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HOW DOES PROFIT SHARING FIT INTO THE PHILOSPHY OF THE UNIONS

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At present, profit sharing does not fit into the philosophy of any trade unions in South Africa. It is not a part of the policy of any union I know about. Where profit sharing schemes exist and are accepted by the unions, this is because of special circumstances.

This talk is in three parts:

First, I will explain where my union, the National Union of Mineworkers, has accepted profit sharing schemes and why it has done so.

Secondly, I will outline the different levels of agreements that we have negotiated on profit sharing and the principles we have agreed should govern such schemes

Thirdly, I will speak of the implementation of the schemes, and their potential for providing a basis for greater worker participation in the enterprises which have negotiated profit sharing agreements.

1. <u>Where and why has profit sharing been adopted?</u>

Profit sharing agreements have been negotiated on certain gold mines, mines which together employ about 330 000 people. The reason for this has been the severe crisis which has hit the gold industry in the last five years. Profit sharing is a response to this crisis.

The Crisis in the Gold Industry

<u>Fall in the gold price</u>

The major factor in the crisis has been the drastic fall in the real price of gold.

[Slide of the gold price]

The gold price has hovered around the level of R1000 per ounce since 1988, while inflation has stayed well above 12% per year. A price in excess of R1 800 per ounce was needed in 1992 to restore the buying power of gold to its 1987 level.

Collapse of profits

The fall in gold revenue has slashed mine profit margins to their lowest levels since the 1920's

[Slide of gold profits]

Retrenchments

How have the mines coped with these rough economic forces? The answer has been through brutal cut-backs in expenditure and increases in productivity. The major factor in cutting costs has been the retrenchment of black mineworkers.

[Slide of the fall in employment]

Of the hundreds of thousands of workers who took part in the 1987 national strike on the gold mines, one out of three is no longer employed on a gold mine. 166 000 jobs have been lost in the gold mines as a result of the stagnation in the rand gold price from 1987 onwards.[1]

Although employment has been cut by a third, tonnage milled in 1991 was the same as in 1987, and gold production was barely lower!

Low wage increases

In 1991 and 1992, the industry has paid very low basic wage increases - between one third and half of the inflation rate. The buying power of basic wages for many job categories are now well below their levels at the time the NUM was launched in 1982.

[Slide showing decline in buying power of underground driller]

How does profit sharing alleviate the crisis?

The wage bill is a large part of the costs of the mine - about half on most gold mines. A modest increase of 10% in wages immediately translates into an increase of 5% in the cost per kilogram of gold mined. And these greater costs - of some R1 500 per kilogram in rand terms - can easily push a marginal mine into a loss.

So a fixed increase in the wage bill, such as occurs with an increase in the basic wage rate, makes a mine more likely to retrench (or consider closure) if the gold price falls. The extra "fixed cost" of more wages lets more water into the leaking ship. The costs are pulled into the mine's forecasts of its future results. Retrenchments trigger in earlier than if there is no increase in wages (or a small increase).

On the marginal gold mines and marginal shafts, low basic wages mean that more jobs are saved.

On the profitable mines, of course, low wages mean more profits for the mine owners.

The NUM is faced with a real dilemma here. Our aim is to preserve jobs, but it is also our aim to provide fair (and improving) wages and conditions of employment.

Even on the marginal mines, we need to look closely at the erosion of wage standards. There must be a point below which the union has to say that the mine should rather close down, than employ people under such conditions. It is not only wages that are held back in these hard times. Hostel upgrading is delayed, training is cut, and mines may save on safety expenses, making work more dangerous. The union giving serious attention to deciding on minimum benchmarks - or there will be no end to the erosion of existing standards, as low as these are.

But it is vital to realise that low wages can never be traded for job security and a ban on retrenchments. That is not the way mines work. Whatever the level of wages, mines will plan production to make the most profit they can. A change in any of the basic factors, including the gold price, the inflation rate or taxes, will produce a change in their profit plan. And the mines will react accordingly. A fall in the gold price will mean more retrenchments, however low the wages and however many workers have already been retrenched. A common complaint of our members is that they accept low wage increases - and then the mines still retrench.

Where the union does agree to low basic wage increases, there must be other means of supplementing the wages of workers during the year, if mines prove to be profitable.

There is a huge range of "health" and "sickness" in the gold mining industry. Some mines are hugely profitable and could pay a proper increase. Others will make profits only if their planning is spot on, or there is a rise in the gold price.

In 1991, the NUM agreed to two mechanisms that might supplement basic wages with four mining houses. There was a Gold Price Bonus which provided for a payment of up to 7% of basic wages, should the gold price rise above a certain level. A Performance Bonus Scheme, based on meeting targets to improve on the cost per kilogram of gold produced, paid out monthly amounts that varied from zero to over 25% on basic wages. The gold price never reached close to the bonus levels, however, and many mines acted in bad faith in the Performance Bonus Schemes, increasing their productivity and profits, manipulating targets and failing to pass on a fair share of the benefits to workers.

