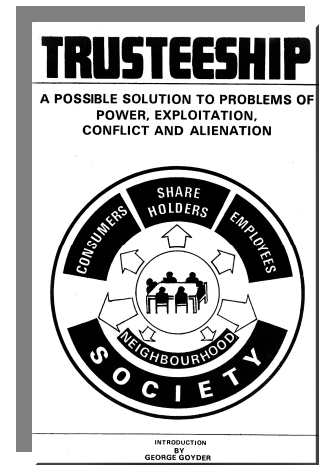


# Trusteeship

A Possible Solution to Problems of Power,  
Exploitation, Conflict and Alienation

Edited by: George Goyder



Proceedings of an International Seminar held in Bangalore  
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Jayaprakash Narayan

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Bihar.

22nd May, 1979.

Dear Minoo,

I am delighted to hear that the Leslie Sawhny Programme and the Trusteeship Foundation are jointly organizing a Seminar covering the subject of "Social Responsibility, Trusteeship, Common Ownership and Participation" in Bangalore in October this year.

I only wish I could have responded to your desire and that of the organisers that I should be present on the occasion but, unfortunately, the state of my health prevents me from doing so.

I am glad that these vital subjects are coming up for detailed discussion and that several distinguished friends of ours from England and elsewhere will be in Bangalore to join in these discussions.

I would like to send my best wishes for the success of the Seminar. I hope something concrete will result from these discussions and shall look forward to knowing about it.

Yours Sincerely,  
Sd/- J.P.

(Jayaprakash

Narayan)

Shri M. R. Masani,  
Bombay.

## INTRODUCTION

Trusteeship as perceived by Gandhi is all embracing. It is an altitude first, then a technique, and finally a constitutional form. It is not accidental that Gandhi derived his concept of trusteeship from the English trust and from John Ruskin's powerful advocacy of trust as the basis of civilized life, in 'Unto This Last'. Trusteeship tells us that to the extent that we command scarce resources we are answerable to others. All human rights convey corresponding duties. Thus the Gandhian concept of trusteeship expresses the inherent responsibility of business enterprise to its consumers, workers, shareholders and the community and the mutual responsibilities of each to the other. Montesquieu taught that this is the price of democracy. Without virtue in the individual and in the organs of society, democracy cannot survive. Virtue is its absolute requirement. Gandhi himself was sure trusteeship would survive him 'I am confident', he said, 'that it will survive all other theories. It has the sanction of religion and philosophy behind it'.

In March 1965 Jayaprakash Narayan, who became in the Emergency 'the conscience of India', convened in New Delhi an important conference on the Social Responsibility of Business. It was opened by the then Prime Minister and I was privileged to reply for the guests. For six days we sat down to debate what was in effect trusteeship in action. We produced a report; the New Delhi Declaration on the Social Responsibility of Business and this has become a foundation document of the trusteeship movement. Follow-up meetings took place in Calcutta, Bombay and Delhi at which a variety of Indian business men and trade union leaders were exposed to trusteeship as a practical force. But nothing of significance appears to have happened in Indian public life in the direction of trusteeship until the Emergency, when many of Gandhi's surviving followers found themselves in prison again; not least 'J.P.'. Suddenly the realisation dawned that trusteeship was an alternative to state control and bureaucratic interference with business. As our American friends would put it, a trade-off became apparent, and one that spelled freedom rather than dictatorship. The Conference on Trusteeship which took place at Bangalore

over the weekend of October 26-29, 1979, had as its object to review progress made in India and elsewhere in giving practical expression to the idea and philosophy of trusteeship. It was hoped that out of the results of practical experiments some conclusions of general interest might be drawn.

One lesson is that business and industry includes such a wide variety of firms with numbers ranging from a handful to many thousands, that no one model of a responsible enterprise can serve for all; there must be a multiplicity of models and the best will emerge through experience. Hence the importance of making a start. Here the experience of the several British common ownership firms represented at the Bangalore seminar proved, valuable, presenting a model with a common theme of worker, ownership. This can happen either because an owner, like Ernest Bader, resolves to give his firm to his employees, or because a dozen or so like-minded individuals band together in an enterprise which they own together from the start. Here management serves the workers who are also the owners. This is not in itself trusteeship but a new form of ownership. What makes common ownership into trusteeship is the acceptance of a trust on behalf of the rest of the community and in particular the consumer, and the locality. This idea could be of application in dealing with the vast Indian rural problem. How is common ownership distinguished from cooperative societies? In the former, ownership is shared equally among the members. Capital is sought on a loan basis; there is no equity capital. In a co-op the consumers' interest or the producers' may dominate, and management is usually left free in its day-to-day actions. There is not, as a rule, a deed of trust.

But there are, as the seminar quickly realised, many other companies to which neither cooperative nor common ownership rules apply. Take the individual proprietor of a business who ventures his savings in order, to create something new. He, as Gandhi would have been the first to acknowledge, is a social benefactor and one to be encouraged. 'Do not kill the goose that lays the golden eggs, was a favorite saying of Gandhi. Or a group of businessmen may jointly set up a new venture and borrow capital from the market. They too are

engaged in socially valuable exercise and are entitled to the protection and encouragement of the state. Now suppose a generation has passed. The proprietor has no heir and is at a loss how to settle his business. What is he to do? Trusteeship tells him that he may execute a deed of trust in favour of his employees, and either give his shares for love or arrange for a payment to be made to his family over a sufficient period of time to safeguard their interests. In England Ernest Bader gave his firm freely to his employees, but retained a life pension and life chairmanship. Spedan Lewis gave his much larger company to his employees, in return for payment of a million pounds over time. When Ernest Abbe gave Zeiss to his employees about the turn of the century he did so freely but at the same time made sure that a deed of trust would protect the interests of consumers and community alike. All surplus profits went permanently to the University and town of Jena in which the Zeiss Foundation was situated. Among the papers here printed there will be found a statement by Connor Wilson on how he gave his firm Airflow Developments. Ltd. to his employees. This statement is full of practical wisdom and deserves to be closely studied by any Indian businessman who is contemplating giving his firm away to his workers on trusteeship principles.

What about the medium size company jointly owned? Here the capital formation is critical. If there is equity capital it should over time – say 50 years – be repaid. Alternatively, the shares can be bought up on the open market and put into trust for the employees or simply amortised or converted into fixed interest preference shares. There is no warrant in the moral law for permanent debt, and all debts must in time be cancellable or repayable in any society that pretends to respect freedom. This gives the directors a way of creating a trusteeship company via share ownership. Another way is by a declaration of corporate purpose that can be monitored by an independent group of social auditors. As the enclosed papers show, one of the largest Indian companies has recently adopted this practice.

Trusteeship becomes essential rather than desirable when we come to the great companies, including nationalised industries and multi-national

corporations. Here the declaration of corporate purpose and the opening of the books to the social auditors becomes mandatory/or trusteeship. The seminar discussed the subject without feeling itself competent to pronounce on the problem of the nationalised sector. But it saw in the very large company the need to- create channels for the interests of consumers, employees and locality to be heard .Alongside those of the shareholders and it saw management as the link between the parties rather than as subservient to any one interest

One of our more senior Indian delegates challenges the seminar to say how a change of heart, necessary before legislation, could be induced. Citing the lack of Indian examples of trusteeship companies he asked: 'Where do we begin?' Some of us from the West thought it might begin with a concern for the Indian village and its poorer inhabitants. Here, if anywhere lies the market of the future. And it might also begin with a few common ownership firms setting up trust funds for their employees," and in the case of very large companies, with the acceptance of a voluntary independent social audit. The only way to begin is through beginning. Another way forward was seen to be the development of a strong consumer movement. Perhaps it was up to industry to lend its helping hand. Similarly with the trades unions; we probably get the unions we deserve. Through exercising trusteeship we may help the better elements to come to the front.

In what respects did Bangalore mark an advance over previous meetings? In the first place it made a useful distinction between social responsibility and trusteeship. Social responsibility is the beginning of trusteeship. It can be expressed in many ways: including sharing power or Profits or shares or management functions with employees who are regarded not as hands but as co-workers. It can be expressed in the acceptance of social purpose in the company's articles and in the appointment of independent social auditors. It becomes trusteeship when the company accepts its total responsibility and when management's role becomes that of balancing all the claims upon the company on the basis of seeking justice as the aim of business. In the words of a delegate to the conference 'if the company has no soul it had better develop

one'. A company is not a human person therefore it cannot have a human soul. What it can and should have is a more corporate personality which enables its managers and employees to realise that they are serving the community through the company. Ultimately Gandhi's view is a religious one. 'God and His Law are synonymous' he said. Trusteeship is the application of the Law of God to human society and human institutions. At Bangalore we were exploring a fresh concept of industrial order, based on mutuality, or doing unto others as you would wish them to do unto you. This mutuality, or putting oneself in the other man's shoes, is the foundation of the moral law, is permanent and applies to all nations at all times. In Gandhi's own words 'the ultimate definition of religion may be said to be the Law of God. 'European civilisation was based on this concept from Greek and Roman times until the end of the 17th century. It is the foundation of the English Philosophy of Bacon, Hobbes, Locke and Berkeley. It is the basis of Grotius' War and Peace, the foundation document of international law. How strange that an Indian philosopher and man of action should be able to remind the West of its own moral heritage through the discovery of a pregnant word – trusteeship – itself derived in part from the West as well as being implicit in Hindu Teaching.

George Goyder

## REPORT OF CONSENSUS

1. Despite the wide variety of individual orientation, personal experience and the national backgrounds of the twenty five participants who came from the United Kingdom, U.S.A., Australia, Germany and India, a measure of agreement was forthcoming on the relevance of the Gandhian concept of Trusteeship to the perennial problems of the exercise of power, exploitation, deprivation and alienation. Trusteeship was identified as a peaceful revolutionary alternative to State-owned or private forms of organising production and exchange of goods and services. A special value of the Trusteeship concept was that it provided incentives for the creation and development of enterprises while eliminating the defects of capitalism and the consequent government intervention or the need for the State to own business undertakings.

2. However, one of the factors that had to be borne in mind in the planning and organisation of this Seminar was that while the Trusteeship Foundation and the Industrial Common Ownership Movement in the U.K. were committed to, the ideal, to certain institutional patterns and their popularisation, the Leslie Sawhny Programme and the Friedrich Naumann Stiftung, while they sympathise with these ideals, are wedded to competitive free enterprise with a social purpose as described by Dr. Ludwig Erhard in his book "Social Enterprise".

3. In the light of this, it was understood that the purpose of the Seminar: would be discuss with an open mind the various concepts mentioned among the topics of the Seminar and that such a discussion should involve the participation of those who believe in these concepts as well as of critics who are not convinced about their viability in prevailing conditions.

4. The Seminar began with a tribute to the luminous memory of Jayaprakash Narayan who had done so much to give shape and meaning to the concept of Trusteeship and whose efforts in 1965 had brought together people from different countries to discuss the social responsibilities of business. It was recalled with a sense of gratitude that the Declaration which was adopted at that time, and which asserted that "all life is a trust and all power carries with



it obligations", provided the basis and inspiration for this seminar and the follow up action hereafter.

5. The Seminar considered the wider and basic issues concerning human well-being and the definition of human needs underlying our present ideologies, our conceptions of economic development and social justice, the role assigned to science and technology in it, the legitimate position of the 'rich', the powerful, the talented and the skilled and the exploitative, and continually explosive situation brought about by man's alienation from nature, from his work, his society and his inner self.

6. It was suggested that these wider issues and problems involved nothing short of acceptance of new alternatives with Gandhian insights and directions, and that the problems of the human race need to be tackled from a world perspective which recognises the community of interest and discusses them in the context of pockets of affluence and absolute poverty in a vast population. This in turn calls for new concepts of development and growth with new relevant structural and organisational framework and emphasis on participation, autonomy, value of diversity and plurality informed by social conscience and obligation. There was also a reference to the issues arising out of the total impact of science and technology and the need to look for the solution of social problems created by technology, not in more technology and science, but in the enduring ethical and intuitive values and insights.

7. The seminar turned its attention to the need for defining the concept of Trusteeship and it was conceded that it constituted a way of life that rejected exploitation or violence and emphasised the inherent responsibility of those in positions of power and their commitment to the greatest good of all. To be endowed with wealth, power, talent, skill and knowledge is to be privileged and by definition to be, of one's volition, a Trustee of the hopes, aspirations and interests of the disadvantaged and the less privileged. It was generally agreed that an open, free and pluralistic society with a concern for justice and human rights was a guarantee against misuse of power and influence by the

endowed, the wealthy, the talented and privileged. Basic to this problem of preserving a balance and controlling misuse of power is the view that Man is the measure of all things and his adherence of to the Moral Law makes or unmakes society and gives content to the ideals of trusteeship and fraternity. Trusteeship alone would ensure a decentralised, participative polity and economy, and control the multiple centres of power and privilege.

8. The question whether Trusteeship provides a means of transforming the capitalist order and includes legislative regulation of ownership and use of wealth came in for discussion and an exchange of differing viewpoints. While there was no unanimity in regard to legislative regulation, there was a consensus on the concept of Trusteeship providing a civilising influence and a non-violent approach to the solution of problems thrown up by industrial strife.

