

## COLLECTIVE BARGAINING ALTERNATIVE: A CASE OF STRATEGIC INDUSTRIAL RELATIONS INITIATIVE

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### ABSTRACT

*India's Industrial relation scenario has been undergoing a paradigm shift. The role of trade unions is changing from firefighting to the business partner role. The trade unions need to align their activities with business goals in this changing scenario. For the trade unions, collective bargaining remained one of the oldest techniques for wage determination. With changing scenario, the usefulness and effectiveness of collective bargaining for the purpose of wage fixation is being questioned. This case has provided insights into a unique model of wage fixation, which was successfully implemented in the Biwadi Plant of Indian Tractor Limited (ITL)\*. It highlights the challenges ITL faced in the process and the critical factors, which helped in successful implementation of the new model of wage fixation. Primary Data has been collected through in-depth interviews and focused group interviews with workers, trade unions members and management representatives. ITL is one of the rare examples where the company took up an unprecedented step by offering a proposal and working jointly with the union to make it happen, which we call as an alternative method of wage fixation.*

**Keywords:** *Collective Bargaining, Wage Negotiation, Strategic Industrial Relations, Trade Unions, Tractor Industry*

### SELECTION OF PROBLEM

In July 2013, five years have passed since the last collective bargaining process held in Bhiwadi plant of Indian Tractors Limited (ITL) for three year wage settlement. Interestingly, it was the recognized trade union

\* Names, location and chronology have been disguised without destroying the integrity of the events.

of the Bhiwadi plant which willingly gave up their 40 year old practice of wage negotiation through collective bargaining (CB), and agreed to empower the management to experiment with the new model of wage fixation for its workers. This alternative was proposed and amicably agreed upon in August 2011, six months before the expiry of the previous wage agreement. The new system has been successfully implemented in the last two years, after completion of the three-year wage agreement in March 2012 and so far has been seen as win-win model by both the partners. Since one of the major roles of trade unions in the present IR scenario is the CB for wages on behalf of the workers, the decision of the union has been considered as unique and a landmark in the Industrial Relations (IR) in India. It is therefore imperative to examine the internal and external factors as well as the events which had led to this strategic initiative by both the partners-Management and the Union.

The new initiative was a challenge for both the partners. It was strategic for management as the onus was now on management to meet the expectations of workers. On the other hand it was challenging for office bearers of the union that how to get continued support of the workforce for the decision, and what role should they play now so that they still hold the respect among the workers, even after not having control on wage negotiations. Further, all stakeholders, unions of other three IITL plants, and IR professionals are eagerly observing and waiting to find out short and long term implications of this IR initiative.

In the new method of wage fixation for the workers, which is seen as an alternative to the collective bargaining (CB) process, the annual wage increase is solely decided by management, without going through the lengthy process of CB. There has been no conflict of interest so far as the management managed to give the increments to workers in Bhiwadi plant that was even marginally higher increments than other three plants of IITL, where the CB process for wage negotiations still continue. Besides, workers' are benefiting from better implementation of welfare amenities at the plant level, as union could now give greater attention on these activities, which earlier lower less priority due to its primary focus on bargaining processes. With the success of alternative wage fixation process, management is now thinking to replicate the same model in its other three plants, although they know that the situation in other plants is different. Unlike Bhiwadi plant where there is only one union, the other three plants have more than one union, which proved to be a critical factor in the new initiative at Bhiwadi. Further, due to multiple unions in other plants, there exists an inter union rivalry. Further, the number of regular workers in Bhiwadi plant is lower than each of other plants, which also proved to be a critical factor for the success of the initiative.

