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## **An Analysis of Remuneration, Employment & VRS at Executive level in CPSEs**

Sunny, Kumar Singh

Department of Public Enterprises, Government of India,  
Gokhale Institute of Politics and Economics

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GOVERNMENT OF INDIA  
MINISTRY OF HEAVY INDUSTRY & PUBLIC ENTERPRISES  
DEPARTMENT OF PUBLIC ENTERPRISES  
NEW DELHI

***An Analysis of Remuneration, Employment &  
VRS at Executive level in CPSEs***

Summer Project

Submitted By

SUNNY KUMAR SINGH



**GOKHALE INSTITUTE OF POLITICS & ECONOMICS, PUNE**

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## **Abstract**

The Department of Public Enterprises (DPE) under the Ministry of Heavy Industries and Public Enterprises is the nodal department in the Government of India to provide, Inter alia, an overview of the financial and physical performance of the CPSEs. The CPSEs are those companies wherein more than 50% equity is held by the Central Government.

The Wage Division of the DPE is responsible for the policy on wages and salaries for the employees of the CPSEs.

This project attempts to discuss the remuneration, employment and VRS in the CPSEs especially at the executive level. This has been discussed in details in different chapters.

In the first chapter, the theoretical aspect of the CPSE & their employment, remuneration and VRS policy have been discussed.

In the second chapter, the remuneration policies for executives of the CPSEs have been discussed. For this, the recommendations of the first and second Pay Revision Committee (basis of determining remuneration for executives of the CPSEs) have been discussed along with some suggestions for a better implementation.

In the third chapter, the employment trend including recruitment and retirement trend of the executive have been analyzed both aggregate and sector wise. During the analysis, some observations were made which have been discussed.

In the fourth chapter, an analysis has been done regarding VRS in the CPSEs at the executive level. By using regression line, a relationship between the surplus manpower and VRS have been found which have been also discussed in detail.

In the fifth chapter, the relationship between the remuneration policy of the CPSEs & the employment and VRS trend have been analyzed by dividing the CPSEs into Navratnas and Miniratnas & Non-Navratnas and Non-Miniratnas.

In the sixth chapter, the future impact of the implementation of 2007 pay revision on the employment of the executives has been discussed especially in the context of the recent slowdown. Finally the conclusion of the whole analysis has been summarized upon in the last chapter.

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# **1. Introduction**

## **1.1 Central Public Sector Enterprises (CPSEs)**

1.1.1 The term 'Public Sector Enterprises'(PSEs) is an undertaking that is owned by a national, state, or local government, provides services or goods at a price, and is operated generally on a self supporting basis. In India, the PSEs include departmental undertakings, corporations and public limited companies.

1.1.2 The role of PSEs differs from country to country, depending whether the country is developed or underdeveloped. The philosophy of PSEs is different for different countries.

In India, the CPSEs are engaged in large scale production and supply of a wide range of products and services. These include basic goods like steel, cement and chemicals; capital goods like pressure vessels, boilers and drilling rigs; and intermediate goods like electricity and gas. They also render a large number of services, such as telecom, trading, tourism and warehousing etc. They all have a great impact on the employment, infrastructure, capital formation and balanced regional development of the country.

1.1.3 When India attained freedom, it adopted planned economic development policies in democratic, federal polity. Prior to independence, India was a pre-dominantly agrarian economy with a weak industrial base due to several factors like low saving, low investment and weak infrastructure.

1.1.4 Due to these characteristics, the leaders of that time drew up a roadmap for the development of Public sector as a source for self-reliant economic growth. This guiding factor led to various industrial policy resolutions starting from 1948 and then to 1956 which focused mainly on development of public sector enterprises in India. The Industrial policy of 1948 led to development of core sectors through public enterprises which would intend to correct the regional imbalances and create employment, whereas the Industrial Policy of 1956 gave primacy to the role of state for industrial development and emphasized the development of heavy industries (Mahalanobish Model of Economic Development).The new strategies for the public sector were later outlined in the policy statements in the years 1973, 1977, 1980 and 1991.

1.1.5 The year 1991, which can be termed as the watershed year, heralded liberalization of Indian economy where the role of public sector were kept limited to some important areas by reducing number of reserved areas from 17 to only 8, abolishing industrial licensing in all areas except 18

which are of strategic importance. They have the only role of supplementing the private sector by providing infrastructural facilities in the country and preservation and augmentation of basic resources.

1.1.6 As on March 2008, there are 247 Central Public Sector Enterprises in India in which 28 are under construction contributing about 8.4% of total GDP. These CPSE are presently employing 15.70 lakhs of people, out of which about one-fourth of the employees belong to managerial and supervisory cadres.<sup>1</sup>

## **1.2 CPSEs and Employment**

1.2.1 The economic development of any country solely depends on the Government policy of that country. Hence it becomes the responsibility of Government to shape the economy in such a way that it generates employment which further results into stable and growing economy. These days the role and duties of the state have undergone a complete change. The state has to spend to achieve economic and social ends which consist of direct services and benefits to community at large. The public expenditure of the state should be in such a way so as to generate more employment leading to rise in productivity. It should provide opportunity for employment. The state, in this process through setting up PSEs, promotes investment and productivity which corresponds to full employment.

1.2.2 In fact Indian planning, right from first five year plan, has given great importance to the role of state when it comes to employment generation. In the process, there was large scale investment in PSEs which resulted into large scale employment generation in India at least upto 1991. After that, with opening of the economy, there has been downturn in employment generation by PSEs due to privatization and disinvestment of many PSEs. But despite this, the share of PSEs in total employment generation has been modestly high despite the competition from private sector and multinational corporations.

### **1.2.A Some Issues Regarding Employment in CPSEs at executive level<sup>2</sup>**

- By the 70s, it was realized that though Public Sector played a very significant and vital role in the economic development of the country, over a period of time it also developed certain negative traits. Monopolistic operations and cost plus pricing system led to large operational inefficiencies and recruitment of manpower far in excess of actual requirement.

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<sup>1</sup> Public Enterprises Survey 2007-08

<sup>2</sup> Report of the 2<sup>nd</sup> Pay Revision Committee for the Executives of CPSEs

Management started getting politicized and many times decision was taken on considerations other than sound commercial logic. Several CPSEs failed to foresee future and adopt new technologies and management practices and became sick.

- And in the early 80s, it became clear that Public Sector monopoly was as bad as Private Sector monopoly and competition is essential to bring about efficiency in economy.
- Since major part of industrial activities was reserved for Public Sector during the first four decades after independence, apparently job opportunities for Professionals were also largely in Public Sector. Since the rate of economic growth was relatively low, number of jobs created was also relatively low. By the end of 60s and early 70s, there was stagnation in employment opportunities which led employment in Public Sector the most sought after career option for bright professionals.
- With the opening of Indian economy in early 90s, private sector started operations in almost all sectors of the economy that were earlier reserved for CPSEs. Post 1991, private sector has grown at far rapid rate than the Public Sector. With the entry of MNCs, the rate of growth of private sector further increased. This growth in private sector has led to large demand for technical and managerial talent from the private sector.

### **1.3 CPSEs and Remuneration**

1.3.1 Human Resource (HR) is one of the most complex and challenging field of management in any sector whether it is private sector or public sector, as it deals with the people dimension in business management.

1.3.2 In CPSEs, HR practices and its management have a long way to go in order to achieve professional and competitive HR standards. There is a lot to be done in HR in terms of identifying and nurturing talent; creating a performance driven culture; and bringing about changes in the mindsets of employees at all level so that all of them aim at providing value to the costumers.

However, the CPSEs, in this regard, have always been considered as model employers. They used to recruit the brightest people in a very fair selection process and generally through open competition and jobs in these sectors were used to be highly preferred by talented people. But the situation has changed in the last 10-15 years. Because, earlier there were little opportunity available for professionals to migrate from one company to another, but during the last decade there are plenty of opportunities opened up for them in private sector to leave the organization. And more, the demand for talent is not confined to any particular sector of industry but the professionals are moving across sectors. As a result, the CPSEs are under huge pressure in terms of attracting and retaining talent.

1.3.3 Hence, to attract and retain the talent within the CPSEs, there is a need of right approach toward the employees by the selection committee. The right approach requires that the employees be treated as resource for the organization in which they contribute. It is high time that CPSEs should reorient themselves in the matter of human capital and they must ascertain motivational methods for both tangible and intangible employees. It is in this regard that there has been periodic revision of remuneration for the employees, basically executives of the CPSEs, by Government of India through the Department of Public Enterprises (DPE) which is the nodal department for all the CPSEs in India.

1.3.4 In view of the present scenario and the challenges ahead for the public sector and in particular the competition from the private sector and MNCs, the Pay Revision Committee (which is set up to look into the issue of remuneration of Executives in the CPSEs) should be serious about of its role to recommend a comprehensive pay package to the CPSEs so as to improve efficiency, productivity and economy through the rationalization of organizational structures, system and processes. The committee should also emphasize the need to improve transparency, discipline, and accountability, assimilation of technology and research & development. They should also harmonize the functioning of the CPSEs with the demands of the emerging national and global economic scenario.

#### **1.4 CPSEs and Voluntary Retirement Scheme (VRS)**

1.4.1 Mainstream economists perceive Voluntary Retirement as a measure to shed workforce whose marginal productivity is zero. Further it is argued that this could be introduced in an industrial organization for maintaining its cost effectiveness in an increasingly competitive world. However, the rationale behind the introduction of VRS in the CPSEs that have to operate within the existing legislative framework, which doesn't allow the organization to shed the redundant workforce without adequate compensation.

1.4.2 Employers refer to VRS as 'Golden Handshake', trade union call it 'Voluntary Retrenchment Scheme'. For the government it is an exit policy. VRS is one of the strategies introduced in the CPSEs in India to reduce the so called surplus or redundant manpower. It gained publicity after introduction of the New Economic Policy, 1991. It is envisaged in the policy that VRS can provide minimum sustenance security to the retired individual and his family.

1.4.3 VRS, which was initially introduced in 1988 for the first time, was revised and a comprehensive package was notified by DPE in 2000 so as to cater the need of the CPSEs

to meet their objective and also to protect the interest of the workers affected due to various restructuring models. Considering the difficulties faced by the enterprises where the wage revision of 1992 or 1997 couldn't be effected, the VRS was liberalized in 2001. This provides for 100% additional compensation for the employees where wage revision of 1997 couldn't be effected and similarly 50% additional compensation for employees where the wage revision of 1997 could be made effective. The ex-gratia under VRS to employees following CDA pattern at 1986 scales has also been enhanced by 50% from 26.10.2004. These increases in VRS compensation are to be computed based on the existing pay of the employees.

The different VRS approaches for different type of CPSEs<sup>3</sup> are:

- The CPSEs, which are financially sound and can sustain VRS on their own, can frame their own scheme of VRS and make it attractive enough to for the employees to opt for it. They may offer compensation up to 60 days salary (only Basic Pay + DA) for every completed year of the service. However, such compensation will not exceed the salary for the balance period of service left.
- The CPSEs, which are sick/loss making/marginal profit earning, can adopt *either Gujarat Model* (under which compensation is computed by allowing 35 day salary for every completed year of service and 25 days for each year of the balance service left until superannuating subject to condition that the compensation shall not exceed the sum of salary for the balance period left for superannuation) *or the VRS package of Department of Heavy Industry Model* (under which ex-gratia payment of equivalent to 45 days emoluments for each completed year of service or the total emoluments for the balance period of service, whichever is less, is applicable. The employees who have completed 30 years of service will be eligible for a maximum of 60 months salary as compensation and this will be subject to the amount not exceeding the salary for the balance period for service left.