9. The Seminar gave detailed consideration to the social responsibilities of business and labour and the concept of the Responsible Company. It was maintained that morality, efficiency and expediency dictate that business and labour should accept their social obligations and that the corporation had better "develop a soul" along with direct institutional accountability as part of its responsibility to the community and also for sheer survival in an increasingly hostile environment. The principle of Trusteeship expresses the inherent responsibility of a business enterprise to its consumers, workers, shareholders, suppliers, and the community and the mutual responsibilities of these to one another. It was also emphasised that the social responsibilities of business can best be assumed in an atmosphere of freedom with minimum possible restraint on healthy competition. It is also realised that monopolies that cannot be avoided carry social responsibilities. It was pointed out that, with a few exceptions, neither business and industry nor the Trade Unions in India had implemented the Declarations on Social Obligations adopted in 1965 and 1966 under the inspiration of Jayaprakash Narayan. A sustained educational campaign is needed to make them accept their social obligations. It was felt that business should of its own volition put its house in order so that propensities and policies of greater State intervention may be discouraged and

retreat. It was further maintained by some that acceptance of social obligations was the maximum that was possible in the Indian situation, but others maintained that these constituted normal business obligations and an acceptance of social responsibilities involves a commitment to national and community goals. Such goals would include participation in the wider fields of rural development, creating entrepreneurship, self-employment and a just and equitable economic, social and political order. It was also agreed that 'openness,' an free access to information should become part of industrial organisation and structure. It was argued that a strong and vigilant consumer movement and the association of consumers with industrial management would help combat malpractices and improve standards of service and management.

10. The discussion on the concept of the Responsible Company brought into sharp focus the relationship between capital and work and the questions of reasonable return on equity capital. It was maintained by some that capital should not be allowed to multiply indefinitely to the exclusion of other interests, notably the workers. They claimed that Trusteeship implies a system which has a built-in mechanism for the purpose of phasing out and redistributing both the ownership and authority of capital in favour of other interests including workers, consumers and community. This will enable enterprises to restructure in the light of their accepted social responsibility. Some others rejected this view.

11. The Seminar considered the concept of common ownership in which the enterprise is collectively owned and controlled by the people working in it. In this concept, there are no individual shareholders; people hire capital instead of capital hiring people. Case studies of three common ownership enterprises in U.K. were presented, each of which has a successful trading record. The initiative had come from entrepreneurs who believed in a radical change of ownership and had therefore changed companies which had previously been privately owned, or created new enterprises in this form. These are about 170 common ownership enterprises, most of them small, and an average of one new one is starting every week. It was contended that, in countries like India

common ownership could be initiated by private owners and entrepreneurs who were sufficiently dedicated to the Trusteeship concept to give or sell their companies' shares to all the people working in it. This required men of high ideals and low personal requirements; it was suggested that one of the major functions of the Trusteeship Foundation will be to seek out and support such people in this pioneering task.

12. The Seminar noted that common ownership in vicious forms existed in Spain, Australia, Israel and in U.S.A. where it had been encouraged by government tax incentives. A government sponsored form of common ownership existed in Yugoslavia. It was agreed that common ownership was a move towards Trusteeship and was an alternative to private ownership and to state ownership.

13. The seminar discussed various forms of workers: participation in management including the German model of Co-determination, the Yugoslav model of self-management and the Israeli model of Union management. It was pointed out that none of these models could be transplanted to other countries, especially developing economies. If the workers have to play an effective role in building up the trusteeship concept, the present structure of Trade Unions will need to be re-examined. The attitude of individuals will be an important factor. The seminar here emphasised the need, where indigenous models need to be developed, to educate the worker, in trusteeship concepts and in taking up responsibilities.

14. In conclusion, the seminar re-emphasised that a universal acceptance of the Trusteeship Concept would, it is hoped, lead to a new economic order based on trust and justice for both rich and poor nations.

15. The seminar recommended follow up action on these lines: The Trusteeship Foundation should in collaboration with similar organisations in other countries.

(a) take the initiative in promoting the concept of trusteeship on a worldwide basis :

- (b) endeavor to bring together like minded organisations and individuals in the countries concerned to explore and develop implementation of trusteeship; and
- (c) Classify and disseminate relevant knowledge and information through journals and newsletters and help the training and education of all concerned.

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## TRUSTEESHIP

### —Some Basic Issues

#### Govind B. Deshpande.

1. Gandhi was both a unique thinker and a man of action. He was at the same time, concerned with enduring values and questions of life as also immediate concrete "first" steps to be initiated. The two basic concepts of his thought and action were "Swaraj", which meant self rule, self-discipline, social awareness and responsibility and Ahimsa, which meant non- exploitation. He was deeply aware that solutions to human problems cannot be enduring and they were bound to have some relevance to the particular social context. But he averred that there were some eternal ethical and other human values on the basis of which it was necessary to continually raise pertinent questions on the kind of society, polity and economy we were engaged in creating because, ultimately, all social economic, political policies and instruments had to be oriented to meet the requirements of the last 'Man' in the society or the greatest good of all.

2. Since money, knowledge, skill or talent mean "power" and since there is always the danger of such "rich", "talented" people worshipping 'power' for its own sake and of misusing it for achieving personal ends, Gandhi was concerned about the "Rich" man's legitimate position in any society. Though individuals, whether they be industrialists, professionals or workers, are neither selfish nor petty in the innate sense, the way their educational skills and values are developed often compels them to look after their own interest and often exploit others. It is, therefore, possible that organisations and institutions run by such individuals may have very low social relevance.

3. Prof. Milton Friedman the well-known economist and Nobel Laureate, wrote capitalism per se is not humane or humane or inhumane but capitalism tends to give much freer rein to the more humane values of human beings. It tends to develop a climate which is more favourable on one hand to the development of a higher moral climate of responsibility and on the other to

greater achievements in every realm of human activity". If this is true, will our problems of development, growth alienation or exploitation be solved by merely making the capitalist system socially responsible? If not, what is the way out?

4. There is a growing feeling that the conceptions of economic development and human well-being and the definition of human needs underlying our present ideologies, the role assigned to science and technology in it, and the relationship between knowledge and human arrangements are all at fault and need to be redesigned. The point at issue is not one of convincing policy makers of the need to build the concern for social justice into economic policies; it is not even one of perceiving the intimate inter-relationship between social justice and development; it is something far more fundamental. It involves nothing short of a new concept of development – growth with structural and organisational framework. The present system, whatever its achievements, will continue to be inappropriate, inadequate to meet human, psychological needs, wasteful of resources and iniquitous, exploitative and explosive.

5. Our continual crises in the industrial and other economic fields are symptoms of a very basic change in relationship – from man's reliance on nature and himself to man's dependence on the machine and technology, which in turn entails an increasingly aggressive relation between man and man, between man and nature and its resources. It leads to a growing exploitation of human beings and what is worse to less and less need for human beings. Ultimately, the system that modern man has built can be one in which the most dispensable element will be man himself, to large masses being considered 'marginal', 'superfluous' and 'obsolescent'.

6. The crisis that we face is a crisis wrought by a particular direction that science and technology took under the impact of the age of positivism. The full consequences of the present course are seen very often in our time as it covers all the particular crises such as the threat of total war; threat of extreme deprivation co-existing with over-abundance; the threat of the collapse of

ecological balance etc. As we realise this we must also realise that nothing short of fundamental rethinking about the human enterprise will redeem man from these crises and that such rethinking will eventually have to address itself to the world as a whole. For, what we face is an extreme dualism – every sphere, every world so divided that its survival itself is at stake. The predicament we face in the total situation rampage of the machine, the severe dualism of the human species, the sacrifice of life chances of future generations –was the basic concern of Gandhi who thought that a "Trusteeship" attitude may help us face the predicament.

7. It would be a half-truth to suggest that poverty is *our* problem, while alienation is of the developed countries, both capitalist and communist. Marx's definition has been widened by the New Left to include five kinds of alienation. These are: (a) alienation of man from his work; (b) alienation of man from the commodities he produces; (c) alienation of consumption from production; (d) alienation of man from social organisms; and (e) alienation of men from one another.

If to this list we added alienation of man from nature and alienation of man from his inner self, we would have a nearly complete Gandhian definition of alienation. The point is that by this definition all existing social systems would be found alienated, wholly or partially. And, we must confess to our shame that the Indian society is far more alienated than any other because of the crippling poverty of its people on the one hand and, on the other, the serious inroads that values of the alienated West have made into our society by creating an irresponsible power elite with split personality. This combination has led to our society being an alienated one in respect of each one of the counts listed above.

8. There is also a much wider issue arising out of the total impact of science and technology on the human situation. Science has a text which is universal, objective, cumulative and ethically neutral. Science also has a context which peopled by saints and villains, democrats and tyrants, incorruptible and

purchasables, oppressors and victims. When faulty, the context allows the faulty use of science; when appropriate, it allows the proper use of science. The text remains untouched by history, culture and morals. Science and technology are inseparable and science must be judged by its technological fall-out. Science can be saved by subtracting from its destructive, alienating and useless technology – and by encouraging constructive, liberating, necessary technology. The equation of science and technology has induced us to search for a more humane technology without mounting a corresponding search for humane science. We continue to look for the solution of social problems created by technology in technology itself. The consciousness which science represents has not been subjected to fundamental criticism.

9. This debate, in keeping with Gandhi's inclinations, must also be fairly concrete, lead to the 'first' step. It must draw attention to the present model that has not only produced a wasteful civilization but also given rise to structures of political and economic power that are iniquitous and conflict-ridden. The present model of high consumption life-style has already understand both the liberal dream of expanding welfare for all and the Marxist dreams of classless, egalitarian society. It must find alternative new 'models', guidelines for restructuring the present system with greater emphasis on the human element, participation, autonomy, accent on local conditions, the value of diversity, appropriate technology and socially relevant life-styles.

## TRUSTEESHIP

### The Instrument and Its Proper Use

Manohar Malgaonkar.

Albert Einstein once said about Gandhi: "Generations to come, it may be, will scarce believe, that such a one as this even in flesh and blood walked upon this earth."

This disbelief is already there. This is because everything Gandhi ever said or did has been subjected to a ceaseless barrage of interpretative writings. Every day that passes, it is getting more and more difficult to get a glimpse of the image behind the myths and legends it has generated. Gandhi Was become like an idol in a temple submerged under the pile of garlands brought by its devotees.

And to interpret Trusteeship is doubly difficult because even in Gandhi's own mind, the concept was not fully formed! He had obviously given the subject a good deal of thought, but he had really not got down to formulating ideas about its practical application. This is quite clear from his recorded thoughts on the subject, and is borne out by Jayaprakash Narayan in his introduction to Dr. J. B. Sethi's book on trusteeship:

"He kept modifying, elaborating and enriching  
his own concepts on the basis of his experience."

### The Inspiration

Gandhi himself has described how the idea of trusteeship was given to him by a verse in the Isavasya Upanishad.

*Isavasyamidam sarvam yatkincha jagatyam jagat*

*Tenatyaktena bhunjitah ma gridh kasyasuidanam*

(All this, whatsoever moves in the world, is pervaded by God; do not covet, for whose indeed is wealth? It is only through renouncing that you can enjoy possessions.)

The verse, particularly the part about renunciation

*Tenatyaktena Bhunjitha*

made a powerful impact on his mind. He took the exhortation quite literally and proceeded, while he was yet in his middle thirties, to give away everything he had acquired, and, as a consequence believed that he had become 'perhaps the richest man in the world'.

But there is a perplexing rider to this admission, for he goes on:

"For I have never been in want either for myself or for any of my public concerns."

So here was a man who had in a grand gesture of *aparigraha* given up all the good things of life — wine, good food, good clothes, sex — all the things that make life worthwhile for most of us. For his own person, he needed nothing, or almost nothing. But he had devoted himself to public causes, and for these causes he certainly needed money. Large amounts of it.

He got that money from his rich friends. Even his very first experiment of living in classless austerity in what he chose to call an *ashram*, would have fizzled out if it had not been for the generous help given by Mr. Ambalal Sarabhai. Years after Gandhi had died, Mr. G. D. Birla told an interviewer:

"I could refuse him nothing — I financed all his spiritual activities in the Sevagram period — but never kept accounts of what I sent."

This was a practical experiment in trusteeship, and it brings out two important facts. The first is that, to Gandhi, an industrialist did not represent an image of greed and selfishness, so much as a professional creator of wealth. And the second was that it was the proper function of men with surplus wealth to support public causes.

### ***The Application***

Such is the genesis of Gandhi's theory of trusteeship. It was sparked by a jolt of conscience and was adopted by him as a purely personal article of faith. To

support his public causes, he took money freely from the big industrialists and in doing so he began, as was his practice, to experiment with the theory of trusteeship which would serve as an instrument of social uplift.

The possession of riches, however honestly accumulated, in a land as horrifyingly impoverished as India, seldom fails to bring, in the possessor, a gnawing sense of guilt. The traditional way of assuaging that feeling has been to give to the poor. Indeed there are in our country classes and clans who are noted for their propensity for cleansing themselves of this taint – or, as some say, of placing themselves beyond the pale of the evil eye cast by those who covet their riches – by giving away a portion of their earnings to temples and orphanages and other charitable or religious institutions.

Gandhi offered India's affluent society another channel, a worthier cause, for what he termed their 'superfluities.' While the struggle for independence was going on, of course, the money made available by Gandhi's rich friends was needed for it. But even in those days his active mind must have been trying to think out other uses for trusteeship. He looked upon Marxism as an evil and realized that trusteeship could be made to serve as a bulwork against its inroads. Thus he began to exhort the rich men to practice the principal of *aparigraha*, Voluntary dispossession, by putting forward the following argument:

"There is no other choice than between voluntary surrender on the part of the capitalists of superfluities on the one hand, and on the other the impending chaos into which, if the capitalist does not wake up betimes, the awakened but ignorant and famishing people will plunge the country, and which not even the armed forces that a powerful government can bring into play can avert."

And suddenly the whole concept of trusteeship comes into sharper focus. It acquires a special relevance to the problems of today. Its appeal is not aimed at the heart but at the head; not merely to one's finer feelings but to the instinct of survival itself.



Trusteeship is not a pure economic theory. It is more like a *mantra* offered by a visionary who also happened to be an essentially practical man, and who was anxious to give his country an egalitarian society without destroying its economy.

However much Gandhi urged his fellow men to practice *aparigraha* or non-possession, he never deviates from the voluntary nature of trusteeship.

"I am no socialist and I do not want to dispossess those who have got possessions. If somebody else possesses more than I do, let him. But so far as my own life is regulated, I do say that I dare not possess anything which I do not want."