In 1992, the NUM negotiated a new scheme, based on workers directly sharing in the profits of mines. This was on top of the low basic wage increases. Lower increases could slow down the contraction of the industry, while the profit sharing scheme means that mines which are profitable, and can afford to pay more, do so.

2. Agreements and principles

Before the NUM proposed profit sharing to the Chamber of Mines it had to address several basic objections to profit sharing raised by our members. These included the following:

What if the mines used our agreement to increase profits by means that harm workers? - for example profits can be increased by retrenchment, by cutting corners on safety, by ceasing to train black workers for more skilled jobs or by the introduction of work processes to increase the intensity of labour.

These concerns were covered in an industry-wide agreement that sets out the principles for the profit sharing schemes at individual mines.

The Chamber Agreement

All profit sharing schemes accept the following principles:

2.1. the right of the NUM to negotiate a fair wage structure at industry level;

2.2. Security of employment - a guarantee that no worker will be retrenched or downgraded because of the profit sharing scheme

2.3. Improvements in health and safety measures - better efficiencies must not be achieved at the expense of more accidents.

2.4. Full disclosure of information to workers and the union to monitor the scheme

2.5. Worker participation in setting targets, monitoring the scheme and in the promotion of better efficiency.

2.6. No race or gender discrimination

2.7. A commitment to training - training is critical for a long term improvement in the viability of the mines. All mines must specifically investigate how better training can lead to better efficiency.

2.8. A fair distribution of gains between workers - at least the first R25 or 25% of money available for distribution in any performance bonus scheme, will be shared equally amongst the workforce. Any additional amount will be shared in proportion to basic earnings.

The mines deduct capital expenditure from the profit before it is shared. This is money that the owners re-invest in the mine.

But the details of the profit sharing schemes were then negotiated, comprehensively, in three separate forums - one for Anglo American, one for Blyvooruitzicht and one for Gengold.

The Group-Level Agreements

These negotiations were tough and drawn out. Initially, the employers did not want to share profits with workers until they had taken enough profits for their shareholders first!

* In all the schemes, profits are shared from the first rand. Whenever a profit is made, however small it may be, part of it goes to the workers.

* All the schemes apply right across the mining house concerned. The employers first wanted special negotiations for each mine, but a uniform group approach for all the schemes was agreed to. [Except for Randgold - because the Harmony profit sharing scheme was negotiated in 1991].

But the schemes do differ between the mining houses - and they are complicated, some more so than others.

The Randgold schemes are simple and straightforward, they share 20c per rand of profit after capex. The Gengold schemes tend towards complexity.

An Example

GENGOLD - TWO STAGE SHARING AFTER TAX + R2, FOR BLACKS ONLY

+ Every 3 months, the mines calculate the total profit and deduct capital expenditure AND tax paid to the government.

+ What is left is divided into two parts:

  Part 1 is money up to a "trigger" level - this is the average profit for the preceding 4 quarters. The mines take 5 cents from every rand of profit below the trigger level and put it into a profit pool.

  Part 2 is money above this "trigger" level. If the profit of a mine is more than the trigger level, the mine now takes 20 cents from every rand of this extra profit and puts it into the profit pool.

+ Now this combined pool is itself divided into two. Gengold only pays the profit share to black workers in categories 1 to 8 - so about two thirds of the pool is set aside to pay to "participating workers". The remainder, equal to the proportion of white wages in the total wage bill, is kept by the mine. Whites do not share in profits directly - they accepted a 1,5% increase in basic wages.

+ The pool has a maximum size. The Gengold mines stop putting money into the workers' profit pool when it is equal to 15% of the wage bill of the mine.

+ When mines pay profit shares, Gengold adds on an extra R2 per month.

+ Gengold's participating mines:

Marievale	Unisel
Kinross	Beatrix
Winkelhaak	Bracken
Buffelsfontein	Leslie
Stilfontein	

Not an Incentive Scheme

It should be clear that neither this, nor any other of the profit sharing schemes are structured as "incentive schemes" to make people work harder (or smarter). They simply set a formula to give workers a little extra money if mines make a profit. Profit sharing is not instead of a wage increase, it is addition to a wage increase. One of the union's aims in the profit sharing agreements is to ensure the possibility of workers winning back some of the ground they have lost to price increases. If workers are *less* productive, they could get a greater profit share if the the gold price rises. The basic aims of the profit sharing schemes flow from the crisis in the gold industry and the need to slow down the contraction of the industry. If they do promote better efficiency, that is, of course, to the benefit of both workers and employers.

3. <u>Results to date, implementation and the future</u>

[At the time of writing, on 6 May 1993, only five out of fifteen mines had yet complied with the clause in the Chamber agreement that obliges them to report on the results of the profit sharing schemes to the NUM for the March 1993 quarter. The results will, hopefully, have been supplied by the beginning of June 1993]

Note that as the profit share payments do not count for provident fund contributions, overtime or leave pay, a larger profit share amount is needed to make it equivalent to a particular basic wage increase. One also needs to consider that, while the benefits of a basic wage increase are felt every month, the profit shares may vary and may not always be paid.

