Private Sector Indian Manufacturing Organizations and Workplace 
Industrial relations: towards a new Employment Relationship

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Introduction & background

“Look East, Link West”, was the most imposing caption by PM Modi at Make in India launch on 25th September, 2014. Manufacturing contributes only 15% to India's GDP, and India”s share in world manufacturing is only 1.8% (World Bank, 2011). It employs 12% of the Indian workforce or about 53 million people (NSS, 2009). Particularly for developing countries, an investment in manufacturing promises rapid growth and sustainable job creation unlike services that offer the opportunity to achieve only the first objective, not the second (UNIDO, 2013). Research demonstrates a positive correlation between modern manufacturing and the growth of labor productivity and economic welfare (Maddison 2001; 2007; Naudé & Szirmai, 2012). Unlike the East Asian economies, India has not been able to draw growth and employment from manufacturing in any significant magnitude (Trivedi et al, 2011). But India has the potential. India ranks high on various manufacturing competitiveness indexes (GMCI, 2013; CIP, 2013).1

Indian government wants to push the manufacturing”s contribution to GDP to 25%. The government has launched a national campaign to boost manufacturing, has set up a national manufacturing competitiveness council (NMCC) and has started several training programs to ensure skilled workforce availability. As a result several international players like Hyundai, Airbus and Samsung are focusing on setting up their facilities in India (IBEF, 2015). Besides this, there have been more than 4,000 inquiries on investment prospects in the Indian manufacturing since the launch of „Make in India“ campaign. India”s new manufacturing policy is vital to create jobs and maintain growth (WEF, 2011). As more and more firms are showing interest in expanding their production and distribution systems in India, they want to know how to manage their employees located in an entirely different social and political environment like India and survive in long term. More particularly, they need to know whether they should adopt
globally uniform corporate employment relation policies or tailor such policies according to Indian environment. Understanding the employment relations in Indian manufacturing are not only important for multinational corporations (MNCs), they are also important for local firms, investors and entrepreneurs who wish to invest in Indian manufacturing and for researchers and academicians particularly when much of the literature on changing patterns of employment relations is focused on developed economies.

Developments in employment relations are well documented in western literature (e.g. Capelli, 1995; Callus et al, 1991; Moroshima, 1995; Osterman, 1986; Kochan et al, 1984; Gould, 2010; O. Donell, 2011; Lansbury et al, 2009; Zhao et al, 2012; Zou & Lansbury, 2009). However, relatively little has been written about the contemporary employment relationship in the Indian context (Budhwar, 2003; Saini, 2008). None of the studies have ever endeavored to obtain an accurate account of employment relations in Indian context. Nevertheless, unraveling the impact of globalization and liberalization on employment relationship in India has clearly been a theoretical and methodological puzzle.

**Literature Review: The Effects of Globalization on Employment Relationship**

*International Debates and Evidences*

Cappelli’s work on employment relations in US is perhaps a good starting point to review the literature on this topic.

One of the central themes of Cappelli’s work “Rethinking Employment” is that competitive pressures due to globalization forced US companies to adopt improved organization design and
downsize their employment (Cappeli, 1995). US employers have responded to the changing environment by relying on external labor markets. There is less job security for the core workers, more job switching, fewer job hierarchies, and compensation and training decisions that are more governed by the outside labor market (Osterman, 1986). A host of new management practices have evolved to change employment relations in US considerably (Capelli, 2002). These include: Decentralizing control over operations, contingent workers, and contingent pay and contracting out, empowering employees through teams.

Similar trend in employment relationship is also visible in the Australian context. Australia has been deregulating its labor market, emphasizing workplace negotiation over arbitration, abolishing industry protection, marginalizing unions, using productivity improvement as a basis for remuneration and, more recently, encouraging individualism in workplace bargaining. These trends are interpreted as adoption of an US-style approach (Gould, 2010). Collective approaches to employment relations have increasingly been replaced with more individualized arrangements (O Donnell, 2011).

