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## Human resource management and labour relations in the Indian industrial sector

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# WZB

Wissenschaftszentrum Berlin  
für Sozialforschung



Soumi Rai

**Human Resource Management and  
Labour Relations in the Indian  
Industrial Sector**

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Soumi Rai

**Human Resource Management and Labour Relations in the Indian Industrial Sector**

Discussion Paper SP III 2012–301

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## **Abstract**

This paper addresses gaps in research related to study and understanding of Human Resource Management in the context of Indian Automobile sector. The review is based on the available and published literature in peer reviewed journals of reputation and academic standing. A total of 138 papers were reviewed related to the general context of Human Resource Management practices. Of these, about 65 papers were found relevant and relating to understanding of HRM practices in India specifically in the context of the industrial sector. The timeline for literature review has been taken from 1970 – 2010, as it encompasses the period of industrialization in India, growth of HRM and major transition across Indian industrial sector post economic liberalization – 1991.

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## **Preface**

The present paper was written in the context of a research project on Personnel and Production Systems in the BRIC countries. The BRIC countries – Brazil, Russia, India and China – stand for the great ‘emerging markets’ which are playing an increasing role as industrial centers of worldwide importance. Thus, the management concepts and practices pursued by companies in these countries can be expected to be of influence also for the traditional industrial countries in the future. In view of the particularities of the BRIC countries, the project is interested in the following questions: What are the critical differences of the human resources conditions in these countries? How do companies (multinationals and locals) with their personnel systems deal with these conditions? Do the multinational companies transfer their standards, or do they attempt to draw an advantage from the special conditions existing in these countries? Thus, are they banking rather on advantages such as the immense labor market, low labor costs, lack of regulation – or do they right from the start develop personnel and invest in their qualification? In this sense: Are they taking the “high road” or the “low road”, and what differences exist between companies in this regard?

The project has been carried out by the research unit “Knowledge, Production Systems and Work” by Ulrich Jürgens and Martin Krzywdzinski in cooperation with Florian Becker-Ritterspach at the University of Groningen between 2009 and 2011.

As part of the project, we asked our research partner in each of the BRIC countries for a review of the research literature of these countries dealing with country-specific approaches, traditional and newly emerging, regarding companies’ personnel systems and production organization. The present paper deals with the situation in India. The author, Soumi Rai, is assistant professor at the Symbiosis Institute of International Business at Pune, India.

Ulrich Jürgens

# 1. Introduction

HRM or human resource management has been widely defined by scholars as a strategic function that encompasses management of its critical human assets for gaining competitive advantage in a dynamic business environment. HRM is the function performed in organizations that facilitates the most effective use of people to achieve organizational and individual goals (John Ivancevich and Glueck, 1989). The concept that 'human resource' is a valued asset that can help tide an organization over turbulent waters has been very aptly realized in the recent times of economic turmoil by businesses worldwide. The genesis of this concept however lies with the onset of the behavioral movement in the early 20<sup>th</sup> century when eminent researchers like Mary Parker Follet, Chester Barnard, Elton Mayo and Douglas McGregor realized the most important component of any business – 'its manpower or human resources' that made the difference towards better efficiency for any organization. Termed the 'Human Relations Movement', researchers tried to understand how issues like working conditions, workplace relations, job satisfaction, work variations etc could actually impact efficiency levels of an organization.

Armstrong (1992) defines HRM as a strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives.

Having its origin in the United States, HRM has constantly remained a topic of debate amongst the academicians and businesses alike. While businesses in the initial years of evolution failed to understand how the concept of HRM differs from the concept of purely personnel management, academicians had their own schools of thought relating to understanding HRM.

The Michigan school (Fombrun et al., 1984) believed that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy, also therein termed as the 'matching model'; the emphasis was on understanding the entire cycle of Human Resource Management beginning with selection, to effective appraisal, giving rewards to developing high quality employees in the long term perspective. Round the same time period, the Harvard school of thought (Beer et al., 1984) developed the 'Harvard Framework' (Boxall, 1992) that first held the belief of considering a long term perspective of people management as potential assets than merely variable costs. Beer et al., 1984 went on to state: 'Human resource management involves all management decisions and action that affect the nature of the relationship between the

organization and its employees – its human resources.’ They were also the first to believe that line managers should accept the responsibility for alignment of competitive organizational strategies and personnel policies rather than totally depending only on personnel managers for effective management of its people.

This model went on to exert considerable influence on management thought of countries across the world and also the functioning of organizations by creating a difference between personnel management and human resource management. HRM has been a field of study with increased complexity and multidisciplinary approach. (Cakar and Bititci, 2002) through their research demonstrated the levels of inconsistency in the study of HRM with respect to HRM models from a business process perspective. There exists a lot of debate in HRM related literature pertaining to the concepts of hard & soft ‘HRM’ (see for example Storey, 1989; Legge, 1998; Guest, 1999; Truss, 1999; Granton et al., 1999) and also to an understanding of the strategic role of HRM in the business process, particularly its contribution to the firm (see, for example, Guest, 1997; Huselid, 1995; MacDuffie, 1995; Schuler and Jackson, 1999). Nonetheless HRM over the decades has moved from its role of being a mere spectator cum administrator to being a more strategic proactive contributor in an ever changing business domain.

Literature review related to the study and understanding of Human Resource Management in the Indian context has been primarily based on the post-liberalization era. The focus has been on understanding what HRM means in the Indian context across the industries (Singh, 2005; Rao T. V., 2009), how this particular discipline is helping firms cope against MNC competition (Som, 2002, 2006, 2008), cross – cultural context in terms of comparison with the US and UK (Amba-Rao, 1994, 2000; Budhwar et al., 1997, 2001, 2003, 2004). However most of the literature has been generic in nature studying the Indian context of HRM across all spectrums of the Indian industry with considerable less focus on understanding the specific aspect of this particular discipline to the Indian industrial sector. Evidence of little research and review on this specific sector has addressed major issues related to values (Sinha, 1980, 1988, 1990; Singh, 1990 ), leadership (Sinha, 1984) and performance management (Amba-Rao et al., 2000; Rao S., 2007) or has been based in understanding union and industrial relation issues (Flagan and Deshpande, 1996; Ramaswamy and Schiphorst, 2000; Bhattacharjee, 2001; Bhandari and Heshmati, 2005; Bhandari, 2010) with less focus on understanding issues of organization, management and impact of HRM particularly on functioning in the industrial sector.

This paper addresses gaps in research related to study and understanding of Human Resource Management in the context of Indian Automobile



sector. Through literature review (secondary data), and help of prevalent cases pertaining to this sector, the following points are addressed. The paper draws on prevailing literature related to both Indian automobile and industrial sector for better understanding and, opening of avenues towards further empirical research in this yet untapped sector.

## **2. Review parameters**

The review is based on the available and published literature in peer reviewed journals of reputation and academic standing.<sup>1</sup> The research has been conducted with reference to available data from academic database sources like API/Inform and EBSCO. The focus of this review was to look at available literature and research on the situation in India and not treat general literature as a line of discussion. The priority was to focus on Indian literature by Indian researchers which could give a better perspective at the ground level related to HRM practices in the Indian industrial sector as well the automotive sector.

During the course of data review, the author could come across lots of research literature detailing general discussions in HRM and its practices with reference to the industrial sector. However, research related to India has been limited with more focus being on cross – cultural comparisons between US, UK and Germany. Most of the empirical research conducted has also been generic, with data being sampled from organizations across Indian business and not being limited to a particular sector. A total of 138 papers were reviewed related to the general context of Human Resource Management practices. Of these, about 65 papers were found relevant and relating to understanding of HRM practices in India specifically in the context of the industrial sector.

It has been very difficult to find literature specifically related to the Indian automotive sector, with the exception of two papers that give a broad comparison between India and Japan/Germany respectively. Also a point to note here is that, with specific reference to some sub parameters of review; the author has also considered a few empirical research papers that have sampled data majorly from industrial sector but have also included some other sector Indian organizations in the concerned study. The author has also referred to some online sources (cited in Web references) for

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1 (International journal of human resource management, Journal of small business management, Employee Relations, Thunderbird International, International journal of business and management, International studies of management and organization, Singapore management review, International journal of psychology, Indian journal of Industrial relations, Vikalpa, Vilakshan, IIMB Review ... to name a few)

understanding some relevant cases pertaining to HRM practices in context of the Indian industrial sector with an emphasis on the automotive sector. The timeline for literature review has been taken from 1970 – 2010, as it encompasses the period of industrialization in India, growth of HRM and major transition across Indian industrial sector post economic liberalization – 1991.

A tabular representation of the main research papers reviewed is given below.