Although now the annual wage determination process is similar to executives (managers and officers), but the element of performance related pay (PRP) that the executives enjoy, has still not extended to the workers. The system of variable pay, based on individual performance, was introduced for executives in the organization in the year 2004 with the objective to motivate and retain the high performers. The Senior Management during the last management committee meeting discussed the pros and cons of workers' wages linked to PRP, in the same way it is done for the executives. There were differences of opinions among the management team on the need as well as complexity in implementing the idea. The Managing Director, Mr.R.K. Sareen, conveyed the view of the Chairman, and suggested that the committee should meet again to debate on this issue and he asked the team to give some more thoughts into the following two issues and to come prepared for discussion at the next meeting which was planned after a month: (a) Can we replicate the Bhiwadi experience in another three Plants and what hurdles they see in the process? (b) Should ITL attempt, after 2 years of successfully running the new model at Bhiwadi, to link a portion of the annual wage increase (incentives) to individuals' performance for the workers, the way they do for executives? If ITL implements PRP for workers, then there will be uniformity in executives and worker salary determination process. Information about the discussion has been spread among the workers and they are also informally discussing about the pros and cons, in case management decide about PRP for workers.

The company's senior management team believed in an open door policy and had taken proactive steps in the past for creating a collaborative workplace environment. This has been one of the reasons why they could take an amicable decision on radical change in the wage determination process. The senior management team is however concerned and apprehensive about the two questions that MD has raised. They are discussing and wondering to find answers to the questions like: How to extend the current model of wage fixation in other three plants? How to communicate with the workers and executives? How to maintain the trust and collaboration with the changing scenario of product demands? How to negotiate with multiple unions in case ITL plans to introduce alternative wage fixation? Should the company introduce a PRP system for workers in Bhiwadi plants and subsequently to the other three plants? What are the challenges of the proposed system of PRP for workers?

All these developments are happening in the backdrop when the tractor industry in general is facing a crisis in the recent years. In the last fiscal year 2012-13, for example, tractor volumes have shown decline by as much as 10.9% (Kotak Institutional Equity Report, 2013). In such situation role of

industrial harmony is very critical for having a sustainable competitive advantage for the organization.

## INTRODUCTION TO THE INDIAN TRACTORS LTD. (ITL)

ITL, \$1.5 billion tractor major, is among the top five tractor manufacturer in the world and the second largest in India by volumes. In the Indian market, ITL has earned the trust of its customers through its wide range of products that are known for high quality and low cost of operation, backed by over thousand strong distribution networks that effectively support its three tractor brands. Besides tractors, ITL and its subsidiaries have diverse business interests in areas such as farm machinery, diesel engines, batteries, transmission components, panel instruments, and hydraulic pumps. From a small beginning with just one tractor model, manufactured in its first plant in the early 1960s, ITL today is recognized as a high quality mass manufacturer with an extensive product range to meet every farming need, innate engineering strengths, uncompromising focus on quality and an immense R&D focus.

ITL currently employs over 2000 engineers apart from a number of specialists in other disciplines across its business units. It is committed to the Total Quality Movement and three of its tractor plants are certified under ISO 9001 and also under ISO 14001 for their environmentally friendly operations. In the recent past, it has honoured with three international TPM Excellence Awards for various plants. ITL also has the distinction of having received the Business Excellence Award by the most reputed forum of Indian industries.

Today ITL manufactures tractors at four plants across India. The Bhiwadi plant was established in the early 1970s to manufacture energy efficient HP engines. The organization has been generally recognized for its professional management approach and the spirit of openness in its management practices. Human resource management practices in the Bhiwadi plant have apparently played a significant role in improving the industrial relations climate. It believed in collaborative industrial relation and harmony.

## ITL PHILOSOPHY, VISION AND VALUES

The philosophy that drives ITL is to achieve excellence and distinction of the first choice among the farming community of India. The seven **core**

**values** are: Customer, Ethics, Environment, Quality, Change, Trust, and People. IITL also believe in the philosophy that people will continue to be the greatest asset in any business and that is why the recruiting, training and retaining of the employees, is critical to business. The HR function in the company therefore has evolved into a key operational area of the company. The HR philosophy at IITL can be summarized in following key elements: (a) harmonious and friendly labor-management relationships and top management commitment towards democratic forums like work councils and joint management councils;(b) HR commitment towards employees' skill enhancement on a continuous basis and their overall development; (c) culture of openness, free discussion and feedback; (d) encouragement for innovative ideas and creativity at the work place through recognizing and rewarding for suggestions and achievements.

