

DFL 18th Annual Investment Conference
"Leadership and Responsibility – time for new thinking in the Caribbean"
March 21st 2006

How should we share value in the society?
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Salutations.

Let me begin by saying that I like very much the title of this Conference. I like it because it implies that all of us might contribute to leadership and responsibility in our society, and in the process of forging a Caribbean civilisation. I like it because it implies that we can move away from the posture of waiting for political leaders to chart the way forward. I wonder why we have come to this realisation?

And I thank and congratulate the Development Finance Ltd for seizing the opportunity of its 18th Annual Conference to enable us to begin to examine this challenge.

In the matter of leadership and responsibility, there is some vacant space to be occupied. It is an opportunity for citizens, and for our corporate citizens especially.

The Managing Director of DFL has already noted that there are many leaders present here this morning.

I am very happy to follow the last speaker Dr. Brian Harry, who had the greater task of advising how we might create commitment and value in the society. It is always easier to share value than to create it. We need only look around in this society at how easily we are disposing of value that we have not ourselves created to recognise how easy that is. So I am happy to be asked to ‘dispense’ what Dr. Harry has ‘created’!

Mr. Managing Director, the theme of this Conference is a very large undertaking. We will clearly need to make time to develop further this conversation we are beginning today on Leadership and Responsibility, because it is a conversation that is of fundamental importance for the future of Trinidad and Tobago, and for the character of our civilisation, here and in the rest of the Caribbean.

This morning I would like to suggest why we should be concerned to share more of the value of the National Product within the society, and put forward some measures, in an exploratory way, for sharing value within the firm, within the society, and within the region. There is much overlap in what I have in mind and what Dr. Harry has outlined. In the interest of saving time I will only reinforce, not repeat, the necessity for ethical underpinnings and clarity of principles as the ground on which we should stand, and go straight to the more mundane measures I have in mind.

As a general proposition, I believe that it is well recognised that the broader the base of citizens in any society who share in the value of the Product generated, and the smaller the gaps in the distribution of that Product between sectors and groups, the more likely that Savings will accumulate and successive rounds of Investment made.

So let's briefly consider some indicators (incidence of poverty, gender-based income disparity, and income distribution) of how that Product is currently shared in Trinidad and Tobago:

- It is estimated that in 2004, 24 per cent of the population lived below the poverty line, and 11 per cent lived below the minimum level of dietary energy consumption i.e. food poverty.¹

- In the same year, unemployment was estimated to be 10 per cent, with the proportion of females participating in the labour force just half that of males (though increasing since 1991); and the income earned by males was almost twice that earned by females.² The 2005 UNDP Human Development Report³ noted that some advances are being made by women in attaining managerial and executive positions, and that the level of female-earned income ranked Trinidad and Tobago 45th out of 154 countries for which this information was available. However, the ratio of female to male earned income (at 0.46) ranked Trinidad and Tobago #102 among the same 154 countries (See Table 1).

- In terms of income distribution, for the year 1992, about 46 per cent of the National Income was earned by 20% of the population (See Figure 1).

¹ Kairi Consultants Ltd., 'Trinidad and Tobago – Poverty Reduction and Social Development', Revised Draft Report, January 2004

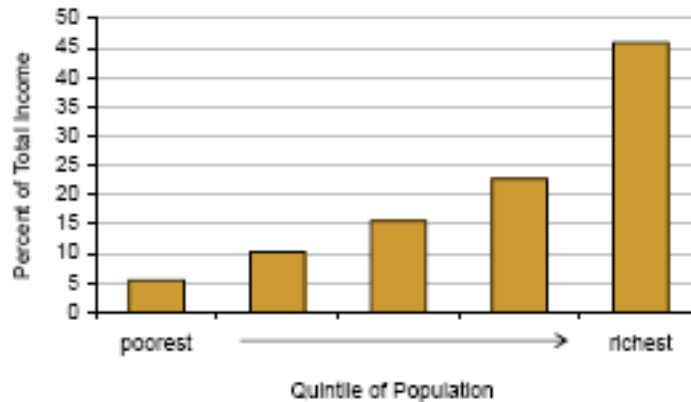
² Republic of Trinidad and Tobago, Social Sector Investment Programme, 2006

³ UNDP Human Development Report, 2005

At the other end of the scale, 5.5 per cent was earned by 20% of the population. Admittedly, 1992 figures are dated. But by all indications, this gap has been increasing over time, not decreasing.

