

**XLRI JAMSHEDPUR**

**MANAGEMENT**  
**AND**  
**LABOUR STUDIES**

Volume 26

July 2001

Number 3

# PRIVATIZATION THROUGH WORKER BUY OUT : LEARNING FROM FAILURE - THE CASE OF THE BHASKAR TEXTILE MILL

Abhijit Dutta\*

## THE END OF THE DAY : AWAITING A NEW SUNRISE :

On April 19, 1994 the Government of Orissa dissolved the Board of Directors of the Bhaskar Textile Mill (BTM) and intervened since the mill had closed down.

In the meantime, the member of the legislative assembly from the Jarsuguda constituency (where the mill was located) and the leader of the Bhaskar Textile Shramik Union ( a part of Jharsuguda Industrial Mazdoor Union - JIMU) pleaded with the government and brought the plight of the workers to their notice. The union pointed out that around 2,200 workers of BTM were facing starvation and begged the state to intervene and reopen the mill. The condemned the earlier transfer of the mill to a Board of seven members with only four worker representatives. The union suggested that the government should give the worker the right to elect their own representatives through a secret ballot to ensure a fair representation on the Board.

### The Debacle of BTM

#### *Genesis*

BTM was established on 29 October, 1964 as a private limited company and was one of the oldest textile mills in the state of Orissa. The mill is located in the district of Jharsuguda (then a newly formed district of the state). The mill was, therefore, often referred to as the Jharsuguda Textile Mill.

The BTM was set up at a time when textile mills were passing through a bad phase in Eastern India. The picture of the textile industry particularly in the public sector in Eastern India was still gloomy, when BTM started to produce.

At its inception the mill had a total employee strength of around 2,300. BTM also had a strong spindle strength. With 32,000 spindles, and around 152 acres of land, the plant was sufficiently well off in its asset base.

### BTM's Takeover by the Government

BTM was earning a good profit till 1982, with no indication of any visible problems in the functioning of the mill. Then on 2nd October, 1983, the management unilaterally declared a lock-out, undermining the faith of the workers for the first time in the history of the company. Till then, BTM workers did not have a platform either through a trade union or in any other way to voice their grievances, or to suggest alternatives to the unilateral closure. The mill remained closed for the next three years, during which the management neither paid the minimum prescribed wage nor transferred the provident fund to the competent authority as provided by the law of the land. With the case pending before the state labour commissioner, the workers sought the intervention of the state in the matter. As a result, the state decided to take over the mill and run it under the State Textile Corporation, which is part of the Ministry of Textiles and Handlooms (T&H).

---

\* Dr. Abhijit Dutta is Assistant Professor, Institute of Business Administration and Training, Bhubaneswar

The Government of Orissa took 90 percent of the equity. Government thus took over a liability of Rs. 1,00,04,000 (i.e. Rs. 4,000 as a secured loan and Rs. 1,00,00,000 as unsecured loans), fixed assets worth Rs. 7,40,000 and investments worth Rs. 73,03,000 (Rs. 3000 in the form of National Saving Certificates and the rest in unsecured investments).

**BTM was earning a good profit till 1982, with no indication of any visible problems in the functioning of the mill. Then on 2nd October, 1983, the management unilaterally declared a lock-out, undermining the faith of the workers for the first time in the history of the company.**

#### BTM under State Ownership

With all the goodwill of the Government, BTM could not do much better under its ownership. On the contrary, whereas the mill had been running reasonably well under the private management, after the Government took over, the mill started making continuous losses and by the end of March 1992, the losses had accumulated to Rs. 9.5 crores (table 1). This table is taken from the annual reports of the Orissa State Textile Corporation.

**Table 1: Profit Position of BTM under Government Ownership**

Year	Loss (in Lakhs of Rs.)
1985-86	69
1986-87	189
1987-88	350
1988-89	146
1991-92	950 (cumulative)

Source: Final Accounts of the OSTC over the various years.

The financial condition of the mill had now become so weak that it had virtually stopped paying all its legal dues. The debts, outstanding for a long time to the Orissa State Electricity Board (OSEB) (now Grid Corporation of Orissa - GRIDCO) comprised one such major payment overdue. Finally, the power supply was disconnected by OSEB, thus sealing the fate of the BTM workers for the second time in their work life.

