Worker Share Ownership

Building a Shared Prosperity:
Worker Ownership for an Inclusive South African Economy

30 YEARS OF FREEDOM
South Africa 1994 - 2024

the dtic
Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

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BY THE NUMBERS

NUMBER OF WORKER SHARE OWNERSHIP PROGRAMMES

125

98 Established
27 In Process

IN THE PAST 5 YEARS

81

ESOPs formed, agreed to or re-established

ESOPs at companies with less than 250 Workers

38

30% are SMMEs
Smallest company:
9 workers

NUMBER OF WORKER BENEFICIARIES

551,000

With family members
1,54 million
South Africans

WORKERS COVERED IN PAST 5 YEARS

307,000

ESOPs formed, agreed to or re-established

BENEFITS TO WORKERS

Formal sector: 1 in 16 workers

Manufacturing: 1 in 15 workers

Mining: 2 in 5 workers

Beverage only: 1 in 2 workers

Construction & agriculture lagging: Less than 1 in 100

Based on Quarterly Employment Survey Data

WOMEN WORKER SHARE OWNERSHIP

One large ESOP

68%

A number have more than 50% women beneficiaries

FROM MERGERS

Since 2019, ESOPs with

211,000

Beneficiaries established from merger conditions, under new **Competition Act** provisions

EQUITY OR SHARE VALUE

R70,3 BILLION

IN 118 COMPANIES

31% in Mining

21% in Food and Beverages

14,5% in Retail

14,3% in Finance

DIVIDENDS PAID

R3,3 BILLION

DIVIDENDS PAID IN LAST YEAR

Two-thirds in mining with beneficiaries receiving on average R12,800 each

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Message from the President

> The foundation of our democracy was built on the ideals of equality, justice, and opportunity for all.

It is my pleasure to welcome this inaugural report on the vital initiative of the Worker Share Ownership Programme and its significance in our journey towards economic transformation and social justice.

The foundation of our democracy was built on the ideals of equality, justice and opportunity for all. However, we recognise that the legacy of more than 300 years of colonialism and apartheid continues to cast a shadow over our nation, manifesting in inequality, particularly in terms of wealth and opportunity.

We have made enormous strides in the past 30 years to address this legacy and to begin to reverse the racialised and class inequities. As we strive to build a more inclusive society, it is imperative that we scale up measures that address these structural injustices and empower all South Africans to participate meaningfully in our economy.

I welcome therefore the progress made with expanding worker share ownership programmes in the period since 2019, following changes to the competition legislation and clarity provided on interpretation of the broad-based black economic empowerment policies.

This worker-centred programme complements the Black Industrialist Policy and together they provide a framework to strengthen transformation of the economy and achieve the vision of the South African Constitution.

By the end of March 2024, more than 500 000 employees were covered by worker share ownership programmes – and about 200 000 of these employees had been covered in agreements reached or implemented during the past 5 years.

The foundation of effective worker share ownership is in the appropriate design of the firm-level programmes and the solid governance by trustees. I particularly welcome the efforts by firms which have taken the next step – to have worker nominees on the boards of companies. It marks an important new phase in building greater inclusivity.

The first Worker Share Ownership

Conference in April 2024 on the eve of Workers Day, is an opportunity to celebrate successes, learn from the experience of implementation and look to ways to strengthen the impact of the share ownership programme.

I wish to thank the Minister of Trade, Industry and Competition and the competition authorities in the successes registered with the programme during the 6th Administration, and the companies who are implementing worker share ownership arrangements.

As we continue to scale up worker share ownership schemes and similar initiatives, we reaffirm our commitment to building an economy that works for all South Africans, where every individual has the opportunity to thrive and contribute to the prosperity of our nation.

Together, let us forge ahead on this journey of economic transformation, guided by the principles of fairness, inclusivity and shared prosperity.

Thank you.

His Excellency Mr Cyril Ramaphosa,
President of the Republic of South Africa

Minister's Foreword

This publication is the first compilation of data on worker share ownership programmes in South Africa. It is launched during the inaugural Conference of Worker Trustees on worker share ownership programmes and brings greater transparency to public efforts to build greater economic inclusivity and transformation.

Since 1994, a number of measures have been taken to reverse the legacy of the past. These range from competition laws to open opportunities for SMMEs in the economy; labour laws that aim to promote decent working conditions; and public policy measures to promote entrepreneurship and the entry of black South Africans into the economic mainstream.

Twenty years ago, in April 2004, the Broad-based Black Economic Empowerment Act was promulgated and ushered in codes of good practice and sector charters that promoted transformation.

One of the objects of **the Act** was to increase "the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training."

On this foundation, businesses sought ways to expand ownership from designated groups and some firms began to introduce employee share ownership schemes. Later, the Mining Charter provided a new impetus to inclusion of miners in shareholding structures of mining corporations.

In 2019, amendments to the Competition Act were signed into law, providing among others for the competition authorities to consider the effect that a merger will have "on the promotion of a greater spread of ownership, in particular to increase the levels of ownership by historically disadvantaged persons and workers in firms in the market."

The effect of these public policy measures has been to expand the universe of worker share ownership in the economy. A number of firms committed to introduce schemes and programmes to extend shareholding to employees. Their size and impact are not well-recognised in the public discourse.

The companies concerned include large global corporations such as Coca-Cola, Pepsico and Heineken; major South African firms such as Shoprite-Checkers; and many medium-sized and larger firms in manufacturing (glass, steel, clothing, oil), mining, services (tourism, telecomms), food production (beverages, fish, agriculture), financial services and retail.

Many of these newer worker share ownership schemes were developed through engagement and negotiation between Government and merger parties, with settlement agreements tabled at the Competition Tribunal for consideration.

It has been a period of enormous learnings for both the public authorities and participants in the market. These lessons and the broad principles that have emerged in the course of the engagement with the business community, now provide a useful template for new worker share ownership arrangements.

This publication distils some lessons and observations and highlights significant agreements that have been reached.

The worker share ownership programme is one element of a more comprehensive set of measures to address economic exclusion (in this case, in asset ownership) and income inequality in South Africa.

Given the vast levels of inequality in our society, extraordinary measures are needed. Recent changes to the Companies Act, adopted by the SA parliament, provide for greater transparency and disclosure of remuneration gaps within firms. Complementing these, the worker share ownership schemes address the non-wage aspects: access to a share of the profit that a company makes; and in several cases, a seat at the table where strategic corporate decisions are made.

There is an increasing interest globally to build economic inclusivity. Policymakers are in many cases requiring corporations to look at the social impact of their operations. Economists too have shifted from a narrow focus on efficiency only to a broader embrace of sustainability.

Indeed, a recent article by Angus Deaton, a Nobel Laureate makes the point sharply, when he wrote: "Efficiency is important, but we valorise it over other ends. Many subscribe to [the] …definition of economics as the allocation of scarce resources among competing ends or to the stronger version that says that economists should focus on efficiency and leave equity to others, to politicians or administrators. But the others regularly fail to materialize, so that when efficiency comes with upward redistribution—frequently though not inevitably—our recommendations become little more than a license for plunder. Keynes wrote that the problem of economics is to reconcile economic efficiency, social justice, and individual liberty. We are good at the first, and the libertarian streak in economics constantly pushes the last, but social justice can be an afterthought."

Worker share ownership programmes can contribute to addressing income inequality and the deficit of social justice in modern economies.

Worker ownership structures offer workers a voice in company strategy, allowing them to participate as shareholders in annual general meetings, and in several cases, have representation on company boards. This not only enhances the governance of corporations but also ensures that the interests of workers are considered in strategic decisions that impact their lives and livelihoods.

They present an opportunity for workers to better understand and engage with the complexities faced by firms in the economy. By participating as owners, workers gain insights into the challenges and opportunities facing their companies, enabling deeper partnerships to unlock opportunities for firms to grow, to invest more and to create more jobs.

This paradigm shift aims to empower workers not only as wage earners but also as stakeholders with ownership in capital, fostering a more inclusive economic model that transcends traditional shop-floor dynamics.

While the focus has been on expansion of the number of worker share ownership programmes, not enough

> In a rapidly changing world, with the opportunities and complex challenges of artificial intelligence on firms and economies, and with the need to address climate change with greater urgency, society needs more inclusive dialogues and enhanced voice in decision-making.

attention has been given to the quality of many of the firm-level schemes and to unlocking the potential. The inaugural Worker Share Ownership Conference is an opportunity to share experiences to enable this to be achieved.

Many issues will need to be addressed in the next few years, including: the balance between evergreen schemes compared to vesting programmes and the development of an appropriate hybrid, best practice funding and dividend policies, governance of trusts and speeding up nomination by worker shareholders of directors on company boards, unpacking fiduciary duties of worker-directors particularly on communication with employees, the interface between worker trusts and trade unions on the shopfloor, training of worker trustees and development of source materials that can be useful in carrying out their duties and responsibilities.

The success of the Worker Share Ownership Programme hinges on collaboration between government, industry stakeholders and trade unions. Through constructive dialogue and partnership, these stakeholders work together to design, implement and monitor structures, ensuring their alignment with broader economic objectives and the needs of workers. By fostering a culture of collaboration and shared responsibility, we amplify the impact of WSOPs, driving meaningful change and sustainable economic transformation.

Looking ahead, government remains committed to advancing the Worker Share Ownership Programme and similar initiatives as cornerstones of our economic empowerment agenda. Our future directions entail expanding the reach and impact of worker share ownership, strengthening the dialogue on appropriate legislative and regulatory frameworks, and enhancing collaboration with stakeholders to ensure the continued success and sustainability of these programmes. By staying true to our commitment to economic empowerment, we pave the way for a more prosperous and inclusive future for all South Africans.

