

**Labor Management Relationship
and Productivity: A Case Study
of the Ceylon Biscuits Ltd. Pannipitiya, Sri Lanka**

By

P. P. Ajith Kusum

(GS/MC/1867/2001)

A dissertation

submitted to the University of Sri Jayewardenepura

in partial fulfillment of the degree of

Master of Science in Management

M.Sc. (Management) Program

Faculty of Graduate Studies

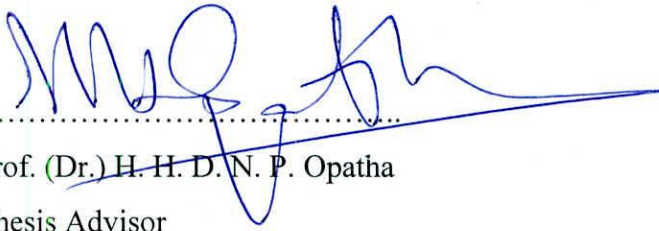
University of Sri Jayewardenepura

Sri Lanka

December 2007

Certification

I hereby recommend the dissertation prepared under my supervision by P. P. Ajith Kusum (GS/MC/1867/2001) titled “**Labor Management Relationship and Productivity: A Case Study of the Ceylon Biscuits Ltd. Pannipitiya, Sri Lanka**” be accepted in partial fulfillment of the requirements for the degree of Master of Science in Management.



Prof. (Dr.) H. H. D. N. P. Opatha
Thesis Advisor

Approved by the Examining Committee



M.Sc. (Management) Program
Faculty of Graduate Studies
University of Sri Jayewardenepura
Gangodawila, Nugegoda
Sri Lanka.

December 2007

Acknowledgement

This page is dedicated to acknowledge helping hands extended to me during the development phase of this thesis submitted to the University of Sri Jayewardenepura as a part fulfillment of the M.Sc. (Mgt.) degree program.

First and foremost, Prof. (Dr.) H. H. D. N. P. Opatha, Professor of Human Resources Management, and currently Head of Human Resources Management Department of the Faculty of Management Studies and Commerce of the University, who has supervised this thesis, deserves a word of appreciation for his unmatched support extended in supervising this thesis. He enlightened me on theoretical background of research methodology and was a source of encouragement in completing this study during the period of challenges I have passed during the study. Prof. (Dr.) Opatha was the Coordinator of the M.Sc.(Mgt.) degree program when I started the degree program. Without his guidance I would not be able to complete this thesis in the given time.

All former Coordinators of the program and current Coordinator Dr. P. D. Nimal and all lecturers of the program deserve a mention here and I appreciate wholeheartedly the support given to me by them throughout the study period. My colleague, Mr. Jinendra Kothalawala, deserves a mention here for all the guidance and support provided in this particular study and throughout the study period.

Mr. Ajith Jayasinghe, HR Manager of the Ceylon Biscuits Ltd. who provided all the information pertaining to the topic, is appreciated wholeheartedly with gratitude. The CBL trade union officials Mr. W. A Sirisena (President), Mr. T. Chandana (Secretary), Mr. W. A. P. Wickramaratne (Ex-president) and Mr. V. Hettiarachchi of AIICTUF were very supportive in providing historical background and current contexts of the labor disputes, during data collection period.

Finally, my loved wife, Manoja and son Savindu who compromised many things for my higher education and great support extended are acknowledged affectionately.

Thank you very much.

P. P. Ajith Kusum (GS/MC/1867/2001)

Abstract

The research study titled “Labor Management Relationship and Productivity: A Case Study of the Ceylon Biscuits Ltd. (CBL) Pannipitiya, Sri Lanka” was undertaken as part fulfillment of the M.Sc. (Mgt.) degree (HRM Sp.) of the University of Sri Jayewardenepura, Sri Lanka. It was undertaken as a case study at the (CBL), popularly known as “Munchee”, a prominent biscuits manufacturing firm in the manufacturing sector of Sri Lanka, using qualitative inquiry methodology. The key objective of the qualitative inquiry was to investigate the real reasons caused for break of industrial harmony in the year 1999 and year 2001 that led towards labor disputes at the company. The study was focused on labor management relations in 10-year time period from 1995 – 2005 where the 02 major labor disputes were occurred.

A model of 20 variables was developed at the beginning of study that may have an effect on labor management relations (LMR) that ultimately contribute for productivity of a manufacturing organization. All the variables were inquired as a case study, and this thesis elaborates how the CBL resolved the two worst ever labor issues that it has ever faced during its nearly 40 years of operation.

