

## **BUSINESS MODEL OF DINESH BEEDI WORKER'S CENTRAL CO-OPERATIVE SOCIETY: A STUDY WITH REFERENCE TO SUSTAINABLE EMPLOYMENT**

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Building an exemplary co-operative business enterprise is a heavenly work of philanthropists comprising of Entrepreneurs and Professionals. This has been proved by 'The Kerala Dinesh Beedi Worker's Central Co-operative Society Ltd. No. S.IND(c) 61(KDBWCCS)', a worker co-operative organization in Northern Kerala. KDBWCCS is a silver line in the co-operative business arena. It has set several standards and pioneered creative responses to pertinent issues of labour process, member's creative responsibility, vibrancy in collective ownership, handy modernization to balance the generation, appropriate diversification to make the co-operative – a going concern. These are considered as pillars of the KDBWCCS which is registered in the year 1969, under the initiative of the Government of Kerala. Though the birth of the organization is generated out of top- down process, the members devoted their responsibility and accountability as in the case of bottom- up process.

The beedi industry was the embodiment of many inhuman activities and resorting to unfair methods such as retrenchment of employees and closure of factory without informing the stakeholders. In Kannur geographical area itself, many beedi units were closed which rendered many workers jobless. This inhuman closure was a reaction on the Government directive to implement minimum wages and other benefits as envisaged in the Beedi and Cigar Act. The responsibility of rehabilitating poor beedi workers who were rendered jobless, due to the sudden stoppage of production by Karnataka based big beedi manufacturers namely, Bharat Beedi, Ganesh Beedi and P.V.S Beedi companies was taken up by the dedicated communist leader Shri.T.V.Thomas, the then Industries Minister and the value based professional, Shri.G.K.Panicker, the founder Chairman which formed the strong basis for a sustainable social business enterprise.

The society was formed initially with 2500 beedi workers as shareholders, and each share valued at Rs. 20 out of which Re.1 was collected from the workers and Rs 19 was given as loan by Government, for solving the initial teething trouble in running an industry. The society started growing fast, expanding its market to the entire Kerala and part of Tamilnadu and Karnataka. Dinesh Beedi was exported to several countries for long time. The work force reached 42000 nos during early 1980s and turnover crossed over Rs 120 crores. The society was registered in the year 1965. Dinesh beedi is the product of the society which earned a domestic name for country cigar. The organization was reeling around a single product and its reputation has been spread across the world due to its efforts for ensuring job security.

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This is evident from the research work of “Democracy at work in Indian Industrial Co-operative -The story of Kerala Dinesh Beedi” by T.M. Thomas Isaac et al. Earlier attempts to run cooperatives as a sound business organization has been failed due to the following reasons:

1. Lack of professionalism in marketing
2. Inability to maintain quality
3. Scale of operation was not sufficient in purchase of raw materials and marketing of beedis
4. Working capital was insufficient
5. The cooperatives were viewed as a scheme of Industries department

The scenario has changed due to the policy enactment on banning tobacco promotion and also ban of smoking in public places. The single product organization is put under stress and it devised conglomerate strategy to diversify their product range in different areas for rehabilitating the members by providing employment in the new ventures. The research work of Isaac et al. raised the following question:

“Our study of KDB thus ends with the series of questions which only future can answer. Can the workers and their leaders today muster the courage and perseverance their elders showed in 1969 in forming KDB? Will they show as much efficiency in production and skill at marketing the new products as they have shown with Beedis? Will other unionists and sympathizers throughout Kerala help to find market for their new products ? Will KDB becomes a larger and more diverse example of workplace democracy within a renewed Kerala Model?”

The present study will be focusing more on the role of co-operatives for providing regular and quality jobs. The business model evolved by DBWCS is a richest source of energy which demonstrates the way in which the co-operatives shall evolved organic link withits members for providing sustainable job in compatible with sustainable development goals of United Nations.

