

Absenteeism and Turnover: Alpha Battery Ltd

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Abstract

Alpha Battery Ltd (ABL), automotive battery manufacturer located in SITE, Karachi is one of the largest manufacturers in Pakistan. Turnover of employees has been one of the problems the company had to tackle. This problem was compounded by its close proximity to disturbed localities of Karachi and adverse working conditions of the manufacturing premises. The turnover was further aggravated by the ethnic composition of the labor class, since the inherent characteristics of the work force is an important consideration while hiring the laborers.

The management of ABL was able to solve this problem by identifying the root cause of the turnover by a series of organizational development measures comprising of changing the composition of the workforce, reducing the shift timings and providing incentives to the work force. These measures led to improvement in level of job satisfaction of the working class which eventually controlled the turnover problem.

Key Words: Automotive Battery Manufacturer, Adverse Working Conditions, Composition of Work Force, HR Initiatives, Turnover.

Overview

Employee absenteeism and turnover can be serious problems for an organization. Absenteeism hurts productivity and costs money. If not managed properly and effectively controlled, it can affect the entire workforce. It will cost the organization in terms of valuable work-hours lost and increased administrative overheads. Thus the management has to spend significant hours in resolving ab-

senteeism problems. Employee retention requires recruitment based on job description. Non retention not only costs highly to organizations, but chances are that the organization may not find a suitable replacement.

After completing this case study readers will learn to:

- Calculate and use the rates of absenteeism and turnover.
- Evaluate HR problems and their solu-

tions in the context of the organization's strategic objectives.

- Know how an HR problem can be solved most efficiently and effectively using various approaches to HR planning, recruitment and related HR actions.

Scenario

It was 7:15 am on a bright warm morning in Karachi, when Faizan left his house in PECHS for the manufacturing plant of Alpha Battery Ltd (ABL), one of the largest automotive battery manufacturers in Pakistan. The plant, located in SITE was spread over a huge area neighboring the troubled Liyari by just about a kilometer. Driving through the dense morning traffic, he couldn't help but think about the forthcoming meeting of all the managers with the CEO, scheduled for 9 o'clock today. One of the main agenda points was to review the results of the recent HR initiatives that he had designed and adopted by the company. It had been two years that the implementation had started but only three months since they were fully in place. The CEO had asked all the line managers to review the results of the quarter in today's meeting.

By far, ABL was the market leader but was struggling to retain that position. Two years ago, the CEO, Muhammad Taqi, had emphasized that securing and sustaining leading position firmly is one of the main strategic objectives. He had been perturbed, among other things, by the high rates of absenteeism and turnover and while hiring Faizan, had delegated him to come up with a practicable solution. Now, as the Head of HR for the last one year, and with his measures in place, Faizan will be in a searing spotlight in today's meeting.

Out of the 1500 workers other than the management, the company had an average annual turnover of 30% (skilled and semi-skilled including supervisors and foremen) over the previous 3 years. The average of 4 absences a month out of 26 by more than 500 workers had also compounded the problem. Although, production was most affected, it had a direct impact on almost all the other departments, though to varying degrees. Shahid Nisar, GM Production was almost at loggerheads with the Manager Admin, Khushi Muhammad, a self-proclaimed champion of the workers, who had worked his way up from an unskilled labourer and due to his close ties with the workforce, kept his weight behind the union in all matters.

Shahid was under pressure by the MD, Abu Bakar, who was quite rightly concerned with the fluctuating production of 130,000 – 180,000 batteries per month. Added to it were the average of 3,600 claims admitted each month on account of defective batteries. Owing to the diversity of the batteries produced, it was difficult to arrive at a standard volume of production in terms of number of units produced. With an average of over 30 semi-skilled and skilled laborers continuing to quit each month and another 500 being only intermittently present, Shahid was flabbergasted. He also had to bear with the incessant reminders from Abdus Salam, GM Marketing, to match the production with the demand of batteries. GM Finance, Naheed, colloquially known as the Iron Lady, was pressing for measures to cut costs so that her financial statements could paint an attractive picture of the

company. Fluctuating production and claims of defective batteries were only adding fuel to the fire she was raising.