### CHANGING SCENARIO OF INDUSTRIAL RELATION (IR) IN INDIA

The role of the IR partners is changing significantly in the context of the new economic environment of India. The current role of IR in India is moving from firefighting role to strategic partner role. The inevitability of the paradigm shift is obvious as there is absolutely no choice for the economic environment other than to change and adapt itself to global standards. Venkata Ratnam and Srivastava (1991) highlights that the role of IR is taking paradigm shift, which is moving from strong protagonist for workers to the strategic business partner role. Budhwar (2009) supported the argument and added that 2000 onward is a period of rationalization where the business outlook is strategic with emphasis on organizational performance. Shyam Sundar (2008), also inferred that there exist an implicit and social impact between unions and employers, whereby unions promise industrial peace for organizational and job securities, improved amenities and welfare in return. All this has happened over a period of time, along with the changing role of HR, which has also been elevated from clerical to administrative, administrative to managerial, managerial to executive, and executive to strategic partner (Budhwar 2009).

In this changing scenario, participatory management and CB has been a subject of debate. There exist different mechanisms for effective workers' participation like works committee, Joint Management Councils, Quality Circles, worker director etc. All these mechanisms can be effective, only if there is a mutual trust between workers and management. It is also essential to align and integration organizational vision and goals.

Further, it has been observed that the pattern of CB outcomes appears to have changed in recent years. Many companies are facing difficulty in CB due to inter-union rivalry and politicization of unions.

In contrast to age old methods of managing IR, some forward looking companies indeed prefer to have a positive HR approach today by introducing strategic people initiatives like introduction of benefits and welfare activities, new forms of work organization, and stronger commitment to employment continuity. The role played by management in shaping IR, as opposed to the traditional, reactive view responding to union pressures should be proactive and business aligned. This is why it is believed the strategic approach to IR could help adding a more dynamic component to systems theory and explain some of the evolving developments in Indian industrial relations.

In the absence of such approach, it often leads to industrial unrest and operational breakdowns. India in the past few years seen the hostile incidences of labor unrest in Honda Motorcycles and Scooters (Saini, 2005), Maruti Suzuki and Pricol Ltd., to name few, have highlighted the significance of strategic and proactive approach. In these three cases the major causes were lack of trust, lack of openness and poor communication mechanism, failure in building harmonious labor management relations, and reactive HR systems. All the incidents have reinforced that openness and trust are two essential ethos of culture for industrial peace and harmony. These incidents have also raised the issue related to wage fixation through the CB. Although CB is the democratic method of wage fixation, the differences and conflict that often arises during the long drawn process of negotiation, is also a potential source of suspicion and dispute. This has been further elaborated in the following section.

### **WAGE NEGOTIATION SCENARIO IN INDIA**

Wages in India are determined through several institutions, CB is one of them. CB has been important for the fixation of wages for workers in the organized sector, whereas annual salary increments of executives are largely determined by organizations, as a policy, taking into consideration various indexes such as, company's performance, employees' performance, cost of living, wage comparisons with other firms, and organization's ability to pay. In public sector undertakings too wages of the workers and staff is determined by CB, whereas the salaries of officers and managers are determined periodically by the government. Although the mechanism of CB is democratic in spirit, it has generally been experienced in India that this so-called "civilized confrontation"

often results in the uncivilized state of affair. Unions do not often take into consideration the organizational capability to pay and the prevailing market conditions while bargaining for higher wages. Management too often succumbs to the pressure of the union and at times accepts even unreasonable demands under the pressure from Government, political parties, or bureaucrats. The most important factor that determines the wage increase of the workers in India, therefore, boils down to the abilities or greater bargaining strengths of the two parties while negotiating across the table. Therefore the negotiation of wages or other compensations is usually just a process of winning over each other in order to get the bigger portion of the pie, without taking into consideration the overall interest of the organization. Some of the common concerns or limitations associated with the process of negotiations with Indian industries are the following:

(a) Wage negotiation, in Indian organizations normally is a long-drawn process and takes much of organizations' time and resources as they continue for months. From the organization's point of view the delay is very costly and damaging. There is a win-lose situation that has often done no good for the organizational productivity and in building trust between management and the union.