### **The Downfall and Crisis:**

The society started showing negative growth in terms of market share from early 1990s due to the increased health awareness of people and the anti-tobacco policies of Govt. From late 1980s KDBWCCS started facing crisis and the annual growth rate decreased around 15-20 percent. There schemes like stock piling were implemented but still there was no change. The major reasons for this crisis were:

1. Anti –tobacco policy
2. Minimum wages and benefits to the workers
3. Private manufacturers were not operating according to the prescribed rules.
4. The workers were not receiving wages and benefits as per the Act.
5. The cost of production was higher and sales were lower

### **The study has the following objectives:**

- To focus DBWCS’s efforts on turnaround strategy for providing sustainable direct and indirect employment to their members ,
- To analyse the presence of sustainable elements in the co-operative business model evolved by Dinesh Beedi Society.
- To draw a replicable sustainable business model by using the inputs derived out of the analysis made as per the above mentioned objectives

## **Objectives of the KDB**

The objectives of the organization have been transformed in many times to reorient the organization to meet internal and external problems and opportunities to gain sustainability. As per the bye-law section 5, the total objectives are grouped into two. The first group discusses about the business operations and the second one provides the details of fund mobilization and business relationship with primaries. All these objectives of the organization keep abreast with the fundamental cause for which the Dinesh Beedi was formed.

### **Bye law provision for sustainability**

There are empirical evidences to prove that those co-operatives which incorporated the provisions that compel the members to do their share of business in the total turnover of their organization has been attained the sustainability. The AMUL (Anand Milk Union Limited, Gujarat, Western India) is the Indian experience which proved that member's participation can be ensured only through the bye law provisions for doing mandatory business by the members. The business relationship with the society ensures the social and economic security to its members. Under the Anand Pattern system a passive member does not enjoy any kind of socio-economic benefits of the society which are linked with the business volume. The fundamental aspects of every co-operative organization are to devote the organization for reciprocating members and all business shall be based on the member user model. The bye-law of Dinesh Beedi does not have more provisions that compel the members to do business with the society. Section 7 (5) of the bye law contains that any member society shall cease to be a member of the Central Society if it is liquidated or it ceases to be a society engaged in the production of beedi and other products as stipulated by the central society. This provision will avoid passive membership and enroll members for retaining control over the central society. The other provisions which may ensure sustainability is that the manner in which the net profit is apportioned. Section 18(d) provides for creating funds for providing the rebate on purchases from members. The fund constituted as per the section 18(d) can be used for stabilizing the procurement of final products from the members. Almost all the provisions in the bye-law has got a resemblance to AoA & MoA under the Companies Act.

The business operations of the society covering the period from 2010-11 to 2014-15 is presented in Table 1.

The data relating to wages clearly proves that the KDBWCCS is a purely labour managed organization. The society shares its major revenue for its members in the form of wages. Around 53 to 65 percent of the revenue of the society is paid as wages to its member workers.

The fixed cost incurred in the total operation of the society during the reference period is escalating over the period of years and that puts a stress on the commercial viability in the days to come. The society achieved break even business in every year. The safety margin achieved by

the society is very thin, which will keep the pressure on management to walk on tight rope. The pressure on commercial viability may invite certain decisions which will affect job prospects of members. Manufacturing of beedi by the society was carrying out effectively on account of adopting piece rate system. The latest additions to the product line have not been cared this aspect which will affect the commercial viability. The narrow space between the commercial viability and sustainable job may be a thorn in the flesh of KDBCCS in the days to come.

**Table 1: Business Performance of KDB**

Sl No	Particulars	Years (Rs in Lakhs)				
		2010-11	2011-12	2012-13	2013-14	2014-15
1	Opening stock	965.77	940.45	971.53	1039.23	1355.88
2	Net purchases	1204.88	1243.60	1679.40	1733.97	1468.79
3	Direct charges	2404.56	3200.35	3797.90	4299.63	5129.32
4	Sales	3784.72	4607.70	5661.60	5990.21	6909.09
5	Closing stock	962.55	988.62	1040	1355.88	1320.26
6	Trade income	65.79	78.80	123.54	149.13	160.81
7	Interest on borrowings	65.39	56.35	61.81	66.88	45.82
8	Establishment charges	137.50	164.99	170.06	199.80	222.33
9	Contingencies	179.71	180.31	205.48	241.73	248.67
10	Depreciation	53.74	67.48	66.78	137.15	194.68
11	Provisions	8.73	6.10	00		00
12	Gross profit	237.85	268.61	358.44	422.38	436.16
13	Miscellaneous income	191.96	197.74	177.38	212.86	278.18
14	Net profit	6.78	7.77	31.69	20.40	27.82
15	Wages	2064.68	2809.74	3278.68	3794.31	4601.07
16	Gross profit ratio (in percentage)	6.28	5.82	6.33	7.05	6.31
17	Direct expenses to sales (in percentage)	93.84	93.81	93.48	93.10	93.84
18	Direct expenses to total revenue (in percentage)	89.40	90.02	90.70	90	90.26
19	Indirect expenses to total revenue (in percentage)	10.60	9.98	9.30	10	9.74
20	Wages to trade revenue(in percentage)	53.62	59.95	56.67	61.80	65.00
21	Wages to direct expenses (in percentage)	57.14	63.91	60.62	57.62	69.37
22	Total cost	4034	4853	5911	6343	7318
23	Variable cost	3612	4395	5407	5549	6632
24	Fixed cost	422	458	504	794	686
25	Total revenue	4040	4882	5961	6351	7347
26	Contribution	428	487	554	802	715
27	Breakeven business	3983	4591	5423	6287	7049
28	Safety margin (in percentage)	1.41	5.96	9	1	4.05

