

Industrial Relations

SECOND EDITION

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Preface to the Second Edition

Industrial relations helps in the understanding of the various aspects of employer–employee relations, policies, and laws. While government policies and laws help to safeguard the interest of the workers, there is a need to ensure a healthy balance between the interests of the employees and those of the management. Good employer–employee relations are crucial to the success of an organization. The reduction of conflict between all stakeholders (labour, management, and unions) is an important objective of industrial relations. This book looks at the employee as well as the employer perspectives of industrial relations.

The book discusses industrial relations in the Indian context, while citing landmark Supreme Court judgements, such as the cases of *Kameshwar Prasad and others vs State of Bihar and another* (1962) suppl. 3 SCR 369 and *Radhey Shyam Sharma vs the Post Master General*, Central Circle, Nagapur (1964 7 SCR 403), etc. It illustrates important industrial relations practices using different case studies.

This edition of the book has been revised and updated keeping the changes that have taken place since the first edition was published.

About the Book

The book will meet the requirements of management students as it integrates the theory with the practical aspects of the subject. It will also be a useful resource for practising managers.

Coverage and Structure

The book contains 23 chapters.

Chapter 1 discusses the role of labour in the Indian economy and the key issues and challenges faced by the Indian economy.

Chapter 2 examines the systems framework and theoretical perspectives concerning industrial relations. *Chapter 3* focuses on the need for the study of industrial relations in a comparative framework.

Chapter 4 traces the origin and growth of employers' organizations in India and explains their organization and management, while *Chapter 5* presents the theoretical foundations of the trade union movement and reviews the legal framework for the privileges, registration, and recognition of trade unions.

Chapter 6 reviews different models of national trade union movements and discusses trade union structures and international trade union federations. *Chapter 7*, which deals with the role, functions, and management of trade unions, examines the internal and external challenges facing trade unions.

Chapter 8 explains the concept and nature of collective bargaining, while *Chapter 9* describes the nature of tripartism and social dialogue at various levels and looks into the process of social dialogue and labour reform in India.

While *Chapter 10* discusses the role of the government in industrial relations, *Chapter 11* reviews the legal framework regulating the terms and conditions of employment of workers. *Chapter 12* covers the economic

and behavioural theories on wage and reward systems and discusses the wage system in India. *Chapter 13* discusses the significance of occupational health and safety, while *Chapter 14* deals with the incidence of industrial conflict and the causes and consequences thereof, and identifies the means of resolving disputes. *Chapter 15* focuses on the role of labour administration in industrial relations, while *Chapter 16* discusses the provisions for social security in the Constitution of India, labour legislation, collective agreements, and voluntary arrangements for the organized sector. *Chapter 17* addresses the key issues and the paradigm shifts in labour policy.

Chapter 18 discusses the significance of employee participation and labour–management consultation and cooperation, while *Chapter 19* explains the meaning of grievance and discipline and focuses on the legal and behavioural approaches to deal with these issues. *Chapter 20* presents the legal framework for lay-off, retrenchment, and closure and suggests various approaches to deal with redundancy, retraining, and redeployment. *Chapter 21* discusses the nature and impact of technological change on industrial relations and examines how resistance to technological change can be dealt with. *Chapter 22* outlines what managements can do to build good industrial relations.

Chapter 23 examines the various approaches of managements to industrial relations and explores the link between human resource management, human resource development, and industrial relations.

Online Resources

To aid the faculty and students using this book, additional resources are available at www.india.oup.com/orcs/9780199456550.

For Faculty

- Lecture PPTs
- Multiple Choice Questions
- Bonus Chapters on Labour Statistics, Labour Research, and Worker Education and ILO, India, and International Labour Standards
- New Sections on Labour Laws which include The Factories Act, 1948; The Trade Unions Act, 1926; The Payment of Wages Act, 1936; The Minimum Wages Act, 1948; The Minimum Wages Act, 1948, and more

For Students

- Flashcard Glossary
- Bonus Chapters on Labour Statistics, Labour Research, and Worker Education and ILO, India, and International Labour Standards
- New Sections on Labour Laws which include The Factories Act, 1948; The Trade Unions Act, 1926; The Payment of Wages Act, 1936; The Minimum Wages Act, 1948; The Minimum Wages Act, 1948, and more

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This revised and updated edition of the book is an opportunity for me to take ahead the work done by the eminent scholar Dr C.S. Venkata Ratnam. I am thankful to the family members of Dr Venkata Ratnam and Oxford University Press for this privilege and opportunity to get myself associated with my teacher and mentor, who introduced me to this field. I am deeply indebted to Prof. Unni Krishnan Nair, IIM Kozhikode, for facilitating this golden opportunity for me.

The encouragement and support of my colleagues Prof. Manish Kumar and Prof. Surya Prakash Pati has helped me shape this work. I am also thankful to Prof. Pati, Mr Pradeep Hota, and Mr Gopal Gopalakrishnan Narayanamurthy for letting me reproduce our teaching case on ‘Maruti Manesar Lockout’.

This endeavour would not have been successful without the pillars of support of my life—my wife Ranjita, son Gunjan, and daughter Geeti—who have spared the family time and allowed me to concentrate on this book. I would like to extend my heartfelt thanks to my sister-in-law Bela and nephew Jagamohan for extending the unconditional love and affection and my brother Dr Biswaranjan for continuing to act as a sounding board for me always.

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Manoranjan Dhal

The publisher would like to thank Dr Ritu Gandhi of DAV Institute of Management, Faridabad for providing the sections on labour laws.

Preface to the First Edition

Industrial relations can be defined as the relations between managements and unions or between representatives of employees and representatives of employers. The term ‘industrial relations’, in its widest sense, includes relations in all aspects of work and employment between the parties to an employment contract.

Issues relating to people as groups/collectives vis-à-vis managements are also relevant in non-unionized situations. Therefore, the study of industrial relations is also referred to as ‘employment relations’, which covers all aspects of relations between employees and employers/managements and encompasses both unionized and non-unionized situations.

Industrial relations, for some, may seem irrelevant in the 21st century—a subject best relegated to history. Yet, there is an apparent decline in competence in addressing industrial relations issues in the present day. Human resource professionals have successfully designed sophisticated systems and innovative programmes for human resource development. However, when it comes to industrial relations, there seems to be a void. Even amongst professionals who do know how to deal with workers and unions, there is often a lack of interest to do so. So long as people are needed in industry and business, industrial relations will remain an area of concern as well as influence in affecting the performance of organizations.