The logic of this statement is far from flawless, but the sense is wholly clear. It is that even though Gandhi himself may have given away everything he possessed, he does not "want to dispossess those who have got possessions."

Indeed it would not have served his purpose at all if everyone else had followed his example. To him actual results meant far more than grand gestures. It was important that the rich should not so impoverish themselves by the act of giving that they could no longer remain capable of serving as trustees; they had to go on producing more if only to be able to give away more. For them he does not advocate the total renunciation he himself had resorted to:

"They should be allowed to retain the stewardship of their possessions and use their talents to increase their wealth."

This was something that Gandhi himself had tried out with conspicuous success. The merchant princes who supported his freedom movement and other causes with generous donations did not neglect their businesses, but, on the contrary, proceeded to improve and expand them with a frenzy of purpose. Indeed they often went against the grain of Gandhi's cherished economic theories and introduced the latest machinery and manufacturing techniques in order to remain competitive. Mr. G. D. Birla told an interviewer that he never agreed with Gandhi's notions of economics, but then he admits that "he never tried to urge them on me."

Supposing the Sarabhais and the Birlas and the Bajajs and others had given all they possessed in a spectacular gesture of *aparigraha*, how could they have gone on pumping money into Gandhi's struggle for independence for all of three decades? It was only by going on diligently with what they were best equipped to do, or in Gandhi's words, "using their talents to increase their wealth," were they able to stay the course. For them this preoccupation with their normal business was not merely permissible, it was also highly desirable. Gandhi's thoughts on this aspect are clear:

"My advice to the moneyed people is that they may earn their crores — only honestly of course — but so as to dedicate them to the service of all."

I said that Gandhi's thoughts in this statement are clear. But there is an apparent contradiction. His advice, on the face of it, would seem to mean that the rich should dedicate *all* their honestly earned crores to the service of others. But when one remembers that the quantum of their contribution has to be balanced with the requirement that they must remain capable of continued growth as creators of wealth, the apparent contradiction vanishes. That Gandhi wants the industrialists to give away as much of their surplus wealth as possible is undeniable. But even in this he is sufficiently realistic to appreciate that businessmen were going to be averse to diverting their money from their business interests to Gandhian pursuits, and that a change of attitude on their part must come gradually. Meanwhile, he was going to go on pegging away:

"If people meditate over it constantly and try to act up to it, then life on earth would be governed more and more by love."

Gandhi's ultimate aim, of course, was to create a society of equals, but here again he tempers his idealism with a word of caution:

"We do not want to produce a dead equality where every person becomes or is rendered incapable of using his ability to the utmost possible extent. Such a Society must ultimately perish."

What a hard nugget of Gandhian wisdom this one is. *A social order in which every person must have scope to use his abilities to the utmost possible*

*extent*. Can there be a more forceful argument in support of free enterprise – or to show that free enterprise and trusteeship can never be at cross- purposes? He wants to use trusteeship as a sort of safety valve for the likely abuses of the free enterprise system. But he does not want the State to be in control of that safety valve. He is quite emphatic about it:

"The state represents violence in a concentrated and organized form. The individual has a soul, but the state is a soulless machine. It can never be weaned from violence to which it owes its very existence. Hence I prefer the trusteeship system."

All these pronouncements do not envisage the acceptance of ideas that are not clearly and distinctly perceived by the intellect. Gandhi remains true to his image of being a practical visionary, a man with a soul whose main concern is the welfare of mankind. However high his ideals, in his search for them, he is always prepared to lower his sights to achievable targets. He tried to ensure that the sacrifices he demands from others would not be thought unbearable, or worse still, have the effect of drying up the sources of further bounty.

So the basic tenets of trusteeship emerge: that it is voluntary; that, in order to make it successful, the rich must 'go on earning more and more (honestly of course) so that their fellow beings should go on benefitting more and more from their largesse

### ***Who are the Trustees?***

Who are the people whom Gandhi wanted to regard themselves as trustees on behalf of society? At whom was his appeal aimed?

The very definition of the word trustee is that he is a person who holds property in trust for another. And this precludes a vast number from the purview of his appeal. It cannot embrace the weak and the needy, or even the middle classes who may be presumed to have just about as much as they need, with little or nothing to spare for others.

Mr. Prabodh Choksi, of the Gandhian Institute of Studies at Varanasi, who has certainly made a deep study of everything Gandhi has ever written on the subject – and possibly also of everything anyone else has written about it as well – is emphatic in laying it down as an essential feature of the concept that it is:

"an appeal to the strong, to their sense of fairness, justice, humanity and spiritual aspirations - to their sense of responsibility to the weak, to the society of which they are a part."

*The Strong*, in this context, of course means the powerful and the rich. And according to Mr. Choksi, Gandhi himself thought of trusteeship as an appeal being specifically applicable to four classes of people: The British Raj, the Princes, the Zamindars, and the Industrialists.

Of the four, only the businessmen now remain, in splendid isolation. They are the only category who can put the principle of trusteeship into practice – if not, like Gandhi himself, because they want to ensure the ultimate salvation of their souls, then in a bid to make themselves immune to the ritualized fire of left-wing politicians.

And by businessmen, Gandhi meant only the men at the top; those who make policies in private and corporate industries and commercial houses, the highest managerial elite.

And this is the full span of Gandhi's appeal. To contend that it envisages all sorts of other elements of the business community and even the society at large is to distort this definition to a meaningless absurdity.

The basic thinking behind trusteeship is that it can be practiced only by the strong – those who are in a position to give things away to others. These are the people from the proper targets of Gandhi's appeal, if not to their nobler instincts, at least to their sense of insecurity. Against those who have little or nothing to give away, the argument of trusteeship is meaningless. By the same token, it is equally meaningless against those who have nothing to lose by disregarding it.

In Mr. Choksi's definition of the appeal of trusteeship, he refers to spiritual aspirations. This is not merely a flight of philosophic fancy, but a direct reference to a very normal human urge in successful men all over the world: that of doing something for the community. Half the museums of the world owe their existence to the gifts of art treasures gathered by private collectors. In an environment in which the very fact of their continuing success makes businessmen increasingly vulnerable to the manifold pressures of social unrest, trusteeship offers them a wonderful chance of establishing their credentials as society's benefactors.

### **Conclusion**

Trusteeship must not be mixed with *aparigraha*, which is voluntary dispossession. It is difficult to believe that Gandhi himself did not realize that if his own example was to be followed by everyone who had something to give away, it would transform the world into a refugee camp of gigantic proportions and unimaginable squalor, and in which no one possessed anything that he could call his own: neither wife nor children nor books, leave alone television sets and Persian carpets and jewellery and hosts of other objects that have no other purpose than to please the eye.

Similarly it does not mean the giving up of all the good things of life, for the simple reason that if it did, it would appeal to no one at all, neither to our captains of industry nor even to their workers or to any other section of society.

Then again, trusteeship cannot be imposed by legislation. To seek to do so is to violate the whole spirit of Gandhi's concept of it; in fact it would be like converting trusteeship itself into an effective instrument of state control.

It is a typically Gandhian remedy that cannot be made to work except through an appeal to the finer instincts of man coupled with moral pressure. Add to it the purely material factor that it gives businessmen a chance – one might even say a last chance – to co-exist with the socialist pattern of society, and to resist the further inroads of that pattern.

## OWNERSHIP VERSUS STEWARDSHIP

**Rev. JOHN HARPER**

The purpose of this paper is simply to draw some distinctions between attitudes towards possessions as commonly held in the nominally Christian countries of W. Europe and America, and what I believe to be the genuinely Christian concept of Stewardship. I write as an Anglican clergyman with no particular training or experience in economics or commerce, but I do share a great interest in the development of the Common Ownership Movement, because this seems to come closest to the practical realisation of the Christian view of man's relationship with materials, and consequently with the money that is thereby generated.

My interest in this subject has been strengthened by a twofold discovery. The first is that the Trusteeship Movement inspired by Gandhi is based on very similar and compatible principles to that of the Common Ownership Movement in Britain and is striving toward the same goals, though from within a contrasting environment; furthermore, the religious conviction behind Gandhi's teaching, though derived from a religion that appears in many respects to be irresponsible with Christian belief, bears a remarkable resemblance to those elements of Christianity which are summed up by the term 'stewardship', and which in turn seem to motivate, from a religious perspective, the concept of Common Ownership. This common element of religious understanding derived both from the Bhagavad-Gita and the Judaic/Christian Scriptures may be epitomised in some words of King David from the Old Testament:

"Yours, Lord, is the greatness, the power, the glory, the splendour, and the majesty; for everything in heaven and on earth is yours. All things come from you, and of your own do we give you."

This profound concept appears to embrace both Gandhi's teaching of man's role as a trustee of his possessions for the benefit of the community, and also the Christian interpretation of man acting on behalf of the caring/creator God as

his steward, and seems to have reached a workable implementation 1Q the Trusteeship and Common Ownership movements.

Beyond this point I would not dare to make any comparison between the Hindu and Christian faiths: suffice it to say that the mutual religious concept of man's responsibility to God for the material things of this life stands in marked contrast with the commonly accepted attitudes towards possessions in the West, and I would surmise, to a lesser extent within India itself.

I would turn now to the matter of ownership in the Judaic/ Christian traditions. One dominant theme of the Old Testament scriptures gives clear sanction to the ownership of riches and property, and this is protected by the Ten Commandments. The impression is frequently given that riches are a reward for righteous behavior, and conversely, poverty is a punishment for sin. But side by side with this view, there is a fundamental prophetic criticism of the right to private property, and indeed open hostility to ownership. Josephus, writing about Cain, said that he "was only concerned to acquire possessions and was the first to plough the earth", i.e. he was the first to do violence to nature. The horror felt for Cain was that he claimed for himself what rightly belonged to God, and used violent means to achieve it. All property is God's: "the earth is the Lord's". So the land of the Hebrews was protected by law because it is God's (Leviticus 25.23). "The land shall not be sold".

It seems that the Hebrews dealt with the tension caused by these two traditions by introducing the law of tithing that is, the giving back to God of one tenth of a man's possessions, on the understanding that this symbolised that the whole of a man's wealth, not just a proportion of it, is properly under the ownership of God. The prophet Micah recognised that however conscientiously a man paid his tithe, he could never conceal irresponsible use of the rest of his wealth — he was answerable to God for that as well.

In the New Testament, Christ assumes the legitimacy of private ownership to a degree — had he not, then little of his teaching about sharing and giving would have made any sense. Many of his parables accept the current social attitudes

and systems (e.g. landlords, servitude for debt), yet at the same time contain severe warnings about the power of possessions or 'Mammon' to corrupt and deceive: "It is hard for the rich man to enter the kingdom". "Go, sell all that thou hast and give it to the poor, and come follow me".

So in neither Testament is the right of property absolute. The owner of property carries a twofold responsibility; namely, to see that those less fortunate than himself receive some benefit from his wealth, and also that the possessions themselves are not to be exploited, but are to be treated with respect as the creation of God himself.

This principle is borne out by the community of goods as practised by the Christian Church of the first three centuries. From the evidence available, the well-known references in the Acts of the Apostles (Ch 2.42-47; 4.32-35) to the holding of goods in common, were not just impressive exceptions to the norm, they did in fact exemplify the pattern of life of the followers of Christ up until the time that the Church became institutionalized under the Emperor Constantine:

The Didache (an Eastern work of the end of the first century):

"You will not push aside the indigent but you will share everything mutually with your brother and you will not say that anything belongs to you alone. If you share immortal goods together how much more should you share perishable goods";

Tertullian speaking to pagans in Africa towards 200 A.D.: "We do not think of goods as private. While in your case your inherited wealth makes all brotherhood impossible, in our case it is by our inherited wealth that we become brothers.... we who are in communion in heart and spirits do not hold anything back from the communion of goods. Everything among us is in common, except marriage";

The Latin author Lucian wrote:

'Christians despise all possessions and share them mutually'.



And even in the thirteenth century when it would seem that the economic policies of the primitive Church had long since failed, St Thomas Aquinas writes:

'Sin has made the division of goods necessary but they ought to be for the common use'.

The Christian view, regardless of the actual practice of the majority of those who would now call themselves Christians is fairly clear – the Christian is no longer an owner, whether by inheritance, profit or salary, but a steward on behalf of God. The brotherhood of all in Christ determines the requirement for the community of goods.

Yet right from the beginning of the Christian era, indeed from early biblical times, there was a marked contrast in attitude toward possessions between the Jewish/Christian people and their contemporaries. Carl Henry, former editor of *Christian World*, writes: "The Roman or Justinian view derives ownership from natural right; it defines ownership as the individual's unconditional and exclusive power over property. It implies an owner's right to use property as he pleases, irrespective of the will of others. That was the current world view at the time that the biblical writings were being formulated. The Bible spells out that God is the Lord of all things, and consequently economics is not a secular matter independent of His sovereignty. Only God has an absolute right over property, and he places clear obligations on the way in which his people acquire and use the products of his creation."

In modern times it would seem that the ancient Roman attitude towards property continues to hold sway even within Christian cultures, though it is described by different terms. In 1776 the Scottish priest Adam Smith published his *Wealth of Nations*, a book which has influenced the economic behavior of the West ever since. His theory was that an invisible hand would guarantee the good of all if each person would pursue his or her own economic self-interest in the context of a competitive society. The laissez faire attitude he advocated was based on the assumptions that the law of supply and demand coupled with

man's quest for self enrichment must solely determine prices and wages, and would inevitably serve the good of society. So owners of land and capital not only had a perfect right but almost a moral obligation to seek as much profit as possible. This philosophy has in some quarters been regarded as virtually the Christian approach to economics. Yet the economist Lord Keynes, who in many respects embraced and reinforced Adam's doctrine, and whose teaching is strongly reflected in modern-day economics, recognised the amoral limitations of his arguments. Keynes looked forward to a time when everyone would be rich and when ends would be valued above means, and the good preferred to the useful. But he realised that this goal was a distant aspiration. In 1930 he wrote: 'The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that foul is fair and fair is foul, for foul is useful and fair is not. Avarice and usury and precaution must be our goods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.'

