

HISTORY OF THE FIRM: case study solution



Brand: Mehta Solutions
Product Code: case28
Weight: 0.00kg

Price: Rs500

Short Description

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Description

HISTORY OF THE FIRM:

Company name: KMSR Ltd.

Vijay: Manager of Telecom Domain

Ajay: Project Manager

Suma: Project Manager.

Rupa: HR of the Telecom Domain.

Story:

Ajay after his ten wonderful years in KMSR Company seems to be disturbed over the past 6 months about the recent developments in his team. He has moved through the ranks to the current position. He was one of the top performers of the company with sound technical skills and always had a good rapport with all the team members from his early days. Though all the projects under his guidance were going fine, he felt a sense of

dissatisfaction from quite a few of his team members in recent times and he had already received resignations from four of his team members.

He was sitting in his new office cabin, after finishing a customer call. He was waiting for an e-mail from Rupa, for the short listed candidates for the weekend's interview. He had raised a request with the staffing function for new resources for his team. His team was badly hit by attrition.

He saw the reminder flash from his outlook calendar for the scheduled meeting with Vijay and Suma. The meeting was about to start in 5 minutes time.

He started to move towards the meeting room that was just adjacent to his cabin. To his surprise Vijay, Rupa and Suma were already there and their concerned faces clearly suggested what was about to follow .

Vijay and Suma said in a chorus voice . "Hi ,Ajay ", Ajay nodded with a smile.

Vijay said "I think everyone is already aware of what we are here for “ He pointed at Rupa and said "why do u think the attrition percentage has shot up suddenly?".

Rupa said in a loud and clear voice that most of the employees suggested in the exit interviews that there were not happy about the appraisal , reward and recognition system.

Ajay replied " I think we are all aware that the hike in our domain last year was 5% where as the hike was between 10 to 12% in other domains such as Financials , Retail and Pharma. There are also other companies like Technokraft that has been started in the last one year who has telecom as their main domain and are paying heavily for the people who have good domain experience "

Ajay added " We cannot fool people suggesting that will be on-site opportunities for everyone like earlier days as we are already aware that there are already a huge number of people at on-site and many have been moved to offshore especially in our domain." Suma began again saying that we could not promote people last year who really deserved (which would have increased their wages) due to the HR policies that were laid out as a cost containment measure. The office is also now shifted almost 60kms away from our earlier location which was within the heart of the city and was easily accessible. I have already received a lot of requests from the employees especially women for flexible working hours and work from home option. It is high time our HR started to review the policy at least for our domain.

Rupa replied in a low tone “It will be difficult to provide work from home options just for our domain ”.

Ajay was not happy with the reply from Rupa and he felt she was not even ready to consider such an option for further discussion with her top management.

Bombay Electricals was started in 1940 by Mr. Desai a refrigeration engineer, as a proprietary company. In 1941 he ran short of money and approached M. Khanna , Chairman of large and thereby obtained 75% control . The company was later registered in 1945 as a public Limited company but management was left all this time in the hands of Mr. Desai Until 1947 the company showed substantial losses because Mr. Desai started a number of new product lines but did not stick to any long enough to establish either the production or the markets. Nor did he make any study of the existing markets or production in the country before introducing any of the products. This was a period in which the company launched and finally gave up a number of products all of which resulted in severe losses. In 1947 two senior offices from the group were brought into Bombay Electricals Company. Mr. Jain , an engineer by qualification, had served the Group for twenty years was made Finance and Sales Manager. Within six month after Jani and Sharma joined the company, Mr. Desai decided to retire . Mr. Jain was made General Manager (Works) and Mr. Sharma, General Manager (Finance and Sales).

At this stage management of the company tested with a part-time Chairman, Mr. Khanna, who was also the Chairman of the parent Group , and with the two General Managers. There were six superintendents for each of the manufacturing departments plus a sales manager and an accountant. In 1949 the company took two decisions: (1) to suspend manufacturing all product except those which could be manufactured by mass production methods, and (2) not to compete with the small scale or cottage industry in any air conditioners. In the decade between 1950-60 , the company made impressive progress and sustained a steady growth in production and in domestic and export sales. The following figures show the employment and net income.

