

Plant now, harvest later

pressures facing union investment companies

In 1996 and 1997 the *Bulletin* featured a lively debate on union investment companies. At that stage union investment companies were a new phenomenon. Now, more than two years later, there are ten investment companies, 60 union investments and tens of billions of rands worth of investments.

Some of the arguments then suggested that union investment companies could change the nature of the economy. Investing would allow unions to build up resources and become financially viable organisations. Well, have they? This article assesses what has happened to NUMSA's and SATAWU's investment companies.

Seed capital and financing

On 19 April 1997, NUMSA registered the National Manufacturing Workers Investment Trust (NIT) which owns 100% of NUMSA's investment company. NIT received a R300 000 loan from NUMSA, which it has already paid back.

Concerning its current financing, NIT chief executive officer (CEO) Charles Millward claims 'we pay for our existence by taking money from the deals that we do'.

SARHWU Investment Holding's (SIH's) starting out capital came from a R700 000 loan from the union. It used this money to set up offices and paid the loan back with interest (R1,3-million) within 18 months. SIH was also financed through a special

Etienne Vlok examines NIT and SIH's investment strategies, whether they are aligned with union principles and whether they are subject to union control.

purpose vehicle (SPV). It receives its current financing on a project-by-project basis.

Objectives

Millward states that NIT's purpose is to secure housing, education and health benefits for NUMSA members. Its first objective is to create wealth for members by 'taking advantage of the opportunities provided by government to historically disadvantaged people to participate

SPV

Financiers, such as banks or insurance companies, create a SPV in which the union investment company has ordinary shares and the financier has preferential shares. This provides the union investment company with capital to invest. Once its investments make a profit the financier gets paid first because it has preferential shares. Whatever is left goes to the union investment company.

meaningfully in the economy'. Its second objective is to engage in industry to create employment opportunities by 'investing in productive sectors of the economy'.

Sandile Zungu, SIH's CEO, outlines SIH's many objectives: 'Firstly, help labour transform and develop our economy. We want to make workers benefactors of the economy that they are building. We will do this by making them shareholders of SIH. Secondly, facilitate the transfer of skills to disadvantaged people. You can do this better by being an owner or shareholder of a company than by being on the shopfloor. Thirdly, to help the region's economies integrate. As a transport union, we are well-placed to deliver the infrastructure such as roads, rail and airports. Fourthly, invest in the areas of the economy that will create jobs. But it will only come over time. We can only dedicate part of our balance sheet to it.'

SATAWU's national organiser, Derrick Simoko, adds 'as a trade union with socialist ideas, we aim to ensure that the means of production are owned by the workers'.

How are they different?

Do union investment companies invest differently to non-union investment companies? Ravi Naidoo, director of Naledi, asks: 'If they are unable to do anything different, what is their reason for being?'

Zungu replies: 'A businessperson without a conscience will only invest for returns. But we see ourselves as government's partner in job creation. We will not be listing in London or establishing an offshore business in Australia. We create wealth to create



Derrick Smoko, SATAWU national organiser.

opportunities for others.'

Millward adds that union investment companies are similar to other black empowerment companies. 'We represent a credible constituency and we are a credible partner for empowerment.'

Are they able to do things differently?

Investment strategy

NIT's strategy is 'to create businesses in each sector that will, in five years time, be major players'. It regards the financial services sector as the most important sector - NIT wants to create a union-owned bank: 'After two years we have found a bank to buy. We have two ambitions: firstly, provide a banking service to members who are abused by the micro-lenders. Secondly, the investment banking will provide funds for empowerment deals.'

For Millward, other important sectors for investment include media, telecommunications, information technology (IT) and industrial catering: 'We are securing a deal in IT to train people cheaply. Industrial catering is an obvious area for us since we organise where these caterers operate. We are also

involved in health care. It can help us to provide good medical benefits.'

Explaining why NIT's investments have mainly been in the service industries and not in manufacturing, Millward remarks 'these investments have been made based on firmly financial criteria. They have shown exceptional rates of growth - 30% and upwards - whereas the manufacturing sectors have not performed nearly as well.'