*Table 3.1: Main research papers*

<i>Paper Details</i>	<i>Author/Publication/Year</i>	<i>Overview</i>
Human resource management in the Indian public and private sectors: an empirical comparison	Pawan S. Budhwar and George Boyne, International Journal of Human Resource Management/March 2004	This study compares human resource management (HRM) practices in Indian public- and private-sector organizations. The investigation is based on a questionnaire survey of 137 large manufacturing firms (public sector = 81, private sector = 16). The key areas of analysis include the structure of human resource (HR) department, the role of HR function in corporate change, recruitment and selection, pay and benefits, training and development, employee relations and emphasis on key HRM strategies.
A comparative study of HR practices in Britain and India	Pawan S. Budhwar and Naresh Khatri, International Journal of Human Resource Management/August 2001	This paper traces the major developments in the field of human resource management briefly and then highlights the need for more cross-national HRM studies.
Competition and Change: Mapping the Indian HRM Recipe against World-Wide Patterns.	Sparrow Paul R., Budhwar Pawan S., Journal of World Business/Fall 1997	The research raises a series of propositions for international managers considering the transfer of HR practices from one country to another. Data from an empirical study based on a survey of HRM practices in 137 Indian organizations are combined with the original IBM/Towers Perrin worldwide HRM survey dataset to produce a nine factor empirical framework that is of value in comparing national HRM patterns.

<i>Paper Details</i>	<i>Author/Publication/Year</i>	<i>Overview</i>
Bracing MNC Competition through Innovative HRM practices – The way ahead for Indian Firms	Som Ashok, Thunderbird International Review/ March-April 2006	The study gives an overview about how Indian firms are gradually adopting Innovative HRM practices to brace MNC competition, post-liberalization in the India.
Comparative performance appraisal practices and management values among foreign and domestic firms in India.	Sita C. Amba-Rao, Joseph A. Petrick, Jatinder N.D. Gupta and Thomas J. Von der Embse, International Journal of Human Resource Management/February 2000	This empirical study compares performance appraisal practices and management values in India by firm ownership. Differences in Indian private investor corporations, public sector enterprises, foreign/joint ventures and private family businesses are examined to assist managers to adapt selectively to firms in the changing Indian economy.
US HRM principles: cross-country comparisons and two case applications in India	Sita C Amba-Rao, The International Journal of Human Resource Management/September 1994	This paper analyses the human resource management (HRM) systems of two fairly large, complex, technical organizations in India, embedded in specific external environments. The HRM practices of the two are compared with studies of practices in India and other developing countries. Further, the practices of the two organizations are compared utilizing a US HRM model. Findings are discussed with reference to relevant studies in India and the US.
Managerial Culture and Work-related Values in India.	Singh Joginder P., Organization Studies (Walter de Gruyter GmbH & Co. KG.)/ 1990	This study examines the managerial culture and work-related values in India. It tries to understand the definition of the various dimensions of culture; relationship between culture scores and demographics; link between differences in power distance with the perceived and preferred style of the superior
Context Sensitivity and Balancing in Indian Organizational Behaviour.	Sinha Jai B.P, Kanungo R. N., International Journal of Psychology/1997	This paper attempts to explain Indian organizational behaviour with the help of two interrelated concepts: context sensitivity and balancing

<i>Paper Details</i>	<i>Author/Publication/Year</i>	<i>Overview</i>
The Evolution of Indian Industrial Relations: A Comparative Perspective	Bhattacharjee D., Industrial Relations Journal/August 2001	This study examines the evolution of Indian industrial relations in an historical and structural context.

### 3. The history of human resource management in India

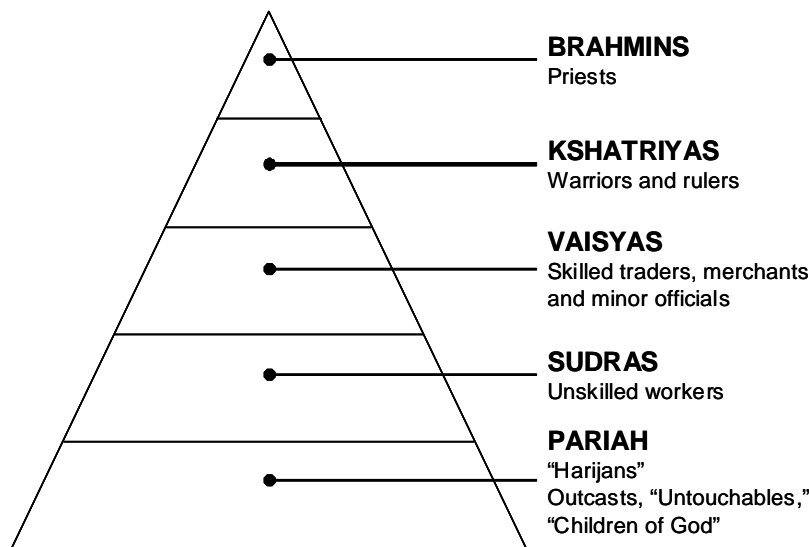
Management as a concept is not new to the country. Historically it is stated that Kautilya (the most reputed economist and management guru of Indian History, advisor to King Chandragupta Maurya) provided a systematic treatment of management of human resources as early as 4th century B.C. in his treatise titled "Artha Shastra". This book or treatise details logical procedures and principles in respect to people management referring to the *rajya (state)* as an organization and the *raja (king)* as the head or CEO of an organization. Kautilya being the eminent advisor, through his *sutras* emphasizes the need of humility in the king and his *mantris* (managers) while following the path of *dharma* (ethics & righteousness) in management of an organization (*state*). The importance was on self-management and self-evaluation before considering oneself truly capable of leading an organization as a competent leader keeping welfare of people and the organization before one's own motives. The text although written centuries back in an ancient script (*Sanskrit*) draws parallel to today's modern organization systems and issues. (See Muniappan, 2005 and Rangarajan, 1992).

Similarly the *Bhagvad Gita*, considered one of the most holy texts of Vedic literature written during *Mahabharata* is a practical guide to all aspects of life including management of self and thereafter management of people and resources. Concepts like optimum utilization of resources, decision making, leadership, ethics, motivation, morale and outcome of performance (deeds) are clearly marked in the verses of this great book as ongoing dialogues between the *Lord Shree Krishna* and the *Warrior Arjuna*. (Bhattathiri, Unknown)

Understandably the ancient Vedic concept of 'Varnashrama' also refers to division of work on the basis of natural classification inherent in a society, based on one's personal capabilities and aptitude. 'Varna' means 'root' and its understanding differs in interpretation of Rig Veda and Bhagwad Gita. The 'Purusha Sukta' in the Rig-Veda 10:90, refers to the classification of four varna by way of comparison to the 'primordial man' (Purusha). It

defines the Brahmana as the mouth, his arms as the Rajayana (used for Kshatriyas), his belly and thighs as Vaishya and his feet as Sudra. The Bhagvad Gita differs in this viewpoint with Lord Krishna classifying individuals not on the basis of his birth or heredity but on his interests and capabilities in doing work.<sup>2</sup> The fact that Hindu societies had already understood this concept can be aptly visible from segregation in terms of skill based work like Brahmins (the mouth) – undertaking teaching and spiritual work, Kshatriyas (the arms) – undertaking protection of the state as warriors, Sonars (belly and thighs – the providers) – goldsmiths, Lohars – blacksmiths, Baniyas – traders (part of the *Vaishyas* clan) and Shudras – people undertaking menial jobs. This ancient management knowledge was quite relevant to the functioning of a society, being relevant in this century also; wherein we refer to career development based one's interest and aptitude towards work.

Figure 1: *Varna or Caste system in India*



This concept of management from ancient India was however lost due to successive invasions upon the country and confluence of different cultures from across the world, fragmenting the country into numerous small states governed by sovereign rulers lacking at times both competence and people (*Praja*) management skills.<sup>3</sup> Gradually the natural classification of the society evolved due to subsequent inter-marriages and subdivisions, giving rise to more than 3000 plus castes, as can be accounted for in modern India.

