheme covers provident fund and bonus to employees of National Coal Development Corporation. It for those who earn less than certain amount fixed from time to time.

Under this scheme, workers contribute 8 per cent of their basic salary to the provident fund and same or equal amount is contributed by the employers.

**Seaman's Provident Fund Act 1966:** This scheme is applicable to employees employed under Merchants Shipping Act 1958. It is applied to crew members of a ship. In this case, employees’ contribution is 8 per cent of their basic salary and the same or equal amount is contributed by employers. The total amount with accumulated interest is refunded after 15 years or on retirement.

**Employees Provident Fund Act 1952:** This scheme is applicable to all factories and establishments in India except in Jammu -Kashmir and Assam. In those states a separate law is applicable for the same issues. It is necessary to introduce if there are 20 or more employees working in an organisation. Under this scheme, the contribution is 6.25 per cent for the
organisations having the number of employees are 50 or less. Otherwise, it is 8 per cent of the basic pay for others.

**Unemployment Benefit:** Unemployment benefit is covered under the Industrial Dispute Act, 1947. The Act gives mental relief and support with justice to workers if they become unemployed. It is applicable to all employees who are earning at a lower level. Workers are paid legitimate compensation in case of lay off or retrenchment.

**State Insurance Scheme:** The Employees State Insurance Act 1948 (ESI) works on contributory basis. This scheme operates with a established chain of hospitals to provide medical facilities. ESI schemes cover the following:

- Medical assistance,
- Sickness / extended sickness,
- Maternity expenses,
- Disability cover,
- Dependent benefits (to widows or children in case of death of worker)

**Pension / Family Pension:** Employees Family Pension Scheme 1971 has provided this great facility to all the retired people. Pension is the single largest source of income for retired employees. This scheme covers all Central and State government employees. Family pension is paid to the spouse of employees who die before superannuation.
Gratuity: As per the payment of Gratuity Act, 1972, on retirement an employee is paid gratuity at the rate of 15 days wages for every year of service and 7 days of wages per season for every season served by seasonal worker. The upper limit of gratuity is 20 months pay.

Medical Cover for Central Government Employees: According to the provisions in Central Government Health Scheme 1954 the medical facilities are provided to central government employees and members of their families.

Group Insurance / Individual Insurance: There are some organisations that cover their employees in group or individually under this scheme. Life Insurance Corporation of India and Nationalised Banks, mining companies, shipping corporations etc. cover their employees under this scheme.

Deposit Linked Insurance Scheme 1976: This scheme covers mine workers. Insurance compensation is paid to widows of deceased workers. In this scheme contribution is made by the central government, employer and employee. This is also called ‘Insurance Fund’.

Flexible Benefits: Flexible benefits is the concept emerged after 1990s. Earlier to this period tailor made benefits were provided to workers. The idea behind these benefits is, each and every benefit should be suitable to everyone. The employees are allowed to select a number of benefits from a list given to them. This scheme is like buffet lunch or dinner. The person can pick up as per his convenience.
**Cafeteria Compensation:** This compensation is the example of flexible approach of the management. The employee has right to select compensation package. He can select any compensation package that is suitable to him.

In brief, the above motivational benefits appear as lavish and attractive but it has become need of the time. Gone are the days when workers were in need of wages to feed their big joint families. To take care of parents, three-four children they use to wait for their monthly income coming out of fixed salary or wages.

However, today many of them have only one or two children. Their parents are financially self sufficient. The husband and wife both earn to their level best. In such cases, monthly salary or wages cannot attract them. They want something additional to get motivated. The researcher found that new and innovative ideas are emerging at corporate level to encourage employees to work hard and give the best performance.

**Intra-Mural Services:** The facilities like washing allowance or facility, canteen, first-aid box etc. are termed as intra-mural services. They can be mentioned as:

**Washing Facilities:** In many organisations workers have to work with dust, dirt, chemicals, coal, oil etc. They need facility of bathing and washing. The following laws and legislations provide for the washing facilities:
Coal Mines Act, 1952.
Factory Act, 1948.
Plantation Labour Act 1951.

**Storage and Drying Clothes:** Workers have to store their uniforms and clothes for which they need separate lockers. They also require the facility to dry the washed clothes. Factories Act, 1948, provided for such facilities to be provided by employers.