#### Worker Take-Over

By the time, this situation had cropped up, BTM workers had joined a newly floated trade union known as the Jharsuguda Industrial Mazdoor Union (JIMU) which, in turn, was affiliated to the All India Centre of Trade Unions (AICTU). This gave the workers the courage to voice their grievances in an organized manner. About the same time the Government of Orissa began to think of privatizing the mill by the tendering method. The government's intention was publicly expressed by Mr. Prafulla Samal, the Minister of Labour and Employment. The various trade unions in the country working under different banners expressed shock at the government's intention. Their feelings were vented in a joint press conference which strongly condemned the action. Surprisingly, the BTM Workers' Union of JIMU did not voice any opposition to the plan.

JIMU and the BTM workers' union under the leadership of Mr. Ajeya Rout, then proposed to the Ministry of Textiles and Handlooms that the workers be given a chance to takeover the management of the mill and to run it on their own. The then minister convened a meeting on 27th August, 1992 and a committee was constituted under the Chairmanship of Mr. N R Hota (a senior IAS officer of the Orissa cadre) who was heading the Industrial Development Corporation of Orissa (IDC).

The Government then commenced protracted negotiations with the BTM union leaders. A series of meetings was conducted which culminated on 14.12.92. At this point, it became evident to the committee that one of two minority unions were not prepared to go along with the experiment. They wanted the government to run the mill with an immediate infusion of funding to the tune of Rs. 2 to Rs. 3 crores.

The committee, however, took the stand of the JIMU into consideration since it represented 80 per cent of the workers and a decision was reached to proceed with the negotiations. Among other things, the negotiations considered the modalities of the take-over. The legal, financial and organizational issues had to be worked out and the mechanism to make the mill run successfully on a long term basis had to be put in place.

---

**JIMU and the BTM workers' union under the leadership of Mr. Ajeya Rout, then proposed to the Ministry of Textiles and Handlooms that the workers be given a chance to takeover the management of the mill and to run it on their own.**

---

#### Agreement between Government and JIMU

After a series of meetings between the committee and the JIMU, a consensus emerged on the following points:

- Union Leader, Mr. Ajay Rout, would submit a concrete proposal outlining the feasibility of running the mill on the basis of converting raw cotton into yarn. He would contact private parties and work out the conversion rates with them.
- Government would examine this proposal and if satisfied with its financial viability, would issue a

notification bringing about suitable changes in the composition of the Board of Directors of the Orissa State Textile Corporation (OSTC – the organization responsible for the management of BTM), so as to include representatives of the workers' union and at least one representative of the government. Union leader, Mr. Ajeya Rout, would be designated Chairman of the Board.

- Government would take immediate steps to assist the new management both financially and by intervening with the Orissa State Electricity Board (OSEB) to restore the power connection to the mills.
- Though the government would not take responsibility for the entire past liability of BTM, it would adopt a helpful attitude towards clearing up the arrears of wages and bonus due to the workers.
- The new management would attempt to earn an adequate surplus, so as gradually to pay back the arrears.

#### The Proposal

As a consequence of the meeting held and the agreement reached, the JIMU President, Mr. Ajeya Rout, and the General Secretary, Mr. Jagatjivan Das tabled a draft proposal before the Minister of Textile and Handlooms. This proposal was unilaterally prepared by JIMU. The proposal mainly touched upon two aspects. In the first place, it presented a draft for the reconstruction of the Board of Directors and detailed its functions. Second, it detailed a financial plan based on earlier discussions for reviving the mill.