Such changes in employment relationship are also reported in the Chinese context by researchers. The use of new technologies by Chinese companies has resulted in changes to work organization. The most profound change in this regard has been the increase in numerical flexibility (Lansbury et al, 2007; Zou & Lansbury, 2009). Various forms of teamwork have been introduced to change the work practices on the assembly line as well as to improve communication between management and employees in Chinese automotive and banking industry (Zhao et al, 2012).

Similarly, in the British context, researchers have observed that due to the pressures of globalization, firms are adopting alternate forms of employment arrangements (subcontracting, contingent work, agency workers etc.) which leads to the growing employment insecurity for employees and also the increased use of performance related pay systems (Wanrooy et al, 2013).

All these researches point at the shift away from the traditional **Standard Employment Relationship**² towards Non standard forms of employment relationship or **New Employment**
relationship\textsuperscript{3}. However, Mc.Govern and his colleagues, 2007 asserted that changes in the standard employment relationship based on full time employment are not transformative. They are temporary in nature. According to him, market responsive employment relations practices are influenced by economic downturns in the economy and such practices return back to career jobs, training and job security, once the economy revives. Similarly, Baldry et al, 2007 observed that there are changes in the workplaces in the new economy characterized by the rise of knowledge workers but in certain sectors of the economy especially manufacturing, things still remain the same.

Thus, \textbf{three views exist in the international literature} on the effect of globalization on employment relations. The first view suggests that the globalization has altered the standard employment relationship radically through contract

\textsuperscript{2} Term \textbf{Standard Employment Relationship} used here refers to a ‘stable, socially protected, dependent, full-time job . . . the basic conditions of which (working time, pay, social transfers) are regulated to a minimum level by collective agreement or by labor and/or social security law’ (Bosch, 2004).

\textsuperscript{3} Term \textbf{New Employment Relationship} refers to a form of employment relationship characterized by the use of subcontracting, contingent workers, rise of white collar jobs, decline in trade unions, growth of HRM and technology (kalleberg, 2000; Kalleberg et al, 2000).

jobs, job insecurity, more personalized work experiences and increased use of HRM for managing people at workplaces. A second strand of commentary suggests that the so called transformation of SER is temporary, in response to market turbulence and swings back to normal once the market recovers. A third strand of commentary exists in literature that views changes in employment relations as pragmatic, eclectic and incremental in nature. According
to this view, contemporary employment relations entail improvisation and the adoption of certain aspects of both SER and NER.

Table 1. summarizes the changes in the employment relationship due to globalization and liberalization that appears consistent with the literature throughout the world. For the most part, the table lists out hypothesized changes by referring back to the literature.

Table 1. Changing employment relationship in the era of globalization

<table>
<thead>
<tr>
<th></th>
<th>Standard Employment Relationship (SER)</th>
<th>New Employment Relationship (NER)</th>
<th>Amalgamation/adaptations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>Full time work</td>
<td>Sub contracting, part time work, contingent work</td>
<td>Core along with contract labor</td>
</tr>
<tr>
<td>Trade unions</td>
<td>strong</td>
<td>weak</td>
<td>Strong/ weak depending on sectors</td>
</tr>
<tr>
<td>Employee management</td>
<td>Through formal rules</td>
<td>Discretion in employment decision to managers and supervisors</td>
<td>Joint decision making, selective autonomy to line managers</td>
</tr>
<tr>
<td><strong>bargaining</strong></td>
<td>Strong/absent</td>
<td>Wea enterprise level</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>---------------</td>
<td>---------------------</td>
<td></td>
</tr>
<tr>
<td>Collective / procedures</td>
<td>national</td>
<td>unit</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Labor markets</strong></th>
<th>Strong internal markets</th>
<th>Market mediated arrangements</th>
<th>Variable linked to economic conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wage system</strong></td>
<td>Piece rate</td>
<td>Pay for performance</td>
<td>Variable</td>
</tr>
</tbody>
</table>

| **Job security** | high | low | Variable depending on |

<table>
<thead>
<tr>
<th><strong>Work organization</strong></th>
<th>Traditional division of Self managed teams, Depends on the level of work circles, job rotation employment</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>Workplace governance</strong></th>
<th>IR/PM</th>
<th>HRM</th>
<th>Both IR &amp; HR</th>
</tr>
</thead>
</table>

| **Employee communication** | One way | Two way | Two way |

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While tracing the history of globalization effects on employment relations in India, one thing that becomes very clear is that the detailed picture of employment relations built through extensive surveys and interviews as in the case of USA and UK are completely missing in Indian context (Bhattacharjee & Ackers, 2010). Nevertheless, some significant effects of globalization and liberalization on human resource management and employment relations in India can be identified. They are:

**Globalization and Employment Relations in India**

Before liberalization the rules of the employee relations system were determined by the institutions of the state such as compulsory adjudication, conciliation, standing orders, and...
labor laws and so on (Bhattacharjee, 2001; Hill, 2009; Bhattacharjee and Ackers, 2010). The dominant objective of the government during the regulation era was to maintain industrial peace (Shyamsunder, 2010).

The oil shocks in 1970’s resulted in a steep decline in industrial production and manufacturing stalled, employment growth slowed and labor markets tightened. These changes in the economy also affected union activity, collective bargaining practices and labor markets (Hill, 2009). A new approach to economic development based on export oriented industrialization was adopted by the Indian government.

Since 2000, the challenges of liberalization, privatization and globalization have intensified. There is a switch in state policy away from favoring employment relations based on union and collective bargaining towards more laissez faire approach (Budhwar, 2002). There has been a rise in employer resistance to union recognition and a growth in the scale of the non union sector (services etc.) (Saini, 2006a; 2006b). Other than having its effect on macro level institutions, the liberalization of Indian economy and globalization have had lasting impact on the conduct of employment relations at the firm and the workplace level also (Kuruvilla, 1996). As revealed by several researchers in their surveys and case studies, progressive developments in employment relations such as workplace partnership or the systematic adoption of modern HRM practices have occurred in numerous cases in India (Saini, 2006;2003, Budhwar, 2002; Budhwar & Khatri, 2001; Budhwar & Boyne, 2004).

Indian managers are implementing new management techniques nowadays and various HR functions like training, performance appraisals, career development etc. are given more importance than before (Jain et al, 2012). Changes in the workplace structuring are taking place. There is increasing evidence of managing employee relations in Indian companies through HR strategy. Both empowerment and instrumentalist HR strategies are being practiced (Saini, 2008).

With the ever increasing globalization, there is the increased employment of contract and casual labor and use of human resource management devices in India (Ramaswamy, 1999; Kuruvilla and Erickson, 2002). Sharma (2006: 2078) commented that work in India has become more
casual and less secure. Another reason for changes in work and employment in India are secular changes in technology and work organization (Dutta, 1990; Krishnan, 2010).

After the neoliberal reforms of 1991, there is an increase in local union leaderships instead of national level union federations (Ramaswamy, 2000; Ramaswamy and Schiphorst, 2000). At present trade unions in India are passing through a difficult period (Das, 2008; Singh and Kulkarni, 2013; Sundar, 2006). There is an increased instance of union avoidance strategies adopted by Indian employers (Mathur, 1993).

However, on reviewing the recent literature on employment relation in India, one realizes that most of the new literature on Indian employment relations is either about the new services sector or about how to transform old formal sector in line with the best practices in services sector (Ackers, 2006). By providing a detailed evidence of how has the employment relations changed in the manufacturing sector, this study will permit a more considered view of employment relations in India.

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4 In order to impose some order on the complexity of employment relationship and to narrow down our conceptualization of employment relations, a common framework of analysis is adopted for reviewing the literature as well as the cases. Certain dimensions of employment relationship for research are identified. These relate to the conduct of HRM, work organization, the question of managerial style in the handling of relations with employees and trade unions and the use of employee communication channels, performance management systems and training & development initiatives.
Theoretical Underpinnings

Two main theories explaining the nature of employment relations and charactering the presence or absences of conflict are: unitarism and pluralism. According to pluralism, an industrial enterprise is not a unitary organisation but a coalition of individuals and groups with varying interests and objectives. It assumes some amount of conflict among actors as natural and healthy. On the other hand, unitarist perspective holds that everyone within an organization shares a common purpose and are all committed to this purpose. According to this perspective any conflict in an organization is undesirable. Unions and collective bargaining are seen as undesirable.