**Seating Facilities:** Factory Act 1948, has provided that the workers are to be provided with seating facility those who continuously stand and work.

**First Aid Box:** Injury at the work place is the common problem faced by all organisations. To provide immediate medical aid before reaching the hospital First Aid Box necessary. Provision of well-equipped First Aid Box is made mandatory for all factories. The legal provisions regarding the provision of First Aid Box is necessary under the following Acts:

- Contract Labour (Regulation and Abolition) Act.
- Factory Act, 1948.
- Coal Mines Act, 1952.

**Shelters, Rest Rooms and Lunch Rooms:** Workers working on open space require shelters during the summer and rainy seasons. Similarly, after lunch or as a rest pause they need rest rooms. They cannot take lunch on open space
with dust and unhygienic conditions. These all are the facilities provided on humanitarian ground.

Following Acts have made it compulsory to provide the above facilities:

- Contract Labour (R & A), Act.
- Contract Labour (R & A), Act.
- Contract Labour (R & A), Act.
- Factory Act, 1948.
- Coal Mines Act, 1952.

**The Canteen:** Lunch rooms are provided for those who bring tiffin-box at their own. But those who have not brought any such food have every right to make it available on humanitarian ground. In the British Rule the Royal Commission recommended for Canteen facility in their report in 1931.

Following Acts have made it compulsory to provide canteen facility:

- Factory Act, 1948.
- Coal Mines Act, 1952.
- Plantation Labour Act 1951.
- Contract Labour (R & A) Act.
Crèches: The female employees always have tension about their children and their due care when they are at work. In most of the organisations mother and child comes to the work place together. Crèche and school facility with food, medicines, play zone, rest rooms etc. are provided with a great care for the children. This all motivates female employees to work more.

Following Acts provide for crèche facility:

- Factory Act, 1948.
- Plantation Labour Act, 1951.
- Contract Labour (R & A) Central Rule, 1971.

Welfare Officer: In the British Rule Royal Commission was appointed to study and explain about the position of workers in India. In 1931 the commission provided its report. To take due care of employees the appointment of welfare officers were suggested by the commission.

Following Acts have made it necessary to appoint welfare officer:

- Factory Act, 1948,
- Plantation Labour Act, 1951,
- Coal Mines Act, 1952.
The idea behind the intra-mural services is very clear. It aims that the employees have to work with zeal and enthusiasm for the achievement of organisational objectives. The other facilities provided in this category are sports centers and recreation clubs, bank and post office, credit co-operative societies, fair price shops, cinema hall and theatres, swimming pool and health clubs and so on.
Voluntary Retirement Scheme:

Introduction: After 1991 the era of globalisation and liberalisation emerged. After that the idea of voluntary retirement came on the horizon Indian industrial sector. It is not new for Indians. Voluntary Retirement Scheme popularly known as VRS is the option given to employees to quit the job at their own will before reaching the age of superannuation. It has link with civil services since British rule in India. After Independence all the state governments in India have provided for voluntary retirement schemes in their services.

In multinationals and large Indian organisations under the terminology of ‘Golden Shake-hand’ employees are given extra financial incentives and financial benefits who opt for voluntary retirement.

Meaning of Voluntary Retirement:

The Oxford dictionary has defined the word "Retire" as ‘cease from office or give up the office or profession or employment’. ‘Voluntary’ means without compulsion. It is out of own willingness. Thus, ‘Voluntary Retirement’ means ‘willingly to give up the employment’. The employee takes this decision as per his own will and wish. He need not disclose the reason for his decision.

Voluntary Retirement is the mutual and lawful consent between employer and employee by which the employee has to give up the employment. Therefore, it is within the limits of labour laws. No any law can restrict such contracts. Similarly, for the implementation voluntary retirement schemes no consent is
required from labour unions. However, the total idea of voluntarily retirement is governed by Section 4 & Section 5 of the Indian Contract Act of 1872.

The employer has to study the ‘pros’ and ‘cons’ of the voluntary retirement to be given to his employees. If satisfied with all the aftereffects of such a scheme a notice is circulated by the employer amongst the employees regarding the proposed voluntary retirement scheme. This notice informs in detail to the employees about such a scheme. With proper clarification about the scheme on true and fair terms the employees are offered reasonable benefits by the employers. The employees are given option to opt for the same.

