Historic deal

highest worker ownership in South Africa

In June this year bus workers negotiated an historic 17% ownership of Putco. **Jane Barrett** explains the process in this record deal.

A BEE [Black Economic Empowerment] deal sees 43.6% of bus company, Putco, being transferred into black hands.The SA Transport & Allied Workers Union (Satawu) and three other unions have bargained an historic agreement. In the company's bargaining unit they have successfully negotiated 16.8% ownership of Putco shares by workers.An additional 14.47% of shares have been allocated to non bargaining unit employees, from supervisors upwards.When reserve shares are included, this makes the total employee ownership 31.6%. Satawu believes this is by far the biggest Employee Share Ownership Plan (ESOP) yet to be negotiated in South Africa. Most ESOP agreements see a maximum of 5% of shares going to workers.

In terms of the BEE deal, a further 12% has been allocated to outside groups, including a group of black women investors and a group of black disabled investors. Carleo Enterprises owns the remaining 56.4%, with the stated intention of apportioning another 8% to black ownership in the future.

BACKGROUND

Putco is the largest bus operator in South Africa and one of the oldest. It employs 3 700 people, 3 376 of whom are in the bargaining unit. In addition to its bus operations, the company has a bus body building subsidiary.Two trade unions are recognised in the bus operations side, Satawu and Nactu affiliated Transport & Allied Workers Union of SA and two are recognised in the bus body subsidiary, Numsa and Solidarity.The ESOP agreement, which was signed on 20 June, is with all four unions. Over 90% of staff had signed up for shares by the end of June.

The company was listed on the Johannesburg Stock Exchange until 2005, with 52.5% of shares owned by the Carleo family. In 2005 the company de-listed in order to make a BEE deal possible. Initially the company sought to make a deal with Safika Holdings and managerial staff. When the deal fell through and Putco was looking for a new formula, Satawu demanded that any ESOP must include workers in the bargaining unit.

Once management had agreed in principle to include workers in any ESOP, negotiations began in earnest in late 2005.The unions and management engaged the company ESOP-Shop to advise on the transaction, and the process of educating members, getting mandates, and negotiating the detail moved swiftly.

KEY ISSUES IN NEGOTIATIONS

The following areas were carefully bargained:

- The proportion of shares to be allocated to workers in the *bargaining unit.* Initially management proposed 13.6% of workers.Tough bargaining resulted in an eventual 16.8% allocation and a reduction of the allocation to non bargaining unit employees from 18% to 14.47%.
- Which workers would *qualify for shares? This involved ensuring that provision was made for part-time workers, and that all workers who for no good reason were employed on a casual basis, be immediately made permanent.*
- *What happens to shares if a worker* exits the *company?* Workers cannot keep their shares after they leave the company.A worker who exits as a result of retirement, retrenchment, death or disability, will get out the full market value of their shares.A worker who resigns will be paid 33% of the value and a worker who is dismissed will get what he/she paid out in the first place. These rules were hotly debated by workers.A balance had to be found between the continued viability of the scheme, with shares continuing to be issued to new workers, and fairness to individual share owning workers.
- The funding of the workers' shares and *payment of dividends.* Those workers who have signed

up for the share issue are now the owners of those shares. Workers had to pay a total of 1c per share for each of the 11 200 shares allocated to them. The balance of the R1.25 cost of the shares has been funded by a loan made by Carleo Enterprises. An amount of 66% of annual profits will go back into the company including the cost of wages and wage increases. The remaining 33% will be divided between repaying Carleo Enterprises, and paying dividends to shareholders. In this way the question of what will be available for wage increases will be kept totally separate from dividend payments. Dividends will be paid on an annual basis, with the first payout in October this year.


Satawu, Tawu and Putco ESOP agreement negotiators

DEBATES ON THE PROCESS

Of course the process was not only about the technical aspects of the ESOP. There was extensive debate amongst workers in general, but especially amongst the hundred or so shop stewards who came together on at least four occasions. Shop stewards argued hotly about the politics of ESOPs. Their biggest concern was whether becoming owners of shares would compromise the power of the unions, including what impact it might have on wage bargaining. Sophisticated arguments were put, for and against. Ultimately the consensus approach was not to over-exaggerate the impact of share ownership. While shop stewards welcomed the fact that the ESOP agreement would bring with it a worker seat on the Putco Board, they were under no illusion that this would change the power relations of the company. The shares, and the dividends they will bring on an annual basis, are being seen as one of a number of employee benefits that have been negotiated over time. The fact that dividend payments will be relatively small to begin with reinforces this point. The first dividend payment is not likely to be more than about R400.

The shop stewards' debated with the principles of BEE. There is no doubt that Putco's decision to go the route of 48% black ownership, inclusive of the agreed 31.6% ownership by employees, has been precipitated by government policy on BEE. Putco, like most bus operators, is dependent on subsidised contracts with provincial governments. As such they are bound by government procurement guidelines, the DTI [Department of Trade & Industry] BEE Codes, and the draft Transport BEE Charter, all of which provide benchmarks for black ownership. The fact that Putco may not have initiated the black ownership deal had it not been for government policy, was initially an issue for shop stewards. The view that "the Carleo family is only doing this to secure their own future" was put by many.

However, on further debating the issue, shop stewards agreed that securing contracts was not only in the interests of the Carleo family as majority shareholders, but also in the interests of workers. Failing to qualify for contracts because the company did not meet BEE criteria would hurt workers through inevitable retrenchment.

The question of *who* the black owners should be was also debated. Should ownership be apportioned to a small number of black elite, as has been the case in so many BEE deals? Or should black ownership be largely in the hands of workers? It did not take long to reach consensus on the latter position.

Defining the ESOP as an employee benefit has not detracted from the task of linking the ESOP to a demand for a democratisation of the company. There is a concern amongst workers that the company is extremely hierarchical, and that workers have little say in day to day operational issues. The rate of dismissals is high, and occupational health problems are rampant. A commitment to addressing these issues, including ways of introducing a more participatory model of management, is therefore included in the ESOP agreement.

Both Satawu and Tawusa have been organizing in Putco since the late 1970s. The unions jointly negotiated their first recognition agreement with the company in 1982. For both unions the Putco ESOP agreement also marks a first. Both unions are now involved in similar negotiations at the Bloemfontein based bus company Interstate Bus Lines.

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