



Anthony Fitzhenry

And the Axiz of Good Part 2

By Barbara Nussbaum

Editor's Note: This is the second and final installment of an amazing story. Imagine a Frank Capra movie set in South Africa. An idealistic young man rails against every pillar of injustice and inequality that supports not only the Apartheid system, but its fully integrated bulwarks of commerce. Instead of going into government he goes into business. He rejects every piece of conventional advice and starts a company according to his principles of fairness and dignity.

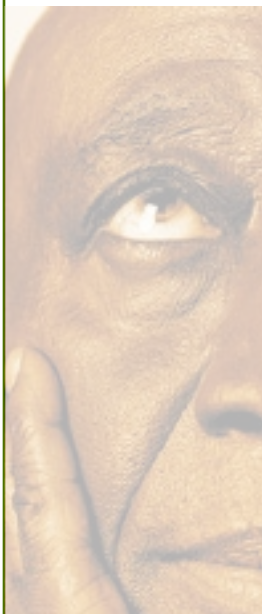
Today, Anthony Fitzhenry's ESOP-driven [Axiz](#) IT distributorship has an annual turnover of US\$354 million, 550 employees, a 30% growth rate, and pilferage measured in thousandths of a percent.

Not only does it have mission and vision statements, it also has a constitution. And all employees *must* be owners — one person, one vote, regardless of shares.

In a world where some people fear democratic principles are dying because of the influence of corporations, here's a corporation that truly is democratic.

Barbara Nussbaum, a long time friend of the Academy, has gifted us with this remarkable interview.

Anthony Fitzhenry





Merchants of Vision

We shared profit right from the start but then advanced it to equity ownership. However, these things built up conflict....

B: *How old were you when you got to Hong Kong?*

A: I was then 25 and now I'm 46.

B: *What happened between then and now?*

A: I was there for a few years.....my fiancée followed me there but didn't like it and so I returned with her to South Africa and three months later she broke up! When I got back I started Axiz; this was 17 years ago.

B: *How did the business model evolve?*

A: We retrofitted it. We were in the IT industry and we were undercapitalized, so I wanted to find a model that would be sustainable. We did that. I always believed in an open-book management style so we shared information and spoke to everybody and moved along that path. Early on we believed in sharing things. We shared profit right from the start but then advanced it to equity ownership. However, these things built up conflict...there was always a sense of the workers and the owners. The owners would always receive capital gain and good will and the workers would get their salaries and profit but those things always had an uncomfortable feel to them. So we brought in the managers and I guess the difficulty, looking back, is that I have always been brought up with a Western culture which spoke about "This is how you do this and that in business." You brought your management into shareholding to create golden handcuffs which then made it difficult to leave. It was unfair because it always was about the owners of the capital versus employees.

Once you brought the managers on board they were on the side of the owners. But then, what about the rest of the employees? So we always had these two classes of people. That was the issue.

We thought about how we were going to make this access to capital and return available to everybody. That is when I decided to go and list the company. I said, here we are—we have a way to value the company objectively, and the people will have an opportunity to participate in the equity. That exposed me to a completely new challenge. There were investors who simply wanted a return on their investment, and I really became exposed to real capitalist greed. I realized that our philosophies just would not be able to live on a stock exchange and that we'd really be in conflict. Investors were asking me to focus on the money and their capital. When I would ask them the question "What about the employees?" they just said, "Well, the employees are just employees." Labor is a means to an end, in their view. This clarified for me that I never wanted to be part of that system. We went the whole way to listing the company and then we decided to pull the plug and not to list; it is at that point that I went out to study different models of how to make employees participate, how you value shares, and how to make equity viable.

B: *What other sources did you learn from?*

A: I sought advice from our company attorneys and accountants and was always told by them that it couldn't be done and why. They gave me what they



thought were all these good reasons. During that time I was working with one of the co-founders who also had a very strong sense of fairness. When we were about to list, a financial director who had worked at Cashbuild, South Africa's largest building supply retailer, joined us. He was Scottish and also from a working-class family. He, too, had a clear sense of fairness. So all of us were working-class and I guess we fed off each other.

While we were struggling to solve this issue, I received an invitation from the National Productivity Institute to say they had researched the whole thing, and invited us to hear [Dr. Norman Reynolds](#) give a presentation. Dr. Reynolds discussed the whole thing so clearly, I felt that I was finally hearing what I was looking for. Somebody was talking about the stuff I have believed. I went up to him and told him I had been searching for this kind of information all my life. He came and shared the model with us and then we went off and implemented it. He introduced us to [David Ellerman](#), based in America, who worked with the World Bank and who researched Mondragon, the big cooperative in Spain. He shared all of that with us and from then on it has been like a snowball.

