

# Code of conduct

*superficial tool or effective policy device?*

*'I am personally opposed to privatisation. At the same time I am not opposed to the union investing in privatised companies. There are times when I have to take my union cap off and become business minded. For example, when the workers at [the company in which the union has invested] demand a wage increase, I have to negotiate with them as a director based on sound business principles.'*  
(Acting director of union investment company)

**B**ecause of their social base, union investment initiatives are perceived as the 'great black hope' in the broader nation-building project. A project which involves creating a new black 'patriotic bourgeoisie' and which holds the promise of challenging the stranglehold of white finance capital over the economy. At this stage, black businesses represent only 6% of total assets on the Johannesburg Stock Exchange (JSE), but their share will grow with union investment companies destined to play a key role.

Since 1992, union investment vehicles have mushroomed at a rapid pace. Presently, all the major federations and their largest affiliates have set up some form of investment vehicle. Despite numerous debates and discussions within union ranks, the alarming growth of union investment

*by Labour Bulletin  
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initiatives continues without a clear political strategy and policy guideline.

## **Vague vision**

Many directors and executive officers involved in union-controlled investment firms cite union-investment firms' immense strategic potential to alter the economy. For some, union investment companies can play a meaningful role in transforming the economy by harnessing social capital. This involves using union investment initiatives to achieve broader social objectives.

In the short to medium term, union investment companies can use investment as a vehicle to:

- create jobs;
- bargain for lower consumer prices;
- give ordinary people access to low cost loans;
- establish social service institutions such as health care clinics and retirement homes.

Based on the experience of unions in other countries, consumer power can be mobilised by co-operating with financial institutions, which focus on the needs of working people. Ideas such as giving credit cards that discount prices to unions



can be achieved by negotiating retailer concessions using the mass collective consumer capacity of the union membership. Union-led investment firms also have the potential to set up huge housing corporations focused on building affordable houses and flats: In this way they can make up for the serious shortcomings within the state by improving the living conditions of workers and union members.

Union-controlled investment companies hold the potential to develop small black entrepreneurs. This is perceived as a useful way of distributing wealth in a highly concentrated, highly unequal economy. They can use their investment potential to assist with training retrenched workers in entrepreneurial skills so that they can set up their own businesses. The stated mission of some investment companies encourages the growth of black entrepreneurs by subcontracting to small business, as well as mentoring black middle and top management teams.

In the longer term, the vision as seen by some, is that union-controlled investments can:

- influence the state;
- unbundle monopoly capital;
- build a social sector of co-operatives.

This could ensure that their activities contribute to socialist objectives. However, this vision remains vaguely defined and the strategy to get there is even more unclear.

### **Positive spin-offs**

There have already been socially beneficial spin-offs for workers. These include bursaries for workers' children. SACTWU's Investment Company is a case in point. It has provided over 2 500 children of union members with bursaries and has extended its activities to educational assistance for members' children attending primary and

secondary schools. The bursary scheme further facilitates access to short courses for worker members of SACTWU.

The Mineworkers Development Agency (MDA) has increased its capacity to promote rural economic development and job creation. It bought a majority share in Rutec (a leading micro-economic development consultancy employing 91 people), whose systems, machines and training courses have created self employment for about 15 000 people.

COSATU's investment arm, Kopano Ke Matla is to set up a financial services group that aims to provide financial products and services to people, some of whom are union members. This will assist people who cannot get financial products and services from existing financial institutions. NUMSA's investment arm is also involved in financial services in the interest of its members.

Similar examples in a range of existing union investment companies abound. They demonstrate that union investment companies have played a meaningful role for a number of workers and have improved their lives.

However, these gains run the risk of being short term. Without a more clearly defined long-term strategy the gains can also be lost in the future. How can we ensure that union investment companies fulfil their strategic mission of building consumer power and harnessing social capital, or indeed posing a serious challenge to transnational control over the economy. How can we ensure that, above all, union investment companies proceed onto a socialist path?

### **Trends so far**

The trends in union investment company practice point to a path away from the existing socialist potential espoused by some.



Existing black corporations, including union-based corporations, remain weak relative to the predominantly white-owned conglomerates. Some of the pace-setting black corporations have experienced problems. Their debt structures are fragile. A number of union investment firms have not used the oft-spoken about union pension funds and have instead chosen to borrow money from merchant banks for seed capital, with pension funds serving as collateral. The options for accessing economic power when you start up without hard capital are limited. Firms can either incur huge debt, rely on low-cost and affirmative stakes in privatisation, continue leveraging workers' pensions, find low interest financing through security from mainstream capital, or find overseas godfathers. The few skills-based black firms who want to break into bigger games are blocked by lack of contacts and difficult financing conditions. This renders the possibility for a serious onslaught on the white conglomerate control over the economy, somewhat limited.