Source: Annual reports of KDBCCS

Assumption: All direct expenses have been treated as variable cost and contribution calculated on the total revenue.

**Table 2: Financial Position**

Ino	Particulars	Years					(Rs in Lakhs)
		2010-11	2011-12	2012-13	2013-14	2014-15	
1	Paid up share capital	29.75	28.75	27.75	26.75	25.75	
2	Borrowings	390.19	460.08	443.19	778.98	269.19	
3	Depreciation reserve	620.32	668.77	729.98	824.03	921.75	
4	Building recoupment fund	90.41	90.41	90.41	176.73	90.41	
5	Advances due by	1330.41	695.92	1401.94	1802.98	2343.00	
6	Cash in hand	2.65	4.57	6.25	4.03	1.66	
7	Bank	489.90	351.18	415.33	455.06	750.70	
8	Fixed assets	1306.49	551.88	564.38	1639.83	1668.90	
9	Adjusting heads due to	1733.46	1779.92	1905.74	2392.54	2513.68	

Source: Annual reports of KDBCCS

The share capital from the members has reduced due to the repatriation of share capital on account of retirement/ death etc. The borrowings have increased over the period. The fixed asset base of the organization has improved and the utilization of these assets for accruing benefits to its members needs to be ensured on an ongoing basis. The management has to realize and address seriously to draw a tradeoff between borrowings and bank balances. The bank deposit position as per the balance sheet for the last five years shows an increasing trend but at the same time borrowings from the bank too has increased. It mandates the need for balancing the bank deposit and borrowings.

The data presented in operational statement and financial position shows an imbued factor of over trading by the society. Are the resource base and skill level of members and professionals matching each other for a hurried expansion and diversification to unrelated areas? A self-introspection is required to address this issue and a plan of action needs to be formulated for ensuring sustainability.

**Table 3: Overall Performance of KDB**

Sr. No	Particulars	Years (Rs in Lakhs)								
		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Membership in primaries	21344	15928	17214	16123	14886	14617	14017	13910	12120
2	Active Workers	11485	10085	9353	8123	7010	6360	6096	5663	5488
3	Employees	260	237	237	217	185	124	112	85	74
4	Beedi leaves purchase	150.45	561.21	478.45	401.87	496.98	385.72	710.15	640.44	421.19
5	Tobacco purchases	20.76	74.10	153.13	150.23	114.56	110.08	169.63	198.39	150.30

