CHAPTER IV

PROFIT-SHARING IN INDIA.

The concept of profit-sharing as a method of fostering better industrial relations has been in practice in the western countries for more than a century. But it has been introduced into the industrial structure of India only quite recently. By far, the largest number of schemes in vogue in this country are bonus plans which were generally regarded as an ex-gratia payment arising out of the good-will of the managements and the prosperity of the firms concerned. This renders necessary an examination into these plans to find out whether they rightly come under the category of profit-sharing bonus plans or not.

The artificiality of the interpretation given to term profit-sharing is apparent as soon as consideration is given to the methods used to determine the amount of profits to be shared. The term is normally limited to the description of the schemes in which the amount to be shared or the method of calculating it, is fixed and announced in advance. Such fixing is not expected to be by agreement or by any legally enforceable contract, but simply by a unilateral
declaration, usually by the board, that such and such an amount will be set aside or a similar provision made, out of the profits of the company each year or some other period for the benefit of the employees. This statement may be qualified by reservations enabling the board to cancel, modify or postpone the arrangement if special difficulties arise, or the undertaking may be contingent upon a certain set of circumstances arising say for example, a datum-line of minimum net profits below which no sharing will be made or a precondition of a minimum distribution of dividends to share-holders. Frequently, the escape clauses and qualifications have been so extensive as to make the undertaking largely valueless except as an expression of a good intention. Companies which do not give such an undertaking in advance however, but leave any distribution to employees to the discretion of the board each year were not generally regarded as practising profit-sharing in the United Kingdom.¹

This rules out from profit-sharing the extensive practice of Xmas and holiday bonuses and any form of distribution in cash or credit which is not promised as a regular practice in accordance with a formula fixed in advance. There is very little distinction between a

formal scheme of profit-sharing and the established custom in innumerable firms of making bonus payments on the same occasion each year the size of which varies directly with the amount of profits made or expected in the year. They are both the sharing of profits, and if the company is not doing well enough or is not well disposed towards its workers to pay handsome ad hoc bonuses there is unlikely to be any gain in the institution of a formal scheme. There may in fact, for the workers, be some element of loss, since long term formal schemes are usually based on very conservative calculations which may lead to a smaller amount being distributed in any particular year than the board of management might, in the exercise of unfettered discretion, think fit to make.

The attitude of workers on this point seems to vary. In some years, they prefer to be in a position to calculate as soon as annual accounts of the company are published, the amount of their bonus by reference to the pre-determined formula; in other cases, the element of gamble in not knowing before-hand how much the bonus will be, is a positive attraction. One company in Lancashire which had for many years distributed handsome bonuses at Xmas time asked its employees recently if they would like a formal profit-sharing scheme to be introduced instead and received the reply that the employees would rather
have it left as it was.\(^2\) Hence there seems to be not much of a substance in this arbitrary distinction. It is this fact that must have weighed very strongly with the American Senate Committee of 1939 which recorded profit-sharing as all payments to employees regardless of the form in which they are allocated or distributed which are in addition to the market or basic wage rate. This wide generalisation has been further strengthened by the comprehensive definition of the United States Council of Profit-sharing in Industries, which defined profit-sharing "as any procedure in which an employer pays to all employees in addition to good rate of regular pay, special current or deferred sums, based not only upon individual or group performance but on the prosperity of the business as a whole.\(^3\) In the face of the above definitions, bonus schemes in India can be considered as a variant of the conventional type of profit-sharing schemes.

**LABOUR HAS A RIGHT TO SHARE IN PROFITS.**

In India, after a very careful study of the subject, it has been decided upon good authority that bonus, in spite of its nature of having the form and colour of an ex gratia payment and that it may not be included in the

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terms of any contract entered into by an employer and his employees, as soon as a demand for bonus is refused, all the elements of trade dispute arise, and that for this reason, it cannot be regarded as an ex gratia payment. The Adjudicators invariably held that on grounds of equity and justice, the worker could make such a demand. Thus the Bonus Disputes Committee, which was set up by the Bombay Government in 1924 declared after examining the basis of bonus which was paid to Mill Workers for five years since 1919, that the "mill workers have not established any enforceable claim, customary, legal, or equitable to the payment annually of a bonus; but in view of the nature of the claim" the Committee held that "it is a question of bargaining between the workers and the employers in which consideration might be given to principle of equity. It is not a question of determining what is the contract between the parties." 4