In some present-day cultures and contexts, especially the new-era industries such as information technology and related businesses, the focus seems to have shifted from collectivism to individualism. However, even here, as businesses mature people will feel the need to collectivize, not merely for salaries and benefits, but also for protecting themselves against unfair dismissals.

This book provides insights into the nuances of applying the complex and diverse concepts of industrial relations with multi-stakeholder perspectives, which is not widely found in other texts on industrial relations. For instance, the text explains how secret ballots and membership verifications are conducted, what a union recognition agreement might cover, and the skills and caveats involved in collective bargaining, including the drafting of the agreement and the fine print.

About the Book

The book is designed to meet the requirements of management students at the postgraduate level by explaining the key concepts of industrial relations through managerial applications. Students of other courses, such as human resource management, personnel management, and industrial relations, will also find this book relevant and useful. Given its practical, application-orientated approach, it will also be a useful resource for practising managers and other professionals active in training and consultancy.

The book discusses industrial relations in the context of the recent trends in the globalized economy and covers the principal actors, the conceptual and legal frameworks, critical issues such as labour policy and labour law reform, workforce reductions, and the impact of technological change on industrial relations. It also discusses the interface between human resource management and industrial relations, as also the approaches to developing sound industrial relations.

The dynamics and divergence in the perspectives of different stakeholders from the developing and the developed world are discussed lucidly while explaining international labour standards. The discussions on problems with the data and information on labour and labour-related matters and the suggestions for their improvement, similarly, are borne out of my professional experience. Finally, the book incorporates the findings and recommendations of the Second National Commission on Labour and recent proposals of the government concerning labour law reform and issues related to business process outsourcing and international labour standards.

Acknowledgements

This book is a product of my experience over the past three decades of professional work as a teacher, trainer, researcher, and consultant. I am deeply indebted to numerous students, teachers, scholars, practising managers, trade union leaders, office bearers of national and international organizations of employers and workers, and officials of governmental, non-governmental, and international organizations with whom I have had the privilege of interacting in my professional career in India and 30 other countries. I am indebted to all persons who have contributed to my understanding of the subject.

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C.S. Venkata Ratnam

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3

Industrial Relations in a Comparative Framework

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

- Understand the usefulness of the study of industrial relations in a comparative framework
- Examine the link, if any, between the various strategies of industrialization and industrial relations policies
- Analyse the impact of globalization on industrial relations and related emerging issues

INTRODUCTION

The study of industrial relations in a comparative framework assumes significance for the following reasons: (i) globalization of businesses and the pressure on industries to have universal labour standards in some critical areas, and (ii) the need to learn and apply what is relevant from the experiences of other cultures, countries, or continents. In this chapter, we will discuss why and how we can compare industrial relations across sectors, regions, and countries. We will also examine the link between industrialization strategy and industrial relations strategy in a macro perspective. (Chapter 22 examines the subject from a micro perspective.) This chapter also addresses some contemporary concerns and issues in industrial relations in the wake of the trends towards and developments in globalization.

The study of industrial relations in a comparative framework includes the following:

- ◆ The wider social and economic aspects of a society which influence industrial relations policies
- ◆ The broader approaches to the entire gamut of employment relationships, including human resource management policies and practices
- ◆ The legal and institutional framework
- ◆ The structure and composition of the principal actors in the industrial relations system
- ◆ The consideration of the major issues and theories, which explain different national patterns of industrial relations

3.1 STUDY OF COMPARATIVE INDUSTRIAL RELATIONS

The industrial relations system in one country cannot be transplanted to another country; and even the industrial relations system of a company in one country cannot be transplanted to its branch in another country. The same logic applies to subsystems of an industrial relations system such as trade union structures, labour laws, and other institutional frameworks. Nevertheless, studying comparative industrial relations across countries helps in understanding the relative significance of various factors such as economic and industrialization strategies, technology, legal and institutional framework, and cultural factors in determining the types of industrial relations system adopted by different countries.

Employment issues are critical to every country. However, the approaches vary among countries. Employment standards vary widely across countries. This is partly attributed to the differences among countries in the stages of their development at a given point of time. Despite the differences, they play a key role in determining comparative advantage. Governments and trade unions in developed countries have been keen on taking labour out of competition with a view to arrest the migration of jobs from north to south, which may lead to a serious downfall in international labour standards.¹ This has given rise to strategies to link labour standards with international trade.

What and How to Compare?

Comparisons are purposive, and the criteria or points of reference depend on the purpose. When there are marked differences between different countries—for example, in laws, labour courts, or collective bargaining and workers' participation in management—it would be difficult to make meaningful comparisons. It becomes even more complex when there is a gap between formal institutions or policies and their actual performance or practices. The differences are striking even within English-speaking countries. Consider the differences in the legal status of collective bargaining in the UK, labour contract in the USA, and industrial award in Australia. They have broadly similar roles but different status in the law. There is also the problem of terminology. Identical words have different meanings in different languages. Compulsory arbitration has little compulsion in practice in Australia. Voluntary separations are not quite voluntary in several situations in the Indian private sector. One of the reasons why the International Labour Organization (ILO) could not adopt a convention on contract labour was semantics. The ILO found it difficult to find a word that conveys the same meaning about contract labour across the globe.

There is a danger in drawing generalizations from the study of formal institutional and legal structures, as often it is the informal practices and processes that make the difference. This is evident in Ronald Dore's study of the Nissan plants in Japan and the UK and another study on the automobile industry by Lansbury et al. in the USA and Sweden. The differences in productivity and other performance measures could be better attributed to the consultation and communication practices in both the cases.

Theoretical Perspectives

The lack of theoretical research is one of the reasons for studying industrial relations in a comparative framework. The purpose is to study industrial relations in different national contexts, arrive at hypotheses, and verify the same.

The broad theoretical perspective on industrial relations was discussed in Chapter 2. Different stakeholders in a particular industrial relations system examine industrial relations in a specific theoretical framework. There may be a difference in the approach within a particular stakeholder group like trade unions. For instance, the Indian Trade Union Congress (INTUC), affiliated to the Congress party, may focus on the subject within a pluralistic framework, whereas the Centre of Indian Trade Unions (CITU), affiliated to the Communist Party of India (Marxist), may examine the issues with a radical perspective. Due to these differences within and between the principal stakeholders in the industrial relations system, there would often be problems in understanding the issues from a common framework. This makes building consensus a formidable task. For instance, the pluralistic framework looks at employee participation from an integrative perspective, whereas the radicalist would consider it in a distributive sense.