Globalization has substantially influenced the nature of IR policies followed by the employers, and reduced the power of trade unions. The IR frameworks of different organizations in the new business environment are being oriented to new exigencies. Strategic shift in the approach of management to dealing with IR are noticeable at covert as well as overt level. From different type of IR models that are followed by the employers a shift of focus is noticeable. The shift can be seen from different type of pluralist models to a type of unitarist IR or repressive pluralism.

In the era of globalization employers are trying to shift from the first four models of IR to the last four, thus adopting policies of a kind of “weak union model” or “no union model”.
Research methodology

Obtaining an accurate account of employment relations pattern in India requires a comprehensive and multidimensional research approach (Budhwar & Varma, 2010). Given the nature of ERs as a normative or suggestive rhetoric, the capability of symbolic interpretive paradigm in capturing the reality as it is makes it a preferred method of research inquiry (Storey, 1997). Taking a cue from our research questions and the framework given by Verma & Budhwar, 2014, a case study approach has been deployed in this research (Cresswell , 2011). We have analyzed case studies of few representative workplaces so as to discern the dominant patterns of employment relationship in India. We are concerned with changes in SMEs and large manufacturing companies operating in India, irrespective of their ownership. Our concern is to specify more precisely what we think is significant change in the Indian manufacturing.

Analysis

Following case study approach, four organizations were studied. We have studied both large and small organizations. Data is collected through interviews from various levels in the organization. Our unit of analysis is an establishment5. Sample statistics are as follows:

<table>
<thead>
<tr>
<th>Organization Type</th>
<th>Domestic SME</th>
<th>Foreign SME</th>
<th>Domestic Large</th>
<th>Foreign Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>
Case 1. It is a domestic medium-sized enterprise involved in the manufacturing of heavy construction equipment, earthmovers etc. The company was established in 1995. It is an example of a typical owner-controlled Indian firm. The management style is very control-oriented. Most of the labor management practices are traditional, with little evidence for the use of HRM. All the workers are hired through agencies. Not even a single worker is on company
rolls. There is no such thing as performance appraisal or safety training etc for workers. Workers are seen as a liability and to reduce their power they are hired and fired through agency. Any unionizing activity is closely monitored and curbed well in time. Role of HR is not that of employee welfare but to act as an agent of management in controlling workers.

5 One organization can have several establishments (plants). For this study a single establishment of an organization is considered as unit of analysis.

Case 2. It is a medium sized Japanese joint venture firm involved in the manufacturing of automobile hoses. The company was established in 2005. Japanese style of management can be seen to have an influence on the functioning of this company. There is great emphasis being laid on quality. There are rewards related to quality that are given to employees. But the localization of employee management practices can be easily seen. Most of the workforce is contractual that is paid according to the minimum wages without any appraisal or training. Safety is given importance and hence safety training is there but apart from that no other major type of training is given to the employees. They learn on the job. Employee communication is top down.

Case 3. It is a large domestic firm involved in the manufacturing of agricultural machinery. The company has a long history. Established in 1944 by two brothers, this company is a family owned organization. Trade union is present in this company and most of the worker related decisions are taken in consultation with the union leaders. Trade union represents only the permanent workers. Over the years the strength of permanent workers has decreased resulting in most of the workforce being contractual that is paid according to the minimum wages without any appraisal or training. This has also decreased the trade union strength and influence in the company. Employee communication is largely top down. Line managers discuss everyday plans with workers and supervisors on a daily basis. Training is mainly on the job with some sort of attitude training and safety training for new joiners.

