Introduction: The liberalization policy, declared in 1991 by the Government of India, exposed the Indian companies to global competitive pressures and opportunities. Traditionally Indian companies were neither encouraged nor equipped to compete with international giants in the industry. They had enjoyed monopolistic or oligopolistic market. The government controlled most of the issues relating to business environment in the economy.

Liberalization made it almost mandatory to acquire latest technology and new techniques that could significantly reduce the cost of products and improve their quality. Frequently, the shift of technology has been from labour intensive to capital intensive. The thrust to enhance the productivity has been high in all these efforts. Such productivity enhancement efforts have almost become a necessity for Indian organizations to survive in the market.

Having realized that productivity could be improved through the reduction of unsuitable or surplus existing labour for the newly acquired technologies, firms planned for reduction of unproductive labour. Retention of them with upgraded technology would have caused the survival of firms difficult. As a consequence, companies had to find ways to rationalize their manpower to improve productivity and cut their costs quickly. While it is possible to argue, conceptually, to expand the level of activity without adding manpower for productivity improvement, it was a difficult route with increasing competition. Hence, managers frequently found no options but to reduce the unsuitable and surplus manpower though it had been a emotionally painful process for managers and employees both.

Further, manpower reduction in the Indian context also carries many social implications. In a country characterized by one of the highest unemployment rate in the world, employment is also a status symbol in the society. In one of the organizations in Bihar, a northern state of India, employees frequently stated,

> "… Loss of job also creates problems in the marriage of children. The families of prospective fiancée of our children resist such marriages as our unemployment affects the income of our joint families adversely…..."

Further, the existing labour laws prevent the employers from terminating the services of the employees easily. Organizations have responded to this difficulty through Voluntary Retirement Schemes (VRS).

Union leaders also appear to have accepted the ground realities of VRS. The management frequently responds the resistance to VRS from unions by projecting a threat to the survival of the organization. Further, the government has also supported VRS by exempting income tax on the money, received as VRS compensation up to Rs. 0.5 million.

The schemes envisage that unproductive employees would leave the organization voluntarily if compensated adequately for job loss. The success of VRS depends on its ability to attract larger number of targeted employees to accept the scheme at the least cost to the organization. However, such manpower reduction also carries implication for the retained manpower (Zamutto and Cameron, 1985). The management of these retained employees influences the performance of organizations.

The experiences of organizations also indicate that people who carry a perception of high self efficacy also have high propensity of accepting VRS while the under productive employees may stay with the organization for long time. It is likely to create difficulties to achieve higher performance in the organization.

Objectives: Organizations have little options but to offer VRS, but there are issues relating to acceptance of VRS by employees and subsequent performance of organizations. The paper examines the schemes offered by companies in India to examine the following:

a) What are the characteristics of VRS offered by companies in India?
b) What are the similarities and differences of VRS offered by companies in India?

Methodology: Authors adopted two approaches to the study. In the first phase they collected the details of VRS that were announced by companies in India in the year 1999-2000. The authors chose the year 1999-2000 to examine the performance implications of these schemes after a time lag of 2 years. Thirty such responses were collected in total. Content analysis of these schemes was done. Profiles of companies are shown in table 1.

In the second phase of the study, authors met managers in four companies. These companies were selected based on their willingness to discuss about the schemes. Having discussed with the managers, employees and union leaders in these companies, detailed cases were developed. These cases provided an insight about various qualitative issues relating to VRS.

As the thrust of VRS has been on productivity improvement, performance was measured on PAT/Total assets. Though, ideally PAT/employee would have provided labour productivity, authors could not choose that measure in the absence of data relating to number of employees at different times in these companies. However, VRS should result into improvement in PAT, hence PAT/Total assets should improve. Further, at the gap of two years after VRS, there would be no expenditure on VRS. Hence results of change in PAT would get inflated. Hence, lack of gain in PAT/assets would be a clear signal of failure of VRS efforts.

Table 1: The profile of companies is shown in the table below

Group	**No. of companies ****	**No. of companies that improved their performance *****	**No. of companies whose performance deteriorated**
Sector			
Electric and Engineering	6 (20)	1 (17)	5 (83)
Services*	5 (17)	0 (00)	5 (100)
Drugs and Pharmaceuticals	5 (17)	2 (40)	3 (60)
Chemicals & Dyes/Paints	4 (13)	1 (25)	3 (75)
Pesticides/ Agrochemical/ Fertilizers/	3 (10)	0 (00)	3 (100)
Diversified	3 (10)	1 (33)	2 (67)
Steel	2 (7)	1 (50)	1 (50)
Textiles	1 (3)	1 (100)	0 (00)
Automobile	1 (3)	0 (00)	1 (100)