The case study method is being used increasingly as a qualitative research method to explain complex phenomena similar to that of CBL’s labor dispute. Case studies contribute in important ways to our knowledge about social issues. Ontologically, the research lies within the subjective reality of the society and, epistemologically it is based on the replication of theory related to the topic.

The CBL commenced its operations in July 1968 to supply schools with high protein nutritional biscuits to schoolchildren under the patronage with CARE International of USA. Due to the improved quality standards of the products, the company has been awarded several prizes over the last seven years. The CBL exports biscuits to other foreign countries under the foreign brand names viz. K-mart, Wall Mart and Design Pac. Currently, the CBL has eight subsidiaries operating in Sri Lanka and overseas.

Making use of the legislative provisions, the CBL employees too formed a Trade Union (TU) under the Industrial and Commercial Service Employees Trade Union Federation in 1985, which was operated under the leftist party-Mahajana Eksath Peramuna till 1999.

The TU changed into another leftist party-Janatha Vimukthi Peramuna (JVP) led All Island Inter Company Trade Union Federation (AIICTUF), which created lots of Labor Management Relations (LMR) issues. In 1999, just because the workers formed a new TU, the management interdicted the workers involved and then all workers demanded to reinstate them and to confirm all casual workers. The dispute lasted about 2 weeks, which hampered the production process and lost around thirty six thousand of man-hours.

In 2001, the AIICTUF led new TU paved the way to a second major labor issue caused by a request for an unfair additional bonus where they insisted five bonuses instead of four as agreed in the collective agreement. Therefore, the management, trade union, and the workers were responsible for break of LMR between workers and management in 1999 and 2001.

Based on the findings of the research, recommendations are outlined for three categories of key players viz. workers, trade union leaders, and management.

Workers are recommended to be mindful about trade union demands and always act according to collective agreement terms and conditions. Suitable persons need to be appointed as leaders of the TU recommended to contribute as much as they can for the growth of the company.

The trade union officials are recommended to “de-politicize” trade union activities and refrain from using legal power as a “shield” to win workers’ rights. They are suggested to take no action to hinder the production process that may lead to disadvantageous situations in the competitive market. A learning process is required for the union leaders to learn realities in other countries. Attitudinal change from “traditional sociologist ideological perspective” to match with “competitive business environment” is required. They have to realize that technological transformation is inevitable and unstoppable.

The management needs to treat trade unions as “human organizations” and therefore, adopt a “humanistic approach” towards workers. Management needs to make the workers feel “secured” in employer’s hands and management should be “watchful” about workers’ needs. Grievance handling is an area to be streamlined. Performance evaluation system and performance based incentive system needed to introduce to reward the workers adequately and equally. It should also recognize trade unions and should not underestimate and neglect their strengths that may be utilized to improve the company performance, which the final aim of management. Equity participation schemes, training and development are needs of today’s dynamic and changing business environment to make workers feel that they have an “ownership” of the firm and responsible for its success and growth. The best-practiced “Enterprise-based trade union”, as can be seen in Sri Lankan Commercial Baking industry, should be encouraged among workers.

The recommendation relates with 20 variable model where employee satisfaction, which is referred to as the degree to which an individual feels positively or negatively on various aspects of the job, is found as the most critical variable for productivity of the organization

This study may have certain limitations viz. unavailability of past information, memory lost, unavailability of persons who have witnessed the two disputes, were prominent. Future research is encouraged to further investigate similar issues that enhance knowledgebase useful for practicing managers and scholars as well.

Table of contents

	Page No.
Title page	i
Certification by the supervisor	ii
Acknowledgment	iii
Abstract	iv
Table of contents	vii
List of tables, exhibits, figures and graphs	xiii
List of abbreviations & acronyms	xiv
Chapter 1 – Introduction	1-16
1.1 Introduction	1
1.2 Introduction to the study	1
1.3 Significance of the manufacturing sector	1
1.4 Significance of the industry	2
1.5 Selected company	3
1.6 History of Ceylon Biscuits Limited (CBL)	4
1.7 Current position of CBL	4
1.8 Overseas operations	6
1.9 Subsidiary companies of CBL	6
1.10 Achievements of CBL	7
1.11 Context of the problem	9
1.11.1 Problem statement	11
1.12 Significance of the study	11
1.13 Objectives of the study	12
1.14 Type of study	13
1.15 Methodology	13
1.16 Variables of LMR	13
1.17 Summary of the chapter	16
Chapter 2 – Literature Review	17-63
2.0 Introduction	17
2.1 Employee satisfaction at work	17