However from the introduction of the VRS initially in 1988 to 2008, approximately 5.94 lakhs<sup>4</sup> employees have been released under VRS so far.

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<sup>3</sup> Public Enterprises Survey 2007-08

<sup>4</sup> Public Enterprises Survey 2007-08

## **2. CPSEs and Remuneration Policy**

2.0.1 The remuneration policy for CPSEs in India is formulated by Government of India through the Department of Public Enterprises (DPE) which is the apex regulatory body of CPSEs. For the revision of remuneration of employees in CPSEs, DPE issues guidelines to be followed by the CPSEs. The Department renders advice to the administrative Ministries/ Departments and CPSEs in matters relating to the wage policy and revision in the scales of pay of the executives. The CPSEs are largely following Industrial Dearness Allowance(IDA) pattern scales of pay and in some cases, Central Dearness Allowance(CDA) pattern scales of pay is followed.

2.0.2 The Government policy regarding pay scales and pay pattern for all the employees of CPSEs is that these should be on IDA pattern and related scales of pay. Instruction have been issued by the DPE in July, 1981 and July, 1984 to all the administrative Ministries department that as and when a new CPSEs is created or established, IDA pattern and related scales of pay should be adopted. CDA pattern pay scale were applicable to some of the employees of 69 CPSEs, who were on the rolls of these companies upto 31.12.88 and were in receipt of CDA pattern pay scale during that time.

2.0.3 A High Power Pay Committee headed by justice R.B. Mishra, was appointed, by the government in pursuance of the Supreme Court directions dated 12.3.86. The Committee submitted its report to the Government on 24.11.84. As per the recommendations of the Committee and Supreme Court directives thereon, the employees following CDA pattern of scales of the CPSEs would get pay revision only as when similar changes are effected for the Central Government employees.

2.0.4 However, out of 15.70 lakhs of employees, around 96% are on IDA pattern and related scales of pay at present. The remaining are on the CDA pay pattern.

### **2.A Industrial Dearness Allowance**

Dearness Allowance is compensatory payment for erosion in real value of salaries resulting from inflation like things. CPSEs in India are largely following IDA pattern scales of pay. Originally, the IDA Scheme was based on a point rate system. The rate of neutralization per point rose gradually from Rs. 1.35 in 1970 to Rs 1.65 in 1983 and thereafter to Rs 2.00 in 1989. In 1992, the IDA scheme underwent a revision on the analogy of a scheme of percentage neutralization as it existed in Government, which varied at different levels of basic pay (graded neutralization of cost of living).

With effect from 1.4.97, graded neutralization has been replaced with 100% neutralization of cost of living as in the case of Central Government employees.

The salient features of IDA are as under:-

- Percentage Neutralization- 100%
- All India CPI for Industrial Workers series with base 1960 used for calculating DA. Derived from the 2001 series by multiplying by a conversion factor of 4.63 and 4.93.
- DA installment to be released every quarter i.e. 4 times a year w.e.f. 1<sup>st</sup> January, 1<sup>st</sup> April, 1<sup>st</sup> July and 1<sup>st</sup> October.
- DA is paid for increase in AICPI above quarterly index average of 1708.
- The percentage increase in the quarterly average of the AICPI for the period ending February, May, August and November over index 1708 is to be taken upto one decimal point.

## **2. B Central Dearness Allowance**

Central Dearness Allowance applies in the case CPSEs, which have employees both on CDA and IDA pattern of scales. The salient features of CDA are as under:-

- Percentage Neutralization – 100%
- AICPI series with base 1982 used for calculating DA. Derived from the 2001 series by multiplying by a conversion factor of 4.63.
- 12 monthly average of AICPI taken.
- With effect from 1.7.96 for increase in 12 monthly average of AICPI over 12 monthly average as on 1.1.96 i.e. 1510 (1960=100)
- Revised every six months.

### **2.1 First Pay Revision for Executives under IDA pattern**

2.1.1 For the first time in India, the Government appointed a Pay Revision Committee in December, 1996 for the revision of pay scale of Executives of CPSEs, headed by Justice S. Mohan, Retired Judge, Supreme Court of India.

2.2.2 While appointing the Committee, Government desired that the recommendations of the 5<sup>th</sup> Central Pay Commission for Central Government Employees should be taken into consideration by the Committee to level the pay scale of CPSEs to Central Government.

2.2.3 Justice Mohan Committee gave its report in 1999 after taking into account the recommendations of the 5<sup>th</sup> Central Pay Commission. Based on the said recommendations, the Government of India revised the pay scale of Executives of the Board and below Board level with effect from 1.1.97.

2.2.4 While making the report, the Committee did recognize the change regarding CPSEs for the last four decades and noted the difficulties that the public sector was facing in the wake of liberalization of Indian economy. While recognizing serious disadvantages that CPSEs face in the changed economic scenario, the Committee didn't make any recommendation to provide a level playing field to the CPSEs, particularly in the matter of executive compensation. The Committee made the following observations: "While the financial attractions offered in the private sector are real, the countervailing circumstance of heavy losses in many CPSEs also has to be borne in mind. Besides Government as owner of CPSEs cannot ignore important aspects of considering all these divergent goals against a broad social objective viz., to maintain a balanced overall structure of wages and income. The task before the Committee has therefore been an exercise in constrained optimization."

2.2.5 Therefore the Committee didn't propose any radical change in compensation of CPSEs and only followed the relativity principles.

2.2.6 The Committee recommended that the payment of perquisites & allowances could be up to a maximum of 50% of the basic pay. Payment over & above the ceiling of 50% are required to be entirely in the nature of Performance Related payment ( PRP), which should not exceed 5% of the distributable profits in an enterprise.

2.2.7 Government decision based on Justice Mohan committee was:-

- CPSEs, which have been making profit consistently for the last three years viz. 1996-97, 1997-98 and 1998-99, would be allowed to adopt the scales of pay for the executive holding post at and below the board level and non-unionized supervisors, strictly in accordance with these guidelines.
- CPSEs, which didn't make profit during the last three years viz. 1996-97, 1997-98 and 1998-99 would also be allowed to adopt the guidelines with the approval of the government i.e. the administrative ministries acting in consultation with the DPE provided they give an estimate as to how resources would be generated by them to meet the extra expenditure.



- In respect of sick CPSEs referred to BIFR, revision of pay scales would be strictly in accordance with rehabilitation packages approved by the BIFR and providing for the additional expenditure on account of pay revision in these packages.
- CPSEs under construction would submit their proposals for adoption of revised scales of pay to their respective ministries for approval in consultation with the DPE.

But, there has been certain departure from Pay Revision guidelines with respect to pay scales including profit making companies including Navratnas CPSEs.

### **2.1.A Compensation Scenario**

In simple term, the compensation includes everything an employed individual receives in return for his work, which mainly comprises of salaries, allowances, incentives & miscellaneous fringe benefits. In today's terminology, it is called 'Cost to the Company' (CTC). The competitive organizations design the compensation system in such a way that it results in enhanced performance and ensures the loyalty of the executives to remain with the company. In general term, the compensation package broadly includes the following components:-

- Salary – It comprises of basic pay in pay- scale linked to grade, Dearness Allowance (DA) etc.
- Performance Related Payments (PRP) – PRP generally consist of payments linked to performance like incentives and rewards. PRP in CPSEs are linked to performance of the organization and that of unit, a few CPSEs have already introduced payment for individual performance. As per 1997 pay revision guidelines, the PRP shouldn't exceed 5% of the distributable profits of the organization.
- Allowance & reimbursements – It would include various allowances and reimbursements like conveyance/transport allowance, city compensatory allowance, entertainment allowance etc. This is allowed at the rate applicable to Central Government employees.
- Social Amenities & Benefits – It would include various facilities like housing, education, medical etc for which premium is borne by the organization
- Retirement Benefits – It would generally include Provident Fund, Gratuity and social security scheme. At present CPSEs don't have such schemes.

### **2.2 Second Pay Revision w.e.f. 01.01.07**

2.2.1 Significant changes have taken place in Indian Economy since the 1<sup>st</sup> Pay Revision Committee submitted its report. India has emerged as one of the fastest growing economy and this

expansion in economy has for the first time created a situation especially in CPSEs, where demand for talent far exceeds availability.

2.2.2 Hence to get rid of this demand- supply disequilibrium of talent, the 2<sup>nd</sup> Pay Revision Committee was constituted in November, 2006 by the DPE under the Chairmanship of Mr. Justice M. Jagannadha Rao, Retired judge, Supreme Court of India w.e.f. November 2006. While finalizing the report the committee was also requested to take into account the recommendation 6<sup>th</sup> Central Pay Commission. The Committee, while preparing the report, has taken into account current categorization of CPSEs such as Schedule 'A', 'B', 'C' and 'D' and their status as Navratna, Miniratna, and loss/profit making CPSEs and also CPSEs referred to BIFR/BRPSE as well as under IDA/CDA pattern. While making recommendations, the committee has kept in mind the general principles, financial parameters and conditions, which should govern the desirability, feasibility and continuation/modification of the Productivity Linked Incentives Schemes and Performance Related Payments.

2.2.3 While making the report, the Committee was required to take note of some important points which the earlier Committee didn't take. These points have great importance in this changing economic scenario where the CPSEs have to face stiff competition from Private Sector and MNCs. These points are mentioned below:-

- The Committee was required to make recommendations that will transform the CPSEs into modern, professional, citizen friendly and successful commercial enterprises that are also dedicated to the service of the society.
- The Committee should work out a comprehensive pay package that is suitably linked to promoting efficiency, productivity and economy through rationalization of structure, organizations, systems, and processes as well as promoting financial and operational autonomy within the CPSEs.
- The Committee should make recommendations so as to harmonize the functioning of CPSEs with the demand of emerging national and global economic scenario.

The Committee, by taking into account the above important notes, proposed a radical change in the principles to be adopted in deciding compensation package for the executive of CPSEs. These radical changes are mentioned below which can also be termed as the recommendations by the Committee.

### **2.2.A Relativity**

- In the light of vast changes that have taken place in India economy and job market, the principle of relativity with civil services cannot be applied to CPSEs any more. The CPSEs didn't face any competition in operations as well as in recruiting and retaining talent when they had monopoly in several sectors of the economy. But with opening of the economy, they are facing competition in recruitment and retention of talent from Indian Private Sector and MNCs in India and abroad. Thus the Committee is of the view that, the compensation in CPSEs has to be progressively aligned with their counterpart in private sector and MNCs and not with the Government.
- According to Sixth Pay Commission on the issue of parity, it was observed that PSUs as a commercial undertaking are required to function in a competitive environment, have the commercial objective as the predominant objective. A comparison of salaries between the public sector and the Government may not be appropriate as it would not be a comparison between similarly placed entities.
- Following the relativity comparison, the Justice Mohan Committee recommended a relativity of 1:4 between the entry level executive and CEO of the CPSEs. But by studying several reports on relativity by the new Committee, it was found that while at entry level compensation for executive in CPSEs is comparable to the private sector, the difference increases at higher level. Salaries of comparable CEOs in private sector are higher by factor of 10 or more. The relativity of compensation between entry-level executive and CEOs can go as high as 1:50. The committee in this regard feels that while the ratio of 1:50 is exceptional and does not appear rational, a ratio of about 1:10 between the lowest and the highest paid executive in CPSEs would recognize the level of responsibility a CEO is expected to discharge in a fiercely competitive market and also appear respectable with reference to his counterpart in private sector. The committee recognizes that this change will increase disparity of income between the lowest level worker and the highest paid executive in CPSEs.