Case 4. It is a large sized Korean company involved in the manufacturing of electronic products like fridge, AC, washing machine etc. The company was established in 2000. Korean style of
management can be seen to have an influence on the functioning of this company. There is great emphasis being laid on quality and innovation. There are rewards related to quality that are given to employees. There is no trade union. But the localization of employee management practices can be easily seen. Most of the workforce is contractual that is paid according to the minimum wages without any appraisal or training. Safety is given importance and hence safety training is there but apart from that no other major type of training is given to the employees. They learn on the job. Employee communication is top down.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti union strategies</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Towards contractual arrangements</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Line managers crucial role</td>
<td>limited</td>
<td>Some</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>Performance related pay</th>
<th>Formal recruitmenent</th>
<th>Communication</th>
<th>Training</th>
<th>Collective bargaining</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no</td>
<td>no</td>
<td>Top down</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>no</td>
<td>Top down</td>
<td>Safety on job, attitude</td>
<td>Safety, on job, behavioral, ownership</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>no</td>
<td>Top down</td>
<td>Behavioral training</td>
<td>Individual level</td>
</tr>
<tr>
<td></td>
<td>yes</td>
<td>no</td>
<td>Mixed</td>
<td>Yes but weak at the enterprise level</td>
<td></td>
</tr>
</tbody>
</table>

**Formal recruitment channels**: No, No, No, No

**Communication**: Top down, Top down, Mixed

**Training**: No, Safety training, Safety on job, attitude

**Collective bargaining arrangements**: No, No, No, Yes but weak at the enterprise level
Results and discussion

All the case companies irrespective of their size or origin are adopting some kind of anti union strategy. Preferred channels of recruitment are still informal like word of mouth, referrals, an apprentice. Most common form of training has been on the job. Line managers face difficulties in convincing workers to attend such training sessions. Employee communication is mostly top down with limited involvement of workers in the form of suggestion schemes, quality circles etc. Limited information is shared with workers. While some large organizations can share financial information, strategic information is never shared. The dominant employment arrangement is the core periphery. Performance management system for workers is absent or wherever it is present it is used only for pay related decisions and not for employee development.

Employment arrangement in India is very different from other countries. While in US, UK etc. also core periphery system exists. But periphery there means part time workers, flexi timers, contractual workers, outsourcing. While in India, most of the peripheral workforce is either contractual or casual. In case of US the adoption of alternate arrangements like sub contracting is an attempt to reduce costs. It makes sense from efficiency point of view, since labor costs form a major chunk of production costs there. But in case of India labor costs are only 14% of the total production costs. So, using contractual labor for controlling costs seems a vague logic (as given by most of the employers) in case of India. In India the ultimate objective of management in employing contractual workforce is control. Employment of contractual labor is routine jobs is not permissible by law. But laws are violated and bureaucrats are bribed heavily to overlook these matters of immediate concerns. Although there is a provision in the law that employer should pay overtime to the workers at the rate of double the basic wages, no employer follows this practice. There is no reasonable answer for this. But still most of the companies are following these practices because others are doing this. It is a kind of institutional isomorphism that exits.
Foreign companies that come to India, comes here with a different mindset. Both the foreign companies” studied in this paper have strong union in their home country. But when they started operations in India they were very clear from the beginning about being union free workplaces. In India workers are still uneducated or minimally educated, therefore formal channels of recruitment and training are still not very popular. Due to the regional differences, caste system etc. employers often have to mend their employment practices. While in other countries; employers have adopted HRM strategies to divert worker attention from unions to their career. In India HRM practices are not adopted as unified approach. Coercion is used as a means to divert workers from getting unionized. Separate IR/HR departments are still prevalent in some companies with different roles and responsibilities. This trend was popular in UK in 1980”s

**Future directions**

Further studies can aim at doing a private vs. public comparison of Indian manufacturing to see the differences and similarities in their labor management approaches. Similarly, a comparison of services vs. manufacturing sector can be done to understand the peculiarities of managing employees in each sector. Since this study is based on only a sub sector of Indian manufacturing, further study of other manufacturing sub sectors and their comparison is desirable.Cross country studies in employment relations have been very rare (Kuruvilla & Erikson, 2002). Therefore, an appropriate extension of this study could be a cross country comparison.

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