Overall Assessment of the Profit Sharing Schemes

GOOD POINTS / SUCCESSES

1. Profit sharing schemes did provide a few extra rands for our members, as was their aim.

2. The profit sharing schemes, in their first six months, provided better returns than the two 1% extra basic wage increases given by Gold Fields and Anglovaal in 92 and 93

3. Profit sharing provides some flexibility to take account of the special conditions at individual mines. It can get members more money, while it preserves centralised bargaining and a "platform" of basic wages in the industry.

BAD POINTS / PROBLEMS

1. Education around the profit sharing schemes has not been sufficient. They are very hard to understand and this is creating a lot of confusion still. Many workers have the gut feeling that if management likes a scheme, it must be bad for the workers. The majority of mines have not had their own training courses on the schemes. In some cases, managements have actively prevented our members from attending NUM training courses on the scheme.

2. The payouts very enormously between mines, both in rands and percentage terms. Workers who do the same job, but under different companies don't get the same profit shares.

3. The payouts vary from time to time. Workers cannot count on that extra money until they have it.

SURPRISES

1. Some of the most marginal mines, like Marievale, Stilfontein and Bracken, paid amongst the best profit share amounts

2. Some good, solid, profitable mines with long lives, paid very little indeed.

3. Very many mines have never called the monthly meetings to allow NUM branches to monitor the schemes.

The Wider Potential of Profit Sharing Schemes

As I have explained, profit sharing, in the present form in which it exists, is not part of the wage philosophy of unions, but is likely to be a long-term feature of remuneration on gold mines.

Some mine managements, I believe the majority, have simply accepted profit sharing as a way of keeping wage costs under control. They are bemused by the formula for sharing the profit between workers, they are uninterested in trying to get anything else out of the scheme.

But profit sharing also has the potential to increase worker participation in industry. This is, to start with, simply through the requirement of making operating information available to workers and giving training in how companies work.

In 1990 COSATU commissioned an opinion survey of shop stewards in all its affiliates.[2] Despite what I said about union policy being opposed to profit sharing, 95% of shop stewards believe that workers should share in company profits. But this needs to be considered alongside the view of 75% of shop stewards that workers' committees should run companies. This was the opinion of almost 90% of the NUM shaft stewards interviewed.

The survey noted, however, that most shop stewards have a very limited knowledge and experience of management. Respondents with the lowest levels of formal education were most sure of the workers' ability to run factories. Many higher-paid workers, and technicians in particular, were reported to be sceptical of the workers' ability to run factories.

The survey does show very strongly the belief of workers in a radical social transformation that will include a vastly increased measure of worker control.

Perhaps this explains why mine managements are so reluctant to hold the monthly meetings to monitor the profit sharing schemes. Or to give out information in a digestible form. But the actual reason is that they simply are not interested. The NUM's job in the months ahead is to make them interested.

Conclusion

Profit sharing is a useful strategy to deal with the pressing problems that workers on mines face now. It preserves centralised bargaining, it allows flexibility in payments to workers to take account of the problems of particular mines and it also promotes the workers' interest in increasing mine profits. But measures to enhance efficiency and performance at the mine level will not solve the structural crisis in the gold mining industry. At best, they can provide a breathing space.

The NUM is committed to negotiating and working towards a re-structured mining industry that combines long-term economic viability with the humane treatment of all its workers. This will involve effective state intervention in the mining industry to regulate the down-scaling process. The NUM needs to step up its initiatives in the mining summit, with the present government and with the ANC and COSATU, to secure a coherent, pro-worker mining policy for the new South Africa.

But a re-structured mining industry will also need to provide a proper role for trade unions and for workers in decision making.

Profit sharing schemes have opened up access to information. They have the potential to create a basis for extending, first participation and then control within the work environment. The monitoring of profit sharing schemes can be used to develop a deeper understanding in members of how things work on the mines.

Understanding is the first condition for effective participation. The NUM will investigate further demands for participation - such as directors on the management boards of companies, for example. And if workers, through profit sharing, get a share of the surplus like the shareholders, should they not also get ownership rights in the mines?

The 1993 NUM Central Committee endorsed a four-pronged medium term strategy for the gold sector that includes profit sharing as a major element:

* Fair basic wage increases in line with the NUM Wage Policy.

* Profit sharing schemes improved and extended to all gold mines.

* Political moves: State intervention; mining summit; Alliance policy.

* New initiatives to empower workers and unions in the workplace.

[This paper will be shortened for the presentation and revised to include an assessment of the results of the schemes for the first 9 months of their operation. This information is not available at the time of writing.]

1. *Statistical Tables*, Chamber of Mines, 1987 page 29S and 1991 page 27 - "at work" figures used.

2. Pityana and Orkin (eds) *Beyond the factory floor: A survey of COSATU shop stewards* [Ravan, 1991], pages 24-5