Bamber and Lansbury note that the way in which different countries handle similar industrial relations issues can be illustrated with reference to technological change. They suggest that in societies that have a predominantly adversarial approach to industrial relations—such as Britain, Australia, the USA, and Canada—the parties find it more difficult to cope with technological change than in those that have more of a social

¹ For a detailed discussion, refer to Chapter 25.

partnership approach to industrial relations—such as the Nordic countries and Germany. They further observe that countries that share an inheritance of occupation-based unionism, relatively weak unions and employers' associations, an inconsistent role of the government in industrial relations, and adversarial traditions of labour-management relations, tend to take a *distributive bargaining approach* to technological change. By contrast, countries with industry-wide unions, stronger employers' associations, and a more consensual tradition of industrial relations tend to take a more *integrative bargaining approach* to the issue.

Convergence or Divergence in Industrial Relations

There is considerable debate on convergence versus divergence in the field of industrial relations (Kerr et al. 1960 and 1983; Locke 1992; Whitley 2000; Katz and Darbishire 2000). An overview of the theoretical writings on this subject enables us to conclude that technology could be a harmonizing or a homogenizing factor in human resource management policies and practices as work, workplace, and workforce tend to look similar. This can be best illustrated by the glaring similarity in human resource policies and practices in the software firms in the Silicon Valley in the USA and Bengaluru, which is considered the Silicon Valley of India. In contrast, industrial relations continue to be divergent across sectors and countries because of differences in contextual factors such as socio-economic, cultural, and techno-legal aspects, among others.

3.2 INDUSTRIALIZATION STRATEGY AND INDUSTRIAL RELATIONS²

Employment relations (used synonymously with industrial relations in this context) policies and practices in any country at any given time reflect a combination of three different logics of action, namely, (i) the logic of industrial peace, (ii) the logic of competition, and (iii) the logic of employment–income protection.

Logics are referred to as sense-making constructs that embody a conventional understanding about what is appropriate and reasonable, thereby shaping actors' (unions', employees', employers', and governments') strategies. Each logic results in the development of rules and institutions governing employment relations. When a new logic is introduced or an existing logic is altered in strength, it leads to new rules and changes in institutional arrangements. The old system is rarely completely replaced; more often, old institutions are reformed in terms of the new logic. For example, the tripartite institutions created to guarantee industrial peace in Singapore are now being used to strengthen the logic of competition. The operation of a particular logic can, over time, have unintended consequences that lead to its losing social relevance. Demands for a change in the system are often legitimated with reference to a newer logic. The relative strengths of the logics tend to vary over time within and across nations. In addition, different combinations of these logics account for similarities and differences in industrial relations patterns to converge or diverge.

The logics of action framework can be used to deduce a sociological conception of capitalism that assumes conflicts of interest between capital and labour and a system-stabilizing role for the state. For instance, capital seeks to maximize profits by securing maximum discretion in allocating and directing labour. At the level of social action, this means taking initiatives in accordance with the *logic of competition*. Labour, on the other hand, attempts to limit employer action that adversely affects workers' ability to generate a continuing stream of socially acceptable, extrinsic and intrinsic rewards. This is defined as action in accordance with the *logic of employment–income protection*. When there is a tension or actual conflict between managers and workers that prevents either or both parties from attaining their goals, the *logic of industrial peace* may seek to reduce the tension.

Logic of Industrial Peace

Following the struggles for independence, ex-colonial countries (for instance, India and Malaysia) focused on a policy with the aim to limit industrial conflict in the interest of economic development. For instance, in India,

² This section is based on the work of Stephen Frankel and Sarosh Kuruvilla (2002).

the government adopted economic development strategies based on the import substitution industrialization (ISI) model. These strategies curbed internal and external competition through licensing regulations and protectionist tariffs to assist local industry, and helped sustain industrial peace. Here, the emphasis was to protect labour in the labour market and capital in the product market. In other cases, as in Singapore, the government emphasized industrial peace as an incentive for foreign investors and its economic development strategy was based on export-oriented industrialization (EOI). Here, the focus was on proactive labour management cooperation with binding constraints on collective bargaining and trade union action through the tripartite councils to attain the objectives.

Logic of Competition

The pursuit of economic development based on export-oriented industrialization (EOI) includes increased foreign direct investment and market liberalization policies in many Asian countries (for instance, India and China). Here, the focus is on promoting enterprise efficiency, both in terms of labour market flexibility and labour productivity. The policies and practices to promote these include (i) elimination or marginalization of trade unions; (ii) exemption of export processing zones from national labour legislations (Bangladesh, for instance); and (iii) use of selective immigration as a means of ensuring an adequate and flexible supply of labour (Singapore and Malaysia, for instance). If competition is based on quality and innovation, governments emphasize on skills training to improve workers' competencies, particularly in cases of labour shortage.

Logic of Employment–Income Protection

Rapid industrialization is often accompanied by disruption of extended family support systems and increased dependence on either or both the state and the employer. Intense competition and flight of capital lead to increased job insecurity and unemployment. Casualization of employment in the backdrop of very limited or non-existing state-sponsored social welfare provisions warrants support for the logic of employment–income protection as a prerequisite for labour market flexibility and competitiveness. There is a case for income security in the absence of job security. There is a need for provision of unemployment pay and old age benefits including pensions and skills training to bridge the gap between acquired and required skills.

While many European countries had created employment–income protection schemes during the period of economic boom, most developing countries have neglected it and realized the need when it was the highest and the capacity was the lowest (e.g., during the period of the Asian financial crisis in the late 1990s). Barely 20% of the workers in the world have meaningful employment–income protection schemes. Even these schemes are under considerable strain in the context of ageing populations and mounting stress on public finances and corporate profit margins. The logic of employment–income security represents workers' response to employment instability caused by management- and labour-market-imposed hardships on workers. Where it is possible to provide such protection, employers are able to win greater discretion to promote labour market flexibility.

