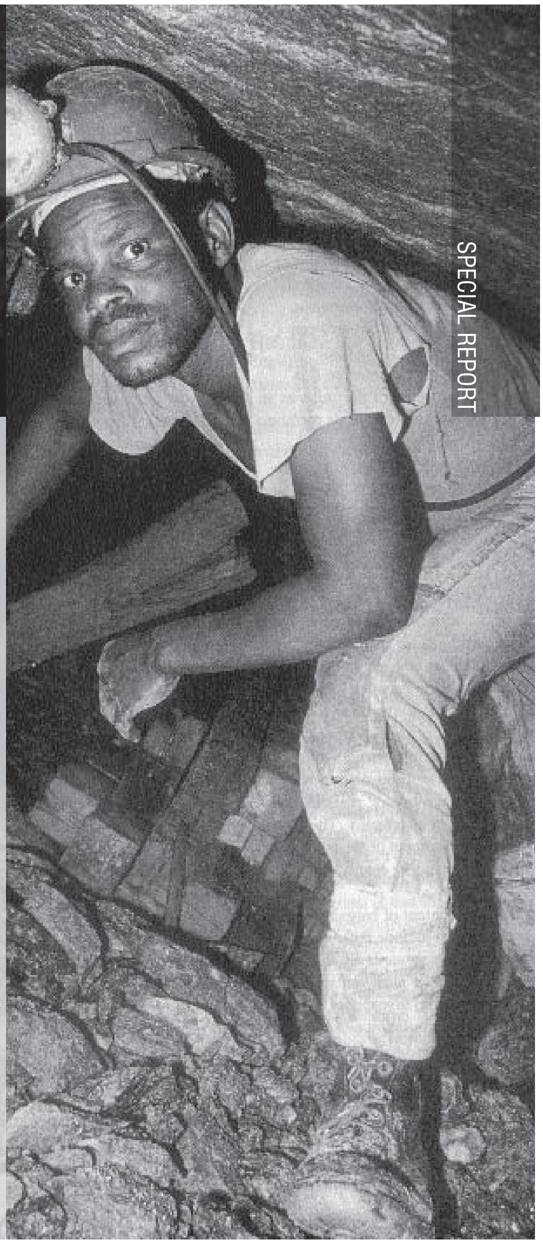
Esops

capitalist sacrifice or a poisoned pawn?



SPECIAL REPORT

In 1987 then general secretary of the National Union of Mineworkers (NUM) Cyril Ramaphosa said Anglo American's employee share ownership scheme (Esops) 'stinks'. Less than ten years later Ramaphosa and his former comrade in NUM Irene Charnley launched a campaign in Johnnic to encourage the purchase of shares. In another twist in the tale, his old union this year tabled a demand to Harmony to introduce Esops. What has changed since the 1980s when unions – those mainly affiliated to Cosatu – were negative and suspicious about such schemes? The **Labour Bulletin** looks at Esop in relation to black economic empowerment (BEE).

As in the 1980s, workers are being offered shares in the companies in which they work. In the 1980s the promotion of Employee Share Ownership Plans (Esops) by SA management formed part of an American idea to promote worker participation and what Anglo's group industrial relations and public relations consultant Bobby Godsell at the time saw as an effort to 'democratise' the workplace. Former researcher at the Labour and Economic Research Centre Judy Maller (and author of Esop's Fables) explains in SALB 12 (8) that Esops were promoted by management not because they wanted to encourage worker participation in decision-making of the company, 'but mainly because trade unions became too powerful for management to resist any longer.'

In the UK this initiative was seen, she says, as an important part of (Margaret) Thatcher's aim of making 'every worker a capitalist'. Esops appeared to take off in SA in the mid to late 1980s as employers sought to find new ways of improving productivity. Whilst the debate around the introduction of Esops hotted up by 1987 only an estimated 24 SA companies had introduced such schemes. The most talked about companies included Anglo American, Pick 'n Pay and Samcor.

