

***Conceptual Framework**

The credit for introducing the "LABOURISATION" goes to BMS only. It stressed that all categories of "employer" and under the various industrial ownership, the labour of workers must be evaluated in terms of shares and workers raised to the status of shareholders contributing labour as the share. As a standard bearer of Bharatiya culture the BMS proclaimed that surplus value of labour is managed and deployed by employers (accountable to themselves) under capitalistic order: by state (accountable to party) under communistic order and by workers (accountable to the nation) under Bharatiya order.

The BMS declared THE ONWARD MARCH OF LABOUR along the following lines:

From

The Master-Servant relationship

Through

A Better Deal
Joint Consultation
Joint Management
Auto-Management
Participation in ownership

To

Worker's Ownership.

***ESOP (Employee Share Ownership Plan)**

Workers' share ownership plan constitutes the major form of financial participation. It is technically called as Employee Share/ Stock Ownership Plan (ESOP). The scheme gives the opportunity to employees to own shares in their own company. The concept of ESOP was originally developed in 1967 by Louis Kelso, San Francisco lawyer and investment banker, and author of books titled 'The Capitalist Manifesto' and 'How to Turn Eighty Million Workers into Capitalists on Borrowed Money'. His objective was to turn workers into shareholders. Kelso argued that conventional capitalism is a closed loop financial system the rich get richer and the poor get poorer. People, he said, get rich not through wages and salaries but by owning shares in companies. With ESOP workers are able to get a share in this gain.

*** Modus Operandi of ESOP**

When an employer adopts the ESOP, workers form a trust to buy and hold their shares. This trust then borrows money from a bank to buy some or all of the company's shares at fair market value. The trust hands over the money to the employer in return for shares. For his part, the employer guarantees the repayment of the borrowed money, and settles it over a period of time by making contributions to the Trust.

Why should any employer do this? In the USA the most important reason is that he gets major tax concessions. Contributions to the trust to pay off the loan are considered by law to be deferred wages. They can be deducted from the company's income, exactly as wages are, before computing tax. Further changes in the law in 1984 have made ESOPs even more attractive. Half the interest earned by banks from loans advanced to buy shares is free of tax. Companies can deduct as an expense dividends paid on shares held by ESOPs, yet another advantage to the employer is that ESOP protects his company from takeover by business rivals. Since shares are not owned directly by workers but indirectly through the trust, they cannot be sold freely in the stock market.

Because ESOPs are so attractive to employers, workers and banks, the movement has received an enormous boost in the USA. About 10,000 companies have adopted the plan since 1974. On an average, workers hold about 20 percent of the shares in ESOP firms. And there are at least a thousand firms where they hold majority shares.

The ESOP shares are not individual property, which workers can freely sell. The decision to own the shares is also not an individual decision. The shares are owned by the trust. Loans to buy shares are taken by the trust. And it is through the trust that the employer makes payments to clear the loan. ESOP shares are thus owned by all workers. Individual workers can sell their rights when they leave or retire, but the trust usually buys them back.

*** Arguments in favour of Labourisation**

In the first place, it is often considered to be a means of improving motivation and productivity. It leads to greater commitment, lower absenteeism and labour turnover, greater investment in firm-specific human capital and reduced intra-firm conflict. In contrast to individual incentives, financial participation is also likely to enhance teamwork and a cooperative spirit, thereby facilitating improvements in work organisation.

*** Labourisation: Global Experiences**

Workers' financial participation in enterprise results is hardly a new idea. However, it has only recently captured the attention of economists and policy

makers, not only in industrialised countries but also in economies in transition, particularly in Central and Eastern Europe. Moreover, although financial participation has been widely discussed at the policy level, little is known about the application of financial participation schemes in practice.

A clear distinction is made between the experiences of the industrialised countries and those in Central and Eastern Europe. While companies in the industrialised countries are actively promoting financial participation schemes as an efficient and flexible payment system, which can improve motivation and productivity, in Central Eastern Europe financial participation is mainly linked to the privatisation process.