We extend our appreciation to all stakeholders involved in the implementation of the Worker Share Ownership Programme. From government officials and industry leaders to labour unions and workers themselves, your dedication and commitment to economic transformation has not gone unnoticed. Your achievements serve as a testament to the power of collaboration and collective action in driving meaningful change.

Ebrahim Patel,
Minister of Trade, Industry and Competition

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Introduction

There's a growing consensus advocating for enhanced rights of participation for workers within their respective companies. This sentiment aligns with the stakeholder model of the company, one which emphasises the significance of considering the interests of all stakeholders, including employees, in corporate decision-making processes.

The stakeholder approach isn't merely a moral stance; it's a pragmatic one that pays off economically. As argued by academics, like R. Edward Freeman at the University of Virginia in the United States, embracing this approach tends to yield superior outcomes by aligning the interests of all parties involved. Conflicting stakeholder interests can fracture the value creation network, prompting some participants to disengage. Consequently, adopting a stakeholder approach cultivates a cooperative strategic outlook, where companies regard stakeholders as collaborators rather than adversaries. Rigorous assessments of company performance corroborate this, with studies finding a positive impact on return on assets and firms with higher stakeholder relations scores measured on ESG indices.

Recognising the pivotal role that workers play in driving productivity and contributing to the success of businesses, there is an acknowledgment of the need to afford them a more substantial voice in shaping the trajectory of their organisations. This shift towards greater worker participation reflects a broader commitment to fostering a more inclusive and equitable economic landscape, where the benefits of corporate success are shared more equitably among all stakeholders.

The Worker Share Ownership Programme (WSOP) thus serves as a cornerstone of economic empowerment and inclusivity in South Africa, embodying a concerted effort to redress historical imbalances in wealth distribution and opportunity. It builds on the work to foster a greater spread of ownership in the economy, as is complementary to other programmes of Government, including the Black Industrialist Programme.

At its essence, the WSOP offers employees the opportunity to become shareholders in the companies they serve, thereby granting them a tangible stake in the financial success and future prospects of their employers. By enabling workers to share in the fruits of their labour, the WSOP not only bridges the traditional divide between labour and capital but also cultivates a sense of ownership, engagement, and commitment among employees, driving increased productivity and organisational cohesion.

Moreover, the WSOP plays a pivotal role in advancing economic fairness and inclusivity by democratising access to wealth creation and decision-making authority. The programme affords workers a seat at the table of corporate governance and profit-sharing mechanisms, helping to rebalance the scales of economic power and influence, ensuring that the benefits of economic progress are more equitably distributed across society.

Indeed, the WSOP represents a transformative approach to economic development, one that prioritises the empowerment of workers, the promotion of social justice, and the cultivation of a more inclusive and equitable society. By championing the principles of shared ownership and shared prosperity, WSOP is paving the way for a future where every South African has the opportunity to thrive and prosper.

In this inaugural booklet on the WSOP, we set out in **Section 1** what the programme is and why it is important. The South African programme builds on global efforts to build fairness in economies, highlighting the transition from political to economic measures aimed at addressing inequality worldwide. Against the backdrop of South Africa's historical context of colonialism and apartheid, the WSOP represents a concerted effort to address the persistent challenges and disparities of asset and income inequality.

Section 2 sets out the history of inclusive measures around the world over the last number of years. We trace the evolution of inclusive economy measures, from Employee Share Ownership Plans (ESOPs) to cooperatives and worker-owned businesses; and explore the role of pension investments in companies and the economy, highlighting the various initiatives undertaken to foster economic inclusivity and empowerment.

Section 3 provides an overview of the relevant legislative and regulatory provisions that underpin WSOPs. Exploring laws such as the Broad-Based Black Economic Empowerment (BEE) Act and its associated Mining Charter, as well as amendments to the Competition Act, we illuminate the legal framework that supports WSOP implementation.

Section 4 provides evidence on the impact of WSOPs, and presents a set of case studies that offer real-world insights into the implementation and impact of WSOPs across various industries and sectors, providing valuable lessons and inspiration for future initiatives.

In the final section, **Section 5**, avenues for improving the WSOP are explored, from financing options to governance structures and mechanisms. We emphasise the importance of a comprehensive code of good practice, building networks of trustees, and investing in training and capacity-building initiatives to ensure the sustainability and effectiveness of WSOPs.

Section 1: Worker share ownership: what it is and why

Worker ownership serves as a mechanism aimed at facilitating employee ownership within a corporation. It enables employees to acquire shares in the companies which employ them, thereby offering them a stake in its growth and success over time. This ownership model is governed by a set of rules that regulate the acquisition, allocation and management of shares held on behalf of the employees.

The establishment of worker ownership aligns with the government's empowerment and transformation agenda, contributing to broader ownership among what the Competition Act refers to as Historically Disadvantaged Persons (HDPs), and promoting equal access to economic opportunities. By fostering wider participation in the economy, worker ownership plays a pivotal role in advancing social goals and promoting equity.

Moreover, worker ownership offers a range of benefits, including the economic empowerment of HDPs and the promotion of equity. By fostering employee buy-in and commitment to enterprise success, it has the potential to transform enterprise performance. Additionally, worker ownership encourages employee participation and involvement at an operational level, thereby enhancing organisational effectiveness. Ultimately, by aligning the goals of government, employees and the company, worker ownership creates a framework for shared success and sustainable growth.

South Africa's workplace landscape has historically been marked by significant conflict, earning it a notable position among the most conflict-ridden environments globally, as highlighted by the World Economic Forum. This strife manifested prominently in frequent and sometimes violent strikes or responses to strikes, underscoring deep-seated tensions within many workplaces.

While progress has been made since then to produce a more stable industrial relations environment, many of the legacy divisions of the past still need to be addressed. A lack of inclusivity often leads to perceptions of arbitrary and unjust managerial decisions among workers, further exacerbating tensions. More significantly, there are limited instances of deep and meaningful dialogue on the future strategy of a company, with its own workforce. Thus, mitigating workplace conflict and a 'shop-floor divide' necessitates not only a surface-level resolution of disputes but also a concerted effort to foster a culture of collaboration and inclusivity within the workplace and larger societal structures.

In response to the prevailing workplace dynamics outlined above, there is a growing consensus advocating for the amplification of workers' rights to participate in shaping the trajectory of the companies they serve. This call for greater involvement aligns with the stakeholder model of company law, which posits that companies should consider the interests of all stakeholders, not just shareholders, in their decision-making processes. This paradigm shift towards stakeholder inclusivity has gained momentum, particularly following the introduction of the 2011 Companies Amendment Act, which conferred upon employees and unions a suite of rights pertaining to corporate governance matters.

The principles outlined in the King IV report on corporate governance underscore the importance of embracing a stakeholder-centric approach, supplanting the traditional shareholder-centric model. This paradigmatic shift advocates for a holistic consideration of the interests of shareholders, employees and consumers alike, when defining the collective interests of the company. While the King Report refrained from explicitly recommending worker representation on boards, it emphasised the significance of fostering diversity among directors to ensure a breadth of perspectives and expertise within the boardroom. Thus, while direct worker representation remains a subject on which not all practitioners agree, there is an acknowledgment of the pivotal role that diverse and inclusive board compositions play in fostering robust corporate governance practices.

As global discussions centre on fostering fairness within economies, there's been a notable shift from primarily political interventions to more nuanced economic measures. Nations worldwide are increasingly embracing economic strategies aimed at fostering greater equity and inclusivity, recognising the intrinsic link between economic empowerment and social cohesion. Initiatives such as worker ownership are pivotal mechanisms in this paradigm shift.

South Africa's historical legacy of colonialism and apartheid has left a profound mark on its socio-economic landscape, perpetuating deep-seated asset and income inequalities. This underscores the need for targeted and innovative interventions tailored to South Africa's unique context to redress these disparities.

Against this backdrop, the WSOP offers workers a dual pathway to economic advancement as both wage earners and owners of capital. In essence, the WSOP embodies a multifaceted approach to addressing economic inequality and fostering inclusive growth. By providing workers with both financial incentives and a voice in corporate governance, WSOP contributes to broader socio-economic transformation, paving the way for a more equitable and prosperous future for all.

By providing employees with a tangible stake in the financial success of the companies they serve, WSOP not only bridges the divide between labour and capital but also cultivates a sense of ownership and empowerment among workers.

Furthermore, WSOP empowers workers with a voice in company decision-making processes, granting them the right to vote as shareholders and, following best practice, representation on corporate boards. This democratisation of decision-making fosters a culture of transparency, accountability and inclusivity within organisations, ultimately driving improved performance and sustainable growth.

Moreover, by actively involving workers in strategic deliberations and problem-solving initiatives, WSOP enables employees to better understand and engage with the complexities inherent in today's dynamic business landscape, thereby enhancing overall company performance and competitiveness.

Typical terms in worker ownership structures

The implementation of the WSOP has taken various forms, drawing on the diverse legislative initiatives available in South Africa, as detailed in Section 3. Often taking the form of Employee Share Ownership Programmes (ESOPs), employee schemes, employee trusts or broad-based schemes with an employee component, the WSOP aims to integrate employees of a company as shareholders and stakeholders, thereby aligning company performance with worker benefits and incentives.

In certain instances, worker ownership has served as a strategic mechanism to fulfil Broad-Based Black Economic Empowerment (BBBEE) ownership requirements within companies. By incorporating a broad spectrum of shareholders, including workers, companies can foster a more inclusive ownership structure that complies with BBBEE legislation but also better reflects the interests and aspirations of its workforce, ultimately contributing to its long-term success and sustainability. However, worker ownership extends beyond BBBEE and serves as a broader mechanism for fostering inclusion among both black and white workers.

