

Program

PGDM, (Batch 2016-18)-2nd Tri/, End Sem Exam paper, Subject: -Industrial Relations -

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program: PGDM (Batch 2016-2018)

Subject: Industrial Relations
(End Semester examination)

Maximum Marks: 25

Duration: 1.5 hours

Date: 04.01.17

Question 1 is compulsory and carries 16 marks .Question no 2 carries 9 marks.

Q.1. Please go through the case and answer the questions at the end.

The latest eruption occurred at Honda Motor-cycle and Scooter India's (HMSI) Tapukara plant in Rajasthan this February, days after the successful conclusion of the biennial Auto Expo at which parent company Honda Motor was the largest exhibitor. Workers clashed with police and went on strike after four members of the nascent workers' union had been dismissed. The company lost around Rs 200 crore, according to initial estimates, as angry workers mixed chemicals in the paint and damaged inventory.

HMSI has perhaps the stormiest record of labour relations among auto and two-wheeler companies in India - five run-ins with its workers over 16 years, but it is far from being alone. Toyota's Bangalore unit - run in a joint venture with Kirloskar - was considered its best globally on 'built quality standards' until the record was blotted by a month long lock-out in March 2014. "We had no option but to declare a lock-out as the workers damaged our finished vehicles, denting them and scratching them with key chains," says ShekarViswanathan, Vice Chairman and Director at Toyota Kirloskar Motors.

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Toyota's global rivals such as General Motors, Ford Motor Co and Volkswagen, who managed the unions back at their headquarters very well, have also had strained relations with their Indian workers. Indeed, GM has announced the impending closure of its plant in Halol, Gujarat, in March 2017, primarily because of prolonged labour trouble. It wants to concentrate all production at its other plant at Talegaon, Maharashtra. The departure is a big blow for Gujarat, too, which had been building a reputation as a dream destination for automakers after Tata Motors shifted the Nano plant there from Singur in West Bengal in late 2008. Suzuki Motor Corporation (SMC), Ford and Honda are all setting up units in the state.

But labour problems are far from being confined to multinational companies. All the 48 auto companies

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in the country, foreign and domestic, have faced them in large or small measure. All the three auto manufacturing hubs in the country that between them manufacture 90 per cent of India's cars - the Gurgaon-Manesar belt in Haryana, the Pune-Chakan-Nasik industrial corridor in Maharashtra and the Oeragadam-Milai region in Tamil Nadu on the outskirts of Chennai - have been affected. Major players like Tata Motors, Hero MotoCorp and Mahindra & Mahindra have all borne the brunt. Perhaps the most crippling labour feud was the one at Premier Automobiles's plant at Kalyan, Maharashtra, in 1996, which led to its closure and eventual takeover by its French partner, Peugeot.

Market leader Maruti Suzuki saw one of the worst industrial clashes in the sector in 2011-12, when, after months of unrest and two strikes, Human Resources Manager Awanish Kumar Dev was killed and around 100 other executives injured in a mob attack by workers at its Manesar plant. It had seen another prolonged period of disturbances and strikes in 2000/01. Many auto component units have also had a rough time. Pricol Ltd, too, saw its HR Manager, Roy J. George, killed by workers at its Coimbatore plant in September 2009. Italy-headquartered GrazianoTrasmissioni saw its CEO and Managing Director Lalit Kumar Chaudhury lynched by angry workers at its Greater Noida plant in September 2008.

Cause of Strikes

A common source of conflict across many of these companies has been the use of contract workers and their wage disparity with that of the permanent workers. Not one of the auto majors, be it Honda or Tata, has been able to avoid using contract labour. Maruti's labour issues, for instance, began only after it started using contract workers from 1997. No doubt, permanent workers in the sector indeed enjoy better salaries and working conditions than workers in heavy industry as a whole. Last year, for instance, Maruti Suzuki gave its workers an average monthly raise of Rs 16,500, Hero MotoCorp Rs 18,000, Hyundai Rs 19,000 and HSI Rs 23,000. Long time workers at Maruti Suzuki - those who have been with it for three decades, say - earn nearly Rs 1,30,000 a month. "The average hikes for the past five years have been in the range of 10-11 per cent for the automotive companies and major ancillary units," says AmitOtwani, senior consultant with HR consulting firm Aon Hewitt.