*** The Importance of the Legislative Framework**

Some countries have addressed the issues of financial participation in a more comprehensive manner than others. In France and the United Kingdom, the law envisages a variety of financial participation schemes, with different tax incentives, which have recently been extended. This support has attributed to the growth in the number of financial participation agreements in the two countries. In the USA a notable slow down in productivity growth after 1973 generated increased interest in worker participation. A number of tax incentives were, therefore, introduced mainly for deferred profit sharing and ESOPs

Financial participation in Eastern European countries is closely linked to their privatisation processes, as illustrated by recent legislative developments and government statements in favour of share ownership schemes. In all these countries, the first stage of privatisation is the transformation of state enterprises into joint stock companies, in which workers' share ownership plays a central role. Hungary is a typical example, which has implemented various forms of workers' share ownership. Government encouragement has promoted the rapid development of ESOPs in the privatisation process.

These schemes are more decentralised in Japan, where financial participation seems to be part of an overall management policy and is not, therefore, promoted by legislation or other public measures. It is implemented by the social partners, viz., employers, employees, unions and the management at the plant level and is often developed along with participation in decision-making, work sharing and internal labour mobility.

*** The Japanese Experience**

The development of workers' financial participation depends on a series of social, cultural and historical factors. This is confirmed by the Japanese experience, which is characterised by a notable development of ESOPs. In the absence of direct formal government support, this appears to be principally due to cultural, industrial relations and other institutional factors. ESOPs have been introduced

by more than 90 percent of the firms listed on Japanese stock markets and by 60 percent of all corporations. The average stock held by each employee through an ESOP was estimated at US \$ 14,000 in 1988.⁸ In addition to ESOPs, cash based profit sharing bonuses account for an amount equivalent to about 25 percent of total pay, making Japan the country in which financial participation is most advanced. 97 percent of firms with 30 or more employees pay bonuses to their regular staff twice a year. In addition, more than 90 percent of Japanese firms operate a deferred profit sharing scheme.⁹ The success of ESOPs and other forms of financial participation in Japan can be understood on the basis of a number of factors. Unique features of the Japanese Industrial Relations System are:

- a) The Lifetime Employment System;
- b) The Seniority Wage System,
- c) The Enterprise Union; and
- d) The Bonus System

The first three characteristics are called the Three Sacred Emblems⁷ of Japanese labour policy

Lifetime employment is a unique feature of the working of large Japanese firms. It accounts for the exceptionally dynamic functioning of a large section of Japanese industry. The system presupposes that it is the employees that ultimately make the firm productive, creative and respectable. To Japanese management, guarantee of lifetime employment to its staff is a sacred obligation. Lifetime employment means employment till the employee attains the age of retirement which is normally 55 years but it is now being extended to 58 or 60 years. Top level executives have, however, no mandatory retirement age.

Lifetime employment is not a legal or contractual obligation. And it is open to the employee to leave the firm, which, however, is rare. There is no legal restriction on the right of the employer to discharge or dismiss an employee, which is rarely resorted to. Mainly large firms adopt this system and about 30-35 percent of the total labour force is covered by this system. But these employees may be described as Japan's standing industrial army-the backbone of her economy. Under this system, employment has emotional and moral implications. Not only the employee but his family also develops an attachment for the firm and the employee tries to serve the company to the best of his abilities. The tangible advantages of the system are now well recognised. Lifetime employment involves lifetime training as well which facilitates innovation and which strengthens the urge for excellence in work. Lifetime employment is described as one of the corner stones of the industrial relations system in Japan.

Japanese firms like Sony are introducing lifetime employment in their factories even in the USA with great success. For instance, the rate of absenteeism in the

Sony factory in America is only 0.1 percent. American workers in Japanese factories in the USA take interest in their work and make valuable suggestions for improving productivity and quality. Japanese management is equally effective in a totally different American Culture.