Clearly there are considerable gaps to be closed in poverty levels, gender-based income equity, and income distribution.

Figure 1: Distribution of Income, by population quintiles



Source: WRI EarthTrends 2003, <http://earthtrends.wri.org>

Table 1: Monthly female wages vis-à-vis male wages in selected occupations, 1996 (%)

Occupation	% Difference
Legislators, Senior Officials and Managers	36%
Professionals	15%
Technicians and Associate Professionals	20%
Clerks	14%
Services Workers	45%
Agriculture Workers	30%
Craft and Related Workers	50%
Plant Machine Operators and Assemblers	50%
Elementary Occupations	42%

Source: INC - Gender Profile: Trinidad and Tobago (September 2002), CIDA. Available Online at: <http://www.acdi-cida.gc.ca>

Notes: This information is cited from the UNDP-National Report on the Situation of Gender Violence against Women which compiles data from the Trinidad and Tobago Central Statistical Office.

Sharing value within a firm

So what can be done within a firm?

First, employers could guarantee equal compensation for the same services rendered: base compensation on job classification, not on some notion of unequal relative contributions based on gender, especially where the evidence is to the contrary.

Second, employers could invest more heavily in education and skills training of employees. While this is being done to some extent right now, it could be made far more significant in corporate policy. There are several reasons why this is an important intervention:

- it is especially important in a situation where the Education sector lags behind the nature and rate of development of the economy;

- where technology change is fast-paced;

- where the basic product of the education system may be inadequate for the requirements of a progressive, dynamic economy; and

- given the long-term process for making fundamental and systemic changes within the Education process, even if we had that kind of leadership and visioning and strategic planning required to make such changes.

Such corporate policy could be a reliable means of both sharing value in the society as well as assuring the diversity and quality of competencies required to sustain and expand economic activity. For highly skilled, flexible, innovative workers are necessary to attain and maintain competitive advantage, especially when exposed to global competition.

Third, the corporate sector and the Labour Movement could accelerate efforts towards share options for workers, as a way of sharing the product and broadening the base of ownership. Across the world, share options tend

to be limited to senior executives in a firm. But we need to take account of the worldwide pressures for Corporate Social Responsibility, in which firms are expected to show concern not only for increasing shareholder value, but to also remember “their obligations to their employees, their communities, and the environment, even as they pursue profits for shareholders”.⁴ In a recent paper by Harvard Business School entitled “Do the Right Thing”, it was observed that “the company and the shareholders are rewarded when employees are more motivated and committed”.⁵

I know that the immediate reaction to this idea will be to suggest that spreading the net of beneficiaries of stock options will reduce the profitability of capital. If you are of that mind, I call your attention to a recent book entitled, *In the Company of Owners: The Truth about Stock Options (and Why Every Employee Should Have Them)*⁶. The author opposes the idea of limiting stock options to employees in order to increase profits for existing shareholders. Instead, he suggests that “[e]quity should be given to more employees, not fewer”. Ultimately, through what is termed a “partnership capitalism approach”, it is suggested that companies could encourage employees to think like owners; even though shareholders initially lose out on stock option schemes (as employee options water down returns to stock holders). In the end the increased productivity provided by a motivated workforce makes the company more profitable and increases the share value for all. So employee stock options may be also a good investment while sharing the value of the Product of the economy.

In preparing for this presentation I discussed this idea with one of our Labour Leaders. I learnt that in Trinidad and Tobago we have now had some pockets of experience in the offer and acceptance of share options on behalf of workers. Some early offers by firms were apparently resisted by the Labour Movement when lines between the parties were more sharply drawn (e.g offer by Neal & Massy in the 1970’s viewed as ‘cooption’ of the workers; e.g. proposal by the NAR Administration of a National Investment

⁴ Harvard Business School Working Knowledge, April 22, 2002: “Shareholder Value versus Corporate Responsibility” by Roger L. Martin. Available online at: <http://hbswk.hbs.edu/item.jhtml?id=2891&t=finance>.