But temporary workers recruited through labour contractors are an entirely different story. "Permanent workers comprise only a small share of the total workforce of most auto companies and they are the only ones who get the hikes," says D. L. Sachdev, National Secretary, All India Trade Union Congress (AITUC). "Contract workers are almost 80 per cent and they get no benefits." Leaders of AITUC and the Centre for Indian Trade Unions (CITU) also contend that given the high food inflation rate, an annual increment of 10-11 per cent does not translate into any substantial hike in real wages. Auto companies, on the other hand, maintain that given the cyclical nature of demand in their sector, and the difficulties involved in laying off permanent workers in India, they have no choice but to use contract labour.

The labour leaders' contention about real wages, however, seems to have some substance, considering that the overall cost of labour for auto companies has fallen from 7.95 per cent of their total expenses in 2000/01 to 5.54 per cent in 2015/16, according to the Centre for Monitoring Indian Economy (CMIE). Similarly, cost of labour constituted 8.31 per cent of net sales in 2000/01, which in 2015/16 was down to 5.28 per cent. Even after the 2015 wage increase, Maruti's labour cost is a mere 0.96 per cent of its net sales, the lowest global cost for its parent Suzuki Motor Corporation (SMC). Before the hike, it was 0.74 per cent.

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Another frequent reason for strife has been the auto company management's unwillingness to recognise unions. Maruti's 2011 dispute, for example, arose when it refused to recognise a new union, Maruti Suzuki Workers Union (MSWU) and insisted all workers remain part of the older union, MarutiUdyogKamgar Union (MUKU), which the management itself had helped set up. While not the immediate cause for the HMSI stir in February, forming a union has been a longstanding demand of the workers - they still do not have one. Hyundai's Chennai plants have grappled with the same issue.

Some industry analysts also feel that the influx of expats - many of them ignorant of Indian cultural nuances - in senior managerial positions, as well as the advent of a younger and aggressive workforce in the factories, have aggravated the problem. "We are taking steps to sensitise our members on industrial relations," says SugatoSen, Deputy Director General, Society of Indian Automobile Manufacturers (SIAM). "Compensation is important, but automakers should also understand the cultural transition that is taking place at a humanitarian level."

Labour being on the concurrent list, the multiplicity of laws relating to it - over 45 Central laws and more than 100 state laws - make matters worse, leaving expat managers in particular utterly confused. Pleadings for flexibility in labour laws to enable auto companies to respond effectively to cyclical demand have fallen on deaf ears.

Effect of Strikes

The auto industry contributed 7.1 per cent to India's gross domestic product (GDP) in 2015/16, employing 31 million people and producing 23 million vehicles. Official estimates peg the losses due to labour disputes at around Rs 500-700 crore annually over the past five years, or about 30,000 units. Equally worrying is that the vitiated atmosphere has prompted at least one global manufacturer to rethink its India expansion plans. Early in 2010, Hyundai shifted partial production of its i20 premium hatchback from India to Turkey following a series of strikes at its plants. Similarly, Hyundai's i10 is no longer made exclusively in India as before, but in Turkey and headquarters Korea as well. Hyundai claims the i20 shift to Turkey has logistics benefits for the company as it locates the production centre closer to its European market, but there is no doubt that labour strife in India too prompted the decision. Hyundai exports from India have fallen from 233,069 units a year in 2009/10 to 162,221 in 2015/16, or from 40 per cent of its total India production to 25 per cent. In India, it now produces cars only for the local market and other South Asian countries. "Going by the rise in conflicts, we feel the issue of labour is emerging as a strong consideration for the entire auto industry on future investments in India," says RakeshSrivastava, Senior Vice President (Sales andMktg) Hyundai Motors , India .No doubt, in spite of Maruti's troubles, SMC showed its continued commitment to India by starting work on a new plant inby starting work on a new plant in Mehsana, Gujarat, after closing down its North America and Canadian subsidiaries. The plant is likely to start production by mid-next year. But it is hedging its bets and also plans to supplement its exports to Europe by increasing production at its subsidiaries in ASEAN countries, instead of relying on India alone. So too Nissan Motors is planning to move part of its Micra production out of India, even though it has not yet faced any serious labour problem.

Experts fear that a rising labour wage bill, coupled with an antagonistic labour force and a complex maze

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of labour laws, could well affect India's global competitiveness in this sector. "Given its rising wage costs, Indian auto exports will have stiff competition from ASEAN and the European block in coming years," says Aon Hewitt's Otwani. Competition is brewing from Vietnam, Thailand and Indonesia in South-east Asia, and Hungary and Slovakia in East Europe. India is still the world's biggest small car exporter, but exports growth have moderated to 5.25 per cent annually in the last fiscal. Hyundai and Nissan, the biggest auto exporters from India, have seen an export decline of 15 per cent and seven per cent respectively in 2015/16 over the previous fiscal year. "India is still a shining star in auto manufacturing, but there is urgent need for a discourse on labour, so that we don't lose out on the cost arbitrage," says Maruti Suzuki's 81-year-old Chairman, R. C. Bhargava.