The Industrial Court Bombay, in its award, in the dispute between the Textile Labour Association, Ahmedabad and the Ahmadabad Mill Owners' Association held that although bonus was an ex-gratia payment and could not be legally demanded, yet such payment was made by the employers because of the relationship which existed between them and their employees and because of the work which the workers

are doing for them. It held that bonus was in the nature of a reward. The court further observed that "a reward is anything given or paid in return for anything done as kindness, service, etc. It includes additional gratuitous payment according to agreement. If the workers say that in a certain year, the employers have made handsome profits, and the employers can therefore afford to pay them something more than stipulated wages, they are asking for the additional payment as a reward for work already done by them which has resulted in such profits. Such additional payment is not a pure gift, because a gift may have no relation to any work done or to be done by the donee, but it is reward in as much as it is asked for as an extra payment for work actually done. It is true that it cannot be enforced in a court of law, because it is not a legal right. But it does not follow that it cannot become a subject matter of an industrial dispute between the employers and the workers, if the latter demand such a payment as reward in the form of bonus."

In some of the disputes, the Adjudicators took a juristic view of the demand for bonus and held that the demand of the workers could be sustained only it was proved that there was an explicit or implied contract between the parties. But this juristic view

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was not accepted by the majority of Adjudicators, who maintained that the demand has to be examined from a broader view of equity, justice and good conscience. The Industrial Court Bombay, in their award relating to a dispute between the Mill Owners' Association, Bombay, and employees of the member mills observed "Mill Owners Association's contention that bonus is an ex-gratia payment is true from the standpoint of civil law, which can only enforce the terms of contract between the parties, but in the domain of industrial relations between employers and workers, the rights and duties of the parties, are not governed merely by civil law, but by collective bargaining in the settlement of disputes arising out of the demands by one or another for more earnings, better conditions of work and increased production."  

Deciding the issue whether employees are entitled to bonus as of right or on any other ground, Mr. W. Cowley, in his award relating to a dispute between the Lahore Electric Supply Company and its employees remarked that "It is quite obviously not a legal right which can be enforced in a court of law. Only if the payment of a share in the profits of the workers was part of their contract for service as in the case of a profit-sharing enterprise like the Tatas could share in the profits be a legal right."

On the other hand, there is equally no doubt that the advancement of economic thought and industrial relations has led to a state of affairs where the workers' claim for a share in the profits of the industry may be legitimate and may have a certain moral and economic right." The Industrial Tribunal appointed by the Government of West Bengal in the dispute between the employers of thirty-six Cotton Mills in West Bengal and their employees remarked "Bonus may be an ex-gratia payment, but when it is demanded for work done out of which the employers make high profits the demand is not for any payment gratis, but price of labour." It further observed "In the matter of granting bonus the underlying principle which calls for consideration is that the demand for bonus, though not based on legal rights arising out of a contract expressed or implied, has to be decided on broad principles of equity and justice." Such a view is probably based on the fact that a distinction exists in almost all countries between the functions of ordinary judicial authority charged with the duties of conciliation and arbitration. As the I.L.O remarks "the function of conciliation and arbitration is to establish a compromise between the interests of the parties to the dispute and to create a new basis for mutual relation - that is to say - to make law and not, as in the judicial

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8. Award enforced under the West Bengal Govt. Order No. 2956 Lab. dated 21.8.48.
settlement of a dispute on rights to interpret "9.

**BONUS IS A FORM OF PROFIT-SHARING.**

In more recent awards, certain Adjudicators have taken the view that bonus is a form of profit-sharing. They have maintained that profits being the result of joint effort of various factors of production and labour being one such factor, it should be entitled to a share in the profits. For example, Mr. S.N. Modak, in his award in a dispute in the Amirta Bazar Patrika remarked "The idea is that where adequate profits have been derived by a company with the aid and cooperation of the employees, a part of the profit should be paid to the employees in the shape of bonus in so far as the employees also have helped in the process of profit being derived." 10

The Industrial Tribunal in West Bengal which dealt with the dispute in 36 cotton Mills in that state held that "the underlying principle for the payment of bonus is that the employee has contributed by labour for the earning of the profits of the company. The only just and equitable principle upon which an employer can be called upon to grant a bonus to the employees is to consider the amount of profit made by the employer in any