The relative strength of these logics vary among countries and wax and wane over time within countries in response to several factors. Different combinations of logic strengths lead to differences in employment relations patterns. Some of these combinations are as follows:

- ◆ Regulated protective (India)
- ◆ Constrained competitive (China)
- ◆ Deregulated competitive (Philippines)
- ◆ Protective competitive (Malaysia)

Given the variation in the strengths of different logics of action and the interplay between logics, globalization—expressed through the logic of competition—has complex and contingent effects on employment practices. The logic of competition causes some realignment of employment relations policies, institutions, and practices consistent with this logic. However, these effects of the logic of competition often strengthen the

logics of employment–income protection and industrial peace. The realignment that occurs with the logic of competition is felt more immediately in the workplace than at the national policy level.

Cross-national divergence in industrial relations is unlikely to occur because of the constantly changing relationship between different logics of action. The convergence, if any, at the workplace level is weak and is fostered mainly by globalization, underpinned by the logic of competition. The pressures for long-run divergence are much greater than that for long-run convergence. Though convergence and divergence seem to occur at the workplace, in the long run, divergence will rule. Convergence is possible only under very selective circumstances, where there are very similar determinants of logic strengths and when those logics are in a particular level of balance. This is likely within an economic region like the European Union, which is also less likely in the foreseeable future because of the diversity of contexts in the expanded European Union.

The logics of action framework is a useful and simple interpretative schema for understanding changes in the nature and direction of industrial relations systems. In drawing attention to the importance of the interaction between the logics of competition, employment–income protection, and industrial peace, the need for balancing the three logics of action in accordance with social values is underlined.

3.3 GLOBALIZATION AND INDUSTRIAL RELATIONS

The origin of globalization can be traced to the period of colonization in the sixteenth century. While globalization means several things to many people, one measure of globalization is the economic integration across the globe in terms of free movement of capital, technology, products, and people. In this sense, however, globalization remains a myth. If foreign trade and capital flows signify globalization, the world has seen more globalization during 1870–1914 than what we experience today. During those days, capital, trade, and labour were free to move from one country to another. Despite the formation of the World Trade Organization (WTO) and the reduction of tariffs, many non-trade barriers remain and 85% of the world's resources, investments, and trade continue to be controlled by countries with about 15% of the population. The triad countries—North America, European Union, and Japan—dominate the world in terms of access to and control over investment, trade, and technology.

The perceived benefits of globalization were summarized by the Second National Commission on Labour (2002) as follows:

- ◆ Sustained economic growth, as measured by gross national product is the path to human progress.
- ◆ Free markets, with little or no intervention from the government, generally result in the most efficient and social optimal allocation of resources.
- ◆ Economic globalization, achieved by removing barriers to the free flow of goods and money anywhere in the world, spins competition, increases economic efficiency, creates jobs, lowers consumer prices, increases economic growth, and is generally beneficial to everyone.
- ◆ Privatization, which moves functions and assets from the government to the private sector, improves efficiency.
- ◆ The primary responsibility of the government is to provide the infrastructure necessary to advance commerce and enforce the rule of law with respect to property rights and contracts.

Exhibit 3.1 Some perspectives on globalization

We will discuss some perspectives on globalization as elucidated by different authors.

Anthony Giddens and John Tomlinson (1999)

Globalization is a multi-dimensional subject best 'understood in terms of simultaneous, complex related processes in the realms of economy, politics, culture,

technology, and so forth.' With globalization, social relations are no longer local, but stretch across time and space. It is often said that a global capitalist culture is being promoted by powerful multinational enterprises. This global culture is being further speeded up by global mass media and communication technologies.

Alan Rugman (2000)

Globalization is 'the worldwide production and marketing of goods and services by multinational enterprises'.

Human Development Report, South Asia (2001)

Globalization is the free movement of goods, services, people, and information across national boundaries.

It creates and, in turn, is driven by an integrated global economy, which influences economic as well as social relations within and across countries. The opening up of the economy increases competition internationally as well as externally, leads to structural changes in the economy, and alters consumer preferences, lifestyles, and demands of citizens.

However, there is a growing realization that globalization is not an unmixed blessing. It can at best be an outcome, not a prerequisite for successful growth strategy. Some of the demerits or pitfalls of globalization are outlined here:

- ◆ The process of globalization seems to be driven by a few in a unipolar world, whereby it is benefiting a few and hurting many.
- ◆ It is another form of imperialism.
- ◆ It is leading to growing inequalities between the rich and the poor both at the level of individuals and among countries.
- ◆ It is destroying jobs and local communities.
- ◆ 'It is ruthless, rootless, jobless, fruitless...' (UNDP 1996).

Gateways to Globalization

Some factors that have helped in the advent of globalization are as follows:

- ◆ The shrinking of time and space with the advent of information and communication technologies, the focus being on reduction of cycle time and factor costs of every aspect of business.
- ◆ Rapid integration of financial markets and freer movement of capital.
- ◆ The blurring of state and national boundaries and the evolution of the WTO with substantially diminished tariffs and other restrictions.
- ◆ Global production chains and integrated supply chains with outsourced manufacturing, business processes, and knowledge processes including research and development and tradable services.
- ◆ The new flexible production systems and new forms of industrial organization facilitated by information technology.
- ◆ Flight of capital and industry in cases where there are restrictions on movement of skilled labour.
- ◆ Shift of labour-intensive manufacturing in the north to low-cost sites in the south.
- ◆ Global networking facilitating inter- and intra-company trade in transnational companies, which accounts for a significant share in the movement of global capital, technology, and products.

Barriers to Globalization

The barriers to globalization are many, some of which are listed here:

- ◆ All countries do not follow a similar stage of development. There are glaring inequalities among countries and continents.
- ◆ Although financial liberalization might help increase access to global financial resources, it is mostly speculative rather than stable capital. Many countries do not have appropriate institutions to deal with global financial flows, and the volatility associated with it, or to manage the equity and debt markets.

- ◆ Several countries and continents remain technologically excluded because their access is not free and depends on the willingness of those who have the technology.
- ◆ Developed countries with saturated markets seek access to their products in the emerging markets of developing and transition economies. Developing countries face many barriers in terms of getting access for their products and services.
- ◆ Developing countries have surplus labour. They are seeking free access to jobs in developed countries. Visa and other restrictions regarding free movement of labour remain a formidable challenge for developing countries.

