

Tug-Of-War At Maruti Suzuki India Limited

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INTRODUCTION

"It's a tragic and unfortunate incident. It should have never happened." said Anand Kr Sharma with a heavy voice. Union minister for commerce and industry, Sharma was expressing his grief over the death of Awanish kumar Dev, Maruti Suzuki General Manager, Human resources. Dev was burnt beyond recognition and hundred other injured in the labour violence that took place in Maruti Suzuki India Limited's Manesar Plant on July 18, 2012.

The trouble did not begin overnight; unrest had been brewing since June 3, 2011. In response to the formation of Maruti Suzuki Employees Union (MSEU), the management of MSI (Maruti Suzuki India) Limited took disciplinary action and terminated the services of 11 employees terming them as ring leaders. As the employees retaliated by striking work from the next day itself, the deadlock between the management and the workers continued and eventually turned stubborn and violent.

Maruti Suzuki India Ltd. is India's largest passenger car company accounting for more than 45% of the domestic car market and had experienced trivial labor issues and unrest in the past too but of this large a magnitude was definitely news-making. Long drawn battles between the management and labor disrupted the work and led to a serious loss of sales and even rethink on labor policies and strategy.

Co-incidentally the slowdown in the economy brought down the demand for the passenger vehicles. All the manufacturers cut their production to avoid their

inventories pile up. Maruti faced greater troubles as their stir at the Manesar Plant spread to other units of Japanese firm, Powertrain India (engine plant), Suzuki Motorcycle India and Suzuki Castings, all located in the Gurgaon-Manesar region. To add to the company's woes, the Government of Haryana asked the company to pay Rs. 235 Crore to Haryana State Industries and Infrastructure Development Corporation (HSIIDC) (via a notice issued on June 25, 2012) as enhanced compensation to farmers for land acquisition.

AUTOMOBILE INDUSTRY IN INDIA

The automobile industry in India is ranked as the sixth largest in the world in the passenger car and commercial vehicle segment and is growing at a commendable pace. The industry produces over 11 million vehicles and exports about 14.5 million each year and expected to reach sales of 9 million by 2020. The market share for the composition of the industry is (Please see Table no. 1)

Of the total vehicles sold, 91% are used by the households and only 9% are for the commercial purposes. The manufacturing hub of the industry is based around three clusters in the south, west and north. The southern cluster with Chennai and Bangalore, it is the largest and contributes 35 % of the revenue. The western cluster with Mumbai and Pune in it, contributes 33% of the market and northern cluster around National capital region contributes 32 % of the market.

The supply chain of the industry is similar to that of the automotive industry in Europe and US; the orders arising from consumers and gradually climbing up to different level of suppliers. The technological advancements in the industry are high but the speed of upgradation is slow. Producers are paying huge sums towards investments in technology and advancement and technology transfer. New investments are contributing to the competitive structure of the industry. The production facilities are advanced and expensive. The cost of developing the set up

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Table 1: The market share for the composition of the industry

Category of vehicle	Percentage share	No of vehicles sold	
		April –June 2012	April- June 2013
Two wheelers	75%	35,19,555	34,90,677
Passenger Cars	16%	4,85,026	4,34,551
Commercial Vehicles & Other vehicles	9%	2,94,468	2,76,936
Total passenger vehicle		6,54,858	6,07,469

Source: www.rediff.com

is huge and the cost structure of production is fairly traditional. The number of players increasing thus making the market more competitive. The rapidly increasing middle class segment of the Indian society combined by increases in purchasing power, the sector has huge potential to grow by catering to the needs of this segment. The sellers are experimenting with the product and price to deliver improved and affordable product.

Export earnings are also experiencing an upward swing and are playing an important role in the growth and competitiveness of the industry. A number of taxes and the authority to levy taxes at all the three tiers of government in India creates discomfort for the entrants as well as incumbents. Also, the rising cost of steel, as important input is adding to the production cost. The price of fuel, oil and petrol are influencing the consumers' buying preferences. Good quality manpower, infrastructure and access to inputs is a positive thing for the industry.

The year 2011 saw a slowdown in the economy globally and demand for passenger cars also plummeted resulting in high input costs, interest rates and tough competition.

MARUTI SUZUKI INDIA LIMITED (MSI LIMITED)

MSI Limited, India's first passenger car company is a subsidiary of Suzuki Motor Corporation of Japan. MSI Limited has always enjoyed being a market leader (45% market share) despite stiff competition from both foreign and home grown brands and offers a complete range of cars for catering to wide range of consumers. (Refer exhibit 1)The company has two plant locations in Haryana, Gurgaon and Manesar with an annual capacity of over 1 million units. The Gurgaon plant was in being since 1980's

and the Manesar plant became functional in 2007 with a production capacity of over 5 lakh cars annually.