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10. Award enforced under West Bengal Government Order No. 1931/Lab., dated 12.6.1948.
year and the general financial conditions of the concern and its capacity to bear this additional burden of granting bonus without impairing the efficiency or injuring the business in any vital matter. 11 Mr. Justice Chagla in an Industrial Dispute in the General Motors (India) Ltd., Bombay, observed "It is almost the universally accepted principle now that the profits are made possible by the contribution that both capital and labour make in any particular industry, and I think it is also conceded that labour has a right to share in the increased profits that are made in any particular period." 12 Mr. E. Manavathy in his award relating to a dispute in the Standard Vacuum Oil Company, Bombay, has referred to the change which has taken place in the employer-employee relationship in the world which has led to the idea of partnership in the industry and to profit-sharing between capital and labour. 13 The Adjudicator in the dispute between the employers and the employees of the Taj Tanneries, Agra, recommended the payment of bonus on the ground that bonus has been accepted as a legitimate claim of the workmen in all the industries by way of profit-sharing. 14 In an award relating to an Aluminium

11. Award enforced under West Bengal Government Order No. 2956/Lab., dated 21.8.1943.
14. Award enforced under the U.P. Govt. Order No. 751(T.D) iii/xvii-30 (St)/45 dated May 26, 1948.
factory in Madras, the Adjudicator held the view that bonus as an ex-gratia payment is an exploded view and that all progressive employers have accepted the position that the profits of a manufacturing concern are the result of a kind of cooperative effort on the part of the workers and the management. In this view the workers are considered to have a right to share in the profits by way of bonus, at any rate in the years in which substantial profits have been earned by the factory.\(^{15}\) Finally Sri Venkataramayya, in his award relating to a dispute between the workers and managements of motor transport service in the Madras State observed that the question of bonus has to be examined in the light of the changed outlook of employer-worker relationship. Equity requires that profits of the joint efforts should be shared by both.\(^{16}\)

IF THE LIVING WAGE-STANDARD IS NOT REACH D, BONUS ASSUMES THE CHARACTER OF THE DEFICIENCY OF A LEGITIMATE INCOME, BEYOND THE STANDARD. BONUS PARTAKES THE NATURE OF PROFIT-SHARING.

In some other awards, the Adjudicators have expressed the view that workers' claim for a share in

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profits is taken for granted if the industry or undertaking is making a profit and if it is paying wages to workers which are below the living wage standard. This principle has been forcibly enunciated by the Industrial Court Bombay. In its award in a dispute between the Mill Owners' Association, Bombay, and the employees of the member mills, the court remarked that the justification for such demand (that is demand for bonus) as industrial matter arises specially when wages fall short of living wage standard and the industry makes huge profits parts of which are due to the contribution which the workers make in increasing the production. The demand for bonus is therefore an industrial claim when either of both these conditions are satisfied. It is to be remembered that adequate wages and dearness allowance, if any, for increased cost of living are the first charge on the industry, but the workers may reasonably ask for a bonus when there are enhanced profits, when dividends are paid out after providing for taxation and depreciation especially when their wages are below the living wage standard. 17

This view was endorsed by the Industrial Tribunal which was appointed by the Government of West Bengal in October 1947, in connection with the industrial dispute between the employers of 36 cotton mills and their employees. The

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Industrial Tribunal which was appointed to adjudicate in a dispute in the Mazgaon Docks Ltd., while reiterating this principle, went a step further and stated that "the claim of workmen for a bonus, so long as that living standard (that is living wage standard fixed for cotton-textile workers in Bombay) has not been attained, will remain justifiable and it must have precedence over items of cost such as Managing Agents' remunerations and commissions, taxation provision and all reserves". In an award in a dispute between the Mill Owners' Association Bombay, and 80 textile mills in Bombay, the Industrial court reiterated the view expressed by it in the 1947 award relating to bonus. The court observed that such demand (that is demand for bonus) derives its strength where the living wage standard has not been reached, from a feeling of deficiency in the means to attain the necessary standard of living. Therefore, bonus in such circumstances no doubt served as a temporary satisfaction, wholly or in part of this need. Theoretically adequate wages and dearness allowance should be the first charge on an industry.............. Labour as well as working capital employed in the industry both contribute to profit made and both are, therefore, entitled to claim

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18 Award enforced under Bombay Government Order No. 9246/34-I dated 17.6.1943.
a legitimate return out of profit and such legitimate return so far as labour is concerned must be based on the living wage standard. It is however, to be remembered that a claim to bonus might be admissible even if the living wage standard were completely attained. It may, therefore, be stated that so long as living wage standard has not been attained, the bonus partakes primarily of the character of satisfaction, often partial and temporary, of the deficiency of legitimate income of the average worker in an industry, and once such income has been attained, it would also partake the character of profit-sharing. Owing to this dual character of bonus, it would be a mistake to regard a demand for bonus as a demand for profit-sharing pure and simple. Even if it be held as the committee on profit-sharing have held, that profit-sharing on a 50-55 basis would be equitable it would be proper in our opinion when the living wage standard has not been reached, for labour to demand even a greater share after the gross profits have been reduced by depreciation, reasonable reserves and dividend and suitable provision for taxation."