In the name of globalization, financial liberalization is being facilitated by information technology (IT). Transnational companies with huge economies of scale and high brand equity are able to obtain easy access in the markets of developing countries. Denim jeans, McDonald's, and MTV have become the visual symbols and artefacts of a growing global culture in terms of dress, food, and music/culture.

While a few developing countries in East and South East Asia, which opened their markets in the 1970s, have been able to tap the benefits of globalization, by far, the benefits have been limited to developed countries. There are winners and losers in globalization. There is concern about the effects of globalization being localized in a few countries, whereas there is a need for them to spread and work for all.

There is a tendency to relate all the problems of all countries to globalization. Several socio-economic problems, such as the following, have persisted for long and may have been accelerated and exacerbated during the process of globalization. Some key pointers are outlined here:

- ◆ Disparities in the stages of development and economic prosperity between countries.
- ◆ Social and income inequality within countries.
- ◆ Deindustrialization due to the inability of some countries to cope with competition from abroad.
- ◆ Jobless growth, where wealth formation and income distribution are concentrated in the hands of a few, rendering many jobless and depriving them of livelihood. Job losses are taking place even in developed countries due to the import of cheap and labour-intensive goods from developing countries and export of such jobs from developed countries to developing countries in the name of business process outsourcing, knowledge process outsourcing, and, of late, even manufacturing and engineering process outsourcing.
- ◆ Lowering of labour and environmental standards by developing countries.
- ◆ Developed countries are exporting environmentally hazardous waste and other toxic materials for consumption or disposal in developing countries.
- ◆ Increasing informalization of work and poverty.
- ◆ Growing political, economic, and social instability in the world, which are exacerbated by volatile flows in international financial markets engineered by footloose capital.
- ◆ Erosion of capacity of governments to govern and growing concern about corruption.

Competition on the Basis of Cheap Labour

As discussed in Chapter 1, competition based on cheap labour is resulting in the following:

Falling Employment Intensity and Jobless Growth

If left unchecked, this will result in stagnation and recession. Cars do not buy cars, people do. If a larger proportion of the labour force in a country remains unemployed or underemployed, it will lead to a decline in the demand for goods and services and, as a corollary, further decline in job opportunities.

Contracting Out and Outsourcing

The global deployment of work has its admirers and critics. Sourcing from low-cost countries has economic benefits to companies. It brings down costs and enhances the competitiveness of companies. When profits rise and companies pass them on to customers, prices will come down, volumes will go up, and this, in turn, will create demand for additional jobs. Will outsourcing have winners and losers? Or, will it work for all? Some studies show that for every dollar American firms spend on service from India, the American company receives \$1.4 in return. This will actually happen if the American economy is able to create new jobs for displaced workers. Open and flexible labour markets facilitate sourcing from low-cost countries. To begin with, the US market is more open and flexible than the market in the European Union. However, the US is worried about the negative outcome of outsourcing. Some state governments are planning to place curbs on outsourcing, especially government jobs. Investors in the Silicon Valley are asserting that if people are not allowed to migrate to places where jobs are, jobs will move to where people are. *The Economist* (London) notes that most outsourcing is taking place in areas where there is a shortage of skilled workers at home. As for the working conditions in business process outsourcing (BPO) and knowledge process outsourcing (KPO), *The Economist* (London) quoted a British left of centre politician saying that ‘the benefits offered to employees in the Indian firm we visited would be a wish-list for us in Britain.’

Informalization of Work and Deterioration in Conditions of Employment

As discussed in Chapter 1, the proportion of workforce in casual employment has been increasing in India and, as a consequence, the conditions of employment have generally tended to deteriorate for the majority, the result being a rise in the proportion of the working poor.

Disinvestment, Deregulation, and Decentralization

Disinvestment (often viewed as synonymous with privatization) affects industrial relations in the following ways:

- ◆ It changes ownership, which may bring out changes not only in the work organization and employment but also in trade union organization and trade union dynamics.
- ◆ It changes the work organization by necessitating retraining and redeployment.
- ◆ It affects the rights of workers and trade unions, including job/union security, income security, and social security.
- ◆ Trade unions, managements, and often, governments have together been responding to these challenges through various new, innovative, or model arrangements to deal with different aspects of disinvestments. These include the following:
 - Making workers the owners through issue of shares or controlling interest (The latter has not occurred in India as yet in the context of disinvestments though it happened in the context of sick companies identified by the Board of Financial and Industrial Restructuring.)
 - Negotiating higher compensation for voluntary separations
 - Safeguarding existing benefits
 - Setting up further employment generating programmes
 - Drafting proposals for setting up new safety nets that include not only unemployment insurance but also provision of skills for redundant workers

Deregulation, especially in the sphere of labour laws, usually results in erosion of the accrued interests of workers and trade unions. The issue here often concerns enacting minimal protective measures to ensure that the transferred public sector/government employees receive similar protection as provided in public/government employment. The worst affected are the pension provisions. While in the past, pension schemes usually provided defined benefits, in the post-globalization era, they are often restricted to defined contributions.

This means, usually, a reduction in pension benefits and an uncertainty concerning future provision of pension benefits due to the following reasons:

- ◆ The absence of government guarantees
- ◆ Falling interest rates
- ◆ Investment of pension funds in stock markets

Decentralization of industrial relations is seen in terms of a shift in consideration of industrial relations issues from macro to micro and from industry to the enterprise level. When there is coordination at the national or sectoral level, in the event of industrial conflict, work in the entire industry can be paralysed. However, when the dispute is at the bank level, in the absence of centralized coordination by trade unions, work in that bank alone is paralysed and other banks function normally. This weakens the bargaining power of unions.

New Actors and New Dynamics in Industrial Relations

In the present scenario, there has been an advent of new players and new dynamics in the industrial relations system. It is necessary to understand these new developments to have a comprehensive view of industrial relations.

New Actors and Emerging Dynamics

Traditionally, industrial relations was the concern of three principal actors—workers and their unions, managers/employers, and the government. In the post-liberalization-globalization era, consumers and the community have begun to assert themselves and play a significant role. When the rights of consumers and the community are affected, the rights of workers/unions and managers/employers take a back seat. The court rulings are borne by the realization that wider public good matters most in preference to the narrow self-interest of a minority. Workers and unions, in particular, are asked to assert their rights without impinging on the rights of others, particularly the consumers and the community. Hence, the ban on *bandh* and restrictions even on protests and *dharnas*. Consumer courts have also affirmed the supremacy of consumer rights over labour rights. Trade unions resorting to industrial action, such as strikes and *bandhs* which disrupt public services, are asked to compensate for the loss. Telecom unions in Orissa and Mathadi workers (who are engaged in loading and unloading of agriculture produce) in Maharashtra were asked to pay for the damage for disrupting public utility services.