EARLY SCHEMES

UK economist Ben Fine argued in a National Institute for Economic Policy (Niep) paper on Esops in 1997 that the coming demise of the apartheid system provided the stimulus to Esops in the late 1980s. 'It was felt necessary for capitalism to be disassociated from apartheid,' Fine says. Not surprising, as part of its strategy to incorporate workers, Anglo American was at the forefront in promoting Esops as the mining sector was viewed to form an integral part of both the capitalist and apartheid systems.

Anglo American (and De Beers) introduced Esops after the 1987 miners strike. It did not meet with much support from mineworkers and the union who, at the time, saw the demand for a minimum wage as being more important. Concerns were also raised as to the manner in which the scheme was introduced. Reports from union officials at the time indicated that the company did not consult the union properly. The Anglo scheme initially involved the granting of five shares to any employee with more than two years service. Each share was worth R60 while the total number of shares awarded to workers at the end of the roll-out process would amount to 4% of total shares issued. Fine said that a year later Anglo announced: 'Our objective is not only to broaden ownership of Anglo American, it is to enable people who mostly have not had the opportunity to accumulate even modest wealth in the past, to obtain a tangible stake in the free enterprise system and through that in the prosperity and progress of the country.'

Fine argued that Anglo's interest in advertising its Esop scheme on an international stage reflected an attempt to present the SA company in a more favourable light in view of the condemnation of apartheid.

Various other types of schemes were explored such as the setting up of a trust/fund on behalf of employees, which was used to buy company shares. 'This means that employees collectively own a certain number of shares and elect spokesmen to represent them at shareholders' annual general meetings. Ford has recently offered Samcor workers this option of collectively owning and administering 24% of Samcor's shares'. Ford, when it disinvested from SA in the 1980's, donated a 24% equity (R100m) to workers' trust fund plus $2m for a community trust. The share scheme sparked off a strike at Samcor as workers rejected the initiative. Other disinvestment options included the deal proposed by Standard Chartered Bank when it divested of its subsidiary Standard Bank Investment Corp. Retail outlet Pick 'n Pay introduced another type of Esop scheme which formed the subject of some discussion in SALB 12 (8).

Maller argues that at the time Esops was considered by some companies as a way of drawing black South Africans into the benefits of capitalism. However, few blacks were at the receiving end of 'capitalist rewards'. In addition, a critical part of the failure of this strategy was the scepticism expressed by the unions regarding the 'supposed benefits to be gained by workers'. Fine argued that the Esops introduced during the 1980's were mainly motivated because of ideological reasons

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UNION REACTION

The introduction of Esops posed serious challenges for the labour movement. The Cosatu affiliates were generally negative towards Esop's. Maller said unions were more concerned about improving real wage levels. What was the point in discussing such schemes when actual incomes were very low? 'When unions state that they want a share of the profits they mean a bigger share of the total revenue must go to the living wage.' Former Cosatu general secretary Jay Naidoo (now in business) argued in 1986: 'We're essentially opposed to the idea of Esops. Fundamental issues must be redressed first. We're struggling for a living wage never mind considering buying shares which we see as perpetuating inequality.' The Pick 'n Pay scheme did not appear to have the desired results of being, as management described, a 'tremendous bonding mechanism in the company'. (see box)

Fine said from the outset the unions attempted to hold to a position of recognising Esops as of limited significance with suspect motives and pushed for as collective a form for their implementation as possible, rather than favouring schemes that targeted individual workers. 'Unions were not always able to command the unified support of their membership which understandably sought more immediate and individualistically based payments. Thus, as particularly brought out in the disinvestments from Samcor by Ford, Esops can prove extremely divisive.'

Yunus Mohamed argued in SALB 14 (5) that the introduction of the schemes posed new problems for unions as they were often introduced without consultation with the unions (a similar process is taking place now under the banner of BEE). He argued that the issues 'are not about Esops versus a living wage campaign neither are they about socialism via participation versus socialism via militant trade union action. The real issues are about managements' drive towards increasing productivity and control on the shopfloor, erosion of workers rights and the enforcement of corporate dictatorial powers, undermining of trade union organisation and the creation of a docile and responsible worker.' A critical issue he raised is that the debate around Esops highlighted the necessity for union structures to be able to understand and fight these initiatives.