MSI Limited Manesar employed a significant number of contract workers who are paid lower wages as compared to permanent workers. These contract workers are sourced through a contractor who doesn't pay them full wages and keeps a certain percentage with him.

MSI Limited had a union named Maruti Udyog Kamgar Union (MUKU) in Gurgaon whose ideologies were aligned with the management and were accustomed to the standardized working conditions and Japanese style of shop floor management. With the commencement of Manesar plant later on, they became by default member of MUKU. The 2500 workers at Manesar plant were young, enthusiastic with an average age lower than experienced workers in Gurgaon. They felt that MUKU is not working independently for the welfare and benefit of all the employees and therefore a separate union was required. They filed an application to the Haryana State government to form a separate union under the name Maruti Suzuki Employees Union (MSEC) on June, 2011. Considering this as an act of indiscipline, the MSI Limited management terminated 11 employees and termed them as ring leaders.

The Haryana government rejected the proposal and the workers planned to file a revised application:

BIRTH OF TURMOIL

It began with the termination of 11 employees by MSI Limited on the demand for a separate union MSEU. The first strike continued from June 3 to June 16, 2011 for 14 days. This step was taken by the agitated workers because of

disgruntlement from the present union MUKU, who they felt were not independently working for the welfare and benefit of all the employees. For this they filed an application to the Haryana state govt. on June 3rd, 2011 which was rejected. Later on Haryana government stated that application for second union will be processed in due course of time as per the procedure. The strike although was a retaliation against denial of a new union, the workers were also agitated over wage related issues.

On June 17, with the intervention of Haryana government, MSI Limited signed an agreement with the worker representatives regarding reinstatement all 11 sacked employees and compensating for the salary lost. However, the more serious issue of new union formation remained unresolved

SIMMERING CONTINUES

The Union elections were scheduled for July 16, 2011 at MSI Limited. The workers at Manesar plant did not participate in the election as they anticipated formation of their own union. MUKU was again elected as the recognized union in Gurgaon plant.

The second phase of strike started on August 29th, 2011. 21 workers were alleged for sabotaging production and creating quality problems and later in suspended. MSI Limited also directed the existing workforce to sign a "good conduct bond", which said that workers 'would not resort to go slow, intermittent stoppage of work, stay in strike, work to rule, sabotage or otherwise indulge in any activity which would hamper normal production in the factory' and for this management prevent workers from entering unless they sign this bond. Workers did not wish it sign as they felt his would restrict their rights to express themselves. The market turned red with competitors filling in the voids and some of the accidents of Maruti cars were hyped by media. Maruti announced a new investment in Gujarat after many considerations and state inability to handle the crisis.

On September 12th, 2011, 116 workers resumed after signing the bond but again went on strike when group of 11 supervisors were stopped on their way to work and were attacked.

Impact of these strikes faced drop in sales and profits of Maruti Suzuki, which lost 83000 units in sales worth Rs. 2500Crores. 11 % sales fell in FY2012. Impact was too seen on the workers as they lost their salaries. Though the strike was called off on September, 2011 but still the unrest prevailed. To solve the deadlock between Haryana labor,

management and MUKU, company said that the discussions are on but they still said that they would not permit any worker in without signing the bond and workers too warned if the issues are not solved they would resume to strike after 48 hours.

The effects were well seen on other companies as after the unrest faced by Maruti, Tata group firm faced the same. Benefits were transferred to General Motors and Hyundai whose output eventually went up.

ATTEMPTING A DEAL BUT TURNED FATAL

The third phase started in October 8, 2011 and lasted for 14 days. The workers went for strike inside the production department thereby hindering all the activities of production. MSI Limited was alleged for not keeping its promise of reinstating 1100 casual workers. MSI Limited counter argued that workers will be reinstated in phases as production resumes normalcy in due course of time. The issue of mistrust, angst and hurt became palpable by this time. 'Sit in strike' mechanism was resorted to stop any production in the plant. The management kept suspending workers and refusing to take the workers back. The workers at Suzuki Power Train Company (SPTC), which supplies engines to MSI Limited's Gurgaon and Manesar plant, stopped the work completely, thus bringing the entire production to a halt. The Gurgaon plant was also closed for two days as engines were not supplied by SPTC.