6	Label purchase	30.05	63.83	63.08	59.49	69.96	65.48	42.68	40.85	39.15
7	Thread	3.03	3.22	4.74	3.41	3.90	4.42	3.99	4.33	3.81
8	Beedi sales	3527.98	3732.17	3248.97	2746.56	3179.05	3825.08	4725.69	5031.57	5784.19
9	Beedi making wages	1127.09	12187.20	1100.95	975.26	998.63	1522.29	1663.33	1867.13	1963.81
10	Sunday wages	195.08	225.10	198.32	174.15	171.76	265.20	281.94	383.88	314.69
11	Job works wages	1594.96	2652.78	2107.80	1838.82	2016.05	2734.74	3197.88	3647.86	4425.23
12	Festival holiday wages	87.95	82.37	69.93	71.43	72.70	87.32	91.28	99.65	105.98
13	Bonus	139.27	149.64	132.55	123.47	109.69	156.62	179.34	221.12	258.75
14	Salary Central society	35.74	36.20	38.02	38.49	57.60	66.24	66.51	73.59	78.75
15	Salary primary co-operatives	200.81	188.38	162.25	159.80	175.95	188.87	173.36	228.48	151.85
16	Central excise duty	198.60	197.79	213.81	153.29	128.16	161.56	177.76	172.61	159.64
17	VAT	8.48	8.74	11.52	15.08	12.44	14.07	21.78	23.95	26.69
18	Annual leave	69.57	66.67	60.45	52.54	54.64	80.75	85.85	108.03	81.63
19	Death benefits	0.85	0.65	0.35	0.45	0.30	0.25	0.20	0.20	0.20
20	Retirement benefits	1.56	1.00	1.48	1.16	0.20	0.68	0.16	--	0.60
21	Pension	60.20	2.70	2.58	2.03	3.16	1.91	1.70	1.33	1.36
22	Advertisement	5.43	6.73	4.45	2.69	1.40	0.60	-	2.41	5.83
23	Business promotion expenses	115.72	116.78	15.84	15.20	16.71	0.38	0.07	1.39	0.85
24	Agent's commission	122.53	133.07	72.17	0	0	0			
25	Beedi boundary tax	7.28	8.58	7.45	6.24	8.23	9.59	10.96	11.02	12.32
26	State tax	57.04	46.49	40.74	33	30.86	28.05	56.80	49.36	35.54
27	Net profit	6.23	6.70	4.81	7.29	6.78	7.78	31.69	20.40	27.82

Source: Annual reports of KDBCCS

Table number 3 reveals that the membership in primaries, active workers and employees has decreased. The business operation relating to tobacco, employee benefits such as wages, bonus, salary have increased during the period 2006-07 to 2014-15. It is worth noting that the retirement benefits, death benefits and pension have decreased. The plausible explanation for this that the society has diversified its activity and the number of active workers has come down drastically to

5488. The business promotion expenses has been very high during 2006-07 and 2007-08, but thereafter gradually reduced. This may be due to the fact that in the initial period, the society incurred expenditure for diversifying its activities. At present the society penetrated in to the market and thereby reducing the business promotion expenses. The society has also spent on advertisement. The net profit of the society has fluctuated; however during the last three years 2012-13 to 2014-15 it has increased substantially in earning profit varying from Rs.20.40 lakhs to Rs.31.69 lakhs.

The average growth rate in sales is 20 per cent, which can be considered as a good trend but the organization faces a cash crunch to finance its working capital. The society availed credit facility to finance working capital for carrying out production in all its units. Due to this reason, the cash credit facility and advances due-by have escalated every year. The cash crunch crept in to the financial management due to the piling up of inventory, advances due-to and unscientific investment in fixed assets. The wedge of funds in closing stock , advances due-to and in fixed assets brought the organization into cash crunch and compelled the society to go for cash credit facility .The cash credit facility is very costly and on an average, the revenue payment of Rs.50 lakh is made which reduces the margin considerably.

#### **Diversification and Value addition by KDB:**

To overcome the downfall and crisis crept during the period 1996-98 KDB started to diversify their business and entered into different products and sectors. Initially in 1997 two food units were established in the name if Dinesh Foods which produced spices, curry powders, jams, coconut milk , squash and pickles. KDB's coconut milk production unit was the only one factory at that time in southern part of India with the annual turnover of Rs 6 crores. In 2012 the Coconut Milk production capacity enhanced to 500 liters per day which has now increased to 1000 litres per day in 2016. Since the year 2015 Dinesh Foods has started exporting coconut milk to countries like Australia and Japan. The new coconut products which they have introduced are D.C. Powder, Fermented Virgin Coconut oil & Coconut laddu. The products like baby oil, coconut chocolate and non-animal milk cream are under trial in the R&D department. They have also received quality certificates like HACCP for fruit processing unit and AGMARK for Curry Masala Powder.

In the year 2000 they established another Unit for manufacturing Umbrellas under the name Dinesh Umbrellas and today there are four units in total for umbrellas in four different areas established in the year 2001, 2014 and 2015 respectively. This firm has an annual turnover of Rs. 3.5 crores.

The apparels unit was first started in 2007 and now has expanded to in total 3 units of Dinesh Apparels in different areas. This is one of the most successful co-operative ventures among all and has achieved tremendous success as 90 percent of its products are exported and exports had begun within 2 years of its establishment i.e. in 2009. The annual turnover of apparels is around Rs. 6 crores and it's the only co-operative in MSME in Kerala. The co-operative is now trying to expand its business in Domestic Markets in the main cities of Kerala.