Broadly, Esops were viewed at that time as being inappropriate 'in a context where most black workers' did not earn a living wage and would have been better off with higher wages than a share of the company. Has the situation changed 20 years down the line?

CURRENT ESOPS INITIATIVES

Fine argues that after 'a blaze of publicity and debate, the matter fell quiet again', until Esops began to resurface again in the late 1990s. It, Fine said, was not difficult to see why: 'Whenever a capitalist economy, even an individual firm, is going through a major period of change, it necessarily faces challenges from the labour movement and possibly other sectional interests. These have to be accommodated both materially and ideologically. How this is done depends upon the strengths and strategies of the contending parties.'

The re-emergence of discussion around Esops in SA is taking place in a different context to that of the 1980s. The context has changed to the extent that it is not the fact that capitalism is under threat (because of the challenges against the apartheid state) but rather how to ensure the restructuring of capitalism (stakeholder capitalism) in the following situations:

- The privatisation and restructuring of state assets, which has resulted, in some instances, in the issue of shares offered to workers. For example, Telkom;
- Trade unions have built up formal ownership of assets in the form of pension and other funds;
- Corporate restructuring and unbundling;
- The process of black economic empowerment (BEE)

The previous Labour Bulletin (Vol 28 (4)) began to discuss how the renewed drive to achieve BEE could impact on unions. Cosatu's central executive committee (CEC) met at the end of August to further debate the issue of BEE. Discussions focused on the involvement of unions in the formulation of sectoral BEE charters which seek to endorse a broad-based approach to BEE and related to this is the move by companies to urge unions and/or workers to buy shares as a form of black ownership as was reflected in the KWV deal. The discussion document tabled in the CEC stated: 'Cosatu has long been dubious about the emphasis in the BEE process on expanding black ownership and control of formal companies. But the state has thrown its weight behind the process. In these circumstances, Cosatu supports collective ownership by workers – whether as employees, through pension funds or through unions – over individual ownership by new capitalists. Nonetheless, the process poses very substantial risks for unions.'

One of the risks identified in the discussion document is managing processes around worker ownership of any kind. Companies' efforts to sell shares to black owners have led them to court workers and unions. The question of Esops will be debated further at the next Cosatu CEC in November together with an evaluation of the state of union investment companies.

UNIONS FACE ESOPS CHALLENGE

In view of past concerns around Esops how are they to be understood now? Unions find themselves in a catch 22 situation. The current environment – where more and more BEE deals are including Esops as part of their attempts to get mass credibility - might force unions to engage whether they would like to or not. Esops are being introduced with or without union involvement. If unions decided to oppose Esops, this might not be sufficient to prevent union members from accepting individual share offerings, as was

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the case during the demutalisation process. Cosatu opposed demutalisation but some of its members, who were policyholders, accepted shares offered to them. There are already a number of Cosatu affiliates that have begun to develop positions around Esops.

The NUM, as early as 2003 passed a resolution on Esops as 'the foundation for ensuring that workers are able to derive material benefits from the BEE process and contribute significantly to the transformation and development agenda of the country.' The union resolved to:

- set up an employee share ownership investment trust
- ensure that shares are not tradable for 5 year
- negotiate and ensure that 10% of company shares are disbursed to the trust
- enable workers to buy additional shares out of the dividends paid over the first 5 years
- to negotiate profit share schemes as a further source of revenue for employees to buy shares
- to ensure the trust would buy and sell investments to consolidate worker ownership in high performing companies
- ensure share ownership would entitle worker nominated representatives to sit on company boards.

By the union's special national congress this year, it had resolved to table proposals with some mining houses to start the process of negotiations on Esops.

