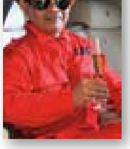


The new lakhp

Salaries are heading north in the auto industry. But, ironically, it is a toxic combination of labour militancy, rigid labour laws and shortage of skilled manpower that has triggered the recent wage hike

The Dharuhera industrial estate is located on both sides of National Highway VIII in the Rewari district of Haryana, 70 km from Delhi. Once an agrarian town, it is now emerging as one of the growth corridors of Haryana. Of late, real estate developers have gobbled up large tracts of its agricultural land, as urbanisation extends from the saturated Gurgaon to Rewari. Already, it has the makings of the next big satellite city in the national capital region. Several big brands have set up shop in the industrial estate, led by Hero MotoCorp and Delphi Automotive Systems.

The pioneer of Indian dairy operations, Amul, recently started operations on a new plant there, as it did Carlsberg beer. Dharuhera was in the news recently when the agitating shop floor workers of the Hero MotoCorp plant, negotiating a three-year wage agreement, reportedly demanded doubling of monthly salary to nearly ₹1 lakh, apart from other benefits like subsidised housing, as well as interest-free loans running up to ₹10 lakh. Hero MotoCorp, promoted by the Munjals, is the country's largest motorcycle or two-wheeler manufacturer. It became a separate entity last August after Hero group bought out Honda's remaining shares in the 26-year-old joint operation. The two-wheeler manufacturer recorded its highest monthly sales of 557,797 units in January 2013 – a growth of 7.21 per cent over the same month last year.

Though wage negotiations are still going on, the ₹1 lakh package

SUMEET SAWHNEY

represents one of the biggest hikes demanded anywhere in the auto industry and even among other manufacturing units. An experienced shop floor worker at Hero MotoCorp currently has a CTC (cost-to-company) of ₹47,000-50,000. The labour union has reportedly sought an increment of about ₹18,000 in monthly wages per year for a three-year period. This would make an auto shop floor worker in three years a veritable *lakhpati*.

But would they be the only ones? In 2011, Maruti Suzuki arrived at a 'quiet settlement' with 30 workers, who led the strike at the Manesar plant, by offering them what was clearly not a normal severance package. The 'hero' of this strike was one Sonu Gujjar, who had hogged the media limelight for his self-effacing manner. There were media reports that he had been paid off some ₹40 lakh-1 crore.

Without specifying the amount, Maruti later justified the settlement on the ground that it was done with the consent of the Haryana government. "The company can certainly give a settlement to an individual at a level higher than the rules of severance, based on the appropriate approval process," a Maruti Suzuki spokesperson then said. "We fully respected the principles of transparency and corporate governance. Further, if it is a settlement with the involvement of the government under the Industrial Disputes Act, 1947, then it is perfectly legal".

The demand of Hero MotoCorp workers, who are currently wearing black armbands and holding gate meetings as a mark of protest at Dharuhera, as well as the company's plant at Gurgaon, could eventually turn out to be a bargaining chip. But Hero MotoCorp employees are not the only ones demanding higher wages. In a similar wish-list presented by workers of Maruti Suzuki's Manesar unit during their wage negotiations last year, the workers not only sought a four-fold hike in gross salary, but also cheaper home loans, gifts with every car's launch and holidays beyond those stipulated. And, while these lofty demands were not met, the workers still managed to walk home with an attractive deal – a salary increment of nearly 50 per cent, interest-free personal loans and higher medical benefits.

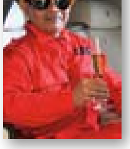
After Maruti, it was the turn of Hyundai Motor India Limited (HMIL) to ink hefty pay hike agreements with workers. Hyundai had given an increment for 45 per cent to 2,000-odd workers at its facility in Chennai. Then, Honda Motorcycle & Scooter India (HMSI) increased wages by more than 50 per cent for its workers at the Manesar unit. While 70 per cent of the hike at ₹10,420 is to be given in the first year itself, subsequent wage increases of ₹2,175 would be made in the second and third years of the wage settlement agreement. As much as 60 per cent of the increment would be incorporated in the basic salary, while the remaining would be offered in incentives.