Structuring appropriate vehicles which can fulfil the goals of the WSOP often requires detailed negotiation across a range of issues, including:

- The share acquisition price afforded to the trust;
- The governance arrangements;
- The funding mechanisms to give effect to worker share ownership;
- The class of share issued to workers and the associated voting rights;
- The dividend policies;
- The life-time of the structure and lock-in periods;
- Representation and equity across the structure; and
- Training of trustees and education programmes for members/ beneficiaries of WSOPs.

The subsections which follow provide detail of some of these considerations. A checklist for new deals is provided at the end of the document.

Share acquisition price

An important element which is negotiated upfront for worker ownership structures is the price per share paid by workers versus other shareholders. In most cases, worker ownership structures offer workers the opportunity to own a minority interest in the company. Since minority shareholders typically have less opportunity to influence the strategic decisions of the company, minority shares are offered at a discount to other shareholders.

The discount which is applied to the shares is also a reflection of the lack of liquidity which applies to shares owned by employees. Most worker ownership structures include a lock-in period which prevents employees from trading the shares to other individuals. These restrictions thus limit the value for workers in the short-term, which should be reflected in a lower price than other shares of the company, which do not have such restrictions.

In addition, the ownership of shares by employees potentially provides a company (and thus its other shareholders) benefits that would not normally accrue absent such a special class of owners. This is because employees in many cases can positively impact a company's performance and hence its profitability.

A number of best-in-class deals have provided discounts to employee shareholders to account for liquidity and minority issues of between 10 and 20%; though specific considerations relevant to the vehicle needs to be taken into account.

In some cases, companies have sought to provide an additional discount, again to ensure that more value can be accrued for the benefit of workers. This strategic approach aims to enhance the attractiveness and accessibility of worker ownership programmes while maximising the benefits for participating employees.

In the case of listed companies, the market value of the shares prior to issuance to workers can serve as a benchmark against which any discount can be applied. However in the case of unlisted companies, a fair-market valuation by an independent third-party would be required to be used as a baseline for calculating the discount to fair value. Careful consideration should be given to independent valuations to ensure that they are fair and appropriate, and if anything, they are conservatively priced, to avoid such schemes from going 'under water', i.e. where the cost of the scheme is higher later than the value of the shares.

Governance arrangements

As the concept of worker ownership gains momentum, there's a noticeable trend towards incorporating governance arrangements that empower workers to appoint trustees and representatives to company boards. This shift reflects a broader global movement recognising workers as essential stakeholders and pivotal decision-makers in corporate governance.

By granting workers a seat at the table of company governance, organisations acknowledge the invaluable perspectives, insights and interests that employees bring to the decision-making process. This inclusive approach not only fosters a sense of ownership and responsibility among workers but also enhances transparency, accountability and overall corporate governance standards. In essence, it aligns with the principles of inclusive governance, ensuring that key stakeholders have a voice in shaping the direction and policies of the company.

In doing so, management and workers have negotiated a set of criteria relating to the skills requirement of worker trustees who serve on company boards. While such worker nominees will have fiduciary responsibilities in their capacity as board members, companies must avoid seeking to exclude workers based on arbitrary criteria. Instead, employee representatives should be enabled to access training opportunities (see below) which will allow them to appropriately fulfil their roles to the benefit of workers and other stakeholders. **the dtic** is working to provide better guidance to worker nominees on company boards in respect of fiduciary responsibilities to the company and board, including qualification criteria, and the reporting expectations of employee shareholders.

Funding mechanisms

The evolution of funding mechanisms for worker ownership structures has been notable since their inception. Initially, many structures relied heavily on vendor financing, with companies essentially providing loans to the entity established to hold shares on behalf of workers for share acquisition. These loans often carried concessional interest rates (i.e. less than equivalent market rates), accruing over time and partially offset by dividends on the shares held by workers. However, this approach frequently left worker ownership structures burdened with more debt than asset value during periods of share price decline.

To address these challenges, several structures have adapted by incorporating a portion of grant funding or ensuring a minimum pay-out irrespective of share price. This strategic shift allows structures to commence with a vested equity portion, reducing the need for extensive debt servicing and minimising asset encumbrance.

By striking a balance between debt and equity, these revised funding models aim to enhance the financial sustainability and resilience of worker ownership initiatives.

Share classes and voting rights

South African company law, as is common in many jurisdictions, permits companies to create multiple classes of share, which may distinguish such shareholders in terms of their rights to dividends, voting, liquidation preference and other corporate matters.

When establishing worker ownership structures, careful consideration should be given to the class of shares issued to workers compared to those held by other shareholders. Introducing limitations on the rights of employee shareholders compared to that of other shareholders can undermine the extent to which workers enjoy the full rights and rewards of ownership.

Best-in-class structures ensure at least equality among shares held by workers and other shareholders or special additional rights to employee shareholders. This approach is crucial because any class of shares issued to workers with inferior economic and governance rights diminishes their ability to fully participate in ownership benefits.

Dividend policies

Effective dividend policy is integral to maximising the benefits for participating employees in worker ownership programmes. These programmes are typically designed with a dividend allocation strategy that serves multiple purposes: a portion of the dividend is earmarked for servicing the debt used to acquire shares through the ownership vehicle, while another segment, often termed the "trickle dividend," is designated for distribution among the employees.

Striking the right balance in dividend distribution is crucial to swiftly reducing debt obligations while still affording workers the chance to reap financial rewards from exceptional company performance. This delicate equilibrium ensures that worker ownership structures remain financially sustainable while enabling employees to share in the company's prosperity. Typical trickle dividends have ranged around 25% with the balance used to service any debt which may have been used to finance the structure.

Structure life-time and lock-in periods

A number of structures have been giving consideration to the tenure of the trusts which hold shares on behalf of workers. Many vendor-financed structures are designed to have a termination date which coincides with the term of the loan. This allows any loan balance to repaid from the sales of shares, with the value from the remaining shares distributed to workers. However, such vehicles, in cases where they are not replaced with equivalent structures, may result in a particular cohort of employees reaping the benefit of ownership without creating a long-lasting relationship between workers and the company.

Some worker ownership structures have been designed to be evergreen, with workers of the company benefiting from ownership in perpetuity. This often means that workers who leave a company, however, lose their shareholding. It also means that the only economic benefit which workers get from their ownership of the shares is in the form of dividends, rather than also the potential capital appreciation. In some cases, these arrangements can become more akin to profit-sharing arrangements rather than vehicles through which the full risk and rewards of share ownership passes to workers. It then puts pressure on short-term dividend pay-outs rather than also looking at retaining earnings in order to grow a business in the long-term.

Best-in-class structures blend these approaches in ways such that the full rewards of ownership pass to workers, but that replacement structures are put in place for subsequent generations. This approach safeguards against generational inequities and sustains meaningful worker-company bonds over time.

Representation and equity

In an evolving pursuit of equity, worker ownership structures are adopting flat representation models, ensuring equal benefits for all beneficiaries regardless of seniority or pay. As a result of these structures, each worker receives the same number of shares and will thus benefit equally from dividend pay-outs, share sales and voting decisions. This approach not only fosters inclusivity but also aligns incentives throughout the workforce, promoting a more equitable distribution of decision-making power.

By embracing this model, companies can cultivate a culture of collaboration and unity, where each worker's contribution is valued equally, regardless of their position within the organisation.

Education and training

Education and training play a crucial role in empowering workers within the WSOP, providing individuals with the knowledge and skills necessary to make informed decisions and actively participate in the programme's initiatives. Recognising this need, WSOPs should incorporate comprehensive educational programmes aimed at enhancing workers' understanding of financial literacy, corporate governance and investment principles.

Education initiatives within WSOPs extend to fostering a deeper understanding of corporate governance principles and practices. Workers are provided with insights into the roles and responsibilities of board members, the importance of transparency and accountability, and the mechanisms for exercising shareholder rights. By nurturing this awareness, WSOPs enable workers to actively engage in corporate decision-making processes, advocate for their interests, and contribute meaningfully to the governance of their organisations.

Appropriate training on the risks and rewards of shareholding serves as a catalyst for empowerment within WSOPs, empowering workers to become informed and engaged stakeholders in their companies' success. By investing in the educational development of employees, WSOPs not only promote economic inclusion and wealth creation but also cultivate a culture of lifelong learning and empowerment among workers, thereby fostering a more resilient and prosperous workforce and economy.

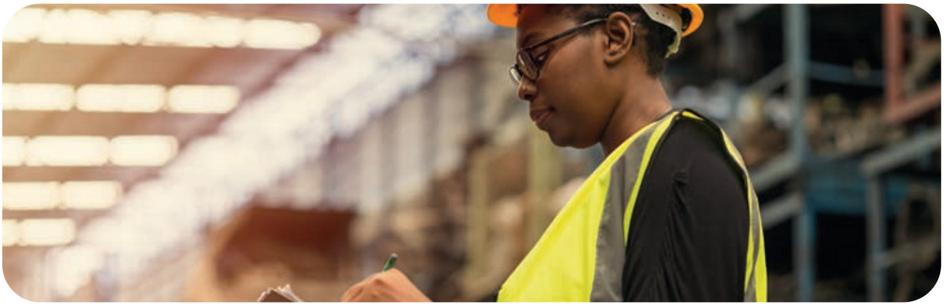
For trustees and for worker nominees on company boards, enhanced training, organised through the trusts and with structures that are independent from management and other shareholders, should be considered.