2.2	Worker health and safety administration	20
2.3	Management skills of managers	21
2.4	Managerial capability of managers	24
2.5	Quality of worker disciplinary administration	25
2.5.1	Disciplinary Procedure – Preliminary Investigation	29
2.5.2	Interdiction/suspension	31
2.6	Existence of minimum wages regulations	33
2.6.1	Minimum wages	34
2.6.2	Working day for wages purposes	35
2.6.3	Time rate and piece rate wages	35
2.6.4	Waiting for work – computation of wages	35
2.7	Requirements of unions to register under the act	36
2.7.1	Consequence of un-registration	37
2.8	Recognition of trade unions for collective bargaining	37
2.8.1	Effect of collective agreement	38
2.8.2	Termination	39
2.8.3	Offences	39
2.9	Acceptance of right to protest	40
2.9.1	Definition of a strike	40
2.9.2	Right to strike	41
2.10	Conduct of employees	44
2.11	Worker grievance handling	45
2.11.1	Personnel management decisions	47
2.11.2	Job itself	47
2.11.3	Working conditions	48
2.12	Performance Evaluation	49
2.12.1	Purposes of Performance Evaluation	50
2.12.2	Performance evaluation methods	53
2.13	Worker competence on the Job	54
2.14	Leadership style of managers	57
2.14.1	Leadership and vision	59
2.14.2	Power and influence	60
2.14.3	Sources of position power	61
2.14.4	Sources of personal power	62

2.15	Summary of the chapter	63
Chapter 3 – Research Methodology		64-89
3.0	Introduction	64
3.1	Methodology for enterprise analysis	64
3.2	Research design	66
3.2.1	Type of study	66
3.2.2	Qualitative technique	66
3.2.3	Study approach	67
3.2.4	Study setting	68
3.2.5	Extent of researcher interference	68
3.2.6	Time of study	68
3.2.7	Unit of analysis	69
3.3.	Case Study Methodology	69
3.4	Operationalisation of the Concept	70
3.5	Operationalisation of the variables	72
3.5.1	Labor Management Relations (LMR)	72
3.5.2	Productivity	73
3.5.3	Labor	74
3.5.4	Legal right to unionize	74
3.5.5	Existence of minimum wage regulations	74
3.5.6	Requirements for unions to register under the Act	75
3.5.7	Recognition of unions for collective bargaining	75
3.5.8	Non-existence of politicization	75
3.5.9	Acceptance of right to protest	75
3.5.10	Existence of single, well organized and powerful union	76
3.5.11	Code of conduct for employees	76
3.5.12	Employee satisfaction at work	76
3.5.13	Quality of worker discipline administration	77
3.5.14	Worker grievance handling	78
3.5.15	Worker welfare administration (WWA)	79
3.5.16	Performance evaluation (PE)	79
3.5.17	Worker health and safety administration	80

3.5.18	Employee attitudes towards management	80
3.5.19	Management attitude towards workers	81
3.5.20	Worker competence on the job	81
3.5.21	Management capability of managers	82
3.5.22	Leadership style of management	82
3.6	Selection of an enterprise for Case Study analysis	82
3.7	Data Collection	85
3.7.1	Primary data collection	85
3.7.2	Secondary data collection	88
3.8	Method of data analysis	88
3.9	Summary of the chapter	89

Chapter 4 – Data Presentation and Analysis **90-127**

4.0	Introduction	90
4.1	Legal right to unionize	90
4.1.1	Member fee	93
4.2	Existence of minimum wage regulations	93
4.2.1	Relevant wages board	95
4.3	Collective bargaining	96
4.3.1	First termination of collective agreement	97
4.3.2	Second termination of collective agreement	98
4.3.2.1	To attempt to close down the company and take it to India	100
4.3.2.2	To adopt a media campaign against the trade union's unfair request of 5 bonuses and create a social awareness of the real causes of the dispute	101
4.3.2.3	To work directly with the trade union's political party-JVP	101
4.3.2.4	To send key trade union activists for foreign visits to provide them with an awareness on production process prevail in other countries	102
4.3.2.5	To organize cultural events/social activities to improve relations with union so that a conducive environment prevail in the company in the long run	102
4.3.2.6	To inculcate favorable attitude from the management side towards the trade union and promote the trade union to work closely with the management	103
4.3.2.7	To strengthen welfare programs for workers	104
4.3.2.8	To comply with legal requirements pertaining to handling of labor	104
4.4	New collective agreement	104

4.5	Politicization of union activities	105
4.6	Right to protest	106
4.7	Existence of single, well organized and powerful trade union	107
4.8	Code of conduct for workers	108
4.9	Worker grievance handling	109
4.10	Worker performance evaluation	111
4.11	Worker welfare administration	112
4.12	Employee attitudes towards management	113
4.13	Management style of management	115
4.14	Worker health and safety	116
4.15	Employee satisfaction at work	119
4.16	Management skills of managers	121
4.17	Management capability of managers	123
4.18	Summary of the chapter	127