LAW AND PRACTICE IN INDIA.

In India, so far no law has been passed in order to regulate profit-sharing schemes. The largest number of schemes have arisen from the awards of the Industrial Tribunals, and the amount which is paid as bonus is decided in an arbitrary manner every year and it is not uncommon that an adjudicator is appointed to decide the quantum of bonus. The lack of uniformity in the principle has resulted in a large variety of methods adopted. The rate at which bonus is paid by some of these undertakings in recent years as also the conditions attached to their payment are given in the statement in the appendix towards the end of this chapter. From the table, it will be seen that there is a large multiplicity of methods adopted by different undertakings for paying bonus. This variation is mainly due to the absence of any agreed principle for the determination and distribution of bonus.

QUANTUM OF BONUS.

So far as the quantum of bonus is concerned no fixed principle is discernible in the findings of the Industrial Tribunals, courts etc. The consideration taken into account while awarding bonus have generally been the financial condition of a unit or an industry
and its capacity to bear the burden. Generally speaking, the net profit of the concern or of the industry has been taken into account in fixing the rate of bonus. There has been no uniformity in regard to the definition of "profit". However, abnormal appropriations in the balance sheet for losses in the past years, for machinery or building, depreciation, replacement etc., have not been reckoned by the Adjudicators for determining net profits during any particular year. For example, in a dispute between the employers and the employees of the Chittavalsa Jute Mills, Madras, the employers opposed a demand for a bonus on the ground that depreciation had not been fully wiped out and therefore, there were no surplus profits. The Adjudicators rejected the contention of the employers and declared "I am not prepared to accept the contention that a bonus is liable to be paid only out of what may be called the absolute or the surplus profits. Why should the worker who has contributed by his labour to the enormous profits in the course of some years be deprived of bonus, because still in previous years there were losses." Mr. D.G. Hamerker, in his award relating to the Mazagaon Docks Ltd., Bombay, objected

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to the huge amount set aside by the company for building replacement and repair, reserves and remarked "while no objection can reasonably be taken to the provisions for general reserves, bad debts and taxation, it appears to me that the workmen's claim to an adequate bonus should have precedence over the company's reserves for machinery, replacement and repairs". 21

Some Adjudicators have favoured the linking of the quantum of the bonus with the dividends paid. In most cases, the Adjudicators have fixed the rate of bonus after considering the past practice, profits earned and the capacity of the industry to bear the burden. The practice generally accepted by Adjudicators has been to award bonus in terms of basic monthly wages excluding dearness allowance although there are a few awards in which the rate has been fixed in terms of monthly earnings.

MODE OF PAYMENT.

The Adjudicators and Industrial Tribunals generally set a time limit within which the payment is to be made. When the amount involved was large, recommendations were made to the effect that payment should be made in two instalments. So far, Adjudicators have invariably recommended the payment of bonus in cash. Recently

however, when the Industrial Court, Bombay, awarded 4½ months' basic earnings as a bonus aggregating to over four crores of rupees, they felt that they might recommend that a part of the amount should be locked up in savings certificates etc. They, however, felt that because of the provisions of the payment of Wages Act, they could not make such a recommendation. In their award, they have observed that it seems to them desirable for the legislature to look into the question and see whether it would be feasible in suitable cases, for the industrial courts to order such a mode of payment. This suggestion was promptly acted upon by the Government of India and on the 11th June 1949, they issued an Ordinance called the "Industrial Tribunals Payment of Bonus (National Savings Certificates) Ordinance 1949. The Ordinance provides that it shall be lawful for any Industrial Tribunal when making an award in relation to any industrial dispute, to direct that the bonus which may become payable under the award, shall to the extent of any part thereof, not exceeding half the amount of the bonus in any case, be paid in the form of post office National Savings Certificates of such denominational values as may be specified by the Industrial Tribunal, provided that no such direction shall be made under this subsection, if it will have
the effect of reducing the bonus payable in cash to the workmen to less than the amount of basic wages payable to him for a month's service. Any direction made by an Industrial Court in terms of this ordinance is to be binding on the parties in the same manner and to the same extent as the award.

CONDITIONS OF ELIGIBILITY.