The COSATU CC resolved that union investment companies should invest in the productive sector of the economy rather than invest in speculative financial investments. How, then, does Millward explain NIT's investments based on financial criteria? 'Our investments so far have not been speculative because we want to keep them for a long term. They are not huge job-generating investments. We have a responsibility to make money. How do we justify not making money by pushing investments into manufacturing instead of IT?'

Millward thinks that government should assist in job creation because it is not worthwhile investing in manufacturing: 'We need a government industrial policy to help manufacturing. We help the union negotiate an industrial policy with government.'

SIH has a three-sector focus: transport, IT and financial services. SIH decided to

invest in the transport sector because it is perceived to be an industry under threat. Zungu says that SIH never invested in companies where its union is organised, it was mostly where TGWU organised, such as Avis and Rent-a-bakkie.

Investing in their own sector

What happens when unions invest in the sectors in which they are organised? Do they land up on both sides of the negotiating table? To solve this dilemma, NUMSA banned NIT from investing in steel and engineering. But this is problematic for Millward: 'This is contradictory, because how can you be the boss of NEHAWU but not NUMSA. This will be workshopped and hopefully we will be able to invest in our own industry. This will allow us to create jobs there and engage with government on industrial policy.'

For Simoko, it is easy to justify why SIH invests in its own sector: 'Socialist thinking says that workers should own the means of production, so workers should own their own factory.'

He believes that conflict exists between bosses and workers because the former do not make all the information on the company available. For Simoko, this conflict will no longer exist when the union owns the company: 'Workers will then better understand where all the

September Commission findings

The September Commission identified problems with union investment companies:

- unclear strategic goals;
- using retirement funds to finance deals;
- decisions about investments do not allow for members' participation;
- union officials gaining financially.

The commission was worried that these could cause further problems:

- conflict in the unions over investment strategies;
- widening the gap between leaders and members;
- lack of social criteria and disregard for union principles when investing.

The commission feared that 'instead of trying to influence the pattern of capital accumulation, we accommodate ourselves to it, even through engaging in privatisation'.

money goes to and there would be no conflict.'

Affected affiliates

COSATU's CC adopted a resolution that COSATU and affiliates who intend investing in sectors in which a COSATU affiliate is organising, should consult with the affected affiliate.

Asked whether they do it, Simoko said that he suspects that they are not. But, he added that the companies have bodies where they consult about their investments and SIH might have done it there. Zungu confirmed that SIH had consulted with TGWU before it invested in Avis and Rent-a-bakkie.

Privatisation

Business Map reports that 'the issue of union investment in privatised entities is controversial. Some unions... oppose privatisation, while others have become buyers.' One side argues that, by investing in privatised entities, the unions' opposition to privatisation is being compromised. The other side believes that the unions would be doing themselves a disservice by not getting involved.

Simoko sides with the latter: 'We believe that if Transnet, the government-owned transport company, is being sold, it should belong to the workers.' Millward agrees: 'Government will keep on privatising and outsourcing. Unions can either fight it and risk being trampled or engage in

privatisation and secure deals to benefit members.'

Investment criteria

Initially union investment companies were criticised because they did not select investments using any criteria. Since their establishment, interest in socially oriented investments has grown. When the Community Growth Fund (CGF) was launched a number of unions supported it. It only invests in companies that have passed the test of acceptable labour and environmental practices. *Business Map* finds it surprising that the unions have not used these criteria more when investing.

NTF has two criteria: the companies must have an affirmative action programme and they must transfer skills to create black managers.

SIH looks at:

- the history of the company (for example, did it support the previous regime? What was its attitude to trade unions?);
- whether it creates jobs;
- whether it adds value to the economy;
- whether it has an affirmative action programme.

Force for transformation

COSATU's CC adopted a resolution that union investment companies should 'change current patterns of control and corporate governance and develop a model democratic and transformed

Sun Air

Investing in one's own sector can create problems, as was shown in the Sun Air privatisation exercise. SARHWU had to withdraw from the Sun Air restructuring committee where it represented workers because SIH was a member of the Virgin consortium, one of the bidders. Virgin subsequently withdrew from the bid.