And still it seems that the capitalist Christian West lives under this pretence, that one day we will be able to afford the luxury of a God-given attitude towards wealth – but not yet.

Even though the recession of the 1930s with which Keynes was concerned is now part of history, and the material living standard of the great majority of westerners has risen to an unprecedented extent, so long as the possibility of further private enrichment remains, the capitalist philosophy of absolute right of ownership and exploitation still persists. At the same time it is becoming abundantly clear that the Keynesian approach is not solving the economic problems of society, either within the affluent West, or within the less affluent communities of the world. In fact it is contributing to the ecological imbalance between man and his environment, as the conservationists are now frequently heard to say.

In this context it is worth mentioning that as a consequence of capitalism combined with modern technology, man's relationship with things is in many

respects becoming increasingly transient. The right of absolute possession implies the right to exploit and then to dispose. Alvin Toffler in his book 'Future Shock' has written a graphic account of the ever increasing tendency of modern man to make temporary use of things and then to replace them, supposedly in the interest of economy and convenience. One example of this trend is the popularity in America of paper clothes which are designed to be thrown away as soon as they are soiled. This attitude would seem to exemplify man's loss of respect for things in themselves, and thus for the created world of which he is a part. No longer is he responsible for the resources available to him, instead his prime concern is to convert materials, which are frequently exhaustible, into a means of self- enrichment.

I would suggest that the Christian concept of stewardship offers a practical alternative to an economic system that places the accumulation and exploitation of goods above the essential needs of man that consequently fails to produce anything more than superficial satisfaction for a minority. Christian faith, along with most other world religions, is concerned with the realities of life, economic as well as spiritual and not with needs of man that consequently fails to produce anything more unattainable dreams that keep the underprivileged resigned to their plight. E. F. Schumacher writes in his book, 'small is Beautiful,' about the Buddhist view of economics in which 'spiritual health and material well-being are not enemies: they are natural allies'." Man's natural capacity to work creatively and with respect for his materials far exceeds his desire to accumulate possessions. Gandhi's teaching of trusteeship, derived from the doctrine of the Gita and its concepts of non- possession and equity, likewise emphasises man's role as the responsible manager of the earth's resources who is answerable for the welfare of the whole community. The Hebrew parable of creation deliberately defines man as the chief work of the creator God. He is made in the image of God, not in order to exploit the rest of creation, but to treat it with the loving respect that God has already invested in it. In the teaching of Christ it is the carefree independence from the power of possessions that is particularly distinctive: 'Be not anxious for food or

clothes, your heavenly father know that you have need of these things. Seek you first the kingdom of God, and all these things shall be added unto you'.

So the concept of absolute ownership, seen as man's overriding, inalienable right to possess, would seem to run counter to the teaching of several of the world's major religions. It may well be that the practical application of stewardship along the lines indicated by the Trusteeship and Common Ownership Movements, may contribute to the drawing together of the followers of the differing faiths, as well as achieving a necessary corrective to modern society's order of priorities, and in consequence an improvement in man's whole standard of living physical, mental and spiritual.

## **SOCIAL RESPONSIBILITIES OF BUSINESS AND LABOUR**

**M. R. Masani**

There are three possible views that an enlightened entrepreneur could take on this subject. The first, of course, is the ordinary Western businessman's view that, if he pays his taxes and produces a good product at a competitive price, he has done all that he should be expected legitimately to do as a businessman and that he owes nothing more to society. This view, as it happens, is held by some quite enlightened industrialists in India.

The second view is of those few noble people who accept the Gandhian concept of Trusteeship. There can be but a handful of these as it is only too likely that they would not be able to stay in business for long if they conscientiously practiced their role as Trustees.

The third view is somewhere in between these two extremes, and that is the view to which I myself subscribe: that both morality and expediency dictate that businessmen in India should accept certain social obligations as a part of their responsibility to the community.

Lord Coke had in his time observed that the Corporation has no soul. In the climate that prevails in India today, which has resulted from Gandhiji's teachings on the one hand and thirty years of state socialist propaganda on the other, I would venture to suggest that the Corporation in India had better develop a soul. I believe that an acceptance of this middle path will make it easier for Indian industry to survive and to thrive.

### **Social Responsibilities of Business**

These have best been defined in a Declaration which was adopted unanimously at a Conference sponsored by Jayprakash Narayan at the India International Centre in Delhi from March 15 to 21, 1965. The proceedings of that Conference, at which I had the privilege to be present, have been published as a book under the title *Social Responsibilities of Business* (Manektalas, Rs. 30/-). That

Declaration outlines the obligations of the enterprise towards shareholders, consumers and the community as follows:

### ***The Enterprise and the Shareholders***

Management's first duty is to see that the enterprise is stable and enterprising. It would then be capable of providing those who commit their capital to it with such a fair adequate reward for risk taken as permits the company to attract the necessary supply of capital from the market. Legally speaking, a company is not capable of being owned. It has a separate legal personality of its own. The shareholders appoint some, if not all the directors. They are entitled to see regular, accurate and full financial information about the Company. Shareholders are also entitled to receive audited annual accounts in order that the public owners may be satisfied in this case also that their capital has been faithfully and usefully employed.

The Shareholders also have their obligations. Shareholders who meet not less than once a year in General Meeting should make a point of questioning the directors on the accounts and discussing policy with them and make their representation more effective through their associations. Through their association and interest they can see to it that a company is pursuing a dynamic policy and that sufficient profit is ploughed back for innovation and expansion. The provision of incentives by the State to such ploughing back would be helpful. The shareholders' interest is not solely in receiving present reward in return for past risk. They should play a constructive part in encouraging the directors to pursue a responsible policy towards the company, and its obligations to the community, employees and customers, upon which in the long run the company's reputation and future prospects depend.

### ***Enterprise and the Workers***

It is the basic responsibility of the enterprise to produce wealth. It is also its responsibility to provide opportunities for meaningful work. In doing so, managers are not to be considered as being in a different class from the worker. The manager is a worker and all who work in a company should give

their best service and share in the resulting profit. It is the responsibility of the management to win the co-operation of the workers by creating the conditions in which workers are enabled to put forward their best efforts in the common task as free men. This means recognition of all the workers' right to a fair wage, a right to participate in decisions affecting their working life, to membership of a trade union, to collective bargaining and the right to strike. The worker should be helped by education and other means to throw up his own leadership. Management should give workers opportunity to develop their capabilities through training, education and the enjoyment of freedom to the greatest possible extent.

The plant or business is a community and justice should be its rule. This means that there should be a Company Code of Conduct with a recognised procedure for settling grievances and adequate reward for making suggestions which result in improved performance. The Code will guarantee the religious, political and social independence of the worker and make reasonable provision for him to take part in civic activities which benefit the community. Promotion policies should be such as to encourage the worker to develop his own capacity and this requires the setting up of consultative procedures by which the workers can participate in and contribute to the common cause of improving the efficiency of the company and the contentment of its members. There should be increasing association of workers with the management. One way of doing this is by the sharing of profits and its reinvestment in the company through purchase of the company's shares to be held in trust or by other means which serve to identify the worker with his work and give him an interest in the company, and we wish to see this encouraged.

### **Obligations of Workers**

Likewise, workers should recognise their obligation to do a good day's work for a good day's wage, to co-operate in increasing productivity, to come forward with suggestions and to participate responsibly in the life of the plant

community. For this purpose, it is necessary among others to develop good trade union leadership.

### **"The Enterprise and the Consumer"**

Consumer's satisfaction is the ultimate aim of all economic activity. This involves more than the offer of products at the lowest possible price. Adulteration of goods, poor quality, failure to give fair measure, lack of service and courtesy to the customer, misleading or dishonest advertising, are all examples of a violation by business enterprise of its obligations towards the consumer of its products.

Free competition undoubtedly provides the best protection of consumer's interests in, normal circumstances. It has therefore to be sustained and encouraged by anti-monopoly legislation. Where certain monopolies, private or public, are accepted as unavoidable or in the public interest, the price of their toleration has to include the government's right to impose any controls that may be needed to check proven abuses of monopoly power. In general, legislative regulation is required to prevent deception and fraud being practised on consumers; and where essential goods are in short supply – but only then – their fair distribution also calls for their impartial administrative allocation.

There are, however, limits to the effectiveness of any external control and, in any case, management should have the necessary freedom for improvement and innovation. It is therefore important that its internal accountability to consumers be extended. To this end we propose two steps. First, that the Memorandum of Association of public limited companies and state enterprises should embody a specific declaration of their wider responsibilities of management. The management should encourage the establishment of Consumers' Advisory Councils or Committees. Consumers Associations and other bodies would then have the opportunity of representing their complaints to them, in consultation with these Advisory Councils or Committees.



The consumers themselves have social responsibilities to their fellow-consumers. If they passively submit to exploitation they help to lower the standards of service and of management. Equally they owe support to consumers' associations which by investigations and reporting on the comparative prices and quality of products can assist them in making a more informed choice in their purchases. Co-operative organisations can also serve as a form of consumers self-help and should be used to set higher standards for goods and services.

### **"The Enterprise and the Community"**

The duties which the Company and the community owe to each other are reciprocal. The Company should respect the law and pay taxes honestly. So long as it does so, the Company, like any other citizen, is entitled to protection and respect by the State. Since industry's plans are necessarily made far in advance, legislation affecting the company should be consistent and there should, where possible, be prior consultation. Uncertainty is a grave handicap to the creation of a dynamic economy. The obligation of the community to the Company includes a clear and consistent legal and fiscal policy and a stable currency.

In its day to day relations with the local community the company needs a reliable means of communication. This is responsibility. Plainly they are not. The Seminar was not able to examine these questions at length. Nevertheless, it considers them important and would welcome experimentation with different forms of ownership and organisation and their scientific evaluation to discover how they affect the discharge of social responsibility".

If I may be permitted to strike a personal note, I may mention that this Conference called by Jayaprakash, with a certain amount of modest encouragement from me, was the culmination of activities in which we had been engaged since the mid-fifties ever since JP had joined in Bhoodan activities. This was a continuous effort to develop the concept of Trusteeship

and the need for businessmen to move in the direction of a more clear acceptance of their social responsibilities as a first step.

The Group that met in Delhi was a remarkably interesting and representative one. Among the business leaders there were academicians, planners and officials. Those from Europe and America included two old acquaintances of mine – Mr. George Goyder and Prof. Alan Flanders of Oxford.

With a group as heterogenous as this, it was only to be expected that the discussions should be lively and indeed, at times, somewhat heated. To start with, there was little in common between Marxists like Mr. K. T. Chandy and Prof. V. K. R. V. Rao, Gandhians like J.P., Mr. U. N. Dhebar and Prof. S. Das Gupta, and believers in competitive free enterprise like Col. Sawhny and myself. While in the Chair at one of the Sessions, I recall my impression that it felt like being astride a bucking bronco!

It is therefore a matter to be recorded with pleasure that, in the end, the Group was unanimous in adopting the Declaration. Col. Sawhny and I had argued throughout that, unless conditions were created in which businessmen could breathe freely and have elbow room to function, it would be unrealistic to expect their whole-hearted cooperation to this cause. I am glad to say that our views found reflection in the opening paragraphs of the Declaration:

"At the outset, we believe that the social responsibilities of business can best be assumed in an atmosphere of freedom and with the least possible restraint on healthy competition. We may differ in individual views as to the relative role, size and liberty which we would wish to give to the private, public and State sectors. But we are united in the view that every enterprise, no matter how large or small, must, if it is to enjoy confidence and respect, seek actively to discharge its responsibilities in all the directions indicated above and not towards one group alone, or to one or two groups, such as shareholders or workers, at the expense of the community and consumers.

All life is a trust and all power carries with it obligations. The Gandhian principle of trusteeship expresses the inherent responsibility of business

enterprise to its consumers, workers, shareholders and the community and the mutual responsibilities of these to one another."

### **Social responsibilities of trade unions**

After this Conference, JP decided that he should call a Conference of Trade Union leader to undertake an examination of their social responsibilities. This Conference took place on March 29, 1966, in Delhi. It was a fairly representative gathering of Trade Unions functionaries and they adopted a long Declaration of which a few points which were accepted as worthy objectives of Indian Trade Unions may be mentioned.

The first was that members of unions should be served better in the following ways than they had been by Trade Unions during the last half century: (a) to get a better economic and material deal by way of wages and conditions of work, (b) To secure redress of their difficulties and problems, (c) To help in the development of their cultural, moral and social level of consciousness.

At this point one begins to wonder how platonic this was, how much it was done to please Jayaprakash, how much this was done with sincerity. Several years have now passed and I for one have never heard of a single activity of any Trade Union desiring to raise the cultural, moral or social level of the consciousness of its members. It is a very worthy thing, but today it is a pious objective – adopted in 1966, but no sign as yet of its implementation.

Then the Declaration goes on to say that in order to carry out these obligations to their members and to society as a whole, the following tasks should be undertaken:

1. Maintaining international contacts and democratic and effective communication with members.
2. The collection of dues, without which no service can be rendered to members.
3. The providing of training and research facilities.

4. The achievement of Trade Union unity. (After all these years, the same six Central Federations are, however, still squabbling and fighting every day.)
5. Obligations towards the un-organised sector of labour, whether urban or rural. (This is a very good thought that the trade unions, who are a privileged class in our society, should do something for the landless labourer, who is the real proletarian in India, with the lowest standard of life and not organised, or for other unorganised workers who still do not have trade unions or industrial legislation to protect them. I am not aware that trade unions have in a fraternal spirit gone to help their weaker brethren who are much worse off than themselves).
6. Combating caste and untouchability.
7. To join in breaking the vicious circle of poverty, unemployment, and low productivity by cooperating in attaining higher productivity and maintaining discipline. (Extremely well-worded objectives. One's only wish is that the Indian Trade Unions would take these more seriously.)
8. To safeguard democracy, without which Trade Unions cannot function.