Regarding the reconstruction of the board, the proposal stated that a full-time Managing Director or General Manager should be appointed who would be responsible for the smooth operation of the mill. He would look into all aspects of

production and cost control. His membership on the Board of Directors would be informal, but he would be an ex-officio member. The proposal also outlined that the board of directors was to meet once a month and was to be advised by a council consisting of representatives of the workers, the middle level management and some Board members. This advisory committee was to be responsible for a detailed study of the day to day functioning of the organization. A committee which would consist of workers and act as a forum to voice their problems was also proposed. This committee was

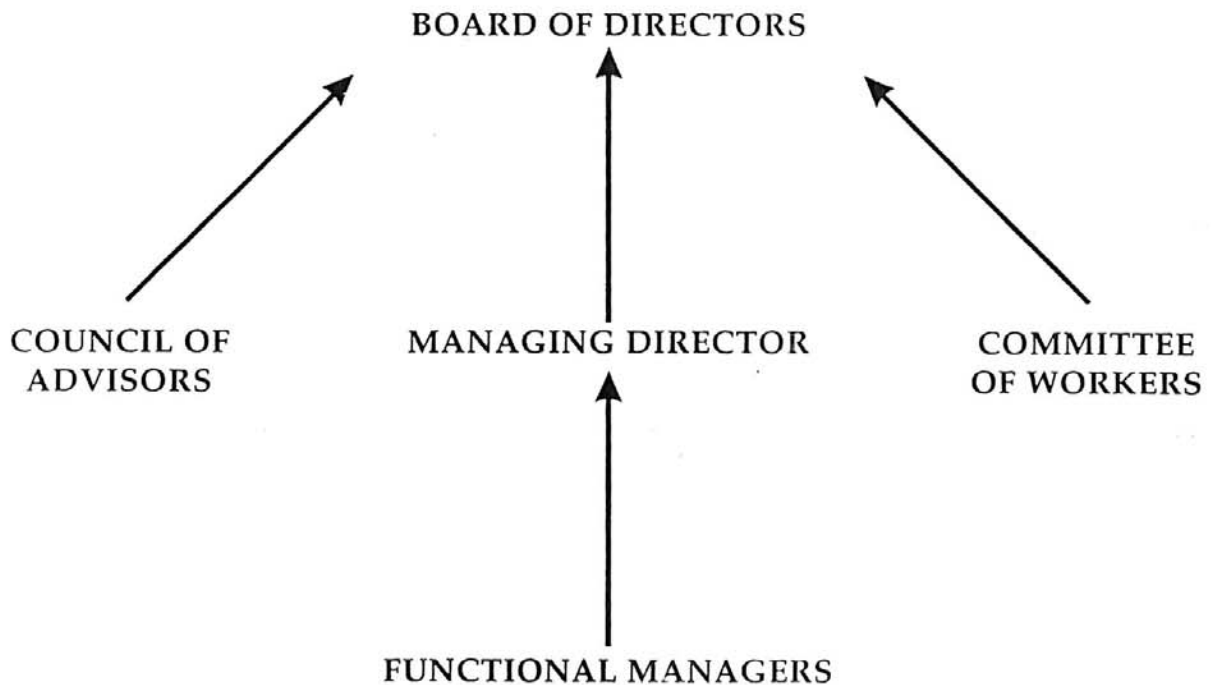
also to act as an advisory council to the Board. Both the committees were supposed to meet before each board meeting, so that all problems could be well understood by the Board.

---

**The proposal also outlined that the board of directors was to meet once a month and was to be advised by a council consisting of representatives of the workers, the middle level management and some Board members.**

---

**Exhibit 1 – Operational Structure**



It was proposed that the board would review the financial performance monthly after the take-over. The report of such appraisal would be sent to the government to keep it informed about positive and negative developments after the take-over.

The second part of the JIMU proposal for the worker take-over of BTM dealt with the financial and operative aspects of running the mill. The proposal envisaged a gross expenditure of approximately Rs.

33 lakhs, and a profit of about Rs. 1 lakh per month.

**Table 2. Scheme of Income provided by JIMU**

**(A) Production of yarn (theoretically), and it's conversion value:**

No. of KF m/cs	:	72
Avg. Count	:	15s
Working Days	:	29

## (B) Value Chart

Total Conversion Value(Rs)	Count	No. of M/C	Should be Produced as Per CTTRA Norm (in Kg)	Actual Prod. Per day (Kg)	Present Conversion Change per Kg (R)
6s	8	5544	3600	5.10	18,360
10s	8	3872	2000	7.10	14,200
14s	4	1415	720	8.00	5,760
20s	40	10400	5600	11.00	61,600
Sts	12	1680	1152	20.00	23,040
	72	22,912	13,072		123,960 (per day)

Source: Memorandum of Understanding between JIMU and the Dept of T&H, Government of Orissa.