Summary

Table 1: Key considerations when structuring worker ownership vehicles

FEATURE	CONSIDERATION
Initial share price	• Typically issued at a discount to other shares • Should reflect both the special role of workers as contributors to the profitability of a company, and also the minority shareholding positions held by workers.
Share classes and voting rights	• South African company law allows for multiple classes of shares, which can grant varying rights regarding dividends, voting and other corporate matters. • When creating worker ownership structures, it is vital to consider either the equality of shares issued to workers compared to other shareholders to ensure full participation in ownership benefits or appropriate special additional rights.
Governance arrangements	• Increasingly, board representation is included as a tool to foster an appropriate governance structure. • Workers should nominate the worker trustees and board representatives. • Firms should avoid placing special conditions on worker nominees that do not apply to other directors, and indeed, a strong case can be made to ensure criteria that enable the widest pool of suitable nominees.
Funding mechanisms	• Typically vendor financed at a concessional interest rate (i.e. prime minus X) or grant funding of the worker share (or a combination of these. One large company provides for 70% of the prime rate; another has an interest rate 1,5 percentage points below prime.
Dividend policies	• Effective dividend policy crucial for maximising benefits in worker ownership programmes, through trickle dividend policies that enable employees to see the benefit of their shareholding immediately. • Dividend allocation balances debt reduction and equitable wealth sharing among employees. • Where evergreen schemes are in place, the trickle dividend policy should be more generous as the share-appreciation is either not realised by employees, or not realised fully. One firm agreed to a trickle dividend of 55%.

FEATURE	CONSIDERATION
Tenure	• Share-holding trusts for workers often align with loan terms, facilitating loan repayment from share sales, but without replacements, and may benefit specific employees temporarily. • Evergreen worker ownership models provide perpetual benefits but may have the effect of being more akin to profit-sharing arrangements without full ownership benefits. • Best-in-class structures blend these approaches, ensuring full ownership rewards for workers while establishing replacements for subsequent generations, promoting equity and sustaining long-term worker-company bonds.
Equity	• Worker ownership structures increasingly adopt flat representation models, ensuring equal benefits for all beneficiaries regardless of seniority or pay. • This approach fosters inclusivity and aligns incentives, promoting a more equitable distribution of decision-making power and cultivating a collaborative workplace culture.
Education and training	• Comprehensive educational programmes should be implemented in WSOPs to enhance workers' financial literacy, corporate governance understanding and investment skills. • Training on the risks and rewards of shareholding should be provided to empower workers as informed and engaged stakeholders, fostering economic inclusion and a culture of lifelong learning within the workforce. • Special training for trustees and worker nominees to boards should be put in place by the Trusts.
Alignment with BBBEE objectives	• Worker ownership strategically fulfils BBBEE ownership requirements in some cases, broadening shareholder representation to include workers and enhancing ownership structures to better align with workforce interests. • Beyond BBBEE compliance, worker ownership serves as a broader mechanism for fostering inclusion among black and white workers, contributing to long-term company success and sustainability.



Section 2: History of Inclusive Economy Measures

There has been a growing global focus on social and sustainability goals. In South Africa since 1994, a number of measures have been implemented to cultivate a more inclusive economy.

The Labour Relations Act, 1995 provided for full recognition of rights of workers and trade unions and laid the basis for a fairer workplace. The Basic Conditions of Employment Act, 1997 set minimum standards across the economy; and provided for sectoral determinations to set minimum standards in specific industries.

The Employment Equity Act, 1998 set out to promote diversity in management of companies and promotion of black South Africans in skilled and technical jobs.

The Skills Development Act, 1998 provided for a levy to fund training at the workplace and in communities, to enable more black South Africans to have access to skills.

The Competition Act, 1998 provided for new regulatory bodies with powers to deal with anti-competitive practices and abuse of dominance that often limited the entry or participation of smaller or black-owned businesses in the economy. This together with amendments promulgated in 2001, introduced the concept of public interest conditions during merger and acquisition processes.

In 2004, the Broad-based Black Economic Empowerment Act set out to promote policies directed at skills development, incorporation of black and women-owned businesses in firms' supply-chains, better demographic representation in top management and in company boards and expansion of share-ownership to black South Africans.

Subsequently, a number of Codes were put in place and Sector Charters were agreed in key industries, with clear targets on transformation.

In 2008, a comprehensive reform of corporate governance legislation led to the implementation of a new Companies Act that introduced social and ethics committees to company boards; and provided rights to trade unions in respect of information and participation in matters such as insolvency proceedings.

(See next section below for more details on some of the legislation briefly summarised here).

As these legislative measures were put in place, the focus shifted to implementation, with the expansion of black managers, greater share ownership by black South Africans and the rise of ESOPs; and a new focus on implementing the public interest goals of the competition legislation. Other measures such as funding were used to encourage the rise of cooperatives, a form of corporation with explicit social goals, together with other forms of social economy enterprises (for example, not-for-profit entities, ethical investment funds and union investment companies). Pension and Provident Fund investment entities provided for trustees of worker savings to promote sustainable and inclusive growth strategies.

Collectively, these historical measures underscore the importance of inclusive economic initiatives in South Africa and globally. By embracing models such as ESOPs, cooperatives, worker-owned businesses and pension investments, societies can foster greater economic participation, wealth distribution and social cohesion, ultimately paving the way for a more equitable and prosperous future.

Based on learnings from experience, in 2016 the Black Industrialist Programme was launched and in 2018 amendments to the Competition Act were passed by Parliament. This latter change introduced a specific reference to worker share ownership as a public interest criterion to be used in evaluating proposed mergers of firms.

International experience

Globally, various forms of inclusive participation models emerged – ranging from worker-owned businesses to collective savings vehicles such as retirement funds, co-determination models of governance and worker representation on company boards.

Employee participation in corporate governance has evolved into a recognised practice in numerous jurisdictions, complementing the traditional focus on labour law and collective bargaining to a focus also on company law. This shift acknowledges that decisions made by a company's board of directors impact not only shareholders, historically regarded as the primary stakeholders, but also a diverse array of other stakeholders, notably employees. As a result, many countries have integrated provisions for employee participation in corporate governance into their legal frameworks. Germany stands out as a pioneer in this regard, with its two-tier board structure, yet it is not the sole trailblazer. The following concise case studies, drawn from the literature, offer insights into various countries' efforts to address increased worker representation in shaping corporate policy and overall governance.

Several countries with worker participation models have experienced robust and equitable economic growth through increased worker participation in governance. Northern European nations, renowned for their high-growth, export-driven economies, have observed that worker representation on company boards fosters a shared vision for growth. This shared vision, in turn, promotes organisational agility, innovation and competitiveness, contributing to sustained economic success.

Research conducted at the Massachusetts Institute of Technology underscores the benefits of employee representation in corporate governance. Their study revealed that companies with worker representation experience significant advantages, including larger capital investments in fixed assets and enhanced labour productivity. This finding suggests that shared governance leads to increased capital intensity and value added per employee without adverse effects on employment levels, signalling a shift towards more efficient production processes.

Europe

According to the European Trade Union Institute (ETUI) by 2017, over 60 percent of the 31-member states in the Euro area had enacted legislation allowing for worker representation, implemented through either a single- or dual-board structure. Additionally, worker representation on boards was observed in certain countries, such as Italy and Belgium, even in the absence of specific legislation (ETUI Board level employee representation in 2017).

In Sweden, akin to South Africa, a single-tier board system is in place. Worker representation on company boards is prevalent, with almost all companies employing over 25 individuals granting employees the right to elect two board members (and two alternates). This allocation increases to three (and three alternates) in larger companies spanning multiple industries with over 1 000 employees, where worker directors typically constitute one-third of board members.

Worker directors in Sweden are selected by the trade union with which a company holds a collective agreement. The appointment may occur through a union election at the company or by direct appointment by the union. While worker directors need not be employees of the company, they frequently are.

In most instances, board members representing employees enjoy the same privileges as those representing shareholders. However, they are excluded from discussions where a clear conflict of interest arises between the company and the union, such as collective bargaining or industrial action.

In Norway, companies with more than 200 employees are obligated to include worker directors on their boards. In smaller companies, worker representation on boards is contingent upon a majority of employees petitioning through their trade union or works council. Companies with over 30 employees that receive such a request must integrate worker directors onto their boards.

Worker representation mandates in Norway dictate that one-third of board members in companies with over 50 employees must be employees, while companies with between 30 and 50 workers must include at least one employee representative and one observer on their boards. Worker directors are elected by company employees and must themselves be employees.

Most sectors, private companies, state companies and institutions in Norway are subject to the requirement of having worker directors on their boards, with only a few exceptions, such as foreign shipping companies. Norwegian worker directors possess equal powers and rights as other board members.

Germany adopts a two-tier board structure consisting of a management board and a supervisory board. In larger companies workers have a right to seats on the supervisory board, constituting one-third in companies with 500 to 2 000 employees and half in companies with over 2 000 employees.

The supervisory board in Germany is involved in setting the company's strategy, reviewing financial and other information, and evaluating the management board's performance. Employee representatives on the supervisory board hold the same rights and duties as other board members.

Nomination and election procedures for employee representatives vary based on employee count: in companies with 500 to 2 000 employees, employee representatives must be company employees and are nominated by the works council or at least 10% of the workforce, and are elected by all employees through a secret ballot. In larger companies, some employee representatives are nominated directly by the union, often union officials, while others are company employees. All employee representatives are elected by the workforce.

In the United Kingdom, there have been instances of voluntary worker representation on boards in specific companies, demonstrating notable success. For instance, Capita's 2019 Annual Report highlighted the value of having worker directors who offer direct insights into employee-related matters, policy implementation and stakeholder interests, contributing to a balanced board perspective. Similarly, Sports Direct International PLC emphasised the unique perspective provided by its worker representative, who facilitates constructive dialogue on workforce welfare and directly engages with staff, thus enhancing the contributions to board meetings.

China

In China, company law mandates worker representation on the boards and supervisory boards of limited liability companies, state-owned companies and companies limited by shares.

Limited liability companies formed by two or more state-owned enterprises or investment entities are required to include employee representatives on their board of directors. Similarly, entities wholly owned by the state must appoint an employee representative as a board director. Other limited liability companies or companies limited by shares have the option to include employee representatives on their board of directors.