Thirteen years have passed since then and it is for us to consider to what extent this Declaration has been implemented. The answer of course is most disappointing to anyone who knows the state of the Trade Union Movement in the country.

I had occasion, when preparing the B. P. Wadia Memorial Lectures in August 1973, to probe into the causes of this failure. (I may mention incidentally that B. P. Wadia was an uncle of mine who had established the first Trade Union in India in Madras, viz., the Madras Labour Union, in 1918) Puzzled over this sad picture of disappointing results, I have come to the conclusion that the factors that come into play are:

First, the illiteracy and the backwardness of the worker,, who is unable as a result to organise himself, throw out the "outsiders", and build up a genuine working class movement.

Secondly, the selfishness of the political leadership coming from the intelligentsia.

Thirdly, the spoon-feeding by Government which, instead of allowing a virile Trade Union movement to come up, mothers it so much that it can never be strong, puts it on crutches, and treats it like a baby which cannot grow.

Fourth, the attitude of industrial management which seems to oscillate between beastliness on one side and abject appeasement on the other. I am sorry to say this, but the leadership of industry, with honorable exceptions who try to work out a sound personnel policy which is fair and firm, does oscillate between beastliness and trying to break the union on one side, and lying down and being trampled on by the trade union leaders on the other. If a Union leader comes with a five per cent membership, they recognise the union, handing over the remaining 95 per cent of their employees to that leader. By recognising a union which is not representative, they actually let down the workers. Instead of facing unions with an intelligent policy of reciprocity and mutual regard, they either appease them or try to weaken them by unfair means, and the result is a correspondingly ugly picture on the other side.

### **Progress Made**

To come back to the social responsibilities of Business, the effort to promote these included the convening, with JP's blessings, in September 1969, of a meeting of a few industrialists in Bombay to assess what had been done in concrete terms in furthering the Declaration adopted in Delhi in March 1965. This meeting, which was convened by Mr. Nani Paikhivala and myself as Chairman and Secretary respectively of the Leslie Sawhny Programme for Training in Democracy, decided that certain proposals should be made to joint stock companies for their consideration and implementation. The first of these was that an enterprise should work out and adopt a statement of social objectives which would spell out the obligations which it accepts towards its shareholders, employees, consumers, the local community and society in general. It was suggested that the Companies should alter their Articles of

Association to include a General Purpose Clause on those lines. This step was actually taken by certain leading Companies in the Tata Group who convened Extraordinary General Meetings to alter their Articles of Association accordingly and I believe that this example was followed by certain Companies in the Bajaj Group.

The relevant article adopted at an Extraordinary General Meeting of the Tata Chemicals Ltd., on 29-1-1970, was the model followed by other Tata Companies:

"The Company shall have among its objectives the promotion and growth of the national economy through increased productivity, effective utilisation of material and manpower resources and continued application of modern scientific and managerial techniques .in keeping with the national and aspirations; and the Company shall be mindful of its social and moral responsibilities to customers, employees, shareholders, society and the local community".

This was taking place by the time the next meeting was held on January 3, 1970, in Bombay with Mr. J. R. D. Tata in the Chair. At Mr. Tata's instance, it was agreed that some concrete steps should be taken by those who accepted their social responsibilities, which would involve some "sanctions" to implement these noble concepts. The meeting felt that Social Audit was perhaps the best way of devising these sanctions and this concept should be studied.

Following another meeting on March 30, 1970, the Leslie Sawhny Programme requested a team of experts to prepare a framework for' social audit by an industrial unit. This Study Team prepared a Note which is appended to this paper, (Annexure 'A').

While all this was going on, Prime Minister Indira Gandhi made an interesting observation in the course of an address she delivered in Madras on October 5, 1969. Addressing a group of industrialists, she made an offer to lift governmental controls to the extent that private trade and industry took measures to give expression to their sense of awareness of social responsibi-

lities. She went on to say that her Government was not committed philosophically to controls for controls' sake and went on to observe that in her view social responsibilities involved a fair deal for labour, the production of quality products, their sale to consumers at a reasonable margin of profit, and a faithful observance of government and state regulations.

As it happens, I was about to speak in Bombay on October 8, 1969. Since I felt that the Prime Minister had thrown an important challenge to business and industry, I departed from my text and whole-heartedly welcomed the Prime Minister's statement by saying: "I congratulate the Prime Minister and I give her full credit for her sincerity in the matter". On the following day, October 9, I wrote to Mrs. Gandhi welcoming her remarks in Madras and telling her about my response. "Yours I feel", I wrote, "is the approach that could have a healthy effect by strengthening the hands of those in business who are equally aware of the need for an acceptance of the social responsibilities of business".

I went on to say: "It seems to me that on this particular issue those of us who adhere to the values of democratic socialism like yourself, who believe in a mixed economy and a complementary role of the private and public sector, could cooperate in creating conditions in which a mixed economy could flourish to the maximum advantage to the country. That is why I am writing to you to express the hope that you will persist in the offer or challenge that you have held out to businessmen".

Sometime later, I got a brief non-committal reply from the Prime Minister. What was disappointing was that she did not take up my suggestion to repeat the challenge. The offer was never repeated.

The latest development in this field is the statement made by the Chairman of Tata Iron & Steel Company Ltd., Mr a J. R. D. Tata, on 12th July 1979 addressed to the shareholders of the Company in advance of the Company's Annual General Meeting. In the course of the statement, the Chairman of TISCO observed:

"Your Company has always been conscious of the fact that its obligations extended beyond the normal corporate responsibilities of a joint Stock Company to its shareholders and included social obligations to employees, consumers and the national economy. The advent of Independence brought to us an added sense of duty to the nation and society as a whole as well as to the community in the midst of which our activities are located. Shareholders will remember that in 1970, in order to formalise these principles, our Memorandum and Articles of Association were amended to include a clause (Article 3A) which specifically called upon the Company to be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the local community. My colleagues and I now feel that the time has come when our belief that the Company has indeed lived up to its social and moral obligations should be independently confirmed. With that object in view, we have recently decided that, some time before the end of the year, a panel of four eminent and respected persons totally unconnected with the Company or its activities and enjoying public confidence should undertake such a 'social' audit. The members of the 'audit' panel may consist of or include a retired

Judge of the Supreme Court or of the High Court a Member of Parliament, a trade unionist and a sociologist, whose report will be made public. I hope shareholders will approve of this decision".

### ***ANNEXEURE 'A'***

#### **A Note on Social Audit**

The Declaration on the Social Responsibilities of Business adopted at the Delhi Seminar in 1965 refers to "two new and connected instruments needed if the company is to discharge its social responsibilities they are local meeting and social audit. The Declaration says: —

"Factual assessment by trained and professional observers is to be made of the company's social performance. Men trained in the social sciences with the help of the universities and technical colleges will do for the social performance of



the company what the financial auditor already does for the financial performance. In the case of state industries, public boards, large co-operative societies and public and private companies where there is monopoly, we suggest that the social audit may in time be made compulsory".

The concept of Social Audit has been well summed up by Mr. George Goyder in his paper on 'The Responsible Company'. Mr. Goyder discussing Social Audit says:

"In the economy of big business there is as much need for a social audit which should inform the public about the manner in which a large business is discharging its social responsibilities. Any company could establish a social audit *voluntarily* by placing an adequate amount in the hands of four trustees to be appointed by such bodies as the company, the Trade Union Congress, the Board of Trade and an independent body such as the National Council of Social Service. The areas of inquiry to be covered should be:

1. the company's pricing policies as they affect its consumers;
2. the company's labour policies as they affect the employees and the trade unions; and
3. the company's community policies.

The trustees would engage the required staff from the social sciences and economic faculties of the universities and from bodies interested in the social responsibilities of business. The trustees should brief them and publish their report, independent of the company, and place the report before the Annual General Meeting of the company.

Whether or not the social audit is instituted voluntarily by large public companies, it should form part of the participating companies and be laid down in the legislation for the purpose. Meanwhile it should be taken up as an experiment in social responsibility by large companies".

In India a few industrial houses could make a beginning by inviting a group of responsible academicians, social workers and sarvodaya workers to go into the

performance of the Company *as a citizen* and report to the general public on the participation of the Company in the community's social and educational life. It is not enough for industrial houses to give donations to educational institutions and build concert halls once in a while or erect beautiful parks in public places. A report on a Company's social performance by an impartial and outside team of observers would go a long way in making the general public aware of the work done by the Company.

One way in which a company can demonstrate to the public that it is participating in social life is to adopt a few villages in its neighbourhood and take steps to improve them and make them models for rural India. This is precisely the kind of work which the Tata Charities are doing in a part of Satara District.

We give here below an extract from the TISCO Community Development and Social Welfare Work in Jamshedpur – (First Annual Report 1959):

"About half the population of Jamshedpur lives in eight bustees which are situated in and around the Steel City. These bustees are as follows:

1. Bhunyadih
2. Kasidih
3. Mohulbera
4. Ranikudar and Tinsplate
5. Namada – Kalimati Road
6. Tuiladungri
7. Sitaramdera
8. Sonari

These bustees have approximately 9,000 buildings the inhabitants of these bustees are mostly illiterate and are socially and economically backward. Some of them are the aboriginal settlers of Jamshedpur which was formerly a small

village named Sakchi, while others have migrated from different States and have settled in the bustees.

In free India, popular hopes and demands centre round freedom from want. Such hopes are amply justified as every human being has a birthright to live a socially and economically healthy normal life. Our population, however, is steeped in poverty, disease and ignorance. The urgent need of the day, therefore, is to take concrete steps for the eradication of the three great enemies of mankind, namely, poverty, disease and ignorance.

Though it is the responsibility of the State, specially that of an underdeveloped country, to help the common mass of people raise its standard of living, everything cannot be left to the State and everyone – the employer as well as the common man – has his role to play. With a view to arousing this much-needed awareness for a better standard of living, the Steel Company has extended a timely helping hand to the bustee population and has launched Community Development and Social Welfare programmes in its bustees. It is an uphill task and the drag has to be pulled not only by the Steel Company but also by the bustee people – in fact, mainly by the bustee people after having gained a sufficiently confident start in this direction. In order to get this desire fulfilled, self-help and mutual cooperation, unity of purpose and hard work, friendship and fellow feeling should be their watchwords. This will be the only panacea for century-old ills which have perpetuated poverty, ignorance and disease amongst these bustee people".

What Social Audit would do is to ensure that a report of this type should come from a team of impartial observers every year. This would help improve the image of a Company much more than a reference to the activities of the Company in the Annual Report of the Company by the Company's own men.

## THE RESPONSIBLE COMPANY

### GEORGE GOYDER.

1. A trust is confidence reposed in a person in whom the legal ownership of property is vested to hold or use for the benefit of another- The trust in Britain has historically played a major role i\*1 enabling individuals to band together for a particular purpose and to protect that purpose by placing the property in trusted hands to be exercised and used for the purpose set out in the Trust. For there to be a legal trust there must be n- statement of purpose and it must be clear (see below). Many of the most important British institutions have been unincorporated bodies whose property is held in trust for its members. Among these are Lloyds, the Stock Exchange, the London Clubs, learned societies, religious bodies, the Inns of Court, and educational and social charities. All of these have ensured their continuing liberty of action and freedom from State interference the creation of a trust and the appointment of a continuing body of trustees. Unless otherwise stated the trustees are self appointing; that is to say the remaining trustees appoint to a vacancy in their number. The idea of a trust as an instrument of responsible social purpose is peculiarly British and has been described by the great jurist F. W. Maitland as being the most significant of the contributions of Britain to the science of jurisprudence.

2. In order for there to be a legally recognisable trust it must be clear in intention; otherwise the courts may hold the trust void through uncertainty. Here we face a difficulty in the definition of a trust. Such definition is inevitably static in that it represents the views and times of its creator. Life is, however, dynamic and in its nature unforeseeable. The only certain thing about life is death. Inflation can erode a trust's investments, funds be dissipated through mismanagement and social needs alter- In my English village there is a 15th century trust for the upkeep of the road which is now a public responsibility of the local authorities. There are several trusts for the distribution of coal to needy old people, whereas the law prohibits the burning of coal in an open grate on account of the smoke nuisance. Nevertheless the history of trusts

in Britain shows that with a little ingenuity and the help of the legal doctrine of *cy pres*, trusts can be made enforceable over long periods of time.

3. No doubt Gandhi studied the English trust when a law student in London and became familiar with the concept of trust as understood in English law. Yet Gandhi appears to have been more concerned with trust as moral obligation than as a legal form. The two are, of course, closely related, for moral obligation must be definable before its breach can become actionable, while the objective of trusteeship as understood and expounded by Gandhi is the willing acceptance of moral responsibility by owners of companies and inheritors of wealth together with self denial amounting ideally to self abdication. It is not everyone who will practice virtue of this kind, but the moral climate of industry and commerce can to some extent be influenced by law provided not too much is expected all at once. There is such a thing as the gradual improvement of moral standards through the enactment of good laws which are supported by individual conduct that is prepared to go beyond the law and act as a pioneer experiment, as with the Scott Bader Company, Zeiss of Jena, and the John Lewis Partnership, ventures sponsored and fathered by Earnest Bader, Ernest Abbe, and Spedan Lewis respectively.