A Production of 10,620 metres of cloth per day was envisaged by the mill as shown in table 3 below.

Table 3: Countwise Conversion Value

Production of Yarn				
Count	Rf m/c	Production per day (Mts)	Present Conversion charge (per kg)	Total Conversion value (Rs.)
14s	5	920	7.00	644.00
20s	17	2120	11.00	23320.00
24s	5	600	13.00	7800.00
25s				
19NF	7	990	11.00	16890.00
26s	5	570	13.75	7125.00
2/6s	3	1000	7.10	7100.00
2/10s	7	1800	8.00	14400.00
2/14s	5	900	10.00	9450.00
2/20s	8	1000.00	13.50	13500.00
2/40s	8	720	22.50	16200.00

Source: Memorandum of Understanding between Government of Orissa, JIMY and Department of T&H

As mentioned earlier, an expense plan was also submitted by JIMU for Rs. 32.60 lakh. The proposal also made it clear that, this expense statement was a rough estimate of needs and a cut-off of around Rs. 2 to Rs. 3 lakh was to be granted to the employees of the plant.

Table 4: Break up plan of expenditure submitted by JIMU

Particulars	Amount (Rs. in lakhs)
Wages	18.00
Salary	2.40
Power	8.00
Fuel	0.80
Stores	6.00
PF & ESI contributions	2.00
Administration	1.50
Excise duty	1.35
<b>Total</b>	<b>40.65</b>

Source : Memorandum of Understanding between Government of Orissa , JIMU and Department of T&H

As can be observed from tables 4 and 5, JIMU finally proposed an expenditure plan lower by around Rs. 8 lakh than the expenditure estimated by the Managing Director of the Orissa State Textile Corporation (OSTC) on an actual basis. Yet, the plan submitted by the M.D. OSTC did not provide for a monthly selling and distribution expenditure, since the mill was to run on a conversion basis.

It became evident at the concluding meeting of the commission, that the proposal submitted by JIMU was the best for the mill and the workers. At the request of the JIMU, the Government then ratified the contract of conversion with M/s J.J. Spinners Ltd and M/s Orissa Spinning Mills (Rajgangpur). The Ministry of T&H, after a detailed discussion, with the converters agreed upon the count-wise conversion charges as stated in Table 6.

Table 6: Countwise Conversion Charge as agreed on between the Government, M/s J.J. Spinners and M/s. Orissa Spinning Mills Ltd.

Count	Rate per Kg in Rs.
10s	6.00
14s	7.50
16s	8.00
17NF/18NF/20s	11.00
19NF	12.10
24s/25s	13.25
26s	14.00
2/40s	19.00

Source: Memorandum of Understanding between Government of Orissa, JIMU and Department of T&H.

It was left to the new management to enter into a new agreement regarding the conversion rate. Both the converter companies agreed in principle to contribute to the start-up expenses after the exact amount was calculated prior to the opening of the mill.

The government also provided that the 58,000 Kg of cotton already being processed in the mill, belonging to the earlier converters be used immediately after reopening. Besides cotton worth Rs. 1.84 crores for which the mill had earlier paid advances to the Cotton Corporation of India and the Maharashtra Federation of Cotton Growers would be procured. It was also tentatively decided that after reconnection of power and completion of the necessary formalities, the mill could reopen on January 1, 1993.

**Both the converter companies agreed in principle to contribute to the start-up expenses after the exact amount was calculated prior to the opening of the mill.**

#### The Takeover and thereafter

The Government of Orissa accepted the proposal submitted by JIMU, with a very slight modification in the calculation of the conversion rate to repay the outstanding dues. Having done this, the Government issued a notification, changing the composition of the Board of Directors, paving the way for the inclusion of representatives of the workers, as proposed by JIMU. Two government representatives were also included. Mr. Ajay Rout was declared Chairman of the Company. The new Board was authorized to appoint its own Managing Director. The Government also convened a meeting of the Board and private parties to formally decide upon the conversion rate. This concluded the takeover process.