Chapter 5 – Discussion, conclusion and recommendations **128-147**

5.0	Introduction	128
5.1	Discussion	128
5.1.1	Summary of findings	131
5.2	Conclusion	133
5.3	Recommendations	136
5.3.1	Recommendations for workers	136
5.3.2	Recommendations for trade union leaders	137
5.3.3	Recommendations for management	140
5.4	Limitations of the study and suggestions for future research	146
5.5	Summary of the chapter	147

References **148-153**

Appendix I - Collective agreement signed between workers and management for the period 1998- 1999

- Appendix II - Memorandum of settlement entered in April 1999, between management of CBL and Inter Company Workers Trade Union of AIICTUF
- Appendix III - Newspaper article published in "Silumina" in April 2001
- Appendix IV - Questionnaire guideline for Managers
- Appendix V - Questionnaire guideline for Workers
- Appendix VI - Current minimum wage levels for confectionary and biscuits sector with effect from May 1, 2007
- Appendix VII - Consolidated orders relating to the description of the trades for which wages boards have been established and consolidated decisions of such boards as published in the Sri Lanka Labor Gazette: 54:1 March 2003
- Appendix VIII - Collective agreement signed between workers and management for the period 2002 - 2004
- Appendix IX - Letters issued by AIICTUF in 1999 in protest of misleading news articles
- Appendix X - Workers protesting at the premises of CBL
- Appendix XI - A copy of minutes of union - management meeting held on 15th February 2006
- Appendix XII - Collective agreement signed between workers and management for the period 2005- 2007

List of tables, exhibits, figures and graphs

	Page No.
Tables:	
Table 1.1: Employment in the manufacturing sector	2
Table 1.2: Employee details	4
Table 1.3: Variables associated with LMR by type	14
Table 2.1: Causes of grievance	46
Table 3.1: Production and growth rate by year	84
Table 4.1: Union memberships	91
Table 4.2: Wages Levels	94
Table 4.3: Salary increase model	95
Exhibits:	
Exhibit 1.1: Schematic diagram of the conceptual framework	15
Figures:	
Figure 2.1: Essential managerial skills	22
Figure 2.2: Advantages of performance evaluation	52
Figure 2.3: Relationship of leadership with other management functions	58
Figure 2.4: Five principles of leadership	60
Figure 2.5: Sources of power	61
Graphs:	
Graph 3.1: The pattern of Biscuits Production in MT at CBL	84

List of abbreviations & acronyms

AIICTUF	-	All Island Inter Company Trade Unions Federation
CBL	-	Ceylon Biscuits Ltd.
CEO	-	Chief Executive Officer
EFC	-	Employers Federation of Ceylon
EPF	-	Employee's Provident Fund
ETF	-	Employee's Trust Fund
FCCISL	-	Federation of Chamber of Commerce and Industry Sri Lanka
GRS	-	Graphic Rating Scale
HRM	-	Human Resource Management
IR	-	Industrial Relations
ISO	-	International Standards Organization
JVP	-	Janatha Vimukthi Peramuna
KSA	-	Knowledge, Skills and Attitudes
LMR	-	Labor Management Relations
MEP	-	Mahajana Eksath Peramuna
PE	-	Performance Evaluation
SLIM	-	Sri Lanka Institute of Marketing
SLSI	-	Sri Lanka Standards Institution
TU	-	Trade Union
USA	-	United States of America
WWA	-	Worker Welfare Administration

Chapter 1 – Introduction

1.1 Introduction

This chapter will analyze manufacturing sector, confectionary and biscuits industry and the company in detail. It will describe the study objectives, context of the problem and problem statement, and type of study and methodology adopted in the research study on labor management relations and productivity.

1.2 Introduction to the study

The research study was undertaken as part fulfillment of the M.Sc. (Mgt.) degree (HRM Sp.) of the University of Sri Jayewardenepura, Sri Lanka. It was operationalized with an empirical investigation into the impact of Labor-Management Relations (LMR) for productivity of a manufacturing firm-the Ceylon Biscuits Ltd. (CBL) that has been operating in the biscuits and confectionery industry for the last four decades.

1.3 Significance of the manufacturing sector

The CBL operates in biscuits and confectionary industry that falls in manufacturing sector of Sri Lanka economy. As at September 2005, there were 1028 firms engaged in manufacturing activities according to Census and Statistics Department sources. Manufacturing firms in Sri Lanka have been playing a vital role in the economy in terms of employment generation and the value of output produced. According to the