4. What is the relative value to be placed upon individual acts of personal abdication of power, and the amelioration of the law of companies generally? One striking fact is the apparent indifference of companies and their owners to the example of the few pioneers who have given their companies away. This does not mean that their sacrifice has been without value, but it does mean that good examples are rarely followed except in the very long run. Example is not enough. Legislation is also needed in order to raise the standard of conduct of the business community generally and in order to protect the responsible firm from being overcome by the unscrupulous one, for example in the spheres of guaranteed quality and honesty in advertising. A concept of the company is needed that enshrines the idea of trusteeship in its very nature. Hence the need for the Responsible Company. The responsible company is one in which the idea of obligation is admitted together with that of balance or justice, in

the very constitution of the enterprise. Corporate purpose is not at present closely defined in English (or Indian) company law. To obtain the privileges that go with limited liability a company need state only in very general terms what its objectives are, whether it be to make steel or boats or sell meat. But in the process of doing these things a company discovers that it has obligations to a variety of claimants. The consumers claim fair value for money and honest representation, the investors a fair return on their capital, the workers reasonable security and safety in work and a chance to grow as people through the work they do, the local community that the company acts as any other responsible citizen would be expected to act. All these claims meet at the point of directors' decisions, namely at Board level, and they must also be in the minds of all who serve the company if it is to have a sense of moral purpose. This is because purpose to be moral must be concerned with the claims of others as well as of oneself. In his address to the Labour Union of Ceylon in 1927, Gandhiji observed:

Each of you should consider himself to be a trustee for the welfare of the rest of his fellow labourers while you will insist upon adequate wages, proper humane treatment from your employers, proper and sanitary lodgings, you will recognise that you should treat the business of your employers as if it were your own business and give to it your honest and undivided attention (*M. K. Gandhi, Economic and Industrial life and Relations, Volume 3, pages 93/94*).

Thus responsibility is mutual and embraces the worker, customer, work giver or owner and the community. In the Responsible Company there will be a corporate purpose in some such terms.

5. At what point should there be a legal requirement of a General Purposes or General Objects Clause? The logical place for this is the point at which the company goes public. Until then it is the property of its personal proprietor. I use the word proprietor rather than owner because in strict law the company if it is formed with limited liability is not ownable. It is a separate corporate entity in the eyes of the law. But so long as the shares are owned by the family

there will be a sense of obligations, more or less, on the part of the family to those employed in the company, towards the customers, and to the community, usually local, of which it forms part. It is when the company goes public that reliance upon private morality needs to be supplemented by insistence upon the real objects of the company in terms of those it affects by its operations being stated in a General Purposes Clause in its Memorandum of Association. A statement of corporate purposes on these lines is no longer theoretical. It has been adopted voluntarily by many companies, some of them very large (for Shell see *Towards a New Philosophy of Management* by Paul Hill, Gower Press 1971).

6. What happens when a company adopts, or is required by the law to adopt, a General Purposes Clause? How can the law be made to live? The answer lies in the accountability of the directors to the public. There must be enacted in the case of public companies a law requiring the directors to give a periodical account of their stewardship. This accounting should be public, not private, and it should involve all the parties concerned or at least their representatives. What is needed is a procedure under which representatives of the workforce and unions concerned are enabled to listen to and comment upon, not merely the directors' financial report, but also the report on the discharge by them of their social responsibility, and the consumers' comments, through their representatives, upon the products and services of the company during the period under review. Here is the opportunity to create a running dialogue of comment upon the performance of the enterprise by people who have been given statutory rights to the information needed to form an independent judgement upon the company's performance. How will this strike the directors? If they reflect the spirit of the constitution under which they operate (and otherwise they should not be directors) then they will welcome constructive comment and criticism so long as it is not too frequent or vehement. On the other hand the directors will be entitled to protection from merely negative and destructive criticism. This calls for a strong chairman and it also calls for the appointment of someone with authority to conduct the

General Meeting who is himself outside the Board of Directors. This is the proper role for the Trustee, and preferably for a single trustee as in Zeiss, and not for many trustees as in Scott Bader. The role of the trustee is to see that the trust is carried out. The General Purposes Clause involves conflicting rights, or may do. Someone must adjudicate, and he must be someone familiar with the working of the company while himself standing outside it. His role is that of a moderator. It is essential that he has the confidence of the Board and equally essential that he be independent of the Board. In Zeiss the sole trustee is a high official of the State's Department of Education and holds office so long as he retains his official position.

7. Whatever can be done by means of the law through the creation of the instruments of social responsibility, such as the Social Audit, the extended General Meeting, and the appointment of a trustee to preside and adjudicate in cases of dispute between the parties concerned or between the directors themselves, it will not be possible for the law by itself to guarantee responsible conduct by the directors or companies, much less their commercial success. What is needed above all is to give management freedom to get on with the job subject to occasional review and the oversight of the trustee. With this in mind we will be chary of ideal solutions to human problems. We will, in designing trusteeship models, ask ourselves. "Is it simple enough to convey its inner meaning to the least educated mind" We will further, ask. "Has the role of the trustee been distinguished clearly from that of direction and management?" And thirdly, we will ask ourselves. "How can we provide minimal control along with maximum incentives to management to perform its difficult task with boldness and freedom?" We will not seek to hamper, but to liberate the worker, above all the top workers who are known as managers. We will make a distinction between the large and very large companies where legislation may be the first step to free directors to act in the spirit of trusteeship, and the smaller enterprises where under individual control there may already be a high sense of responsibility which needs to be fostered rather than discouraged. In encouraging the formation of common ownership enterprises we will bear in



mind that common ownership does not guarantee trusteeship and may even find itself in opposition to genuine trusteeship. Thus there is need both of gradualism and variety in applying Gandhiji's idea of Trusteeship to industry and commerce. Gandhi himself did not expect trusteeship to come over-night or as a result of a sudden conversion. A wise parent hands responsibility to his eldest son by degrees, not all at once. The analogy of the family and its trusteeship for the younger generation underlines a peculiar difficulty in applying social morality to Indian business. For there appears to be in India a conflict of trusteeship between the family and the community as a whole which an outsider can only point out with humility and without offering to solve the problem except to say that it is surely better to have too much loyalty to work with than too little.

## COMMON OWNERSHIP AND TRUSTEESHIP

### ROGER SAWTELL

The words "common ownership" are generally used to indicate an industrial enterprise which is controlled by the people working in it, in contrast to the conventional company which is controlled by the provider of money capital. There are several variations of this democratic pattern and several different legal forms for such an enterprise. Sometimes it is called a "producer co-operative" and there are a few such manufacturing co-operative societies which sprang from the early co-operative movement in the 19th century, soon after the Rochdale pioneers, and have therefore been trading for over 100 years. Sometimes it is called a "collective" and this word implies that the members are not only working together on a democratic basis but are doing so as part of a wider concern to develop a co-operative life-style which may include living as a community as well as working together. Sometimes the ownership of the assets is held individually by the people at work who have contributed to the working capital as a qualification for membership on entry, and who receive a cash sum as their share of the enterprise when they leave. The particular variety called "common ownership" denotes an enterprise in which the ownership is vested corporately, rather than individually, in the people working in it; the qualification to share in the decision making process and in the financial results derives from work done and not from money invested. Thus no financial contribution is expected from a new entrant, neither does he take any share of the assets with him when he leaves.

There is considerable debate about the respective merits of these varieties of worker ownership. Some will say that an individual financial contribution is essential if people at work are to accept responsibility for the enterprise; we only "own" something and value it if we have paid for it. Others will say that this view leads only to a microcosm of the faults of traditional capital ownership, it is labelled "granulated capitalist", and will make many small greedy materialists in place of the present few large greedy materialists.

However it will be agreed by all that a successful democratic enterprise depends on the working members accepting a common commitment towards it, in good times and bad. For example, a common commitment to re-building a Jewish homeland has held together the Israeli kibbutzim as working democratic communities for 50 years, and a common Christian commitment has held together the working monastic orders for centuries. To-day the collectives already mentioned have this common purpose to live out an alternative life style, but where no common social purpose is present, individual financial Contributions may be the only realistic means of achieving a common commitment.

The problem of commitment and common purpose is apparent in the common ownership enterprise based on the pioneering ideas of Ernest Bader who converted his private company in 1951 by giving the shares to a holding company, the Scott Bader Commonwealth, the control of which is vested in the people working in the manufacturing company Scott Bader Co. Ltd. The qualification for voting membership is by virtue of work and there are no individual shareholdings or individual loan accounts. A number of other companies have since followed this pattern, in such diverse industries as building, plastics, and retailing. Some are new enterprises initiated by means of loan capital, others are conversions from orthodox share companies, but in all cases the impetus has come from an entrepreneurial management figure who wished to create a more democratic structure than the conventional share company. This kind of entrepreneur is motivated by & concern for social justice and development of human potential rather than by an over-riding determination to maximise profits or assets. Nevertheless it is obvious that such an enterprise will only be an alternative model if it is commercially viable within a mixed economy which is often apprehensive of such a radical approach to business, and sometimes hostile because threatens vested interests. Reinhold Niebuhr said "Man's capacity for evil makes democracy necessary. Man's capacity for good makes democracy possible."

If the business fails to survive in the market place, it no longer exists to serve as an alternative model and thus each common ownership enterprise may be likened to the proverbial snake in a tunnel. The "roof" of the tunnel is the limit to which social goals may be pursued and the enterprise still survives as a cohesive working group. The "floor" is the limit beyond which the dominance of commercial objectives blinds the vision of a better industrial society which the founders clearly saw. At times the enterprise snake is crawling along the floor of the common ownership tunnel and coming close to dropping out of it altogether, into the abyss of corporate greed and materialism; at other times, the snake is bumping its head on the roof, sound in wind and limb, looking for opportunities to break out into the clear sky above where the vision may be extended and matured. However, for most of the time, the snake is constrained between roof and floor, supported at bottom by determination to be a different structure, kept down at top by fears of commercial failure.

Common ownership fuses together the providers of capital and the workers, two opposing groups which have been in conflict with one another since the industrial revolution 200 years ago. Education and humility are needed for the new combined role of worker-owner. The historical owner has to accept that the crucial decisions are no longer his alone and the enterprise may go in a direction not acceptable to him. Such loss of control is hard to accept for an entrepreneur whose dominant personality and commercial judgment have probably been crucial factors in the successful development of the business. Democrat or not, such a person in the United Kingdom or in India finds it difficult to stand aside and see "his" enterprise possibly failing for lack of the skills which he knows he has to offer. Parents of wayward children know this situation well; they feel the pain but try to resist the temptation to bring undue pressure on the son or daughter to tread an acceptable path.

Equally, the people working in an enterprise changed to common ownership have hard lessons to learn. They have responsibility thrust upon them, often with inadequate knowledge and little preparation. It is one thing to criticize the directors of a conventional company for an apparently callous decision; it is

one thing to be a reacting and protecting organisation such as trade unions have become; but it is quite another thing to accept personal and corporate responsibility for such decisions, as worker-owners. Small wonder that some fail to accept these responsibilities and defer to the appointment of a "strong manager" who will take the difficult decisions on behalf of the working members. Small wonder also that the strong manager, given a mandate directly by the people he is employed to manage, is tempted to revert to an authoritarian stance. "Give me power," says the strong manager, and I will give you security". Later, the corporate owners will say, "We gave you power and you used it to kill the vision." There are political parallels here for the United Kingdom and perhaps for India; a democracy in disarray is in danger of dictatorship, and the lessons of history are clear to see and difficult to follow in industry no less than in politics. We shall see common ownership enterprises struggling to reconcile the speed of a dictator, so useful in commercial decisions where speed is often the key to success, with the laboured delays and prevarication which the learning process of industrial democracy inevitably brings with it.

It is in these circumstances that the man who has accepted Gandhi's principle of Trusteeship may be the only one who can bring the enterprise through. For the Trusteeship man holds power and holds money in trust for the working community and not for his own gain nor for conspicuous consumption. Probably he does not request, and is not offered, the salary which his expertise can command in a conventional company, but he makes a maximum contribution towards the commercial well-being of the enterprise, and his judgement is highly respected and sought after. His life style will be simple and he holds in creative tension the ascetism of the holy man with the entrepreneurial talents of the potential tycoon, the spiritual insight of the man of meditation with the risk-taking flair of the successful trader. Such men are rare and precious in any country; we may call them servant-leaders. Perhaps a priority task in the United Kingdom and in India is to seek out such people and prepare them for

this work. A few will influence the industrial scene out of all proportion to their numbers.

It will be argued against common ownership that man is a competitive creature, and the tension of competition between owner/managers on the one hand and workers on the other is the only way to develop man's potential. Like many bad arguments, this has a grain of truth in it because competition does indeed bring out hidden potential in people, whether they are runners in a race or workers in an industrial dispute; but only a superficial observer would claim that common ownership eliminates creative tension. What E.F. Schumacher termed the "neutralisation of ownership" certainly removes one major source of confrontation which carried with it great opportunities for social injustice but, having removed the blight of ownership tied to the provision of money capital, there remain several other areas of creative tension such as that between one group and another within the enterprise between customer and supplier, between the enterprise and the local community. The need is not to remove all competition and replace it with co-operation at a stroke, but rather to select areas where co-operation will be more creative and less exploitive than competition. To modify an old prayer we might say:—

"Give us the strength to co-operate in areas where it will remove exploitation, the patience to accept the areas where competition cannot be changed, and the wisdom to know the difference."

For example, the retail co-operative movement in the United Kingdom has steadily developed the area of co-operation rather than exploitation of the customer by the retailer; the nationalised industries are tackling the problem of reconciling the economics of scale of basic industries with the needs of the community. The particular task for common ownership is to develop the ways in which people working in the enterprise may be enriched in body, mind and spirit by being involved in the policy decisions which most affect their work.

In the United Kingdom we now have enabling legislation, the Industrial Common Ownership Act 1976 and the Co-operative Development Agency Act 1978, to

help us. It is perhaps typical of the pragmatic approach of the British that leads us to practice common ownership, and legislate for it, without much debate about the principles on which it is based. In contrast the Gandhian concept of Trusteeship is essentially part of a person's philosophy of life and it is put into effect, as the Prime Minister of India wrote to the Trusteeship Foundation in 1977, "by one's voluntary efforts at transformation of one's outlook rather than by legislation." However, while agreeing that it is not possible to legislate for a change of heart, there may be scope for enabling legislation for enterprises which choose the Trusteeship path. Indian people have a grasp of the principle of wealth being used for the benefit of the people rather than for conspicuous personal consumption; British people have a grasp of the practical consequences when attempts are made to put this principle into practice in industry. We have much to learn from each other.