(b) Most often it is found that the process is only a ritual where both the parties are aware of the outcome of wage settlement from the beginning, knowing the market conditions and the capacity of the management, but even then they begin negotiations with unrealistic stands. The demands are normally pitched at such a high level that it has never been possible to accede to the same. Both management and the union make their own negotiation strategies with the main objective of strengthening their respective positions and image in the "struggle" against the each other.

(c) Trust or confidence, which is considered to be the hallmark of any relations and is a critical prerequisite for negotiations, also often found missing due to several historical reasons. This has a direct impact on employer-union relationship and for achieving union-management cooperation for common organizational goals. Lack of transparency in organizations and workers, who are often not well informed also hinder in building trust and in developing harmonious and strategic industrial relations.

In the light of the current situation, particularly when the IR Scenario is changing to Strategic Industrial Relations (SIR), it has become imperative for the organizations to improve the industrial relations at the workplace by creating newer roles and suitable environment for both the parties to grow collaboratively and strategically. Organizations, indeed, are in the quest for building an environment where management and union work collaboratively towards organizational effectiveness. A new method of wage fixation for workers, which the ITL at Bhiwadi (located in the State of Rajasthan in India) has successfully experimented, is one of such unique and relevant examples for any Indian organization. It highlights the role of strategic orientation required by unions and workers in order to achieve industrial democracy, harmony and enhanced productivity. It has acted as the 'base stone' in the success story of industrial relations and opened new doors for other organizations to explore.

### **RESEARCH METHODOLOGY**

The methodology adopted for the study was mainly in-depth interviews, both structured and unstructured, and informal discussions with a number of executives, staff and most of those union leaders who were the union representatives over the last few years. The sample selection has been done using judgmental sampling, based on the criticality of the role they played in this new system design and execution. The top and most of other executives, who was involved in initiating and negotiating with union representatives to implement the new methods of wage fixation for the workers, were interviewed. Besides, four focused group discussions (FGDs) have been conducted in a group of 15-20 workers to explore their views about the company and the current system of wage fixation at Bhiwadi. The authors also interviewed few office bearers of the company union, selected workers and the senior management team after the implementation of the new system to comprehend their views about how it's working, what are the key issues (if any) and how making the new system contribute to the overall organizational effectiveness through their active participation and engagement.

### **WAGE FIXATION IN ITL - HISTORICAL BACKDROP**

Wage negotiation practices at ITL were not different from most other organizations in India, until a few years ago. The usual practice was that the wage negotiations lasting for several months, taking a lot of time and recourses of top officials. Furthermore, it always created negative vibes



and pressure for both the concerned parties of CB. In year 2008, when the four wage settlement for the last time carried out, the story was no different. The negotiations continued for seven months and hundreds of hours were spent during which also led to unnecessary arguments. Furthermore, there was not much expectation from either side as both the union and the management had the prior estimation of the outcome of the negotiation because the wage settlement depends upon several factors like company's performance, wage increase in the industry, the level of inflation, etc., which were known to both partners. But still the negotiation continued for a long time as a ritual, which, though temporarily, affecting the workplace relationships.

Trade unions existed in ITL at Bhiwadi since its inception and there have been harmonious labor-management relations, except two disputes in the past which had led to strikes, one for a week and the other for ten days. Both the strikes took place in the first two decades of inception of the Bhiwadi plant, and in the last approximately 20 years there is no history of any major dispute. The organization in principle believed in the institution of CB, it is a democratic process that represents the feelings and aspirations of the entire workforce. But both the management and the union members over the years began to feel that the whole process of negotiation is "meaningless". Fundamental questions which triggered off were: what benefits are both the parties getting through the negotiation process? How has it contributed to the organizational ethos?; and why go through this long drawn exercise when both sides are by and large aware of the end results?

Realizing the shared belief and knowing that the workers of Bhiwadi plant have faith and trust in the management, the senior management team took the opportunity to put forward a proposal to consider the annual wage increment system for the workers, similar to what was followed for the executives and office staff. This brought a new era of industrial relations in India where the workers' union in Bhiwadi, after their internal discussion, had agreed to give up its right to negotiate wages willingly, an initiative, which was unprecedented in the Indian business scenario. There has been mixed reactions to this new understanding. Some union leaders of other trade unions in neighboring plants in Bhiwadi first reacted by calling it a cowardly act on the part of the union to give up its right of bargaining, but gradually as the process worked well over the years, it was acknowledged as a positive initiative by many. The actual sequence of events and the challenges faced during the establishment of the new process are discussed in the following sections.