Haryana government intervened and served notices to the workers for breach of trust. The workers were ordered to move out of the plant premises on order of High court. The workers moved out but continued their strike outside the factory gate.

Finally, after long hours of negotiation between government, workers and management, the management agreed to reinstate the suspended workers. But still the issue of formation of a new union remained untouched and was termed as procedural matter.

Yet with the consent of MSI Limited management, in February 2012, a new union, Maruti Suzuki Worker's Union (MSWU) was registered by the Government of Haryana. 60 days of cumulative strike has dented the financial results of the company badly, net profit showed a dip of 29% (Refer Exhibit 2 and Exhibit 3). In the mean time MSWU submitted a 20 pointer demand to the management mostly referring to wage related issues.

THE DOOMS DAY

July 18, 2012, Maruti Manesar plant General Manager (HR), Ashwin Dev was burnt to death, over hundred severely bruised and 91 workers arrested. This incident was cried aloud by all the leading newspapers. The entire nation was shocked at the grotesque incident that was a result of months of boiling labor unrest. The trigger was an objectionable remark made by one of the floor supervisor to a worker. The worker was suspended and this tepid exchange exploded into an altercation of immense scale.

The violence sent negative trigger to other companies in region and across the nation. The Gurgaon Manesar industrial belt has always been a hub of such unrest and large scale violence.

FOLLOW-UP

Maruti Suzuki's Managing Director, Nakaishi clearly stated that there shall be no compromise on violence. As per him the company had already taken steps to improve its relationship with workers. The company resorted to services of external HR Consultant to assess the HR issues through cross section interactions with the employees but such program's results can only be seen in years to come. He was also thinking on the ground of outside influence on the labor. On July 22, 2012, there was an indefinite lockout at the Manesar Plant. Lockout means the temporary close of a place of employment or suspension of work and it is done to deal with such a crisis situation. To quote R C Bhargava, Chairman MSI Limited, "We cannot risk life and society of our employees. We will wait for the Haryana Government's inquiry report on the entire incident before we consider restarting the facility." This lockout resulted into daily revenue loss of Rs. 75 Crore to the company. No employees were paid salaries due to lockout. There was lot of discussions over payment or nonpayment of salaries. Around 114 people were arrested. Rumors were also there as to shifting of Manesar plant. The representatives of around 100 villages residing in vicinity had demanded CBI inquiry into violence. Even in the Mahapanchayat that was called upon to look into the matter said that all the people who were involved in the violence should be asked to leave and necessary action should be taken against them. After the termination of around 500 employees (which constituted around one-third of the total number of employees), the Manesar plant resumed its operations on 21st August, 2014.

There were many reasons behind such turmoil. One of the major reasons was the lack of understanding of the cultural differences between India and Japan. The work culture of the company is dominated by Japanese style of management, which is different from local culture. The company was also struggling between sales and costs and making efforts to bring down the costs. Majority of the labor at Manesar plant was on contractual basis and the salaries paid to the labor on contract was almost half of those of regular workers. This was taken into consideration when the operations resumed after the turmoil and the percentage was dipped to around 20% of workers on contractual. The workers at the plant were young, less tolerant and highly aggressive.

Broadly the tug off war at MSI Limited was due to the following:

- 1.The workers hired at the new Manesar Plant were not only young and naïve but also aggressive and restless. This was largely due to the transformation experienced by them in the form of wealth acquisition on account of land sales to the corporate establishments coming up in that belt of Haryana. The work at workplace and the novo-rich status of the workers' families failed to reconcile and a huge mismatch between the reality and expectation arose.
- 2.The increasing competition in the automobile industry and rising costs had been putting the pressure on the managers to keep the profits not only intact but also growing. This led to renewed expectations with respect to labor productivity.
- 3.The trade unions in India over the period of time were found to be ineffective or latent in their approach with the whole economy moving ahead with technology and services. The legislation with respect to the labor and related issues received a back seat. A urgency of trade unions in their roles as aid to management was missing.
- 4.The biggest issue was of communication gap between workers and management. A clear gap was visible between management (which is predominantly pro Suzuki with their ideologies) and workers. A more robust model of worker participation in management is required.