The second salient feature of Japanese industrial relations system is the seniority wage system. The system guarantees that wages and other benefits increase steadily from the time of appointment. This is generally restricted to lifetime employees.

The enterprise union system of Japan is found to be very useful in strengthening the individual worker's ties to his firm. In Japan every enterprise would have its own independent union. It ensures better mutual understanding between union official and management.

The Japanese firms pay their employees bonuses twice in a year. The payment is based on the financial achievements of the firm and not linked with the productivity of the workers. The system has three great advantages:

- a) The workers become aware of the vital importance of the successful functioning of their firm.
- b) The Japanese workers tend to live within their monthly regular earnings and the bonuses are mostly saved. This is one of the main reasons why Japanese households save on an average 17 percent to 19 percent of their annual income,
- c) The bonuses represent a form of deferred payment, which enables the firm to generate additional working capital.

Apart from the congenial and harmonious industrial relations climate, there has been indirect public support for workers' financial participation in Japan, as a means of preventing foreign takeovers of Japanese firms.

*** Attitudes of the Social Partners towards Workers' Financial Participation Attitude of Employers' Associations**

Employers' associations have usually supported enterprise level schemes introduced on a voluntary basis, with the design of the scheme being left to the discretion of the enterprise. They oppose any binding arrangement. Employers usually consider financial participation as an important element of human resource management for the purposes of improving employee motivation and commitment. They have argued for the introduction of tax incentives.

* Enhancing Productivity



There is an impressive wide-ranging body of evidence for a positive association between workers' financial participation and productivity gains in the industrialised countries. In their survey of empirical results, Weitzman and Kruse, in the most comprehensive book on this issue, edited by Blinder find a degree of consensus, which is most unusual in empirical research. The authors, from their survey of a wide variety of case studies and attitudinal surveys conclude that profit sharing schemes have a positive and significant effect on productivity. Studies on European countries, recently surveyed in the Pepper report, also concur in pointing to a positive association between financial participation and productivity. This report led the Commission of the European Communities to propose its recommendation on financial participation.

In Belgium, France, the United Kingdom and the United States of America it is found that financial participation schemes tend to have been introduced and grown particularly in large profitable export oriented enterprises. In Japan it is found that the probability of a firm introducing financial participation schemes is higher in companies in which human resources are a more important factor in their success. The results of a survey carried out among 140 Belgian enterprises also emphasise the positive effects of financial participation on workers' motivation. In Italy, a survey carried out on a sample of 179 enterprises suggests that enterprises with financial participation experienced a substantial (12 percent) increase in production following the introduction of these schemes. Surveys undertaken in the United Kingdom show that financial participation has made employees more profit conscious and increased their sense of commitment to the company. According to a survey undertaken in the former Czechoslovakia, the impact of financial participation differs according to the type of enterprise and category of worker. Workers' share ownership appears to have a much greater effect on motivation in small firms. Workers in small units can observe and evaluate the effects of their efforts on the profits of their company. Technicians and other skilled employees show greater interest in financial participation schemes and are more prepared to work for lower wages for a certain period in order to contribute to the future prosperity of their firm.

*** Workers' Participation in Decision making, a Catalyst**

A greater level of concern by workers for the success of their enterprise, as a direct result of their financial participation, can have the effect of reducing conflict in the work place, increasing the identification of workers with the enterprise and lengthening their time horizon. This can be strengthened by measures to facilitate workers' participation in decision-making. Several examples of the companies from industrialised countries suggest that worker' financial participation schemes succeed more often when they are combined with some kind of workers⁵ participation in management. Combination of financial participation and increased employee responsibility has contributed to Japanese economic miracle.

The global experiences of Labourisation suggest that the different forms and paths taken by financial participation depend largely on national systems of industrial relations and the attitudes and bargaining powers of the social partners.

