Notes and Comments

WORKERS BUY OUT – AN INDIAN EXPERIENCE

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Worker buy outs of failing enterprises is one way to avoid the human disaster of the closure of a plant with the consequent retrenchment of hundreds of workers. The article documents several cases of such worker takeovers in India and draws conclusions concerning some requirements for a successful takeover.

"Those who would give up essential liberty to purchase a little temporary safety deserve neither liberty nor safety."

Benjamin Franklin

Introduction

The notion of worker control, worker takeover and worker buy out of enterprises represents the realization of the ultimate goal of self management by the working class. The idea emanates from the hidden desire of workers to do away with the labour-management relationship and to shape a cherished model of a self-governing enterprise which accords the worker the right to ownership of the means of production as well as the earnings of the enterprise [Hunnius et al, 1973]. The basic philosophy behind worker control of an industry is that workers have a moral responsibility for their own collective effort and also a natural right to appropriate the proceeds of their work [Srinivas, 1993].

Control of an enterprise by its workers is not merely an economic reform; it also forms the basis for the development of their personality and the transformation of their social relations. If, these goals, seem to many to be utopian, this could only be a reflection of the prevailing system in which emphasis is placed on material gains and quantitative growth without structural change. However, control over one's work is after all, a fundamental human issue that transcends economics. [Turner, 1973].

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Employee ownership has been justified on many grounds. First, an ideological claim that employee ownership and participation will eventually lead to the fulfillment of the socialist ideal. Second, it creates a work incentive. Third, there is the psychological claim that ownership will produce greater commitment and fourth the economic claim that such organizations would be more profitable and productive than ordinary firms. Finally we have a sociological claim that industrial relations will be more cohesive

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and cooperative under worker ownership [Manson, 1991].

Worker's Buy out - Some Issues

In practice, workers buy out in the true sense seldom occurs, which is not surprising [Mike, et al 1994]. The reason, in the first place, may be the failure of the union leadership to project to the rank and file the vision of workers as owners and in the second place a declining relationship between workers and union leaders. Because of this, workers succumb to management pressure and give signals which are sometimes even used by the union leaders in association with the management to keep the workers out. This means that, though Trade Unions are meant to provide a collective bargaining platform and protect the freedom of the workers; in fact they sometimes collude with the management.

Even where there is worker ownership; however, there are signs of a low level of participation of the worker-owners in the running of their enterprises. This has been documented in various case studies [Campbell, 1977; Stephens, 1982]. These studies have noted that the workers are not anxious to replace the existing managerial bureaucracy because they tend to face a dual cultural conflict. On the one hand they believe they should not have influence over policy at the highest level. On the other hand they soon begin to perceive a gap between their expectations and the actual results. This produces considerable frustration and often increases their attachment to the unions to whom they look to resolve issues. It is in the resolution of these issues that the role of the unions in worker run companies gains importance. p73 Studies indicate that the failure of a union to address the problems that set in during the early stages of the life of worker-run companies distances the unions from the rank and file of their membership [Berman, 1978; Balsi, 1987].

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The factors that contribute to the success of a worker take over are to be found in the cohesiveness of the work force, a dynamic union leadership and effective and continuous external support in an either advisory capacity or as consultancy or finally with hard core financial assistance.

Some Cases of Worker Takeover

In the 70s and 80s the Indian labour scene passed through several phases of severe unrest, during which production suffered badly resulting in the collapse of several firms, through closures and shutdowns. The effect was loss of jobs and prolonged hardship for the workers. This led people to think of worker's buy out (or take over as it is called in India). The late '80s saw a real increase in such efforts. We may mention a few cases.

1. Sangaon Tea (closure - September 1973, re-opening - September 23, 1994, the assets and liabilities passed on to the workers union)

In the late eighties, when the tea market was passing through an all time low, the closure of the Sangaon Tea Garden in Assam caused great job losses. The owners wanted to abandon the garden withdrawing assets worth Rs.2.5 crores and leaving behind liabilities of Rs.3.5 crores. Then the principal trade union affiliated to the All India Trade Union Congress (AITUC) stepped in and its affiliated Chabagan Workers Union took the leadership to buy out the garden and run it on their own. Within a year, the plantation revived, the market improved and production was streamlined. The workers cooperative accumulated saving of Rs. 7 lakhs and the income of the workers went up by 50 per cent.