B: *What's interesting is how you have drawn from a variety of external sources and also from so deeply within yourself, including your own innocence as a child.*

A: One of the other things is that since my father was autocratic, from the age of 15 I was a rebel. Anything he told me, I would do the opposite. So when people would tell me that things can't be done, I would then say "Well, it can be done."

I would be bold. If corporate South Africa said it must be done this way and I disagreed, I would say "The system is an ass." I just have to find somebody whose answers to life are there. I think you have to have a way to listen to your core self, or the child within. I really have found very few people in life who don't have the honesty and authenticity within. It's within everybody; we shut it out sometimes. For me, the most rewarding thing about all of this is the truth that one finds in South Africa. The most amazing thing is that I will have black people working for me, or with me, and they will say, "We love you." This is not the kind of thing that would happen in a Western context. If Africans feel this, they will say it. And I find this so rewarding.

B: *Could you describe how your model works?*

A: The first principle is "One Community." If there is one community it means that all employees are owners and that all owners are employees. If you go and work in a business, you should have all the rights and advantages of ownership. But we also said that first and foremost we're a community and what we don't want is outsiders who are sitting on the beach or flying here and there in opulence while we're working to make them wealthy. We'd rather trap the energy and the successes within our own organization.

The second thing we said is that it is a constitutional right that every human being has a vote. Traditionally, shareholders vote according to their equity. That equity is always based on advantage: if you were cleverer than someone else, or you had more access to education or to capital. We feel that the fundamental principle is democracy, one person and one vote, irrespective

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of how much capital you have. We don't take that democratic right away. It is also dignified, so every person has their dignity. This replaces the fundamental separation between capital, management, and labor.

I'm not sure that any of our Western cultures were fundamentally different from African culture two or three hundred years ago. Here in South Africa we have an uncorrupted society which has only been exposed to westernization for 130 or 140 years, but not en masse, and to varying degrees. Lots of other indigenous societies have been exposed over a longer period. Native Africans have a strong sense of community; it is through them that we can get a stronger sense of humankind.

B: *Ronnie Lessem, a well-known author and business academic, would say you are an excellent example of the kind of transformational business leader we're seeking to cultivate in the Masters in Transformation Management Programme we're teaching here at CIDA City Campus in Johannesburg. Your own story is unique. And you had the courage to live your own personal story, including your sensitivity to injustice and the need for fairness. Rooted deeply in your values, you created a business here in South Africa, and you're transforming business. Moreover, Axiz is a successful business. In fact, I was just wondering about your employee turnover. I imagine it must be quite low.*

A: It is very low for our industry. Our turnover is 5% in an industry which typically has an average rate of 20 percent. I know that our high employee retention leads to their happiness, but it also leads to my happiness. Our company grows roughly 25% year on year and much of that has to do with people's commitment to the company as well as other elements. For example, there is no executive parking, and there are no luxury executive offices. You get the tools you need for your job and not luxuries. The managers aren't watching cricket or playing golf on a Wednesday afternoon. We all eat in the same dining room and call each other by our first names. That also has a lot to do with the Asian way of doing things.

Our costs have come down. It is not necessarily the executives and managers who waste resources. Generally, money is wasted by people lower down not taking care of assets, repairs and maintenance, or theft. Our costs have come down from double digits to a single digit percentage of revenues. Where I do know that things have changed is in our internal service quality. When you stop treating people like names on the payroll and start treating them like human beings and giving them the dignity of being human beings, they all become owners, vote, and deal with each other as human beings. Then you're not just a salesman in a department. You make a commitment to someone. In our organization, you're making a commitment to a person...it's Peter or Betty or Ebrahim. If you're making a commitment to a person you don't like to let them down.

Because this produces accountability, there is very little fighting in our company. People are committed to doing the best job they can. Everybody is really helpful. Every time I ask someone to do something, they do it. What you then get is increased employee satisfaction, and increased staff retention and productivity. It is a difficult thing to prove this. Because there may be increased satisfaction, and one-on-one commitment, you also start treat-



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ing your customers differently. They're not just someone that you're flogging some product to. You're concerned about what you're selling and want to be sure that you are giving customers extra value in their lives. So there is good service design around customers.

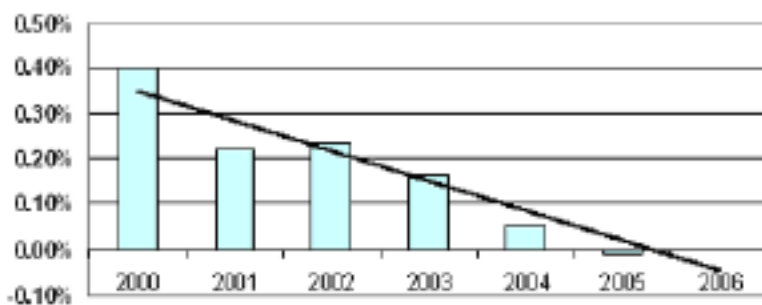
We have tours in our company one Friday a month. A man once said, "I am one of your customers and when you put the fully democratic employee ownership system in place, I felt it; I felt how your customer service improved.