Increasingly, trade unions are getting isolated and see a future for themselves only by aligning themselves with the interests of the wider society. The emerging dynamics in the industry is also forcing the union to cooperate with the management and shed their power in order to cope up with the post-liberalized economic scenario.

Large scale organizations in India were created to generate maximum employment. Hence, the primary focus of the organization was people supported by a bureaucratic structure and low-level technology. These corporations manufactured products and goods which were sold in the market with ease due to lack of competition (Fig. 3.1 (a)).

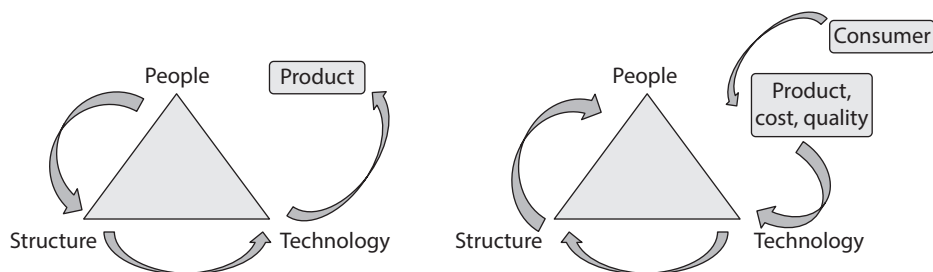


Fig. 3.1 (a) Pre-liberalization industry (b) Post-liberalization industry

With the liberalization of the economy, the market became competitive with alternate products, giving consumers the upper hand and the choice to decide not only the product, but also the quality of the product at a specified cost. Only organizations that could fulfil the customer's requirement survived and thrived; many others got wiped out. Manufacturing the product at an expected quality and cost forced employers to adopt high-level technology which, in turn, led to flat organizational structure and lean manpower (Fig. 3.1 (b)). This emerging dynamics forced the management to go for downsizing and subcontracting, whereas trade unions were forced to cooperate with the management in the survival struggle. While the flat and lean organizational structure brought the workers closer to the management and alienated them from trade unions, outsourcing of the non-core activities of the organization sizeably reduced the membership base of the trade union. Trade unions have not developed a strategy to protect the interests of these fragmented contact employees.

Pro-labour–Pro-investor Policies

World over, when the states assumed a welfare role and adopted pro-labour policies, trade unions grew in strength and power. When the states became neutral, the trade union movement stagnated. Now, when the states have adopted pro-investor policies, trade unions are declining in power and influence, if not in numbers. In such circumstances, unless trade unions forge broader alliances with the society—consumers and community and various civil society institutions, including non-governmental organizations—they will find their powers dwindling. The government has not focused on the unorganized sector which constitutes 92% of the 430 million Indian labour force. While the government has made the economy investor-friendly by establishing special economic zones (SEZs), the protection for labour is missing, along with the minimum social welfare benefits.

Changed Mindsets of the Judiciary, Legislature, and Executive

A remarkable feature of industrial relations in the wake of globalization is the gradual withdrawal of the state from its traditional role of actively supporting organized labour. Labour law reforms remain taboo; however, both the judiciary and the labour administration and adjudication machinery have been more willing than before to entertain the concerns of the industry. Typically, the conciliation machinery shows concern for issues relating to competitiveness and flexibility and considers issues such as increase in productivity, cost reduction, modernization, retraining and redeployment, and so on. There is less emphasis on reinstatement and regularization of dismissed employees. Some state governments—notably Rajasthan, Andhra Pradesh, and Uttar Pradesh—have taken the initiative to make small changes in labour laws and have made major efforts to drastically simplify the returns to be submitted by employers and ease the pressure of labour inspections. Even the central government is considering the closure of certain industrial units for the long-term viability and competitiveness of enterprises. As labour is being covered under the concurrent list and more than 150 labour laws are in force, there is multiplicity in coverage with little accountability. The recent labour disputes in Maruti Udyog Ltd exhibit the apathy of the government where trade unions struggle to form an union of their choice, but the state government never intervened to control the dispute, leading to fatal casualties, lockout, and loss to business.

Declining Trade Union Density

In the traditional strongholds of trade union membership—government and public sector—the workforce is declining due to non-filling of vacancies and introduction of voluntary/early separation schemes. New employment opportunities are shrinking in these sectors. In the private sector, particularly the service and the software sectors, the new, young, and female workers are generally less eager to join unions. Trade unions are yet to conceive and implement meaningful strategies to make unionism relevant and appealing to these new and diverse workgroups. It is mainly concentrated in the unorganized sector, thanks to the initiatives that the government is willing to consider in the realm of social security benefits, there is a prospect of a rise

in trade union membership. Even here, trade unions are finding an adversary in a group that is otherwise considered an ally—the non-governmental organizations operating under the guise of, or as, virtual trade unions. However, the need for unions is felt even in the IT industry, particularly after the industry was hit by recession and mass downsizing. Majority of the IT professionals are not aware of their rights and coverage under the law. A group of IT-enabled services (ITES) professionals have come forward to form the first trade union in this sector—Union for ITES Professionals (UNITES). Headquartered in Bengaluru, this new set-up has founder members drawn from HSBC, ABN AMRO India, Sitel, Wipro Spectramind, and Teledata Informatics working in Bengaluru, Hyderabad, New Delhi, Thiruvananthapuram, Kochi, and Mumbai (*The Hindu*, 26 January 2006).

Worker Militancy Replaced by Employer Militancy

The economic reforms introduced in 1991 signify the country's quest for global economic integration. During the decade 1981–90, India had lost 402.1 million man-days due to industrial conflict, whereas in the subsequent decade, 1991–2000, the number came down to half—210 million. This does not mean that the industrial relations situation had improved dramatically. Workers were increasingly more circumspect and hence reluctant to go on strikes because of the fear of job insecurity, concern about the futility of strikes, and realization about the imperative need to consider the survival of enterprise as a prerequisite for employment and income security. Trade unions were hesitant to give a call for a strike because it may lead to loss of jobs or closure of the unit. What is even more striking is that over 60% of the man-days lost in the post-reform period were due to lockouts and less than 40% were due to strikes. It must be added that quite a few lockouts may have been preceded by strikes.

