

Communication

Non-Surgical Closure of Pepsico Plant: A Case Study

D.K. Srivastava & Avinash Deolekar

The emerging business scenario is largely driven by market forces. The businesses, due to market compulsions, have resorted to very painful and difficult options like relocation and or closure of plants. The employees have to undergo a number of hardships as a result of closure and or relocation of plants. Can one maintain a balance between business compulsions and employees' interests? The case study of Pepsico's Naroda plant is one example where a balance has been maintained between the two extremes. A number of meaningful initiatives have been taken by management to minimize the hardships of workers given VRS at this plant. The case discusses the process and dynamics of closure of the plant through VRS in about three weeks time.

D. K. Srivastava is Professor, School of Management & Labour Studies, Tata Institute of Social Sciences, Mumbai. E-Mail: dks@tiss.edu **Avinash Deolekar** is Vice-President HR, Pepsico India Holdings Pvt. Ltd., Mumbai.

Pepsico Naroda Plant

On 30th December, 2008 everyone in Naroda Plant of Pepsico was in a different mindset as the decision of closing down the plant was inked a week before. Every worker, after their name was announced, came closer to the Vice President (Human Resources) and received three different cheques and hugged him. This was a defining moment in the history of Naroda plant after 13 years of takeover by Pepsico from Gujrat Bottling plant on 7th November 1995. This was a remarkable day for Pepsico management as everything got settled peacefully in just three weeks time.

Naroda Plant, located in the middle of Saurashtra and Central Gujrat Border, was set up in 1966 by Pure Beverages Ltd. and produced CCX brands till 1977. It continued to manufacture local brands till 1991. Voltas started manufacturing "Pepsi" brands from 1992. Finally, Pepsico took over this plant in 1995. All Workers of erstwhile Gujrat Bottling Plant were taken in to the services of Pepsico. A safety clause was inserted in the agreement between the union and management which says that "The First party company also agrees that in the

case of stoppage or closure of production activities for any reason, the employees mentioned in Annexure 1 shall be absorbed in any of the sister concerns in accordance with the provisions of law and in case of any difficulty experienced in implementing this clause the same shall be discussed with union and the decision their on shall be binding.”

Naroda Plant currently employed 138 persons including 85 workers (Associates) 22 executives and about 31 in other categories. On an average 67 workers are needed for operating two lines. The need for contractual workers ranges between 25 and 175 depending upon the

volume of production. The plant normally runs in three shifts. The overall operations of the plant are taken care off by the plant manager and the responsibilities of people management remains with plant personnel manager. The plant has two lines of production i.e. Carbonated Soft Drink (1995) and Juice (2001). Total Productivity Maintenance (TPM) was introduced in 2007. The plant has an excellent track record of social responsibility.

Key Performance Indicators

Table 1 presents performance indicators of the plant in the last five years:

Table 1: Index of Key Performance Indicators during 2004 - 08

Indicator	2004	2005	2006	2007	2008	Mean Index (2005 -08)
Production Volume	100	84.56	60.59	58.41	49.54	63.26
Line Productivity	100	96.54	101.2	96.40	100.50	98.66
Utility Cost	100	124.7	142.8	151	224.30	162.70
Cost of Variable Labour	100	91.89	83.78	90.5	100	91.54
Concentrated Yield	100	100.14	100.2	100	100	100.01

The performance of the plant on production volume and line productivity has shown a downward trend whereas utility cost has gone up during 2005 – 08. The downward trend in the cost of variable labour indicates instability in production.

Union & Workers (Associates)

Gujarat Kamgar Panchayat (GKP) as the sole representative of workers in

Naroda Plant is an independent and external union. It represents about 100 other unions in Gujarat. The union was formed in 1991. A fourteen member local committee (LCU) is responsible for day to day affairs of the union. GKP has four members in addition to the fourteen LCU members. The key positions like President, Vice President, General Secretary and Treasurer are with GKP representatives. Naroda plant has 85 associates. The average age of associates is

about 49 years. Most of the associates were taken from erstwhile Gujarat Bottling Plant. Their past services have been protected by Pepsico in compliance of the agreement with union. "The employees whose names are mentioned in the list appended herewith are agreed to be taken in service by the first party and considering their experience with the previous employer peculiar to this industry in which the first party is engaged in, will be given the benefits and rights of the total period of service with the immediate previous employer for the purpose of gratuity and compensation in accordance with law." Out of the 85 workers 84 have completed 20 years of service. Half of the workers are SSC and above in terms of educational qualification. Nine out of them are graduates and eleven of them are having technical qualifications to their credit.