Ownership			
Private (Indian)	17 (57)	4 (24)	13 (76)
Multinational Companies	11 (37)	3 (27)	8 (73)
Government	2 (7)	0 (00)	2 (100)
Average Age of companies (Unit: Years)	53.83		
Average turnover of companies (2000-2001) (Unit: Rs. in million)	531.3		
Average PAT / Total assets(1999-2000)	7.05		
Average PAT / Total assets(2000-2001)	5.90		

*Includes Banking and financial companies.
****Figures in bracket indicate percentage of total number of companies**
*****Figures in bracket indicate percentage of number of companies in specific item**

Results and Discussion

Firms from different sectors: Table 1 shows the profiles of the companies that were selected for the study. Twenty percent of the companies were from the Electric and Engineering sectors. Study shows that only 17 percent of the companies improved their performance while remaining 83 percent of the companies experienced a decline in their performance. Among the seventeen percent of responding companies from the services sector, none improved its productivity after VRS. All the companies in service sector reflect a decline in their performance. Employees are the key resources in the service industry. These companies, in the process of VRS, might have lost the competent manpower needed for the company. Seventeen percent of the companies in the sample were from drugs and pharmaceutical sector. Forty percent of these companies improved their performance while 60 percent experienced decline in their performance. Similarly, chemicals and dyes/paints sector consisted of 13 percent of the sample in the study. It was found that only 25 percent of the companies reported improved profit after VRS. Ten percent of the companies in the sample were from petrochemicals/fertilizer or Agrochemical sectors. None of them improved their performance as compared to previous year. Ten percent of the companies were from diversified fields. Study shows that 33 percent of the companies in this category improved their performance. Seven percent of the companies in the sample were engaged in manufacturing steel. It was found that 50 percent of the companies improved their performance. Three percent of the companies were engaged in textiles and all of them improved their performance after VRS. But none of them improved their performance in the automobile sector.

The results show that the textile sector exhibited the maximum gains after VRS. All the companies in this sector improved their performance. Companies in service, pesticides/ agrochemical/ fertilizers and automobile sectors performed worse after VRS. None of the companies in these sectors improved their performance after VRS.

Ownership: private entrepreneurs owned Fifty seven percent of the companies studied. It was found that 24 percent of the companies in this sector improved their performance after VRS. Thirty seven percent were multinationals. The data shows that 27 percent of such companies improved their performance after VRS. From the 7 percent of the government owned organizations, none improved its performance.

The pattern reflects that the ownership of the company doesn't make a significant difference to the success of VRS. Conceptually, the process of VRS implementation the way of planning, the communication to employees and handling of the situation makes a sizeable impact on the success of VRS.

Stated Objectives of Schemes:

Table 2: Stated objectives of the scheme

Objective	**Number of Companies having stated this objective**	**Companies with stated objectives who have improved their performance**	**Companies with stated objectives whose performance deteriorated**
To reduce surplus manpower and overhead costs	12(40)*	2(17)**	10(83)
To help company to compete with national as well as international players in globalised environment	9(30)	1(11)	8(89)
To improve overall efficiency and profitability of the company	9(30)	3(33)	6 (67)
Because the business has become unviable due to decline in sales and increase in cost	5(17)	0 (00)	5(100)
To match staffing with new organizational structure	4(13)	1(25)	3(75)
To achieve long term interest of the company	3(10)	2(67)	1 (33)
Manpower reduction due to technological advancement	3(10)	0 (00)	3(100)
To reward the staff who wanted to voluntarily leave the organization	1(3)	0 (00)	1(100)
Streamline the operations	1(3)	0 (00)	1(100)
To compete with the substitutes in the same products	1(3)	1(100)	0 (00)
To reduce over head costs due to delay in modernization of plant	1(3)	0 (00)	1(100)
To sustain competitive advantage	1(3)	0 (00)	1(100)
To overcome the recession in the industry	1(3)	1(100)	0 (00)
To cope up with the unfavorable government policies relating to specific industry	1(3)	1(100)	0 (00)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

Reactive response to the changed environment: There is a general belief that all the companies offer VRS to reduce the surplus manpower and overhead costs. Although the results are in line with this perception, this is not the only reason for offering VRS by all the companies. It is found from this study that companies offering VRS had multiple stated objectives. In the study 40 percent of the companies mentioned that they wanted to reduce the surplus manpower and overhead cost as one of their objectives. Seventeen percent of them improved their performance after VRS.

Thirty percent of companies stated that they are not able to survive in the globalised environment and are unable to face fierce competition from national as well as international players. So to compete in such a situation, they wanted to reduce the cost of the final product. Reduction of employees and wage bill was one of the measures taken to attain the objectives. However, results indicated that only 11 percent of such companies improved their performance. These traditionally overstaffed companies felt the need to reduce their cost after liberalization. Therefore, they went for manpower reduction and in this process lost the critical people needed for competitive advantage.