Employees' representatives serving on the board of directors are elected by company employees through the employee representatives' committee.

Each company in China is obligated to establish a board of supervisors, distinct from the board of directors. The board of supervisors must include employee representatives elected by the company's employees.

Latin America

In Chile, employee representation on select state-owned company (SOC) boards is determined by the statutes of the SOCs themselves.

In Brazil, a law enacted in 2010 mandates that SOCs with over 200 employees must elect a representative to serve on the board of directors. This requirement extended to SOCs and their subsidiaries, as well as companies where the federal government held the majority of shares in partnership with private entities. The elected representative was required to be an employee of the SOC and was chosen through an election process involving members of the representative union. However, these employee representatives are prohibited from participating in discussions or decisions regarding matters where conflicts of interest may arise, such as union relations, compensation and benefits.

In Bolivia, although there is not a general law governing employee participation at the board level, certain sectors, including mining and state-owned enterprises have regulations allowing for worker-nominated directors.

Africa

In Egypt, there are constitutional and legal provisions aimed at promoting worker representation in corporate governance. The Constitution mandates that public sector firms must have at least 50% board membership composed of workers. Additionally, the 2010 Investment Law stipulates that companies must establish either a works council or appoint an employee representative to the board.

Section 3: Legislative and Regulatory Provisions

Legislative and regulatory provisions play a pivotal role in shaping the landscape for the WSOP initiatives, providing the necessary legal framework and support mechanisms to promote their implementation and effectiveness.

Broad-Based Black Economic Empowerment Act

One of the cornerstone pieces of legislation in South Africa is the BBBEE Act, which aims to address historical inequalities and promote broad-based participation in the economy. The BBBEE Act recognises the importance of inclusive ownership structures and encourages companies to adopt initiatives such as WSOPs to empower historically disadvantaged groups, including black South Africans.

The generic scorecards issued in terms of the BBBEE Act, include points which may be awarded for ownership by black participants in worker ownership programmes, subject to specific rules and regulations to ensure their effective implementation and governance.

These rules are outlined to provide clarity and structure to ESOPs, thereby safeguarding the interests of both participants and fiduciaries. Firstly, the constitution of the scheme must clearly define the participants and specify the proportion of their claim to receive distributions. This ensures transparency and accountability in the allocation of benefits. Additionally, the identification of participants can be achieved through written records or the use of defined classes of natural persons, simplifying the process of participant identification.

Furthermore, ESOP rules stipulate that the proportion of benefits must be clearly defined, either through written records of fixed percentages or the use of formulas for calculating claims. This requirement ensures fairness and consistency in benefit distribution. Moreover, the fiduciaries of the scheme are mandated to have no discretion regarding these terms, reinforcing the principle of impartiality and fiduciary responsibility.

Additionally, participants are actively involved in the management of the scheme, including the appointment of at least 50% of fiduciaries and contributing to the scheme's management akin to the role of shareholders in a company. This participatory approach enhances accountability and empowers participants to actively engage in decision-making processes related to the ESOP.

In 2021, the Minister of Trade, Industry and Competition issued a Practice Note ("note") in terms of the BBBEE Act, which clarified that worker ownership schemes which provide a benefit for a large proportion or all of current and future black workers of the firm can satisfy the ownership provisions under the Codes. The note further clarified that evergreen ESOPs, which provide perpetual benefit to workers of the company, also satisfies the ownership provisions under the Codes.

The Mining Charter stands as a tangible manifestation of the BBBEE Act's principles within the mining sector, which has historically been a focal point of economic empowerment efforts in South Africa. As a product of the BBBEE Act, the Mining Charter outlines specific requirements and targets for ownership, management control, employment equity and procurement in the mining industry. By incorporating provisions for employee ownership and participation, the Mining Charter incentivises mining companies to implement WSOPs as part of their broader transformation strategies, thereby fostering greater equity and inclusivity within the sector

Competition Act

In 2019, changes to the competition legislation required the competition authorities to evaluate the impact of proposed mergers on, among others, worker ownership in enterprises.

Through these amendments to the Competition Act, **the dtic** has worked in partnership with a number of companies to establish and expand their worker ownership structures.

In recent years, the South African government has utilised the Competition Act to advance worker ownership in the economy through landmark negotiations. In 2021, during merger discussions with Coca-Cola's South African bottling enterprise, the government secured an agreement elevating the ownership stake of 8 000 workers, increasing it from 5% to 15%, alongside board representation with two worker-elected directors. Similarly, in 2020, as part of Pepsico's acquisition of Pioneer Foods, over 11 000 workers from Pioneer Foods and Simba became shareholders in the merged entities, collectively owning the equivalent of 13% of the SA company (although the shares were held in the global company), with board representation to ensure worker perspectives in strategic decision-making. These agreements underscore the government's commitment to empowering the workforce and promoting equitable ownership in the economy. (See more examples in Section 4.)

By aligning with the principles of economic fairness and inclusivity, the Competition Act amendments provide additional impetus for companies to embrace WSOPs as a means of promoting sustainable economic development and shared prosperity.

Companies Act

Within the Companies Act lies a framework governing employee share ownership, notably outlined in sections 95 and 97. Section 95 provides a precise definition, describing an employee share scheme as a structured initiative offered exclusively to employees, officers, and other closely affiliated individuals within the company or its subsidiaries. This scheme, whether established through a trust or alternative means, facilitates participation through the issuance of shares or the granting of share options, emblematic of the journey towards ownership and engagement.

In parallel, Section 97 mandates the appointment of a compliance officer responsible for overseeing the scheme's adherence to regulatory standards. This officer, accountable to the company's directors, ensures the scheme operates within the bounds of legal and ethical frameworks, safeguarding the integrity of the company's initiatives. Through diligent oversight, they uphold transparency and accountability, fostering an environment conducive to employee empowerment and organisational success.

Discussions have been held with Nedlac parties (business and labour) during 2021 on possible amendments to the Companies Act aim to reinforce a stakeholder-oriented approach by integrating worker representation on company boards. The proposed principles ensure that worker directors, appointed primarily in state-owned and listed companies, possess equal rights and responsibilities, maintain confidentiality, and contribute to board discussions without wielding veto power. Additionally, the proposals provided for unions to play a role in selecting worker directors, promoting collective organisation and mitigating potential conflicts.

Development finance institutions

In recent years, development financial institutions, like the Industrial Development Corporation (IDC) and National Empowerment Fund (NEF), have begun to promote worker trusts across various industries.

In the fiscal year 2022/23, the IDC took significant steps towards promoting worker ownership in South Africa by approving funding for six worker trusts across various sectors. These trusts were established in industries such as horticulture (specifically focusing on citrus) as well as metal fabricators and automotive parts firms. By extending financial support to these worker trusts, IDC aimed to facilitate greater economic inclusion and empowerment among workers, aligning with broader national objectives of fostering equitable growth and development.

Recognising the transformative potential of worker ownership schemes, IDC is actively engaged in developing a comprehensive framework to guide and support such initiatives. This framework is designed to not only facilitate the establishment of worker ownership structures but also to cultivate a more productive workplace culture conducive to inclusive growth outcomes.

Moreover, IDC envisions that this framework could serve as a blueprint for other South African corporations interested in implementing similar initiatives. By sharing best practices and promoting collaboration, IDC aims to catalyse the proliferation of worker ownership schemes across the country, thereby creating a critical mass capable of driving sustainable economic transformation and prosperity for all stakeholders

Section 4: The impact of the Worker Share Ownership Programme

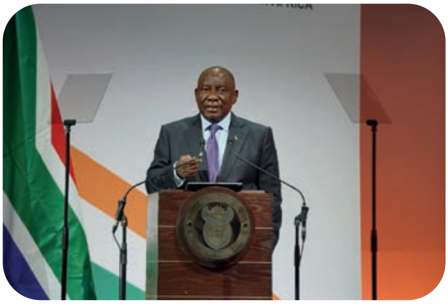
Over the period of the Sixth Administration, **the dtic** has been collecting information about the impact of worker ownership structures in sectors across the country. Many of the agreements have come as a result of engagement between **the dtic** and merging companies, leveraging the public interest provisions of the Competition Act, as well through the work of the IDC and other **dtic** agencies.

the dtic has thus far collected a database of more than **100 public and private companies** which have implemented worker share ownership structures, covering more than **500 000 employee beneficiaries.** These vehicles have nominal **asset value of more than R70 billion**, and have returned considerable value to employee shareholders in the form of dividends, share buy-backs and improved stakeholder alignment.

Worker ownership structures have been implemented in a range of different sectors from mining; food and beverage production; manufacturing; agriculture; grocery retail; financial services; and hospitality.

The following case studies provide only just a sample of the companies which have established trusts and other vehicles for the benefit of worker shareholders.

