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AN INDIAN EXPERIENCE

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WORKERS' COOPERATIVE -- AN INDIAN EXPERIENCE

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Introduction

The cooperative movement, which stemmed from the efforts of the working class, was a reaction against the early abuses of the capitalist industrial system. The history of industrial cooperative is a record of the efforts of the cooperators to bring about harmony between capital and labour. Robert Owen and Rochdale Pioneers also aimed at the ownership of industries by workers so that the industry could benefit the workers.

Workers' Cooperative have great relevance to the developing nations because of certain advantages that could accrue to the working class. In a labour surplus economy, capital-labour substitution has lot of implications in the development process. Workers' cooperatives bring about an optimal blend of labour and capital thus ensuring the minimization of concentration of capital in the hands of few. They promote a more responsive and responsible working class.

To develop the workers' cooperatives, it is necessary to have an insight into (a) the process of their formation, (b) the problems faced by them in stabilizing their operations in a competitive environment, and (c) the roles of government, voluntary agencies, social workers and trade unions. An attempt is made in this paper to explore the above issues and also explain the same through a case study of an Indian experience. For a better understanding of the above objectives, the industries are grouped as

(a) Traditional Industries, (b) Decentralized Small Scale (Modern) Industries and (c) Modern Industries.

Traditional Industry

In the traditional industrial sector, people with skill face competition from modern industries. Their skill do not receive a premium for employment in the modern sector. Further, modern industries develop in regions endowed with industrial infrastructure. So, the traditional artisans have to join together to form a cooperative of their own to protect their economic interests. The organization is expected to supply raw materials and also arrange for marketing. These artisans generally lack necessary dynamism to adopt either product or process innovations to compete in the market. The unfavourable competition between the traditional versus modern sector attracts the attention of the government because of the 'labour-intensive' nature of the traditional sector. In order to preserve the employment opportunities of the artisans, and enhance competitive ability, government provides a number of concessions. The cooperatives thus are viable only insofar as government support continues. This patronage instead of creating a self-sustaining cooperative enterprise leads to a dependency system. Political leadership tends to support patronage instead of a long-term strategy of skill development of artisans through innovations.

Another facet of industrial cooperative organization in the traditional sector could be categorized as the 'labour disposal cooperative', which have skilled, semi-skilled, and unskilled workers as members. They aim at

minimizing exploitation of the workers by the intermediaries. External leadership like social workers, voluntary agencies and trade unions, promote these cooperatives. Recognizing their role, the government may make special provisions in the Cooperative Act to admit them as sympathiser members. They develop vested interests and create a psychology of dependency on them by members. The government too, for political compulsions, often tries to perpetuate such leadership. No conscious effort is made to build leadership from within. To make the cooperative organizations self-reliant, it would be desirable if government specifies an exit strategy for the sympathisers. But this is found to be absent.

Decentralized Small Scale Industries

Small Scale Entrepreneurs engaged in decentralized industries undertake all functions like production, processing and marketing. To overcome the handicaps and to derive economies of scale they could form cooperatives. Experience shows that given the right environment, these cooperatives have shown sufficient strength to grow and serve the members' interest. Many have played leadership roles in introducing innovations in the members' enterprises. They could procure/manufacture and supply raw materials and also provide marketing facilities by installing processing facilities. Though the cooperative character of these organizations is often disputed, it is increasingly recognized that they are genuine cooperatives because the line of demarcation between entrepreneurs and workers in these organizations is more of a theoretical issue.

Modern Industries

In the modern industries, cooperatives come into being mainly through two routes. A strike leading to closure of an industrial unit or a planned withdrawal of a governmental corporation or similar other organization.

The government has a crucial role to play in both the circumstances. It may have to provide support in terms of seed capital, marketing, finance, etc. Though a dependency system on the government could develop it is only for a limited period.