Similarly, 17 percent of the companies stated that they were offering VRS because business had become unviable due to decline in sales and increase in cost. None of the companies in this category improved their performance, as they immediately needed to reduce to cost to survive in the competition and in this process lost the critical manpower.

It could be concluded that majority of the companies have reacted to the changes in external environment through VRS. These organizations responded to the environment when they encountered a difficult situation and had no alternative but to go for manpower reduction. Hence, they could not plan the process of VRS adequately, which resulted in decrease in their profitability.

Proactive response to the changed external environment: There are companies that thought and acted proactively for VRS. Three percent of the companies stated that their sales have gone down because lot of other substitutes introduced in the market and they are finding it difficult to sell their products. All of them improved in their performance after VRS. Three percent of the companies stated that they are offering VRS to overcome recession and to cope up with the unfavorable government policies for their sector/product. All the companies in this category improved their performance. This shows that these companies responded to the changed environment proactively and before the environment forced them to change, they changed themselves.

Thirteen percent of the companies stated that they offered VRS to match staffing with new organizational structure. This is in line with the literature (Freeman, 1994) that companies go for reorientation in which they make major hierarchical changes which drives downsizing. Twenty five percent of such companies improved their performance. The reason for inadequate performance could be for their failure to anticipate and the organization structure that was required for improved performance.

Ten percent of the companies mentioned that they are offering VRS for the long-term interest of the company. Sixty seven percent of such companies improved their performance. Ten percent of the companies gave the advancement on the technological front as the reason for manpower reduction. None of the companies in this category improved its performance. Three percent of the companies offered VRS to reward employees who wanted to voluntarily leave the organization. All the companies in this category showed decline in the performance.

Further, it is found that the companies that had stated objectives of going for manpower reduction clearly in their schemes reported improvement in their performance.

The preamble of the VR scheme of one of the companies, which improved its performance, read as follows:

> "The company wishes to bring to the notice of workmen / members of staff that the manufacturing cost including wages are increasing substantially and affecting

> company's competitiveness. You must be aware that a number of Small Scale Industries have bloomed in the similar product lines and are outpricing us with lower overheads and labour costs. Further, with technological advancement in our area of business, modern office equipment like computers and photocopiers are replacing our conventional products like carbon paper, stencils, duplicating Inks etc. Also 90 percent of similar stationery manufacturing industries have closed down. Most of our companies worldwide have closed down. Adding to all these, changes in government and their policies related to our Industry has hampered our business competitiveness substantially. As a result the company's profit margins are under heavy pressure. There, we have to optimize productivity. In view of the excellent employee-employer relations we have, we are pleased to announce a generous VRS. It is hoped that workmen / members of staff will carefully go through this and take advantage of the same, as it is in mutual interests of Employees and Management."

Another company stated its objective as follows:

> "Last couple of years company is experiencing intense competition from the unorganized sector on one hand and adverse effect of globalization on the other. This has caused serious threats to the very existence of the organization. With a view to consolidate our position in the market it is necessary to synergies and rationalize our operations. This will improve overall efficiency and profitability of the company. Due to over increasing employee cost from year to year and with a view to enable such a reduction in manpower the following VRS is offered to our employees."

Here the companies were perceived to be fair in their dealings by workers and had transparent communication with their employees. These companies communicated the need for VRS to the employees even before they went for it. The employees in these companies clearly understood the objectives of the company and believed that there is no alternative with the company but to go for manpower reduction. Therefore they cooperated with the company in the process. The communication would have also helped the survivors to visualize the situation of the company, which compels them to work harder to retain these jobs, which resulted improved productivity.

Duration of Scheme: Table 3 shows the time period for which the schemes were kept open. The companies that kept the scheme open for less than 15 days did not show any improvement in their performance. This shows that the scheme was offered in a hurry and the employees had little time to decide about their future. These companies also did not plan the scheme in advance and they could not target the employees whom they wanted to leave the organization for improving the productivity. It also provided little time to dissuade others for VRS. Under such conditions, competent employees left the organization. Ten percent of the companies gave employees only 15 days to less than a month to take the decision to opt for VRS. It was found that only 33 percent of such companies improved their performance. Thirty percent of companies kept the scheme open for 1-3 months. It is seen from the data that only 22 percent of such companies improved their performance while the remaining 78 percent showed a decline in performance. Ten percent of the companies kept the scheme open for 3 to 12 months, 33 percent of such companies improved their performance in the year 2001.