B: Do you have any numbers which demonstrate the positive impact of your particular company culture?

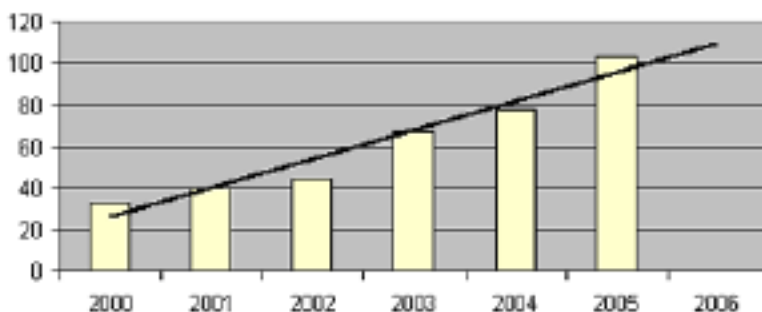
A: I found something the other day. If you look at our revenues, we went from 375 million rand to 2.2 billion rand. Over a 5-year period. We initially brought our management into ownership and then in 2003 we brought every single employee in. Some of this growth is from our participative management style and listening to people rather than ownership, but here are our figures on internal theft. Five years ago it was R1.4 million (US\$224,000). Four years ago it was R920,000 (US\$144,400), then R724,000 (US\$115,000) in write-offs, and then this past year, we *found* goods to the value of R150,000 (US\$24,000). That decrease has gone with increasing risk. To explain, in the same period, our company went from 33 people to 44 people, then 78 then 103 people and now to 500 people. So that shows increasing affiliation with the organization. People affiliate with each other and the organization—it becomes theirs, and they won't steal from it.

Axiz has gone from pilferage of almost a quarter million dollars, to *finding* inventory for a net gain of US\$24,000, while doubling the number of warehouse employees.

Unaccounted Write-offs as a % of Revenue



of Warehouse Employees



At the same time I did this analysis, I realized you can walk around the whole company and cell phones lie around on the desks. In 2005 we had eight mobile phones missing—three were recovered. Five of them were in one area and attributed to one individual. One wallet was lost and it was handed into security and recovered.

We will continue to extract evidence that this system works in order to help convince others of a better way.



Merchants of Vision

You have no choice but to become an owner when you work at Axiz.

B: *What would salary and dividends be for someone who has worked there 10 years?*

A: The structure is that when you come in, you buy one month's salary. We are trying to flatten the compensation differential between an entry-level employee and the executive level. Here, our entry level is R4,000 per month, which we feel is the minimum basic living wage. A person earning R4,000 a month has a lot of challenges. They have to support a family on this.

The important principle is that ownership/capital/management/labor are aligned. Ownership is obligatory. You have no choice—you have to become an owner when you work at Axiz. It is a right, not a privilege, and it is a responsibility. What we have done is to create a democracy. Each person has a vote, irrespective of number of shares or equity holding.

We changed the international model somewhat because of the economic drain on many of our employees. In American and European employee-owned enterprises it is common for employees to use their dividends to pay off their loans, but here in South Africa people have urgent and pressing needs. So we allow employees to decide how they use their dividends.

What is the difference? For a new employee earning a R4,000 salary, you would expect a dividend of R240 in the first year. But every share has increased by approximately 20%, so the dividend would increase to R288 the following year.

Along with a 20% increase in dividends year on year, if the company's performance over the next 10 years is consistent with the last 10 years, employees should expect 500% capital growth.

At the moment, the numbers aren't that great, but in speaking to people, they are so grateful. The bonus is relatively small but what is more important to employees is the dignity that they derive from the sense of participation.

We also pay employee performance bonuses, which can be as much as two equivalent salary cheques a year; an entry-level R8,000 bonus.

B: *What happens when employees leave the company?*

A: The community buys back your equity from you.

The big thing is meaningful participation, information, and representation. If you can imagine a 400-seat auditorium, and each person sitting in the auditorium is wearing a hat which says "Owner." Every person gets a business card which says employee/owner. People who work in warehouses would not normally have a business card, but our employees do. Business cards give them a sense of ownership and dignity.

The directors are voted in by the employees who run the company. Then once a month we meet and the director servants are asked questions. It is true empowerment. In other companies the management runs the monthly staff meeting—here the employees run it. And they ask you very important questions about how things are going in their company.