### **2.2.B Affordability**

- The CPSEs have adopted uniform package to executives irrespective of size except at the level of directors and CEOs. But the Committee believes that CPSEs being the commercial organizations have to generate adequate resources to be able to pay their executives market determined compensation.

- The Committee is of the view that the same level of compensation cannot be given for all kinds of companies. For this, the Committee has recommended to reclassify CPSEs into different sectors and categories for the purpose of deciding variable and fixed components of the compensation. And Board of directors should decide compensation for different individuals keeping in view affordability of the company and performance of the individual. The 2<sup>nd</sup> PRC recommended that there should be no question of government giving any support for paying dues of CPSEs employees, except in respect of sick CPSEs proposed for rehabilitation or closure.

### **2.2.C Fixed and Variable Compensation**

- The Committee proposed to change the current pattern of compensation which is fixed in nature irrespective of performance of the company and is of the view that a significant part should be made variable as is in the private sector. The variable component is basically used to motivate and bring about desired behavioral changes in the employees and to reward those employees who have made significant contribution to the company. The variable component will be relatively low for lower level executives and progressively increases to as high as 200% of the basic pay at level of CEOs. This variable component to be called Performance Related Payment (PRP) and will be drawn from the Profit before the tax (PBT) and will be linked to individual, group and company performance.

### **2.2.D Performance Management System**

- A significant PRP assumes existence of a robust and transparent performance management system. The practice of grading most of the executive should be based on a 'bell curve shaped approach' which is also followed by most of the private sector companies and MNCs. In this approach, no more than 10-15% of the executive should be graded 'outstanding' and 10% non-performing executive should also be graded as below per. PRP should vary depending upon the performance.
- For determining the variable payments, companies as well as executive will have to achieve pre-determined physical as well as financial target as under MOU. Only those companies that achieve 'excellent' MOU rating should pay up to 100% of PRP. Companies achieving 'very good', 'good', and 'fair' rating should pay a maximum of 80%, 60% and 40% respectively. No PRP is payable if MOU is rating is 'poor'. Similarly, Executives who get 'outstanding', 'Very Good', 'Good' and 'Fair' performance rating

should get up to 100%, 80%, 60% and 40% PRP. No PRP is recommended for those achieving 'Poor' rating.

### **2.2.E Remuneration Committee**

- Because of the conflict of interest between shareholders and management in deciding managerial compensation, it is proposed that annual bonus pool and policy for its distribution across the executive is decided by the Remuneration Committee of the Company headed by an independent director. PRP will be decided only by a Remuneration Committee.

### **2.2.F Concept of the Cost to the Company (CTC)**

The Committee is of the view that, like the private sector, the concept of CTC should be also introduced in the CPSEs. The main components of CTC are mentioned below:

- Fixed Pay ( basic pay and risk pay)
- Dearness Allowance (only on the IDA pattern )
- Annual Increment (might be given up and replace by a flexible increment of 2-4% of basic pay depending on the performance of the individual)
- House Rent Allowance ( depends on city to city population)
- City Compensation Allowance (to be dispensed with)
- Company Car ( Only to the CMD and Directors)
- Superannuation Benefits (enhanced 30% of basic pay)
- Long Term Incentives
  1. In a market where there is serious shortage of talent, it becomes necessary for companies to devise methods by which highly performing executive could be retained. The government has issued guidelines for introduction of stock option in CPSEs. But, the Committee is told that in its current form, stock option is at best a saving option and not an incentive and there are no takers for this scheme.
  2. The Committee recommended inclusion of stock option as long term incentive, in order to seek high level of commitment of executive to company's performance. Committee recommended that CPSEs should pay part of PRP in the form of company's stock.
  3. The Committee also recommended rest of the CPSEs to get listed on the stock exchange and a small portion of equity; say up to 10% may be disinvested in favor of employees and retail investors.

### **2.2.G Manpower Redundancy**

- It is a matter of common knowledge that most CPSEs have manpower far in excess of their needs. Despite operation of VRS for several years, excess employment continues. Time bound promotions have been given without reference to need for higher-level positions or performance of the individuals. Several CPSEs have created a large number of positions at higher levels by simply upgrading existing incumbents, without any change in their job content or responsibility. Companies, in this regard, should make proper assessment of their manpower requirement at different levels, consistent with their business requirement, duly benchmarking their manpower cost and productivity with best available in the respective sectors in private and MNCs. The Committee should take these factors in account while deciding on annual pay rises and variable component of compensation (PRP).

### **2.2.H Voluntary Retirement VS Compulsory Retirement**

- The thing is that CPSEs have not been able to get rid of poorly performing executives under VRS. It is therefore proposed to replace it by Compulsory Retirement Scheme and management of CPSEs should have right to compulsorily retire surplus manpower by paying adequate compensation.
- As far as executives with consistently poor record of services are concerned, their service should be terminated in terms of contract of employment by the logic of changing economic environment in which CPSEs are also treated as any commercial enterprises operating under the ambit of Company Law and they have full autonomy in management of their manpower and operations.

### **2.2.I Compensation Package for Executives of Sick CPSEs**

- The Committee recommended that Sick Companies that are making cash profit may be allowed to implement the pay revision without Risk Pay or Variable Pay.
- Enterprises that are recommended for revival should include the proposal for revised Pay scale.
- If Enterprises are recommended for closure, the executive should be compulsorily retired by paying compensation based on revised basic pay recommended. They may be paid compensation at the rate of 2 months basic pay plus DA for every year of service completed or amount equal to the salary for the remaining period of service whichever is less.

## **2.2.J Retirement Age**

- Despite the request by the executives of several companies to enhance the retirement age to 65 years, there is no case of any recommendation for this by the committee.

## **2.2.K Other Recommendation**

- The Committee suggested that those company that are non-commercial in nature and that are set up to implement the government program for specific section of the society with no profit motive should be taken out of the proposed pay revision and government may adopt scales of pay of 6<sup>th</sup> Central Pay Commission in respect of these companies.
- The Committee is of the view that all the companies in 'D' category (turnover of less than or around 50 crore) except non-commercial companies should be withdrawn by the Government through merger, privatization or otherwise as they are sick companies and will not be able to pay the compensation to their executive according to the package recommended by the Committee.

## **2.3 Government Decision based on the recommendations**

After due consideration of the above recommendations of the 2<sup>nd</sup> PRC, the Government on 26<sup>th</sup> November 2008 decided about remuneration of Executives of the CPSEs w.e.f. 01.01.2007. According to the Government decisions:-

- Revised Pay Scale for Board and below Board level executive have been decided by the Government to be implemented.
- A uniform fitment benefit @30% on basic pay plus DA @ 68.8% as on 01.01.2007 would be provided to all executives of the CPSEs.
- The revised pay scales would be adopted, subject to the condition that the additional outgo by such revision for a period of 12 month should not result in more than 20% dip in profit before tax(PBT) for the year 2007-08 of a CPSEs in respect of executives. CPSEs that cannot afford to pay full package, can implement with either part PRP or no PRP.
- The CPSEs which are not able to adopt revised pay scales(2007), may give an increase on the basic pay plus DA drawn in the pre-revised scale as on 01.01.2007, with a uniform lower fitment of 10% or 20%, depending upon their affordability.
- Annual increment will be at the rate of 3% of the revised basic pay

- 100% DA neutralization will be adopted for all the executives who are on IDA pattern of pay-scale, w.e.f. 01.01.2007.
- House Rent Allowance to the employees of the CPSEs will be 30%, 20% and 10% of the Basic Pay based on the population of the respective city.
- The Compensatory Allowance stands dispensed with.
- The company car would be provided to Directors and CMDs.
- The Board of Directors will decide on the other allowances and perks admissible to the different categories of the executives subject to a maximum ceiling of 50% of Basic Pay.
- The PRP has been directly linked to the profits of the CPSEs/units and performance of the executives. The PRP, however, will be on conditions related to MoU rating, physical and financial performance.
- All CPSEs would formulate Employees Stock Option Plan (ESOP) and 10-25% of the PRP should be paid as ESOPs.
- The concept of Cost of Company (CTC) would be introduced in all the CPSEs.
- CPSEs would be allowed 30% of Basic Pay as Superannuation benefits, which may include Contributory provident Fund (CPF), Gratuity, Pension and Post-Superannuation Medical Benefits. The CPSEs should make their own scheme to manage these funds to operate through insurance companies on fixed contribution basis. The Pension and Medical benefits can be extended to those executives, who superannuates from the CPSE and have put in a minimum of 15 years of service in the CPSE, prior to superannuation.

## **2.4 Some Suggestions**

While comparing the recommendations between 1<sup>st</sup> and 2<sup>nd</sup> Pay Revision Committees and the decision of the Government based on the recommendations, we came across several observations. Though the 1<sup>st</sup> PRC was attractive at first glance, it wasn't according to the need of the open economy where the CPSEs were not able to compete with their counterpart in the private sector and MNCs. The reason appears to be 1<sup>st</sup> PRC recommendations was according to the pay scales of parity and relativity with the 5<sup>th</sup> Central Pay Commission for the Government employees not according to the pay scale of executives in the private sector and MNCs. The reason was limited recommendation by the Committee regarding Public Sector like the recommendation was according to the pay scale of 5<sup>th</sup> pay commission for the Government employees not according to the pay scale of executives in private sector and MNCs. But when we come across the 2<sup>nd</sup> PRC recommendations, we observe that it was comprehensive in nature according to the changing



market scenario and this time the focus was basically on the comparison of pay scale in the CPSEs vis a vis private sector and MNCs. Like private sector, the Committee also considered about the fixed pay and variable pay like stuffs for the CPSEs executives, which is going to be very beneficial for the CPSEs in coming years. The focus was more on incentives for the talented executives through PRP who contribute in the growth of the company. In fact the 1<sup>st</sup> PRC didn't propose any radical change but they focused mainly on relativity principle in compensation while the 2<sup>nd</sup> PRC proposed many radical changes regarding compensation for the executive in CPSEs by taking into account several issues as explained above.

Despite this, there are certain issues which should have been taken into account by the Committee:-

- There has been a trend in the CPSEs, “the more skill a public sector post requires, the less is the pay scale as compared to private sector.” This issue should be taken into account by leveling the compensation of higher level executives in the CPSEs to that of private sector and MNCs.
- The periodicity of pay revision is another issue of concern. There has been suggestion that to get rid of high attrition rate, there has to be pay revision after every 5 year instead of 10 year due to fast changing economic environment in the country.
- Given the attrition rate and increasing demand for professionals in the CPSEs, there should be increment in retirement age for executives to retain the critical talent within the company. The study suggests that retirement age be reviewed on selective basis, allowing individual companies to extend the retirement age to 62-65 years.