Table 3: The period for which the scheme remained opened

Time period for which the scheme was open	Number of Companies having such timings *	No of companies who have improved their performance **	No of companies whose performance deteriorated **
For 1 day	1 (3)	0 (00)	1 (100)
Less than 15 days	4 (13)	0 (00)	4 (100)
15 days to less than a month	3 (10)	1(33)	2 (67)
1-3 months	9 (30)	2 (22)	7(78)
3-12 months	3 (10)	1(33)	2 (67)
Will start with the approval of Chief Commissioner of IT and will close at the mentioned date	4 (13)	1(25)	3 (75)
Will start on the date of signing the agreement with the union and will close at the mentioned date	2 (7)	1(50)	1 (50)
Starting time is mentioned but the continuance is at the discretion of management	1 (3)	0 (00)	1 (100)
Not clear	3 (10)	0 (00)	3 (100)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

The above result shows that the companies that kept the scheme open for longer periods performed relatively better in the subsequent years. They had enough time to implement the scheme and therefore they have been successful in retaining the critical talent needed for the success of the company. Because of the availability of the time, even employees got time to think and take the appropriate decision. Such companies laid more thrust on communication and maintaining trust with the employees rather than going for 'surgical manpower reduction'. They understood that rather than reduction in headcount through downsizing, the process was important for the success and future profitability of the business. Their perceived fairness and proactive communication in the whole process helped the employees to think and believe that the company really needs to cut down the cost. The survivors in the company would have felt that the colleagues who left the company were treated fair. It reduced their feeling of guilt. They took responsibility to work to improve the profitability of the business. Thirteen percent of the companies mentioned the closing date for the application for VR but did not mention the date on which the scheme will come into force as they were awaiting the approval of Chief Commissioner of Income Tax[1].

It is significant to note that these companies were confident to get an approval from the Chief Commissioner of Income Tax, hence they declared the closing date for the scheme well in advance. Twenty five percent of such companies improved their performance.

[1] Chief Income tax commissioner is the authority to approve any VR scheme in India.

Seven percent of the companies implemented the scheme as an agreement with the unions. They considered the date of signing of the agreement with the union as the opening date of the scheme. Fifty percent of such companies improved their performance after VRS.

In a company where one of the researchers visited and asked about the introduction of the scheme, the HR manager stated,

> "We first communicated the need for VRS to the unions in the Monthly Managers Meeting in which our Managing Director, all the managers and union leaders were present. We explained the deteriorating condition of the company to the unions with the help of factual data on hand. This helped us to remove the unnecessary obstacles in implementation of the VRS and we could also get cooperation of the employees."

Three percent of the companies in the study mentioned the opening date for applying for VRS but did not mention the closing; instead it was mentioned that the management had the discretion to withdraw the scheme whenever it feels right. No such companies improved its performance. It can be concluded from this that though the companies offered the scheme, they were not sure how many employees would opt for it, also they might be afraid about more number of employees leaving the organization. To tackle this problem they kept the option of closing the scheme at any time with themselves.

Applicability of the scheme: Table 4 shows the analysis of the category of employees who were eligible to apply for VRS. Sixty seven percent of companies offered the scheme to their employees who were of 40 years of age and who had put up 10 years of service in the company. Twenty five percent of such companies improved their performance. It can be concluded here that because the company kept the eligible age for VRS very low, the employees of younger age would have mostly left the company. Conceptually, employees give best professional performance in the age group of 30-40. These people consist of the employees who were critical for the success of the company and who are eligible to get employment elsewhere.

Seven percent of the companies offered VRS to employees who were 30 years of age and who had completed just 8 years of service in the companies. These companies were in need of drastic manpower reduction. None of the companies in this category improved its performance. This result is in line with the above result and it can be concluded here also that the best and young employees of the company would have left the company in the process of downsizing. These results can be validated from the information given by one of the companies in which the company expected 45 employees to leave the organization between the age group of 40-46 but in fact 62 employees left.

Seven percent of the companies kept no condition of the length of the service in the company but just mentioned that the employee’s age should be between 50 and 60 years. These companies, rather than reducing the manpower might have been interested in getting rid of the old employees due to their inability to upgrade themselves with the new technology and their physical inability. All such companies improved their performance. This result is significant because the performance of these companies when compared to the companies who have offered VRS to the employees of younger age group is better. These companies were clear about the objectives of offering VRS and could anticipate the condition in which the company would be positioned after VRS. Therefore, these companies retained the young manpower and offered VRS only to the employees between 50 to 60 years of age. This can also be compared with the 3 percent of the companies who offered scheme for the employees who have more than one year of service left. In this case also no company improved its performance. Here, the company did not target the employees well and the employees of even very less age would have left the company leaving a significant gap between the available and required manpower (skills) after downsizing.