SUMEET SAWHNEY

Munjal: closely watched by industry

The new wage structure was in line with the expectations of the HMSI Employees Union, who were getting ₹25,000-30,000 a month (inclusive of base pay and additional benefits). The company has doled out a host of incentives for workers, which include an annual Diwali bonus of ₹8,400, a Diwali gift valued at ₹5,100 and an incentive of ₹3,000 for meeting yearly production targets, which, too, would be given at the time of the festival. Apart from this, a bonus of ₹1,000 a year would be given on a new model being launched by the company. In response to the workers' demand for free housing facilities, the company has agreed to pay 50 per cent of the interest on home loans of up to ₹12 lakh for a 20-year period. The mediclaim policy also has been renewed with effect from January this year. The wage pact at HMSI will be valid for a three-year period till 31 July 2015.

This has had a domino effect. Now, the Hero MotoCorp Workers Union (HMCWU) is arguing that, if Maruti, being the No.1 car maker, can offer such good wage settlement, why can't Hero, which is India's largest selling motorcycle company, do the



same? Kanwalpreet Singh, president, HMCWU, says, "If you look at what is happening around us and the hikes that are being given by other companies in the Gurgaon-Manesar industrial belt, it is a reasonable demand. After all, we bear the same cost of living in Gurgaon as they do." His argument is that either the management should offer hike on the basis of living cost in NCR or in comparison to the competitors. On 13 February, representatives of 30 unions from across Haryana supported this demand at a meeting held at the factory gate in Gurgaon. They included representatives of Maruti's Gurgaon plant, Honda Motorcycle and Scooter India, Satyam Auto and Rico Auto.

"As a company, we have taken care of our employees well and continue to remain the benchmark of welfare and benefits practices," says a Hero MotoCorp spokesperson. "We have been holding talks with the union representatives in the presence of the labour department to find a sustainable, steady and sensible wage agreement."

The emphasis on the three 'Ss' (sustainable, steady and sensible) is important. A top industry source told *Business India* that the Hero MotoCorp wage negotiations are being closely watched and important players are hoping that the management does not get hustled into irrational decisions, as that would have a domino effect across the country, hurting the low cost advantages that the Indian companies have. Hero appears to be well aware of its responsibility. "As an industry leader, we will take prudent and well-deliberated decisions, which will be in the best interests of our workers, as well as the larger good of the industrial environment in the region," the spokesperson says.

The record wage rise in the auto industry has come at a time when six-odd instances of industrial action – and, in some cases, grisly violence – have severely disrupted production in auto manufacturing and component facilities in the Gurgaon-Manesar belt over the past two years. Foremost among these have been the ones at Maruti Suzuki's Manesar

Mathur: companies' costs rising

unit, where four instances of labour strife have led to production loss of over 160,000 units and revenue loss to the tune of ₹5,000 crore.

A key structural problem contributing to the wage rise is the lack of skilled labour. JD Power, the market research firm specialising in the auto sector, estimates that the auto sector lacks as many as 300,000 skilled workers. "India has a huge employable population, but many are not fit enough to be put on the job. As a result, wages will keep rising in areas where there is a shortfall of manpower," adds D.K. Joshi, chief economist, CRISIL.

"During the last decade, a large number of players have come in," an auto industry expert explains. "The cumulative investments of automobile manufacturers (four-wheelers, two wheelers and engines) stood at ₹1,05,847 crore by the end of 2011. Where did these investors get the skilled manpower from? By poaching from other companies and sometimes even paying double the salaries. This laid the ground for the wage hikes."

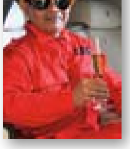
The UPA's failure to undertake labour reforms also contributed to the mess. For one thing, it made Central trade unions like the left-leaning Centre of Indian Trade Unions (CITU) and All India Trade Union Congress (AITUC) or the socialist Hind Mazdoor Sabha relevant in the region. Auto companies need flexibility to remain competitive and in the absence of the right environment that supports flexibility in an organised manner through pragmatic contract labour laws (that provide for social security, among other things), work tends to go casual. The problem is not typical of the auto industry alone.