The employer makes an offer and the employee accepts the same if completely satisfied with the provisions of the offer. Then it becomes a valid contract enforceable by law. It should be agreeable to both the parties. If it is not so it is termed as ‘Compulsory Retirement Scheme’ (CRS) which is not permissible by law.

On prima-facie the scheme of voluntary retirement sounds as the plan against labour force. It appears as the idea developed out of capital intensive techniques. But it is a well accepted scheme by Government of India. The Union Cabinet has prepared such a scheme for public sector employees who have completed 40 years age or above or who have completed 10 years of continuous service.
The regular retirement benefits include Provident Fund, Gratuity and Leave encashment facilities etc. But the voluntary retirement scheme includes severance notice pay and 45 days salary subject to certain conditions. The Government of India has offered certain tax concessions on payment received on voluntary retirement schemes. But such scheme must be approved by the concerned Income Tax Authorities.

**Nature and Scope of VRS:**

In this era of globalisation and liberalisation, the survival of a business depends upon not only quality consciousness but also competitive strength, cost-effectiveness and working efficiency of the employees. To maintain cost-effectiveness the labour costs should be minimum with maximum labour productivity. It does not mean, labourers are to be paid less but their productivity should be above their level of pay packages.

This has made Voluntary Retirement as an essential characteristic feature of Indian industries. An industrial unit must apply the policy of maximum utilisation of available resources. The concept of ‘optimum’ in economics indicates ‘maximum benefit at minimum cost’. Therefore, in the process of optimisation of human resources the concept of Voluntary retirement always plays a pivotal role.

The voluntary retirement scheme is a multi dimensional term. It directly and indirectly affects employers, employees and the trade unions. Though all these three parties have their own vested interest in the scheme of voluntary
retirement. It can be implemented smoothly by considering all the probable pros and cons. However, in many cases it has become a sensitive issue due to many financial, psychological and political reasons.

The law has exhaustively considered all the aspects of voluntary retirement schemes. Chapter VB of the Industrial Disputes Act, 1947 has special provisions relating to lay off, retrenchment of workers, closure of industrial unit and so on. It has laid down procedure for any sort of retrenchment of workers.

For lay-off or retrenchment of workers prior permission of specified authority is required after giving at least 90 days notice of the intended closure. For political reasons or for some hidden objectives of employers such permissions cannot be secured. These provisions are made completely in support of employees. They have a complete humanitarian and democratic approach. To implement the said ideology successfully, financially well-off employees are offered with voluntary retirement to reduce the excess manpower with the organisation.

**History of Voluntary Retirement Scheme:**

The concept of ‘Voluntary Retirement Scheme’ has its origin in Europe. Since the use of mechanisation and computerisation the automation has made the existing manpower excess. To shed out the liability of payroll such retirement schemes emerged in Europe. The same was brought in India by Foreign banks and MNCs.
The initial voluntary retirement scheme was brought in India by Indian Railways. The Railway Authorities of India announced V.R.S. in 1977. O.N.G.C. was so influenced by the said idea that they had permanent VRS for their employees. It was an ongoing activity at O.N.G.C. Similarly, Bharat Gold Mines Ltd. introduced it in 1981.

Amongst private organisations City Bank introduced voluntary retirement scheme in 1977. It got tremendous response. Therefore, it was repeated in 1981 and 1993 by City bank. Similarly, British Standard Chartered Bank introduced the same scheme in 1994. It was but natural in those days to get success for the same and it was repeated in 1996 and in 1999.

Similarly, Batliboi & Co. Ltd. introduced V.R.S in 1987 and reintroduced the same in 1988, 1990 and in 1991. The similar schemes were then followed by Cadbury India Ltd., Premier Automobiles Ltd., Carona Ltd., Godrej Soaps Ltd. and many other organisations brought it into effect in 1992.

Sandoz Ltd. implemented its new V.R.S. in 1994. Bayer, Crompton Greaves Ltd. and Indian Standard Metals, Mahindra & Mahindra Ltd., Tata Group of Companies and Johnson & Johnson Ltd. repeatedly had such schemes.

In India the word "Voluntary Retirement" received legislative recognition in 1953. The definition of retrenchment was included in the Industrial Disputes Act, 1947 by inserting section 2 (00) in the Central Act. The said section 2
(00) explains that retrenchment does not include Voluntary Retirement of the workmen.

