

# *Changes introduced in the Management System in the Tea Plantations - Net Impact & Important Issues*

## History

The management of tea estates have undergone several changes (Table 1) during 134 year long history of tea plantations in Sri Lanka which started in 1867 by James Taylor at Loolecondara, near Deltota in Hewaheta. Before the Land Reform Act of 1972 all tea estates of Sri Lanka (then Ceylon) were owned by either foreign or local private companies. Often groups of estates were owned by companies and major shares of these were foreign, mainly British. The properties of foreign companies were managed by local "Agency Houses". The estates owned by local companies either managed their properties themselves or hired same "Agency houses". Many of the houses were British controlled and each were managing about 20 to 60 estates.

## Land Reform Act

The Land Reform Act of 1972 imposed a limit of 20 ha as the maximum extent of agricultural land that could be owned by an individual or a company. Tea and all other holdings excess of this amount were taken over by the government in two stages in 1971 and 1975 and compensation were paid to the owners. Ownership of acquired properties were

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vested to Land Reform Commission (LRC).

After the nationalization of estates in 1972, management of these properties were entrusted to many government

organizations including Janatha Estate Development Board (JEDB) and Sri Lanka State Plantations Corporation (SLSPC). However in early 1980s government decided to hand over the management of all estates to JEDB and SLPC and close down all other government agencies which were managing estates while leaving the ownership of immovable property of plantations with LRC.

This arrangement didn't continued for long time as ownership of plantation property, plant and equipment were transferred to JEDB and SLSPC in early eighties through a gazette notification. This move has made the JEDB and SLSPC owners of all plantation properties in the country in additional their managerial role.

The performance of JEDB and SLSPC was found very unsatisfactory as they continued to function at a large losses except for brief period in 1983-84 when there was a international tea price boom. This forced the government to appoint a Task Force in July 1990 to examine this situation and identify practical solution to reverse this trend.

Findings of task force were released in 1991. This report identified reasons underlying the poor success of JEDB and SLSPC in managing plantations. Labor cost increases directed by the government and increases in export levies on tea also have contributed partly to the poor performances of two state organizations managing plantations. Management and structural related deficiencies were identified as the major contributors. They include:

**Table 1. Main changes took place in the management of tea plantations in Sri Lanka.**

| Phases of change   | Ownership of immovable property                 |                       | Management of property                            |
|--|---|-----------------------|---|
|  | Owning entity                                   | Type of ownership     |   |
| 1. Pre-land reform (prior to 1971)   | Foreign companies & local companies             | Freehold<br>Freehold  | Agency houses<br>Owners or Agencies               |
| 2. Post-land reform: phase I (started in 1971)   | Land Reform Commission (LRC)                    | Freehold              | LRC/ Co-ops /<br>Usawasama / JEDB /<br>SLSPC      |
| 3. Post-land reform: phase II (started in early eighties)                              | JEDB/SLSPC                                      | Freehold              | JEDB/SLSPC  |
| 4. Privatization phase I (1992): Privatization of management                           | JEDB/SLSPC/ Regional Plantation Companies (RPC) | Freehold<br>Leasehold | Managing Agents (MA) selected from private sector |
| 5. Privatization phase II (1995): Sale of 51% of share capital to private sector firms | RPCs  | Leasehold             | RPCs themselves or MAs within the group           |

- JEDB and SLSPC should have been managed as a commercial venture, instead used policies and procedures that were developed for running the government departments,
- Management system adopted did not contained mechanism for motivation of employees: rewarding success and punishing failure,
- These organizations are complex and too large to manage.

Task force also identified some characteristics of JEDB and SLSPC which could be used advantageously in rehabilitation of management of plantations. They include:

- JEDB and SLSPC do not possess large numbers of unskilled workers,
- Superintendents had necessary skill and training to carry out their managerial tasks effectively,
- Funds received by estate plantations especially from donor funding sources have been utilized successfully for improvement of tea plantations.

## Privatization of plantations

### Phase I

#### 1992-Privatisation of Management

On the basis of recommendations of the task force government decided to restructure the state owned plantations through privatization. The implementation of restructuring process were undertaken by the Plantation Restructuring Unit operated under the Ministry of Finance. Twenty two, fully government owned plantation companies were created and 449 of 502 estates under JEDB and SLSPC were allocated to these companies (Table 2). These companies were referred to as Regional Plantation Companies (RPCs) and each contained between 12 and 29 estates. Of these twenty two RPCs, Chilaw and Kurunegala Plantation Companies were not allocated with tea estates.

53 estates managed by the JEDB and SLSPC were not included since they appeared to be financially non-viable in near future.