BOUNCING BACK

The workforce employed at Mansesar plant can be typically categorised as young, ambitious, restless and aggressive. They live in nearby rented accomodation, sharing with

others and don't have anything to do after work. Contrast to this the workers at Guirgaon plant were mature, seasoned and took pride in their work and their association with MSI Limited. The company had bounced back after taking some serious measures. Firstly, it has shifted about 150 workers from Gurgaon plant to Manesar in anticipation of calming effect of seniors on young age workers. Secondly, the company has eliminated the third party recruitment practice of hiring from contractors and recruitment agencies. They have reverted back to the more strenuous system of meticulous hiring where a complete background check of the employee is done. He is first grounded as apprentice and his performance, conduct and attitude is closely monitored and observed. The apprentice then takes an internal examination and on successful completion of test is hired as trainee for next two years.

This industry suffers from 30% demand swings and therefore firms have to rely on contract labour to adjust to the fluctuating demands. The new system of recruitment is flexible enough to accommodate economic variations. In case of fall in demand the company adopts LIFO (last in first out); if demand picks up the worker laid off last will be the first to come back. The permanent vacancies will be filled from this particular set of employees. This will boost their morale and motivate them to work in favor of the company.

CONCLUSION

Looking at the financials of Maruti Suzuki, it was observed that during the turmoil years the operating profits declined by nearly 19% in the FY 2011 due to the worker unrest (refer Exhibit 4). Operating Profit is a clear indicator of the operational profitability of the business and it indicates how a company is performing. Exhibit 2 indicates the employee cost increased in 2012 which was a result of reduction in the contractual labor force and changed strategy of independently handling the complete recruitment process. The impact of labor unrest on inventory turnover ratio is also presented in Exhibit 4 where one can observe a drastic fall of 24% in 2012. There was a sharp dip of approx. 40% in the return on capital employed clearly reflecting decline in profitability and the efficiency of the company's capital investment as the sales dipped. The asset turnover ratio of the company nosedived as the company was unable to use its assets completely to generate efficient returns and profit margins also declined subsequently during the turmoil.

The labour laws in India need a revisit as it lacks adequate provision for temporary workers with respect to their employment and social security. The contract labors form the backbone of manufacturing sector, yet mandates to manage them are weak and inadequate. As a result the system gets misinterpreted and misused. The contractors also don't comply with regulations and exploit contractual workers.

MSI Limited has a long way to go to restore its image with the workers in an amicable manner. Earlier the company had supported housing related projects for workers, now it wants to revive the system in association with Haryana government. All possible measures are taken to revive and strengthen the relationship with workers that involvement that include information sharing, open dialogues, visits, cross-cultural discussions, not to forget the aspirations and ambitions of Gen Y workers.

Questions For Discussion

1. Find out the factors that resulted in the workers retaliation in the Maruti Suzuki India Limited.
2. In times of crisis everybody looks upon a leader for solution. Discuss the way in which conflict was being handled in Manesar plant. Can you suggest alternatives to the existing method?
3. Should labour laws be changed as per changing demographics of the worker? Why do we need amendments in labour laws with specific reference to workers management?
4. What should MSI Limited and workers do to establish peace and bring everything to normalcy?

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TEACHING NOTE

Overview

The Indian automobile industry is said to be sixth largest in the world in the passenger car and commercial vehicle manufacturing, until now was flourishing with increased domestic demand, right government interventions, rising exports and competitiveness at regional and global level. In 2011, the industry felt a sharp slump in demand as a result of economic slowdown. The demand in global as well as domestic market nosedived, the inflation rates sky rocketed, dismal stock scores all resulted in negative sentiments. MUL, incorporated in 1981 (renamed as MSI Limited in 2007) was the first passenger car company to meet the consumer expectations in local as well as global markets. Since inception it has produced and sold over 10 million vehicles in India and exported half a million. Credited for having brought an automobile revolution to India, the company also enjoyed a goodwill for its working conditions, labor relations and customer loyalty. Increase in competition with the coming in of more players, made churning of the growing profits a difficult task for MSI. Congenial relations of the management with labour also took a blow with the Manesar Plant issue. Thus identification of key areas and their linkages that put MSI Limited in a spot are important for learning and understanding "Management in action."

Topical Areas:

1. Overview of automobile industry in India
2. Leadership Issues
3. Handling Gen Y
4. Labor Issues

Teaching Objectives:

1. To generate an understanding of Indian Automobile industry, the macro economic factors that promote the development of an industry
2. The case develops an understanding of leadership issues while handling sensitive issues related to labors
3. To understand the volatility and agility of Gen Y as compared to Gen X
4. To understand in depth the application of concepts like labor legislation, workers participation in management etc.
5. To understand the concept of Hot Stove principle and its relevance in the case.
6. To understand the implication of such labour unrest on the financial indicators of the company.