**Role of Voluntary Retirement and the parties involved:**

The Voluntary Retirement Scheme directly and indirectly affects the employers, employees, trade unions, the society at large, business environment, economic environment and the government. The scheme though positively taken by many of the above components it has major effect on:

1. **Employer:** Introduction of voluntary scheme can reduce the cost of labour. It can also reduce the cost per unit. It is required in the present competitive market. The measures like automation and mechanisation can be adopted by the employer. The permanent labourers can be replaced by contractual labourers.

2. **Employee:** The employees receive lumpsum amount out of the VRS. If they invest it or deposit the same in to the bank, they can earn some income.

3. **Trade Union:** The implementation of voluntary retirement scheme reduces the strength of trade unions. Those employees remain after VRS scheme are either needy or sincere in their work. They have better work culture. All this reduces the fear from management and the need for support from management gets reduced.
4. Society: The direct effect of VRS is idle labour force and lack of employment to people at large. Most of the retired people after VRS depend upon interest on what they have saved. They do not try for other employment opportunities or self-employment. All this restructures the economy. However, simultaneously, youngsters get chance to grab the new job opportunities.

5. Government: The implementation VRS solves the problem of unemployment of young generation. They get job opportunities on the place made vacant by people who have taken VRS. Govt. also gets income tax on large scale from workers opting VRS.

EXIT POLICY / VOLUNTARY RETIREMENT SCHEMES:

In 1990s Govt. of India adopted the ‘open door policy’ under liberalisation and globalisation. It was necessary for the Government of India to adopt flexible Economic Policy to cope up with the era of liberal terms of trade. It was necessary to implement ‘Export promotion and Import substitution’. Therefore, under new Economic Policy, Govt. of India relaxed restrictions on foreign trade. This resulted into a number of changes in industrial and business sectors.

The intense international competition and need to reduce the cost of production demanded more work with less pay or rather optimum utilisation of all resources including human resources. Those who were unable to manage with the new working conditions, pay structure, hours of work were unwanted
burden to the organisation. As a final result of it, the Exit Policy came into existence.

After globalisation and liberalisation the foreign collaborations, joint ventures, mergers, takeovers and the use of innovative methods and technology upgradation was introduced in India. As a result, industrial and business organisations started operating economically. The labour-intensive techniques were replaced by capital-intensive techniques by which considerable number of employees became surplus.

The problem of surplus labour force was taken into account by government authorities and EXIT policy came into existence. The government permitted Indian business and industrial organisations to reduce their excess workforce.

However, the procedure under Industrial Disputes Act 1947 for the retrenchment demands a lot of legal hurdles and procedures. By giving permission to the EXIT policy the Government was unable to violate its own rules and laws.

Therefore, to authorise the scheme of voluntary retirement of employees, suitable voluntary retirement benefits and some tax relief measures on such payments to employees who are eligible to retire voluntarily under the guidelines issued by the Government and Income Tax authorities were introduced.
At the same time, Five Year Plans encouraged public sector undertakings to meet the increased demands of industrial goods and other basic industries. This growth of public sector undertakings created employment opportunities on large scale. These undertakings were run according to the provisions in labour laws. The government, thus, got a solution to the problem of surplus staff created by voluntary retirement both in public and private sectors. This was justified as the society at large was not affected.

**Effects or Consequences of Excess Manpower:**

1. Technological upgradation is a need of time. The same cannot be introduced out of fear of excess manpower.

2. The trade unions take the advantage of the problem of excess manpower and make the workers fight against management.

3. Excess manpower increases the cost of production. Thus, it adversely affects the competitive ability of an enterprise.

4. The excess manpower results into high labour costs, resultant high production cost and finally burden on end users i.e. consumers.

5. The excess manpower creates disguised unemployment. As the workers develop feeling of their non-utility their morale goes down which reduces efficiency and productivity.
6. The labour force is under tension that they can be removed from job anytime, therefore, they attempt for anti-management activities.