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2 [http://en.wikipedia.org/wiki/Varna\\_\(Hinduism\)](http://en.wikipedia.org/wiki/Varna_(Hinduism)), accessed on 13<sup>th</sup> April 2011 at 2.30 pm

3 <http://www.respawngamingcafe.com/mba/Human%20Resource%20Management.pdf>, accessed on 13<sup>th</sup> April 2010 at 4.30 pm

These sub-castes or 'jatis' resulted in more rigidity in a societal system that had been governed by principles of work interest, creating stringent laws for each sub-group by way of establishing supremacy of their own affiliated groups (jatis)<sup>4</sup>

### **The advent of modern management in India**

The initial years of modern management evolution in India, started with the eighteenth century (termed the Colonial period till the year 1950) when the Britishers or the colonial rulers set foot in the country, an era that has been marked with a sole focus on utilization of labour as a commodity which can be bought and sold at a price. So great was the impact of this thought process during the colonial rule, that the then formulated Plantation Act 1863 treated labour with imprisonment and severe punishment on failure to do work as ordered. The mechanism was biased with hardly any intervention to protect the interests of workers except in issues related to wage settlement. The slow progress towards recognizing labour as human beings and not machines began with the Factories Act 1881, which allowed some liberal policies like weekly offs, fixed wages and fixed hours of work. Personnel management being the main concern of employers during the early twentieth century, there was more concentration on industrial relations and labour management paving way for the enactment of various acts – namely the Trade Union Act (1926), Workmen Compensation Act (1926), Trade Disputes Act (1929), Bombay Industrial Relations Act (1938); recommendations of Royal Commission on Labour 1931 led to the Payment of Wages Act (1936) and further amendments to Factory Legislations Act (see report by First National commission of Labour, NLC, 1969)

Post independence focus slowly started shifting towards industrialization of the new country and evolution of a uniform Labour policy. However, the veil of colonialism still hung greatly over India with major leaders still being under the influence of Western philosophies and policies. Evidence of this fact is visible during the post-colonial phase of management evolution in India, from 1959-1976. The Indian government was keen on aping all that was Western and incorporating the same in the Indian context. It began looking at industrial investment through a 'mixed economy' policy wherein technology would be imported from Western nations but there would be a protection regime for domestic industries by way of policies relating to regulations on price levels, import levels, joint ventures, and investment levels to name a few (Rothermund, 1992). Their ambitious

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4 <http://hinduism.iskcon.com/lifestyle/901.htm>, accessed on 13th April 2011 at 3.30 pm

industrial and labour policies were backed by rising Indian business houses and leaders who were prominent socialists and authorities in themselves. Being family controlled business that worked on the 'managing agency system', investment and staffing decision were centralized with no major merit towards empowerment of human resources (Tandon, 1980). The resultant effect of which became aptly visibly not only in the formulated Labour policies but also on management of workforce across the industries, being more legislative and reactive than being proactive and voluntary.

However this hope of quick fix policy by the Indian government did not work very well, with the country witnessing turbulent times from the year 1977 (when emergency was declared in India) till 1990 – the year before liberalization process began in India. The subsequent series of wars that India faced from 1962–1972, bred a culture of protection across the Indian industry per say the industrial sector (being the most dominant sector). The crisis was compounded by the lack of managerial talent in India based on the fact that Indian managers belonging to a totally different cultural background just could not adjust to the managerial theories and models of the West. Theorist started questioning the root of Western philosophies with scathing remarks on Indian policy makers and so-called management gurus about the sanity of blindly aping the West in all domains of industrialization and management. They emphasized the need to understand concepts from India's own ancient roots, culture and values, even spirituality (Hinduism) and incorporate the same into Indian managers for better sensitivity to one's own people alternatively for better people management. (Chakraborty, 1991, 1995). India during this era of crisis, dipped from being one of the major industrialized countries to the bottom of the rung in the list of 10 industrialized nations. The 1992 UNDP Report of Human Development ranked India at 134, in a list of 160 countries on the human resource index.

The country's journey of progress began with the New Economic Policy, 1991 initiated by the then Prime Minister – Shri Rajiv Gandhi and his stalwart – Dr. Manmohan Singh, opening the doors of Liberalization and ushering in the concept of competing in a globalized environment for the Indian industry. Banga (2005) presented a view on liberalization and its impact on wages and employment. She went on to conclude that FDI? needed to be increased in export-oriented sectors coupled with liberal labour laws that can go a long way towards improving employment levels and also add on to the skills of workmen enabling strategic utilization of manpower for economic growth of the nation. This phase beginning 1992 has progressed greatly over the last two decades, accepting Human Resource Management as a holistic concept incorporating the essence of human spirit and recognition of its potential for business success.

## **4. HRM approaches and models in India**

### **4.1 National visionaries and model companies**

India has ever been a land of paradigm and fascination. People from the West had previously envisioned the country as a land of spiritual gurus and snake charmers – a concept that has taken a long time to erode even with globalization and economic liberalization. Today India stands tall with its diverse culture, considerably huge population, and economic disparity as one of the fastest growing developing nations. It is a nation with the largest English speaking population and the world's largest base of middle class that has led the spurt of growth. A recent report by IMF has pegged India's GDP growth at 7.9% for the year 2010.

The country has ever been heavily influenced by Western management philosophies and schools of thought, particularly those of the United States and UK. Management education based on Western philosophy of 'materialism' gained prominence in India around the early sixties with the establishment of the Indian Institutes of Management (the most prestigious and reputed institutions of India), funded by the Ford foundation based on the thoughts and systems of its able western counterparts – the Harvard School of Management and MIT's Sloan School of Business Management emphasizing the need to incorporate Western or more specifically US management theories and models as a medium of achieving collaborative management education. (Hill et al.1973, Srinivas N., 2009). Conversely the country has still clung to its roots, ethos and cultural values in terms of people management leading to a misunderstanding that generalized HRM principles do not work for India. The country has its own philosophies deeply rooted in cultural beliefs, traditions and habits that dominate its human resource management principles and functions (Sparrow, Budhwar, 1997). The best part about HRM evolution in the country has been its ability to incorporate principles, approaches and models from across the world that was beneficial to the functioning of the organizations. While labour and personnel management principles were heavily borrowed from United Kingdom, approaches and models of HRM came from the United States, quality consciousness and norms were adapted from the Japanese, thus creating a powerful productive concoction sprinkled with indigenous Indian values and ethos – a sure shot Indian recipe for success even during the times of recent economic recession.

Indian companies during post liberalization have faced many challenges in terms of re-orienting its workforce towards a more competitive and volatile business scenario by ways of either re-skilling or multi-skilling its manpower across various functional domains; making themselves capable



of surviving amidst the onslaught of multi-nationals. This phenomenon has further necessitated Indian organizations to look beyond their narrow domains of family oriented/ family centric management to wider perspectives of strategic management according due importance to strategic human resource management as one of the critical factors of success in a competitive business domain. Although HRM in this country is at an evolutionary stage most suitably at its youth, there have been some progressive leaders and their related organizations who have laid the foundation for better people management pre-liberalization also; prominent amongst them being Jamsetji N Tata and his establishment – the TATA group of companies (initially established as Tata Sons limited).

Jamsetji, the founder of Tata group was a strong believer of the welfare of all major stakeholders; primarily the employee stakeholders whom he understood as the heart of any organization reflecting the image and growth of any firm (Sivakumar, 2007).

A visionary leader during his times (pre-independence era), Jamsetji stressed on employee welfare by way of hygienic work and accommodation facilities for labour, recreational and education facilities for the employee family members, awards for performance and even investment in training and career development of employees; something unheard of then. Such was his understanding of labour psychology, that he was forever committed to the culture of participation for organizational growth. In times when management studies were at a nascent stage and industrial rules not so formidable; Jamsetji pioneered retirement benefit systems for mill workers by way of voluntary provident fund and gratuity schemes. This dedication of the founder was carried on by his subsequent successor JRD Tata who had his own passion of philanthropy and tolerance, resulting in this esteemed group being recognized as a respectable and ethical organization of India.

The impact of ethical image of this group of companies was such that employees held a degree of prestige in working for this organization and the name TATA became a synonym for 'Trust' in the country. JRD never believed in the philosophy of monitoring employees. His understanding was based on grooming the best of employees by way of participative and free-rein leadership, an ideology clearly reflected in numerous innovative people centric policies developed and adopted by the Tata group companies (Wakins, 2007). Tata Steel, one of the first companies of the group was a pioneer in progressive industrial relation policies introducing joint-consultative system of management for better co-operation between labour and firm (Sen, 2009). The legacy of Tata carried on with Ratan Tata at the helm, steering the organization towards a more strategic path albeit a little more autocratically than JRD crafting a new identity post-liberalization for

the group in terms of retaining its core values and ethics but coming across as a more dynamic group with not only national but global business interests at its forefront.

## **4.2 The Indian work culture**

Management of diversity specifically related to Global workforce management is an important topic for discussion across human resource professionals worldwide. However, for Indian managers or rather Indian people; diversity is a way of life. India is a country representing every major religion, almost two thousand ethnic groups, four major language families containing a total of 1,652 languages and dialects and a strong social hierarchical structure unparalleled by any country other than the continent of Africa in terms of linguistic, social and cultural diversity.<sup>5</sup> Indian work organizations respect and exhibit this vast diversity through its employees wherein every organization in itself represents a mini- India with its cultural flavors as people from varied religion, ethnic group, caste and language work together for a common organizational goal.<sup>6</sup> Basham A.L. (2004) in his book details the evolution of Indian history, highlighting the presence of more than 3000 castes in modern India, that define the social structure of the country and how their affiliations impact the values and culture of Indian people. Given this backdrop, it is interesting that during the study of organizational behavior related to Indian organizations, most researchers have agreed upon them as displaying a mixed set of values and characteristics adapted from both Western and Indian culture and traditions (Rangnekar et al., 2009; Sinha et al., 1990, 1997).