Market Situation

There are 130 distributors and 60,000 outlets of Pepsico in Gujrat. The company strives for getting more and more share and ensures that it gives best value to customers. The cola market in the last 3-4 years is experiencing a downfall for the following reasons:

(a) Glass Bottle Consumption is coming down for a variety of reasons whereas PET Bottles and Cans Sales are growing up. Naroda Plant has only the capacity of Glass Bottles.

(b) The taste of consumers is changing towards health drinks.

(c) Cola market is very price sensitive.

In order to face the challenges posed by the market, Pepsico has introduced various promotional schemes both for trade community as well as customers. In order to control the sales team the company has a third party audit of sales to know the share of Pepsi vs. others. Based on the findings of the audit, suitable measures are taken to correct the situation in the market. Promotional programmes are launched both nationally and at local levels. The local level initiatives include hoardings, signboards, consumer events and schemes like 'Under the Crown'. There is also a Territory University which documents entire sales performance. Future plans of sales team in Gujarat include:

(a) To gain more share and more dealership in the market;

(b) To introduce newer products like Tropicana and Twister.

In spite of the best efforts being made by the sales team, there are complaints that benefits of various promotional schemes do not reach the small vendors and customers. In case of any reported default the company first gives warning to distributors and drives them out in case of repeated defaults. Apart from this the company also controls the route agents who carry bottles from distributors to retailers.

Process of Closure

Annual Operating Plan (AOP) in consultation with the corporate office plans the activities. The experience of AOP vis-à-vis corporate office was not very encouraging so far as the progress of Naroda Plant was concerned. It was monitoring the performance of the plant for a long time. The total volume dropped significantly to almost its half in 2008 and this was on a continuous basis in previous years as well. In spite of the best efforts by the marketing team, demand for glass bottle especially CSD continued to drop. In view of the escalating fixed cost and no hope for revival of glass bottles, the AOP in consultation with corporate office suggested closure of the Naroda Plant. A negotiating team was constituted with VP (HR) Western Market and Manufacturing Director as its members. The negotiating team was constrained by the following two factors:

(a) Since the number of workers in the plant crossed the magic number 100, in case of closure provisions of Chapter V-B of ID Act will apply which requires permission of Appropriate Authority. If workers raise any issue it will take a long time to close the plant.

If workers raise any issue it will take a long time to close the plant.

(b) Safety clause of the agreement with GKP Union pre-requires either absorption of workers in Bharuch Plant of

Gujarat or negotiate with the union for any other viable option.

The Negotiating Team preferred to negotiate with the union against taking a legal route. A camera meeting was arranged with two top union leaders i.e. President and General secretary in a hotel in Ahmedabad. The team explained in detail the position of the company in terms of both cost and market and tried to convince the union leaders that company has no option but to close down the plant. The union opposed this and wrote a letter to the Vice President (HR) with a copy to Director (HR) on the following grounds:

“After the commencement of Naroda Plant, you have established another plant at Bharuch in the year 1997. You have also obtained the Provident Fund Code No. for Bharuch Unit. The Employee Provident Fund Organization had issued a separate Code No. under the following condition:

M/s. Pepsico India Holding Pvt. Ltd. (Ahmedabad) and M/s. Pepsico India holding Pvt. Ltd. (Bharuch) are not as separate or independent units and the establishment will be treated as a branch of M/s. Pepsico India Holding Pvt. Ltd. (Ahmedabad) and employment strengths of both the establishment will continue to be reckoned together for all purposes under the Provident Fund Act.

Without prejudice to the above facts and submission, it is well established that there is a functional integrity of both the units as well as the ownership of both the

units is the same. Under these circumstances you can not close down the Naroda unit without any express permission from the specified authority appointed under the Industrial Disputes Act.”