Year ending March	Employment	Net income in Lakhs
1947	500	150.00
1950	750	250.50
1960	3500	925.50

(B) FINANCIAL STATUS :

The company's financial and cost position had deteriorated markedly between 1958-60. The rate of equity dividend declared was calculated by the company as 20% in 1956, 1957

and 1958; to 0.5 lakh in 1960 if it had not been for 10 lakhs on profit on import entitlement and 18.50 stringent cash position. The costs on inventories too were high , imposing on the financial position. The finished stock levels in March 1960 were equipment to a little over eight weeks production ; in process stocks were sufficient for about 15 weeks production. The table below gives the expenditure on labour between 1958-1960:

Year ended March	Salary and wages per employee	Profits bonus per employee	Other expenditure per employee	Total employee
1958	5344	400	217	6021
1959	5131	346	317	5793
1960	5434	286	576	6296

Separating these figures for workers from clerical staff, the cost per worker was Rs. 6,000 per year . The comparable figures of earnings in other industries averaged Rs. 1,400 in 1960. Thus workers' earnings in Bombay Electricals were nearly four times the industry average. Furthermore, the earnings of the employees in the company increased at an average of 13% between 1958 and 1960.

During the same period the figure below compares the physical output and average real earnings (the figure of the real earnings is reached by allowing for the shift in consumer price index for the period).

Year	Index of physical output per employee earnings	Index of average real earnings per employee
1958	100	100
1959	133	120
1960	123	108

(c) TECHNOLOGICAL STATUS

When, in 1948, Bombay Electricals Limited decided that the company would not compete with the small scale or cottage industry and would manufacture only those products which could be manufactured economically by mass production techniques, it

suspended the manufacture of small tools, at that time a profitable product. The exclusive products on which the company concentrated were refrigerators and air conditioners. Consequent upon the technical decisions to manufacture on mass production lines, high-speed and special purpose machinery was gradually installed in the plant. The decision resulted also in the setting up of an industrial engineering (work study) department and a vast development department. The jobs were time-studied and after negotiations with the union, standards were established and these were used in developing a comprehensive incentive scheme. In all cases workers achieved the targets and often exceeded them. The technology of manufacturing refrigerators and air conditioners had remained reasonably stable. Between 1950-60 three models were introduced and each had required a change of approximately 10-30 percent parts. This implied that the basic process had remained fairly constant and the bulk of innovation had taken place in the methods of production. It was during this period that high speed machinery and mass producing methods and equipment replaced slower and hand operated machinery. As a result of the technological changes the output per employee was comparable to similar production units abroad. These technological innovations have had bearing on the man-machine relationships. Primarily these are two: one, the operator became an attendant to the machine as against the skilled craftsman who he was before. His activities were governed by the speed of the machine and his work was controlled by the technology rather than the skill he could have exercised to improve the production; two, the fictionalization of jobs on high speed, special purpose equipment used for manufacturing process deprived him of his association with the totality of operations. The task became “meaningless” from the point of view of the operator. His concern therefore became one of earning a high incentive rate and for job satisfaction he had to seek involvement elsewhere. The incentive scheme covered both direct and indirect employees. Incentive earnings were often 100-200 % of the basic earnings. The minimum take home pay packet in the company was about Rs. 250,00 per month. At the same time, as the earnings increased, the need to earn higher incentive became less imminent. The needs shifted from the economic to the social levels. As the earnings increased, the management decided to recruit workers from middle class families in preference to the traditional working class population. The purpose for doing this was to obtain an educated workforce which would support the company’s programme of rapid expansion and mechanization. To a large extent this policy was successful in the context of increased output.

(D) ADMINISTRATIVE AND INDUSTRIAL RELATIONS :

