Taker or contributor?

labour's role in companies

Jerry Schuitema suggests how labour can become involved in the management of companies.

In recent times management have attempted to involve labour more directly in the operations of business These attempts are destined to fail.The reason is that the principles upon which a company is built have not changed Its underlying aims are to generate profit and increase shareholder wealth. If anything, these principles are more reinforced

Never before has the position of labour been so fragile:

- International financial markets are so strong that governments do not control their own economic destinies anymore. Hence labour's influence is decreasing.
- Job losses are resulting in declining union membership.
- Unemployment is weakening unions.
- Mechanisation and technology are reducing the role of the blue-collar worker.

Some may argue that organised labour in South Africa is weaker now than it was before 1994.Yet labour is closer to government now.

Accounting practices define labour as a 'cost' and regards labour as a burden to productivity Labour has to ensure that it is no longer viewed as a burden to companies, and therefore economic activity, but rather as a contributor to the destiny of companies.

What the figures say

The value-added statement was created in Britain by organised labour. It says that wealth creation is equal to the contribution we make or value we add to the overall wealth generated According to the value-added statement, labour is usually the biggest recipient of wealth created So management often uses it in wage negotiations to show workers that they are already receiving the biggest slice of the wealth.This has weakened the accounting tool that should strengthen labour's involvement in company affairs.

Labour as contributor

If you examine the average wealth distribution by local companies then labour normally gets a much bigger share than capital.The real twist is that the share of wealth does not only measure benefit It also measures contribution So it can be argued that labour is the biggest contributor, and capital the smallest to the creation of wealth.

When discussing this argument in seminars with senior company executives and shopstewards, I often ask the simple question 'Who should manage a company, the biggest or the smallest contributor?' Stunned silence!

Labour has earned the right to manage.

Because it is the biggest contributor, labour has earned the right to manage. Yet it loses this right by behaving as a taker, not as a contributor. An experienced shaft steward at one of the country's biggest mines explained the reason: 'We behave like takers because we are treated like takers!'

Until labour is treated as, behaves as, and is accounted for as a contributor, it cannot be involved in the management of companies. Until it becomes a contributor, labour will always be replaceable. Being replaceable means its future is dictated by supply, demand, price and other 'flavours of the day', such as re-engineering, rationalisation and restructuring.

Life favours the contributor. Our true value lies in our ability to make a contribution to others. So the ultimate crime against a worker is not to reduce his or her ability to demand higher wages, it is to reduce his or her ability to make a contribution.

How to contribute

To increase the contribution employees make, organised labour has to insist on a company communications policy based on sharing of company performance information. Communication should focus on shared goals and be simple and understandable. It should not be manipulative or a propaganda exercise.

Accounting practices have to be adapted to avoid the definition of labour as a cost. This does not mean ignoring the standard statutory accounts. But these accounts do not work as an internal communications tool. The value-added statement is the best tool to increase employee contribution and empowerment.

Unions should try to establish a negotiation process that focuses on enhancing employee contribution. It is acceptable to have annual wage negotiations. So it should be equally, if not more important, to have one annual negotiation around what each could contribute.

The real governors

The argument that shareholders govern companies is not correct. Professional managers do the day-to-day running of companies. It is argued that these managers run the company 'on behalf of shareholders'. This is also not true. The true governors of companies are customers. Being too concerned about shareholder concerns will destroy a company in the longer term. If both management and employees focus on what the customers want, it gives them a common goal.

Ownership is no longer as important as it was after the industrial revolution. The 'rights' of the owner may still be more superior to that of labour. But in recent years labour, environmental and social lobbies have watered these rights down

The 'risk takers'

Shareholders argue that they are the biggest contributors because they 'take the risk'. However, one has to apply the principle of 'relative risk'. In the absence of secure employment, employees are at enormous risk. Losing a job is a devastating experience. However, shareholders' risk is spread, so few suffer the same pain at company losses or closures as employees

Labour also suffers with the closure of companies because of the erosion of their pension fund strength. In this way labour is not separate from capital because a large part of capital comes from employees through the pension funds. Therefore part of the risk is taken by labour itself

The value-added statement

It must be clear to all by now, that job creation will not decrease our unemployment numbers. We have to create job stability and job retention in existing companies.

Job stability and job retention can only happen if employers and employees build a partnership and pay becomes flexible on a common fate basis. A common fate measurement affects all - not only shareholders as measured by profits. The measurement we suggest is value-added. Companies will have to change their goals away from a narrow profit focus and be more transparent about their performance.

The value-added statement is the only suitable accounting tool to use for information sharing and the involvement of all, particularly labour, in the fortunes of the company. Value-added measures the contribution of a company to its market and the country's economic health, as measured by the total value of production in the country, or gross domestic product (GDP), in a year. Thus value-added could improve national prosperity if companies would focus on it

Value-added clearly has an ethical, externally focused and caring intention: to do something useful for another human being. Surely this must be a strong rallying cry to all involved - from shareholder to sweeper. We as human beings all have a deep desire to add value to others. That is what companies' missions and visions are about. All we have to do is to make them real and account for them in a recognised format.

Taken one step further, there is a direct relationship between contribution and reward. This is because value-added or wealth created goes into the pockets of those who made the contribution

It means that the bigger the wealth cake, the more all have to share. This can only happen if the combined contribution of everyone's efforts has higher value in the market. This makes the value-added measurement ideal for a common-fate fortune-share trigger. A trigger is a target that if exceeded will enable a bonus to kick in. We suggest value-added is the only measurement that equally affects all. It is therefore a suitable common-fate trigger that could be used in a fortune-sharing scheme.

Value-added has all the benefits of an incentive. Yet it does not lock the company into unaffordable bonus payments and create unrealistic expectations. It is the answer to flexible pay that will stop the trade-off between rising pay and job loss, where pay increases contribute to job loss. ★

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