⁵ Harvard Business School Working Knowledge, September 29, 2003: “Do the Right Thing” by Michael Sisk. Available online at: http://hbswk.hbs.edu/item.jhtml?id=3689&t=moral_leadership.

⁶ Blasi, J.R., A. Bernstein and D. Kruse, 2003: *In the Company of Owners: The Truth about Stock Options (and Why Every Employee Should Have Them)*. Perseus Publishing, 2003
Reviewed by Harvard Business School Working Knowledge, February 3, 2003. Available online at: http://hbswk.hbs.edu/book-review.jhtml?id=3303&t=corporate_governance.

Company with a Unit to promote shareholding for workers was viewed as a debt payment mechanism rather than opportunity for dividends and was resisted).

But over time a couple of promising situations (e.g. Trinidad Cement Ltd in which some workers took up an option for shares; e.g. Petrotrin where a proportion of profits over a certain level are allocated to workers) have paved the way for a more systematic approach to share options for workers. In order to realise the objectives of such schemes, however, it may be necessary to consider how payouts (such as in the Petrotrin scheme) could be used for Savings and Investment, not just for Consumption. The Labour Movement has itself made progress in its openness to such schemes (e.g. the Communication Workers Union has proposed that a certain percentage of profits of TSTT be held in escrow for purchasing workers' shares in the event of divestment in this sector). There may now be a sufficient body of experience to be reviewed in order to chart the way forward in share options for workers as a matter of corporate policy.

Fourth, pension funds provide an important mechanism through which value is shared. They tend to be the largest pool of funds that are held in workers' interests. But there could be more attention to the investment of these funds, and to opportunities for workers to influence company policy in that regard. I understand that this practice is advancing in other parts of the world.

Fifth, we could increase the opportunity for spread of public ownership if large major companies are listed on the local stock exchange. This could at the same time contribute to gradually changing the structure of ownership within the lead sector of the economy, bearing in mind that foreign ownership of petroleum extraction companies is about 50% and of natural gas extraction companies about 95% (June 2004 figures)⁷.

In anticipation, let me recognise that many corporations might consider that their objective of maximising shareholder value does not sit easily with the elements of Corporate Social Responsibility. However, Harvard Business School⁸ advises that it is important to remember that "corporations don't operate in a universe composed solely of shareholders. They exist within

⁷ IMF, 2005, Selected Issues, IMP Country Report No. 05/6, p.15

⁸ Harvard Business School Working Knowledge, April 22, 2002: "Shareholder Value versus Corporate Responsibility" by Roger L. Martin. Available online at: <http://hbswk.hbs.edu/item.jhtml?id=2891&t=finance>.

larger political and social entities and are subject to pressures from other members of those networks, be they citizens concerned about environmental pollution, employees seeking to strike a balance between work and family, or political authorities protective of their tax bases. When the interests of shareholders and the larger community collide, management typically (and quite rationally) sides with shareholders. The almost inevitable next step is for management to come under fire for favoring the narrow interests of shareholders over the broader interests of the community – or to put it another way, for failing to meet the demand for social responsibility.” I think this resonates within T&T’s industrial relations.

However, the Harvard author continues, it should also be realised that the “interests of shareholders and those of the larger community are not always opposed” so “[c]orporations often willingly engage in socially responsible behavior precisely because it enhances shareholder value”.

Sharing value in the society

This brings me to how we might share value within the society, not just for employees through policies and arrangements within the firm.

We now have many examples of firms supporting community or non-governmental organisations in their efforts to shore up the society and cater to those who have ‘gone through’ the safety net. There are many examples of this which I am sure we know well. These initiatives do share some value but it is really minimal, because many of these activities are marginal in nature, and leave their beneficiaries as marginalised as they were before the interventions. These activities could be made more widespread in scope and more significant in the transfer of value; as well as designed to stimulate societal transformation to a new form of Development in which, among other things, some responsibility is devolved to communities, and citizen and community leadership is fostered.

It is important for our firms to consider how their ‘socially responsible investments’ might lay the groundwork for lasting and sustainable outcomes. One way of doing this is to create opportunity to add and share value by outsourcing and/or networking with other companies, especially small and

fledgling enterprises, helping them to grow, nurturing their skills and management expertise, assuring them a market; and thereby enhancing the domestic sector and strengthening the industrial ecology of the economy.