The union further gave the following options to the management:

- a. The workers of Naroda Plant agree to postpone the issues of wage revision for a period of 2 years.
- b. The present age of retirement of workmen can be reduced from 60 years to 58 years.
- c. Workmen are also ready to work other than in production activities like marketing etc.
- d. The present strength of workmen can be reduced up to 20% by way of introducing VRS in consultation with union.

The proposal was discussed by the management but turned down. It was finally decided to close the plant and company was ready to face all the consequences. The Negotiating Team explained the Union top brass that although the company can take legal route to close the plant but keeping in view the long meritorious services of workers it would prefer other options like VRS by all employees. The Union leaders after detailed discussion with the local committee union members and workers in general agreed to proceed on the VRS proposal of the Negotiating Team. The Union demanded a Rs. 20 lakh package for VRS which was rejected outright by

the management. The Negotiating Team explained that as per the legal provisions of ID Act on an average a worker would be entitled for about Rs.3 lakhs and hence a package of Rs.5-6 lakhs would be appropriate. The Union objected to this but reduced its demand to Rs.12 lakhs. Several rounds of negotiation happened to arrive at a final package. The Union further reduced its demand to Rs.11.25 lakhs and management wanted to close somewhere between Rs.9-10 lakhs. After careful discussions and ups and downs it was finally agreed that average payout including VRS package and legal dues would be Rs.10.5 lakhs. This included following:

1. Salary for the month of December, 2008
2. Loyalty Bonus
3. VRS Amount
4. Bonus
5. Gratuity
6. Leave Encashment

The next crucial step was to convince the workers about their social security in future. Management representatives in co-operation with the nearest State Bank of India Chief Manager explained that if VRS money is kept in fixed deposits of the Bank, the monthly earning on account of interest will remain almost equivalent to their monthly salary. Over and above workers will also get provident fund and pension as per their entitlements. Finally, workers agreed and a settlement was signed un-

der section 2(p) read with 18 of ID Act, 1947 on 25th of December, 2008.

The salient features of the settlement are as follows:

1. The VRS shall be worked out based on the Income Tax Act 1961 whereas the compensation amount would be a minimum of amount equivalent to three months salary for each completed year of service or monthly emoluments at the time of retirement multiplied by the balance months of service left before the date of his retirement on superannuation.
2. The contribution to the Union fund will be deducted from the said VRS payments @7%
3. The VRS will commence from 26th December 2008 and closed on 29th December 2008.
4. The workmen will also be entitled for leave encashment including Sick leave and Earned leave.
5. All pending cases in court including seniority will be withdrawn by the Union at the next hearing of the case.

The agreement was signed by representatives of management, union and all workers. The cheques were distributed in the afternoon of 30th December, 2008. A farewell party was organized on 31st December, 2008.

Initiatives of the Management

Apart from negotiating VRS package management simultaneously hired

the following consultants to take care of workers concerns in future.

Psychological Counsellor: Pepsico had a tie up with Human Dynamics and for Naroda Plant they have hired a well qualified clinician and psychological counsellor. The major issues raised by workers could be seen as follows:

- I. Before announcement of VRS package:
 1. The amount of package
 2. Alternative job as many of them have no other skills.
 3. Social security concerns in the long run
 4. Education of children who are studying in convent schools.
 5. What is the fault of workers? The problem is with the demand in the market and not with the performance of the plant.
 6. Pepsico was like mother and it is like departing from mother.
- II. When package was announced:
 1. Some of them were happy with the VRS package
 2. Some of them were concerned by identity and status
 3. Most of them were shocked with the abruptness of the way it happened. The total duration of negotiation and exit was completed in less than three weeks.

4. Many workers even did not share with their wives and families.

Financial Consultant A qualified Chartered Accountant was hired to counsel workers on financial matters. The role demanded following key activities:

1. To ensure that proper tax deductions (TDS) are made under VRS Scheme
2. To ensure best investment as per Income Tax Act, 1961 the workers were advised to invest in NSC, LIC or PPF.
3. Interactive sessions with employees for proper investment.
4. Financial advice on filing returns
5. Home loan EMI was not allowed under form 16; this was done in the larger interest of the company.

Banker: The Chief Manager, State Bank of India, Naroda Industrial Area was invited to counsel the workers on investment issues. The major concerns of the workers raised with Bank official were:

1. To ensure that interest payments on fixed deposit were equivalent to their salary.
2. Operation of the account in case workers are not in Ahmedabad. About 30% of workers are from Rajasthan.