### 3. CPSEs and Employment Trend

#### 3.1 Overall Employment Trend

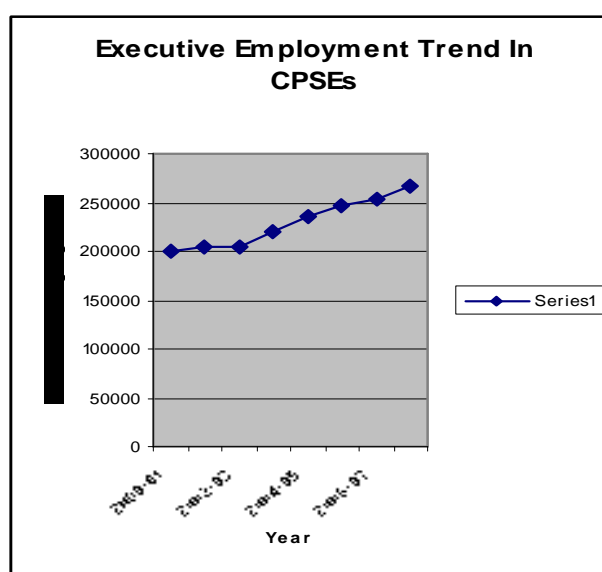
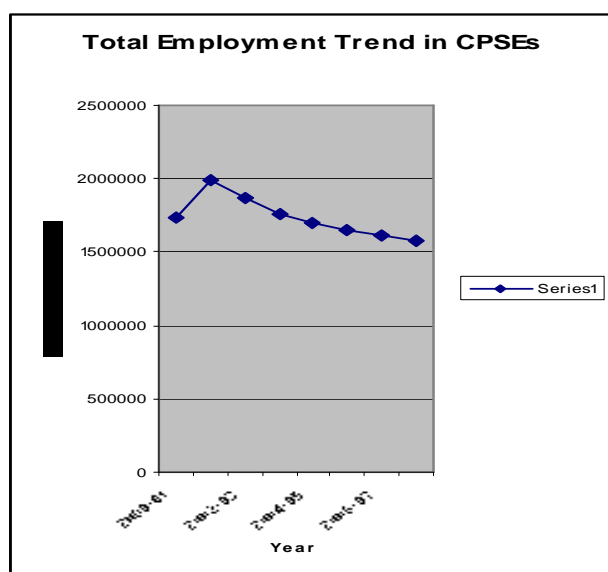
3.1.2. Employment trend in the CPSEs over the years have witnessed a remarkable change with regard to executive level in particular and aggregate level as a whole due to several policies of government. These policies are remuneration policy, disinvestment policy, VRS policy etc which largely influenced the employment trend in CPSEs over the years. Apart from these, the government 's attitude towards private sector, in the wake of liberalization of the Indian economy, also contributed a lot for the change in employment trend especially at executive level in the CPSEs.

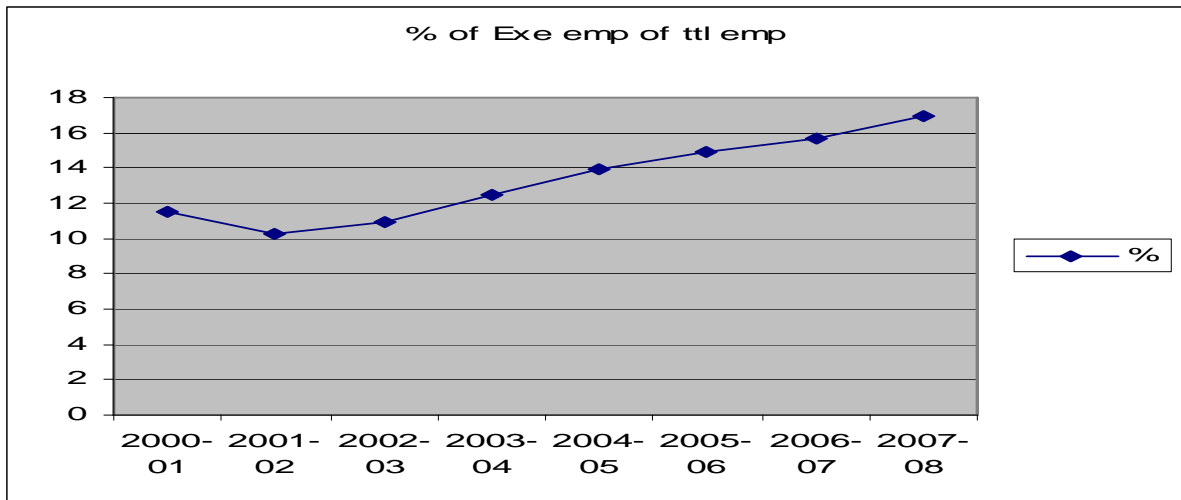
3.1.2 Hence while observing the data regarding total employment in CPSEs given below, we find several interesting results.

Table 3.1 Total & Executive Employment in CPSEs

Year	Total Executive Employment	Total casual and contract labor	Total employment	Percentage of Exe. Emp. of total emp.
2000-01	201060	82285	1739901	<b>11.55</b>
2001-02	204086	Only casual 32187	1991974	<b>10.24</b>
2002-03	204305	Only casual 39451	1866365	<b>10.94</b>
2003-04	219336	85212	1762300	<b>12.44</b>
2004-05	236566	83462	1699650	<b>13.91</b>
2005-06	246576	90938	1648555	<b>14.95</b>
2006-07	253798	166289	1613716	<b>15.72</b>
2007-08	265773	238404	1573016	<b>16.89</b>

Source: National Information Centre, DPE





3.1.3 By observing the above data and the graph regarding the total executive employment and total employment in CPSEs, we find that over the year total employment declined at regular basis except in the period 2000-01 to 2001-02 but at the same time the employment at executive level keep on increasing between the years 2000-01 to 2007-08. There might be many reasons for this which has been mentioned below:-

- The reason for decline in total employment could be due to several disinvestment program pursued by the government in that very period like privatization of BALCO, NALCO, VSNL etc. Wherein after getting privatized, these companies offered their surplus manpower lucrative VRS which resulted into overall decline in total employment. Many CPSEs also offered VRS to right age the manpower.
- During that very period, there has been continuous increase in employment at executive level at absolute and relative both level. This could be due to the companies' effort to make them competitive vis a vis the private sector. For this, there could have been the need to make them efficient at technical and managerial level. This could be done by employing more professionals at technical and managerial level.
- The increase in executive level employment implies a decline in below executive (supervisory and workers) level employment in CPSEs. This is definitely true because during this period, there has been increase in employment at below executive level on casual and contract basis. This has been the case due to the indiscipline and lack of work culture among workers at that level, which resulted into inefficiency for the company. Hence to

make the company more efficient, there has been trend in CPSEs to employ more people below executive on casual and contract basis and less at regular basis.

- We, therefore, observe by the above case that during the last 10 years, the CPSEs have given great importance to professionals, which resulted into more efficiency in the company. This attitude of the CPSEs could be due to the competition faced by them from the private sector.

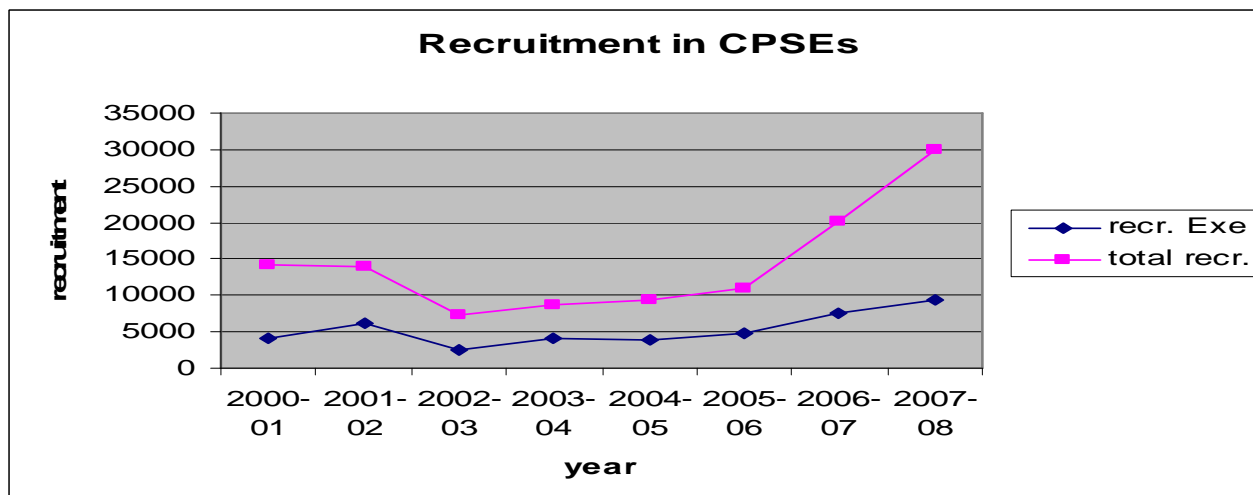
### 3.1.A Recruitment and Retirement Trend in CPSEs

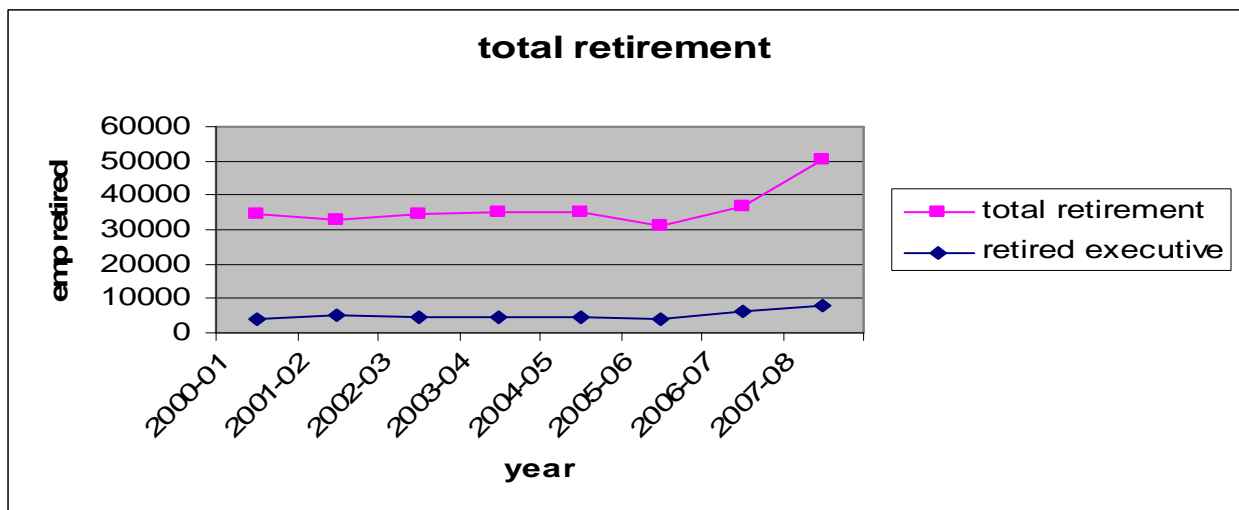
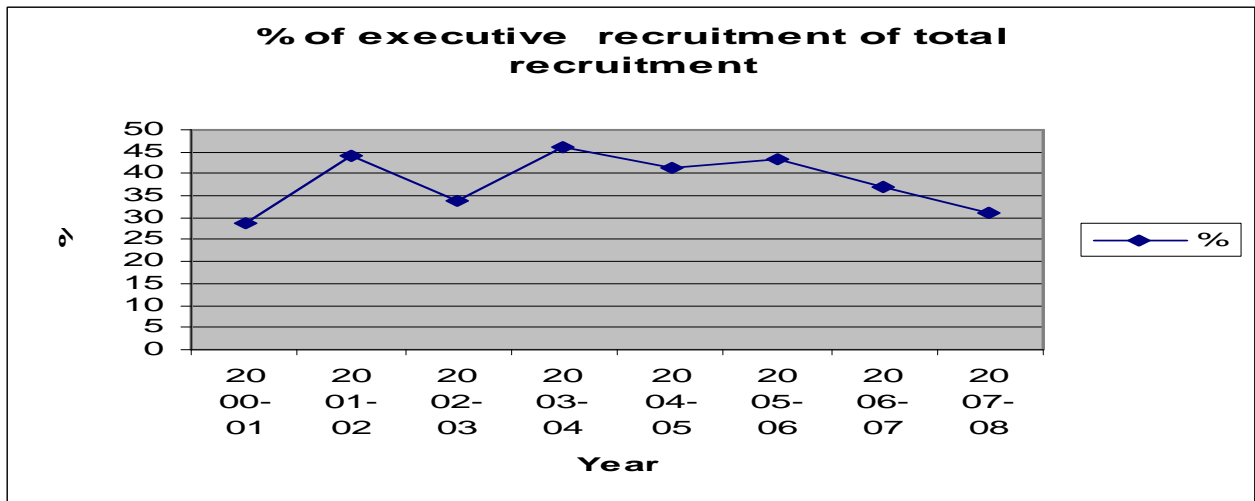
3.1.A.1 During the last 10 years, the recruitment policy in the CPSEs has been based on the need of the market economy where the CPSEs have been facing stiff competition from the private sector. The main thrust of the recruitment policy is to recruit more employees at executive level on regular basis and also more employees at below executive level on contract/casual basis. The analysis of recruitment policy in CPSEs is discussed below by taking into account the retirement of the employees also.