Table 4: Applicability of the scheme

Applicability	**Number of Companies having such applicability ***	**No of companies who have improved their performance****	**No of companies whose performance deteriorated ****
Permanent employees of the company who have completed 8 years of continuous service or who have completed 30 years of age	2(7)	0 (00)	2 (100)
Permanent employees of the company who have completed 10 years of continuous service or who have completed 40 years of age	20 (67)	5 (25)	15 (75)
Permanent employees of the company on all Indian locations and who have completed 10 years of continuous service or who have completed 40 years of age	2 (7)	0 (00)	2 (100)
Permanent employees of the company who have completed 15 years of continuous service or who have completed 40 years of age	1 (3)	0 (00)	1 (100)
Award staff (clerical and subordinate staff) of the company who have completed 10 years of continuous service or who have completed 50 years of age	1 (3)	0 (00)	1 (100)
Permanent employees of the company aged between 50 and 60.	2 (7)	2 (100)	0 (00)
Employees who have more than one years service left	1 (3)	0 (00)	1 (100)
Permanent employees of the company on Indian scales	1 (3)	0 (00)	1 (100)
Permanent employees in management cadre in India and abroad	1 (3)	0 (00)	1 (100)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

Discretion: Table 5 shows the analysis of the discretion kept by the management of the companies to withdraw the scheme before the declared date of closing. Fifty seven percent of the companies kept the discretion while 33 percent of the companies did not. The companies who kept this discretion were not sure about the number of employees that would accept VRS and therefore they kept this discretion to avoid any casualties to the company in the event of more than expected employees leave the organization. Companies who did not keep this discretion were not experienced enough about the drawbacks of VRS and might have wanted maximum number of employees to leave the organization. Only 18 percent of the companies who kept this discretion improved their performance while 82 percent showed decline. Among those companies who did not keep this discretion, 30 percent of the companies improved their performance while remaining 70 percent did not show any. Ten percent of the companies did not mention clearly about such discretion in the scheme, only 33 percent companies in this section improved their performance.

Table: 5 Discretion of management to withdraw the scheme before the declared date

Management's discretion	Number of companies*	No of companies who have improved their performance **	No of companies whose performance deteriorated **
Companies who kept this discretion	17 (57)	3 (18)	14 (82)
Companies who did not kept this discretion	10 (33)	3 (30)	7 (70)
Not clear about such discretion	3 (10)	1 (33)	2 (67)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

The results clearly indicate that keeping the discretion to withdraw the scheme before the closing date mentioned in the scheme had no impact on the profitability of the company. Even when the companies mentioned such discretion in their VR scheme, they may have not been able to use it in difficult and volatile conditions of downsizing.

Table 6: Discretion of management to accept or reject the VRS application

Management's discretion	Number of companies *	No of companies who have improved their performance **	No of companies whose performance deteriorated **
Companies who kept this discretion	18 (60)	4 (22)	14 (78)
Companies who did not keep this discretion	9 (30)	3 (33)	6 (76)
Not clear about such discretion	3 (10)	0	3 (100)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

Table 6 shows number of companies who kept the discretion of accepting or rejecting the VRS application of an employee. Sixty percent of the companies in the study kept this discretion. Almost all the companies wanted their crucial manpower to stay back, so they kept this discretion. Twenty two percent of such companies improved their performance while 78 percent did not show any. Thirty percent of the companies who did not keep this discretion might have wanted maximum number of employees to leave the organization. Among them also only 33 percent of such companies improved their performance after downsizing while 76 percent of such companies showed decline.

Although relatively the companies who kept this discretion improved their performance but the difference is not significantly high. Therefore, it can be concluded from the results that keeping the discretion to accept or reject the application does not make much of a difference. Even companies who had kept this discretion could not perform better in the post-VR period. This result is in the line with the results shown from table 5 that just mentioning that the company has discretion to accept or reject the application is ineffective, it has too be seen that can management really use this discretion in such a difficult and volatile situation of downsizing? Using the discretion in an unfair manner can have a negative impact on the success of the schemes, as there may be opposition from the other employees, and also on the survivors' leftover in the company. So, even if the management intends to keep this discretion, it should be used carefully keeping in mind the long-term objectives of the company.

Compensation: Although the companies stated the formulae to compute compensation, they kept an upper limit for the maximum money that could be paid as VRS compensation. Twenty seven percent of the companies did not mention any lower or upper limit for the compensation. Twenty five percent of these companies improved their performance. Thirty seven percent of the companies kept their upper limit of compensation between Rs 400 and Rs. 500 thousands. Only 18 percent of them improved their performance. Twenty percent of the companies did not mention any upper limit. Seventeen percent of these companies improved their performance. All the companies whose compensation limits varied between Rs 60 and Rs 100 thousand, and Rs 200 to Rs 300 thousands showed improvement.