Black empowerment firms have also experienced crises and power struggles that make their effectiveness even more questionable. The recent debacle over the resignation of Nail executives and the Midi Television executives are examples. Union investment companies are tied to these firms through complex shareholding structures.

Many new union investment companies have invested in mixed portfolios with a strong leaning towards the growing service sector such as financial services, information technology and telecommunications. These sectors are neither labour absorbing nor labour intensive. Investment in these firms is mainly based on speculation that these are growth sectors with growing share prices.

Some union investment firms are also

involved in businesses aligned to their own respective sectors. For example, POPCRU's investment company is involved in 'outsourcable police services' which includes police garages, and logistics that fall outside of the 'core policing business of crime-busting'. Similarly, the Mineworkers Investment Company has a stake in Mathomo which is a chain of retail stores for mineworkers and has its own clothing brands and supplies boots, hard hats and overalls to the mining companies themselves. Involvement in such activities runs the risk of buying into the forms of privatisation which run contrary to union policy.

Because many of them are not publicly listed companies, it is hard to gauge their financial performance. Corporate governance issues such as accountability and transparency have become increasingly controversial. Some union-linked investment firms have reportedly proceeded with an aggressive style, without paying heed to a progressive corporate governance model. Union investment company information remains shrouded in secrecy. Our knowledge of union investment companies is dependent on media coverage.

Companies and merchant banks are offering unions rewarding deals in return for their participation. This already lays the basis for unions to compete with one another and to be played off against one another.

These trends make one wonder whether we are fooling ourselves into believing that union-based firms can still give capitalism a kinder face. We are either being very naïve or we are accepting the well-known saying that the road to hell is paved with good intentions. Perhaps there is merit in taking Dr Nthatho Mothlana's words at face value when he said:





*The MDA has created jobs.*

'Whoever says he is going into business to enrich the people out there is either a liar or a fool!'

There are no guarantees that the socially desirable intentions of union investment firms will be maintained. A prominent director aptly stated that such vehicles are never pure, never clean. There is abundant awareness of this in union ranks. For these reasons, it remains very important that we clarify the vision and long-term objectives for union investment companies. It is also important to clarify how this is to be achieved. The absence of clear policy will unquestionably lead to more serious development of the above problems.

### **Effective code of conduct**

A recent COSATU CC made some headway in mapping out what needs to be done. COSATU is proposing a trade union investment council at federation level to

put mechanisms in place to form a conglomerate of union investment companies. COSATU further argues that all union investment policies should be aligned with union policies. The proposed guidelines for union investment companies include:

#### ***Worker control and accountability***

Restating fundamental union principles on worker control and accountability in relation to union investment companies has proven to be crucial. This will have to include guidelines on union representatives serving on company boards.

#### ***Socially valuable investment***

This is an attempt to encourage union investment companies to invest in companies that meet certain social criteria. Here, the Social Responsibility Criteria of the Community Growth Fund offer useful guidelines. These criteria



measure companies on a score card based on extensive questioning of senior managers of firms. Criteria include:

- Job creation through innovation and expansion plans - companies should be engaged in productive investment through innovating and expanding for growth.
- Training of workers to enhance skills - company training programmes and grading systems need to provide clear career paths for all employees.
- Economic and social empowerment - there should be clear evidence of high levels of worker empowerment involving training, affirmative, health and safety and advanced union rights.
- Equity through affirmative action in the workplace - firms should have carefully planned and meaningful affirmative action programmes.
- Good conditions of employment including good wages, benefits and hours of work.
- Sound environmental practices and high health and safety standards.

### Transparency

The recommendations of the King Committee's Code of Corporate Practices are useful here. They promote open, effective information sharing (including full disclosure of directors' pay) and the appointment of independent remuneration and audit committees. This is also a criterion of the Community Growth Fund.

The Mineworkers Investment Company has a 'transformation policy' which outlines guidelines regarding outsourcing to small businesses, gender and employment equity.

### What now?

Clearly much work needs to be done to establish a proposed code of conduct. A

number of issues need to be considered in addition to those already mentioned. This includes policy on cross-directorships (ie cases where individuals serve on more than one board of directors).

Consideration should also be given to the unions' existing policies on investment such as an investment code for multinationals and foreign firms.

COSATU's proposed code of conduct and investment council mark a major step in the right direction. However, a code of conduct can potentially serve as a superficial policy instrument unless it is enforceable. This means that it will have to include punitive measures if the code is broken. It should offer clear guidelines on what to do in cases where conflict of interest arises. And finally, making it work requires not only much needed human resource and financial capacity, but also a political will.

Arguably, more is needed than a code of conduct. A political strategy which clarifies the long-term vision and especially the 'how to get there' aspects remain essential.

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