Even in regard to the conditions laid down by various Adjudicators for qualifying for bonus, there is hardly any uniformity. While some have been conspicuous by their silence on this subject, others have laid down a minimum period of service. Generally, no qualifying period of service is prescribed in those awards in which bonus is linked to the earning of workers during the year concerned. This principle was followed by the Industrial Tribunals appointed by the Governments of Madras and West Bengal to adjudicate in trade disputes in the cotton Textile Mills in their respective states. However both these Tribunals recommended that no bonus should be paid to those workers who were absent for more than 60 days during the year. The minimum period of service, prescribed by different Adjudicators for qualifying for a bonus ranges from one month to one year. Wherever a complete year's service was prescribed, as the condition for
receiving bonus, workers with a short period of service were granted a part of the bonus. The general practice, however, appears to be to grant bonus to workers who have worked at least for one month. The Industrial Court, Bombay, while dealing with the dispute regarding bonus for the year 1946-1947, in the Cotton Textile Mills of Bombay city, recommended that only those persons who have worked for at least 75 days during the year should be paid bonus at the full rate and for those who have worked for less than 75 days, but more than 32 days, should be paid at half the rate. It did not recommend any bonus for those who worked for less than 32 days. The adjudicators have usually recommended the grant of bonus to those workers who were discharged or who left the service of the undertaking during the year concerned. Generally, the Adjudicators have not recommended the payment of bonus to those who were discharged for misconduct or misbehaviour during the year for which bonus was granted.

Schemes of the Traditional Type.

Although the bulk of profit-sharing schemes in the country has been the result of compulsory awards of Industrial Tribunals, there is a handful of schemes started voluntarily by the employers. Among such schemes, come
those of the Tata Iron and Steel Company Ltd., The Steel Corporation of Bengal Ltd., The Indian Iron and Steel Company Ltd., The Tinplate Company of India Ltd., and The Buckingham and Carnatic Mills Ltd. 22

Tata Iron and Steel Company.

It was in the year 1933-1934 that the company for the first time gave a bonus to its employees. In that year, bonus was paid to those earning under Rs. 500 a month. The next bonus was extended to all employees and this payment continued through the years 1935 & 1936. During these years, no contract was entered into for the purpose of paying bonus.

In 1936-1937, the company first declared a scheme of profit-sharing in which the bonus was linked with the dividends paid to the share-holders. In this scheme, if in a year, the dividend exceeded one crore of rupees, for every 25 lakhs in excess of that crore, half a month's wage would be paid to the employee. This scheme continued in force till the year 1944-1945. Under this scheme, which lasted for nine years, the amount set apart for profit-sharing bonus according to the calculation was distributed among the employees in proportion to

their rate of pay. If the employee had his name on the rolls of the company and had served a minimum period of one year, he would be paid as bonus a sum equivalent to the wages for a certain number of days without regard to his attendance during the year for which the profits were calculated. Thus a man with one year's minimum service could get the full profit-sharing bonus payable at his income level, even though he had not attended work for a single day during the year.

In 1945, the company entered into an agreement with the Workers' Union which linked the profit-sharing bonus not to the dividends, but to the total net profits and the plan is the best example of the conventional type of profit-sharing scheme practised in India. According to the revised agreement, out of the gross profits after deduction of the depreciation (as allowed for under income-tax regulations) payment of taxes, payment of the guaranteed interest on preference shares and five per cent dividend on other shares, 22½ per cent of the remaining sum would be paid as profit-sharing bonus to employees. The sum thus set apart was to be distributed among employees in proportion to their total earned income for the year. The bonus was linked to profits and the attendance of the employees.
During the years of war, profits had been high and naturally the amount of bonus has also been correspondingly high; but with the cessation of hostilities, both began to dwindle. At the request of the Employees' Union, the Company once again revised the scheme. "This revised scheme shall be deemed to have come into force with respect to the profits of the company earned and to be earned from and after 1st April, 1948, and will be in operation for a period of four years ending 31st March 1952". as per the first clause of the agreement entered into between the Management and the Union.

New Scheme.

Accordingly, the employee of the company is entitled to get 27½ per cent of the annual net profits of the company and such shares shall be credited to and/or distributed among the employees of the company in proportion to the basic salaries and wages earned or deemed to be earned by such employees respectively during the year in which such net profits were earned by the company. For the purpose of the scheme "net annual profits" means the profits arrived at in the manner shown in the audited Profit and Loss Account of the company for each year after making the following deductions.
(1) All taxes payable except to the extent (if any) already provided in the audited profit and Loss Account and except Business Profit Tax or any Taxes of a similar nature.