Award winners at the inaugural Worker Share Ownership Conference, 23 April 2024



President Cyril Ramaphosa giving the keynote address at the inaugural Worker Share Ownership Conference

Fireside Chat with Minister Patel on the impact of worker ownership structures

Palabora Copper receiving the award for Highest Impact of an ESOP on Company Performance

ABSA receiving the award for Top Champion for Women

Coca-Cola Beverages South Africa receiving the award for Highest Employee Ownership Stake

Anglo American Platinum receiving the award for Most Innovative Funding Model

PepsiCo South Africa receiving the award for Most Innovative Funding Model

Sibanye-Stillwater receiving the award for Outstanding Dividend Distribution

Impala Platinum receiving the award for Outstanding Dividend Distribution

Shoprite receiving the award for Highest Number of Beneficiaries

Special Award

Makarenge Electrical receiving the Special Award for the structure of their ESOP

Representatives of the recipients of the Best Governance Award, recognising ESOPs with worker representation on company board

Minister Patel addressing the inaugural Worker Share Ownership Conference

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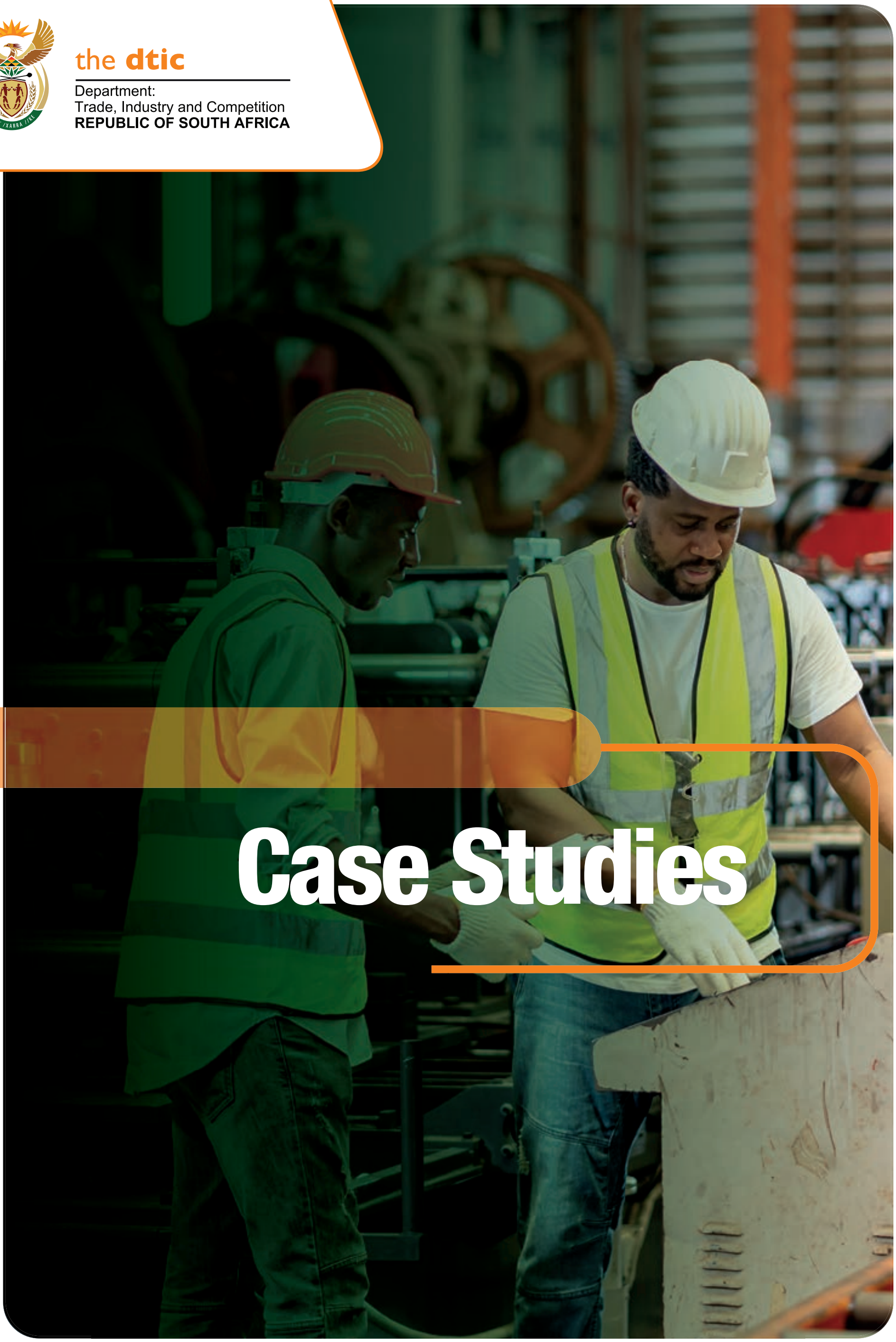

Case Studies

Coca-Cola Beverages South Africa (CCBSA)

Manufacturing (Beverage)

Coca-Cola is the largest soft-drinks brand in South Africa, with significant bottling facilities in different parts of the country. During discussions on the merger of three Coca-Cola South African bottling companies, the Minister of Trade, Industry and Competition and the management of the company agreed to a black-ownership target in the merged company. While it was initially proposed that a large consortium of black investors would be approached to fulfil the target obligation, in latter discussions between the parties it was agreed that CCBSA would fulfil the obligation through expansion of its recently established worker ownership trust.

The agreement, facilitated under the Competition Act, thus resulted in the establishment of a worker ownership trust holding 15% of the shares of CCBSA (a private, unlisted company) for the benefit of the more than 8 300 employees of the bottling enterprise. In addition, through the deal with Government, Coca-Cola has also agreed to have their workers represented on the board of the company through two worker-appointed directors.

The company has also committed to implementing a training programme for both beneficiaries and trustees. This initiative aims to foster equitable access to training opportunities, ensuring that all participants have the necessary knowledge and skills to fully engage in the programme.

The CCBSA worker ownership programme has also been structured such that each individual employee benefits equally, with no distinction based on position, security or pay. Dividends paid out to workers over the last three years have thus far been more than R20 000 per individual.

Figure 1: Lerato Kgasi, a worker at CCBSA and beneficiary of the ESOP (Source: supplied)

Shoprite Employee Trust

Food Retail

Shoprite-Checkers is South Africa's largest grocery retailer, with a presence in all parts of the country. During discussions on Shoprite-Checkers' acquisition of the stores owned by Massmart (a division of Walmart), the Minister of Trade, Industry and Competition and the management of the company agreed to a shareholding arrangement for employees.

This significant agreement facilitated under the Competition Act, represents a pivotal moment in advancing worker ownership within the economy, given the size of the workforce covered and the value of the equity. With a valuation of R8,9 billion post-merger in May 2022, the establishment of the Trust on a non-vesting, evergreen basis marked a transformative step towards empowering workers. This initiative extends its benefits to approximately 100 000 qualifying employees, ensuring a broad and inclusive approach to ownership in the company.

The scheme's impact is significant, with over R500 million in dividends distributed to workers over the past three years. These dividends translate into approximately R2 500 received per worker in dividend payments per year.

Overall, the Shoprite Checkers deal illustrates the way in which the Competition Act can foster equitable ownership structures in the corporate landscape. By empowering workers with ownership stakes and ensuring consistent dividend payouts, this initiative helps with government's efforts to promote economic inclusivity and empower the workforce.

Figure 2: Shoprite workers (Source: Shoprite supplied)

Impala Platinum Holdings Ltd

Mining

Impala Platinum Holdings is a large mining company operating in South Africa. The Impala Employee Share Ownership Trust (ESOT) has more than 30 000 workers enrolled in the scheme, with a collective 4% equity stake valued at R878 million.

Since its inception, the ESOT has delivered tangible benefits to qualifying workers, with the first dividend payment distributed on 10 August 2021. Over the past three years, workers have collectively received a total of over R1,1 billion in dividends. This equates to an average annual dividend pay-out of more than R350 million, highlighting the scheme's substantial impact on workers' financial well-being.

On an individual level, each qualifying member has received an average dividend payment of R11 401, underscoring the meaningful returns generated through employee ownership. This initiative not only enhances workers' financial stability but also reinforces their sense of ownership and engagement in the company's success.

Figure 3: Impala mine workers (Source: Impala LinkedIn)

Old Mutual

Established in 2018, the Old Mutual Limited (OML) employee share ownership trusts (ESOP Trusts) represent a significant initiative aimed at enhancing employee ownership within the Old Mutual Group. Holding approximately 1,60% of Old Mutual's issued share capital, these trusts are dedicated to benefiting employees across the organisation.

The inception of the OML ESOP stemmed from an agreement with the Minister of Trade, Industry and Competition, following Old Mutual's decision to relocate its headquarters from the UK to South Africa. As part of this agreement, Old Mutual committed to increasing black ownership to best-in-class levels within the finance industry, which would include broad-based and employee participation elements.

Since its establishment, the OML ESOP has delivered tangible benefits to qualifying workers, with over R140 million in dividends paid out over the past three years. This equates to an annual average of R41 million, translating to a cash value of up to R35 000 per qualifying worker. Such substantial dividend payments not only contribute to workers' financial well-being but also underscore the success of the ESOP in promoting employee participation and ownership within the company.

Figure 4: Old Mutual employees (Source: Old Mutual website)

PepsiCo: Bašumi Trust

Manufacturing (FMCG)

During discussions on Pepsico's acquisition of Pioneer Foods in 2019, the company agreed to a request from the Minister of Trade, Industry and Competition for an employee shareholding arrangement, as part of the public interest commitments made in terms of the Competition Act.

In 2021, PepsiCo South Africa launched the Basumi Trust. This R1,655 billion ESOP benefits approximately 11 000 workers.

The PepsiCo employee deal stands out as a pioneering initiative due to its innovative approach to funding the acquisition of company shares on behalf of workers. Unlike traditional methods relying on vendor financing, PepsiCo opted to directly fund the acquisition process. This underscores PepsiCo's commitment to empowering its workforce by ensuring direct ownership without the encumbrances of debt financing. By eliminating the need for vendor financing, PepsiCo demonstrates its dedication to fostering a sustainable and equitable employee ownership scheme that aligns with the long-term interests of both the company and its workers.

The scheme's implementation is in two phases: initially, PepsiCo purchased shares in the US-listed Pepsico Inc on behalf of workers, to be converted later into shares in the local operating company. Since its inception, the Basumi Trust has distributed a total of R50 million in dividends to workers, averaging R16,7 million disbursed annually. This equates to each worker earning a total of R1 473 per year through the ESOP.