23 new accounts were opened same day and cheques deposited were credited the same day to get benefit of 1% extra on deposits. About 55 workers ben-

efited from the fixed deposit scheme of the Bank with overall investment of Rs.1.5 crore.

Job Placement Consultant: M/s. Shine Consultant was roped in by the management. The following initiatives were taken by the placement agency:

1. Analysis of employee profiles to understand the nature of jobs to be explored.
2. Professional CVs were prepared for all 85 employees. The interests and preferences of the employee were also taken in to account for the purpose of planning.
3. Preparation for interviews.
4. Negotiating and meeting with different companies for possible placements.

The placement company charges Rs.500 as registration fee from the candidates. It charges to the Employers @ 8.33% of the annual package provided employee stays in the Company for at least three months. Pepsico has promised to extend all support needed for placement services of its workers. Till 31st March 09, 37 employees had obtained jobs with an average pay of Rs 5500 per month through the initiative.

All the activities of counsellors were co-ordinated by the Manager (HR) from the Mumbai Office. This Manager (HR) camped at Naroda for about 15 days to facilitate the whole process.

Reasons for Closure

Management View Point: View point of the management can be seen best in the settlement of closure which reads as: “Over the last few years, the overall profitability of Naroda Plant has gone down due to declining plant volumes, as a result of prevailing difficult market conditions. Further due to constraints of available space in the plant, the company has been unable to invest in newer technologies and manufacturing lines to reduce the manufacturing cost in the plant. Manufacturing operations carried out in the plant with the existing number of workmen will result in further loss to the company. Therefore in the interest of the company and the workmen, it is proposed to reduce the strength at the plant and minimize the loss at the factory through a Voluntary Retirement Scheme for the benefit of the workmen in the Plant.”

The other views expressed by management representatives are as follows:

“We expected an annual increase of 20%, contrary to this the market share came down drastically in 2008 and we had no option but to close the plant.”

“Demand suddenly started decreasing after 2004. Our area is limited and we can afford only two lines. Customers are demanding more PET based soft drink which our Jhagadia (Bharuch) Plant is capable. We can not install PET line in Naroda. Moreover Gujrati's are more in health drinks. Pesticide

controversy in 2004 also hit cola business”.

“The demand for Glass Bottle is decreasing and PET is increasing. Product cost at Naroda plant is very high due to low volume, increasing cost of raw material and packaging material rates, and higher fixed cost.”

“The reasons for closure in spite of improved performance could be attributed to market viability, volume drop, cost escalation and shift in consumer preference for health drinks”.

Union Views: Interestingly union's views on reasons for closure remain the same as management view point. Some of the views of union officials are summarized below:

“Our experience with closure of Baman Bore (Rajkot) was encouraging as we were very sure that closure of Baman Bore was due to water shortage (external factor). Similarly, the compulsion of market was the main reason (external factor) in the case of Naroda Plant as well”.

“Market was viable for us. We were being monitored by the Company for the last three years. The actual sale was declining due to change in consumer taste and limited pocket (affordability) of consumers for soft drinks”.

“The plant started deteriorating after 2004; TPM was also not very good. There was confusion in management. The local management did not involve workers in

planning. Marketing team is not making efforts, why to blame workers. Local management always threatened for closure and they have proved it. 'Bazar day' was discontinued. Promotional schemes were not reaching the small vendors. There is vacuum of 25% in the market".

There was confusion in management. The local management did not involve workers in planning.

Workers View Point: When workers were asked to comment on the issue their understanding was slightly different. They viewed this problem from shop floor angle. Some of their views are summarized below:

"Reducing demand, increasing cost, high expectations of management, lack of work culture and shop floor mismatches are the real culprits for the closure".

"We simply know that this was an order from top. Although productivity improved due to TPM but reasons for closure are not very realistic. There could have been some other alternative."

Media View Point: Although media has stayed away from reporting the closure of Naroda Plant one local newspaper reported that recession is the main reason for closure of the plant and workers have accepted it.

Why Workers Were Happy?