Common Problem

Industrial cooperatives are subjected to a variety of governmental levies like excise duty and sales tax. They are treated on par with other industries in private and public sectors of the economy. Generally, it is expected that the government machinery would strictly enforce the tax laws on all industrial sectors. If this does not happen, there would be serious implications on the cooperatives as they adhere to the rules laid down by the tax authorities. To gain insight into the sequences leading to the formation of industrial cooperatives, the problems involved in stabilization and the role of external agencies like government, a case study of an industrial cooperative unit is presented.

Dinosh Beedi Workers' Cooperative

The Kerala Dinosh Beedi Workers' Cooperative (KDWC), a federation of 22 primary societies is the saga of self help movement in India. Its origin can be traced to the Kerala government's decision to implement the Beedi and Cigar Workers (conditions of employment) Act of 1966. The Act conferred many benefits like Sunday wages, annual leave, provident fund, and medical leave to the workers. During October 1968, the labour unions demanded the implementation of provisions in the Act. A number of companies namely, Ganesh, Bharath, Durbar and PVS closed down their units. As a result, 12,000 beedi workers were thrown out of employment in Cannanore District of Kerala. These workers know nothing except rolling of beedies. The misery of the workers due to unemployment caught the attention of the communist government then in power in the state. Efforts to persuade the employers to reopen the units did not succeed. This became a challenge as well as an opportunity to the champions of the labour class to prove their mettle. After a series of consultations with the Trade Unions and political leaders, the government of Kerala finally decided to rehabilitate the workers on cooperative basis. The then Minister of Industries and the Minister of Labour of the State took personal interest in organizing 20 primary societies and a central society (KDWC).

The State government contributed Rs.1.35 million towards the share capital of KDWC and sanctioned a working capital loan of Rs.0.7 million. The government also stood guarantee for borrowings made by it. The workers in the primaries were to contribute Rs.20/- as share capital. Since they were

financially weak they were enrolled as members on payment of Re.1/- and the balance of Rs.19/- was provided by the government as share capital loan to be recovered from the workers out of their wages in instalments. This amounted to Rs.0.2 million per primary. It deputed government servants to work as paid secretary for each of the primary society and also to KDBC.

Operating Systems

The basic objective of KDBC was to function on a commercial basis for the development, production, and marketing of the beedies produced by member societies. To achieve this end, KDBC supplied raw materials, provided working capital, arranged for sale of finished products, supervised the work of member societies and undertook research in beedi production. It was managed by a Board consisting of nine Directors. Four of them were nominated by the government of whom one was the Chairman who would be a full time government Officer. The rest of the Board members were to be selected, but in reality, they were nominated by the government from amongst the various trade union representatives. The Board members of the primaries were also nominated by the government. Functional roles between KDBC and the primaries were clearly demarcated.

Function of the KDBC

The role of KDBC could be broadly categorized into four functional areas.

Procurement of Raw Materials: The raw materials required for the manufacture of beedies are tendu leaves (*Dispyros melanoxylon*) and tobacco. The leaves are usually purchased from Forest Corporations of Orissa, Andhra Pradesh and

Marketing Federation of Madhya Pradesh states. Tobacco is bought from private traders of Gujarat and Karnataka States. The major item, the label is purchased from Tamilnadu State. The yarn requirement for rolling the beedies is met from the local market.

Supplies to Primaries: KDBC supplies a week's requirement of raw materials to the primary societies. It adds three per cent on the cost of the raw material to cover its overhead expenses which include transport and delivery.

Price Fixation: KDBC decides the market price for beedies. It works out the cost by taking the value of raw materials, wages, margin given to primaries (10 to 25 paise for 1,000 beedies) and administrative expenses of KDBC. The selling price of beedies is decided by the KDBC Board taking into consideration the market price. Over the years it has assumed the role of price leader for beedies in the regional market.