One measure of trade unions becoming more defensive than offensive with employers can be seen from the shift in their actions from strikes to law suits. Additionally, instead of pressing for higher wages and improved benefits, trade unions are pressing for maintenance of existing benefits and protection and claims over non-payment of agreed wages and benefits. Figure 3.2 represents the trend in strike and lockout in the post-liberalized era. The graph clearly represents the sharp decline in the number of strikes, whereas lockouts have not seen a proportionate downward turn. This shows the decline in the power of the union and rise in employer militancy.

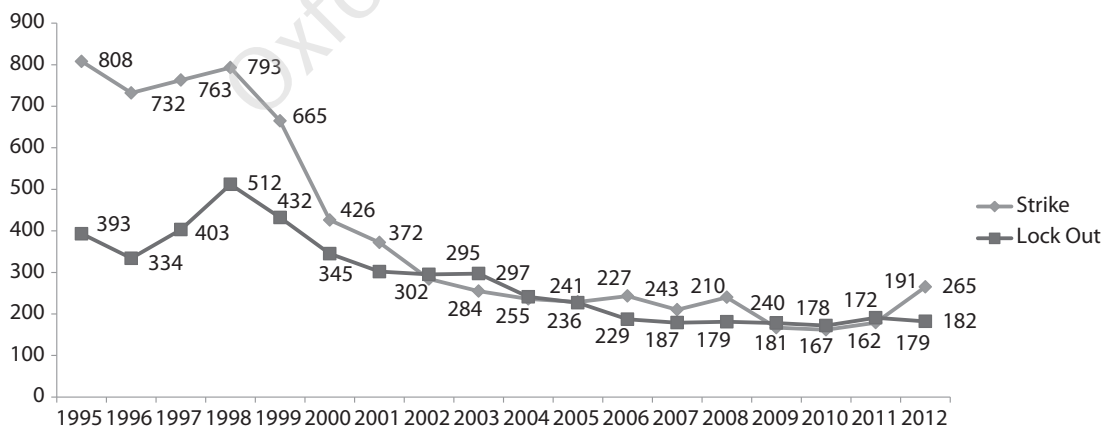


Fig. 3.2 Trends in strikes and lockouts in the post-liberalized era

Collective Bargaining

As discussed earlier, and also in Chapter 8 on collective bargaining, with the shift in level of coordination and bargaining from national/sectoral to the enterprise/plant level, the bargaining power of trade unions

is shrinking. Moreover, there is a gradual movement away from parity to disparity. Since 1992 to date, over 100 of the 240 central public sector corporations did not implement wage revisions because the government announced that companies have to mobilize resources to pay for workers' wages and that they would no longer subsidize wage increases.

Towards Fair Globalization

The World Commission on Social Dimensions of Globalization (2004) called for the following:

- ◆ A process of globalization based on universally shared values requires all actors—including international organizations, businesses, labour, civil society, and the media—to assume their individual responsibilities. It demands respect for obligations and duties under international laws. It also requires that economic development be based on respect for human rights.
- ◆ An international commitment to ensure the basic material for survival and other requirements of human dignity for all is enshrined in the Universal Declaration of Human Rights. The eradication of poverty and the attainment of the Millennium Development Goals (MDGs) should be seen as the first steps towards a socio-economic floor for the global economy.
- ◆ A sustainable path of development must provide opportunities for all, expand sustainable livelihood and employment, promote gender equality, and reduce disparities between economic, social, and environmental policies.
- ◆ A more democratic governance of globalization must allow for greater voice and participation of workers and ensures accountability, while fully respecting the authority of institutions of representative democracy and the rule of law.

SUMMARY

A comparative study of industrial relations involves the study of social, economic, legal, and institutional aspects and the attitudes and approaches of the principal actors, that is, government, unions, and the management. Such studies help in understanding the relative significance of different strategies or approaches on industrial relations. A comparative study should focus on the key aspects relating to economy, law, and institutions with particular reference to trade unionism and trade union structures, collective bargaining, participative management, and incidence of industrial conflict with causal analysis.

The broad theoretical perspectives of industrial relations—unitary, pluralistic, and radical—were discussed in this chapter. There is much debate on whether industrial relations systems will converge. It is noted that the long-term trend seems to point towards divergence. Industrial relations policies and practices in any country at any given time reflect a combination of three different logics of action, namely the logic of industrial peace, the logic of competition, and the logic of employment–income protection. Given the variation in the strengths of

different logics of action, and the interplay between them, globalization—expressed through the logic of competition—has complex and contingent effects on employment practices and industrial relations.

Globalization means different things to different people. It has its merits and demerits. Several factors facilitate its momentum, while several others seek to halt the process or erect barricades. The impact of globalization on industrial relations is profound. It is experienced through a dent on union membership and union power, decentralization in collective bargaining, and reduction in industrial conflict due to fear and heightened insecurity among workers. The casualization of employment and deterioration in working conditions due to cost cutting, competition, business process outsourcing, and business process reengineering have produced negative stereotypes about the fallout of globalization. The need for fair globalization, which works for the benefit of everyone rather than for a privileged few, and the need to bring about correctives in institutional mechanisms, regulatory framework, and governance cannot be overstated.

KEY TERMS

Logic of competition It is aimed at promoting enterprise efficiency, elimination or marginalization of trade unions exempting export processing zones from national labour legislations, and using selective immigration as a means of ensuring an adequate and flexible supply of labour.

Logic of employment–income security It aims at providing skills training to bridge the gap between

acquired and required skills among the labour force and extending unemployment pay and old age benefits and pensions.

Logic of industrial peace It is aimed at curbing internal and external competition through licensing regulations and protectionist tariffs to assist local industry and help sustain industrial peace.

CONCEPT REVIEW QUESTIONS

1. What is globalization?
2. What are the merits and demerits of globalization?
3. What are the advantages of studying industrial relations in a comparative perspective?
4. What are the different approaches to the study of industrial relations in a comparative perspective?
5. What are the logics of action in industrial relations? Briefly describe each of the three logics.
6. How does the concept of 'logics of action' help understand the link between industrialization strategy and industrial relations approaches?
7. What is the impact of globalization on industrialization?
8. How does decentralization affect trade union power?
9. Discuss a few outcomes of disinvestment and the possible approaches to address them.
10. What is the ILO agenda for fair globalization?