What made workers so happy about the deal as all workers hugged manage-

ment team? The answer to this question may be found in the observations made by different stakeholders reproduced below:

Management View Point: "We were very transparent and honest in our dealings from the day one. We knew that legal route is very long and unpredictable as well we were very truthful in negotiations and we have given one of the best packages in the industry".

We knew that legal route is very long and unpredictable.

"We have taken care of every aspect of employees. We were concerned about their social security and future as well hence we hired the services of consultants to counsel and prepare employees for the future."

"Approach towards the issue was very practical and it was very well grounded. We have given high commitment to what we promised. We believe that VRS package will give the same benefits as their regular salary. We hired qualified consultants to advice workers. Everybody is happy".

Our connect was very good. Officers were very open and transparent.

"Our connect was very good. Officers were very open and transparent. Everything went very peacefully. We had very good relations with government agencies. The VRS package was very

much suiting to all the workers as most of them had more than 20 years of service to their credit”.

Union View Point: Union representatives were seen quite satisfied with VRS package.

“The VRS package itself is very encouraging. Apart from this, the quality of negotiation, transparency was the main factor for a good deal. We are also happy because company hired counsellors”.

“Take home salary has been protected by way of interest on fixed deposits. Now workers are free for alternative jobs”.

“There are mixed views on celebration of VRS. Although we are happy with the package but everybody is not happy. We are concerned about our social status, children’s education and alternative jobs”.

Workers’ View Point: Workers view point on this issue is also mixed.

“Workers are happy with VRS package, this is more than what workers of Baman Bore plant got in 2002 but this is reasonable and attractive. Workers are not happy with closure; there could have been other alternatives”.

“VRS package is good but continuation of job would have been better. Now my son wants to discontinue his education and search for a job. This will also create problem in the marriage of children”.

Alternatives to Closure

The plant was closed when it was at the peak. Some innovative practices like TPM were just introduced. The views of different sections of stakeholders on this issue are as below:

Management View Point: “The space crunch seems to be at the top. The total plant area is 15339 M² (3.7 Acres) and built up area is 5800 M². We have left with no other choice, but there was a possibility of one PET line on the first floor similar to Duke’s Plant in Mumbai”.

“There was no viable option; however employees could have been utilized differently”.

“There was no alternative as we can not run the unit in loss due to overheads. This was ideal time to close the plant otherwise next year it would have been more difficult to sustain the package. Closure of the plant of high note was very well deserved”.

“We have definite constraints of space. Putting a new line of PET would require huge investment and infrastructure as well. Our Jhagadia (Bharuch) plant can take care of glass as well as PET bottles demand”.

Union View Point: Union view points on this issue are different with management as may be seen in the following observations:

“We wanted to save the plant and we had given four options to the manage

ment viz. wage freeze, reduction in retirement age, ready to work in the field and 20% VRS but management has not considered our proposal”.

“Top management was misguided by local management. 80% of wage bill was of executives and managers. We promised to improve sales with only 2 managers but no body listened to us. We wanted one chance in 13 years; this was not fair to us”.

“We made a proposal but it was turned down. This was a hasty decision. Company could have given a serious thought on our proposal and we were confident that a better alternative was possible”.

Workers View Point: Workers are very sure that the plant could have been saved through mutual discussions and consultations. Their views are reproduced below verbatim:

“Local management should have convinced shop floor people. The alternative will come from shop floor. The way to efficiency and productivity is in the hands of local management and shop floor people”.

“The plant could have been saved by exchanging one bottle line from Naroda to one PET line in Jhagadia.

Best Practices

The closure of Naroda plant through VRS has seen several ups and downs and some of its best practices could be the

best learning both for management and union. Some of the best practices as identified by different respondents are as below:

Management Representatives: “The best practices of this VRS could be identified as two-way communication, transparency, trust and congenial atmosphere. We did proper justice to the cause”.

“The best practices could be; taking employees into confidence, bringing consultants, getting the best deal and overall supportive management”.

“Good connect, mutual trust, good communication, behavioural training for the last one year as a part of TPM activities and counselling of employees as well as their families are the best practices”.

The best practices could be; taking employees into confidence, bringing consultants, getting the best deal and overall supportive management.

“Preparing employees for VRS through various consultants was the best part of management initiative”.