**The Reasons / Causes Responsible for VRS:**

- Innovation which removes old and outdated staff.
- Introduction of new product.
- Business re-engineering process.
- Product obsolescence.
- Technology obsolescence.
- Change in technical know-how.
- Takeovers and mergers which needs excess manpower to be removed.
- Cut-throat competition due to which cost-cutting becomes essential.
- Joint-ventures and foreign collaborations due to which excess employees are removed.
- Industrial and general economic recession.
- Reorganisation of business.

**Conditions for VRS:**

The organisation that wishes to introduce VRS has to consider following conditions:

1. Whether there is surplus manpower?
2. Who wants to introduce the VRS?
3. Why the organisation wants to go for VRS?
4. How the company will manage after VRS?
5. Whether the terms and conditions offered as VRS are valid as per the prevailing laws?

**Framing of Voluntary Retirement Scheme:**

In a haphazard manner voluntary retirement schemes cannot be designed or implemented. It is necessary to consider the labour-management relations, the trade unions, the financial position of the employers i.e. capacity to give the compensation.

The VRS was a known terminology to Indians. But on 24th July 1991 the Government of India announced the New Economic Policy and the popularity of these schemes increased. In this New Industrial Policy the government introduced the amendments in the Income Tax Act, u/s 10 (10c) Rule 2 BA. According to these amendments the amount of compensation will not be taxed to employees. It is applicable to employees working in private and public sector enterprises.

The same law was amended on 1st November, 1994. Initially, the VRS was required to be approved by Income Tax authorities. However, w. e. f. 1st April 2000 there is no such restrictions are levied. An additional benefit was given to employees interested in VRS. Accordingly, from 20.06.2002 the VRS compensation is exempted from tax. But this facility is offered to those who have completed 10 years of continuous service or who have 40 years of age.
Central Board of Direct Taxes (CBDT) has a notification by which the Government of India amended the Rule 2BA. According to this change the VRS compensation would be exempted from tax from April 1, 2002.

Validity of Acceptance of VRS:

1. If an employee applies for VRS, he will officially retire only when the application is accepted by the organisation and such communication is received by the employee.

2. Once the application for VRS is accepted by the management it cannot be withdrawn by the employee.

3. The casual worker who has rendered service for long duration are eligible for VRS.

4. It is allowed to an employee to withdraw an application before it becomes effective.

5. If the pay revision is made backdated, the employee opting for VRS is eligible for such backdated financial benefits.

6. If for any reason an employee wants to withdraw the application once made for VRS, he has to produce valid reason for the same.
7. The application for VRS cannot be accepted and processed till disciplinary or legal actions are pending against an employee.

8. Once an employee opts for VRS and receives compensation, he cannot be re-appointed in the same organisation.

9. After the declaration of VRS the aims and objectives of the company or terms and conditions of service in the benefit of organisation can be introduced by the employer.

**Reorganisation to Voluntary Retirement Scheme:**

The introduction of Voluntary Retirement Scheme is a complicated process. It reduces manpower. It affects the entire line organisation. It is necessary to study psychology of the employees. VRS includes the general cost reduction, maximum utilisation of manpower and the exact application of cost-benefit ratio. Therefore, before the introduction of VRS following factors are to be taken into account:

1. The scheme of voluntary retirement is to be announced by displaying a notice on notice board so all the employees will come to know about the same. The said notice is to be kept on notice board for a period of at least two to three months or even more if it is required.

2. The entire scheme should be voluntary in nature. There should not be any compulsion to anyone.
3. The organisation reserves the right to accept or reject the application for VRS.

4. Only permanent employees are eligible to apply for the scheme of VRS.

5. The application for the VRS, acceptance of it, resignation of the job and all the formalities are to be made in writing. No verbal promises or acceptances are considered as valid.

6. The scheme may have differential benefits to different people as per the age and the number of years of service.

7. The VRS conditions should be fixed and confirm. It is to be clarified to employees. No clause in the same is negotiable.

8. If the applicant for the VRS wants to withdraw from the scheme, it is to be reversed before he actually leaves the post or designation.