All current assets and liabilities of the estates and part or whole of regional offices of JEDB and SLSPC and deferred gratuity liability in respect of employees were allocated to RPCs. Also the employees including management staff and labourers of JEDB and SLSPC became employees of one of RPCs. The huge overdrafts drawn from state banks and debts were not vested with RPCs. Also the ownership of estate land and assets fixed to it including tea bushes, buildings and machinery were not vested with RPCs in order to make the deal compliance with the Land Reform Act. These lands were granted to RPCs on a 99 year lease at a nominal rate Rs. 500.00 per estate. RPCs were registered under the "conversion of public corporations or government owned business undertakings into public companies act No. 23 of 1987".

Sri Lankan private sector companies with a reputation for sound management were selected based on a competitive bidding to manage the 22 RPCs (Table 2). Foreign companies were only given the opportunity to bid in association with a local companies as providers of technical support for the management effort.

Agreements were signed between state-owned RPCs and MCs. The initial period of agreement was for five and half years (June 1992 to end of 1997) and further three five year period provide minimum specified levels of performance are met by the MCs. MCs had freedom of making all day to day management decisions. Government appointed board of RPC were involved in making broad policy. Share of profits (depending on the share quoted in the bid, on average it is approximately 20%) were paid to MCs. In a event if RPC is made a loss in a year, then government will bare the loss and profit base share of MC

Table 2

### Regional Plantation Companies and Managing Agents involved in Tea Plantation Management in Sri Lanka

| Regional Plantation Company      | Management Company                          | Extent (ha)  |
|----------------------------------|---|--------------|
| Hapugastenne Plantations Ltd.    | Finlay Plantation Management Services       | 6578         |
| Watawala Plantations Ltd.        | Lankem Plantation Services Ltd.             | 5289         |
| Balangoda Plantations Ltd.       | Uva Sabaragamuwa Plantation (Pvt.) Ltd.     | 6297         |
| Kahawatte Plantations Ltd.       | Estate Mgmt. Services (Pvt.) Ltd.           | 5676         |
| Bogawantalawa Plantations Ltd.   | Metropolitan Mgmt Services (Pvt.) Ltd.      | 5210         |
| Malwatta Valley Plantations Ltd. | Magpek Col. Land Plant. Mgmt. (Pvt.) Ltd.   | 5867         |
| Maskeliya Plantations Ltd.       | Uva-Western Plantations (Pvt.) Ltd.         | 6466         |
| Agalawatte Plantations Ltd.      | Macwoods Plantations (Pvt.) Ltd.            | 2302         |
| Talawakelle Plantations Ltd.     | Hayleys Plantations Services Ltd.           | 5017         |
| Kelani Valley Plantations Ltd.   | D.P.I. Plantations Ltd.                     | 4505         |
| Horana Plantations Ltd.          | Ceyexxe Plantations Ltd.                    | 2958         |
| Agarapantana Plantations Ltd.    | Creasy Plantation Management Ltd.           | 7621         |
| Maturata Plantations Ltd.        | Crop Management Services (Pvt.) Ltd.        | 5951         |
| Elpitiya Plantations Ltd.        | Carsons Agro Services Ltd.                  | 3650         |
| Madulsima Plantations Ltd.       | Stassen Plantation Mgmt. Servs. (Pvt.) Ltd. | 4224         |
| Kegalle Plantations Ltd.         | RPK Management Services (Pvt.) Ltd.         | 1514         |
| Pussellawa Plantations Ltd.      | Free Lanka Management Co. (Pvt.) Ltd.       | 3624         |
| Kotagala Plantations Ltd.        | George Steuarts Mgmt. Services (Pvt.) Ltd.  | 3398         |
| Namunukula Plantations Ltd.      | BC Plantations Services (Pvt.) Ltd.         | 4010         |
| Udapussellawa Plantations Ltd.   | Aitken Spence Plant. Mgmt. (Pvt.) Ltd.      | 4284         |
| Elkaduwa Plantations Ltd.        | Metropolitan Plantation Mgmt (Pvt.) Ltd.    |              |
| <b>Total</b>                     |   | <b>94541</b> |

in that year will be zero. MCs were given the freedom to make all decision related to marketing of estate produce. MCs had to arrange all funds related to working capital and investment capital from the banking system through RPCs using the moveable and lease assets of RPCs. MCs were also encouraged to manage the properties other than tea plantations in estates such as mineral resources, diversification of lands into crops and forestry and developing facilities for ecotourism.