B: *The model of employee ownership is similar to Cashbuild, started by Albert Koopman in South Africa, and Hudaco in Zimbabwe, but you have your own way of running it.*



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A: It's important to understand the dynamics that follow the sense of increased ownership. Say I ask someone in a warehouse, "What difference does ownership make to you?" He will reply, "I put my chair down differently. I used to just put it down and it might scratch the wall or the table. Now I put it down carefully because it is my chair and my wall so I take care of things." Another person will say, "I get dropped off by a taxi and when I get to the office I will pick up all the paper because they say my customers drive down that road and they want to see good hygiene."

As Westerners, we assume that, if people don't have a Western education, they're ignorant. At our monthly community hour a person without tertiary education says, "I'm the picker in this area, and I have noticed that there are a lot of keyboards and they're not moving; what is happening?" Another will say, "I live in Port Elizabeth and I read the newspaper about economic growth in our area and it doesn't look like we're getting our share of the market." Very often these people see things for the simple things they are, and are able to find simple effective and efficient solutions.

B: *So you really honor every employee's observations. Fabulous. What kind of training did you provide?*

A: We show financial statements, income sheets. We find that South African employees have a low degree of trust. When we started out we found that many employees had been burned by share incentive schemes.

First we build up trust. We researched tried and tested models. Then we used outside independent experts, like Norman Reynolds and David Ellerman. These outside experts shared with us what happened in other countries in relation to employee ownership.

We educated everyone on investment, inflation risks, and returns, including capital gains and dividends. We established multiple forums to educate and advise, including the executives, the workers' forum, and human resources.

We invited 20 employees at a time to an open forum to discuss the road ahead to employee ownership. We asked each group to nominate a representative to the employee ownership task group. Their job was to debate the issue of design and to represent and communicate to the group that nominated them.

We took every single question and answer that came up and answered them on our intranet. We also used independent outsider people like Norman Reynolds and Ed Nicholson to add credibility to the process. They would come in every Friday to answer any questions.

We invited all employees to participate in writing the constitution. We agreed on a meaningful majority of 85% acceptance for each clause; we felt that a 51% majority was not sufficient. 49% of people in disagreement was too much for us to accept. We said we would consider every single suggestion.

If there was a minority view which represented more than 4% of the community, they would be able to make a presentation to the majority. If the argument was a good one we would change and adopt the suggestions. If the minority wasn't able to convince the majority then the majority would seek to find a negotiated compromise in order to come to consensus. Through that process

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we created an incredible amount of trust. Then we said that any group of more than 5% of the employees could stop the process.

We found that there was a group of production workers who did not understand a particular policy proposal. They told me, "We have no idea what you're talking about." I told them, "I have gone through everything and explained everything; everything is documented. I have worked with your task group and come through and given you presentations. I have had outside experts come through as well. So you need to explain the problem."

They said, "You're trained in English, we aren't. The words you are using are too complicated for us." I met them every Friday for breakfast for 6 weeks. They suggested an additional intervention: they said, "We would like to assign an old man to you, who speaks our language and is a story teller. The old man will teach you how to explain your point in a parable so each learning point can be backed up with a parable. You will tell us the story, link it to a parable and then summarize." They found a wonderful local man. I learned all of that and we moved on. But through that whole thing I started understanding that the company is bigger than the person, but the person is also bigger than the company. They are at once a parent, a sibling, and a child.

B: *Anthony, this is so inspiring. Are other companies adopting this model?*

A: Together with others we have formed the Employee Ownership Association Africa or *Inqolobani*. The web address is www.EOAA.co.za. *Inqolobani* is an Nguni word meaning grain hut. In a rural African community, in times of plenty, the community places excess grain in the *Inqolobani* according to surplus. In times of need, families take grain out according to need. The practice of storing excess grain represents investment for future times of need. Employee ownership represents investment in employees' future. *Inqolobani* or EOAA has been set up to share our learnings with other African companies and to nurture employee ownership as a better way for the future. We hope that other companies will be inspired to adopt this model.

About the interviewer: Barbara Nussbaum (www.barbaranussbaum.com) is an independent researcher, an author, and a coach who divides her time between South Africa and the USA. She co-authored, with Dr. Ronnie Lessem, *Sawubona Africa: Embracing Four Worlds in South African Management* (Zebra Press, 1996). Barbara is an associate faculty member at CIDA City Campus (www.cida.co.za) in Johannesburg, teaching a Masters course in Transformation Management. She currently is in South Africa conducting research for a book on *ubuntu* exemplars. She has written articles for the World Business Academy about *ubuntu* as a new paradigm for business in "Perspectives" February 2003 and May 2003, and she co-authored, with Dr Alexander Schieffer, an article on *ubuntu* exemplar Taddy Blecher in "Merchants of Vision," June 2005. She can be contacted at bnussbaum@mweb.co.za.