Research on Indian organizations has primarily focused on understanding the value systems and cultural context of the same in relation to western countries like US, UK and Germany. (Tayeb, 1987; Singh J.P., 1990; Tripathi, 1990) There is much less data available on holistic understanding of work organizations in the industrial sector of the country specifically so in the domain of automotive manufacturing. (Sinha, 1990) details the transfer of western work cultures to India by way of contractual work relationships leading to less dependency and arguably a occupation based identity formation. However, going by the country's penchant to absorb 'as deemed suitable', the resultant transfer process has been more technological and

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5 [http://en.wikipedia.org/wiki/Demographics\\_of\\_India](http://en.wikipedia.org/wiki/Demographics_of_India), accessed 3rd July 2010 at 11.15 am

6 Refer chapter 3.4.3 to understand recruitment patterns at managerial and worker levels.

job oriented than in the socio-cultural perspective. Indian culture over the years has been paternalistic and power oriented with concentration of authority at higher hierarchical levels of the society. Work predominantly has been considered as form of manual labour, not suitable to people at higher strata of society, the basis for 'Varna' system<sup>7</sup> in the country. Although this fact is visible through the recruitment of 'Harijans' (lowest caste category) for undertaking menial jobs of cleanliness by Indian organizations, there is lack of research evidence related to understanding the impact of such system ('Varna' or Caste system – Jatis) on the work organizations; specifically in the context of the Indian industrial sector.

Research related to job perception by Indians, has linked – 'Undertaking a job' to not only extrinsic factors like authority and compensation but also to intrinsic factors like 'Self esteem', 'Achievement' and 'Self development'. Given this cultural and historical background, researches conducted on work organizations have displayed a strong hierarchical structure, high power concentration, centralized authority and decision making on part of the employers or supervisors simultaneously exhibiting the contrast effect of these dominating values on the employees across industrial sector by way of lacking sense of direction, affection towards co-operation, accountability and responsibility (Tripathi, 1990; Sinha, 1980, 1988, 1990). Kakar (1971) details Indian work organizational culture based on an understanding of the history of authority patterns from the British era. The study outlines shifting of authority patterns after Independence, from the hands of British supervisors to Indian managers who believed that maintaining high power distance between the superior and the subordinate and a display of assertive behavior can entail (induce)? work-related productivity from the employees. The show of emotions (by way of sympathizing) and lack of discipline by the supervisors while dealing with subordinates was not traditionally acceptable in the industrial sector, where being paternalistic or acting as a father figure commanded respect and power. The supervisors were supposed to maintain the power distance from subordinates and only interact with them when some problem arose, to give guidance or advice. Sinha (1980), Sinha and Kanungo (1997) discuss the emergence of two different facets of relationship between the superior and subordinates across Indian organizations based on nurturing-style and participative- style that progresses based on the maturity of the subordinates in terms of gaining more experience, expecting autonomy, responsibility and participation. An interesting fact to note in this study is the reference to *sneh* (affection) and *shraddha* (respect) in this relationship that values the paternal image of the supervisor ensuring workers

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7 Refer chapter 3.3.

(subordinates/employees) put in their best efforts to avoid any loss of face by their supervisor. This particular characteristics displayed by the supervisors and subordinates can be attributed to Indian culture which is based on high uncertainty avoidance wherein employees prefer their relationships to be more personalized than contractual assuming guidance by the leader for doing work as specified (Sinha, 1984). He further goes on to cite a few cases from the industrial sector; one being that of chairman from a large steel manufacturing company who would interact with workers at lowest level, understand their work and personal problems, give advice and support but on the other side would expect high level of respect based on his power and authority that added to his charisma.

The other case is of the managing director of a large manufacturing unit whose medium of getting all information about the organization would be special courts held at his home every evening, wherein employees would touch his feet, show respect and then detail him various issues and information. It was his way of showing personalized relations and nurturance, while from his subordinates' perspective; this was their way of receiving guidance and paying respect to his power and authority (Sinha, 1980).

Bhadiy (1991) through his research on work ethos and work culture in Indian organizations compares the socio cultural parameters of both India and Japan; citing reasons of difference in how the perception of work linked to team support, co-operation, attitude and leadership issues is understood by employees operating in Japan vis-à-vis their counterparts in India. His study details a sense of apathy towards valuing work, understanding teamwork and co-operation, understanding the meaning of self and organizational discipline coupled with a complete lack of trust towards the supervisors and management, thus aptly depicting the changing psychology of employees (mostly sampled young workers) in India.

While this may have been the case in the pre-liberalization period (1950-2001), wherein the manufacturing setups were more bureaucratic with concentration of power through central authority (more of paternalistic power equation), the situation has vastly changed across the new manufacturing setups of India. Faced with strong competition from MNC's entering India post liberalization, the concept of empowering its people and using them as strategic tools for survival has gained prominence. Citing a few cases from the Indian industrial sector, Som (2006) explains the impact of HRM practice revival on organizations like Maruti Udyog Limited, Mahindra & Mahindra Tractors Division, Tata Iron & Steel Co. Ltd (TISCO) and Arvind Mills. His study details how Maruti Udyog through a change in leadership revamped its HRM practices by linking them to the strategic

objectives of the organization thus bringing in more transparency, clear communication and an environment of trust amongst its employees resulting in higher employee morale, co-operative team work and increased commitment towards the job individually.

Another case which highlights the shift in traditional mindset of a manufacturing firm to more open mindset incorporating the concept of 'group work' and 'process re-engineering' is that of Mahindra & Mahindra tractor division. The company that was plagued with low productivity and inefficiency adopted the concept of Business Process Re-engineering (BPR) as early as 1995. This resulted in a dramatic shift in the thought process of the management from both the business process and organizational structure viewpoint. The company redesigned its multilayered structure to a flat hierarchy enabling more transparency across job roles, reducing disparities. This process further worked on pooling talent from across various teams for strategic roles emphasizing the need of group work, stressing on the power of co-operation and success through use of 'cross-functional teams'. Development of an internal social network and linking accountability to concerned teams ensured higher morale and support to achieve organizational objectives.

Based on similar lines, TISCO – the manufacturing behemoth of India utilized the knowledge of McKinsey Consultants to revamp their HRM practices for better profit, accountability and growth across the organization. The approach was based on creating work teams and giving autonomy and accountability to these teams for setting their own performance targets and ensuring achievement of the same. Promotion patterns were changed from being seniority based to merit/performance based, thus initiating a vibrant new culture for high performers driven by the concept of growth through mutual support across functional teams.

Arvind Mills on the other hand, adopted some different form of HR practices to boost morale and teamwork in its organization. They initiated support programmes like 'kite-flying' competitions, 'rock shows' and specific forum called 'Umang' (Happiness/Joy) to ensure greater understanding between the management and its workforce. Although the approaches adopted by these companies differ to some extent, the objective remains the same – that of encouraging belongingness, participation, co-operation and team spirit amongst its employees. The cited cases also display the increased commitment from top management across manufacturing organizations in India towards treating HR as a strategic function, aptly reflected by the employees of the organizations concerned, through higher work commitment, productivity and growth.

This fact of changing mindsets amongst Indian leaders and their increasing commitment towards nurturance and growth of human capital is further reiterated by a Wharton university recent study based on structured interviews of 105 leaders across 98 organizations in India. Cappelli et al.(2010) compared and contrasted leadership focus amongst US and Indian leaders highlighting the paradigm shift amongst Indian leaders by way of investment in 'people'. Termed 'The Indian Way' this research focuses on how the priorities for Indian leaders today is based on business strategy, organizational culture and nurturance of people. The focus is on 'transformational leadership' with a strong belief that investing in people, creating a culture of trust and mentoring people would on its own elevate an organization to a business leader platform thus ensuring high profitability and success. Infact the study reveals that "twice as many Indian leaders as U.S. leaders think that human capital drive business success.

### **4.3 Employee development and engagement**

"The total size of the Indian auto component industry in India is expected to be USD 40-45 billion by year 2016." – SIAM Automotive Mission Plan Report (2006-2016). This is just projected figures for the automotive sector, without taking into consideration the entire industrial sector which is on a growth trajectory. Interestingly SIAM also predicts that employment in this particular sector will go up to almost 2.5 crore employees by 2016, with 50 lac additional headcounts created by 2012 itself. This depicts the increasing importance of both availing quality talent and retaining cum engaging them to ride the crest of rapid growth. Research being limited specifically to this sector, there remains lack of literature and data on understanding the specific processes of employee selection, development and engagement appropriately. Research and literature reviews have focused more on understanding HR practices across domains in India, inferring more generic than specific conclusions. Again the focus has been on detailing practices related to executive and managerial cadre employees than understanding HR practices related to blue collar workers. This is not surprising, given the industrial sector's inclination towards personnel functions rather than human resource oriented functions relating to development of its employees.