Table7: Upper and Lower Limit of the amount of compensation

Upper and lower limits of the VRS money offered by companies (Rs. in thousands)	No. of companies who stated the upper and lower limit *	No of companies who have improved their performance **	No of companies who have deteriorated their performance **
Not mentioned the compensation limit	8 (27)	2 (25)	6 (75)
60 - 100	1 (3)	1 (100)	0 (00)
101 – 200	1 (3)	0 (00)	1 (100)
201 – 300	1 (3)	1 (100)	0 (00)
301 – 400	2 (7)	0 (00)	2 (100)
401- 500	11 (37)	2 (18)	9 (82)
0.5 million (No upper limit)	6 (20)	1 (17)	5 (83)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

The above table does not reflect any significant co-relation between the amount of compensation paid and the success of VRS scheme. It signifies that higher compensation does not assure improvement in the performance of the companies.

Table: 8 Calculation of compensation based on the every completed year of service

At the rate of months mentioned below multiplied by every completed year of service	No of companies *	Companies which improved their performance **	Companies whose performance deteriorated **
15 days	2 (7)	1 (50)	1 (50)
1 months	4 (13)	0 (00)	4 (100)
3 months	2 (7)	1 (50)	1 (50)
40 days for each working year and 45 days salary for every remaining year of service	1 (3)	0 (00)	1 (100)
52 days	1 (3)	0 (00)	1 (100)
60 days	2 (7)	1 (50)	1 (50)
1.5 months	2 (7)	1 (50)	1 (50)
50% of current salary	1 (3)	0 (00)	1 (100)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

Table 9: Calculation of compensation based on remaining period of service

Rate	No of companies *	Companies which improved their performance **	Companies whose performance deteriorated **
Compensation of 25% of current salary for each balance months of the service left	1 (3)	1 (100)	0 (00)
Compensation of 50% of current salary for each balance months of the service left	3 (10)	0 (00)	3 (100)
Compensation of 75% of current salary for each balance months of the service left	1 (3)	0 (00)	1 (100)
Compensation of 100% of current salary for each remaining months of service	10 (33)	1 (10)	9 (90)

***Figures in bracket indicate percentage from total number of companies**
****Figures in bracket indicate percentage from number of companies in specific item**

Table 8 and 9 show the analysis of the compensation paid by the companies. The companies calculated the compensation amount mainly on two parameters, a) for the number of years of service put into the company and b) number of years of service left (up to the age of retirement).

Compensation computed on every completed year of service: Seven percent of the companies calculated the compensation amount at the rate of 15 days salary for every completed year of service. Fifty percent of these companies improved their performance. Maximum number of companies (13%) offered 1 month of pay for every completed year of service. None in this category improved their performance. Seven percent of the companies paid 60 days of salary to their employees for every completed year of service as the compensation for VRS. Fifty percent of such companies improved their performance. Similarly, 50 percent of the companies improved their performance out of 7 percent of companies who paid 3 months compensation for every completed year of service. The study showed that all the other companies who paid compensation at the different rates showed decline in their performance.

Compensation computed on remaining period of service: Some companies offered compensation based on the remaining period of service. Thirty three percent of the companies offered 100 percent of current salary for every remaining month of service to their employees. Only 10 percent of these companies improved their performance. Ten percent of the companies offered 50 percent of the current salary for each remaining months of service. None of the companies in this category improved its performance. Three percent of the companies computed the compensation as 25 percent of the current salary for each balance months of service left. All the companies in this category improved their performance.

When one of the authors interviewed a HR manager in a company, which improved its performance, he stated,

> "It is not the amount of compensation which matters for satisfying a retiring employee, it is the way by which you present the whole case which matters. You have to convince him that company really needs reduction in manpower and it cannot pay more compensation than it is paid now. Secondly, you need to help

> him with an expert advice for the investment of the VR compensation as most of these people are unaware of such investment opportunities."

Specified compensation packages: Some of the companies, instead of calculating compensation using a uniform formula, offered different packages to the employees of different age. The description of packages and the performance of such companies are shown in Exhibit 1

Exhibit 2 shows the benefits given by the companies apart from the cash benefits. It is found from the study that almost all the companies stated that the retiring employees will be eligible for retirement benefits like Provident fund (73%), Gratuity (77%), Bonus (33%) and encashment of privilege leaves (83%).

Implementation of VRS: Authors had extensive discussions with senior managers, employees, union leaders and civil authorities in four organizations which had improved their performance significantly and had achieved significant manpower reduction through VRS. The key characteristics of VRS implementation in four cases were:

1) Transparent and proactive communication of managerial intent to reduce manpower.
2) Active exploration of other alternatives to manpower reduction by managers.
3) Involvement of multiple stakeholders in VRS implementation process.
4) Developing trust among employees regarding fairness, honesty and commitment of managers towards organization and its employees.