2. **Tripura Tea Plantation** (closure - end of 1979, re-opening beginning of 1980)

On the closure of a whole stretch of tea gardens in Tripura around the time of the buy out of Sangaon Tea and under similar circumstances, several gardens namely Kailashar, Durgabari, Luda, Darandilla, Mayangtuk, Aichuck, Dimatoli, Khowai, Lilagarh and Tripura came under the banner of the Tripura Tea Workers Union an organization affiliated to the Centre for Indian Trade Union (CITU). The workers first united to fight against retrenchment and mismanagement. With the support of the then left front government of Tripura, in the form of loans and subsidies, the workers were able to buy out the gardens with good results. The retrenched workers were reemployed, production increased and the financial position of the estates was strengthened.

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3. **The New Central Jute Mill,** Calcutta (closure date - not available, re-opening - 1987)

The Mill, belonging to the Sahu-Jain Group, was recording substantial losses in the seventies. The problem was that the mill was suffering from a severe resource crunch leading to erosion of its net worth and a resultant decline of its market share. The mill defaulted on a payment of Rs.7 crores due to the State Bank of India and soon accumulated a loss of Rs.55 crores. The dues to the employees amounted to Rs.10 crores. The disaster of shutdown began to case its shadow over 10,000 mill employees. This united all the 14 unions under one leadership to save the mill. The workers prepared a revival package to be placed before the Bureau of Industrial and Financial Reconstruction (BIFR). The Bureau accepted the plan, and the Mill was bought from the owners on a share purchase basis, the workers holding 52 per cent of the share, the State Government 41 per cent and the balance by the Financial institution and the banks. By 1991-92, the mill had a turnover of Rs.80 crores with a cash profit of Rs.4 crores. The mill diversified into non-traditional areas and modernization of the machinery was undertaken.

4. **Gujarat Tractor Corporation Ltd (GTCL), Baroda** (The case does not have a normal date of closure or re-opening, since it did not take the path of a worker's buyout.)

The Gujarat Tractor Corporation was on the verge of closure, due to gross underutilization of capacity and poor marketing strategies. The sickness was marked by a continuous cash loss. Eight cooperatives were then formed namely, Parishram, Adarsh, Mahashakti, Ajay, Sarvodaya and three others, (the names of which are not known) to provide jobs to the workers who had accepted voluntary retirement. The managing director of GTCL provided leadership to these cooperatives which started acting as ancillaries to GTCL, supplying components to the company. Their success was such that each member of the cooperatives was soon earning Rs.6,000 per month. The cooperatives have now accumulated some assets; production is carried out according to a strict schedule the rejection rate has fallen. The cooperatives have helped GTCL to reduce its losses and increase the sale of its tractors.

Though this is not strictly a worker takeover of the company it is considered here because it was through the workers' intervention and united action that GTCL was saved. The case is also notable because of the active part played by the Chief Executive of the company.

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5. **Jaipur Metals and Electricals Ltd (JMEL)** (closure date not available, re-opening : share ownership transferred on June 30, 1986)

JMEL was one of the few industrial units in the country which provided for worker participation in management, especially at the plant level, in planning and production and in communication committees. Still the company was on the verge of bankruptcy and closure. Then a cooperative of the workers was formed with the active cooperation of four unions affiliated to the four national labour bodies, AITUC, CITU, INTUC and BMS. Through their efforts the JMEL was revived from the verge of closure. Production increased and so did the profits. The workers now hold 66 per cent of the company's shares through their cooperative which appoints directors to the board.

6. **Kamani Tubes of Maharashtra** (closure - 1988, Re-opening - April 6, 1989)

Following a disagreement among the members of the Kamani family, the sick unit Kamani Tubes Ltd (KTL) was facing closure and had to be referred to the BIFR. The workers and the state government agreed to make a contribution of Rs.11.26 lakhs each to the capital. The workers also agreed to forego their dues. The Industrial Development Bank of India (IDBI) agreed to contribute Rs.58.74 lakhs towards share capital. The Board of directors was then reconstructed with one representative from the BIFR, two from the Government of India, one from the Bank of India and two worker representatives. The workers union, namely the Kamani Employees Union supported by the Kamani Sahakari Samiti and the Seva Sena acted as a catalyst in the movement. Production commenced again and the gross profit increased to Rs.45 lakhs against the target of Rs.139 lakhs, set by the BIFR. KTL has seen no industrial unrest since then.