*** Few Commendable Examples of Labourisation Abroad**

▶ The Mondragon Cooperatives

The Mondragon Cooperatives in Spain are famous throughout the world as the most successful worker owned firms. The Mondragon has over a hundred cooperatives with 20,000 members, producing refrigerators, washing machines, computerised machine tools, electronic components and automobile parts. The uniqueness of Mondragon lies in its ability to combine democratic control with business efficiency. It ensures continuous employment to its members. 45 percent of the profit is credited to the capital accounts of individual employees, which can be claimed only on retirement. One of the secrets of Mondragon's success is that no firm is allowed to grow too big. When the size of the individual firm is kept small, there is greater scope for interaction and effective participation by ordinary workers

▶ Omak Wood Products

Omak Wood Products, Washington is a successful employee owned company under ESOP. The employees have borrowed \$ 50 million to pay for the buy out of business and to provide for working capital. They decided to set aside 10 percent of their wages until the debt is repaid. The company is performing well.

▶ National Steel Corporation

The National Steel Corporation (NSC) of the USA was a sick unit. While buying shares in NSC the workers entered into an agreement with the company, which provided for the workers' participation in management. The representatives of the workers and management of NSC meet monthly once regularly, to share

information in the decision making process. As a result, NSC, once a losing company has become a producer of cheap and best quality steel products and prompt supplier in the market. Thus, the employees have saved their own fortune and also the fortune of the factory.

► **Tower Colliery**

There was large scale closing down of coalmines owned by government in England and thousands of miners were retrenched. In the course of privatisation process, Tower Colliery, a prominent coal mine in England was taken over by its retrenched workers. 239 workers contributed \$ 8000 each out of their retrenchment compensation and successfully bid reworking the mine again. The amount contributed by the workers was the lion's share of the total amount needed. The mine is functioning remarkably well. The colliery has signed a \$70 million contract to supply coal for another five years.

► **Precision Tool Production Ltd.**

Videoton, the largest Hungarian electronic telecommunications State enterprise employing nearly 20,000 employees, was divided into 21 companies in the privatisation process. Precision Tool Production Ltd. is one among them. Its employees have contributed nearly 85 percent of the capital, from their savings and loans. After the transformation of the company, the employees spent their evenings or weekends working in the factory to meet the demand. Within one year, the employees not only paid back their loans but also were able to purchase the land and buildings and machinery, which were still owned by the state enterprise.

► **International Freight Transport Company**

An international freight transport company of Hungary, formed under privatisation process, struggled to survive. So, the employees decided to start a new company. They contributed 50 percent of the initial capital and the remaining amount was contributed by the parent company. The employees participating in this plan were particularly motivated to preserve their jobs and improve the performance of the company. Their expectations and hard work were crowned with success; they were able to broaden their market share in spite of tough competition and general recession. Within one year, its employees owned 90 percent of the shares.

► **Chyne Agricultural Cooperative**

This agricultural cooperative in Czech Republic has successfully been transformed into a joint stock company with 49 percent of its assets offered to employees in the form of shares. This made it possible to preserve the participatory principles of the cooperatives and motivate the workers.

► **Agrokombinat Slusovice**

In the privatisation process, the cooperative Agrokombinat Slusovice was transformed into a series of small and medium sized firms with workers' share ownership and profit sharing. It led to improved efficiency and diversification of the bio technological and microelectronic production to meet the challenge of international competition. As a result, the firm has managed to attract most of the highly qualified workers.

► **Silesian Factory Kable**

Silesian Factory Kable is a polish firm. Its decision to sell the shares to the employees at a 50 percent discount was quite successful, with 76 percent of the workers taking advantage of this opportunity. According to the management, this has improved the social climate within the firm as well as industrial relations in general, despite a slump in the polish electrochemical industry, which used to absorb Kable's production.

As a conclusion to this section, illustrative data are provided on the scope and nature of financial participation in three Japanese companies in different sectors.