Moreover, the Basumi Trust demonstrates a commitment to employee representation and empowerment, as evidenced by the appointment of trustee Tumi Seitshiro, a frontline employee based at the Isando plant, to the Board of Pioneer Food Group Ltd as a non-executive director. This initiative not only enhances workers' financial well-being but also promotes their active involvement in strategic decision-making processes within the company.

Figure 5: Tumi Seitshiro, a Pepsico employee appointed to the board as a worker representative

AB Inbev (SAB)

Manufacturing

SAB is the largest alcoholic beverages company in SA. It was merged into the operations of AB InBev, a global beer company. SAB Zenzele, a significant component of the ESOP, underwent a transformation from its initial iteration, SAB Zenzele I, to the revamped SAB Zenzele II, which commenced in June 2021 after the dissolution of the former in April 2020, as agreed during the merger negotiations with Government. Since its inception in 2010, SAB Zenzele has disbursed a total of R4 billion in cash dividends to its three shareholder groups.

This new scheme operates as a Johannesburg Stock Exchange (JSE) BBBEE listed company. It encompasses 6 798 participants across South Africa, comprising permanent employees of South African Breweries (SAB), collectively holding shares in SAB's parent, AB Inbev, valued at R2,3 billion.

The primary objective of SAB Zenzele II is to foster a culture of long-term investment, aiming to retain individuals as evergreen investors who can derive sustained benefits from their shareholding over time. Women tavern owners are among the beneficiaries of the SAB Zenzele scheme, further enhancing its inclusivity and impact on diverse communities.

Figure 6: SAB Zenzele employees (Source: SAB Zenzele website)

Cape Karoo International

Agro-Processing

Cape Karoo International (CKI), formed through the merger of Klein Karoo International and Mosstrich, is the world's premier producer of ostrich leather, feathers and meat, sustaining thousands of jobs across its extensive operations. With a presence spanning various farms, two tanneries, four ostrich and game abattoirs, and a feather processing facility, CKI plays a pivotal role in the global ostrich industry.

Established in 2021, the Employee Share Ownership Programme (ESOP) at CKI represents a significant milestone in fostering worker participation and ownership within the company. Under this evergreen scheme, 1 006 workers collectively own a collective 10% share of the merged entity, amounting to a total value of R75 million. This initiative not only empowers CKI's workforce but also aligns with broader objectives of promoting economic inclusion and equity.

Over the past three years, the ESOP has delivered benefits to qualifying workers through dividend pay-outs. With a total dividend flow of R16 million during this period, workers have received an average annual dividend share of R5,5 million.

Figure 7: CKI employee (Source: CKI website)

Omnia Holdings: Omnia Employee Share Scheme

Chemicals

The Omnia Employee Share Scheme, established on August 4th, 2021, promotes employee ownership and participation within the company. Under this initiative, 2 998 qualifying employees collectively own shares held in a Trust, representing approximately 1 million Omnia shares or 0,61% in equity. The shares have a total value of R61,6 million.

Over the past three years the scheme has delivered dividends to its participants, with dividend payments totalling over R38 million during this period, an average annual dividend of about R12,7 million per year.

On an individual level, each worker has received approximately R4 252 in dividend pay.

Figure 8: Omnia workers (Source: supplied)

Ebor Automotive

Automotive

Specialising in the manufacturing and supply of plastic injection moulded motor vehicle components, Ebor Automotive Systems serves as a vital contributor to the South African Motor Industry, and operates in the Nelson Mandela Bay Metropolitan Municipality, with a second plant in the Buffalo City Industrial Development Zone (IDZ).

To foster employee ownership and empowerment, at the formation of the company in 2014 Ebor's founding shareholders established an Employee Share Ownership Programme (ESOP), the Ebor Employees Trust, which holds a 25% ownership stake in the business. This shareholding was issued without any funding requirement or debt, so the Trust benefits fully from the subsequent growth of the company.

In 2019 the development of a new facility in East London required significant additional shareholder investment. Through a combination of loan and grant financing from the IDC, the Trust was enabled to fully participate in the rights issue and to maintain its 25% holding in the company. The grant to the trust was used to purchase manufacturing equipment which is leased to the company, providing a regular revenue stream for distribution to the beneficiaries. This is an important feature in an industry where profit tends to be re-invested in long-term growth rather than distributed as a dividend.

The IDC's support of Ebor and the Employee Trust played a pivotal role in Ebor Automotive's growth trajectory and specifically in the development of the East London plant, which now has over 100 permanent employees. Simultaneously, it supported continued empowerment of its workforce through shared ownership and collective prosperity.

The Ebor Employees Trust is led and represented by five Trustees, of whom three are elected by the workforce, ensuring democratic representation and equitable decision-making for all beneficiaries.

Figure 9: Hlanganani Melitafa, Machine Operator - Ebor Automotive Systems EL. (Source: supplied)

Makarenge Workers Trust

Manufacturing

The Makarenge Workers Trust, an embodiment of empowerment and equity, was established in 2019 by Mr. Nene Mathebula, CEO of Wilec Technical Solutions (Pty) Ltd. The trust holds a 10% ownership stake in Wilec Trading Solutions (Pty) Ltd, underscoring a commitment to shared prosperity and collective ownership.

Located in the industrial heartland of City Deep Mini Park in Johannesburg, Wilec (Pty) Ltd supplies electrical, industrial and mechanical input materials to both local and international markets. With a workforce exceeding 300 employees, the company's commitment to empowerment is further manifested through the Makarenge Workers Trust, where every employee is a beneficiary.

Eligibility for participation in the trust's activities is contingent upon employees having more than 12 months of work experience at the company. Contract workers do not qualify for benefits or participation in trust activities. To bolster the trust's financial sustainability and enhance dividends for beneficiaries, the IDC approved a grant of R5 million. This grant will be utilised to procure machines that will be rented out to Wilec, generating additional income for the trust and potentially the dividends received by its beneficiaries.

Figure 10: Makarenge Workers Trust (Source: supplied)

VKB Landbou Workers Trust

Agri-Business

VKB Group is a leading agricultural enterprise dedicated to addressing the needs of agricultural producers. With its headquarters situated in Reitz, nestled within the scenic Nketoana Local Municipality under the Thabo Mofutsanyane District Municipality of the Free State, VKB Group boasts a network comprising 29 entities.

In a strategic move aimed at fostering transformation and inclusivity within the agricultural sector, VKB Group solidified its acquisition of GWK-Agri Processing in 2020. This acquisition paved the way for the establishment of the VKB Landbou Workers Trust, ensuring that all employees of GWK were integrated into the VKB Group fold, enabling them to partake in the benefits of the scheme.

Following the successful merger of GWK and VKB in June 2020, the workforce expanded significantly, with over 7 000 employees spread across all 29 branches/entities now eligible to benefit from the VKB Landbou Workers Trust. This trust is managed by a board of trustees, democratically elected to represent the collective interests of former GWK and VKB employees, exemplifying VKB Group's commitment to equitable governance and employee empowerment.

Figure 11: VKB Landbou (Source: supplied)

Oceana Saam-Sonke Trust

Manufacturing

The Oceana Group is a leader in fishing and food processing, operating across the entire value chain from procurement to distribution, with its headquarters situated at Oceana House in Cape Town.

In a move towards employee empowerment, the Group established the Oceana Empowerment Trust (OET-I) in 2010. Over its 10-year tenure, OET-I held a 10% share in the company, benefiting more than 2 600 employees across various Oceana branches.

As OET-I reached the end of its term in 2020, it had amassed shares and dividends totalling R1 billion, disbursed to its beneficiaries during its eighth to tenth years of operation.

To continue its legacy of empowerment, the Oceana Group launched Saam Sonke (OET II) in 2020. This successor trust, managed by a board of five trustees, including two employee representatives, two management appointees and one independently appointed trustee, was established through Notional Vendor Finance (NVF) or deferred loans. Saam Sonke (OET II) is poised to extend its benefits to over 2 000 employees across various branches and entities within the Oceana Group, ensuring continued employee engagement and empowerment.

Figure 12: Oceana (Source: supplied)

Section 5: The way forward: Improving the Programme

While the WSOP has proved successful to date in fostering a greater spread of ownership amongst South African workers, there is an opportunity to bring greater rigour to structuring such vehicles.

Funding mechanisms

Addressing financing mechanisms is a fundamental pillar in ensuring the sustainability and effectiveness of WSOPs. Innovative financing models need to be explored to alleviate the burden of debt on worker ownership structures, thereby enhancing their financial viability and long-term success. This may involve leveraging public-private partnerships, incentivising private investment or exploring grant funding options to bolster the initial capitalisation of WSOPs. By diversifying financing sources and minimising reliance on debt, WSOPs can achieve greater financial resilience and ensure equitable participation for workers.

Governance mechanisms

Effective governance mechanisms are indispensable for the smooth functioning and accountability of WSOPs. Establishing robust governance structures that promote transparency, accountability and board participation is essential to instil confidence among workers and investors alike. This entails defining clear roles and responsibilities for trustees, management and worker shareholders, as well as implementing mechanisms for regular reporting and oversight. Additionally, incorporating mechanisms for conflict resolution and decision-making processes that prioritise the interests of all stakeholders, can foster a culture of trust and collaboration within WSOPs.

Establishing trustee networks

Building networks of trustees plays a crucial role in facilitating knowledge-sharing, collaboration and peer support among WSOP stakeholders. Establishing formalised networks or associations of trustees can provide a platform for exchanging insights, sharing resources and addressing common challenges faced by WSOPs. These networks can facilitate capacity-building initiatives, training programmes and mentorship opportunities to empower trustees with the skills and knowledge necessary to fulfil their roles effectively. By fostering a sense of community and solidarity among trustees, these networks can strengthen the collective impact of WSOPs and contribute to their long-term success. The inaugural Worker Ownership Conference has been designed to provide this opportunity for knowledge-sharing and networking between parties.