A recent report by the Institute of Applied Manpower Research (IAMR), a think-tank of the Planning Commission, pointed out that despite clocking high growth, which has made India the world's fourth biggest economy, "employment in general, and in non-agricultural sectors in particular, has not been growing. This jobless growth in recent years has been accompanied by growth in casualisation and informalisation".

While contract employment denies the workers security of job, it also sows the seeds of friction in employee-labour relations. The outsourcing wave that has swept India's auto industry – with 'temporary' workers earn 50-70 per cent less than 'permanent' employees – and restrictive work rules also spurred a lot of distrust *vis-a-vis* the permanent staff. Like in other sectors, the rise of the flexi-staffing industry has led to a huge prevalence of unorganised players, who played outside the ambit of labour laws.

Recently, JD Power had pointed out that inflexible and out-of-date labour laws could derail India's automotive ambitions. The view is supported by some TUs as well. "Companies can pay lower wages to contract workers and discontinue their services at will," says D.L. Sachdev, national secretary, AITUC. "This is the foundation of most industrial unrest in recent times. There has been no credible effort to offer permanent employment at justified wages, despite the auto industry growing by leaps and bounds," he adds. The casual labour often sees itself as a victim of disparity.

But then, there is the flip side of the coin. Regular and unionised labour scares businesses, particularly foreign companies. Besides, contract labour performs the same set of duties as regular labour, but at a substantially less cost. And it is not just the auto industry that is facing the heat. Companies like Videocon,



The warning signals

The killing of a human resources manager by rioting workers of Maruti Suzuki's auto plant in Manesar, outside New Delhi, last year drew global media attention, threatened to undermine foreign-investor confidence and sparked off a debate over the social cost of the fast-paced growth that the automobile industry was logging.

As business chambers, labour experts and the media examined the event, several explanations began to do the rounds. First, the aspirations of a new generation of young, semi-educated workers have spurred resentment over the widening gap between rich and poor. Then, there is the Indian attitude toward discipline and punctuality. The cultural chasm between Indians and foreigners (Japanese, to begin with) is also a factor. Finally, the outdated labour laws queer the pitch: about 100 national and state laws govern labour issues, including the Trade Union Act of 1926, under India's creaky legal system.

However, it was a JD Power report: *India Automotive 2020: The Next Giant from Asia* that set off the alarm bells. The report said the country's ambition to become a global small car production base confronts some serious manpower-related obstacles such as lack of skilled labour force, high labour cost and workers' low efficiency and productivity.

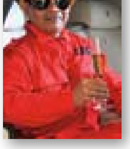
"The risk of union-related labour problems is omnipresent in India, since many labour unions are affiliated with political parties. As a result, local politics frequently interferes with business operations." Unions used their influence to promote manual labour rather than automation in Indian plants for creating more employment, resulting in longer production cycles, greater variability in quality and more cost outgo, the report said. In labour market efficiency, India ranks 92nd among 139 nations in the World Economic Forum's Global Competitiveness Index 2010-11, it added.

Besides, the report pointed out that increasing labour cost "has put pressure on production costs and in some cases has led to labour problems".

◆ RJ

Onida, Arvind Mills and Nokia, which otherwise are known for their good governance and human resource (HR) policies, have had to recently face trouble.

Slowing economic growth, high borrowing costs and fuel prices are taking a toll on auto sales, which have been sluggish last year. As per the manufacturing data for January, released by Society of Indian Automobile Manufacturers (SIAM), the apex body of the Indian automakers, the industry is expected to miss all growth targets in the current fiscal year. Now, with employees of auto companies seeking higher salaries and benefits, this may pile up further pressure on managements at a time when they are struggling with slowing sales. Vishnu Mathur, director general, SIAM, points out, "Costs are rising for the industry because of general inflation, inflated wage bills, jump in power tariffs and increased cost of raw materials. In contrast, the price of cars has not increased



SANJAY BORADE

beyond 2-3 per cent every year."

