FICCI Survey on Labour / Skill Shortage for Industry

Background

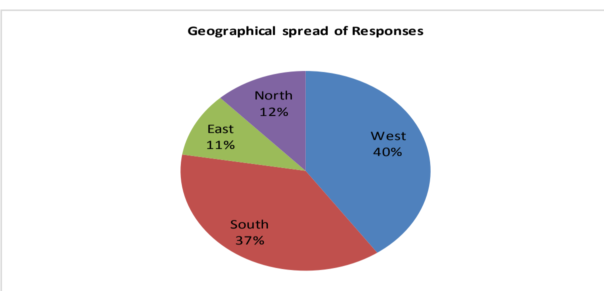
Despite having a favorable demographic profile, labor and skill shortage continues to be one of the key concerns for the Indian industry. This problem has been compounded by the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). It seems that MGNREGA has made a perceptible difference to the 'choice of work' of the casual labor in rural and semi urban areas.

It is against the above backdrop that FICCI carried out the present field survey to understand the ground level impact of MGNREGA in greater details. The objective of this survey was to bring out and highlight the intensity of labour / skill shortage problem being faced by Indian industry and elicit suggestions from industry on what can be done to overcome such problems.

Survey Profile

For the purpose of this survey a short questionnaire was circulated among member associations of FICCI and amongst individual companies during the months of August and September 2011. The survey drew responses from about 10 associations and in total we received duly filled in questionnaires from over 100 companies.

The responses were received from across the country and from a wide array of sectors.



A majority 40% of the responses were received from Western part of the country. Most of these respondents were from the states of Rajasthan and Maharashtra. A few responses were also received from Goa and Gujarat.

Further, about 37% of the participants were from South India. Most of the responses from these regions were from the states of Tamil Nadu and Kerala. A few responses were received from Karnataka as well. Finally, about 12% and 11% of the responses were from Northern and Eastern region respectively.

With regard to the sectoral spread, responses were received from a wide array of sectors such as textiles, leather and leather products, handicrafts, gems and jewellery, construction, auto components, food processing, plastic and plastic products, pharmaceutical sector and machine tool manufacturers.

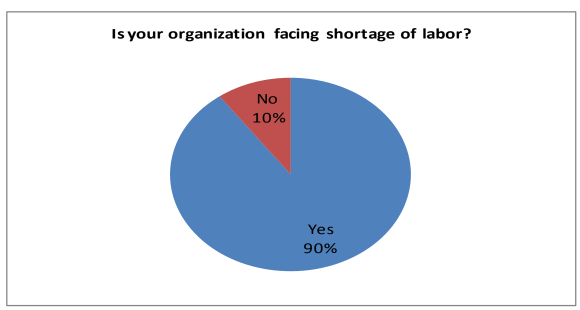
The turnover of the companies that participated in the survey ranged from less than Rs. 1 crore to Rs. 2700 crore per annum. However, a little more than half of the participants belonged to the small and medium enterprises segment.

Survey Findings

Labour shortage a serious problem…

An analysis of the survey results shows members of Indian industry are facing a **serious problem with regard to availability of labor**. This view has been supported by an overwhelming majority of the survey participants.

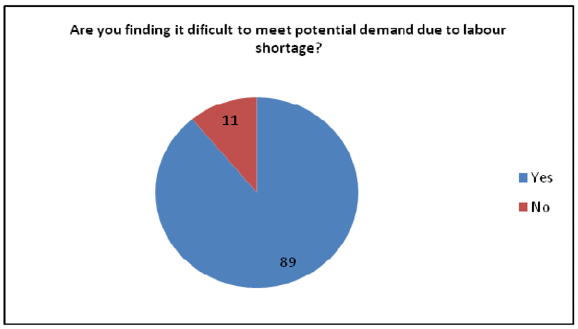
Further, several companies have reported that their workers have started demanding higher wages and that companies are already beginning to face difficulties in terms of meeting confirmed orders on account of shortage of workers.



As the above chart shows, a sweeping majority of 90% of the participating **companies** have indicated that they **are unable to find adequate number of workers for running their operations**.

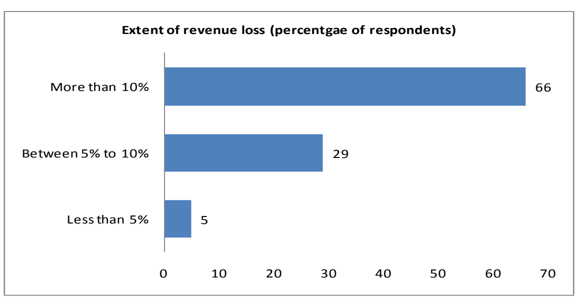
… leading to slippages in meeting confirmed orders

Companies have also reported that they have started **facing the brunt of this shortage in the form of slippages in meeting confirmed orders**. About 89% of the respondents said that they have been unable to fully meet the potential demand for their products in the market due to labour shortage.