Table 3.2 Recruitment & Retirement in CPSEs

year	Total Executive Recruitment	Total Recruitment	Percentage of Executive Recruitment of the Total Recruit.	Total Executive Retirement	Total retirement	Percentage of Exe. Retired of total retired
2000-01	4057	14130	<b>28.71</b>	4107	30499	<b>13.46</b>
2001-02	6094	13986	<b>43.97</b>	4953	27691	<b>17.88</b>
2002-03	2490	7371	<b>33.78</b>	4401	30324	<b>14.51</b>
2003-04	4055	8754	<b>46.2</b>	4667	30242	<b>15.39</b>
2004-05	3898	9422	<b>41.37</b>	4251	30591	<b>13.81</b>
2005-06	4795	11034	<b>43.45</b>	3918	27341	<b>14.33</b>
2006-07	7509	20237	<b>37.11</b>	6470	30338	<b>21.32</b>
2007-08	9313	30036	<b>31</b>	7675	42854	<b>17.90</b>

Source: National Information Center, DPE





3.1.A.2 The general trend is that there should be direct relation between retirement and recruitment trend for any company. If there is more retirement in any company, there has to be same amount of recruitment to make the company operate as usual. But if there is expansion in the company's operations, the aggregate recruitment exceeds that of the aggregate retirement. As far as the recruitment at executive level is concerned, it may be the company strategy to make the company more efficient in terms of technology and management by recruiting more professionals.

3.1.A.3 When we take the case of CPSEs, we find from the above data that there has been continuous increase in recruitment of executive as percentage of total recruitment and there has been almost constant change in percentage of executive retired of total employees retired. This indicates that with increase in competition from the private sector, the CPSEs are recruiting more professional over the time which kept on increasing from 28.73% in 2000-01 to 43.5% in 2005-06 to

31% in 2007-08. But in absolute term, there has been continuous increase in the number of executives recruited. This trend in recruitment of executives could definitely have made the CPSEs more competitive in the market economy compare to the private sector in terms of efficiency and operations.

### **3.2 Sector Wise Employment Trend in CPSEs**

3.2.1 While analyzing sector wise trend, we took mainly five sectors; four from industry (Mining, Metal, Power and Petroleum) and one from service sector. These sectors can give overall employment trend for some flourishing (like Power and Petroleum) and some languishing (Metal, Mining and to some extent service sector) CPSEs at executive level.

Table 3.3 Employment data for Mining Sector

<b>Mining Sector</b>						
year	Total Executive Employment	Total Employment	% of Executive Employment of total employment	Total Executive Recruitment	Total Recruitment	% of Executive recruitment of Total Recruitment
2002-03	19372	521514	<b>3.71</b>	39	1186	<b>3.28</b>
2003-04	18867	504655	<b>3.73</b>	122	903	<b>13.51</b>
2004-05	18591	487910	<b>3.81</b>	56	1296	<b>4.32</b>
2005-06	17760	471732	<b>3.76</b>	545	10852	<b>5.02</b>
2006-07	17718	460765	<b>3.84</b>	288	4085	<b>7.05</b>
2007-08	17803	449210	<b>3.96</b>	257	5143	<b>4.99</b>

Source: National Information Center, DPE

Table 3.4 Employment data for Metal sector

<b>Metal Sector</b>						
year	Total Executive Employment	Total Employment	% of Executive Employment of total employment	Total Executive Recruitment	Total Recruitment	% of Executive recruitment of Total Recruitment
2002-03	20867	172641	<b>12.08</b>	164	995	<b>16.48</b>
2003-04	20891	164968	<b>12.66</b>	333	845	<b>39.4</b>
2004-05	21855	159824	<b>13.67</b>	123	1116	<b>11.02</b>
2005-06	17253	171372	<b>10.06</b>	624	4398	<b>14.18</b>
2006-07	23011	165797	<b>13.87</b>	444	1561	<b>28.44</b>
2007-08	23206	161545	<b>14.36</b>	1080	3033	<b>35.6</b>

Source: National Information Center, DPE

Table 3.5 Employment data for Petroleum Sector

<b>Petroleum Sector</b>						
year	Total Executive Employment	Total Employment	% of Executive Employment of total employment	Total Executive Recruitment	Total Recruitment	% of Executive recruitment of Total Recruitment
2002-03	41095	112591	<b>39.49</b>	598	950	<b>62.94</b>
2003-04	45625	109657	<b>41.6</b>	892	1072	<b>83.2</b>
2004-05	43498	106425	<b>40.87</b>	752	1139	<b>66.02</b>
2005-06	42936	107448	<b>39.9</b>	684	1513	<b>45.2</b>
2006-07	40821	99689	<b>40.91</b>	760	1673	<b>45.42</b>
2007-08	45098	107305	<b>42.02</b>	1280	2473	<b>50.5</b>

Source: National Information Center, DPE

Table 3.6 Employment data for Power Sector

<b>Power Sector</b>						
year	Total Executive Employment	Total Employment	% of Executive Employment of total employment	Total Executive Recruitment	Total Recruitment	% of Executive recruitment of Total Recruitment
2002-03	18977	68904	<b>27.54</b>	349	676	<b>51.62</b>
2003-04	23884	82749	<b>28.8</b>	1335	2695	<b>49.53</b>
2004-05	24431	79393	<b>30.77</b>	922	1155	<b>79.82</b>
2005-06	26384	83435	<b>31.62</b>	280	804	<b>34.82</b>
2006-07	27414	83538	<b>32.81</b>	1594	2159	<b>73.83</b>
2007-08	27916	83238	<b>33.53</b>	1172	1803	<b>65</b>

Source: National Information Center, DPE

Table 3.7 Employment data for Transport &amp; Tourism Sector

<b>Transport and Tourism Sector</b>						
year	Total Executive Employment	Total Employment	% of Executive Employment of total employment	Total Executive Recruitment	Total Recruitment	% of Executive recruitment of Total Recruitment
2002-03	11122	47208	<b>23.55</b>	21	636	<b>3.01</b>
2003-04	13487	65073	<b>20.72</b>	91	545	<b>16.69</b>
2004-05	15618	71036	<b>21.98</b>	96	592	<b>16.21</b>
2005-06	14307	56020	<b>25.53</b>	168	317	<b>52.99</b>
2006-07	11293	55863	<b>20.21</b>	568	1057	<b>53.73</b>
2007-08	11585	33863	<b>34.21</b>	144	318	<b>45.83</b>

Source: National Information Center, DPE

### **3.3 Some Observations**

3.3.1 When we take a look at the important sector wise data on employment trend in CPSEs, we find several interesting observations mentioned below:

- Over the years, the employment trend at executive level in the CPSEs has been in the range of 10%-15% of the total employment. But when we take a look at the sector wise data, we observe differences in the executive employment out of total employment. On the one hand the Mining and Metal sectors have as low as approximately 3.7 % and 12% respectively of the total employees at executive level and on the other hand the Petroleum and Power sectors have as high as 40% and 30% respectively of the total employees at executive level. In between, there is transport and tourism (service) sectors which have approximately 25 % employees at executive level.
- The differences in the percentage of executive employment of total employment are basically due to the need of that sector for executives. Like in Mineral and Metal sector, there is more work related at lower level, where no more technical knowledge is required and these sectors, except some, doesn't have global exposure (which require managerial skill to sustain in global market) also. But the case of Petroleum and Power sector is different, where there is a need of great technical knowledge and due to global exposure of these sectors, managerial skill is also expected from them. There is also more competition in these sectors as compared to others from the private sector. That's why over the year there has been large recruitment drive at executive level in these sectors as compared to others.
- The same trend is observed while considering recruitment in CPSEs at executive level which has been in the range of 30%-40% aggregate. But when we take it sector wise, there is different story to tell. In Mineral and Metal sector the recruitment has been in the range of 3%-7% and 10%-30%, while in Petroleum and Power sector this has been in the range of 45%-65% and in the Transport and Tourism sectors it has is around 15%-50%.
- One very important observation has been found when we take a look at the data regarding recruitment of executives in Mining, Metal and Petroleum sectors in the year 2003-04, there had been exceptionally large increase (more than average trend) in recruitment of executives which was as high as 13.51%, 39.4% and 83.2 % of total recruitment. The same has been the case with Power sector in the year 2004-05, where executives had been 79.82 % of the total recruitment.
- This increase was basically due to large recruitment drive of some individual CPSEs in these sectors. Like in Mining, the Coal India Ltd. alone recruited 86 executive out of 122 executive recruitment in that sector. In metal, the only two company SAIL and National



Aluminium Company Ltd. recruited around 330 executive( 228 by SAIL ) out of 333 executive recruited in that sector. In petroleum sector, this was due to ONGC and IOCL recruitment drive. Whereas in power sector, NTPC and PGCI contributed for this large recruitment drive.

- One interesting fact we also came across when we take a look at transport and tourism sectors. In these sectors, the executives employment has been around 23% of total employment in 2002-03 to 34% of total employment in 2007-08.Executives recruitment in these sectors also saw steeper growth as compared to others with 3 % in 2002-03 to 45% in 2007-08 of the total recruitment. The increase in these sectors is basically due to introduction of employment on contract basis at lower level, which increased the percentage of executive recruited of total recruitment and the competition faced by them from private players especially in the field of Aviation and Hospitality industry. The recruitment of executives in these sectors could make these sectors more competitive especially the Aviation and Hospitalities Sector where these CPSEs have to face stiff competition from the new private players. Private players are definitely performing better when it comes to service sector, where government shouldn't involve itself in such sectors.