(2) Depreciation at the rate of three per cent on the figure of gross block shown in the audited Balance Sheet of each year.

(3) Loss (if any) carried forward from previous year's Accounts.

(4) A sum equivalent to the fixed dividend (inclusive) of unpaid arrears if any) on preference, second preference and other preference share capital of the company plus 5 per cent (free of income tax) on all other issued share-capital (including premiums revised by the company on issues of capital made at a premium) as at the close of the year of accounts. Issued share-capital shall exclude any share capital issued in the shape of fully paid shares by capitalisation of reserves and other funds of the company.

The profit-sharing bonus shall become due after one month of the passing of accounts. 75% of the bonus payable to each employee shall be paid immediately the
bonus becomes due and 25% shall be credited to a special account along with the Employee Provident Fund. This shall be paid to the employee when he ceases to be in the service of the company. Apart from the increase in the percentage of net profit to be shared, the new plan required that the depreciation allowed is not at the income-tax rates, but only 3% of the gross block. They can be better observed from the fact that for 1949-1950, while the depreciation calculated according to income-tax rates would have been a crore and 60 lacs, the depreciation allowed for under the new arrangement was only one crore and 20 lacs. The profit-bonus distributed to 31,000 workers was Rs 55/- lacs for April 1948 to March 1949. In the 17 years for which the profit bonus has been in existence the company has paid a sum of Rs 25/- crores and 28 lacs.

The scheme was revised and the revised scheme "shall be deemed to have come into force with respect to the profits of the company earned and to be earned from and after 1st April 1952, and will be in operation for a period of five years ending 31st March 1957."

In accordance with the revised scheme, the profits of the year-ending 31st March 1953, that is Rs 106.50 lacs will be credited to and/or distributed among the employees
in proportion to their monthly wages as calculated on the basic wages of such employees as on 31st March 1953. In respect of the profits for the remaining 4 years ending 31st March 1957, the employees of the company "shall be entitled under this profit-sharing scheme to a share of 30% of the annual net profits of the company". Such shall be credited to and/or distributed among the employees of the company in proportion to their monthly wages calculated on the basic wage of such employees as on 31st March of the year. Another change that was brought about in the revised scheme was, so far employees were given 75% of their bonus immediately in cash and the rest credited to their account. According to the new arrangement, only 66\% per cent was immediately distributed while the rest was credited as before to the provident Fund Account. In all other respects, the agreement tallied with the previous one.

The profit-sharing scheme in the Tatas satisfies all the main tenets of a genuine profit-sharing plan and can be regarded as a true example of it in India.

The Buckingham & Carnatic Mills, Madras.

The Buckingham and Carnatic Mills started in 1880 were amalgamated to form the present concern of Binny and Company, Madras in 1919. Even before the amalgamation, a gratuity fund was instituted in each of
the mills in 1906 to provide a consolidated payment of a sum after a fixed period, as a percentage of the wages, which was to be determined by the management. In 1944, a Provident Fund scheme was started to which the management contributed 71/2% of the basic wages and the workers were given the option either to come to the Provident Fund or alternatively to continue in the gratuity fund scheme until the maturing of the existing scheme.

The Bonus Scheme was started in 1919 which was introduced as per the management order in the following terms. "The Directors have for some time past had under their consideration the question of giving the work people an interest in the profits of the Mill, as is done in some English Companies. They have, therefore, the pleasure to announce that for half year ending 31st December 1919, they will pay the Indian Work-people in their employment on that date a bonus on the aggregate wages earned by each employee during that half year at the same rate as the ordinary dividend paid to the share-holders during the 6 months ending June 30th, 1919".

Thus if an employee has on December 31st earned Rs 20/- per month (or Rs 120 for 6 months) the ordinary dividend paid on 30.6.1919 being 5%, the employee will
receive at the rate of 5% on Rs 120 or Rs 8/-.

It has been specifically stated that payment would be made only in the absence of any stoppage of work, due to causes such as strikes, lockouts etc. By another order dated 2.6.1939, the principle was restated that in future the rate of bonus will be the same as that of the annual rate of dividend declared each half-year, eventhough on two previous occasions, no cut was made in the rate of bonus when the half-yearly dividend was reduced from 10 per cent for the first half-year of 1936 and the second half-year of 1938.

For example, if the dividend declared to the shareholders is 12½ per cent the bonus paid is 12½ divided by 100 x 12 equals one and half months' wages. Hence it is known as the Wage dividend Plan of profit-sharing. Sri M. Venkataramayya in his Textile Award of 19th June, 1947 recommended the Binny Plan as the best method of distributing bonus. If the share-holders who have contributed towards capital get a certain percentage of dividend, the same percentage should be made available to the workers whose investment, viz., labour is evaluated at the wages paid to them in the year. Hence he suggested that the bonus paid should be linked to the dividend declared.