Human Resource practices are still in an evolutionary phase in this country's manufacturing domain, with SME's still preferring the traditional systems of handling workers. Renuka S.D. and Venkateshwara B.A. (2005) through their study on understanding the perspectives of HRM practices across SME's in the Indian industrial sector, observed that firms with ISO

certifications laid more emphasis on advanced technologies and adherence to quality employee development through streamlined practices of recruitment, selection, performance appraisal and training; these firms value their skilled manpower and understand the critical importance of this resource for growth and sustained performance. On the other hand, this study also depicted that SME's which were not ISO certified preferred the family way of managing firms' placing less value to structured parameters of employee retention, growth and development. This study, when analyzed in context of the automotive sector, implies a marked differentiation in employee retention and management practices by Auto component manufacturing SME's which form the backbone of growth for the sector (SIAM Automotive Mission Report 2006-2016). Being labour intensive and highly skill oriented, the importance of human resources is compounded for both qualitative and quantitative growth results. This shall remain a critical area of focus for SME's related to their sustained progress and technological advancement for survival in face of stiff competition from low cost component manufacturers in China and South East Asian regions.

The most important and primary functions for any organization related to HRM are planning, recruitment and selection. In India, public sector organizations till today follow the traditional forms of recruitment along with an emphasis on advertising each job position in leading newspapers and employment exchange news, enabling equal representation of candidatures from all sections of the society. This is the norm and expected protocol of public sector organizations. However, there is no such binding on Indian private sector organizations as the policies related to recruitment and selection are flexible and adaptable to situational context (Budhwar, Boyne, 2004).

Private sector organizations generally adopt a host of recruitment practices and sources for acquisition of talent. For blue collared workers, the preferred sources of availing skilled workers are govt. run ITI/ITC institutes (Industrial Training Institutes/ Industrial Training centers, there are around 4700 Institutes offering training to 6.9 lac trainees)<sup>8</sup> that provide vocational and skilled based training to technicians, fitters, draughtsman etc; advertisement through regional newspapers; employment agencies for skilled labour; employment exchanges and at times even employee referred sources. The education level generally been sought for blue collar permanent workers are ITI or Diploma certifications, enabling their recruitment as apprentices in the manufacturing organizations for a time period of 1-2 years. Again for these positions, the value of

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8 <http://www.dget.nic.in/dex/empsenario.pdf>

recommendations play a pivotal role, with union (labour union and their representatives) referred candidates being given more prominence over general candidates based on political equations involved. Despite all efforts, manufacturing organizations face a severe crunch of skilled manpower, as only about 5% of the Indian labour force in the age of 20-24 years possess vocational skills that match industry requirements compared to other nations across the globe.<sup>9</sup>

Both public and private sector organizations do not follow a structured pattern for recruitment of contractual daily wage labourers. This category of manpower is generally available in surplus and at minimum wage levels, enabling their recruitment either at the factory gates on a routine basis or through labour contractors (middlemen) on a lump-sum payment basis. An important aspect for recruitment of blue collared workers, is to give preference to workers from the local region ('Dharti-putra' or 'Sons of the soil'), which is based on aspects of availability, convenience, wage levels and political appeasement. Specifically for manufacturing organizations, this aspect assumes importance as their plants (production units) are generally located in villages on agricultural or non-agricultural lands (as has been approved by the respective state govts.). Thus as a part of its Corporate Social Responsibility, the manufacturing units deem it suitable to provide employment opportunity to locals from the region whose livelihood may have suffered due to either loss of land or displacement. To cite an example, Tata Motors Ltd. had been given vast tracts of land in Singrur (West Bengal) for setting up of manufacturing unit for NANO (the low cost 1 lac car model). The organization had not only generated indirect local business opportunities but has also assured of recruiting skilled blue collar workers at a later operational stage. However political issues pertaining to higher compensation for loss of agriculturally productive land, guaranteed jobs for all displaced locals etc ensured that the manufacturing unit shut shop in Singrur and relocated itself to Sanand (Gujarat), availing better political support from the concerned State Chief Minister (Shri. Narendra Modi).<sup>10</sup>

The norms of recruitment differ when it comes to availing talented employees and skilled manpower for supervisory, executive and managerial level cadres. Education qualifications related to the job position gains prominence along with experience, skill and competence to perform the job. Budhwar et al.(2003), (2004) through their study across 137

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9 <http://www.dget.nic.in/dex/empscenario.pdf>

10 Refer [www.sanhati.com](http://www.sanhati.com) and [http://en.wikipedia.org/wiki/Tata\\_Nano\\_Singur\\_controversy](http://en.wikipedia.org/wiki/Tata_Nano_Singur_controversy) for more details. Shri. Narendra Modi is the Honorable Chief Minister of Gujarat state in India.



manufacturing organizations (varying across 6 sectors) from the private and public sector in India, detail that recruitment to these categories is based on possession of technical qualifications in engineering (discipline specific) and management (like MBA, PGDBM – Post Graduate Diploma in Business Management, etc.). The patterns of recruitment for such positions also vary amongst the private and public sector manufacturing units of India. While the public sector places more stress on rigid parameters like educational degree, years of experience and seniority; the private sector focuses more on the skills and competence of an employee to perform the job itself and ensure productivity. Again while the public sector, based on mandatory employment laws recruit external candidates through a structured system of advertisements, employment exams and use of selection panels; the private sector in India undertakes a mixed strategy of recruitment from both internal and external resources. Managerial positions are filled either through the mode of internal career progression of competent employees or through intake of skilled external candidates having the capability to deliver based on their expertise. India being a country that is family oriented and values relationships, top slots in the private sector organizations like positions of Managing Director, Chairman, Members of the Board are usually reserved for family members, close relatives and acquaintances (Budhwar, 2003, 2004). This creates an unequal power balance and reduces representation of employee interest in the management circle; which is not deemed as a professional pattern of organizational management, hampering freedom of expression for the employees. A key point to note herein is the major difference in recruitment patterns of public and private sector organizations in India, the public sector being strictly governed by employment legislations have to ensure equal representation of social categories (Scheduled Caste, Scheduled tribes, Other Backward Classes, Minorities, Women, North Eastern State minorities); while the private sector not being bound by these legislations focuses on availing competent manpower for enhanced productivity.

India is a country with burgeoning population; hence the competition to succeed and reach for the best positions is extreme across organizations and functional domains. As a matter of fact children in India start learning the ropes of dealing with competition, stress and pressure from the time of kinder-garden admissions itself. The cyclic race to get into best schools, avail quality school education and thereafter again compete at each step of life whether it is admission for best colleges, getting the best job offer, garnering top performance credits in organization or ending up with heightened competition now for your child's admission; the process is never ending and back breaking. Organizations seem to have realized this "Life cycle truth" specific to a country like India where humans seem to be

evolving faster than all other species on the planet; despite all good intentions of numerous Govt. sponsored family planning initiatives. Given this background, it is imperative that organizations focus on charting out clear career paths and developmental steps for their employees, to bring in more clarity related to their progression while simultaneously reducing the stress (based on continuing & competing life cycle issues) on an individual towards self career management.

While there is lack of research evidence on practices related to career development and growth specific to industrial sector, there is some evidence detailing training and development issues across Indian organizations. Again most of the evidence relates to organizational practices for white collar workers than blue collar workers in relation to training and developmental efforts. Yadapadithaya et al.(2000), (2001), (2003) through two consecutive surveys covering 252 Indian and 174 British companies (both from manufacturing and service sector having over 500 employees and registered with Confederation of Indian Industries) focused on understanding the key result areas for Training and Development in India, its practices and evaluation parameters along with linkage to organizational objectives and performance vis-à-vis its British counterparts. The results and findings did not portray any major differences related to the concepts and practices of T&D; however it was found that British organizations focused more on involvement of individual employees in the training process by way of delegation of T&D responsibilities to line managers and making employees themselves accountable for the learning curve. This also meant that such organizations were concerned with business results from conduction of T&D activities and expected employees to demonstrate contribution of their learning towards enhanced productivity.

The survey also detailed that British companies conducted higher number of training programmes than their Indian counterparts, while focusing on developmental initiatives for both white collar and blue collar workers. Budhwar and Boyne (2004) further worked upon understanding the T&D practices across private and public sector organizations in India through a comparative study; stating that both private and public sector Indian organizations followed a structured approach to T&D by way of adopting formal training need analysis systems, career development plans, annual career development interviews, assessment centers, succession plans, job rotations and training evaluation techniques, albeit the public sector follows a more systematic and analytical approach than the private sector towards identification of training needs and monitoring its effectiveness.

Gopalan S. (2009) details a brief case of Birla Cellulosic, Kharach (Aditya Birla Group Company) on the process of T&D. The organization has a

training need identification process called – “Your development is my concern”, wherein employees fill a structured form detailing identified training needs after due discussion with his supervisor/mentor. This data is then reviewed and viable training needs are compiled into an annual training calendar, catering to the actual needs of the employees. The evaluation and monitoring system of T&D at Birla Cellulosic is based on participant feedback, which is more perceptive data than real objective evaluation. This case highlights a major lacuna in the T&D process across Indian manufacturing organizations; that of linking the T&D process to business results objectively. Although the process has become more structured and systematic with a considerable amount of budget being allocated for employee development, quantitative procedures for training evaluation is still at infancy in the country specifically for white collar managerial cadre employees. This lack of quantitative evaluation data makes it difficult to establish linkages between job value, performance potential and compensable factors for individual employees in the organization.