Zungu believes that this was a learning experience: 'SIH really wanted to be involved because it was one of our first investments. On the other hand SARHWU wanted to get a good deal for its members. They did not have to be part of the bidding because they had already secured a good deal for their members. It is an exaggeration to say that there was conflict.'

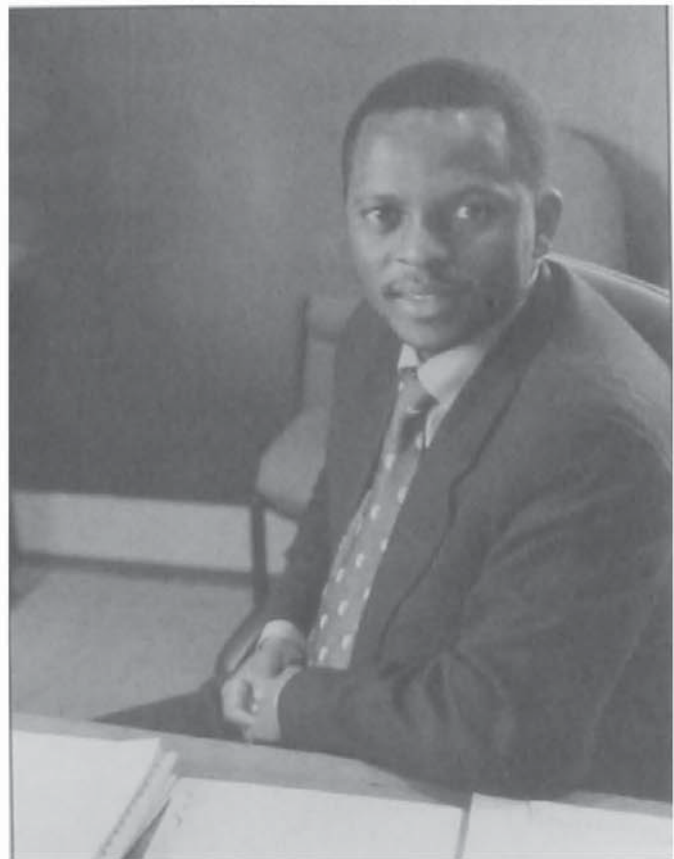
workplace'. However, a report on union investment companies states that 'while justifying their investments on the basis of the concept of social capitalism, so far the union investment companies have shown little intention to exercise influence over the operations of their investments, such as influencing corporate decision-making around areas of union interest'.

Listing on the JSE

SIH has decided to list on the Johannesburg Stock Exchange (JSE) and sell shares to fund its investments. Zungu explains: 'We have to find innovative ways to get funding. SARHWU's Enablement Trust currently owns 64% of SIH, management owns 21% and Sanlam owns 15%. A portion of the trust's 64% will be given to the members as shares in the company. The rest remains with the trust so that it can continue with its development work. We are doing this because not all the workers benefit from the trust's work. With the listing, each worker, who was a member of SARHWU before it merged to become SATAWU, will benefit by receiving free shares worth R1 800. SATAWU members, who were not members of SARHWU, can buy shares.'

Simoko says that this is a first in South Africa. 'This addresses members' needs and allows them to gain personally from the investment company. Because the members have direct ownership they will not fight with the leaders.' The trust has first option on the shares if the workers want to sell them, ensuring that ownership does not go out of SATAWU. SATAWU will forbid workers from selling their shares in the first year. During this time it will have road shows to explain the importance of shares staying in the union.

An expert in the field believes that listing on the JSE could make the union



Sandile Zungu, SIH CEO.

investment companies more transparent and accountable. It could also address scepticism about non-delivery.

No money

Neither NIT nor SIH has paid money into their trusts. Millward says that NIT is still young and that none of its investments is dividend producing yet. He believes that NIT will be able to pay money into the trust in two to three years. NIT's and SIH's dividends so far have been used to fund new investments. Zungu says that SIH has been in business for only two years: 'We have not yet harvested, we are still planting.'