Transparent and proactive communication: In all the four cases, the CEOs and other senior managers communicated with employees well before the announcement of VRS regarding the health of the company and the need for manpower reduction. CEO in one of the organizations stated,

> "I had a meeting with all the heads of functions in which we collectively decided to remain honest and transparent to our employees about our intent to overcome difficult times. Slowly, union leaders, government authorities and workers realized that there was no option other than VRS with the management. We could effectively reduce more than 60 percent of our workforce without attractive payments. We could not pay well as we lacked financial resources. However, we remain in touch with our retired employees through our welfare schemes for them like health, education, housing etc."

CEO in another organization stated,

> "I hired an independent agency of repute to assess the manpower requirement for my company. We were making losses and there was no way that I could afford extra manpower. The report of the agency was widely shared among all and managers were convinced at all levels to identify surplus manpower in their workplaces."

Such communication improved the authenticity of managerial communication. It also prepared employees prior to the announcement of schemes. These schemes did not come as a surprise to them. Employees who were willing to accept VRS had developed plans for their activities for their post retirement phase.

Active exploration of other alternatives: In all the four cases, attempts had been made to explore the possibilities of expansion of activities of the company to retain the employees productively. In one of the companies nearly five new products were developed and launched to retain employees. One of the directors of the company said,

> "We were making huge losses but were willing to invest in new product developments so that we could survive in the competitive environment without reducing our manpower. However, none of our new product launches was effective and we had no option but to reduce our recurring expenses on employees through VRS."

Involving multiple stakeholders in VRS implementation process: In all the cases, management communicated extensively with other agencies like government authorities, trade union leaders, and civil authorities. This communication was helpful to overcome difficulties of VRS implementation. One of the CEOs of the companies stated,

> "We did not have funds to meet VRS obligations. In such difficult time, banks helped us on assurance of government, the owner of the company."

In all four cases, the companies belonged to either a large business house or the government. The owners of the company supported the managerial initiatives of manpower reduction to enhance the performance of the company.

In another case, the management sought the permission to close the plant after convincing them of no other alternative to closure. Such grant of permission by the government left no option to the workers than to accept the VRS or else to get retrenched. The company could effectively reduce more than 60 percent of workforce. The company tried to provide alternative employment by hiring the services of potentially capable voluntarily retired employees in activities like transportation, maintenance etc. The company also provided for health, vocational training, free education for children and housing facility for voluntarily retired employees. In this company, there was very little feeling of guilt among the retained employees though the cash payment to voluntarily retired employees was one of the lowest by a company in India in recent past.

Developing trust among employees regarding fairness, honesty and commitment: In all the four cases, clear guidelines were issued to decide the acceptance of application for voluntary retirement. In one of the companies, all employees of one plant were targeted. The plant was to be closed down. In the second case, all the low performers in the company were identified to accept VRS. The CEO of the company stated,

> "I believe in selective retirement scheme (SRS) and not in VRS. We could identify all the low performers and trouble creators in the company who were later targeted in our VRS."

In the third company, all the employees were open to accept VRS with the conditions regarding the age of employees and minimum service conditions. It ensured that very young employees could be retained in the company. The implementation of these different criteria was extremely honest that helped to build confidence among employees regarding the commitment of managers towards the organization.

Findings and conclusions: The study was conducted with an objective of understanding of characteristics VRS in various sectors in India. It also aimed at understanding the similarities and differences of VRS offered by companies in India. It was an attempt to find relationship between the contents of the VRS of the companies and improvement in their performance.

It is found that no 'fixed' pattern has evolved for VRS among Indian companies. All the companies had some unique characteristics in their VRS.

Except textiles, no specific sector of companies has fully benefited from VRS. The ownership of the company did not differentiate in the success of VRS.

It was found from the study that the companies that stated their objectives of going for VRS explicitly in their schemes improved their performance. These companies laid emphasis on communicating the actual situation to their employees even before going for manpower reduction. This helped them to build a trust among the employees opting for VRS and the survivors who perceived the process to be transparent. It also reduced the 'guilt' perception among survivors.

The study found that the companies who kept their scheme open for shorter period (e.g. 1 day to 15 days) showed decline in their performance. As the time period for the scheme increased the companies showed improvement. However, when the time period increased very high (e.g. More than 3 months) their performance again declined. This shows that the companies who kept their scheme open for appropriate time got a chance to plan their scheme and remain focussed and could implement the scheme successfully.

According to the study, the companies who offered the VRS to younger and less experienced employees showed decline in their performance while those who offered to the older employees could improve their productivity.

Some of the companies under study kept the discretion of accepting or rejecting the application for VRS and withdrawing the scheme before the date specified in the scheme. It was found that the discretion of management did not make significant difference to the improvement in performance of the companies.