#### **4.4 Performance management and compensation systems**

India has traditionally been a country with high power distance in working relationships, implying reverence and high authority for the superiors. Mendonca and Kanungo (1990) pointed out the typical aspects of the Indian way of management wherein decision process was centralized, allowing less scope for employees to be updated about different aspects of management. Similar views about leadership and supervisory styles of management across Indian organizations have been detailed by Kakar (1971), Singh (1990), Virmani and Guptan (1991). These studies through understanding of Indian work cultures and values emphasize a different perspective towards management of employees by Indian supervisors. Indian managers following a paternalistic way of management find it difficult to adhere to the process of stringent and objective performance appraisal systems. They generally tend to follow an ad-hoc system of appraising performance which is more subjective and relationship oriented than objective and statistically measurable. Their conflict in catering to the their professional role while maintaining balance with their social role is reflected in a superficial commitment to the process of performance appraisal and true value determination of the subordinates.

Amba-Rao et al.(2000) tried to understand performance appraisal systems in India by way of a comparative study across 116 firms in India, comprising both public sector, private sector and multinational/joint venture firms. The study revealed the impact of culture and values on the

functioning of Indian managers and their perception towards the process of performance appraisal. Most firms conduct the routine annual performance appraisal process, but the objectivity and evaluation parameter varies. For public sector organizations, the process is more of a formality given its rules and adherence to legislations, the focus is more on understanding venues for developmental perspectives than evaluation for assessing value and worth of an individual. The discussion process initiated for evaluating an employee's performance is structured and formal, with less scope for the employee to assess his current performance or any future avenue for improvement. This data is backed by seniority and service based pay cum progression systems across Indian public sectors, reducing the credibility of performance appraisal process as a comprehensive evaluation tool.

Sadananda P. (2009) details a study of NALCO's (National Aluminium Company Limited- A Navratana PSU<sup>11</sup>) Performance Management System (PMS) through a book chapter. The study highlights aspects of PMS which is based on Management by Objectives, and is an annual exercise for both executives and non-executives of the organization. The survey depicts lacuna in communication of goals, review of performance and use of key PA techniques like Assessment Centers for objective analysis of multiple evaluation parameters. Although NALCO follows the mode of Coaching and mentoring for employee development, the system has not been implemented very successfully and surveyed employees still feel that it is more of a formality than an actually intended developmental effort.

The private sector and MNC/JV firms under competitive market conditions are forced to look at the objective side of performance appraisal, thereby linking it to competitive pay and rewards practices along with comprehensive developmental initiatives for its employees to ensure survival. Managers in such firms are more open in the discussion process with their subordinates and actually make an effort to understand the differences in performance along with issues related to lack of resources for optimum performance. They follow ethical performance appraisal processes by being more objective and unbiased during evaluation; ensuring true demarcation between meritorious and average performance. Sparrow and Budhwar (1997) supported this view through their study of 137 Indian organizations and comparison across other cultures on nine evaluation parameters. Their study detailed that with liberalization and advent of stiff competition, Indian private sector firms are moving towards assessing performance on competence and merit, rewarding employees for problem solving and risk taking capabilities.

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11 Navratna Public Sector Undertaking – refer <http://en.wikipedia.org/wiki/Navratna> and [www.nalcoindia.com](http://www.nalcoindia.com)

Budhwar and Khatri (2001) supplemented the available data with responses from 93 manufacturing firms across Britain to undertake a comparative analysis of HR practices across the two countries. The study confirmed previous research on the Indian style of management being more centralized and controlled (cf. Kakar, 1971, Sinha, 1984), than the British style which was more open and delegated. This ensured that employees in Britain were more aware and updated about their work expectations and performance process than their counterparts in India, resulting in ambiguity and bias in the PA process.

A similar format of study was conducted to compare HR practices across 24 Indian and 24 German automotive and its allied firms by Erwee and Paelmke (2008). The study found no major differences in HR practices across the countries; however the purpose of using the practices differed amongst Indian and German counterparts. While German managers used performance appraisal data and its techniques for evaluation linked to pay progression and structuring; their Indian counterparts linked PA data to promotion and development of subordinates. This reflects the paternalistic style of Indian managers which is more focused on development of its subordinates than only linked to the materialistic aspect of pay (cf. Sinha, 1980, 1984, Singh, 1990, Sharma, 2005). Budhwar and Boyne (2004) furthered this study to understand the differences in key HR strategies across Indian industrial sector, both private and public. While the paper detailed key aspects of HR like recruitment & selection, training and development, employee relations; it does not give evidence of data related to understanding differences in performance management systems across Indian public and private manufacturing organizations. The research however links performance management issues to employee compensation, detailing the pattern of seniority based and service based pay for its employees; in contrast to the private sector that works around, merit-based, competence-based, and risk-based pay systems.

Saini and Budhwar (2008) also conducted an analysis on the role of HR in small and mid-sized firms in India. They found that although such firms do not have structured performance management systems; feedback about individual performance reaches the owner through various mediums like supervisor, customer, suppliers etc. This unique system of gathering performance feedback through varied sources reflects a 360 degree format of performance appraisal albeit in a less structured way. This environment of openness and immediate feedback from the owner encourages risk taking capabilities and boosts productivity of the employees while motivating them towards a higher sense of goal achievement.

Rao S.A. (2007) illustrates on the effectiveness of performance appraisal systems across Indian industrial sector through his case based study of ten

manufacturing companies – viz Bhiwani Textiles, Staple Fibres, Chemical Industries, Grasim Cements, Jayashree Textiles, Birla NGK Insulators, Indian Aluminium Industries Ltd., Essel Mining Industries, Hi-tech Carbon Industries and Management Services Cell. His findings reveal that for all organizations studied, the entire process of performance planning including individual goal setting, linkage to organizational effectiveness and communication by superior is not treated as a potentially serious exercise, resulting in role ambiguity and lack of efforts. There is a clear distinction between '*knowing what to do*' and '*actually doing it*'. The entire process still remains a mere formality with no specific linkage to pay and reward system; lacking proper feedback mechanism and any option of grievance redressal by the employees. The focus is more on the rating parameters than actually discussing and trying to understand the performance of an employee. The developmental aspect of performance evaluation also remains more of procedure with no direct linkage between objective evaluation and training needs identified for individual employee.

While the previous studies focused on lack of seriousness towards performance appraisal systems by Indian managers, Som (2006) highlights a few cases to depict the turnaround of Indian firms (both public & private) facing stiff MNC competition. BPCL, the public sector oil production giant faced tremendous loss of market share due to deregulation in 2002. The company not able to downsize (based on govt. regulations) looked at the option of re-training and re-deployment of its workforce. They introduced competency mapping and hired employees with specialized skill sets only. Existing employees were motivated to be a part of the learning process and build additional competencies. Specialized rewards leading to competence-building was structured and implemented, boosting employee capabilities to work across high performance functional teams. Similarly the Mehta Group – Sidhee and Saurashtra Cements Ltd redeployed its workforce and introduced a high performance culture orientation in the employees. Clariant India Ltd., post-merger with Sandoz introduced the concept of CLAP – Clariant Participation to Improve Profitability through Performance and People. This program was intended to guide employees through the transition process, while increasing their participation and involvement. Employees were rewarded on both individual and group contribution parameters for working across functional teams. This highly improved employee morale and contributed to the camaraderie spirit in the organization.

Although these instances are limited, studies show that India is gradually opening up towards the concept of objective and measurable performance appraisal systems, while appreciating its critical contribution in the success of an organization. However a major lacuna that remains in these

studies has been the focus on understanding HR issues related to white collar employees majorly; omitting empirical research on blue collar workers.

As with earlier studies, there has been no empirical evidence on the exact compensation structure being followed by Indian manufacturing organizations. Data reveals that most organizations, barring the public sector, follow an individual performance based pay and reward system, with few organizations adopting the concept of team/group based reward. Amba-Rao (1994a) details case studies of two manufacturing organizations termed Alpha and Beta and their comparison with US counterparts. While Alpha, which is more a scientific research based organization follows a competitive pay system only for its technical personnel; Beta, which is a large manufacturing organization prefers to pay according to the market rate. Although pay scales are low for both organizations, Beta keeps its employees motivated by way of job security and employee involvement in both goal setting and reward process. Beta recognizes both individual and group participation by way of monetary rewards like merit based increments, piece rate pays and non-monetary rewards like awards and special recognitions. This contrast with pay practices being followed in US, which is highly market driven, competitive and individual performance based along with instances of profit sharing and gain sharing for group/team motivation.