Former trade unionist Gavin Hartford, who has explored various models to ensure Esop benefit workers, believes companies will implement Esops unilaterally if no engagement takes place. He believes Esops hold both opportunities and risks for unions. Opportunities, he says, include the management of Esops to promote savings and combat worker debt. Effectively, Esops could provide a new saving vehicle for workers as well as provide a vehicle to access a whole range of benefits. Such initiatives could ensure the accessing of revenue for the union to build independent capacity (training union officials) who specialise in employee benefits and Esops. There are other spin-offs relating to the promotion of worker ownership and worker control and the strengthening of worker information and knowledge of their companies performance by having worker or union representatives on company boards. Opportunities also exist in accessing the National Empowerment Fund, which was supposed to fund the provision of discounted shares for individuals in public enterprises.

Some in Cosatu are concerned about the risks especially in view of the current state of the labour movement. One official questions whether 'this is a horse we will be able to ride'. His overwhelming concern is that such an initiative will swallow up the labour movement with members becoming more concerned about shares and returns of investment rather than the activities of unions. What then are some of the issues, which should be taken into account if unions are to engage around Esops and what role should Cosatu be playing?

- Should Cosatu be trying to co-ordinate investment activities and BEE deals as unions are being approached directly (not through their investment vehicles) to get involved as a partner in deals? This raises some questions around whether technical capacity exists in both unions and the federation to engage around these issues
- From an ideological perspective, unions are supposed to operate within the realm of solidarity while investments are about getting the best deal, which might not always be in the interest of the union or its members or those in other unions.
- What impact would a shift in focus towards investments have on the union and its members? To what extent will Esops change the culture of unions, if they have not begin to change already? Would this cause some confusion around roles and mandates and what about daily 'bread and butter' union activities, will they be neglected more than they are already are? Could Esops not be used to destabilise unions?
- What about keeping an arms length approach by establishing a separate company (not along the lines of the current union investment companies) to deal with investments and Esops for all the unions and the federation?
- Investment activities such as Esops or general BEE deals, in or outside unions, require strict oversight, proper controls and compliance with governance principles. This has not always been the case with the union investment companies or transactions around worker provident funds.
- Unions need to evaluate what is really being offered. How useful and effective would the allocation of a very small number of shares be? Is Esops about control or ownership or can it be used more effectively to leverage additional benefits for members?
- Aside from technical capacity to engage (which is absolutely critical), what about the capacity around education and communicating issues around Esops? Unions will have to be actively involved in communicating and educating members around Esops? What capacity is there when basic union education is suffering?
- Will issuing of shares undermine union militancy?

CONCLUSION

The current trend indicates that the introduction of Esops will happen with or without union involvement. This does not however, make it easier for organised labour. In its current state Esops, if not managed properly, could impact negatively on union organisation, solidarity and cohesion. The previous *Labour Bulletin* (28 (4)) highlighted some of the negative tendencies, which have become more pronounced as the broader culture of enrichment creeps into union structures. The Esop debate cannot be ignored and will have to take into account lessons learnt from the union investment companies and other ventures around the provision of financial services to members – The Editor. LB

WORKER OWNERSHIP OF SHARES AT PICK 'N PAY - UNION COMMENT

Pick 'n Pay's new employee share-ownership trust, in particular, is receiving considerable publicity. By all accounts in the media, Pick 'n Pay's new proposed scheme is being projected as a major advance for worker shopfloor welfare and a step towards the creation of a form of industrial democracy.

For the workers involved it is important to remove the tinsel and see what lies underneath. Pick 'n Pay's present share-ownership scheme is based on two criteria - all members of management automatically receive shares and all employees who complete 10 years service also automatically receives shares. Presently 16% (2 793) of the 18 000 employees hold shares. There has been no union involvement or communication with the union regarding this scheme. Recently, amid much fanfare and publicity, Pick 'n Pay has taken a decision to change this scheme by splitting shares four ways.