There is every chance that companies will turn to increased automation, including use of robots in tasks such as denting and painting of autos to reduce their dependence on labour. Robots are not yet in a position to replace human labour in the auto sector, but the trend is clear. The International Federation of Robotics estimates the rise in robot use across the auto industry will rise globally by 12 per cent between 2015 and 2017, with the highest growth of 16 per cent expected in India. "Companies have been pushed to think about automation on the back of labour issues and growing costs," says Abdul Majeed, Partner at Price Waterhouse.

The preoccupation with labour demands also diverts attention from a vital labour issue auto companies need to confront - the paucity of skills. Paradoxically, while lakhs of contract workers are clamouring for permanent jobs but cannot be accommodated, there is shortfall of manpower of up to 20 per cent in certain 'super-specialty' areas of manufacture, especially in the auto component industry. Poaching of the few highly skilled workers is rampant. Companies are coping with the problem by both running skilling programmes as well as lowering their expectations from workers. "We are working with ITIs to make up for the shortfall, but demand always exceeds supply," says Bhargava.

Lessons from History

Experts unanimously agree that labour militancy needs to be nipped early to avoid serious consequences later. India has plenty of experience of militant labour which hit industrial production badly during the 1960s, 1970s and 1980s. The nationwide railway strike of 1974, which crippled the country, and the textile strike in Mumbai in the early 1980s - which hastened the demise of the entire industry - are still recalled with horror. In the auto sector, militant trade unionism in West Bengal, encouraged by the ruling Left Front government, forced the closure of Hindustan Motors, makers of the iconic Ambassador brand. Faridabad, once a flourishing industrial cluster, famous for its units making automotive parts, was destroyed by labour wage disputes. "We don't want Gurgaon-Manesar to turn into another Faridabad," says ArvindKapur of Rico Auto. "Any unsustainable rise in wages will disrupt the fine balance in the region."

Maruti Suzuki has already drawn the right lessons from its disputes. It is going back to the practices that kept the Gurgaon plant trouble free for more than a quarter century. "We are rectifying the issues that arose from the growing number of temporary workers," says Bhargava. "The system of recruiting them through labour contractors is now over. We take in the temporary workers as our associates giving them a regular pay scale and increments just as we do the permanent workers. They are now part of our workforce pool and employed whenever required."

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Simultaneously, better communication has been established with the workers, especially those at the Manesar plant. "K. Ayukawa, our new managing director, is in constant dialogue with the workers to improve relations," adds Bhargava. The results are already showing: while in 2011/12, profits had dropped 28 per cent over the previous year to Rs 1,635 crore, in 2015/16 they have risen to Rs 4,571 crore.

Toyota too has changed its approach after the 2014 lock-out. "We believe Indian labour is quite competitive and has consistently rolled out best quality vehicles across our global operations," says Viswanathan. "We are working closely with our associates to blend them into the global Toyota production system." Hero too insists that much has changed. "There were unfortunate instances in the recent past which vitiated the industrial relations atmosphere," says Sanjay Jorapur, Chief HR Officer. "In an increasingly competitive and sometimes volatile business environment, we have forged a strong partnership with our workforce and trade unions."

If the labour situation can be controlled, there is no stopping the Indian auto industry. It is already the world's largest manufacturer of buses and motorcycles, but in fifth position in cars. Experts have forecast that it could also emerge as the third largest car market by 2020, accounting for more than 5 per cent of global sales - nudging aside Japan and Germany, with only China and the US ahead of it.

Questions

1. What is the influence of contextual factors in shaping Industrial Relations in the Automobile Industry? Are they deterministic, or do the employers have strategic choice options?
2. Is a unitary approach feasible, given the above background? What could be a prescription of creating a harmonious workplace?

2. Please answer the following questions in not more than 50 words each (Any three).

- a. Why do employees join trade unions?
- b. What are the four pillars of a decent workplace?
- c. Is hire and fire legally possible in an industry in India?
- d. What are the tri-partite methods for conflict resolution in India?
- e. How is 'Employment Relations' different from 'Industrial relations'?
- f. What are the key elements of an employee grievance procedure?