## **CARVING THE NEW PATHWAY OF PARTICIPATION & HARMONY**

The negotiation of the next wage agreement began in August 2011, almost seven months before expiry of the three-year wage agreement on March 31, 2012. The Managing Director of Bhiwadi plant, Mr. R.K. Sareen during one of the early meetings of the wage revision, proposed that the management may agree, in case the union unanimously agrees to put an end to CB process, and allow companies to propose a general increase in wages of the workers on an annual basis just like other employees – managers, executives and supervisors. This idea, as an alternative to the system of wage negotiation was not the part of the agenda for that meeting, but emerged in the course of discussion when office bearers raise the issue that why always there are different policies for managers and workers. This was a general statement, but Mr. Sareen found it an appropriate time to propose what was for long in the minds of some senior managers who had worked in the plant in Bhiwadi plant for years and understood the mood of the union. Mr. Sareen was one of the managers who had spent several years in the plant earlier, and when he came back to Bhiwadi plant in 2009 as Chief Executive Officer, he did not miss the opportunity to put forward the proposal. He was looking for the right moment and with the help of four other executives he voiced the idea that since both the management and the union do not benefit in the wage negotiation process, an alternative must be tried out. It was proposed that since the executives and staff get an annual raise even without forming a union and negotiating with the management, the workers should also get the equal treatment and get their raise without negotiations.

After doing systematic groundwork, finally in the month of December 2011, the management had put up a concrete proposal before the union. This was a unique offer as it proposed that the management would treat workers just like the staff and officers and therefore the same method of annual wage increase will be followed in their case as well. The management did not insist on any written agreement, but left it to the union to try out this mechanism and in case they are not satisfied, they had the option to revert back to the old system of CB. The union agreed to try out this new proposal as they trusted the management, which itself can be seen as a major breakthrough, as no union would willingly give away their rights unless they have complete trust on management and full cooperation of the workers.

After discussing and taking the approval of the workers, for which the management had already done some groundwork, the union submitted

a letter on the 31<sup>st</sup> of December 2011 which stated that the union reposes full confidence in the management and would not negotiate the wage settlement. They gave the management the authority to decide the general increase in wages on an annual basis. Management also did not force upon any non-reversal commitment and documented that if, the workers are not satisfied with the new system, then they will be free to decide to go back to the old system of negotiation. This was indeed the first such case in the organized sector in India that the management and the union had agreed to put an end to the system of wage negotiations, which is one of the most important prerogatives of the union. This system of annual wage increments was successful for last two years without any indication for the reversal of the system.

This achievement should be seen in the light of the long-standing labor-management relationship that has built-up in the plant over a period of time. This change has not been incidental, but has been made as a systematic and planned effort by a few senior managers of the company, who was looking for a right time and opportunity to propose it. The major challenge before the management was to convince the union and the workers at large to trust the management decisions of the new wage fixation method. For the union it was even a bigger challenge to accept the proposal. After sacrificing its most important role in the process of wage negotiations could it remain a respective body of workers? Thus the main issue for the union became its survival. It was also faced with the challenge of convincing the workers to accept the offer of the management.

Although the new system was not easy either for the management or the union to introduce, there were some critical factors which supported the organization in building up trust and thereby getting union support for implementing the new system of wage fixation.

Some of the critical factors were also reflected during the **Focused Group Discussions** and the excerpts from the discussion, has been described below:

#### EXCERPTS FROM FOCUSED GROUP DISCUSSION

- “We are one family and have always stood by our brothers (each other), whenever there is problem in anyone’s family.”
- “Whenever our Group Chairman comes to our Bhiwadi Plant, he first comes to the workers and only after spending time with us, he goes to managers. He is like a father to us.”