Erwee and Paelmke (2008) through their study of German and Indian automotive firms<sup>12</sup> illustrate the aspect of 'seniority' as a key parameter for compensation structuring and pay practices in Indian organizations (specifically in the public sector); something that is totally disregarded by German organizations. However, private sector Indian organizations focus totally on Individual job aspects and its contribution to determine pay structures and implement reward strategies. This is in contrast to German firms, wherein pay structures are more regulated; with government legislations and strong union bargains deciding compensable factors and value of specified jobs. However both countries follow flexible reward strategies which are performance oriented and create a sharp distinction between good and average performing employees.

Birsnav and Rangnekar (2009) through their study on 472 Indian industrial sector employees, observed that while the public sector follows a standard pay system; the private sector values performance, contribution and competence – thus paying employees as per prevailing market rates. They consider both monetary and non-monetary forms of reward systems

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12 Refer p. 48.

coupled with special rewards for risk taking and initiatives; thus motivating employees to innovate and deliver – creating a high performance culture.

Bhattacharjee (2003) in his working paper, presented at both the Aarhus School of Business, Denmark and IIM Calcutta; presents a study of the incentive system across four plants of ITC (Indian Tobacco Corporation). This study is quite important as it refers to the incentive patterns for plant workers in a manufacturing setup. ITC follows a combination system of 'steady pay' and 'risk pay' equated to 'fixed pay' and 'variable pay' in common parlance. Under the option of 'risk pay', the organization follows a three tier Incentive system based on profit sharing, gain sharing and group sharing. Annual Productivity Bonus is a profit sharing scheme, wherein employees get a percentage of their 'basic pay' only if the entire plant's productivity increases<sup>13</sup>. This percentage 'gain' is determined by the management. Productivity Index Plan is a 'gain sharing' scheme, wherein the incentive system is determined by the plant's monthly output and is shared amongst all employees, varying according to stipulated job designations. This is strictly given only if monthly output exceeds a given threshold limit. Another form of incentive is Departmental Incentive Scheme. Under this system, designated work groups – also called as 'autonomous work groups' get monthly incentives based on clear calculations of machine output. Initially this scheme was meant only for designated departments but was later extended across all four plants on union pressure, with designated department employees still being paid higher incentive rates.

## **5. Industrial relations in the Indian industrial sector**

The evolution of Industrial relations in India began with post-independence. The period from 1951 – 1966, saw rapid industrialization in terms of large public sector manufacturing units; with industrial production increasing significantly by an average annual rate of 7.7 per cent and manufacturing output by almost 7.6 percent. (Nayyar, 1981). With high scale increase in employment opportunities, coupled with protectionist Labour Legislations<sup>14</sup>; the number of registered trade unions increased as a natural progression from around 4623 in 1951/52 to 11614 by 1961/62 (Venkatratnam, 1995). Powerful trade unions backed by political support grew rapidly during this period swelling ranks and representing themselves as sole benefactors of the employees; All India

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13 Refers to worker's productivity.

14 Refer chapter 3.3.1.



Trade Union Congress backed by Communist Party of India (CPI) and Indian National Trade Union Congress backed by Congress Party were the prominent ones. However towards the end of this era, the socialist broke away from Congress and the radicals broke from the Communist party to merge and form their own national union federation – Centre of Indian Trade Unions (CITU).

Bhattacharjee (2001) details the lack of collective bargaining power during this era, owing to lacuna in the Industrial Dispute Act 1947 that put no legal obligation on employers to bargain with representative unions. Furthermore, the Indian Trade Union Act 1926 did not give any recognition to unions and permitted any seven workers to come together and form a union. Attempts towards introducing genuine collective bargaining were made through voluntary arrangement termed the Code of discipline and the Inter-union Code of conduct. However despite intentions (through tripartite bodies) to introduce effective dispute resolution through voluntary arbitrations; these attempts failed to develop a 'mature' industrial relations scenario in the country. The lack of intent on side of the Indian government, unions and employers collectively, resulted in absence of representative unions in single bargaining units reducing the strength and impact of collective bargaining.

Post-1965, as India moved into an era of wars and emergency<sup>15</sup>, some amendments were made in the ID Act (1976) to ensure that firms having more than 300 employees could not retrench them without permission from the state (govt.) On its part the Indian govt. moved to establish the National Apex Board, facilitating equal representation by unions and employers for voluntary collective bargaining. It was an attempt to move from the system of 'tripartite' settlement machinery to 'bipartite' settlement. Bhattacharjee (1999), (2001) gives detailed analysis of the evolution of Indian industrial relation which is both interesting and intriguing; however, the current research is unable to further delve upon those aspects. It is important at this juncture to understand the structure of trade unions and its relative importance in the Indian industrial sector as a representative of employees' alias workers.

India is a complex country with the existence of three different union structures and a mix of bargaining levels. The private sector is characterized by plant-level/unit-level bargaining with enterprise-based unions lacking political affiliations. The public sector on the other hand, represents centralized union federations affiliated to strong political

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15 Refer The Indian emergency 1975 –  
[http://en.wikipedia.org/wiki/The\\_Emergency\\_\(India\)](http://en.wikipedia.org/wiki/The_Emergency_(India))

parties with industry-level/national level bargaining practices. Central govt. units in service sector have strongly affiliated political unions with national/regional level bargaining (Bhattacharjee, 2001). Ramaswamy (1988) found significant inter-city differences in labour-management relations. While unions in Mumbai (erstwhile Bombay) show aspects of 'business trade unionism', with dis-allegiance to political parties in their union federations; Kolkatta (erstwhile Calcutta) shows aspects of strong political affiliation with dominant trade unions like CITU partly hampering growth of independent trade unionism. Bangalore, the Info-city of India, displays aspects of firm-level trade unions with limited political dominance and plant-level bargaining.

These varied aspects attributable to different political, social and urban structures pose quite a challenge towards understanding the labour-management relations in the context of the Indian industrial sector; widely prevalent across length and breadth of India. A common understanding differentiates union structures in the public and private sector organizations across India. Private sector firm-level unions initially began with a militant bargaining process and adjusted wage levels and non-wage benefits as per their demands; gradually moving employers towards 'outsourcing' work to non-union sites reducing employability and challenging the basic membership growth of the unions. Unions realizing this movement have since then moved towards 'productive bargaining' process linking efficiency to wage increase and benefits.

However the sailing has not been so smooth for the public sector; with politically backed unions thwarting attempts of change in HR practices (like productivity linked wages, decentralization, accountability of work etc.) ensuring 'monopoly' in the bargaining process leading to maintenance of rigid structures, lack of flexibility and efficiency, thereby protecting the undeserving workman. Ramaswamy and Schiporst (2000) cite the case of Boehringer and Bharat Electronics Limited (BEL) to elaborate the rigidity of unions. We shall look at the case of the public sector giant – Bharat Electronics Limited. This Bangalore based plant of BEL employed around 10,000 employees for manufacturing of various electronic equipment. The company had four trade unions (two recognized unions), abysmal productivity and a totally laid-back work culture. To improve the situation, BEL management decided to experiment with 'worker participation' by way of setting up shop council for each of the sixteen divisions, and a plant council to oversee their work. The councils had representatives from both management and unions with the division manager having main authority. However, as with the case of Boehringer, the councils at BEL proved futile in addressing the main issue of increased productivity. The councils basically turned into avenues for patronage by union representatives, with

workers and managers using this platform to solve their own issues and the chairman keen on simply defending himself. Managers started staying away from this 'so-called monthly meetings', resulting in meeting occurring once every three month. The unions on the other hand, did not want an encroachment on their 'bargaining power' by way of shop councils, plant councils and various joint committees. They understood these councils to be unworthy of labour empowerment or worse they were not interested in empowerment. Whether it was the case of HRM changes at Boehringer or attempts at 'Worker participation' at BEL; the unions were just not interested in being involved with the non-negotiated realms of production.<sup>16</sup>

Bhandari and Heshmati (2005) through their study on efficient labour utilization in the Indian industrial sector, found that private sector organizations bound by rigid labour legislations have adopted a new approach towards flexibility and efficiency. They are increasingly providing the option of Voluntary Retirement Scheme (VRS) to its non-productive permanent workers, thereby reducing head count while simultaneously increasing contract workforce size. They are also increasingly looking towards re-designing and re-deployment of its workforce for optimum utilization. By this, the authors refer to efforts by private organizations towards skill up-gradation and efficient capacity utilization of its workforce, thus enabling flexibility in adjusting to operational costs over time. Bhandari (2010) in his study of organized manufacturing industries details the reducing bargaining power of Indian trade unions. With globalization and increasing competition, firms are under intense pressure to optimize and survive or perish. In such circumstances, options like outsourcing and parallel production is gradually reducing the bargaining capability of unions, with workers feeling an affiliation to unions as a blockage for their career growth and pay progression.