Probably, the industry in suggesting a link, between the quantum of bonus to be paid and the dividend declared for the year, is inspired by the idea of equalising the respective shares of labour and capital appropriated from the amount of the net profit. As wages represent the effective measure of labours' contribution and dividend the visible symbol of the productivity of capital, at once serving as the remuneration of their respective services, attainment of equality between bonus given and dividend paid, will be pricing the services of each according to contribution.

But it must be remembered that the dividend declared is not a true index of the rate of profit earned by the company. A large proportion may be carried forward to the reserve in order to reduce the amount that may be available to the share-holders, thereby lowering the dividend. Another danger is from the practice of stock watering or by the issue of bonus shares. The company can issue new nominal shares or bonus shares to the existing share-holders and expand the capital, thereby lowering the dividend rate so as to evade the regulation of the state to limit dividends or to avoid increased payment of bonus in good times when the dividend rate must necessarily be high.
But the binny and Company did issue bonus shares in 1943 without defeating the basic purpose of the bonus scheme by doubling the dividend rate to arrive at the rate of bonus. Since 1943, for example, when the dividend is only 7½ per cent the bonus is calculated at the rate of 15 p.c.

Without questioning the good intentions of the management, having no fixed relation between the real amount of profits accrued and the dividend declared, the link between dividend and the bonus need not be in proportion to the profits made. True profit-sharing must fix the amount of bonus as a percentage of profits. Hence the binny plan represents a transitional phase in the evolution of profit-sharing. The following figures since 1926 give a picture of the working of the bonus scheme and the contributions made to the welfare activities of the company.
### APPENDIX I TO CHAPTER IV

**TABLE SHOWING THE AMOUNT OF BONUS PAID BY DIFFERENT INDUSTRIES DURING RECENT YEARS.**

<table>
<thead>
<tr>
<th>INDUSTRY.</th>
<th>RATE OF BONUS.</th>
<th>PERSONS COVERED &amp; CONDITIONS ATTACHED.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cotton Textiles, Bombay (Cotton Mills in Bombay City) Members of the Bombay Mill Owners’ Association.</td>
<td>For 1948. 4½ months' basic wages.</td>
<td>Those who worked for at least 63 days during the year. Persons who worked for more than 80 days but less than 63 days, half the amount.</td>
</tr>
<tr>
<td>2. Cotton Mills, Sholapur.</td>
<td>For 1947. 11/60th of the total earnings. (exclusive of dearness allowance etc.)</td>
<td>Those who worked at least 75 days during the year. Persons who worked for more than 32 days but less than 75 days.</td>
</tr>
<tr>
<td>3. Cotton Mills, Ahmedabad.</td>
<td>For 1948. 3/3th of earnings in 1948 (excluding dearness allowance bonus etc.).</td>
<td>- do -</td>
</tr>
<tr>
<td>4. Birla Cotton, Spinning &amp; Weaving Mills, Delhi.</td>
<td>For 1948. 7/24th of the earnings (excluding dearness allowance during 1948).</td>
<td>Those who worked for at least 63 days during the year. Persons who worked for more than 20 days but less than 63 days - half the amount.</td>
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<tr>
<td>5. B &amp; C Mills, Madras.</td>
<td>Half-yearly bonus is paid. Bonus is calculated on the gross earnings of the worker in the previous 6 months on the basis of dividend paid on ordinary shares of the Company. For the first half of 1948, a bonus at the rate of 15% of gross earnings during the period ending 30th June 1948 was paid.</td>
<td></td>
</tr>
<tr>
<td>6. Madura Mills &amp; Co. Ltd., Madura.</td>
<td>In 1948, 3 months' basic wages. Full to those who complied with the leave rules. Other were paid 25% of the earnings.</td>
<td></td>
</tr>
<tr>
<td>7. Sri Meenakshi Mills Ltd., Madura.</td>
<td>For 1947-48; 25% of the basic wages.</td>
<td></td>
</tr>
<tr>
<td>8. All Mills, West Bengal.</td>
<td>Bonus paid according to the following formulae. Those absent for more than 60 days in the year debarred.</td>
<td></td>
</tr>
</tbody>
</table>