Although he had a nice, comfortable office in DHA, Faizan had set about spending most of his time at the plant (much to the chagrin of Shahid), where he could closely monitor the HR issues faced by ABL. It was a tough call. Full of furnaces and heavy machinery, loads of chemical compounds and above all, the lead laden environment render a battery manufacturing facility far from being a place a worker would like to be in, let alone management. The heat and humidity, even in the relatively cooler months, were more than he could take.

He had begun by reviewing the compensation plans of the workers. Having conducted a salary survey, he found out that although there were no issues of external or internal equity, the workers were being paid only the minimum wage as required by the law, along with the time related increments. In the interest of adhering to industry standards, the working conditions, of which most of the quitting workers complained, had not been taken into consideration while designing the compensation system. When compared with battery manufacturing, the working conditions of, say, the pharmaceutical industry, from which Faizan had moved to ABL, are much more relaxed and comfortable with the same and at times even lower pay plans. The company also provided free of cost medical treatment for illnesses attributable to the working environment. Owing to a large number of furnaces and machinery, accidents were alarmingly common and would occur once a month

on an average. In addition, the company had a reasonably good terminal benefits program including provident fund, education grants for wards of retirees and preferred employment opportunities for them but it had failed to keep turnover in check.

The demographic composition of the workers was dominated by the locals, 35% locals, as against 25% Punjabis, 20% Pathans, 13% Balochs and 7% from Kashmir/northern areas. Faizan observed that workers from up-country, particularly from KP and Balochistan were generally robust and would more readily undertake tough jobs, followed by Punjab and northern areas and lastly, locals. The union, however, was predominantly local and played a key role in forming the company culture.

The 24/7 operation of the plant was managed by means of three 8 hourly shifts. However, due to the numerous processes involved with less than half of them automated, the shift would stretch up to 12 hours for some workers, bearing additional costs to the company in terms of overtime. While the workers would frequently circumvent the procedures in order to show greater productivity, the machines would take their time completing the step by step sequential processes. This resulted not only in uneven time lines between various teams/processes but also made quality control a difficult job.

Owing to the security situation in Karachi, and the far flung location of the plant, the absent workers would always have one or the other excuse for not showing up for work. The excuses would vary from a local strike in

the area of residence to non-availability of public transport and a host of other personal/domestic issues. However, the same worker would willingly work overtime in order to earn extra money. Any piecemeal punitive/corrective measures instituted by the company, particularly monetary ones would be strongly resisted by the union.

In the interest of growth and increased production, the company had acquired additional equipment and machinery which was installed by shifting/readjusting the existing ones in the various shops. This had resulted in overcrowding and generating even more heat inside the shops, making it even tougher for the workers.

During his study of the plant and its environment, Faizan befriended a number of workers from various categories; unskilled, skilled, supervisors, foremen, shop in-charges etc and tried to obtain their opinions about the prevalent absenteeism and turnover rates. In some cases, those opinions coincided with his observations, e.g., the strenuous working conditions and low motivation. In other cases they led him to draw conclusions and to come up with an action plan. He also observed that the local workers were not as hardy and punctual as the workers from up-country. Being a majority, they also dominated the union and had a dominating effect on the company culture.

Having spent three months at the plant, and an innumerable number of meetings with other managers up and down the ladder, he asked for a one-on-one meeting with the CEO. Despite Abu Bakr's resistance, who argued for

the presence of all the line managers, the request was granted.

He proceeded to brief Taqi about his observations of the HR system of the company. He suggested to gradually switch from hiring workers as regular employees to outsourcing the labor force, while retaining a small number of key employees as a nucleus staff. This nucleus staff would also form a union, thereby satisfying the legal requirement of the collective bargaining agent. Moreover, since as per the law, the maximum duration for a contract worker is 180 days, the worker himself would be saved from the harmful effects of long term exposure to hazardous materials such as lead. In the longer run, it would not only benefit the workers' health but would also save the expenditure on medical treatment necessitated by prolonged exposure to hazardous materials. Such a switch, argued Faizan, would also address the problem of unionism in the plant. He also recommended to gradually change the demographic layout of the workforce and to hire more Pathans and Balochs than locals. In order to look after the long term interests of the workers, the labor contractor be made to ensure that his labor is duly registered with EOBI and SESI.