## 4. Voluntary Retirement Scheme (VRS) Trend

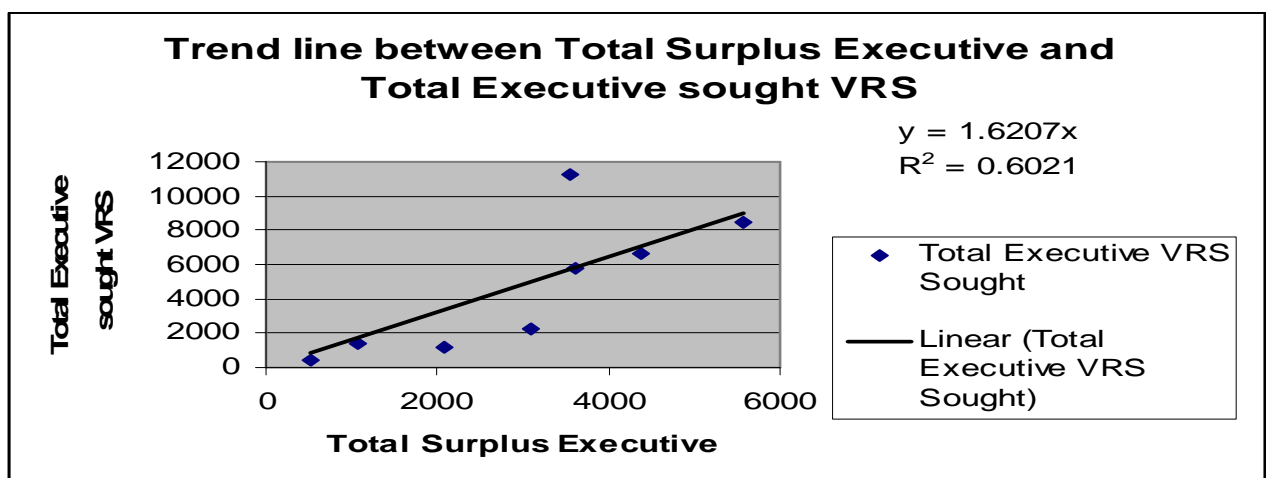
### 4.1 Overall VRS Trend

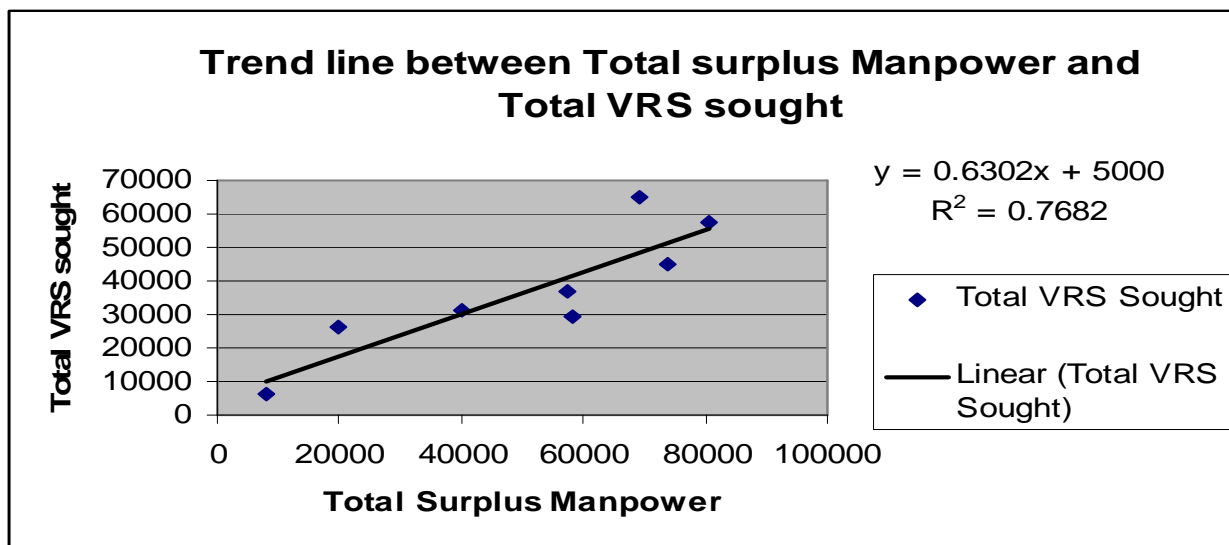
4.1.1 There are many CPSEs where due to contraction in operations and their loss making state, the capacity to employ same level of employees become very difficult. This situation gave rise to surplus manpower in these CPSEs. These CPSEs, due to their socialist and welfare approach, can not compulsorily make all the surplus manpower to retire from the CPSEs to make them efficient in terms of number of sufficient employees. Hence by taking into account these things in mind, the Government of India introduced Voluntary Retirement Scheme (VRS) in the CPSEs for this surplus manpower. Wherein by opting VRS, which provides many incentives to its holder, the employees of the respective CPSEs get retired in a beneficial manner.

Table 4.1 Aggregate Surplus Manpower, VRS sought & VRS got data in CPSEs

year	Total Surplus Executive	Total Surplus Employees	% of Total executive surplus of total	Total Executive VRS Sought	Total VRS Sought	%of total VRS Exe of the total	Executive retired under VRS	Total Retired under VRS	% of Exe of the total retired under VRS
2000-01	3555	74001	<b>4.8</b>	11222	45181	<b>24.83</b>	5316	38772	<b>13.71</b>
2001-02	5568	80547	<b>6.91</b>	8448	57540	<b>14.68</b>	13611	56786	<b>23.96</b>
2002-03	4374	69340	<b>6.3</b>	6596	64810	<b>10.17</b>	4970	62658	<b>7.93</b>
2003-04	3615	57246	<b>6.31</b>	5782	37087	<b>15.9</b>	5683	45125	<b>12.59</b>
2004-05	3098	58416	<b>5.3</b>	2247	29404	<b>7.64</b>	1833	19900	<b>9.21</b>
2005-06	2079	39931	<b>5.2</b>	1150	30986	<b>3.71</b>	1155	13666	<b>8.45</b>
2006-07	1082	19865	<b>5.44</b>	1408	26054	<b>5.4</b>	1019	24170	<b>4.21</b>
2007-08	514	7947	<b>6.46</b>	463	6137	<b>7.54</b>	381	6982	<b>5.45</b>

Source: National Information Center, DPE





4.1.2 When we take a look at the data regarding surplus manpower, VRS sought and those retired under VRS scheme, we come across some interesting conclusions:

- The percentage of surplus executive of the total surplus manpower has always been less than the percentage of executive of total employees who sought VRS. The reason for this has been explained below.
- When we observe the equation ( $y = 0.6302x + 5000$ ), we can say that when there is zero surplus manpower, there is still approx 5000 person seeking VRS i.e. VRS always exceeded surplus manpower at aggregate level.
- The percentage of surplus executive of total surplus manpower, over the years, has always been in the range of 5%-7% which might be termed as natural surplus executives in the CPSEs.
- Over the years, there has been decline in the number of employees who sought VRS especially at executives level in the CPSEs. The percentage of executive of the total employees who sought VRS was about 24.83% in 2000-01 to 15.9% in 2003-04 and 7.54% in 2007-08.
- There is no relation between the number of employees who sought VRS and the number of employees who retired under VRS. But there should be direct relation between them i.e. the employees who sought VRS should get retired under VRS. The reason might be that the employees who are seeking VRS may not be the surplus manpower (as it happened in many cases) or they don't find VRS scheme attractive enough for themselves.

## **4.2 Some Analysis**

4.2.1 The general trend in surplus manpower and employees opting for VRS is that the number of employees opting for VRS should be almost same so that the respective CPSE can get rid of their surplus manpower by offering them lucrative VRS. But when we see the trend in reality, we find that there is some amount of differences especially at executives level which we have shown by drawing trend line and by taking the value of R-square (Co-efficient of Determinant). The value of R-square of one tells that the change in VRS is explained by the surplus manpower whereas the zero value of R-square tells that the change in VRS is not explained by surplus labor. That's what we need to draw by the above trend line. The trend line between the total surplus manpower and the number of employees opted for VRS gives the value of R-square as 0.77, which is nearer to one implying that the change in VRS sought by total employees is largely if not completely explained by total surplus manpower. This is true in reality especially at aggregate level, because the VRS sought by the total employees is almost explained by due to the surplus manpower. .

4.2.1 While the trend line between the total surplus executive and number of executive sought VRS gives the value of R-square as 0.60 which is less likely to explain the change in VRS due to surplus executive. This result holds to some extent in reality. Because these days, whatever amount of VRS is opted by the executive of the CPSEs, these are not only due to existence of surplus executives in these CPSE but also lucrative offers from the private sector. Due to these lucrative offers the executives in the CPSEs no longer want to work there which results in large number of VRS opted by them whenever they get some chance in private sector. But after implementation of 2<sup>nd</sup> Pay Revision in the CPSEs, which promises to pay the executive of the CPSEs the same amount as in the private sector, we may get rid of the excess VRS by the executives. Then we might get the value of R-square nearer to one, which will perfectly explain the change in VRS as due to change in surplus manpower.

## **4.3 Sector Wise VRS trend in CPSEs**

Table 4.2 VRS data for Mining Sector

<b>Mining Sector</b>									
year	Total Surplus Executive	Total Surplus Employees	% of Total executive surplus of total	Total Executive VRS Sought	Total VRS Sought	%of total VRS Exe of the total	Executive retired under VRS	Total Retired under VRS	% of Exe of the total retired under VRS
2002-03	336	23460	<b>1.43</b>	199	7905	<b>2.51</b>	208	8091	<b>2.57</b>
2003-04	1019	26432	<b>3.85</b>	114	5264	<b>2.16</b>	55	6136	<b>0.89</b>

2004-05	214	25494	<b>0.83</b>	125	4524	<b>2.76</b>	137	4436	<b>3.08</b>
2005-06	10	15624	<b>0.0006</b>	63	2776	<b>2.26</b>	6	3243	<b>0.18</b>
2006-07	2	9083	<b>0.0002</b>	157	2019	<b>7.76</b>	72	1840	<b>3.91</b>
2007-08	115	829	<b>13.87</b>	76	508	<b>1.49</b>	28	1284	<b>2.17</b>

Source: National Information Center, DPE

Table 4.3 VRS data for Metal Sector

<b>Metal Sector</b>									
year	Total Surplus Executive	Total Surplus Employees	% of Total executive surplus of total	Total Executive VRS Sought	Total VRS Sought	%of total VRS Exe of the total	Executive retired under VRS	Total Retired under VRS	% of Exe of the total retired under VRS
2002-03	178	1570	<b>11.33</b>	1126	8185	<b>13.75</b>	980	6510	<b>15.05</b>
2003-04	0	1808	<b>0.00</b>	308	4310	<b>7.14</b>	240	3930	<b>6.10</b>
2004-05	0	265	<b>0.00</b>	344	2007	<b>17.14</b>	253	1731	<b>14.61</b>
2005-06	0	44	<b>0.00</b>	216	1161	<b>18.6</b>	156	1006	<b>15.50</b>
2006-07	1	44	<b>2.27</b>	113	694	<b>16.28</b>	86	601	<b>14.30</b>
2007-08	51	54	<b>94.44</b>	11	26	<b>42.3</b>	24	78	<b>30.76</b>

Source: National Information Center, DPE

Table 4.4 VRS data for Petroleum Sector

<b>Petroleum Sector</b>									
year	Total Surplus Executive	Total Surplus Employees	% of Total executive surplus of total	Total Executive VRS Sought	Total VRS Sought	%of total VRS Exe of the total	Executive retired under VRS	Total Retired under VRS	% of Exe of the total retired under VRS
2002-03	0	101	<b>0.0</b>	11	53	<b>20.75</b>	12	41	<b>29.26</b>
2003-04	0	41	<b>0.0</b>	619	1751	<b>35.35</b>	579	1660	<b>34.87</b>
2004-05	0	124	<b>0.0</b>	714	1662	<b>42.96</b>	641	1606	<b>39.91</b>
2005-06	0	0	<b>0.0</b>	288	474	<b>60.75</b>	215	353	<b>60.90</b>
2006-07	0	0	<b>0.0</b>	210	265	<b>79.24</b>	95	147	<b>64.62</b>
2007-08	0	0	<b>0.0</b>	203	328	<b>61.89</b>	118	246	<b>47.96</b>