An interesting study was conducted by Flanagan and Deshpande (1996) to understand the impact of unions losing or winning elections, on the HRM practices of small manufacturing firms in India. The study was based on perceptions of top management officials of 142 small manufacturing firms across India. The study showed that in firms where unions won elections, there was significant increase in the employee turnover and simultaneously a significant decrease in employee commitment; with no major changes in job security, absenteeism or employee participation. This study however details one observation pertaining to employee compensation which is significantly different from the results of study

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16 Refer Ramaswamy and Schirpost (2000) for full details of the two cases.

conducted by Bhandari (2010) in the organized industrial sector industries. Bhandari (2010) observed that industries where certified unions existed; workers earned 23.5 percent higher wages than their counterparts from non-unionized industries. This is contradictory to the study by Flanagan and Deshpande (1996), which portrayed significant increases in merit-based compensation and rewards in the SME sector where unions lost elections; that decreased vice-versa when unions won elections. This means that although competition has increased in the globalized business environment; unions in India still command considerable bargaining power with ability to reserve higher wages for its members across the organized industrial sector.

To understand the strength of unions in today's contemporary management issues, the author looked towards highlighting three major cases of worker unrest and union bargaining with political flavor from the automobile sector of India. All these cases occurred in the year 2009, at Gurgaon – the automotive manufacturing hub based in North India. An interesting point to note in these cases, is the far reaching implications of unrest at Indian auto component plants affecting global car production of Automobile giants like Ford and General Motors in locations of Canada and United States. These interlinked cases are also important to understand the grievance redressal mechanism across Indian industrial sector. Traditionally as per Indian Labour Legislations, grievance redressal has to be through an open channel of communication; wherein workers are free to voice their opinions to the management through concerned supervisor, thereby through the grievance committee. In case of further differences existing, the issues are taken up by the registered unions for discussion with the management. Failure of management and union discussions take a voluntary arbitration course with involvement of the state machinery at later stages through Enquiry Officer, Conciliation Officer, Board of Conciliation, Labour Courts and Tribunals. (Rao Subba P., 2008)

*Case 1 – Rico Auto Limited:* Established in the year 1994, this organization is one of the key suppliers of die cast components to auto majors like Ford, General Motors, Volvo, Jaguar, Land Rover, Tata Motors, Maruti Suzuki, Honda and Bajaj Motors. The company has around 3600 permanent workers and 1500 casual (temporary)<sup>17</sup> workers with a low wage structure. The dispute started at the Rico plant in September 2009 when the organization

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17 Casual workers in India refer to unskilled labours who, are routinely recruited or hired from factory gates every day or are hired through labour contractors. These people are paid wages on a daily basis with no social security measures in place. Since they are recruited on daily basis, they can be retrenched anytime, so-called as temporary workers also.

decided to retrench workmen due to recession. The workers felt that their voice was not being heard by the management in absence of a registered trade union. They rallied towards getting approval for a registered trade union affiliated to AITUC, demanding higher wages and better working conditions. The management responded to this by suspension of 16 workers, involved in unionization activities thus enraging workers further. By end September 2009, the management decided to initiate lockout at Rico Ltd forcing workers to sit outside the production unit.

*Case 2 – Sunbeam Auto Ltd:* This is an auto component, the die casting unit of the Hero group of industries, established in 1987 with 650 permanent workers and 2500 casual or temporary workers. Another feature in this firm is the existence of around 600 trainees who are more like casual workers, having work experience ranging from 0 to 13 years as 'trainee'. The firm already has an established union since 1996, called the Sunbeam Shramik Union – which according to workers is a management friendly union. The dispute arose when the term of the present union office bearers was due for expiration in year 2009. The workmen wanted a change in union leadership, which was opposed by the management with threats of termination in the advent of workers not accepting union leaders, referred by the company's management. A majority of workers refused to be cowed by management tactics, resulting in the management denying entry to workers at the plant without any notice and terming workers agitation as an illegal strike.

*Case 3 – Honda HMSI Ltd:* The Gurgaon plant manufacturing two-wheelers had around 1900 permanent and 2500 casual workers. The company was looking towards increasing production through operation of a third production assembly line aimed at increasing capacity, while the workers were looking towards a three year wage agreement aimed at both higher and stabilized wages.

*Unfolding of Interlinked Events:* Around 21<sup>st</sup> September, after rally by Rico workers; the management decided to lockout the workers abruptly and use unfair pressure tactics through hired musclemen and even use of police force. Consecutively on 22<sup>nd</sup> September 2009, the management at Sunbeam Auto Ltd. decided to lock out workers and also used hired musclemen for beating up workers; resulting in ten workmen being grievously injured and hospitalized. By end September 2009, the events had taken turn for worse by show of strength and solidarity to Rico and Subeam workers by nearby manufacturing unit unions like Sona Koya Steering, Hema Engineering, AG International, Microterk etc. Even Honda HMSI unit started facing severe agitation issues resulting in suspension of 17 workers for union activities. Supported by All-India Trade Union Congress (AITUC), the agitation increased with widespread support from worker unions across 80

manufacturing units of Gurgaon. Clashes between police and workers even resulted in the death of a RICO worker – Ajit Yadav, adding further fuel to the agitation. By mid-October 2009, with intervention of the Central Govt. and Haryana State Govt.; a final round of settlement discussion started between unions, AITUC and the management representatives of RICO, Sunbeam and Honda HMSI. As a result of settlement, Rico decided to take back a few agreements with productivity linked bonus scheme.<sup>18</sup>

## **6. Conclusion**

This review started with an objective of understanding the Human resource practices existing in the Indian Automotive sector. Limitation of empirical research based literature for this sector, ensured focus on a wider spectrum of published literature pertaining to the Indian industrial sector. A major source of literature survey for the industrial sector has been quite an amount of empirical research by Budhwar et al; covering around 192 manufacturing units across India; albeit the focus of these studies have been more on cross –cultural comparisons. The review highlighted that there still remains a lack of empirical research from Indian authors related to understanding issues like work culture across Indian manufacturing organizations pertaining to interplay of Indian values, its effect on employee relations, leadership and team work. Limited research done in this particular area indicates major influence of Indian values on work relationships coupled with a mixed acceptance of western philosophies of management.

The studies conducted across varying time spans have demonstrated the typical behavioral aspects of Indian managers/leaders. While earlier studies conducted pre-liberalization have identified Indian managers as having high power distance, being controlled and fond of rigid hierarchical structures, later studies conducted post-liberalization, have portrayed the changing face of leadership as more nurturing, transformational and employee-centric, given the highly competitive and volatile business scenario. Indian managers/leaders having grown in times of adversity, understand that there is no 'One way' of management; hence their focus has been to utilize western management principles while experimenting with their unique cultural flavors and finding the best possible 'Indian' way of empowering and developing its people for higher gains. During the course of this review, it was also observed that there are no specific gender

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18 Refer <http://www.sanhati.com> for more details. The views expressed on this website pertain to the concerned author individually and is not to be used for harmful intentions.

related studies that have been initiated for this particular sector; to help understand issues with women leaders or impact of gender on group member work relationship, performance and productivity. Furthermore, there exists lacuna on empirical research pertaining to the employee recruitment and selection practices in India. Though some studies have broadly detailed recruitment practices as part of a larger study comparing private and public sector HRM practices (Budhwar, 2003, Budhwar and Boyne, 2004); the end results are more generic failing to differentiate recruitment process for white and blue collar workers.

Studies in the domain of performance management is also limited, with focus only on understanding existence of performance management practices in the industrial sector, with less stress on understanding its effectiveness particularly to Indian organizations and Indian employees who may be under influence of country related values. This specific synergy between performance management measures and its effectiveness with Indian employees has not been explored to a great extent; also there remains a lack of focus on linkage between compensation and motivational factors related to effective performance in this sector.

The review highlighted the aspect of lacuna pertaining to empirical research on understanding management process for blue-collar workers; like their recruitment, selection, analysis of training needs, performance management or work relationships. Studies related to understanding use of labour and status of unions in the Indian industrial sector concentrates on detailing effective and optimum utilization of labour and a basic understanding of the limited status of registered unions, without actually detailing current industrial relations scenario and impact of globalization on union bargaining power.

India today is on a high growth trajectory and the Indian manufacturing industry is struggling to keep pace. The sector is plagued with high shortage of skilled and unskilled manpower both at supervisory and worker levels. The SIAM Automotive report (2006-2016) identifies procurement of manpower, its development and specialized training as key focus areas for sustained productivity and growth of this sector. Researchers need to work towards understanding specific challenges of this sector like Skills shortage, Talent development & nurturance, Employee engagement, Career transitions, Attrition and Unionism. Thus the author feels that there is a need for concentrated efforts towards undertaking empirical research in specific aspects of the broad based Indian manufacturing domain, given its complexities and exploring the impact of HRM practices on the continued growth and progress of the corresponding industries accordingly.

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