On the compensation system, Faizan suggested that the minimum pay for each grade be enhanced to Rs 1,000 + the minimum wage laid down by law (Rs 12,000). In addition, he suggested a monthly Regular Attendance Allowance of Rs 1000 for all workers whose attendance remained 100%. This additional expenditure, he suggested, could be met from

the savings accrued by discontinuation of the terminal benefits of workers.

Although a cafeteria did exist within the plant premises, the workers were required to buy their meals. Faizan suggested that since the plant operates 24/7 in such difficult conditions, the workers be provided with free meals from the cafeteria, as per a standardized menu. All the workers as well as the management be served the same food. Medical treatment for illnesses caused by the work environment and work related accidents should continue to be provided free of cost to all workers. Such patients be visited by the management regularly throughout their treatment.

He also suggested reducing the manual portions of the manufacturing processes to the minimum and to substitute them with automation. It would not only reduce the requirement of manpower but would also ensure effective quality control and standardize the timings of the various processes. In order to do that, an expansion of the plant premises could be effected by acquiring two adjacent vacant plots and the cramped up space inside the existing shops could be freed up.

Initially, the CEO was wary about all the strategic changes that Faizan had suggested, but after a lengthy discussion, he did agree to share the recommendations with Naheed and Shahid, and to ask Naheed to work out the financial effects of the measures. Meanwhile, Faizan was tasked to get in touch with the company's legal consultants and obtain their opinion. Not a month had gone by that his recommendations were formally approved

by the Board of Directors. This was more than two years ago.

Epilogue

Faizan glanced at his watch as he drove inside the main gate of the plant, where the security supervisor greeted him cheerfully. It was 7:48 am. It had taken over two years of immeasurable effort and an unimaginable amount of tact to replace a workforce of regular employees with outsourced contractual workers. In many cases, the same employees had their status changed from regular to contractual. The present composition of the workforce now was 35% Pathan, 20% Balochs, 15% Punjabi, 10% Kashmir/Northern Areas and 20% locals.

So far as turnover was concerned, it was still high, but was improving. In the last quarter, only 75 workers had quit as against 94 during the same period last year. Similarly, over the last quarter average absenteeism had been 7.69%, as against the same period last year when it was 11.53%. The company had retained a very small number of regular employees (25) in the workforce. These 25 were the nucleus staff who controlled and regulated the contract employees. With the two automated plants which had already arrived and would be commissioned within the next six months, a sizeable workforce would be rendered redundant. Shahid had crunched the numbers and would present his conclusions in today's meeting.

One significant after-effect of the reforms was the loss of trained manpower with obvious effects on productivity. The CEO, Taqi,

had brought his weight to bear on the BOD to concede to the proposal and to find out by trial-and-error. It paid off.

The company had produced 2.1 million batteries of various categories in the last year, compared with 1.8 million the year before that. A stable production of 175,000 batteries per month had now been a matter of routine in the last year. The measure of production had also shifted from number of batteries produced to the number of plates used, which gave a more realistic picture of the volume of

production. The claims had also dropped to a monthly average of 2,400 batteries. By and large, his reforms, as he liked to think of them, had started bearing fruit. The BOD was happy, the customers were happy, the management was happy and the workforce was happy. It was a win-win situation.

(7:50 am) Looking forward to today's meeting, Faizan breathed a sigh of contentment as he entered his office to the warm greeting by Nida, his secretary and the hot cup of tea awaiting him on his desk.

REQUIREMENTS

Question 1. What was the annual average number of employees who quit ABL before Faizan's reforms and what was the turnover rate afterwards?

Question 2. What was the rate of absenteeism (%) before and after Faizan's reforms?

Question 3. What, in your opinion, were the main reasons of absenteeism and high turnover, the physical conditions and compensation system or the company culture? Did Faizan's reforms address these issues? If yes, how do you think his reforms will fare in the future?

Question 4. The workforce in ABL is now being hired through contractors instead of direct hiring. How do you think it is going to effect the company in the long run?

Note: Instructor notes if required can be obtained on request from editorial board Market Forces.