Source: National Information Center, DPE

Table 4.5 VRS data for Power Sector

<b>Power Sector</b>									
year	Total Surplus Executive	Total Surplus Employees	% of Total executive surplus of total	Total Executive VRS Sought	Total VRS Sought	%of total VRS Exe of	Executive retired under VRS	Total Retired under VRS	% of Exe of the total retired

						<b>the total</b>			<b>under VRS</b>
2002-03	0	0	<b>0.0</b>	4	78	<b>5.12</b>	4	78	<b>5.12</b>
2003-04	0	1193	<b>0.0</b>	6	90	<b>6.66</b>	13	130	<b>10.00</b>
2004-05	0	1194	<b>0.0</b>	35	131	<b>26.26</b>	34	130	<b>26.15</b>
2005-06	0	1192	<b>0.0</b>	53	216	<b>24.53</b>	53	216	<b>24.53</b>
2006-07	113	1559	<b>7.24</b>	78	568	<b>13.73</b>	78	568	<b>13.73</b>
2007-08	105	1447	<b>7.25</b>	82	754	<b>10.87</b>	57	726	<b>10.03</b>

Source: National Information Center, DPE

Table 4.6 VRS data for Transport & Tourism Sector

<b>Transport and Tourism Sector</b>									
year	Total Surplus Executive	Total Surplus Employees	<b>% of Total executive surplus of total</b>	Total Executive VRS Sought	Total VRS Sought	<b>%of total VRS Exe of the total</b>	Executive retired under VRS	Total Retired under VRS	<b>% of Exe of the total retired under VRS</b>
2002-03	10	134	<b>7.46</b>	151	207	<b>72.94</b>	123	177	<b>69.49</b>
2003-04	0	0	<b>0.00</b>	290	1202	<b>2.27</b>	265	778	<b>34.06</b>
2004-05	18	55	<b>3.27</b>	35	201	<b>17.41</b>	5	11	<b>45.45</b>
2005-06	18	48	<b>37.50</b>	11	26	<b>42.3</b>	1	10	<b>10.00</b>
2006-07	0	0	<b>0.00</b>	113	694	<b>16.28</b>	86	601	<b>14.30</b>
2007-08	0	2	<b>0.00</b>	1	3	<b>33.33</b>	1	3	<b>33.33</b>

Source: National Information Center, DPE

#### 4.3.A Some Observations

- Overall, the total surplus executive has been 5%-7% of the total surplus manpower. But when we see the sector wise data, we observe that there are many sectors like Petroleum and Power sectors where there is no surplus manpower at executive level. There are many sectors where there is large amount of surplus manpower at executive level.
- The highest number of surplus manpower has been in mining sector at both executive and below executive level. But it is very high at below executive level which also kept on declining over the years.
- When we see the data on mining sector we find that surplus manpower is greater than the VRS sought at below executive level. This is because of lesser opportunity available for the workers outside that sector.
- Though there is no surplus executive found in many profit making CPSEs like SAIL, ONGC, NHPC etc but the VRS sought by the employees at executive level has been very high almost every year from year 2002-07. This is very important observation and it is necessary to know what could be the reason of high VRS application in these profit making CPSEs

despite no surplus manpower. This might be the case of attrition occurring in those CPSEs and also these CPSEs might be in loss making position.

- In transport and tourism sectors, which are an important part of service industry, there has been large amount of VRS sought by the employees at executive level despite no surplus manpower. This could be due to expansion of service sector in the private sectors which offers the executives of CPSEs an incentive to leave the CPSEs. The private service sector, overall, gives lucrative offer and job satisfaction to their employees.

## **5. Relation between Remuneration & Employment in CPSEs**

5.0.1 In general economic theory, the relation between remuneration and employment can be termed as positive from point of view of employees (supplier) and negative from the point of view of employers (demander). But when it comes to CPSEs and in government organization, the general economic theory fails especially in the case of employment at executive level. Because in this case, the remuneration is set by the Pay Committee not by the theory of demand-supply of economics. In the case of the CPSEs, the relation between remuneration and employment depends on whether the CPSEs are profit making (Navratnas and Miniratnas) or Non-Navratnas and Miniratnas. The remuneration in the CPSEs at executive level is decided by the Pay Revision Committee for some fixed period (10 year in case of CPSEs). The last Pay Revision Committee (PRC) recommendations were effective from 01.01.1997 and the 2<sup>nd</sup> PRC effective from 01.01.2007 after a gap of 10 years.

5.0.2 To see the relationship between remuneration and employment at executive level in the CPSEs, we have to see the data between that very period regarding employment, recruitment and VRS in the CPSEs.

5.0.3 For the Navratnas and Miniratnas, the general trend will be such that the employment at executive level show upward trend initially for some time and after that it might show downward trend. It may be because of stagnation in remuneration vis a vis private sector. Otherwise it will always show upward trend. The VRS, in this case, might show the downward trend due to better performance of the profit making CPSEs and lack of surplus manpower in them.

5.0.4 However, in case of the Non Navratnas and Miniratnas, the employment at executive level might show downward trend or some fluctuations. Because in this case, there might be the case of shedding off redundant manpower to make up the losses and due to higher remuneration which these CPSEs might not be able to pay.

5.0.5 We'll show this trend by analyzing the data regarding this and see whether it actually happened or not. The data regarding this has been given below.



Table 5.1 Employment data for Navratnas &amp; Miniratnas CPSEs

<b>Navratnas and Miniratnas Companies (About 75 Companies)</b>						
Year	Total Executive Employment	Total Employment	Percentage of Exe emp- of total employment	Total Executive Recruitment	Total Recruitment	Percentage of Exe recruitment of total recruitment
2000-01	135303	964884	<b>14.02</b>	2430	8474	<b>25.55</b>
2001-02	135319	1184095	<b>11.42</b>	5163	11549	<b>44.70</b>
2002-03	141732	1199932	<b>11.82</b>	2004	5696	<b>35.18</b>
2003-04	158435	1193808	<b>13.27</b>	3441	6787	<b>50.69</b>
2004-05	189935	1175529	<b>16.14</b>	3374	7134	<b>47.29</b>
2005-06	186408	1077505	<b>17.29</b>	3881	8758	<b>44.31</b>
2006-07	206841	1152467	<b>17.94</b>	6340	15009	<b>42.24</b>
2007-08	210928	1123848	<b>18.76</b>	8284	25147	<b>32.94</b>

Year	Total Surplus Executive	Total Surplus Manpower	Percentage of surplus exe. of total	Executive Sought VRS	Total VRS sought	Percentage of Exe of total sought VRS	Executive VRS got	Total VRS got	Percentage of Exe of total got VRS
2000-01	488	11433	<b>4.26</b>	2882	13965	<b>20.63</b>	2772	13358	<b>20.75</b>
2001-02	380	12396	<b>3.06</b>	4311	22454	<b>19.19</b>	2708	18695	<b>14.48</b>
2002-03	286	13441	<b>2.12</b>	2525	15390	<b>16.40</b>	2362	14153	<b>16.89</b>
2003-04	64	17004	<b>0.37</b>	2217	13234	<b>16.75</b>	2047	12461	<b>16.42</b>
2004-05	108	12577	<b>0.85</b>	1461	8992	<b>16.24</b>	1260	8671	<b>14.53</b>
2005-06	38	7014	<b>0.54</b>	683	4335	<b>15.75</b>	485	3806	<b>12.74</b>
2006-07	119	8654	<b>1.37</b>	542	2538	<b>21.38</b>	311	2109	<b>14.74</b>
2007-08	284	1922	<b>14.77</b>	310	955	<b>32.46</b>	152	1056	<b>14.39</b>

Source: National Information Center, DPE

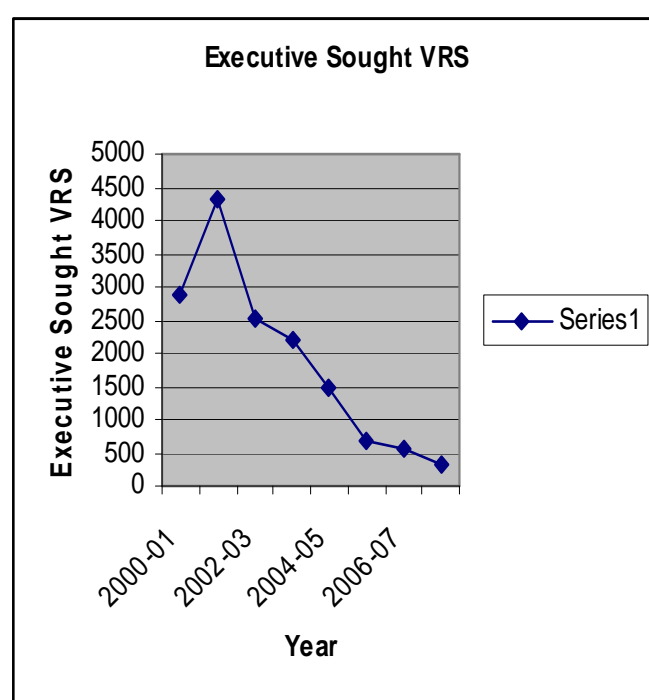
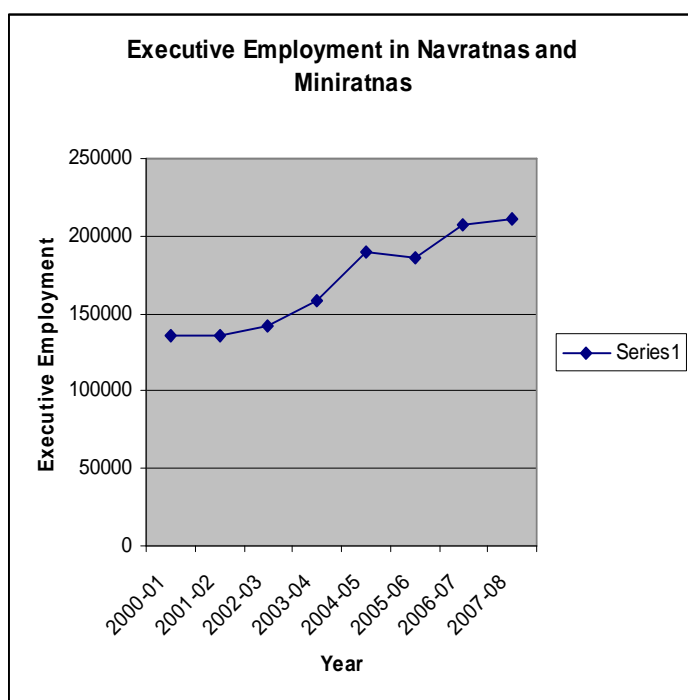
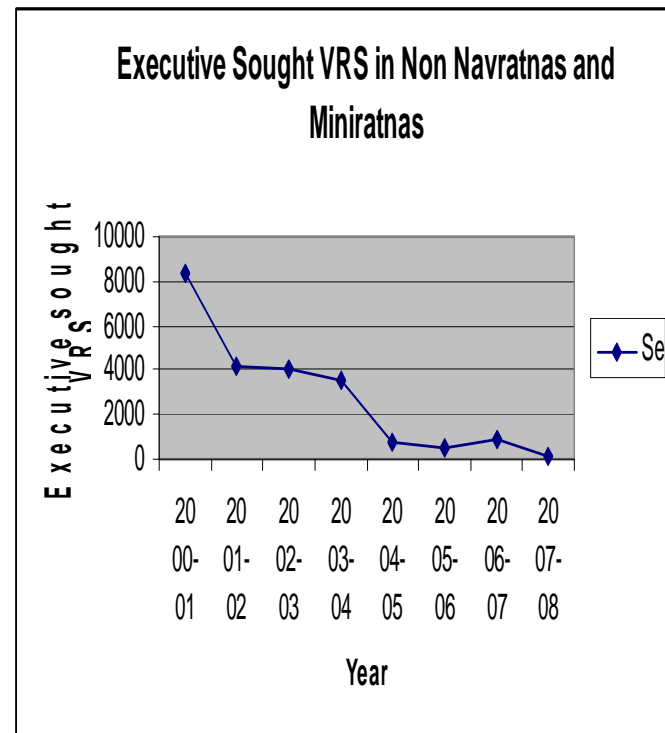
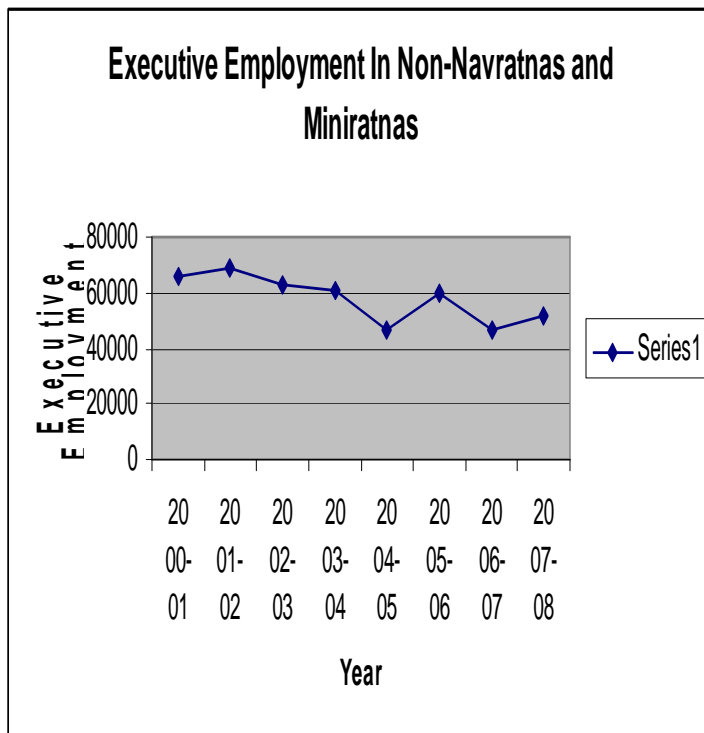