“Outplacement services, emotional support and caring for the people in the best manner are the best practices”.

Union Representatives: Union representatives do agree that the whole process of VRS has been in a very co-operative and open atmosphere and that is

why this VRS is a benchmark in corporate world.

“The whole approach of the Company in this matter since beginning has been very encouraging and transparent”.

“Pepsico closure should not be repeated again. Union is proud to get a better deal from the management. Union plans to support its members on financial matters and in cases of emergency. We do not want to plant ourselves in Bharuch although we exist in that area. We will support employees of Bharuch plant in case they approach us”.

Workers View Point: “The best part is that the company could meet out our expectations. Company is also supporting in financial matters as well as getting alternative jobs”.

Corporate Image

Every company is concerned about its image among the customers. Pepsico is not an exception to this. How this whole episode will affect the image of the Company is a very relevant concern. The views of different stakeholders are given below:

Management View Point: “Corporate image of Pepsico is very good. There has been no negative reporting by media”.

“This will not impact on our image. We have extensively worked in the area of corporate social responsibility. We have done nothing wrong”.

“We have a very loyal base of customers and we do not think that our customer and dealer base will be affected in any way”.

Union View Point: “Corporate image will be affected as the news spreads to the public. The Company needs to work hard”.

“Closure of plant through VRS is not a good sign for Pepsico. Two of its plants have been closed in Gujrat for one reason or the other and the Company will have to pay the price for that”.

“Corporate image is not good. Small vendors will take back their deposits. The Company has already given one VRS in 1997 to 56 workers. Marketing people are not participating in annual events of workers”.

Workers View Point: “Demand should not come down; otherwise image will also come down. Marketing and sales team are responsible for downward trend in the market. In order to improve the image marketing people should come to the office only once in a month and rest of the days they should be in the field”.

“The image as well as demand will be affected. Supply from Bharuch Plant to whole of Gujrat would be difficult. Transport cost will be high. Coke has about 65% of the market share and it will increase further. Marketing people should make more efforts”.

Views of Deputy Labour Commissioner

Understanding of the Case: “The proposed closure of Pepsico, Naroda plant through VRS has been very successful due to two reasons, one, Pepsico is an MNC and could afford a very attractive closure package and two, Trade Union in Pepsico is very cooperative and matured”.

Handling of the Case: “Both the Union and the Management were very positive in their attitude and approach. Had there been any other union it would have been very difficult. Union was very much aware that intervention of Labour Court is very lengthy and less yielding.”

Uniqueness: “As I have been informed, the manner in which management used different types of consultants to understand the concerns of the workers was very unique and at least I am not aware of any other company in Gujrat going to this kind of arrangement. We are like doctors and we advice when any matter is reported to us. In case of Pepsico they have gone to alternative treatment”.

Peaceful Closure: “I would like to quote two examples one, the case of VFC Ltd. Baska in 2006 where dues were paid to about 200 workers and no case was reported to Conciliation or Labour Court in spite of several odds. Second was the case of NACHMO Ltd. (Ashima Group) of 2008-09. The cases were related to closure of its two factories due to overdraft of IDBI Bank. The matter was referred to

High Court and subsequently rejected. Letters were sent by workers to the Chief Minister threatening to commit suicide. The matter was referred to us by Gujrat Government. The closure of first factory could be amicably resolved after a long discussion and workers agreeing to the offer of management. The closure of second factory is still pending.”

Legal Aspects: “In order to close down the plant under section 25FFF of Industrial Disputes Act the Company should wait till the average daily workers strength in the last twelve months drops to less than 100, in this case no notice for closure would be required.”

Next Step

The Company is still reviewing the manner in which plant will be legally closed. One option is to wait till the average daily employment in the last twelve months comes less than 100 and in that case section 25 FFA i.e. notice for closure and 25 FFF pertaining to compensation shall not be applicable.

The Company also plans to return the factory license as per rule no. 13 of Gujrat Factory Rules.

Acknowledgements

The authors are grateful to Mr. Pavan Bhatia, Executive Director (HR), Mr. Sachin Jain, Manager (HR) and Mr. Ajay Srivastava, Manager (HR- Naroda Plant) of Pepsico India Holdings Private Ltd, for their valuable inputs.