Application:

The case is suitable for management students at graduate and post-graduate level. The case also finds great relevance for executive MBA programs and specialized courses in labor relations and human resource management

Timings: - 90 minutes

Warm up time - 10 mins

Core discussion

1. Macro variable identification - 10 mins

3. Labor issues - 25 mins

4. Gen Y - 20 mins

5. Leadership - 15 mins

Alternatives, feasibility and wrap up - 10 mins

Exhibit 1: Six monthly average data of Sales in various categories of MSI Limited in 2014

Type	Cars	Price (in Lakhs)	Sales	Market share
Entry Level	Alto	3.15-3.28	23333	69.80%
Hatchback	Ritz	4.23-6.16	2266	7.20%
Sedans	Swift	4.42-6.71	18167	42.70%
	Celerio	3.76-4.79	N/A	N/A
	Wagon R	3.49-4.34	13271	42.40%
	D-Zire	4.85-7.32	17124	55%
Multi Purpose Vehicle	Sx4	7.15-9.54	261	2.30%
	Ertiga	5.80-8.49	5398	27.50%
	Eco	2.98- 4.00	3075	32.80%
	Omni	2.21- 2.50	6117	65.20%

Source: <http://www.team-bhp.com/forum/indian-car-scene>

Exhibit 2 Sales, Income and Expenses data for MSI Limited (in Rs. Cr.)

	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08	Mar '07	Mar '06	Mar '05	Mar '04
ST	43581	36089.9	37155.8	32322.4	23390	21200.4	17358.4	14898.8	13458.2	11392.5
NT	43581	36089.9	37155.8	29437.1	20715.4	18066.8	14806.4	12197.9	11046.3	9449.5
TI	44488.1	37067.5	37730.3	30656.7	21192.5	18897.1	14943.8	12582	11375.5	9500.7
EC	1087.9	877.9	731.9	545.7	471.1	356.2	288.4	228.7	196	177.9
TE	39959.8	33698.1	33534.6	26079.2	18684.6	15774.4	12349.6	10499.9	9593.6	8175.6

ST= Sales Turnover, NT= Net Turnover, TI= Total Income, EC= Employee Cost, TE= Total Expenses

Exhibit 3 Profit Details for MSI Limited (in Rs. Cr.)

	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08	Mar '07	Mar '06	Mar '05	Mar '04
Operating Profits	3596.3	2525.1	3681.2	3558.8	1674.1	2628.7	2256.1	1897.7	1564.4	1278.1
PBDIT	4528.3	369.4	4195.7	4577.5	2507.9	3122.7	2594.2	2082.1	1781.9	1325.1
Interest	190	61.6	29.4	33.5	51	59.6	37.6	20.4	36	44.9
PBDT	4338.3	3307.8	4166.3	4544	2456.9	3063.1	2556.6	2061.7	1745.9	1280.2
Depreciation	1889.7	1162.7	1031.3	841.4	716.5	568.2	271.4	285.4	456.8	494.9
PBT	2448.6	2145.1	3135	3702.6	1740.4	2494.9	2285.2	1776.3	1272.8	712.9
Reported Net Profit	2448.6	1633.6	2307.1	2545	1231.7	1730.8	1562	1189.1	853.6	542.1
Shares in issue (lakhs)	3020.8	2889.1	2889.1	2889.1	2889.1	291.28	237.23	188.73	151.56	124.3
Earning Per Share (Rs)	81.06	56.54	79.86	88.09	42.63					

PBIT= Profits before Depreciation Interest and Tax, PBT= Profit before tax

Exhibit 4: Ratio Analysis 2013 2012 2011 2010 2009 2008 2007 2006 2005 2004 Operating Profit Per

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Profit Per Share	119.05	87.40	97.69	120.18	55.42	85.91	73.50	59.65	50.91	33.57
Operating Profit Margin (%)	8.25	6.99	9.90	11.79	7.72	12.82	13.43	14.05	13.22	10.59
Return on Capital Employed (%)	15.96	13.02	21.63	27.94	17.26	26.35	30.51	30.40	28.24	21.01
Return on net worth (%)	12.97	10.72	16.64	21.54	12.83	20.74	22.66	21.87	19.69	15.41
Inventory Turnover Ratio (%)	23.09	19.64	25.83	30.61	30.47	22.94	29.34	18.79	22.96	22.02
Investments Turnover Ratio (%)	23.09	21.79	33.35	30.61	30.47	22.94	29.34	18.79	22.96	25.02

Source: Dion Global Solutions Limited