As mentioned earlier the active management of the company rested with the Chairman and the two General Managers. The Chairman visited Bombay almost every month. He believed in giving considerable freedom of action to the local management. He saw his role as a philosopher and guide to the local management and chose to take only broad policy decisions in matters of finance, sales, industry relations, employment etc. He made

it known that the General Managers must evaluate his comments in the light of the local conditions and should not regard his remarks as mandatory. He advocated the same philosophy for the General Managers. The Chairman during his visits spent a lot of time individually with both the General Managers, but interacted more with Mr. Jain, General Manager (works). Most of the discussions were held outside the office while they had lunch together or went for morning walks or other simple, social occasions of his kind. Neither believed in the formal procedure of writing down their decisions and preparing formal minutes. Very occasionally the Chairman and both the General Managers had shown visible signs of strained work relations between them although they were otherwise friends. Both, the Chairman and the General Manager (works), believed in establishing personal relationship with everyone in the company and both were highly regarded by employees. The General Manager (works) knew at least half the workers in the factory by their first names and often went to their houses during festivals or whenever an occasion demanded. Most employees felt free to approach him with their personal problems Invariably helped them even with money, sometimes from his own pocket. Employees knew him as a kind person who had in mind their personal well-being as much as that of the company. He had expressed his view by saying that growth. He felt sure that the only problem was to produce more and everyone would share its gains, but none should ever stop production; whatever problems existed be resolved by discussions among responsible people.

(E) INDUSTRIAL RELATIONS

Bombay Electricals Limited Employees Trade Union was organized in 1946 by a well known trade union leader who was also a member of the AITUC executive Committee. The union was not recognized by the management in spite in the works without proper enquiry, the workers left their departments and assembled to listen to an address by the union President. The General Manager (works) came out of his office and also declared that he wished to address the workers. And he did. This was the first time that the General Manager (works) and the union president met each other. The employees went back to work when the management agreed to hold an enquiry by a joint team or representative of the management and the union. Consequent upon the enquiry two of the four employees were reinstated by the company. In the meantime the union elected another president for their union who was also an experienced trade union leader as well as a Member of Parliament on a communist party ticket. Although the union was not officially recognized by the management, the two met together regularly and in 1955 signed a comprehensive agreement for five years. This agreement covered the following:

- (a) Recognizing the union as the sole bargaining agent for the employees and them facilities to collect union dues inside the factory;
- (b) Wage scales, dearness allowance and other benefits;

(c) Incentive scheme.

(d) A network of consultative committees at departmental, works and top union management levels; and

(e) Grievance procedure.

Events after the agreement showed the following characteristics;

1. There were frequent meetings between the management at the departmental and works levels but invariably the settlement took place only in the union's meeting with the General Manager (works).

2 Most departmental promotions and transfers involved consultations with the union and the departmental heads seldom took a decision concerning an employee without formally or informally consulting the union.

3. If the union disagreed with certain issues they quickly resorted to demonstrations within the factory or stoppage of works. The Labour Welfare Officer was manhandled outside the factory. The officer concerned left. On all these occasions the General Manager (works) solved the dispute.

4. In spite of a bonus formula traditionally used by the management, the employees agitated every year when bonus was declared and they invariably got more bonus or loans after negotiations with the General Manager (works).

5. Some representative incidents below would illustrate one aspect of the relationship:

(a) A worker, found smoking near the paint shop , where smoking was not allowed, complained that the officer concerned manhandled him and issued a charge sheet even when he was not smoking. He claimed that the officer was prejudiced and wanted him out of the department. Employees walked out of their departments and demonstrated for withdrawal of the charge sheet. The General Manager (works) and the union Secretary resolved this matter by everyone going back to the departments and the company withdrawing the charge sheet.

(b) A peon was found asleep on his job and was charge sheeted. Repeated agitation led to withdrawal of the charge sheet after top level discussions.

(c) At bonus time every year there were demonstrations. Workers left their departments, surrounded the senior officers and indulged in drum beating until settlement was reached.

6. At the same time the company carried out a programme of expansion with all the attendant changes in the departments. No serious difficulty was faced by the company in introducing technology changes or in increasing productivity per worker.

(F) The Strike

In 1960 when the bonus was declared, the employees agitated in the same as they did in previous years. The difference between the offer made to workers and the quantum demanded by them was about Rs. 30/-(thirty) per employee. Unlike other years, the negotiations failed and the employees give 15 days notice to go on strike . The matter was taken up for conciliation by the State Labour Commissioner but the dispute could not be settled. On the appointed day, This case raises some highly interesting and significant questions:

1. Similar problems which caused this strike in 1960 were satisfactorily resolved in the past in Bombay Electricals. Why could not the differences be settled in 1960?

2. In spite of high earnings by employees, why did they choose to go on strike for a relatively small difference of Rs 30/- in their demand preceding the strike?

Details

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