Another example of such socially responsible investment, especially in an economy based on non-renewable energy resources, might be to invest in development of applied technology for renewable sources of energy, on which this country will have to fall back at some stage. The time to invest in alternative sources of energy and to position the society for that inevitability is when we have abundant revenues especially revenues derived from our wasting assets. This is one sure way of demonstrating a concern about intra-generational equity in the sharing of the benefits of the country's patrimony.

We could also share value by leaving some options for next generations. Many countries, including Trinidad and Tobago, whose economies are predicated on non-renewable assets, have set up Heritage Funds for this purpose. But they all appear to combine Heritage and Stabilisation objectives, a combination which leaves the Heritage component vulnerable to being eroded by discretionary transfers, unless the governance arrangements for access and use are strict, transparent, and accountable. Some of them require, for example, Parliamentary oversight. The IMF has pointed out that "if the fund is to be effective, then it must be accompanied by strong fiscal and macro-economic policies by the government, which would lead to more efficient and effective use of resources and revenue derived from these resources. This would not only lead to greater equity within this generation and with future generations but facilitate overall growth and development of the economy."⁹ We are in the early stage of establishment of such a Fund in T&T: we could take an interest in how the arrangements for access and use develop, in order to ensure that the value that such a Fund seeks to conserve is conscientiously disbursed. In other words, the Heritage Fund should not be used as a slush fund.

A comprehensive and strategic approach to growth and development of the economy could be another means of sharing value, by building up the ground on which the economy must stand when the energy assets are used up. This requires investment in the non-energy economy, sustaining the

⁹ First Citizens Bank Economic Newsletter. Volume 8 No. 1 "Managing Hydrocarbon Wealth: A look at Natural Resource Funds". Table cited from Davis et al., 2003: Fiscal Policy Formation and Implementation in Oil-Producing Countries. IMF Publication. Newsletter available online at: <http://www.firstcitizenstt.com/enews/MARCH-2005.pdf>.

amenity value of the natural asset base of the country, and investment in human and physical capital. We can note for the time being that this is the approach reflected in the documentation about Vision 20/20: time does not permit an analysis of how well or strategically this is to be pursued; and in any case it all turns on implementation, and on being faithful to the 'Manifesto', for which this country does not have a good record of performance.

Sharing value with the rest of the Caribbean

Let me say a few words about the rest of the Caribbean Community. We must not fail to recognise the ways in which Trinidad and Tobago has been trying to share value with the rest of the Caribbean family: such as through contributions to the costs of the Caribbean Community apparatus, to the Regionalisation Stabilisation Fund, to emergency aid in the wake of natural disaster, etc. We should continue along this path and respond even more sympathetically to the needs and strategically to the opportunities within the Region, consistent with a recognition of shared economic destiny. Surely the coming into being of the Caribbean Single Market and in time the Caribbean Single Market and Economy CSME is indicative of such a recognition. Within such an approach, investing in the restoration and development of Haiti is another way of sharing value within the Caribbean Community. Given some stable governance, here is an opportunity to invest, create jobs and incomes, and generate and share value for that society and for regional shareholders.

Concluding comment

Mr. Chairman, I do not want to give the impression that I interpret sharing value exclusively in monetary terms. I very much agree that value resides in all the things Dr. Harry spoke about. In addition, I recognise that there are many constituents of human well being other than income security, financial wealth, and monetary assets: constituents such as health, physical security, access to clean air and water, opportunities for self-realisation, security in old age, to name just a few. This translates into the need to share value through adequate, accessible, affordable and equitable health services; through sustaining the quality of the physical space of communities regardless of income category; through provision of civic and community

facilities especially in deprived communities; through social security mechanisms; through nurturing the cultural dimensions of the society. We know well the needs in all these areas and the scope for increasing distribution of the value of the national Product through these means.

The many perspectives and proposals that make up the Vision 20/20 policy framework take cognisance of all of these and more. It now remains for us all – government, corporate and civic sectors - to have a shared sense of responsibility for such outcomes and to provide the leadership to make them happen.

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