► **Hitachi (Electronics)**

The company introduced an ESOP in November 1974. In August 1985, 34.8 percent of employees were participating in the plan. The average stake of participants is JPY 1.2 million. In 1984, the company paid the average employee JPY 0.517 million (2.65 months' regular pay) as a summer bonus, and another JPY 0.548 (2.72 months' regular pay) as a year-end bonus.

► **Hoya (Precision Engineering)**

The company introduced an ESOP in October 1970. In March 1985, 47 percent of employees were participating in the plan. The average stake of participants is JPY 2 55 million. In 1974, the company (currently one of the top manufacturers of optical instruments in the world) introduced a profit sharing plan with the explicit objective of increasing productivity. Around 40-45 percent of the annual bonus is linked to profits. The bonus represents 6-7 months' regular pay and is clearly above the industry average both in terms of cash and months of regular pay. Unions support the plan, and there is a very thorough Joint Consultation Committee, which meets once a month and has many ad hoc sub committees. Quarterly profit reports are provided to the Joint Consultation Committee.

► Mitsui Bank

The company introduced an ESOP in August 1969. In 1985, 67.6 percent of all employees were participating in the plan. The average stake of participants is JPY 2.36 million. In 1984 the bank paid the average employee JPY 0.915 million (3.25 months' regular pay) as a summer bonus, and JPY 0.973 million (3.40 months' regular pay) as a year-end bonus.

* Labourisation in India

Worker owned firms are not as common in India as in Europe. There have been several cases, in India, of workers of sick companies forming cooperatives to save their jobs. Many of these cooperatives have an impressive record of performance. Kamani Tubes in Bombay, New Central Jute Mills in West Bengal and Jaipur Metals and Electricals in Rajasthan have all been working successfully. While there are also some cases of failure, the general experience is positive. With the right leadership and financial support, workers have shown that they can take over sinking firms and make them profitable.

Indian achievements regarding employee ownership are small compared to developments on many European countries referred earlier. A feature of worker ownership in India is the indifference, and sometimes, even hostility, of the trade unions. When the firm runs into problems, the natural response of trade unionists is to demand nationalisation. While this was an effective strategy some years ago, the government now appears unwilling to take over sick firms. The government has no clear policy on worker ownership. The CTUOs except BMS have no faith in it. The indifference of unions and the government is mainly responsible for the present condition in India.

* Labourisation in India - Cases of Success

► Kamani Tubes

Kamani Tubes is a worker owned company located in Bombay. Before that, the Kamanis, a well-known business family owned it. This company, that makes brass rods and tubes for use in refrigeration and sugar production was established in 1959. It was a leading firm till the middle of 1970s, controlling 60 percent of the market. By 1985, the trouble started due to misunderstanding among the members of Kamani family and financial difficulties. Kamani family abandoned the factory, as the quantum of loss was uncontrollable.

When the owners abandoned, the independent union consisting 600 workers approached banks, financial institutions and the state government to help revival. None of them responded positively. The union then formed a cooperative to take over the firm. Claiming that workers could raise the share capital from their provident fund, wage arrears and loans, the union filed a civil petition in the

Supreme Court. The court asked the Board for Industrial and Financial Reconstruction (BIFR) to examine the union's proposal. The BIFR gave a favourable report, but by now the Kamanis had returned to claim the company. In spite of the legal hurdles they created, the Supreme Court upheld the workers' action. By the end of 1988 the shares were transferred to the cooperative. In addition to workers' contribution, the state government sanctioned a sizeable grant.

Since revival, the company has made good progress. Production, wages and profit have gone up. The worker owned company pays annually around Rs.3 crore as excise duty. ^ Thus reviving the company has been beneficial to the government too.

► **Cooperative of Slag-Pickers**

The Tata Iron and Steel Company in Jamshedpur dumps its slag in low-lying areas to level the land and reclaim it for use. The slag contains bits of iron, which can be collected and sold as scrap. At one time, the job was given to contractors who employed slag pickers at miserable wages.