- “We can go to our MD office when required, as he has allocated time to meet any worker. He also remembers our names. His office is open office for the workers.”
- “We trust management; they can never do wrong for workers. After all only if the company grows, we can all grow.”
- “Company has done a lot for our families, which includes support for health and education of children and low interest loans for owning our houses.”
- “Our family members also participate in annual day events, which are always memorable.”
- “Our work councils and joint management councils are very open forum for discussion and we always get support from management for this cause.”
- “There is no politics in our plant and we all live in harmony.”
- “Now unions are doing much better work and spending more time in welfare activities.”
- “We now feel better as we automatically get our annual increase, just like our managers.”
- “We trust that in our MD and we are sure that he will never exploit us.”

The statements above indicate that workers in Bhiwadi plant are highly engaged. They also seem to have the strategic concern of the business and plant, and contribute and participate well in work councils and joint management councils. Their trust level too is found to be sky high, which indicates why workers unanimously agreed to the management proposal of giving up the CB. Their statements indicate that they are happy with the new wage fixation system and so far have no complaints. The acceptance of new wage fixation however was the first step and management was confident that if they succeed in implementing PRP as well, they will be able to establish long and healthy relationship with workers contributing more effectively towards business growth. In the following section the critical factors which had led to build a culture of trust and supported the establishment of the new system of wage fixation of the Bhiwadi Plant is described.

### **CRITICAL FACTORS SUPPORTING NEW SYSTEM**

- i. Firstly, Bhiwadi plant was the smallest of the four plants of ITL, which presently has only 315 workers, 123 staff and 42 executives in the Bhiwadi unit plant. In addition they have around 30 apprentices and about 150 odd contract employees. Since the number of employees is not very large and also the annual

- employee turnover rate of workers is normally below 3 percent, many executives and the staff members know almost all workers by their names.
- ii. Secondly, the management for long followed an open-door policy and encourages workers to come directly to them with their problems. As a result the union leaders and even the workers do not hesitate in approaching the chamber of executives in case they want to share some information or have any grievance. When crucial decisions are to be taken, for example the current one, the union leaders are able to consult the employees on a one-to-one basis and convince them before they accept the management's proposal.
  - iii. Thirdly, the majority of the workers are old and trusted employees who have been working for over two decades. Since there has not been annual recruitment, and most of them have worked and grown with the company for all these years. The organization's commitment to keep the employees till the age of retirement and providing their training on-the-job has further helped organization for earning commitment from the employees. Management by building trust and overcoming barriers to communication helped employees understand that the progress and prosperity is inextricably linked to the company's performance. As a result union also has played a mature role and made a joint effort in the transition to a new practice of wage determination.
  - iv. Fourthly, there is only one union in the plant and there is no outside membership of the union. With a single union and not a very large workforce it has been relatively easier for the management to meet the employees on an individual basis to propose and pursue the issue without any fear of inter-union rivalry. Even though the ITL union has been formally affiliated with one of the major national trade union federations, it is practically an enterprise union with least or no outside influence in decision making. This is one of the biggest advantages of the Bhiwadi plant as political influence, multiple unionism and outside leadership have been the biggest obstacles to harmonious labor-management relations in most Indian organizations till date.
  - v. Fifthly, the management has played a very positive role in building trust and a positive work environment. This culture was encouraged and practiced by the top management at first and it has percolated to the senior and middle management as well. When Mr. V. K Rajan, former Chairman used to visit the plant, he was always available to the workers to listen to their viewpoints while sitting with them informally. The workers trusted him because he was fair, transparent and honest in dealings, and was down-to-

earth when while communicating with the workers. He promoted a kind of familial environment and discussed even personal problems with the workers. Workers in turn were emotionally attached to him and respected his suggestions and decisions. He expected the same approach from managers, and it is because of this approach of the top management, the middle level and senior managers also followed the footsteps in dealing with the workforce. As a result over a period of time, the management at Bhiwadi plant was able to build a kind of trust in the workers and therefore workplace relations constantly improved.