Union control

Criticism was levelled at office bearers sitting on union investment companies for being remunerated. The COSATU CC resolved that union officials and office bearers should not gain financially through access to cheap shares or directors' fees. It



Charles Millward, NIT CEO.

also decided that unions and officials should not be involved in the day-to-day investment activities.

NIT's board has union representatives, executive management as well as other experts. Millward says that 'we want the board to represent more than the union movement'. NUMSA's trust has a majority of union trustees to ensure that policy decisions are in line with NUMSA's objectives.

SATAWU's board of trustees includes nine SATAWU members. The trust seconded six office bearers to the board of SIH. Zungu says 'they represented the trust on strategic meetings and the executive committee. They used to get paid directors' fees but the union told us to stop this. Now only the union's treasurer sits on the board'.

Simoko explains the decision to cut office bearers from SIH's board: 'The leaders' task is union business, not business. We were worried that by sitting on the board and getting paid their

interests would move away from unions. We realised that we made a mistake by including unionists on the board and rectified it.'

Forging a relationship

Much of the discussions about unions and union investment companies centres around their relationship. Millward argues: 'Unions cannot be separated from the activities of their companies. They are substantially identified with their companies' activities.'

The CC agreed the following resolution: while the investment companies should be legally separated from the unions, unions should be involved in their overall governance to align union investment company strategy with union principles. The CC decided that the ultimate responsibility for the functioning of these companies rests with unions and their worker leaders.

Business Map states that union investment companies must institute effective corporate governance. This will allow for proper reporting to, and communication with, the trusts and the union members. 'Poor corporate governance by union investment companies can bounce back negatively on the unions: how does a union argue for increased disclosure if its company is weak in this department.'

Educating members

In 1997, Dexter criticised union investment companies because workers had very little control over them. He felt that investment must be under the political control of workers. At that stage Naidoo found little evidence that union members are influencing the process or even aware of proceedings.

The CC resolved that investment decisions should be taken in a democratic

way allowing for members' participation. It suggested that there be information disclosure, accountability and worker training to understand issues.

SIH ensures that workers understand and participate in the company by publishing a newsletter informing members of what is happening. It also reports on its progress and investments at the union's CEC and NEC. Simoko explains 'SIH is independent. If it decides to invest it must go ahead as long as it is in the interest of the union and its members. SATAWU and SIH meet when they need to discuss investment issues.' Zungu regards the national office bearers (NOBs) as the link between the company and the union members.

Simoko admits that there is currently no form of education 'but we will educate the members when we have workshops on their shares. When the board of SIH consisted of union officials the members had influence but we have stopped that now. SIH reporting to the union meetings ensures that its decisions are guided by the union.'

Asked whether the union officials have mandates when they meet with SIH, Simoko replied 'it is difficult to get mandates for every decision but mistakes are rectified'.

Under pressure

Union investment companies are under immense pressure from many different sources. Union members expect improved working conditions; money being paid into the trusts; and reaping early benefits. They also question the large payments that the companies' executives have been receiving.

Another source of pressure comes from the financial institutions that loaned money to the companies: they want their loans paid back and are often the first to

be paid (as preferential shareholders). This limits the resources union investment companies can commit to socially responsible and less profitable investments.

The future

Millward says that it is clear how unions got involved in owning businesses but the future will show how union ownership turns out. 'Unions are in many respects reluctant capitalists.'

A report on union investment companies foresees a distance growing between the companies and their unions. The companies' success and the trend towards listing on the JSE will allow the companies to stand apart and reduce the unions' ownership and control of the companies.

In the past five years the union investment companies have learnt a lot. They are more critical about who finances them and the conditions attached to the financing. They are also more critical about which companies and sectors they will invest in. Governance and control in the companies have also improved.

Challenges for the future include:

- dealing with financiers more strategically;
- empowering many by paying into the trusts;
- improving communication with unions and their members. ★

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