In 1979, the State Government formed a cooperative of slag-pickers, with the sub-divisional officer as the chairman. The cooperative was given the monopoly to pick slag. In the very first year the cooperative achieved a turnover of Rs.3 crore. This staggering amount was beyond anybody's expectations. Wages have gone up substantially. The cooperative has taken up lot of welfare work with its own funds. It continues to run smoothly.

► **Cooperatives of Iron Ore Miners**

The Open Cast Iron Ore mines of Dalli - Rajhera in Madhya Pradesh also have successful cooperatives. These mines supply iron ore to the Bhilai Steel Plant. About 7500 workers organised in seven cooperatives are engaged in this task. Most of the workers have moved from the nearby Bailadilla mines, which have been running out of ore. The government has encouraged the formation of cooperatives to rehabilitate these displaced workers. The cooperatives have been running successfully in spite of competition from contractors who also operate in this area. It has generated handsome surpluses for distribution among members and funding welfare facilities. The best free primary school in the town is run by this cooperative.

Although the cooperatives have shown that they can operate successfully, there is not enough support for them from the trade unions. A trade union well known for its militancy has organised the contract labourers in this area. The members of the cooperative are also members of this union. Instead of encouraging the formation of more cooperatives, the union has been demanding that the Bhilai

Steel Plant should take over all the mines in the area, including those managed by workers.

*** Labourisation of New Central Jute Mill: An Outstanding Experiment of BMS**

New Central Jute Mill (NCJM) is a large unit having a work force of 8000 at present. There are 12 unions in the mill but surprisingly all these unions got together to labourise the sick company. The initiative was taken by BMS. The company has been running well despite there being a slump in the jute industry. It has modernised its machinery and has diversified its products. It is concentrating on the manufacture of enhanced quality products, which have a good market abroad. The success of this venture shows that workers' initiatives can overcome the problems faced by traditional industries. While other jute mills are languishing, NCJM has improved its production and the quality of its products.³⁴ NCJM stands as a model worker owned company and glorifies the achievements of BMS.

The NCJM was incorporated in 1915. It is a large jute mill situated at Budge-Budge in South Choubeez Parganas District of West Bengal having 810 Hessian and 452 sacking looms besides 26 other looms and 189 spinning frames. In 1955 two other jute mills viz., Albion Jute mill and Lothian Jute mill were amalgamated with the NCJM. In 1974-75 the company set up its own Machinery Manufacturing Division inside its own premises. The company employed about 9735 persons in Jute Division and 342 persons in Machinery Manufacturing Division on permanent basis besides temporary workers. The total number would be about 13,000.

In September 1982, the company approached Industrial Reconstruction Bank of India (IRBI) for financial assistance for its modernisation - cum - renovation scheme at a cost of Rs. 244 lakh. It was agreed that promoters would contribute Rs. 49 lakh and different financial institutions such as IRBI, INDUSTRIAL DEVELOPMENT BANK of India (IDBI), Industrial Finance Corporation of India (IFCI), and Industrial Credit and Investment Corporation of India (ICICI) would share remaining Rs. 195 lakh. The IRBI disbursed a sum of Rs. 64 lakh against its commitment of Rs. 95 lakh against first mortgage debentures and personal guarantee of Shri A. K. Jain (Promoter) but other financial institutions cancelled their share on one or another plea.

Gradually promoters became indifferent in investing further money in the company and as a result due to fund constraint and for some other reasons the company started becoming sick and as such it had to face lock out for four times during 1982-87. Repeated lockouts, reluctant promoter to inject money and continued losses of the company made such a sombre situation that almost all concerns of the mills became hopeless. The suffering of workers increased and most of them faced starvation.

The workers approached the left front communist led State government several times and requested to nationalise the mill. The government remained a passive onlooker. There are 12 unions of workers and 2 unions of Head office staff. All the unions, except BMS, belonging to different political parties tried their best for re-opening of the mills through their political leaders but the Government at the centre and the State government of West Bengal expressed their inability to do anything. The promoters, management and government had no solution.