SHARING WEALTH: STOMPING ON THE CAKE.
Jerry Schuitema examines issues in company wealth distribution.

Ask anyone what the value of a car is to them and by far the most frequent response will be: “getting from A to B”, or simply “transport”. Occasionally you will find a creative response such as “freedom”. Watch that person closely. He or she is a budding entrepreneur because one essence of entrepreneurship is the ability to put meaning to form. It was what Henry Ford saw in the motor car and in order to “spread freedom” he developed methods of mass production to, as he put it “democratised the automobile.” The distinction between “means” and “meaning” is a very important one. The value (even to some extent, the intrinsic value) of means can always be measured; the value of meaning never. And interestingly, you rarely find a measurement response to the earlier question. You will seldom, if ever, find someone say the value of a car to him or her is “R100 000”.

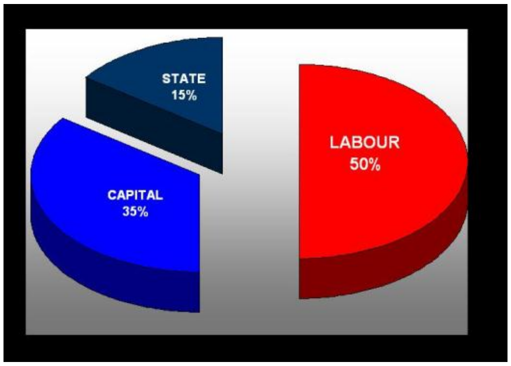
Ultimately we all value things by the way they behave, not by how they are measured in monetary terms. We value them according to the contribution they make to our lives. That also applies to our judgement of people and confirms again the axiom that our true value lies in our contribution to others. We all search for meaning in everything we do or acquire. Yet many are sadly trapped in the search for means.

So while this challenges to some extent the value-added or wealth created measurement, it does not deny it. It merely confirms another, far more important dimension to value-added – that of behaviour. There is a third: that of transformation, which means simply transforming one state to another, for example, coal into fuel, or gold into jewellery etc. But behaviour is far more important, cannot be measured and its value differs from person to person. For example, I believe diamonds are totally overpriced: the market disagrees with me. John Maynard Keynes thought gold was a barbarous relic: many disagree. Many think that cocaine at double the price of gold is vastly overpriced: junkies still buy it. Walter Cronkite believed pop-stars were vastly overpaid compared with teachers: the market disagrees. The behavioural value of all things can differ from person to person, circumstance to circumstance and from time to time. We can insist that our judgement on value is correct only to the extent of refusing to buy it. But that won’t make our judgement true for everyone.

A reliable value-added measurement has to be determined in totally unfettered, pure and uncontrolled markets and circumstances. While this is seldom true we are still left with the only measurement we can use as a reflection of its relative contribution to society as a whole: whether we or agree or not. As mentioned last week, the accounting formula for value-added or wealth created is simply income less outside costs. This means all the money one gets from one’s customers, minus all the costs one has to pay to outside suppliers, including outside contractors or people not viewed as staff or one’s own dedicated workforce.

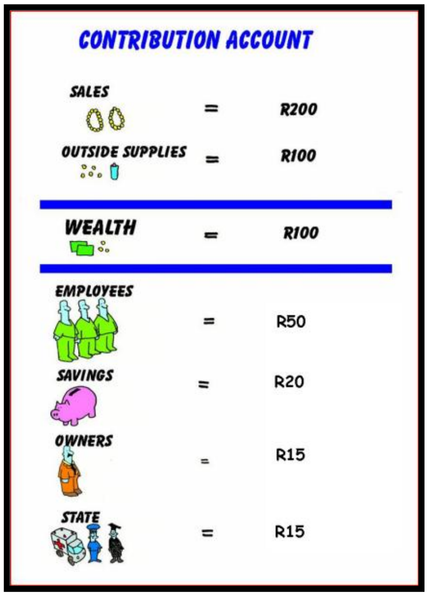
Stating this in behavioural terms the linear equation is simple: value added = wealth created = contribution = reward = prosperity. I can think of no more powerful way of saying that the universal values of generosity, care, compassion and love create both inner abundance and outer wealth and prosperity. Values do create value, even in the accounting world.

In a company or business context, there are 3 contributors to adding value: labour, capital and state. In more popular terms: employees, owners or shareholders, and government (including local government). When wealth has been created it has to be shared with these three participants. The very sad story is that in the Anglo Saxon capitalist expression, they have all mostly been understood to be in conflict with each other. When I think of wealth distribution, I have this vision of a beautiful three tier wedding cake being charged upon by drunken revellers, hell bent on getting their piece. In the process, grabbing hands stuffing mouths create an unrecognisable mush: all with “valid” reasons, ranging from being hungry to “entitlement” and being friends with the bride.



I have been working with these categories since the mid eighties and have found that there is a near infallible logic that in normal market driven economies has kept average company wealth distribution to fairly consistent levels over an extended time and similar in most countries. While I did most of the extrapolations from many company financials, they can be checked against the national statistics of the South African Reserve Bank. (See: National Accounts: Selected Data.) They show that on average half of wealth created goes to labour, about 35% to capital and 15% to government. During the labour turmoil in Britain in the 70’s the logic of wealth creation and distribution was seen as a useful tool for information sharing with employees, and the Value added statement was developed. I found some inconsistencies in the British format and favour the European format which, with some minor adjustments, I have called the Contribution Account.

This account splits the shareholder reward in two: between “retained income” (savings), and dividend (cash to the owners) because of the fundamentally different way they are treated. The statement has many powerful attributes. With its simplicity and stakeholder approach, it is easily understood and favoured across all levels of awareness, cultures and job descriptions. But I believe it is still totally underestimated as an expression of company behaviour, accountability to stakeholders and as a strategic tool. All of which I hope to deal with at some stage.



The example I show here is an average of companies in the country as a whole. Although wealth distribution varies quite distinctly from one company to the next depending on the nature of the business, most of the broad conclusions hold true. I am sure it will raise many questions in your mind, such as pay disparity in the labour share. Hopefully your comments will give me some guidance on which to deal with in future.

What should be quite obvious to all is that no matter how much we agitate to share wealth differently, the quantitative share (reward) depends entirely on how much wealth has been created (contribution). Indeed, the way we share wealth should support wealth creation itself, which makes a conflict of interests between the beneficiaries totally inappropriate and destructive.

There's one attribute that is bound to solicit much comment and resistance from readers. Leaving aside your own personal value judgement and purely in a measurement sense, a conclusion that can be drawn from average wealth distribution is that by and large, employees are the biggest beneficiaries of wealth creation. They are therefore also the **biggest contributors to it**. But there's a significant sting in the tail. Apart from the political, it's a standard norm in most activities that those who make the biggest contribution should also govern those activities.

Why does labour not govern companies?

It is because they behave like takers and not contributors!

I always believed this was a good inspirational message to tell the work-force. Until a battle scarred, wise old shaft steward at a gold mine told me: "That may be true. But we behave like takers because we are treated like takers!"

Therein perhaps, lies the ultimate truth. Tit-for-tat reaches a full circle.

And the cake gets stomped on.