**The compensation to be paid in VRS:**

The employees who apply for the VRS should be clear about the legal dues to be received by them. The following are such dues:

1. Provident fund as per the prevailing conditions.
2. Gratuity as per the law.
3. Earned wages.
4. Statutory bonus.

5. Leave Salary.

6. Pension (if applicable).

7. LTA.

8. Any other benefit according to VRS scheme.

**Compensation paid under Voluntary Retirement Scheme:**

There are legal dues to be paid to an employee opting for VRS. However, as the employee is quitting the job before the age of superannuation is the factor remains under discussion. According to future service yet to be completed some amount is paid as compensation. Of course this amount depends upon the management policy and decisions. The amount also depends upon the service already completed and yet to be completed as well as the position held by the employee in the organisation as well as the financial position of the organisation.

The employee opting for VRS can take decision about the mode of payment and its installments. The employee can get the money in two or four installments. He can request for lumpsum payment also. The option of monthly payment is also available.

**Voluntary Retirement Scheme and Tax Laws:**

The exit from job is a very difficult decision to digest. Those who happily accept it are to be careful about their decision. The life span to be completed, unforeseen expenses, education of children, old age provisions, medical
expenses, marriage of children etc. are many provisions one has to consider before opting for VRS.

At the time of VRS an individual receives a considerable amount. But the amount is received only once. It has to be utilised and invested properly by the people. Previously, the amount paid as such compensation was taxable under the Income Tax Act of 1961.

But now many tax exemptions and concessions are available. It is the moral duty of an employer to educate the employee opting for VRS. The following are such important exemptions:

1. The payment of gratuity is exempted from income tax.
2. Statutory retrenchment compensation is tax free.
3. The leave salary is considered for tax relief under this scheme.
4. Under Section 10 (10 c) of the Income Tax Act of 1961 the compensation received to the employee from public sector undertakings employee is completely exempted.

**Important guidelines by Department of Income Tax regarding Voluntary Retirement Scheme:**

The Department of Income Tax has given guidelines regarding the compensation to be paid to employees opting for Voluntary Retirement Scheme. These guidelines are:
1. The voluntary retirement scheme should not be restricted to a particular section or group of employees. It should be open at all levels in an organisation.

2. The organisation offering voluntary retirement scheme should be at 10 years old.

3. The employee opting for voluntary retirement cannot be re-employed in same organisation or its subsidiary.

4. The employee opting VRS should be at least 40 year old or more in age. He should have worked for 10 years or more in the same organisation.

5. After the implementation voluntary retirement scheme the strength of employees cannot be increased.

6. The compensation is calculated as:
   - The past service of the retiring employee shall be @ one and a half month wages (Basis + D.A.) per year of service +
   - one month wages (Basis + D.A.) for the future service left with a company.

7. The investment in tax savings schemes will be exempted in tax such as:
   - National Saving Certificates,
   - Jeevan Akshay policy of LIC,
• Jeevna Dhara policy of LIC,
• Mutual fund schemes as suggested under tax laws.

Of course, as per the policy of the organisation, Income Tax provisions changing per year revise such exemptions.

**Important aspects in VRS:**

Industrial Disputes Act, 1947 has laid down restrictions on retrenchment or closures of the business organisations. All this is done for the betterment of workers at large. The trade unions also strongly oppose reduction of workforce. At the same time it is necessary to reduce labour force out of compulsion or a need of time.

For the implementation of the EXIT Policy and to reduce excess labour force the Government has amended the Labour Laws. The amended version of Labour law was suitable to reduce the workforce. However, the trade unions had strong opposition to the amendments of labour laws. This opposition from trade unions and political interference could not allow the Government to amend the Industrial Disputes Act, 1947.

To resolve the above problem on permanent basis a golden mean was taken out i.e., Voluntary Retirement Scheme. This new concept was well accepted by the trade unions. The word ‘Voluntary’ was much appealing to them. Technically it has voluntary give up of the job. In addition, it also had provision of extra financial benefits to those who opt for the same. Thus, the scheme
became golden mean for the concerned parties like employers, employees and trade unions.

It was made applicable to the employees of the age of 40 years or above. The condition was the person should have worked in the same company for minimum of 10 years. The real essence lies in the financial benefits given to the workers for quitting the job.