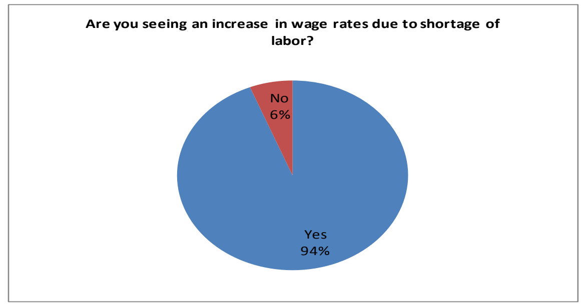
Potential loss of more than 10 % of demand for majority of respondents…

When asked to comment on the extent of potential loss due to shortage of labour, nearly two thirds of the participating firms said that their potential losses are **to the extent of more than 10 % of their demand**.

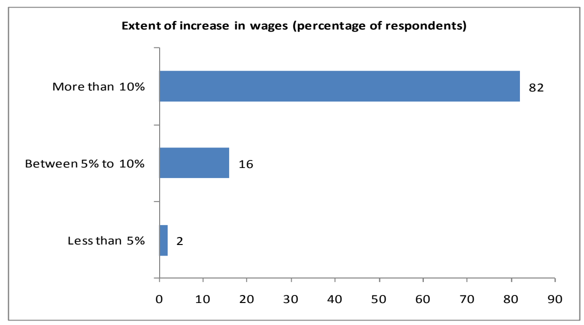


…with additional pressure on wages

While the problem of not being able to meet potential demand is one aspect, another related aspect is the **upward pressure on wages that is now pervasive**. As the chart below shows, nearly 94% of the surveyed firms have reported that they have seen an increase in wages due to shortage of labour.



Further, when asked what has been the extent of increase in wages, a majority 82 % of the participants said it has been more than 10 % for them.



Dealing with the situation…

As part of the survey, the participating companies were also asked to indicate what measures they are taking to deal with the problem of labour shortage and minimize the adverse impact on productivity.

Many of the survey participants mentioned that they have to accept unavoidable delays in delivery schedules, cut down on orders and even reduce production capacity at times due to scarcity of workers. As each of these developments can have a big negative impact on business, **companies are trying to minimize the impact of shortage of labour by**

* Organizing and attending recruitment camps
* Offering special training to unemployed youth and hiring them for company operations
* Offering better benefits and working environment to new recruits
* Introducing incentive schemes like 'attendance bonus scheme'
* Increasing shift timings
* Going for greater mechanization

FOCUS: MGNREGA & STATES

One of the criticisms of the MGNREGA is that it has not been implemented uniformly across states and may have created a piquant situation of enhancing the divide between the states. To understand this in greater details, FICCI used the survey results to construct **Herfindahl Index**, a commonly used statistical measure of concentration.

In statistical parlance, the **Herfindahl Index** is a well known and often used measure of concentration. Originally, this measure has been developed to measure industry concentrations. For our case, we construct this Index using FICCI Survey to understand whether the impact MGNREGA Act is concentrated with respect to regions, states, wages paid and industry.

In simple terminology this implies that the impact of the MGNREGA is non-uniform / lumpy across selected states and industries and creating a piquant situation whereby some states and industries are getting impacted more compared to others.

The Herfindahl index takes the sum of the squared share (expressed as a percentage) of each observation (in our case, it could be the responses received from regions, wages paid and industry). The Herfindahl Index (H) ranges from 1/N to one, where N is the number of rating grades.

A small Herfindahl index indicates a smooth distribution profile with no concentrations. Typical ranges that may be applied are:

* Index below 0.1 indicates an unconcentrated index
* Index between 0.1 to 0.18 indicates moderate concentration
* Index above 0.18 indicates high concentration

Measure of Herfindahl Index

Industry	Herfindahl	No of responses received from regions	Herfindahl
Automotive		North	
Construction & Real Estate		South	
Food Processing	0.18	West	0.32
Manufacturing		East	
Packaging			
Services			
Others			

Source: FICCI Survey & www.nrega.nic.in

As per the table above, the **Herfindahl Index** for industries in our sample is 0.18, indicating that this group of industries is getting impacted adversely because of the MGNREGA scheme. In a similar vein the **Herfindahl Index** for regions takes a value of 0.32. This shows that companies based in the Western and Southern regions are getting impacted more due to MGNREGA.

Going by the survey results, FICCI believes that the government should make some changes in the MGNREGA scheme to make the impact more uniform and distributed across states and industries. Towards this end, survey respondents have made the following suggestions –

* The scheme should be implemented during the non-peak agricultural season only
* The work done in industrial units can also be considered for coverage under MGNREGA. This will be particularly useful in areas where there is heavy concentration of industrial activity
* State governments must not make it mandatory to hire workers from within the state. Free movement of workers across states should be encouraged