## **The Birth and Evolution of a Common Ownership Company (Airflow Development Ltd, and The Airflow Community)**

**CONNOR WILSON**

*The early background and company formation.*

The industrial uses of air for combustion, cooling, drying, ventilation etc. are endless and I count myself fortunate in having found my way into that fascinating branch of industry as a newly graduated engineer in 1933.

After spending the next 18 years with several companies on a wide variety of work, I felt sufficiently confident to start on my own as an independent consulting engineer. It was out of this consulting business that a small manufacturing concern developed.

Encouraged by my wife to take on an assistant, I quickly turned my attention to the manufacture of a complete portable kit for testing air systems. I had already made some relatively crude instruments for my own use and had, for a long time, been wanting to produce something of much greater convenience and higher quality than anything previously available.

Within a year our first production model was ready, soon to be followed by two somewhat simpler versions, and AIRFLOW DEVELOPMENTS was registered as a private limited company in June 1955. Our workshop was a 22ft. square garage at the back of our house and what should have been the family dining room was turned into an office.

In my earlier industrial experience I had learned a good deal about the undercurrents of industrial life and I didn't always like what was going on. There were callous attitudes and deceits by both employers and employees and great damage to our economy every time a confrontation precipitated a major strike. On the other hand, there was also great satisfaction in achievement when mutual trust was established and co-operation was good. I liked my own work and felt sure that it ought to be possible to establish conditions in which most people would get some real satisfaction in their working environment



quite apart from the pay. So now I had the opportunity to try to do something about it in a small business.

### *A search for better working relationships.*

Just after the company was registered, a stand at the British Instrument Industries exhibition in London brought us some useful contacts both at home and abroad. With increasing demand, our staff and output grew fairly quickly and in 1958 we moved into a small factory.

These early days gave us a stimulating combination of anxiety and excitement. However, we had the benefit of building a business right from scratch with no rigid precedents to get into our way. We tried to develop arrangements which seemed sensible and humanitarian without necessarily following normal industrial practice and to share out the work in any way that produced the best results.

Today, with a staff of around 230, we still follow the same basic philosophy though necessarily in a much more normalised structure.

In our factory we only have one conveyor belt. This is an overhead one in the paint shop. It doesn't regulate the speed of production but is simply a convenient means of transferring newly painted parts through a stoving oven and making sure that they spend the right period of time there.

Operations in other parts of the factory are all controlled by the individuals themselves with some assistance in working layouts from production engineers. Quantity assembly work is usually carried out by small groups of two or three persons who arrange between them how the operations are shared. All the necessary parts are collected together beforehand by the stores people so that no waiting at the stores is necessary.

Until the recent introduction, on a limited scale, of what we call "flexitime" to permit more flexible working hours for some employees, we never used time clocks for monitoring working hours. We always relied upon employees and their supervisors to maintain reasonable discipline in working hours. We take

the view that it should be possible for a person to earn a reasonable living in a normal working week but we keep the factory open for upto about 5 hours a week for those who want to work overtime if work is available.

Probably one of our most important industrial innovations has been to encourage the possibility of internal mobility within the company. It is a condition of employment that everyone joining us will be willing to shift from one kind of work to another within his or her personal capability if the pattern of orders coming in makes it desirable for us to re-deploy certain sections of our work force. By agreements with the individuals involved, this is done on a temporary or permanent basis, depending upon circumstances and the wishes of the parties concerned. Furthermore, we have adopted a practice of advertising all vacancies internally on notice boards before advertising externally. These policies have produced some quite interesting developments in personal capability. A somewhat indifferent draughtsman showed a flair for publicity and eventually became head of that department for some years. A canteen assistant is now assembling electronics. Another draughtsman became an expert in computerised stock and repair manager. A typist became a very good, though unqualified, accountant.

Along with this we have tried to develop a generally participative structure both in the ownership of the business and in the way it is run.

### ***Developing participation.***

We first progressed as a small, fairly harmonious, working group where information was freely and informally passed around and everyone knew, pretty well, what was going on. We then went through a period in the early 1960's with a staff of 50-60 when we started having regular weekly meetings of the 3 directors responsible for the day to day running of the business plus tool designer, workshop supervisor, chief draughtsman, buyer, accountant, etc. at which we discussed matters ranging from difficult sales situations to holidays, pay, new machinery and new ideas.

At the present time, as mentioned earlier, we have a much more formalised structure. This consists of 4 main divisions – Engineering, Sales, Manufacture and Finance – each headed by a director or senior manager and a well organised Joint Consultative Group formed some years ago when we invited employees to elect 8 representatives in any way they wished. The arrangement they chose was to divide the company up into 8 roughly equal zones or 'wards' and have an annual election in each of them. These 8 elected representatives meet once a month with about 8 representatives of directors and management including the personnel officer. They deal with any matters which have not been satisfactorily resolved through the ordinary process of administration, or where it is necessary to have fairly wide consultation to arrive at a reasonable solution. This covers anything on company notices, departmental matters including a regular sales report, and desire of employees for a change in organisation, certain money matters, safety, welfare, holidays etc.

This Joint Consultative Group elects its own chairman annually and the 8 elected representatives are free to meet separately from the management if they wish to.

There is also a separate group consisting entirely of management staff (about 20) who elect their own chairman and meet on an intermittent basis when they have matters of common concern to discuss including representation on the Joint Consultative Group.

The other important group in the company is, of course, the board of directors who meet monthly while their executive members also meet regularly with departmental managers. *Conversion to a Common Ownership Company.*

### ***A company like "The Village Green"***

For a long time I had felt that if it were possible to arrange, on a permanent and continuing basis, that a company was actually owned by those who worked in it, this might do a great deal to eliminate confrontation between owners and their directors, on the one hand, and other employees of all kinds on the other.

I never did like to use the term "workers" to represent only one section of the enterprise because it was obvious that everyone worked including the directors.

On the formation of the company, my wife and I were the only shareholders. Our first move towards wider ownership was to let two of our colleagues, who had become directors, to acquire a small personal shareholding each. However, I realized that, without some scheme for re-purchase of shares, this would eventually lead to ownership going outside the business as people left or retired.

I then came across one or two schemes in which shares were held in various kinds of trusts. This eventually led to Airflow becoming a Common Ownership company by transfer of the entire shareholding, between 1965 and 1973, to two bodies in the control of the employees. One called the Airflow Community and having charitable status, received 75% of the company shares as a gift while the remaining 25% of the shares were sold at a very low valuation to the company's Pension Scheme. Payment for these was spread over 5 years.

The reasons for delay between 1965 and 1973 in the final transfers were twofold. First, after April 1965, the progressive impact of capital Gains Tax, even on a gift of shares, created a serious financial problem until the abolition of the capital Gains Tax on gift charity in 1972. Secondly, and even more importantly, we wanted to be as confident as possible that the new company structure created by the further transfer of voting power and control with the remainder of the shares could not put the company at risk by undermining our ability to apply the proper selective processes to the appointment of key personnel in both technical and managerial spheres.

That, of course, is the real dilemma of industrial democracy. How are we to achieve the maximum scope for employees to participate in the organisation and control of their own enterprise while, at the same time, ensuring the continued viability of that enterprise?

In our highly competitive society a business of any appreciable size will only survive and flourish if it has a generally competent workforce including the necessary well-qualified experts in all key functions.

A 'one person, one vote' system is satisfactory for appointing group representatives but special knowledge and experience is necessary in the appointment of a chief engineer, a chief accountant, a works manager or a general manager. In fact, for appointments to some of the most important posts in a business, it is not uncommon, nowadays, to call upon the help of outside specialists to advise on the appointment.

From the above it will be apparent that there are now no personal shareholders. This only affects voting power in the Company Annual General Meeting because no dividends have ever been paid to shareholders. Instead, a proportion of the profit – usually about 20% – is distributed among all employees as a profit sharing bonus. A small amount is allocated to the Community by a series of roll-over covenants for charitable purposes and the remainder is used for paying taxes and ploughing back into the business.

Membership of the Airflow ^Community is automatic on joining the Company. Its governing body is called the Community Council and is now, for all practical purposes, the same body of 16 people who constitute the Joint Consultative Group but with slightly different functions. In the monthly Council meetings we are now introducing informal talks by directors or senior members of staff on different aspects of running the business. This may cover budgeting and presentation of accounts, buying and stock control, research and design in progress, sales plans and prospects at home and abroad, the processes of handling orders and customers accounts etc. This insight into other people's work helps greatly with Council and Consultative Group discussions. A recent session on costing was a real eye-opener to some members.

The Council also administers the charitable activities of the community, is concerned with the long term development of the Company and exercises the

voting power of the whole Community in the Annual General Meeting of the trading company.

The voting power attached to the shares held by the pension scheme is exercised by the trustees of the scheme who are, by constitution, the directors of the company.

The overall effects of this structure which sounds somewhat complicated is that at the Annual General Meeting of the trading company 50% of the voting power is in the hands of the elected representatives and 50% in the hands of a combination of directors and management. It is therefore just possible but pretty unlikely that directors who have been selected for their all-round abilities will be thrown out. The status quo is likely to be maintained unless there are powerful reasons for changing it.

The structure finally adopted seems to give fairly wide scope for real participation by all who wish to, and at the same time provides safeguards to ensure reasonably wise selection of key personnel.

For people who find it a little difficult to understand this Company structure, I have often described it as being like "the village green" which belongs to the whole village but you cannot take a bit of it with you if you leave. Nor can you fence off a piece and call it your own. It is the common property of the village.

*Some changes resulting from recommendations from the Joint Consultative Group and the Community Council.*

1. The Constitution of the Community Council itself, formerly consisting of 2 representatives nominated by or elected from each of 6 bodies within the company.
2. Shortening of the lunch break and adjusting working arrangements to enable us all to put in a 37 hour working week in 4 1/2 days.
3. The introduction on a very limited scale of overtime paid at premium rates after having no premium rate overtime for over 20 years.
4. The introduction of "flexitime" for certain sections.

5. Payment of part of the profit sharing bonus on a flat rate for everyone, (the balance remaining salary-related).

*Other company features:*

Pay is more or less in line with corresponding jobs in other local companies with the additional benefit of the profit sharing scheme. Serious imbalance would exacerbate recruitment problems.

We have Safety and Welfare committees. The latter keeps in touch with those who are away sick and arranges a personal visit when appropriate. They also keep in touch with and occasionally visit retired employees and the bereaved.

A Sports and Social Club grew up more or less spontaneously and arranges all kinds of activities including an annual horticultural and craft show, bulk purchase of horticultural supplies for members, a children's Christmas party, sporting competitions, outings etc.

A single canteen available to all employees for a mid-day meal. Machines for dispensing free drinks any time.

An ambulance type vehicle with hydraulic lift for wheel chairs provided and run by the Airflow Community which runs over 300 missions a year to serve about 30 organisations in High Wycombe and surroundings.

**Footnote**

A common ownership structure, itself, does not create harmony – it only provides a sort of frame work in which harmony is more likely to be achieved. For one thing, people (at Airflow) know that monetary benefits can only be produced by their own co-operative efforts and even then may have different ideas about how the benefits are to be shared out.

We still have to run a company with a mixture of ordinary human beings. We still run up against personal jealousies and personality conflicts. At a general meeting of the Community only about a third of the members turn up and if you ask some of them what our Common Ownership structure means to them they make a very non-committal reply. This is partly, or perhaps mainly, because

even before the structure was changed we always tried to follow many of the policies we still have.

One of the real, but rather intangible, benefits of Common Ownership is that we can never be taken over by another company without the consent of the employees. Nor can we be crippled by Capital Transfer Tax because the shareholding is not affected now by the death of anyone. People who have been with us quite a while do realise these more intangible benefits and the feelings of security which goes with them.

In the long run it is people themselves who constantly regenerate the spirit of good will and co-operation which is so essential for industrial harmony and economic stability, and to this end I believe the ideas behind the concepts of common ownership and trusteeship must, ultimately, make a major contribution.

I hope we shall gradually persuade more and more companies to move towards this alternative type of ownership. In this connection I believe it is important that those willing to relinquish ownership or give up shares should be treated generously by the receiving organization. The issue of fixed interest bonds is no substitute for ownership of company shares in these days of inflation and the real needs of the individuals or families concerned should be considered. In our company, in addition to some modest compensation, the four founder directors received life contracts on a scale which now presents no problem to the company.



## CO-DETERMINATION—THE GERMAN EXPERIENCE

### GUENTER SCHMIDT

The idea of workers participation in management decision-making in German enterprises is more than 50 years old. Work-councils and workers' representation on supervisory boards was first introduced after the First World War under the so called 'Weimar Republic. From the very beginning, co-determination has been a political issue. Workers' participation in economic decisions was the declared aim of the German labour movement during the early 1920s. The demand at the time was that industrial democracy should go hand in hand with political democracy, and as firm supporters of the political democracy enshrined in the Weimar Republic, trade unions expected workers' rights to be granted by the state. These developments were interrupted when the National Socialist regime came to power in 1933 and dissolved works councils and trade unions.

In the immediate postwar years, the iron and steel industry, because of the role it had played during the war, has been placed under special trustee administration, and parity between workers' and shareholders representatives in the supervisory boards has been introduced. In 1951 this principle was confirmed by the first Co-determination Act, which coincided with the return of the iron and steel industry to private ownership and control. As mentioned above, in 1976, parity representation on supervisory boards was extended to other companies with over 2,000 employees.

