

Case 21

Compensation

35

Troubles Never Come Singly

Kaushalya and Vardhan grew up together at Mysore in Karnataka. Vardhan was a carefree and happy boy, while Kaushalya always wanted to study and study, with the sole aim of beating Vardhan's performance at the examinations. They both studied for an engineering degree in electronics at the prestigious Indian Institute of Science, Bangalore. Kaushalya's hard work could not outdo Vardhan's intelligence even here. Vardhan joined Submarine Electronic Systems Factory, SESF, at Allahabad in Uttar Pradesh but Kaushalya joined St. Peter's Labour Research Institute, PLRI, at Patna, in Bihar for management studies. Kaushalya had no Vardhan to compete with, for the first time, in her life and, therefore, outperformed everybody at the PLRI. She specialised in HRD and her project was titled, 'Financial Compensation to Public Sector Employees'. Both Kaushalya and Vardhan missed each other during the two years when Kaushalya was at PLRI. It was easy for Vardhan to persuade Kaushalya to join SESF in HRD Department. Her project on public sector compensation and electronic qualifications helped her in getting the assignment. Kaushalya realised, after joining SESF, that, as usual, Vardhan had beaten her since he was 25 months senior to her in the company. Their marriage in September 2002 produced little surprise to friends and relatives.

SESF was a Ministry of Defence Production, Government of India Public Sector Undertaking. It was set up on 1 January 2000 to produce electronic systems required by the Submarine

Factory at Vizag in Andhra Pradesh. The systems to be manufactured at SESF were mostly to be developed by Oceanic Research Laboratory at Kottayam in Kerala. An exception was made for taking up licensed manufacture of Doppler Navigation System, developed and produced by a Swedish company. The only indigenous system cleared for manufacture at SESF was the underwater-to-shore radio communication link, developed at Kottayam. SESF had a strength of 701, out of which 67 were white-collar employees and 31 were managerial cadre officers. Blue-collar force consisted of 603 workers.

The manpower was only half its present strength when Kaushalya joined the HRD Department in September 2002. This was adequate for producing the radio communication equipment and the company was able to show modest profits. Pay scales had been worked out taking into account the following four factors:

1. Pay scales being followed by other Defence Ministry Public Sector Undertakings producing electronic equipment.
2. Pays being offered by other units (private and public sector) producing similar products in the industrial belt of Allahabad – Naini.
3. Ease of availability of suitable manpower.
4. Pay scales that would be approved by the Ministry of Defence Production, Government of India, without much questioning.

No norms had been worked out for paying any incentives, since the company was new and the production had stabilised only a few months ago. There was no worthwhile labour union and HRD Department could work out the pay scales without any pressure. Fiscal policies of the government had been able to control inflation and the prices were fairly stable. There was no call for dearness allowance. Generally, peace and harmony prevailed about the pay packages at SESF.

Three important things happened during March–July 2003 that changed the whole situation drastically at SESF. These were:

A licence deal was signed with the Swedish firm for the manufacture of Doppler Navigation Systems at SESF. This equipment used latest technologies available in the field.

Additional workforce had to be recruited and these personnel were required to possess higher level of technical skills and qualifications. These were not easily available and, therefore, the new entrants had to be given one or two initial increments at the time of joining, depending upon the competence of the individual. These had to be adhoc decisions.

Monsoon in 2003 was much below normal and the prices shot up. This was especially applicable to agricultural products like grain, vegetables, milk, etc.

A supervisor named K.N. Sanyal was recruited on 'compassionate grounds', since his father-in-law, a resident of Allahabad, had died leaving behind an aging wife and a 13-year-old retarded son. Sanyal had actually to be recruited due to the recommendations of the Member of Parliament from Burdwan in Bengal. Vote of every MP was important since the central government had a slender majority of only three votes in the parliament. Changing loyalty of an MP could bring down the government and, hence, the Defence Minister had no option but to insist that the MD, SESF employ and retain Sanyal in his factory. This new supervisor was placed under Vardhan. It soon became apparent that Sanyal was a labour union leader and had been specifically sent to SESF by the central leadership of his party to organise union activities at SESF and Naini - Allahabad area.

All these factors created a turmoil in the compensatory package at SESF. Old workers of SESF resented the new entrants to Doppler Navigation Section being given ad hoc initial increments at the time of recruitment. They claimed that their tasks also required high degree of technical skills especially since they had to productionise the indigenously developed radio link for the first time in the country. It was claimed that, but for their expertise, the production would not have started so soon. Doppler Navigation System personnel had the Swedish experts to fall back upon, while the radio link team had to innovate to solve the problems. Higher prices of daily use items resulted in a demand for the dearness allowance. Sanyal exploited the unrest to demand negotiations for wages between the management and the union established by him. Sanyal also wanted incentive schemes to be introduced to recognise merit.

Unfortunately, problems never come singly. It became clear in February 2004, that SESF was heading for heavy losses during the financial year 2003-04. The production in the Doppler Navigation System section had not picked up, as expected, leading to underutilisation of the newly recruited and expensive workforce for that section. The MD, SESF, called a meeting of the heads of departments of the company to discuss the situation and measures necessary to cut losses. Kaushalya was called in to be the secretary and take minutes and Vardhan came as the head of the department and boss of Sanyal, the trouble-maker. There were prolonged discussions about the possible economy measures. It was accepted that expenditure due to personnel compensation could not be reduced and the management recognised that industrial peace and motivation of the workers was essential if the company had to come out of the red during 2004-05. It was decided that the additional expenditure due to payments to the personnel should not exceed 5 per cent over the current year's expenses.

Kaushalya was directed to prepare a paper for the Board of Directors of the company about the personnel compensation strategy for the immediate future. She sought Vardhan's help. Vardhan, in turn kept on sounding Sanyal informally, since the two had developed very good relations. Finally, Kaushalya prepared her recommendations, which had an informal acceptance of Sanyal.

What do you think these recommendations should be? Was the decision of the management to increase the personnel compensation expenses by 5 per cent over the current year's expenses correct? Give reasons for both your answers.

Maximum time to solve this case study: 25 minutes.