



TRADE & INDUSTRIAL POLICY STRATEGIES

BLACK INDUSTRIALISTS CASE STUDIES

PepsiCo ESOP

August 2022

The Black Industrialists Policy aims to increase the participation of black South Africans in operational management, rather than just financial ownership, of enterprises in key sectors and value chains. The programme was launched in 2015 by the Department of Trade, Industry and Competition, supported by the Industrial Development Corporation and the National Empowerment Fund.

The Black Industrialists Conference in August 2022 examined the impact of the Black Industrialists Programme and explored support measures to boost entry of black-owned businesses and producers into the mainstream economy. It also showcased the work of black industrialists. As an input into the conference, TIPS prepared nine case studies on black industrialists. Renee Grawitzky conducted the research and interviews, and TIPS provided the industry context and looked at the broader developmental objectives.

This case study profiles PepsiCo ESOP, an employee ownership scheme. Other companies profiled are: CapeBio Technologies; Easy Farm; Equal ELM Trading; Flat-Foot Engineering; Ikusasa Green; Microfinish; Pambili Media; and Sindane Mining Ventures. Copies of the case studies are [available here](#).

PepsiCo ESOP: employee shareowner scheme

PepsiCo, the internationally known soft drink brand, began operating in South Africa soon after the transition to democracy. In 2021, it established an employee shareowner scheme (ESOP), managed through the Bašumi Trust, for its 11 000 production and middle-management workers in South Africa. The ESOP gives local workers a representative on the board of PepsiCo's subsidiary Pioneer Foods.

PepsiCo paid outright for the shares in the parent company in the United States, worth about R1,6 billion, without any debt burden. As a result, workers have already begun to benefit financially. Bašumi paid out R380 to each worker as a maiden dividend in 2021, and expects to pay around R1 200 in annual dividends going forward. In addition, members will get milestone payments of around R30 000 every four to five years through 2037. The ESOP is relatively low risk, since PepsiCo's shares, in line with its underlying value, have been comparatively unaffected by recent stock market volatility.

PepsiCo established the ESOP when, in 2020, it took over Pioneer Foods. The scheme formed part of a settlement to meet the public interest requirements in the Competition Act. As part of the agreement, PepsiCo also committed R600 million to support black-owned farms, food processors and distributors through a new Kgodiso Development Fund. The fund assists enterprises in the food value chain with capital backed by technical and business-risk support.

Bašumi is governed by a board comprising three union representatives, a representative of non-organised employees, and an employer representative. External partners undertake administration, banking and auditing. Bašumi's chair is Melissa-Joy Golden, senior legal counsel at PepsiCo South Africa and one of the trustees. She argues that the trust helps employee retention as well as reflecting the company's commitment to socio-economic development and empowerment.

The ESOP's first representative on the Pioneer Foods board is Tumi Setshiro, a shop steward at PepsiCo and deputy president of the Agricultural Food and Allied Democratic Workers Union. Setshiro works as a package-site expert trainer at PepsiCo. He had just come off night shift when he talked about his role on the board. "From where I am sitting as a shop steward," he said, "I have felt that the level of directors do not have insight of what is happening on the shop floor." In his new role, he can improve communication between workers and top management as well as ensuring that board decisions take ordinary workers' interests into account. Setshiro notes that when he is at a board meeting, he has to prioritise the long-run needs and interests of the company, but feels that ensuring the employer's stability and growth will also ultimately benefit workers.

In designing the ESOP, PepsiCo and the unions emphasised the importance of providing financial education for members. That approach reflected hard-won experience, both at Pioneer Foods in an earlier ESOP dating back to 2006, and in other South African companies. Setshiro says that as trustees and union leaders, he and his colleagues work closely with both workers and shopstewards to ensure a full understanding of the potential benefits of the scheme as well as the impact on the share price. Bašumi has conducted numerous road shows, and PepsiCo set up communication systems for workers with additional questions and concerns.

The Broad-Based Black Economic Empowerment strategy has long emphasised the importance of strengthening collective ownership through ESOPs and community trusts. The aim is to redress the extraordinarily deep inequalities in financial ownership and company governance that

apartheid entrenched. The inherited systems help make South Africa one of the most unequal countries in the world, which in turn slows industrialisation, among others, by stoking workplace conflict and depressing social and human capital development. Giving workers a voice on company boards, as with the PepsiCo ESOP, opens up communication both ways. Workers gain a better insight into the imperatives and opportunities facing the company, and management can improve its understanding of employee needs, desires and capabilities. Moreover, the PepsiCo deal provides fast and visible financial returns to worker ownership, which upgrades employees' livelihoods while giving them a stake in the company's success.

Trade & Industrial Policies Strategies (TIPS) is an independent, non-profit, economic research institution established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing. Its areas of focus are: industrial policy, trade and regional integration, sustainable growth, and a just transition to a sustainable inclusive economy.

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