Marketing of Finished Goods: Marketing of the finished product is done by KDBC through 96 commission agents appointed by the Board. The agents get a commission of 60 paise per 1000 ordinary beedies and 55 paise for special beedies. A variety of media is used to popularize its products. To promote sales in the first year, it organized a sales campaign. It supplied one match box free of cost along with one bundle of 25 beedies. The total cost of match boxes amounted to Rs.0.43 million. As a result, the sales rose from 4 million to 12.5 million beedies in one month. This helped KDBC to come out of teething trouble, and to establish its brand image.

Functions of the Primary Society

The primary society looks after manufacturing operations and also maintains the accounts. Production is organized under the factory system in the KDBC set-up. This is done in order to maintain the quality of its product. Quality of beedies depends on proper purification and blinding of tobacco, proper drying and cutting of the leaves, careful rolling, etc. The primary society appoints supervisors at each work centre to look after manufacturing operations and to ensure quality. Each day, a worker is issued a kilo of tendu leaves and tobacco. At the end of the day, the beedies rolled are collected and recorded. Drying, packing labelling, and bundling at 24 or 12 each per packet are done in the factory premises. Each packet will carry the registration number of the respective primary and the common trade mark of KDBC - a rising sun penetrating through coconut trees.

Workers are paid on piece rate basis. Wages are paid at the end of every week. A thrift deposit of 5 paise per rupee of wage is collected towards share capital. The primary society maintains detailed accounts regarding all transactions.

Progress at a glance

An overview of the progress made by KDBC between 1969 and 1980 could be seen from Table 1.

- * There is an impressive growth in membership of KDBC which rose from 3000 to 22000.
- * It has generated sufficient internal resources from members, with the result, the share contribution of government has recorded only marginal increase.
- * KDBC has ceased to borrow from banks. It borrows only negligible amount from government.
- * There is a five-fold increase in the purchase of raw materials and production of beedies.
- * Wages paid have increased from Rs.5 million to Rs.63 million, an increase of nearly 12 times.
- * Wage rate has increased from Rs.3.30 to Rs.9.30 for 1000 beedies.
- * Sales have increased from about Rs.11 million to more than Rs.125 million.
- * Prior to 1975, excise duty was levied on tobacco and not on beedies. Subsequently the levy is on beedi units producing more than three million beedies a year. KDBC pays Rs.24 million as excise duty.
- * KDBC has earned a net profit of about three per cent on equity.

TABLE 1 : PROGRESS AT A GLANCE OF KDBC BETWEEN 1969 AND 1980

Item	Unit	Position during		% increase
		1969	1980	
Workers employed	Persons	3000	22000	633
<u>Share capital contribution of:</u>				
Primary societies	Rs. in million	0.1	1.6	1500
Government	"	1.4	1.9	36
<u>Borrowings from:</u>				
Government	"	0.7	0.08	(-)89
Others (bank)	"	0.1	-	-
Purchase of raw materials	"	4.1	24.0	485
Wages paid to workers	"	5.0	63.0	1160
Daily production of beedies	Million	2.5	15.0	500
Wage rate per 1000 beedies	Rs.	3.30	9.30	181
Sales	Rs. in million	10.8	125.4	1061
Central Excise duty paid	"	No duty	24.0	-
Trading profit (gross)	"	0.7	1.9	171
Profit (net)	"	-	0.1	-

Break-Up of Operational Costs

The share of various items in total cost for the year 1970-71 and 1980-81 is given in Table 2.

The major objective of KDBC is to increase the return on labour. Wage component during the decade has increased from 52 to 71 per cent, whereas the percentage share of raw materials in total cost has declined from 45 to 27 per cent. Furthermore, with increased production, the cost of administration has come down from 3.32 per cent to 2.49 per cent.