Dinesh Information Technology Systems (DITS) was established in 1999 to promote the banking software in co-operative banks. Through this technology they created merchandise portals and data centre. ATM networking for co-operatives was initiated and they carried out IT trainings for

Govt and local bodies' employees as well as provided project guidance to B.Tech, MCA Students.

Dinesh Auditorium was constructed in 2001 which had all luxuries facilities like centralized A/C, total 1250 seats capacity (1000 seats in auditorium and 250 seats in balcony), Dining hall, large car park, video conferencing halls and meeting halls, spacious lobby etc. which is used for different purposes.

### **Sustainability Features of KDBCS**

The reasons of success in KDB Diversification are as follows:

1. Dedication of the Board members particularly Chairman.
2. Innovative practices introduced in different businesses units.
3. Diversification carried out in various sectors.
4. Re-skilling the employees of various factory units.
5. Production of different products as per the export market.
6. Introduction of unparallel welfare schemes for the employees viz., welfare cum pension scheme, ESI benefits, Festival advance, Medical allowance , thrift loan, etc..
7. Appointment of Professionals by the Government as the Chairman .All the secretaries and chairmen of Society appointed by the Government has been imbued the virtues of founder chairman and Secretary. The practice of convening the special meetings to discuss the overall working of the society like quality of the beedi produced by the society, marketing of beedi ,the changes to be made in production and marketing etc has given transparency and role realization. The central society convenes the meeting of office bearers of primaries, trade union leaders to discuss the problems and prospects of the organization also contributes the inputs for maintaining the sustainability. Special Board meeting used to be conducted by inviting the president, directors and secretary of central society to discuss on the matters of reducing loss and to explore the possibilities of new ventures are the inspiring aspects of sustainability .
8. The stock transfer system introduced in the year 2003-04 has helped the society to reduce tax.
9. The society produces and sells medium, special, small, rajadhani, deluxe varieties helped to maintain the customers intact.
10. The working members are eligible to get regular wages and also Sunday wages, holiday wages and annual leave wages. Apart from wages a certain percentage of DA on wages was also given to the worker member. All these have contributed to create a satisfied member –worker community
11. The Society remits central excise duty and VAT on time.

### **Theory and Practice**

The discussion on sustainability aspects of KDBCS brings out vital issues to be considered by the movement to run co-operatives for the benefit of its stake holders.

- How to keep a tradeoff between commercial viability and democratic control?
- What is the market system in which the co-operatives undertake their operations and how to integrate the organization into it?
- In ordinary course of business the individual members will not come voluntarily to frame and monitor their own rules to obtain joint benefits. Since the Co-operatives are the association of persons this factor always dominates . It is the time bound responsibility of



all the co-operatives to promote developmental individualism for maximizing the value of the firm which has to satisfy all the stakeholders .

- The continuous efforts of Chairman and Secretary of co-operatives contributes the sustainability and can we expect these all the time? If there is a change of personality , that may negatively affect the prospects and how this must be controlled(x-efficiency theory)?
- How a mediated market can be made for co-operatives which is necessary for enhancing business volume and to achieve commercial viability?

## **Conclusions**

This study examines the organization's sustainability for a short term and long term period. The internal and external dynamics of the society in managing the tensions between commercial viability and democratic control, rest with the efforts undertaken to integrate the emerging organization with that of the market system. A highly volatile market system calls for adjusting the values of the emerging KDBWCCS towards sustainability. The present diversification and the new generation membership are very peculiar. An exercise needs to be carried out for addressing the sustainability of the society. The present category of members and employees (members and non-members) cannot be generally expected to have the same dedication, commitment and loyalty which has shown the earlier generation membership. The performance of the present organization is due to the devotion and value based commitment and professionalism demonstrated by the Chairman and Secretary of the Central Society. In Kerala, majority of the commodity based organizations are in bad shape and most of them are in the verge of liquidation. All the successful effort is a personalized attribute and the standards to this effect set by the founder Chairman and all the successors have been imbibed the standard set by their predecessors. These factors have contributed the sustainability and in its absence what would be the longevity of this organization. Can this Co-operative Business Model evolved by KDB be replicated by other cooperatives in the future?