**Procedure for the Voluntary Retirement Scheme:**

Prior to the announcement of Voluntary Retirement Scheme the employer has to circulate a notice offering the scheme. The notice must contain the following details:

- The reasons for reduction of labour force.
- The income tax benefit under such schemes.
- The date to apply for VRS.
- The benefits offered to the employees who wish to apply for VRS.
- Who are eligible to apply for voluntary retirement?
- The age limit i.e. minimum age required for VRS.
- The minimum number of years of service completed by employees.
- The right to accept or reject any application for voluntary retirement reserved by the employer.
- Those who apply for VRS are not eligible to apply again to the same organization for the purpose of job.
Steps involved in Voluntary Retirement Scheme:

The voluntary retirement scheme cannot be implemented in a haphazard manner. It is concerned with the life of employees. Their dependents may have to suffer due to wrong implementation of the same. The procedure laid down in the scheme can be explained as:

1. Prior to introduction of the scheme of VRS, the employer has to obtain approval from the government authorities.

2. The employees to whom the VRS is to be given are to be identified.

3. The scheme and the concern employees and the benefits to be offered to them etc. are the points to be discussed with the trade union.

4. The decision is taken about the period for which the scheme is to be kept open is finalised by taking into confidence the employees and trade union leaders.

5. Managers are motivated to encourage workers to take the scheme in right spirit.

6. Counselling of employees for their rehabilitation i.e., how the retiring employee is to manage with the funds in future.
7. At this stage the applications are received for VRS, they are scrutinised and decisions are taken regarding acceptance or rejection of application forms.

8. Once the scheme is finalised with the number of employees opting for VRS, the retiring employees are provided with papers showing the benefits to be received by them such as provident fund, gratuity, earned leave compensation etc. as well as the tax benefits to be given to the employees.

**Merits of Voluntary Retirement Scheme:**

1. VRS helps in reducing the labour cost. Thus, the total cost of production can be minimised. Such downsizing increases the scope for increased sales and profits.

2. The concerned parties like employees, employer, trade union leaders and government authorities resolve all difference of opinions before implementing VRS. Thus, one common, unique and all-pervasive scheme can be implemented.

3. There is no legal hurdle in implementing VRS as it is approved by the government of India. The same can be used as a tool for retrenchment of workers.

4. Under the scheme of retrenchment the workers have to accept what is given to them. However, the VRS gives better compensation to workers.
5. The VRS scheme is completely flexible. Therefore, VRS scheme can be applied only to those divisions and departments where there is excess manpower.

**Demerits of Voluntary Retirement Scheme:**

1. Sometimes, employers have to repeat the VRS scheme due to poor response to it.

2. It is difficult to accept the applications of VRS given by efficient employees as the scheme is not meant for them.

3. The cost of compensation paid under VRS becomes huge in many cases. It adversely affects profitability of the organisation.

4. Trade unions generally oppose the VRS schemes as such schemes reduce their popularity and cause harm to their strength and unity.

5. In many cases VRS creates a sense of fear, uncertainty and lack of confidence among the employees.

Thus, there are positive as well negative opinions about VRS. In some of the organisations the scheme had tremendous response as the schemes were made very attractive. However, in many organisations after VRS need is experienced for the additional manpower. Accordingly, new staff members are appointed. This scenario is exactly opposite to the basic idea of VRS.
The Challenges in Implementing VRS:

1. The framework of VRS should match with the strategic objectives of the organisation. If any contradiction arises, it becomes lack of proper administration and planning on the part of the company.

2. It is a very difficult task to motivate employees who are not interested in VRS. They develop fear and tension regarding their future in the company.

3. It is necessary to maintain complete transparency in the plan of VRS.

4. It is necessary to make the scheme of VRS clear and without any ambiguity. It is necessary to make the employees to take their own decisions without fear and confusion.

5. Due care is to be taken that no pressure tactics to be used to trim the work force.

6. The basic reasons and need to implement VRS should be discussed with employees, trade union members and members of the top management.

7. It is be necessary to plan the work schedule with the remaining employees after the VRS.
8. It is necessary that all the concerned employees and managers participate in the decision making to remove the excess workforce.

9. It is difficult to forecast the social, political, economic, psychological implications of VRS.

10. The employees should be provided with professional help and guidance in planning their post retirement financial management and search for any other job or profession.

11. To encourage employees who have taken VRS to undertake outsourced contracts to utilise their skill and expertise.

In brief, VRS is not easy managerial function to implement for the management. It is equally difficult for trade union leaders to support the same. At the same time, it is a lifetime decision for the employees. Therefore, it always remains a challenging job though a large number of researchers have worked on it.
REFERENCES