- vi. Sixthly, the welfare measures that the organization adopted from almost its inception had an impact on the lives of the workers and their families. Education facilities for children and spouses, health camps, medical and hospitalization schemes for family, income generation schemes, scholarships and loans for studies, *Kaizen* awards, pension scheme, etc. are some of the welfare measures that the organization has adopted. All these schemes aim at encouraging worker's participation in decision making and in resolving all workers-related issues mutually. The company through *Kaizen* movement also helped support the activities that involve group work and promote cooperation and creativity. All this gradually helped in relationship and trust building.
- vii. Finally, the practice of having the Production Chief as the in-charge of industrial relations in the plant also helped in the transition. As the production chief interacts with the employees on a regular basis and also sits within the premises of the production plant and not in a separate wing of administration, he is the most appropriate person to understand the problems of the workers. This practice at the Bhiwadi plant has also been perceived as one of the factors contributing in developing closer ties between workers and the management.

All the above factors have helped in developing a positive work culture and building trust of the workers in the management.

### CURRENT STATUS

Two years have passed since the new system of wage fixation has been adopted. During these years, in the month of March, the management has come up with the annual increase in the wages of the workers. It has considered various factors, as do in the executive salary determination of executives, while computing the annual increase. Besides these general factors, such as organization's performance, profits and market rate,

another factor that the company had to consider was the wages fixed in the other plants of ITL, where the wages are still fixed through the CB. Although wage settlement at other plants was not the major criteria for wage fixation at Bhiwadi, but the management at Bhiwadi has been careful that the workers do not get a raise which is less than that of the workers at other three plants. This was a conscious attempt, as management was afraid that if the workers at Bhiwadi get lesser wage than the workers at the other plants, they might consider reverting back to the old system of negotiation. This is one of the challenges as there may come a situation that annual wage increase at Bhiwadi is lower than other plants, and management is not sure how the union will react to that. However, with the success in last two years, they have consolidated the process, which is showing positive results. This has given the management the confidence to think about introducing the component of variable pay, just like they do for executives, where a portion of salary is linked to performance. They are now working out the action plan to design and execute the performance related pay (PRP) at Bhiwadi plant. Management would like to promote the plant as a model plant of ITL, and once PRP is also a success, they would like to try it out gradually in three other plants of ITL. The management, however, understands that in other plants the critical factors are not identical, such as a higher proportion of young employees, two or more trade unions and their rivalry, and larger size of the organization which has not allowed proper implementation of open door policy.

### **NEW CHALLENGES AS PERCEIVED BY MANAGEMENT AND UNION**

Discussions with a number of executives, staff and the union leaders provided some insights into their views on the relevant issues and concerns of the new system of annual increments and the way ahead. The management's perspective is that now the onus lies with them, and have now a greater responsibility. As the organization is earning profits over these years, and is successfully meeting the challenge posed by the economic slump as well as growing competition, it has not yet faced any serious problem in consistently increasing the annual wages to meet the aspirations of the workforce. Some executives, however, feel that there may be a problem soon, due to declining demand of tractors in recent years, when the management is unable to meet the expectations of the workers. Most executives however believe that the union is mature enough to understand the situation in case the organization is actually not in a position to fulfill the expected wage enhancement, unless workers have valid reasons to feel that the organization has been unfair.

The trade union leaders, the as well as the former office bearers, believe that “now the ball is in the management’s court” and thus the management has a greater responsibility than before. Union leaders do not think that the power of the union has reduced, however the function of the union has changed and is only different now. They feel that they now get more time to discuss relevant issues regarding the workers’ welfare with the management. It has also helped in avoidance of conflict and tension, and therefore is helping in building harmonious labor-management relations. The trade union is also of the opinion that if wage is fixed at a lower rate than the previous year without any substantial reason or the reduction is made in the case of workers only and not in the case of executives and staff, the union is going to protest. In that situation they may revert back to the old system for wage negotiations. However, so far the management is fair, consistent, and impartial; the trade union will support the management.

Therefore, the general expectation of an IR professional that a trade union would lose its importance if it gives away the right to negotiate has not been seen to be true in Bhiwadi Plant so far. On the contrary, the trade union leaders were found to be relieved and empowered. The management is under tremendous pressure as they have to decide the wages of the workers annually, rather than deciding wages once in three years through negotiations. This also means additional work and additional responsibility for management. However, the management solely responsible for the act of wage fixation means increased credibility as well.