<p>|   | Total no. of days worked | Total wage &amp; dearness allowance plus earned by the worker in the year multiplied by the dividend declared. | Number of days in the year. |
|---|---|---|---|---|
| Total wages &amp; dearness allowance plus earned by the worker in the year multiplied by the dividend declared. | Number of days in the year. |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Cotton Mills in Baroda.</td>
<td>For 1947; all mills paid bonus at the rate of 25% of basic wages. Only one mill paid at the rate of 22% of the basic wages.</td>
</tr>
<tr>
<td>10</td>
<td>Alagappa Textiles Ltd., Cochin.</td>
<td>For 1947; Approximately 3 months' basic wages.</td>
</tr>
<tr>
<td>11</td>
<td>Cotton Mills in Indore (Members of the Madhya Bharat Mill Owners' Association.)</td>
<td>For 1947, 12½% of the total earning.</td>
</tr>
<tr>
<td>12</td>
<td>Minerva Mills Ltd., Mysore.</td>
<td>10% of the total basic wages. Only permanent workers.</td>
</tr>
<tr>
<td>13</td>
<td>Mysore Spinning &amp; Manufacturing Company Ltd., Bangalore.</td>
<td>do.</td>
</tr>
<tr>
<td>15</td>
<td>Sri Krishna Rajendra Mills Ltd.</td>
<td>Same percentage of basic wages as dividend declared, subject to a maximum of 10% of basic wages earned in the half-yearly period concerned. Besides certain service conditions a minimum attendance of 105 days is required.</td>
</tr>
</tbody>
</table>
II. **WOOLLEN MILLS.**

1. **Indian Woollen Mills, Bombay.** For 1947, 1/5th of the earnings excluding dearness allowance.

2. **Cawnpore Woollen Mills, Ltd., Kanpur.** Gratuity paid at the rate of 4 annas on the basic earnings for 1947.

3. **J.K. Woollen Manufacturing Mills Ltd., Kanpur.**

4. **India Woollen Textile, Amritsar.** One month's wage in 1948. One year's continuous service.

5. **Bangalore Woollen Cotton & Silk Mills Co. Ltd., Bangalore.** 15% of the earnings (excluding dearness workers allowance etc.) for 1947 and 20% for the last half of 1948.

III. **SILK MILLS.**

1. **The Sasson and Alliance Silk Mill, Bombay.** 4½ months' wages for the year 1948.

2. **Bombay Silk Mills Ltd., Bombay.** For 1948: 1½ months' wages.

3. **Silk Weaving Factory, Mysore.** For 1947-48, 1/6th of the total earnings (exclusive of dearness allowance, bonus and other allowances).

IV. JUTE MILLS.

1. Maheswari Devi Jute Mills Ltd. Kanpur. At the rate of 4 annas per rupee on earnings.
3. Mahabir Jute Mills Ltd. Kanpur. In 1947-48, As. 4½ per rupee on the basic wages earned during the period 1st October 1947 to 30th December, 1948 was paid as bonus.

V. IRON & STEEL.

1. Tisco Ltd. Employees entitled to a share of 22½ % of the annual profit of the company. Such share is credited to an/or distributed among the employees of the company in proportion to the basic salaries and wages earned or deemed to be earned by employees during the year.
2. Indian Iron & Steel Co.Ltd. (Hirapur works, Kutli works). Two days & wages for each one per cent declared.
3. Steel Corporation Bengal, Ltd. do.
4. India Steel & Wire Production Ltd. Approximately three month's wages.
5. Tin Plate of India Ltd. Bonus is paid on a slab system which is linked to dividend declared. The rate varies from
from one week's wages
(if the dividend declared
is more than 7% but less
than 8%) to 6 weeks' wages (if the dividend
declared is more than 18% but less than 21%). For
each additional 2% dividend
workers are paid one week's wages.

VI. CEMENT.

1. Six Factories
under the manage-
ment of the
Associated Cemented Co. Ltd.
For 1946-47, bonus at the
rate of 1½ months' wages
was paid.

2. Sone Valley Part-
land Cement Co.
Ltd. Japla.
One month's wages.

3. Rhotas Industries
Ltd. Cement Fac-
tory, Dalmia Nagar.
For 1947-48. 1½ months' wages.
Whose in service
on 31st October
1948.

VII. DOCK YARD.

1. Scindia Shipyard,
Vizag.
During 1946-47.
1 month's basic wages.

2. Mazgaon Dock,
Bombay.
Two months' earnings.

3. Bombay Steam
Navigation Co.
Bombay.
During 1947. 2½ months'
basic wages.

Source: Indian Labour Gazette, Vol. VII No.9, March 1950
pp. 630-637.