All the companies in the study calculated the compensation in different manners. Some calculated the compensation on the basis of the number of years of continuous service in the company while others computed on the years of service remaining. Few companies offered specific packages to the employees according to their age groups. No significant relation could be found out from the amount of compensation and the improvement in their performance.

Thus, it can be concluded that if a VRS is to be successful, it has to be planned properly in the first phase. The companies should be clear in its objectives of offering VRS and they should explicitly mention these objectives in their schemes. They should make the scheme as transparent as possible and they should be open for any communication and clarifications to make the employees develop trust. They should keep the scheme open for appropriate time so that the companies as well as the employees get enough time to take this crucial decision. The companies should be clear of the persons whom they want target in VRS. They should be careful that the crucial manpower required running the company should not be allowed to go out. Lastly, the compensation given should be fair enough and it should be presented in a humanistic manner, the companies should advice the employees about the investment schemes where they could invest their money safely.

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Exhibit 1: Details of the companies offering specified compensation packages and their performance.

Package 1.

Age	Compensation per every remaining year of service
Less than 45 years	5 months salary subject to maximum of 90 months salary
45 - 50 years	6 months
50-55 years	7 months
55 years and above	9 months

*The company that offered the above package did not improve its performance.

Package 2.

Years of service left	Percentage of compensation
35-39	30
40-45	40
46-50	50
51-55	60
56 and above	70

*The company that offered the above package did not improve its performance.

Package 3. (a)

Compensation package for employees who have remaining service more than 5 years

Years of service left	Calculation of compensation (shown percentage of basic plus D.A. multiplied by remaining months of service
Up to 12 months	70%
Up to 24 months	60%
Up to 36 months	50%
Up to 48 months	45%
Up to 60 months	40%

Package 3 (b).

Rs. 1,30,000 plus additional benefit for remaining year of service

Years of service left	Amount of money
5-6 years	Rs. 10,000
6-7 years	Rs. 15,000
7-8 years	Rs. 20,000
8-9 years	Rs. 25,000
9-10 years	Rs. 30,000

*Packages 3 (a) and (b) both were offered by a single company and this company improved its performance.

Package 4

Rs. 1,30,000 plus additional benefit for remaining year of service as calculated under

Age (years)	Computation of compensation
Less than 55	1.5 months salary for each completed year of service.
Less than 45	50% of the months salary for each remaining month's service
45-50	60% of the months salary for each remaining month's service
50-55	75% of the months salary for each remaining month's service

Package 5

Age (years)	The figure mentioned for every remaining months of service
Up to 35	27.5%
35-40	36.5%
40-45	44.5%
45-50	52.5%
50-55	61.5%
More than 55 years	78.5%

* The company that offered the above package did not improve its performance

Package 6

Age (years)	Computation of compensation
55	1 months salary for each remaining month's service
More than 55	2 months salary for each remaining month's service

*The company that offered the above package did not improve its performance

Package 7
Ex-gratia compensation

Age (years)	Ex-gratia compensation (Rs in million)
Below 45	0.15
45-55 years	0.125
55 and above	0.1

*The company that offered the above package did not improve its performance

Package 8

Age (years)	Computation of compensation
More than 50	100% wages last drawn up to the date of normal retirement
Less than 50	100% wages last drawn up to the date of normal retirement for a period of six years from the date of separation

*The company that offered the above package did not improve its performance

Exhibit 2: Other Benefits given by the companies apart from the cash money

Type of compensation *	No of companies
Ex-gratia ceiling of 120 months of salary	1(3)
Ex-gratia ceiling of 95 months of salary	1 (3)
Ex-gratia ceiling of 84 months of salary	1 (3)
Ex-gratia ceiling of 68 months of salary	1 (3)
Provident fund	22 (73)
Gratuity	23 (77)
Pension	8 (27)
Bonus	10 (33)
Notice Pay	2 (7)
Leave Travel Allowances	9 (30)
Encashment of Privilege Leaves	25 (83)
Encashment of Sick Leaves	5 (17)
Encashment of Casual Leaves	4 (13)
Post retirement benefits	2 (7)
Medical Benefits and Insurance	11 (37)
Housing	1 (3)
Housing loan outstanding allowed to be carried forward at the concession	2 (7)
Long service benefits	4 (13)
Next-of-Kin-benefit	1 (3)
Ex-gratia/Ad-hoc payment	1 (3)
Early Bird prizes (cash)	1 (3)
Subsidized power in the company housing	1 (3)
Other Items (Gift)	1 (3)
Training for wards	1 (3)
Deduction from VRS compensation	1 (3)
Settling allowance	1 (3)

*** Figures in bracket indicate percentage from total number of companies.**