## Phase II

### 1995 Privatization of share capital or controlling interest

In February 1995 cabinet of newly elected PA government decided on fuller privatization of state plantations. Hence sale of controlling interest (i.e. the share capital) was announced in June 1995. Foreign investors were allowed to bid but total foreign shareholdings were restricted to 49 per cent of the issued share capital of an RPC. The main elements of the framework for the sale of controlling interest of RPCs (Shanmugaratnam, 1997) are given below: i) lease period was reduced from 99 to 50 years and nominal lease rentals were to be increased substantially from Rs 500 per estate and revised annually; ii) 51 per cent of shares to be sold on an all or nothing basis: here the MAs of RPCs that had shown operational profits were eligible to purchase 51 of shares at the Colombo Stock Exchange (CSE) market price; iii) 20 per cent of the shares to be offered for sale to the general public through the CSE; iv) 10 per cent of the shares to be distributed free of charge among the employees of the RPCs; v) the remaining 19 per cent belong to the government and; vi) government to own a Golden Share in each of the RPCs in order to exercise control over certain affairs.

### Management practices and policies before and after privatization

Quality and quantity of production largely depends upon the manage-

ment practices and policies adopted by plantation companies. Previous account shows that management of tea estates of Sri Lanka have gone through major changes during last three decades. However it is important to examine whether these changes have brought sufficient changes to practices and policies adopted at tea estates to make them more efficient and effective enterprises.

The management policies used in the estates in the past are often rigid and totally inappropriate in the present day context. Plantation workers suffered from poor morale and job dissatisfaction. Further they lack the trust and confidence in the management. Main reasons for creating above situation were:

- Management decisions and information are channeled from top to bottom as no room is left for plantation workers and low level estate staff to participate in the production decisions.
- High level estate management has placed little trust on workforce and hence no responsibility has been given to the workers in the field and factory. Entrusting responsibility is an important means of motivating any workforce to get best out of them in terms of both quality and quantity of work.
- Expectations of younger generations of estate workers have risen due to higher educational qualifications obtained by them. Hence they are looking for better working conditions and are increasingly looking for outside employment. Only very limited opportunities exist off the estates and hence they remain frustrated. Older generations have accepted this way of living and have less feel for ownership and control.
- Social and geographical marginalization that is exclusion of estate workers from main stream society have caused their future uncertain. Due to their socio-cultural background they find extremely difficult to access and receive services and opportunities available to other rural and urban civilians. This situation has created

voluntary unemployment and social unrest among the plantation workers and residents. This desperate situation have forced most male and female workers turning to alcoholism.

- Estate management dictated how they work and live on the plantations that is workers and residents were totally depends upon the management for their social welfare needs. They have no capacity to solve their own problems. Also no mechanism or forum exists to discuss relevant problems and issues with the management and seek solutions collectively. Low awareness of their rights, weak collective strength to address common issues and lack of mechanisms to voice their satisfaction have aggravated the frustration in the estate work force and residents.

After privatization of estates in 1995, plantation companies have effected significant changes and steps to improve the management of estates. Plantation companies are in a better position to introduce more effective management practices and also involve plantation workers and households in decision making and collective action. Plantation companies are privately owned and smaller establishments when compared to JEDB or SLSPC. More authority and responsibility have granted to estate managers and their staff. This decentralization power has given them the advantage of flexibility in decision making according to specific conditions and circumstances prevails in the region and estates.

For example estates have initiated actions to face the predicted labour shortages in the near future. They include improvements to the welfare system existed in the estates for workers and actions to improve job satisfaction:

- Participatory decision making: Workers of all levels participate at planning and evaluation of progress,
- Improvements and changes to

- crop management and tea processing: more market oriented systems and worker education and training,
- ① Incentives and bonus for workers as rewards for satisfactory work,
  - ② Improvements to the welfare system: Infrastructure development at estates including better facilities at line rooms, family health, child day care and education etc.,
  - ③ Trips to workers to different places of the country: recreation and pilgrimage,
  - ④ Mechanization of cultivation practices and processing,

Still lot has to be done to make this important industry sustainable and viable in the long run. The excellent role performed by the estate management with the assistance of very skilled work force, is less rewarded due to constraints exist at the marketing. As we all know that the difference between price paid by overseas consumers for our tea and price received at the Colombo tea auctions by producer is enormous. However it is extremely difficult to change this situation as few



multinational companies dominated the World Tea Trade. Sri Lanka is facing severe competition from other tea exporting countries at the world tea market. The situation is even more difficult as cost of production of Sri Lankan tea is

high and also productivity is low when compared to our competitors such as India and Kenya. These conditions and circumstances have made profit margins of Sri Lankan tea is still unbeatable when it comes to quality characteristics.

This leaves great responsibility with the governments and state agencies involved in tea promotion to use whatever diplomatic ties they have with other nations into the advantage of tea trade of Sri Lanka. Few companies however have successfully established direct trading links with some countries and few others are promoting their tea at local market. However it is too early to comment on the success of these very positive developments.

When considering the scale of workforce directly involved in the production and people involved in marketing, amount of foreign exchange obtained and environmental roles performed by tea plantations, tea industry can be still considered as one of most important industries to people and economy of Sri Lanka ■