CRITICAL THINKING EXERCISE

Many believe that there is no point in comparing the industrial relations situation in India with that in the USA because of the intrinsic differences between the two countries. While, in China, the political systems and social safety nets are different, we do not have the Confucian values as in Japan.

The German situation also cannot be compared as our legal system and institutions are different. In reference to Singapore, many assert that a city-state cannot be compared with a country of large proportions. Even within India, when you want to compare industrial relations in a western state with that of an eastern state, many would say east is east and west is west. When one

gives an example of steel or banking to others in power or coal, many would assert that there is no comparison between oranges and apples. Still, there are those who say that oranges from Nagpur are different from those from Washington DC.

With such wide diversity in the perceptions and practices of industrial relations issues across countries, regions, sectors, and industries, should we/can we compare the industrial relations system of one country with that of another at all? What are the issues involved? What are the merits and demerits of studying industrial relations in a comparative framework?

PROJECT WORK

1. Form three independent groups of students and identify any three issues related to globalization. Examine whether they are a result of globalization or have been exacerbated after globalization. Consider ways to address them.
2. Conduct a group discussion on the topic 'What is the use of globalization if the price of my shirt comes down but my father loses his job?'
3. Visit a couple of trade unions and employers and find out whether and how they were impacted by globalization and what strategies, if any, they need to overcome the problem. You may also do this exercise through a library study of a particular company or a sector.
4. Visit the website www.laborstart.org. This site provides the latest information on developments in different countries.


CASE STUDY
Parental Impositions

The following is the text of a memo circulated by the Head—HR of a Bengaluru-based auto ancillary. A few years ago, the company received a letter from a Detroit-based company asking them to shift their operations from just-in-case to just-in-time because the main company had adopted just-in-time production system and it was imperative that its vendors and suppliers adopt a similar system.

For the Bengaluru-based company, it meant replacement of their unskilled workers, who comprised about 20% of the total workforce with either new skilled workers who could read, write, and understand English and possessed the numerical ability necessary to deal with the application of statistical quality control measures. Around this time, the Head—HR circulated the memo, which was published as a news item in the local press in one of the countries in Latin America, where the American car company was insisting that its suppliers bring the parts to the plant on a just-in-time basis and assemble the parts in the car as the auto company itself has ceased to employ any workforce on the assembly line. The memo was as follows:

'As you all know, my association with this company has now been for over 14 years and I have seen the company pass through different business situations. The present scenario that has developed in the country on account of the general slowdown in the world has become quite serious and I thought I should share my thoughts with you on this subject, especially about our company.

Just to recapitulate, with the globalization of the economy, the barriers that existed to the entry of new companies in India have been dismantled. There are a lot of new companies in different industrial sectors who commence their activities in our country, the automotive ancillaries being no exception. Several companies from abroad have entered the business of instruments in India—Visteon, Magnetti Marelli, Jyushin, and Delphi, just to name a few. Besides, Pricol continues to hold the position of leader with others such as Suprajit, V3, Minda, Indication Instruments, and Galaxy already in the market. The environment has, therefore, turned competitive and quality, cost, and just-in-time delivery have become important criteria for a supplier. In the moped and the scooter sector, some manufacturers consider price to be more important and, with such customers, companies such

as V3, Minda, Indication Instruments, and Galaxy are predominant. You must also be aware that normally, when an automobile manufacturer enters a new country, the ancillaries, which are their suppliers in their home countries, follow them and the same happened in India.

The world economy is experiencing a slowdown which many consider as one of the major depressions in the last 20 years. The Indian automobile industry is facing a serious situation as the demand has slowed down and their capacities, which they had built-up, are lying unutilized. Besides, you should also understand that prior to liberalization, the country was operating in a controlled economy. Most automobile manufacturers and their ancillaries had very high depth of production, which meant that most of the required components were being made in-house. This trend reversed after liberalization and most companies, in fact all of them, have sourced out the components they used to make in-house to vendors. As a result, the problem of slowdown has become even more serious. Just last week, Mahindra and Mahindra downsized its employee strength by 2300 through a voluntary retirement scheme (VRS). Telco has reduced its employee's strength by over 2000 and they have made their intention clear that they want to further downsize by 1500. Even two-wheeler manufacturers, on account of slowdown of scooters and mopeds, have resorted to downsizing. Bajaj is planning to introduce a new VRS, as they want to downsize by 1200. The situation is the same with several ancillary industries, and our company is no exception. Orders from our customers stand drastically reduced, except Hero Honda and, to some extent, Bajaj. Owing to severe competition, even these manufacturers are insisting on reduction in prices, improvement in quality, and just-in-time supplies on a shift-to-shift basis. Hero Honda and Maruti have already forced us to set up an assembly operation in Gurgaon, which you all are well aware of. Bajaj has also given us an ultimatum in writing that unless we clearly give them our action plan to establish a unit in Pune, they cannot guarantee continuation of the business. I am mentioning these aspects so that you may appreciate the situation in which the company is now placed; either we lose the business entirely or establish assembly units close to the customers' factory. The slowdown and reduction in orders from our customers has already

resulted in a surplus of workmen in our plant and we apprehend further reduction in demand. This has forced us to reduce the working days during August 2001 by two days as a first step, which was done after discussion with the union. If the present trend of reduction in demand continues, which is what the industry is expecting, and no signs are seen for revival, we would have no choice but to apply for a lay-off to the Government of Karnataka. The payment for the lay-off will be as per the provisions of law. Needless to mention, the change in the market conditions over the last few months have strained our financial position and affected the profitability as well. In fact, I would like to share the figures for the first two quarters with you where the company has incurred a loss of over ₹3 crore. I appeal to all the employees to consider the aforementioned facts very carefully and cooperate with the management in all the measures that the management may be compelled to take to

face this critical situation, which is reminiscent of the earlier difficult years, and come out successfully as we did in the past.'

Questions

1. Given these trends in manufacturing and industrial relations, what are the challenges for HR managers in the company and what are the effects of these challenges on the industrial relations climate in the company?
2. What are the key issues in the case? Which among them are a result of globalization?
3. How can these issues be handled?
4. What are the implications for the management, workers, and unions?
5. Can the management or unions do anything to ensure that such systems are not imposed on transnational companies?

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