The mill was formally reopened on December 31, 1992 (and not on January 1, 1993 as desired earlier) with around 90 per cent of the workers giving their wholehearted cooperation. The workers who did not

participate at the early stages also came back over the next 2 or 3 months. They were welcomed with new found zeal. The state too was happy about the development. In fact, the Secretary, Department of Textiles and Handlooms observed:

"Having started well, there is every reason to hope that the mill will start earning surpluses. The government, for its part, has been helping the unit get orders for the conversion of cotton yarn"

The Mill gave good account of its financial position within six months of the reopening. It was able to write off almost the total accumulated loss. Though it could never make the envisaged profit of Rs. 1 lakh, its financial position gradually improved. On the industrial relations front, the mill did very well as there was virtually no unrest.

**"Having started well, there is every reason to hope that the mill will start earning surpluses. The government, for its part, has been helping the unit get orders for the conversion of cotton yarn"**

The abstract of the financial position for the eight months period following the takeover is given in the table that follows.

Table 7. Financial position of BTM after the takeover (on a monthly basis)

Months	P/L before interest & depreciation (in lakhs of Rs.)	P/L after interest & depreciation (in lakhs of Rs.)
January '93	(11.09)	(17.59)
February '93	(7.72)	(12.2)
March '93	(4.42)	(5.92)
April '93	(1.32)	(2.82)
May '93	(3.62)	(5.12)
June '93	(0.23)	(1.73)
July '93	(1.82)	(3.32)
August '93	(6.16)	(7.66)
September '93	(9.29)	10.79)

The figures in brackets indicate losses



Source: Memorandum of Understanding between Govt. of Orissa, JIMU and Dept. of T&H.

Thus the table shows a decrease in losses suffered.

However, things were not to go as well for long. By early 1994, the mill started facing an acute shortage of raw material and work came to a virtual halt. The reason was clear. There was no strong middle level management. The board also did not have a technical understanding of the conversion contract. To make the situation worse, the Board failed to perform its duty as envisaged. Finally owing to mismanagement, the mill sustained a loss of about Rs. 5 crore and had to be closed.

---

**There was no strong middle level management. The board also did not have a technical understanding of the conversion contract. To make the situation worse, the Board failed to perform its duty as envisaged. Finally owing to mismanagement, the mill sustained a loss of about Rs. 5 crore and had to be closed.**

---

### Conclusion

What does this case show us? Does it prove that worker management of an enterprise is intrinsically incapable of delivering results? Why were only a few middle managers appointed? Was this, perhaps, because the workers, in their initial enthusiasm, thought they could run the mill without supervision? These are some questions that arise on studying the failure of BTM in just two years? One point seems clear, that the government was too easily and even naively convinced that the workers could run BTM. There is also the

fact that any alternative seemed better than the government's reassuming the responsibility for running BTM.

### References

1. Balsi, J.R. (1987), *Employee Ownership Through ESOPs, Implications for Public Corporations*, New York, Pergaman.
2. Berman, K V (1978), *The Role of Labour Unions in Workers Managed Firms*, New Delhi, Self Management
3. Hunnius, G et al (1973), *Workers' Control*, New York, Random House.
4. Manson, N (1991), *Workers' Owners, The Mondragon Achievement*, London, Anglo German Foundation.
5. Srinivas B (1993), *Workers Take Over in Industry*, New Delhi, Sage Publication.
6. Issues of local dailies like "The Samaj" and "The Prajatantra" were used to note the impact and the comments of various trade unions like AITUC, CITU in early 1991.
7. *The Industrial Economist*, November, 1993, p. 61.
8. *The Sick Industry Company Act 1985*, Sec. 18(2) (f) to 18(2) (I).
9. *Annual reports of the Orissa State Textile Corporation*, Government of Orissa.
10. MOU between, JIMU and the Dept. of Textiles and Handlooms, Govt. of Orissa.

The author acknowledges the help provided by Prof. R K Mishra, Dean IPE, Hyderabad, for the original case written under his guidance for doctoral work, Prof. Mohan Agrawal, XLRI Jamshedpur and Prof. B Mohanty, Utkal University, Dept. of Business Administration for suggesting changes in writing the case.