Still, some auto industry analysts don't expect wage hikes to make a big dent on the margins of auto makers. They believe that as good labour relations bring stability to production, it is in the interest of the auto companies to heed the demands of workers. For most car companies, the wage bill is in the range of 2-3 per cent of their sales. Maruti's current wage bill is among the lowest in the industry, standing at 2.4-2.5 per cent of net sales at the end of the third quarter. However, the bill is likely to increase to 3 per cent, considering the 50 per cent wage hike announced in September 2012 and the conversion of more than 5,000 contract workers to higher paying permanent jobs.

According to V.G. Ramakrishnan, managing director, Frost & Sullivan South Asia, wage realignment has to happen, given the labour environment prevailing in the country. With Maruti setting the benchmark, Hyundai had to follow suit. "The significant increase is more of responding to the market pressure, pressure from labour unions and, of course, inflationary environment. This increase covers an average inflation of 7-8 per cent every year, but also gives them incentive to improve productivity," says Ramakrishnan.

Companies now will have to be more innovative in their HR policies. Take the case of Maruti. To trim its wage bill, India's leading passenger carmaker is now reported to be looking at recruiting workers from Gujarat for its Manesar plant, and has recently taken a preliminary test for 1,181 candidates. This is the first time that the company is hiring in such high numbers from outside Haryana. As to why the company chose Gujarat, the company now has an association with the state, thanks to the red carpet rolled out by Narendra Modi. Gujarat would be housing Maruti's upcoming plant and is also emerging as an auto hub. So, the relevant talent is readily available there.

Just like recent worker unrests, labour costs can also be a potential reason for the companies to avoid recruiting from the Haryana belt, analysts feel. According to an auto analyst with Angel Broking, "Workers in the NCR auto belt have been demanding higher wages for some time now, as it happened at the Hero MotoCorp recently. This, coupled with a tradition of labour unrest, is prompting companies to look for talent outside the NCR."

But what kind of a message do labour militancy and rising wage bills in the Indian auto industry send out globally? Foreign analysts feel that, since auto manufacturing workers typically make more than the average manufacturing worker, rising costs will continue to pressure manufacturers. A study by consultant IHS Global Insight in 2010 revealed that manufacturing labour costs in India rose by nearly 20 per cent that year, eclipsing those in China, as Indian workers saw their wages increase sharply over the last year on the back of high inflation and a recovery in domestic demand. The results of the firm's study: 'Global Manufacturing Compensation Watch' showed that China's manufacturing labour costs rose by 10 per cent that year, despite a slowdown in exports to the West, as a result of the recession.

For multinational companies, understanding the labour costs associated with manufacturing facilities around the globe is a key issue when making investment decisions. India and China have long attracted foreign investment, given their relatively low risk profiles and high levels of surplus labour. The study suggested that the difference in overall costs between both countries is in benefits. India's benefit structure includes contributions to the Provident Fund, insurance, pension contributions, state-mandated 13th month pay, and double pay for overtime. As basic wages rise, then benefits increase accordingly and can add considerably to companies' costs.

According to the study, benefits make up roughly 36 per cent of labour costs in India. The figures would be even higher, if employers did not avoid many of these costs by employing contract workers. In China, benefits make up just over 27 per cent of labour costs. China's manufacturing sector is more heavily dependent on exports to the West, which have suffered in the wake of the global recession. India's economy, on the other hand, benefits from more diversity and domestic demand, allowing the rising wages to push total costs ahead of China.

So, the challenge to auto manufacturing, or for that matter, manufacturing in India, is largely from within. In today's highly competitive environment, each company will have to figure out its own affordability point, says Rajeev Dubey, national president, Employers' Federation of India. "All units will have to balance the need to be competitive and yet be fair to the employees. The exact increase will vary from unit to unit." So, the balancing act the companies are expected to maintain is an extremely complicated one. Meanwhile, more *lakhpati*s will be born.

◆ RAKESH JOSHI