TABLE 2 : SHARE OF VARIOUS ITEMS IN TOTAL COST DURING 1970-71 AND 1980-81

(Rs. in million)

Item	1970-71	1980-81	% increase
Purchases:			
Tendu leaves	2.29	12.93	465
Tobacco	1.39	6.97	401
Labels	0.39	3.88	895
Yarn	0.25	0.25	-
Sub-total	4.32 (44.86)	24.3 (26.92)	456
Wages	4.99 (51.82)	63.00 (70.59)	1163
Administration	0.32 (3.32)	2.22 (2.49)	594
Total	9.63 (100.00)	89.25 (100.00)	827

Note: Figures in parentheses represent percentage to total.

It may be recalled that KDBC came into existence not only to provide employment to workers but also to confer many benefits enshrined in Beedi and Cigar Act. This has been accomplished as could be seen from Table 3. It could be observed that the wages paid in terms of privileges account for a third of the total wages of the workers. The presence of KDBC has ensured parity in direct wages in the private sector. Workers in the private units are not well organized to derive other privileges. The private sector units producing less than three million beedies have scope for savings upto Rs.7.50/ per 1000 beedies. This gives scope for price war between the cooperative and private units. Despite stiff competition the fact that KDBC could increase its market share demonstrates its quality image. It was achieved through factory system.

TABLE 3 : BREAK-UP OF ESTIMATED EXPENSES PER 1000 BEEDIES OF A PRIMARY SOCIETY

Items	Rs. Ps.
Direct wages	9.52*
<u>Other Privileges</u>	
Sunday wage	1.60
Earned leave	0.50
Festival leave	0.25
Bonus	0.95
Provident Fund	<u>0.50</u>
Sub-total	<u>3.80</u>
Raw materials (tobacco, leaf, label, yarn)	5.77
Excise duty	<u>3.74</u>
Total	<u>22.83</u>

* Wage rate is adjusted to the cost of living index.

Workers' Perception - A Field Survey

A sample of 30 workers of KDBC affiliated primaries and an equal number of workers of a private company (Sadhoo) were interviewed. The results are presented in Table 4. A sense of belonging and an attitude of "we feeling" are found to be strong among the workers of KDBC. This has been developed by the organization's ability to assist them through efficient performance, and good working conditions and ensure job satisfaction to the workers. In Sadhoo beedi company this is not very much in evidence. The workers felt that they were being exploited.

TABLE 4 : WORKERS' PERCEPTIONS REGARDING KDBC AND SADHOO COMPANY

Item	Percentage of workers reporting	
	KDBC	SADHOO
Satisfied with organization set-up	83	30
Believes in its ability to assist them	73	17
Satisfied with its overall performance	77	20
Satisfied with working conditions	83	30
Derived job satisfaction	80	29
Preferred monthly wage payment	23	7
Dissatisfied with existing wage rate	87	90
Stable employment	75	20

It could be seen from the table that workers in both the sectors are dissatisfied with wages. One of the causes could be attributed to higher wages that prevails for workers engaged in agriculture and allied sectors in the region. In KDBC, production is carried on factory pattern. The working hours are restricted to eight hours a day. The earnings of the

workers depend on productivity during this period. As against this, Sadhoo workers working under the decentralized production pattern, have the option of working for longer hours and earning more in a day. Because of this KDBC workers feel that they are not able to earn more. On the other hand, Sadhoo workers are unhappy that they are not getting the privileges enjoyed by KDBC workers.

Guarantee of stable employment is one of the major reasons for the loyalty of workers of KDBC. This was expressed by 75 per cent of them. As against this, only 20 per cent of Sadhoo workers had stated that they got stable employment. Regarding wage payment, a significant proportion (23 per cent) of KDBC workers preferred to have monthly wages as against seven percent of workers of Sadhoo.

On the whole, the study reveals that the organizational pattern of KDBC has many positive features. A high proportion of workers found identity of interest between their individual and organizational goals. Since members' expectations are high, the organization is under pressure to perform. On the contrary, workers of the Sadhoo company are unable to identify themselves with their organization. There is suspicion between workers and management. Workers are generally dissatisfied with the organizational climate. Consequently they seek assistance from trade unions to protect their interests. The trade unions have been successful to protect the workers but not in any significant way. In the case of KDBC, the trade unions have succeeded in improving the standard of living of the workers through cooperative effort.