This short survey shows the political circumstances and motives behind the trade union demand for workers' participation. What needs to be stressed is" that the labour movement, in its desire to have more importance in industry, has attempted to achieve this aim, not by changing the system of ownership but by introducing workers' representation into the management structure. The trade unions have repeated again and again, that co-determination works irrespective of whether industry is under private or public ownership.

Although the rights of works councils vis-a-vis employers have throughout the years been an issue of dispute between trade unions and employers' organisations, the central place of the works council in the industrial relations system is now accepted and appreciated in both trade union and employer circles in the Federal Republic.

To explain the operation of co-determination and to place it in the context of industrial relations in general, it is proposed to examine the system from three different aspects:

- 1) how does co-determination function in practice ?
- 2) what is the relationship between co-determination and collective bargaining?
- 3) what is the role of the trade union movement in co-determination?

These three questions will be considered from a comparative point of view, that is by comparing the approach adopted in the Federal Republic with industrial relations approaches in other countries.

### ***The company boards and their function***

For a better understanding of the co-determination system it is necessary to know about the company boards and their functions, demonstrated by the example of joint-stock companies.

The German Joint-Stock Companies Act provides for the joint-stock company to have three organs:

- a) the general meeting
- b) the supervisory board
- c) the management board

### ***The general meeting***

This organ is a meeting of the shareholders. In general it takes place once a year. In the general meeting the voting right is determined by the amount of shares a person holds.

The general meeting is, above all, responsible for the following matters:

Increase or decrease of capital; change in form, merger, dissolution of the company; elaboration of articles of Association; change of the corporate purpose; election and dismissal of the supervisory board members; utilisation of the annual profit; approval of the acts of the management board and the supervisory board.

In reality, however, its legal and factual possibilities of exerting influence are by far fewer than one would assume on the basis of this comprehensive catalogue of formal rights.

### ***The supervisory board***

In practice the supervisory board has a considerably stronger position than the general meeting. Its major tasks are the appointment and dismissal of the management board as well as the supervision of the management of the undertaking.

Moreover, the bylaws of the company or the supervisory board itself may provide that certain matters require the consent of the supervisory board. So it is quite usual that investment and extensions above a certain financial volume, credits and loans above a certain limit as well as the recruitment and dismissal of managerial staff require the consent of the supervisory board.

For all these reasons the supervisory board which, in contrast to the general meeting, meets between twice and four times a year, has considerable influence on fundamental and managerial decisions of the undertaking.

### ***The management board***

The management board conducts the day-to-day business of the undertaking on its own responsibility. It has not only entrepreneurial functions in the narrow sense of the word but also functions as employer of the employees of the undertaking.

The functions of the management board are assigned to the individual members so that each member is responsible for a particular field (for example

technical, commercial, financial matters) or for a particular division. Irrespective of his special tasks, each management board member is responsible for the whole company policy.

### ***General features of co-determination***

The essential features of the institutional arrangements for co-determination may be explained in this way:—

The system is based on three main institutions distinct in form, but closely linked with one another. There are:

1. works council
2. workers representatives on supervisory boards
3. the labour director on the management board

### ***Works council***

The central institution is the works council. It has to be set up in every establishment with five or more employees. The term 'works council' may be misleading. In the Federal Republic it refers to a body of workers' representatives only, elected by the entire workforce, whether union members or not, its size varying according to the size of the establishment. The works council has a number of rights vis-a-vis the employer, spelt out in great detail in the Works Constitution Act, in respect of co-decision, consultation, information and negotiation. It is, therefore, very different from the works council in other countries where it is a joint body with primarily consultative functions. In the Federal Republic the works council exercises functions which in other countries are held variously by shop stewards, staff delegates, union representatives, etc. As regards legal rights and obligations, the works council in a car factory, steel works or chemical plant with many thousands of employees is not different from the works council in a department store, a bank, or a repair shop, provided the establishment has at least five employees. But in practice there are great differences in the influence works councils exert on enterprise decisions.

### ***Workers representatives***

Distinct from the works council are workers' representatives on the supervisory board of joint-stock companies. This is a statutory body under company law, situated somewhere between the shareholders' assembly and the management board. Normally the supervisory board appoints the members of the management board, oversees its activities, and takes decisions of major importance as provided by the by-laws of the company concerned.

### ***The labour director***

The third element, the labour director, is a full-fledged member of the management board of companies. The labour directors concentrate on personnel and labour relations problems. As members of the management board, however, they bear joint responsibility with the commercial and technical directors for the operation of company.

'Workers' members on supervisory boards, and labour directors are by the nature of their functions part and parcel of the company structure and take part in all deliberations and decisions of the two top company bodies to which they belong.

### ***Participation in the Supervisory Boards under the Works Constitutions Act of 1952.***

The participation of employees in the supervisory boards of companies has already been provided for in the Works Constitution Act of 1952. The provisions of the Act stipulate that one third of the members of the supervisory board shall consist of employees' representatives. This one-third formula of employees' participation in the supervisory boards continues to exist in addition to the new provisions governing co-determination and will be applicable to undertakings and combines with less than 2000 employees.

### ***Scope***

The one-third participation applies to all joint stock companies and companies with limited partners holding share capital with the exception of family

companies with less than 500 employees. One-third participation of employees in the supervisory boards is further applicable to the following undertakings provided that they have more than 500 employees: limited liability companies under mining law or co-operative societies as well as mutual insurance companies in as far as a supervisory board exists.

### ***Co-Determination in the Mining Industry and in the Iron and Steel Production***

The provisions governing co-determination in the mining industry and in the iron and steel production industry are applicable to undertakings constituted as joint stock companies, limited liability companies or incorporated cost-book companies under mining law with as a rule more than 1000 employees. Co-determination in the coal, iron and steel industry has certain specific characteristics such as:

- an equal number of shareholders and employees in the supervisory board;
- a so-called neutral member of the supervisory board;
- a labour director as a member of the management board.

### ***Composition of the Supervisory board***

The composition of supervisory boards in the coal, iron and steel industry is illustrated below on the basis of an example of a supervisory board comprising 11 representatives. Shareholders and employees appoint 5 members each, the 11th member is neutral.

At least two the employees' representatives must be members of the staff of the undertaking, of whom one must be a wage-earning employee and one a salaried employee. This is to ensure that both the interests of the staff as a whole and the specific interests of wage-earners and salaried employees are represented. The remaining three employees' representatives do not necessarily have to be employed in the undertaking ("outside employees' representatives"). Candidates are nominated by the trade union organisations represented in the undertaking itself.

### *Appointment of employees' representatives*

The employees' representatives of the staff of the undertaking are nominated by the works council after consultation with the trade unions.

The nomination of the employees' representatives must be formally confirmed by the general meeting of shareholders. The nominations are binding upon the general meeting of shareholders. The neutral 11th member (larger supervisory boards are composed of 15 or 21 members) is to prevent votes ending in a deadlock. In supervisory boards where shareholders and employees are represented in equal numbers the neutral representative is to ensure that a majority can be attained. A basic prerequisite is that the neutral member has the confidence of employees and shareholders alike and is able to reconcile differing opinions. Past experience has shown, however, that in practice deadlock situations are extremely rare.

### *The labour director*

The Act respecting co-determination in the mining industry and in the iron and steel production industry has provided for the appointment of a labour director as a full member of the management board. He cannot be appointed if the majority of employees' representatives vote against him.

In the case of a supervisory board with 11 members at least 3 employees' representatives must agree to his appointment.

The labour director is responsible for matters such as personnel management, organisation of work in accordance with human needs, performance and remuneration, matters concerning collective agreements, training and further training, labour and social law, industrial safety, housing.

His specific responsibilities require close co-operation with the work councils. This again illustrates the intimate link between co-determination on the shop-floor level and the board level.

### ***Act to supplement the Co-determination Act***

In conclusion, mention should be made of the Act, adopted in 1956, to supplement the 1951 Act respecting co-determination by the employees in the supervisory and management boards of undertakings in the mining industry and in the iron and steel production industry. The Act provides for co-determination along the lines of the co-determination model in the coal, iron and steel industry to be applied to the controlling companies of combines which primarily operate in the mining and iron and steel industry.

The Co-determination Act applies to undertakings with a legal personality of their own which normally employ over 2,000 persons.

This covers undertakings in the legal form of a joint-stock company, a company with limited partners holding share capital, a limited liability company, an incorporated cost-book company under mining law, or a co-operative.

It covers also smaller undertakings in one of the above- mentioned legal forms if they are the controlling company of a combine and if the constituent companies located in the Federal Republic as a rule employ a total of over 2,000 persons.

Moreover, the Co-determination Act applies to smaller undertakings which operate in one of the above-mentioned legal forms if they are a personally responsible partner of a partnership and if they employ over 2,000 persons including the employees of this partnership.



## THE GERMAN EXPERIENCE

### WORKS CONSTITUTION ACT 1972 (Law from January 15, 1972)

#### *Establishment of works councils*

Works councils shall be elected in all establishments ("Betriebe") that normally have five or more permanent employees with voting rights, including three who are eligible.

#### *Status of trade unions and employers' associations*

The employer and the works council shall work together in a spirit of mutual trust having regard to the applicable collective agreements and in co-operation with the trade unions and employers' associations represented in the establishment for the good of the employees and of the establishment.

In order to permit the trade unions represented in the establishment to exercise the powers and duties established by this Act, their agents shall, after notifying the employer or his representative, be granted access to the establishment, in so far as this does not run counter to essential operational requirements, mandatory safety rules or the protection of trade secrets.

This Act shall not affect the functions of trade unions and employers' associations and more particularly the protection of their members' interests.

#### *Works committee*

If a works council consists of nine or more members, it shall set up a works committee. The works committee shall consist of the chairman and the vice-chairman of the works council. The works committee shall deal with the day-to-day business of the works council. The works council may by majority vote of its members delegate tasks to the works committee for independent action.

#### *Finance committee*

1) A finance committee shall be established in all companies that normally have more than 100 permanent employees. It shall be the duty of the finance

committee to consult with the employer or financial matters and report to the works council.

2) The employer shall inform the finance committee in full and in good time of the financial affairs of the establishment and supply the relevant documentation, in so far as there is no risk of disclosing the trade or business secrets of the company, and demonstrate the implications for manpower planning.

### *Some rights of co-determination*

The works council shall have a right of co-determination in the following matters in so far as they are not prescribed by legislation or collective agreement:

matters relating to the orderly operation of the establishment and the conduct of employees in the establishment; the commencement and termination of the daily working hours including breaks and the distribution of working hours among the days of the week;

any temporary reduction or extension of the hours normally worked in the establishment;

the establishment of general principles for leave arrangements and the preparation of the leave schedule as well as fixing the time at which the leave is to be taken by individual employees, if no agreement is reached between the employer and the employees concerned;

the introduction and use of technical devices designed to monitor the behaviour or performance of the employees; arrangements for the prevention of employment accidents and occupational diseases and for the protection of health on the basis of legislation or safety regulations;

the form, structuring and administration of social services where scope is limited to the establishment, company or combine;

the assignment of and notice to vacate accommodation that is rented to employees in view of their employment relationship as well as the general fixing of the conditions for the use of such accommodation;

the fixing of job and bonus rates and comparable performance related remuneration including cash coefficients (i. e. prices per time unit).

### **Conclusions**

A comparative approach to co-determination in the Federal Republic necessarily raises the issue of its transferability to other countries. There is, of course, no questioning the fact that every country must develop its own industrial relations system, consonant with its history, traditions and values. Every industrial relations system is a combination of institutions and procedures, on the one hand, and of attitudes and patterns of behaviour, on the other. As to the latter, the co-determination system in the Federal Republic is certainly an expression of specific social and attitudinal characteristics which are not exportable. The question is, therefore, whether certain institutional arrangements made under the co-determination system may be a model for other countries.

On the trade union side, the line between unions which are willing to participate in management decision-making and those which prefer to keep their distance and concentrate rather on collective bargaining splits Western Europe right down the middle. Whereas there is trade union support for co-determination in the Scandinavian countries, Austria and the Netherlands, the major trade union confederations in France, Belgium and Italy are opposed to the idea. In the United Kingdom thinking on workers' participation is in full evolution. In North America there is at the moment no question of associating workers with management decisions through means other than collective bargaining.

The greatest interest in co-determination is shown in the Third World. What is important to note, however, is that in countries such as India, Pakistan. Sri Lanka, Peru, Tanzania, Bangladesh and Jamaica, to name a few examples, the

initiative for workers' participation in management or in enterprise decisions-making came originally from the government and not from the trade union movement. Governments in developing countries see co-determination as a means of replacing conflict by co-operation and of bringing together labour and management in a joint effort to step up production, to industrialise more rapidly and to enlist popular support for economic development. No wonder that developing countries are closely following developments in the Federal Republic.

Institutions such as works councils and workers' representatives on supervisory boards' are not easily transferable to other countries, but the thinking and the arguments, for and against, developed in the course of the Federal Republic's unrivalled experience with co-determination, have certainly helped to sharpen the issues involved for the benefit of other countries as well. Each country which is contemplating the introduction of some form of workers' participation or new pattern of labour relations can learn from the experience – positive or negative – of others, and each country possessing such experience has a moral obligation to make it freely available to all.

## THE LESLIE SAWHNY PROGRAMME OF TRAINING FOR DEMOCRACY

This Programme, which aims at the training of citizens and in particular public workers, youth leaders, social workers, business executives, professionals, teachers, journalists and trade union functionaries, was launched in 1968. The training covers the fundamentals of democracy, active and constructive citizenship and leadership, the techniques of organization and involvement in public life.

During the past twelve years the programme has organised close to 200 camps and courses and 39 seminars. Its alumni now number well over 5,500 and include men and women in public life, labour leaders, industrialists, administrators and men in management.

Although most of the courses are held at the Programme's Leslie Sawhny Centre at Deolali, camps and courses are also arranged at other places where local sponsorship and cooperation are available.

*The official address for all communications is:*

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