This will reduce the price of shares and the criteria for eligibility has changed. Amount of service will be reduced to five years and employees holding certain positions just below management level will automatically qualify. The money is being lent in the form of a trust and a board of trustees has been appointed. R25 to R30 million has been allocated to buy the shares. After five years service employees can take up an option of buying out shares directly from the trust. If they don't have the money to do this shares will automatically become theirs after 10 years service through the repayment of dividends into the trust. The following are some comments and analysis of this scheme.

- The trustees of the new fund have already been appointed. Workers have not been given the opportunity to elect, or play a role in electing, representatives to this board.
- It is unlikely that workers will be able to buy their allocated shares after five years of service. This means most, if not all workers, will only actually own their shares after the ten-year period is completed.
- The trustees will represent workers until they own their shares. Considering workers had no say in the appointment this raises the question of accountability of trustees to the workers they will represent.
- Individual votes, as shareholders will amount to a small percentage of the total vote. Managing Director, Hugh Herman, has stated that if the company succeeds in increasing the share ownership by staff members to 50%, this would only constitute a small percentage of the total issued share capital of the company.
- Workers automatically qualify to receive shares and there appears to be no consultation involved.
- At no stage have there been negotiations or consultations with CCAWUSA, the majority union in Pick 'n Pay, on this matter. This applies to the present scheme and the new scheme that Pick 'n Pay intends implementing.
- The Executive Chairman, Raymond Ackerman, in a television interview on October 5, 1987, was asked if the unions had been consulted. His answer was "Yes, we have discussed this with the unions, not this time, but previously". This is incorrect.
- In the same interview, Raymond Ackerman stated that "everybody loves the shares" and nobody has rejected offers of shares. Pick 'n Pay has not carried out the necessary process of consultation and negotiation to know what shopfloor opinion is. Workers have little idea of the nature of the share-ownership scheme and have been linked into the present scheme automatically.
- Ackerman has also stated that employees have indicated a strong need to have a material stake in the company. Considering the lack of proper consultation the accurateness of this statement is questionable.

In assessing Pick 'n Pay's new share-ownership scheme it is important to draw a distinction between ownership and control. It is also important to determine the main incentives for Pick 'n Pay in wanting to introduce this scheme. Ackerman has stated that the new scheme was motivated by experience in America, the aftermath of the strike, which hit the company last year, and the results of attitudinal research among employees.

It is clear that as individual shareholders, workers' participation in the decisions of the company is not extended in a meaningful way. As minority shareholders they can no more exert influence over the board of directors than as ordinary workers. In the union's view this scheme is designed to inculcate a sense of loyalty to the company without acceding a stake in the company. In an attempt to avoid industrial action and to boost worker productivity in an ailing economy Pick 'n Pay hopes by giving workers shares in the company, it will make worker shareowners identify with and feel a sense of commitment to the company.

Due to the nature of the scheme, a strong impression is given that Pick 'n Pay wishes to buy the loyalty and commitment of workers without actually giving them anything meaningful. Workers' ability to participate in decision-making will not increase when they become shareholders. The right to manage the company does not change in any way and day-to-day running of the company continues as before.

Ackerman has stated that he wishes to give more employees a stake in the company. The company's share-ownership scheme simply gives the impression of getting a stake in the company without this happening in reality. It is not clear to what extent workers would benefit in terms of hard cash. In the light of shares being reduced to one quarter of their present prices and the strong possibility that workers will only receive a small number of shares, it does not appear that there will be significant cash benefits for workers shareholders.

After the wage strike at Pick 'n Pay last year the union was questioned on its position with share-ownership. Emphasis was placed on present low wages and the urgent need to give this area priority. The union stated that it is essentially defending the living standards of workers, which are in crisis, and that workers want a bigger share of the total revenue of the company to go into wages. With the present minimum of R490 per month in Pick 'n Pay the question of a living wage tops the agenda for CCAWUSA members.

CCAWUSA will now be further discussing the meaning and implications of ownership schemes with its members at Pick 'n Pay.

J Daphney, CCAWUSA, 7 October 1987.