7. **Bhashkar Textile Mill of Orissa** (closure - 1st time on 2.10.1983, re-opening date - not available; and second time 2.3.1992, re-opening - 31.12.1992)

The Bhashkar Textile Mill (BTM) was started in the private sector, but was taken over by the Government of Orissa following the closure of the mill. However, under adverse business conditions the mill was soon on the brink of closure again. Then the BTM workers union lead by the Jarsuguda Industrial Mazdoor Union affiliated to the All India Trade Unions Congress (AITUC) presented a scheme to take over the mill. The union envisaged a profit of Rs.2 to Rs.3 lakhs based on the plan submitted. The plan was accepted by the Orissa government; the Board of Directors of the company was reconstituted with the chairman and three members from amongst the workers. At the request of JIMU, the Government ratified the contract of conversion with M/s J J Spinners Ltd and M/s Orissa Spinning Mills, so that the mill could run smoothly. In the first few months after the takeover, the production and financial position began to show improvement. However, later, due to lack of technical and managerial knowhow, the new board could not sustain the business; the State Government stepped in and dissolved the board. The mill is now under a fresh negotiation with the workers who hope to reopen it on a share ownership plan.

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Conclusion

Industrial sickness and the rehabilitation of sick units is a major concern for both private and public sector, particularly in the present situation of economic liberalization.

Rehabilitation is an easy word for a difficult task. Poor performance leading to financial instability is something that no financial institution can face. Closure is no answer, at least not a prudent one, when India is seeking the globalization and opening up of its economy. The closure of domestic unit weakens the internal economy and disturbs the balance in the labour market. The result may be catastrophic, if the domestic economy cannot sustain the pressure of multinational competition. The less developed countries, which went through economy changes earlier than India, had a strong domestic industrial economy to support such a liberalization programme.

If rehabilitation of a unit is not possible through the direct induction of funds (which is obviously the last resort for any government), an alternative suggestion is to allow the workers to run the unit. This is a fair deal. It requires tremendous will power on the part of the work force to come forward and accept the challenge. At this juncture, the mainstream labour movements can act as a catalyst to provide strong local leadership. As seen in most cases of buy outs in India, the leadership of the mainstream trade unions, which had shifted away from the ideology of collective bargaining came into the picture. Sometimes these labour organizations tend to politicise the matter. This should be avoided at all cost. However, the cementing factor of a collective desire to fight the disaster is so strong among the workers that attempts to politicise the situation are generally resisted.

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Most of the cases of buy outs in India have been in the private sector, though labour is not well organised in the private sector. Now a disorganised labour force is easier to manipulate unless it has a strong second line of leadership to support it. This second line of leadership is important because it acts as a moderator for the new-born zeal of the workers during the buy out negotiations. Unless, this zeal is moderated, it may lead to the setting up of goals too high to be achieved which will finally bring down the morale of the workers. This may be one of the reasons for the failure of the BTM buy out.

The success of the JMEL takeover brings out a very interesting issue. A takeover is best achieved through a share ownership plan which was first put forward in the case of the takeover of the National Freight Corporation of the UK. The idea of transferring the share ownership to the hands of a cooperative may lend itself to replication elsewhere to enable a successful buy out. Such cooperative holding ensures the professional holding of the stock and leaves little room for fear about any unscrupulous transfer of the workers' shares to alien groups. Care should be taken to see that the workers get the value of their shares as a retirement benefit while new entrants are offered the shares at their face value and not at the market value.

Again merely restructuring the board and placing some worker representatives in it is not enough. A proper restructuring has to be done as in the case of KTL. It was haste in reconstructing the Board that led to the failure of the BTM takeover.

The KTL case shows that a helping hand from the government can be useful. Both the case of the tea industry and that of KTL show that the state with its financial, bureaucratic and judicial power and its experience can act as a motivator and a catalyst during the pre-buy out negotiations.

The case of GTCL provides a solution to the much feared retrenchment problem associated with the rehabilitation of sick units. Retrenchment was avoided by setting up ancillaries in the cooperative sector, not to buy out but to support the production of the mother unit through the manufacture of components needed for its production. The excess labour in the original plant was redeployed in the cooperatives. Thus the skill and experience of the original labour was used in a cost effective manner to rejuvenate the mother unit. The tea garden cases also show that even units located in remote areas are amenable to takeover.

Workers buy out is neither a farce nor a revolution, but a legitimate response in the face of a threat of closure of a plant and the loss of employment for hundreds and even thousands of workers. The feasibility of this solution has been proved both in India and in other countries of the world.

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