## **APPREHENSIONS AND FUTURE PROSPECTS**

Although the new practice is working well so far, two years is a short period of time to truly judge its effectiveness. There are also certain apprehensions about the future of the system. A few still think that the wage increments would have been in their favor if they were negotiated. Such a feeling is natural for certain employees, both from workers and management, but it is not the concern of only less than ten percent of the employees interviewed.

Trade union leaders are also under pressure as they have been facing adverse reactions from union leaders in other plants of ITL as well as from other organizations. They have been blamed for having compromised with the management and the allegation is that the management has bought them. These allegations, however, have been fading gradually in the last two years as the management has fixed annual wages that have



been higher than other ITL plants, where wages are still settled through the CB. As a result gradually some office bearers of other ITL plants have also acknowledged that the union at Bhiwadi has been able to achieve what they could do only after negotiations.

The Bhiwadi union is undergoing a testing phase and is gradually gaining respect of the peer organizations. At the moment it appears that the union is waiting and watching how things shape up, and is alert to the problems that may arrive in the new system. The management on the other hand has similar apprehensions. They know that the pressure is on them since they have the sole responsibility of wage fixation. The new system will continue to function well and definitely have additional advantages, which will be seen in the years to come. But how the management reacts to the situation when the company may not perform well or the market conditions may not remain suitable to wage enhancement is not known. Further, it is still not clear how the union would respond to the proposal of PRP for the workers, about which MD had mentioned in the last management committee meeting. Introduction of PRP, in the lines of executive compensation, means a complete alignment of compensation policy for executives, staff and workers. There has been mixed feeling among the workers. On one end they are happy that they may get more benefits for fulfilling targets but on the other there is fear that management can remove the system of overtime monetary benefits in case model is designed on the lines of executive compensation. At the moment workers are waiting for a clear indication from management. Union leaders will also formally discuss it with the workers when a detailed draft of the proposal is shared.

## CONCLUSION

The experience at the Bhiwadi is unprecedented and therefore is a potential benchmark for other plants of ITL as well as other organizations. It shows how a management can build a culture where workers can trust the management to the extent that they give them the power of wage fixation. It also has shown how union can contribute more in welfare activities and benefit the workers at large. The study further highlight that such initiatives do not happen in a single day but has been a gradual process of building trust. If the experiment of annual wage fixation continues successfully for few more years, this may set a trend and Bhiwadi may become a benchmark for a large number of Indian organizations. But for the success of the any such initiative, it is important that both union and management play a very positive, mature and proactive role, and rise above their sectional interests.

Senior Management of ITL is aware that the successful implementation of wage increments does not automatically ensure that PRP component, which company is proposing now, can also be successfully implemented. Most executives interviewed are raising the questions that first we need to debate whether that PRP is necessary for workers, and also how to make the process objective so that the wage differentials do not demotivate the workers. One senior executive mentioned that by introducing PRP company will open the can of worms, and it will be difficult to hold it. He is preparing his notes for the meeting that MD has called next month and is keen to put his view that the company is not yet ready to introduce PRP in the company.

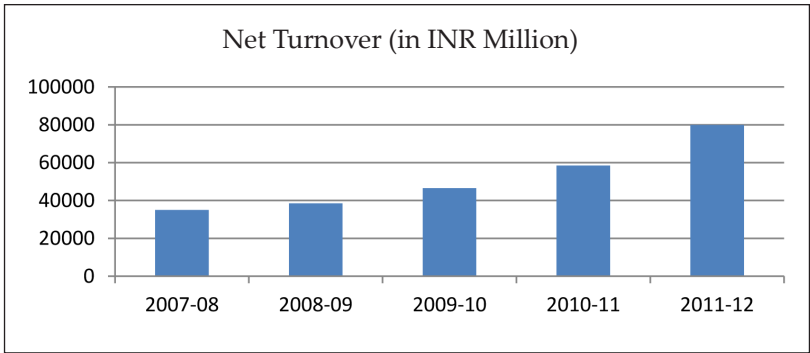
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## APPENDIX

### Exhibit- 1:

Net Turn over ( in INR million)



### Exhibit- 2:

Tractors Sales Volume (in Units)