Training

Training of trustees is essential to equip them with the requisite skills, knowledge and competencies to fulfil their fiduciary responsibilities effectively. Providing comprehensive training programmes tailored to the unique needs and challenges of WSOPs can empower trustees with the tools and insights necessary to navigate complex governance structures, financial management practices and decision-making processes. This may involve offering workshops, seminars, online courses or mentorship programmes covering a range of topics such as corporate governance, financial literacy, risk management and stakeholder engagement. By investing in the continuous development of trustees, WSOPs can enhance their governance capabilities, promote accountability, and ultimately drive positive outcomes for workers and shareholders alike.

Establishing a Code of Good Practice

A comprehensive Code of Good Practice is under development by **the dtic** for the effective implementation and management of worker ownership programmes. Such a code will serve as a guiding framework to uphold ethical standards, promote best practices and mitigate risks inherent in WSOP implementation. Without clear guidelines, WSOPs may face challenges in governance, transparency and accountability, potentially undermining their credibility and effectiveness in fostering economic empowerment.

Developing a robust Code of Good Practice entails careful consideration of various aspects of WSOPs, including governance structures, employee participation mechanisms, financial management protocols and conflict resolution procedures. These guidelines will be tailored to the specific needs and contexts of the organisations implementing WSOPs, taking into account factors such as industry dynamics, organisational size and workforce demographics.

In developing the Code of Good Practice, a focus on governance structures will be prioritised to ensure the effective management and oversight of WSOPs. This should involve giving guidance on the roles and responsibilities of trustees, establishing clear decision-making processes, and outlining mechanisms for board accountability. By delineating the governance framework, the Code of Good Practice provides clarity and direction for stakeholders involved in WSOPs, fostering transparency and trust.

Employee participation mechanisms are another critical aspect that will

be addressed by the Code of Good Practice, outlining procedures for soliciting employee input, facilitating communication channels between management and workers, and ensuring meaningful engagement in decision-making processes. Empowering employees to actively participate in WSOPs not only enhances their sense of ownership but also promotes a culture of inclusivity and collaboration within organisations.

Effective financial management is fundamental to the sustainability and success of WSOPs. The Code of Good Practice will thus provide guidelines for managing financial resources, monitoring performance, and ensuring equitable distribution of benefits among participants. By promoting sound financial practices, the code safeguards the interests of employees and enhances the long-term viability of WSOPs.

Furthermore, the Code of Good Practice should incorporate robust conflict resolution mechanisms to address disputes or challenges that may arise within WSOPs. This may include procedures for mediation, arbitration or grievance handling, aimed at resolving conflicts in a fair and timely manner. By providing a framework for addressing conflicts constructively, the code contributes to the stability and effectiveness of WSOPs, minimising disruptions and promoting harmonious workplace relations.

By delineating governance structures, facilitating employee participation, promoting sound financial management, and addressing conflicts effectively, the proposed Code can strengthen the integrity and credibility of WSOPs, ultimately contributing to their ability to foster economic empowerment and inclusivity.

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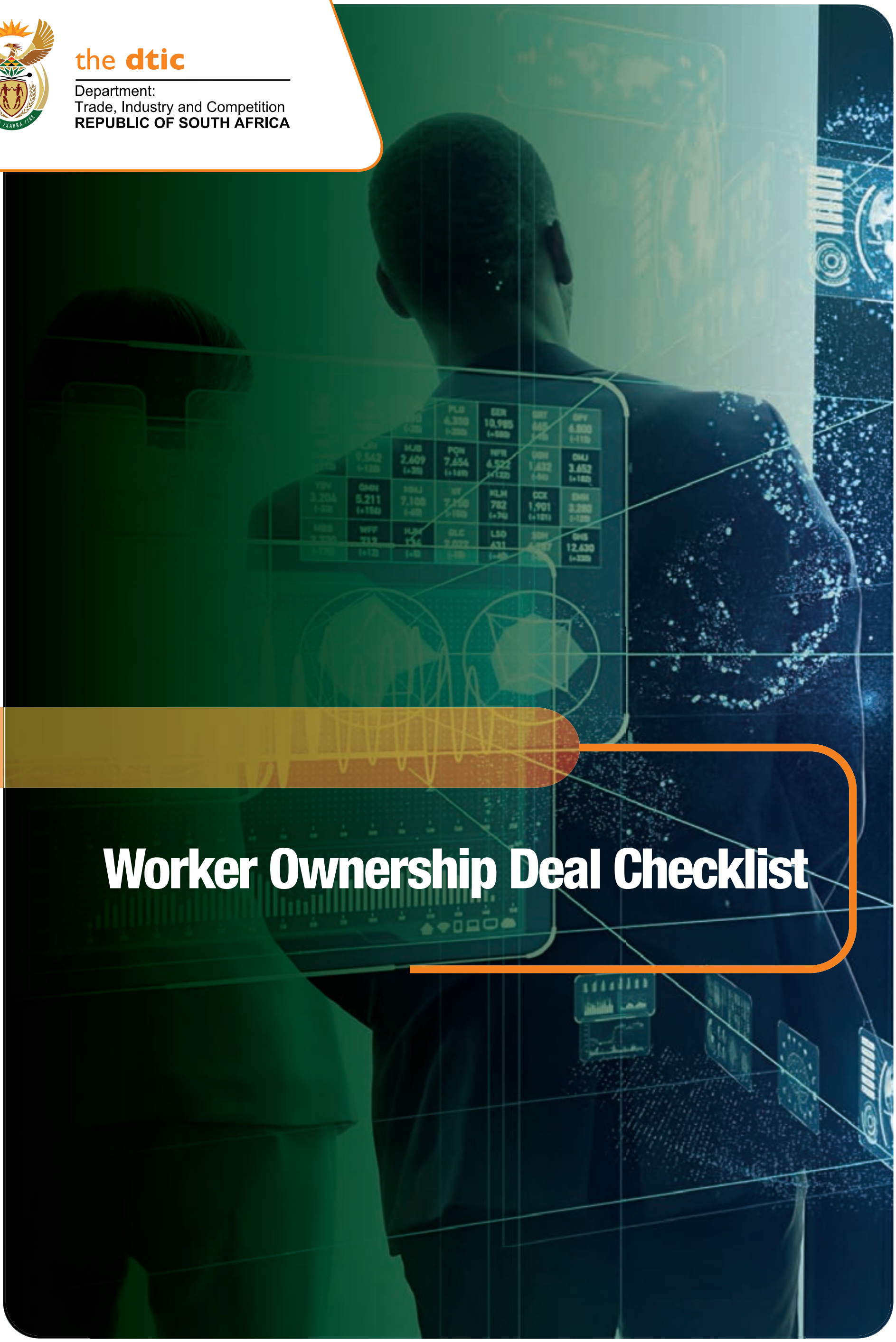

Worker Ownership Deal Checklist

Table 2: Worker Ownership Deal Checklist

FEATURE	CONSIDERATION
Governance Arrangements	1. **Worker Representation:** Does the structure allow workers to appoint trustees and board representatives? Are workers themselves given the opportunity to serve as trustees or on boards? 2. **Decision-Making:** Does worker ownership empower employees to participate in company decision-making?
Funding Mechanisms	3. **Financial Sustainability:** Is the funding model designed for long-term financial stability of the worker ownership structure? 4. **Grant funding:** Does the company provide any grant funding to acquire workers shares in whole or part? 5. **Debt service costs:** Is there a discount on any vendor debt relative to prevailing market rates?
Share Acquisition Price	6. **Discount for Workers:** Are worker shares priced at a discount compared to other shareholders? 7. **Discount Justification:** Does the discount reflect the liquidity, minority interest voting power for worker shares as well as the special role of workers as drivers of company performance? 8. **Valuation:** Is an independent valuation conducted for unlisted companies to ensure fair share price on which a discount is then calculated, using conservative valuation methodologies?
Share Classes and Voting Rights	9. **Share Equality:** Do worker shares have at least the same economic and governance rights as other shareholder classes? 10. **Full Worker Participation:** Does the share structure ensure workers can fully participate in ownership benefits? 11. **Voting rights:** Does the share class offered to workers afford full voting rights?
Dividend Policy	12. **Debt Servicing and Worker Benefits:** Is the dividend policy balanced between debt repayment and worker rewards? Is there a meaningful “trickle” dividend for workers from inception of the structure? 13. **Financial Sustainability and Worker Rewards:** Does the policy ensure long-term financial health while offering workers a meaningful share of company profits through dividends paid out to worker shareholders annually?

FEATURE	CONSIDERATION
Structure Tenure	**14. Generational Equity:** Does the structure avoid situations where only the current workforce benefit from ownership, with expiry (vesting) of the scheme thereafter? **15. Full Ownership vs. Profit Sharing:** Does the structure offer full ownership benefits (including right to capital appreciation) or function more like a profit-sharing scheme?
Representation and Equity	**16. Equal Benefits for All:** Does the structure offer equal shareholding and voting rights for all worker-owners? **17. Alignment of Incentives:** Does the equal ownership structure promote an equitable distribution of decision-making power? **18. Culture of Collaboration:** Does the ownership model foster a sense of unity and value all worker contributions? **19. Non-racialism:** Is the scheme open to all employees in the company, helping to build greater non-racial solidarity on the shopfloor?
Education	**20. Financial Literacy and Investment:** Does the trust offer education to enhance worker understanding of share ownership and performance? **21. Corporate Governance:** Does the education programme include training on board roles, transparency and shareholder rights? **22. Informed Decision-Making:** Does worker education empower workers to make informed decisions and participate in the programme?

Please refer to Table 1 for additional considerations in structuring new agreements.

Contact **the dtic**

For general queries, please contact **the dtic** Customer Contact Centre

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