Table 5.2 Employment data for Non-Navratnas & Non-Miniratnas CPSEs

Non-Navratnas and Miniratnas (Except 75 Companies)						
Year	Total Executive Employment	Total Employment	Percentage of Exe emp- of total employment	Total Executive Recruitment	Total Recruitment	Percentage of Exe recruitment of total recruitment
2000-01	65757	775017	<b>8.48</b>	1627	5757	<b>28.26</b>
2001-02	68767	807879	<b>8.51</b>	931	2437	<b>38.20</b>
2002-03	62563	634933	<b>9.85</b>	486	1675	<b>29.01</b>
2003-04	60901	568498	<b>10.71</b>	614	1968	<b>31.19</b>
2004-05	46631	524121	<b>8.89</b>	524	2288	<b>22.90</b>
2005-06	60068	571050	<b>10.51</b>	914	2276	<b>40.15</b>
2006-07	46957	461249	<b>10.18</b>	1169	5228	<b>22.36</b>
2007-08	51784	446088	<b>11.60</b>	1029	4889	<b>21.04</b>

Year	Total Surplus Executive	Total Surplus Manpower	Percentage of surplus exe. of total	Executive Sought VRS	Total VRS sought	Percentage of Exe of total sought VRS	Executive VRS got	Total VRS got	Percentage of Exe of total got VRS
2000-01	3067	62568	<b>4.90</b>	8340	31216	<b>26.71</b>	2543	25414	<b>10.00</b>
2001-02	5188	68151	<b>7.61</b>	4137	35086	<b>11.79</b>	4303	38091	<b>11.29</b>
2002-03	4088	55899	<b>7.31</b>	4071	49420	<b>8.25</b>	2608	48505	<b>5.38</b>
2003-04	3551	40242	<b>8.82</b>	3565	23853	<b>14.94</b>	3636	32664	<b>11.13</b>
2004-05	2990	45839	<b>6.52</b>	786	20422	<b>3.84</b>	573	11229	<b>5.10</b>
2005-06	2041	32917	<b>6.20</b>	467	26651	<b>1.75</b>	674	9860	<b>6.83</b>
2006-07	963	11211	<b>8.58</b>	866	23516	<b>3.68</b>	705	22061	<b>3.19</b>
2007-08	230	6025	<b>3.81</b>	153	5182	<b>2.95</b>	229	5926	<b>3.86</b>

Source: National Information Center, DPE



### 5.A Some Observations

- When we see the data and graph on employment at executive level in the Navratnas and Miniratnas CPSEs, we find that the data support the trend to some extent i.e. the overall employment at executive level keep on increasing from the year 2000-01 till date. This could be basically, to some extent, due to 1st PRC recommendations. The 1<sup>st</sup> PRC recommended

many lucrative offer (discussed already in chapter 2.1) which resulted into increase in employment at executive level especially in profit making CPSEs.

- On the other hand, when we see the data and graph on employment at executive level in the Non-Navratnas and Miniratnas CPSEs, we find that unlike the Navratnas and Miniratnas CPSEs, the employment trend is very ambiguous showing fluctuations in the trend which might be due to many reasons.
- The VRS trend in both types of CPSEs shows downward trend at executive level over the years with different reasons. This indicates that due to high pay package, there would have been more suitable recruitment of executives (talented) which resulted into overall better performance. Such performance by the CPSEs resulted into less surplus manpower which resulted into less executive opting for VRS. This is true in case of Navratnas and Miniratnas CPSEs. But in the case of Non-Navratnas and Miniratnas, the reason for downward VRS despite considerable surplus manpower might be due to inabilities of the executives to find another job.
- With better remuneration package, the 1<sup>st</sup> PRC also recommended lucrative VRS offer, which the CPSEs used as a tool to shed their surplus manpower. This definitely have positive impact on the performance of the company. For example, during the period 1998-2000, SAIL were incurring huge losses due to its surplus manpower. To get rid of their surplus manpower, SAIL offered its employees lucrative VRS scheme which resulted into large executive of SAIL opting for VRS in the period 2000-01 (about 1189 executive sought VRS).

Hence, from the above observations and the data, we find that employment and the remuneration at executive level are interrelated. If they are not related at any point of time, a new PRC may make recommendations to make the CPSEs perform efficiently by creating conducive environment for executives.

## **6. Future Impact & the Second Pay Revision**

6.1 The Future impact of the Government's decision on the Pay Revision, if implemented properly, can be immense on the employment trend at the executive level in the CPSEs. The major impact expected would be as follows:

- Attracting suitable managerial talent to the CPSEs. This was a main issue before the 2<sup>nd</sup> PRC. Due to the lack of proper remuneration, the CPSEs were not able to attract suitable talent at executive level. But after implementing the pay revision package, the CPSEs might be able to attract talent in the future which will have great impact on the performance of the CPSEs.
- Preventing attrition at senior executive level. It was told by many of the senior executives of the CPSEs that the public sector system failed to attract any IIT or IIM graduate in any of the CPSEs and visits to their campuses very often yielded no result which was basically due to low remuneration in CPSEs vis a vis private sector which offers its employees attractive salaries. This low salary level in CPSEs also explains attrition rate factors at the middle level and higher level management. This can be prevented by the proper implementation of the recommendation of second PRC.
- Stabilizing the performance of CPSEs after retaining the existing talent. The experience earned by the managerial talent is invaluable for the company's in which they contribute. If they leave that company in the hope of better remuneration in another company, it might be detrimental to the company's performance.
- When there will be higher remuneration, there will be more talented executive appointed in the CPSEs. This might boost the morale and confidence of the CPSEs. This can have positive impact on the performance of the CPSEs.
- There will be tendency to reverse the trend in the IITs and IIMs towards CPSEs employment. The employment in CPSEs might be preferred by the IITs and IIMs passouts after Government's decision on the pay revision. This, in fact, is happening in the wake of the current economic slowdown where these talents prefer the employment in the CPSEs.
- As we know many CPSEs are facing the problem of surplus manpower. And the VRS didn't get rid of poorly performing executives; instead it benefited the more talented people who after taking VRS have found lucrative jobs in private sector. Due to this, it was proposed in the report that VRS scheme be replaced by Compulsory Retirement Scheme and management of CPSEs should have the right to compulsorily retire surplus manpower by

paying adequate compensation. This scheme might improve the performance of the CPSEs by eliminating poorly performing executives in the future.

Hence, we see that after implementation of the pay revision guidelines, the CPSEs might undergo a considerable change in their overall performance with more talented people. Especially in the current economic slowdown, the CPSEs are outweighing their counterpart in the private sector, as the impact of slowdown has been very little in the CPSEs as compared to the private sectors. This might change the attitude of the people towards CPSEs and in the current economic slowdown; the CPSEs might emerge as a model employer.

## **7. Conclusion**

By discussing the remuneration, employment and VRS policy and trend in the CPSEs at the executive level, some conclusions can be reached regarding this.

7.1 The contribution of the CPSEs for the development of any economy is still significant even in the presence of the large numbers of Private Sectors and MNCs, because of the welfare approach of the Government.

7.2 To survive and make a significant contribution in the presence of competition from the private sectors, the CPSEs have to adopt various strategies especially the strategy regarding the employment at the executive level. Because, the right selection of the human capital (Executives) in any organization can turnaround the performance of that very organization. Hence, to attract and retain the talent within the CPSEs, there is a need of right approach towards the employees by the selection committee. This has definitely been taken care by the DPE from time to time by revising the remuneration of the executives in the CPSEs. The recent pay revision will definitely be helpful in retaining and attracting the suitable talents in the CPSEs.

The revised pay package with its components of PRP and superannuation benefits will have the positive impact on the employment in the CPSEs in the coming years.

7.3 The CPSEs are also characterized by the presence of huge surplus manpower at both executive and below executive level these days. To right size the CPSEs, there has to be attractive and lucrative VRS policy also. By the attractive and lucrative VRS policy, the CPSEs can shed their surplus manpower and improve efficiently. The recent PRC recommendations which included various VRS policy (already discussed) may be able to get rid of the problem of the surplus manpower in the CPSEs.

7.5 Lastly, in the event of recent economic slowdown, the companies from the private sectors and MNCs are cutting their workforce at every level, whereas the CPSEs are unaffected in every aspect and keep on recruitment according to their requirement. This shows that even in the adverse condition, the CPSEs prove themselves as a model employer which their counterpart in the Private Sectors rarely does.

7.6 Hence, the pay revision packages approved by the Government can have a significant positive impact in the employment of the executives in the CPSEs. This will definitely enhance value of the CPSEs locally and globally with the help of the talented executives. This will also improve the efficiency and productivity of the CPSEs and the economy as a whole.

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