Achievements

KDBC is a unique enterprise of beedi workers in India. It is the first institution of its kind to provide regular employment, wages related to cost of living index and confer all benefits provided under the Beedi and Cigar Workers Act. The operational style of KDBC has created a sense of belonging among its workers. This has created a greater awareness among them to maintain the high quality of product.

In the KDBC system, each worker contributes five paise per rupee of wages earned by him towards a thrift deposit. Every year a sum of Rs.2 million is accruing as savings of members. This fund is used for giving loans to members. A death benefit of Rs.5000 is given to the family. All members are given health cover under the Employees' State Insurance Scheme.

Problems

Nominated Board: As per bye-laws of the KDBC, the members of the Board other than nominated members are to be elected by the general body. However since inception this provision has not been operated. The government continues to nominate the five members from various trade union representatives. The idea of nomination is justified on the ground that it would eliminate rivalry amongst the trade unions. It is felt that any conflict among members would have serious implications on the organizational performance.

Burden of Excise Duty: The central excise duty which was formerly imposed on tobacco has been shifted to manufactured goods (beedies). As stated earlier the KDBC is subjected to excise duty. Private sector through home-based system or out-work system of decentralized production manage to avoid paying the tax. This creates unhealthy competition for KDBC products. KDBC could

form primaries of ten persons which will produce less than three million beedies a year, but this would create tremendous operational problems. Furthermore, KDBC has been successful in increasing its market share by maintaining high quality of its beedies. This could not be achieved through decentralization of production.

Disparity in Wages in Neighbourhood: There is no uniform/minimum wage rates for beedi workers across the states in India. By and large, beedi workers are not organized and do not enjoy any benefits. In this situation, cooperatives are placed at a disadvantageous position.

Recovery Variations: The three problems discussed above highlighted the problems that are external to KDBC. There are certain internal problems inherent in the cooperatives. One such issue is the recovery of beedies for a given quantity of raw material. In respect of beedies, the skill of workers determines the number of beedies realized for a given quantity of tendu leaves. The primary could either evolve a system of effective supervision to avoid wastage or recover shortages from the workers. The latter alternative in a cooperative would create the problems of enforcement and would lead to tension. KDBC has found effective supervision as the best course of action. But this has its implication in terms of overhead cost like salary for supervisory staff. For instance in 1979-80, one primary got the highest production average of 1712 beedies out of a kilogram of tendu leaves whereas another got only 1354 beedies. This has its implications on the profitability of the primaries.

Conclusion

In the introductory section it was stated that the study was focused towards identifying the causes for formation of industrial cooperatives, the problems involved in stabilization and the role of government and others in the growth of the organization. Reflecting on the experiences of KDBC, it could be stated that external leadership (both trade union and government) played a pivotal role in its formation, stabilization and progress. Though the organization has stabilized and achieved remarkable progress over the years, an exit strategy for the external leadership is conspicuous by its absence. The state government which gave birth to this organizational edifice does not want to democratize the management through elected representatives for fear of destabilizing the organization. All major trade unions represented on the board of management, find an opportunity to project their image. So they are not keen to change the existing arrangement. Thus a self-perpetuating dependency system has come to stay.

Leadership culture that prevails in this organization is one of benevolent type. It has promoted a climate for participation of workers in the decision-process which has helped in avoiding conflicts or strikes. At the same time, the goal of cooperative to make the community of workers self-reliant not only in terms of resources but also in terms of management is a process that needs to be strengthened. This could be achieved by cooperative law. But enforcement of law rests with the government. This underlines the need for creating a 'synergy group' outside the system which would be vested with the responsibility of spreading cooperative consciousness among the members.