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**CHANGE AND RETRENCHMENT: AN OVERVIEW OF THE CAUSES, PROCESS  
AND EFFECTS IN SOUTH AFRICA.**

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## **CHAPTER 1**

### **INTRODUCTION, PROBLEM STATEMENT AND DESCRIPTION OF KEY CONCEPTS**

#### **1.1 INTRODUCTION**

Retrenchment and unemployment has become a general concern for many South Africans, especially in the age of globalization.

This phenomenon, however, is not unique to South Africa. Technological advancement in communication and travel, amongst other things, has made the world a smaller place. Limited resources will continue to become scarcer and scarcer, the world's population explosion has reached critical levels and thanks to contributions by medical science, mortality rates are much, much lower.

The effect of job losses on employees and the community are extreme and in this respect, Swanepoel *et al.* (2000:833), best describe the extent of this by comparing retrenchment to economic capital punishment. He states that dismissals due to operational requirements are deemed to be deserving of special treatment and that special compassion is called for on the part of employer. Bendix (2000:229) adds that retrenchment is among the most serious and unfortunate undertakings of a company, as it not only affect the employee concerned and his family, but the society as a whole.

Business has become highly competitive and the principle of "survival of the fittest" is a sure fact in today's world of trade. Finnemore & van Rensburg, (2000:542) stated that organisational mortality rates would increase in the emerging world. We can therefore safely assume that this will have a concomitant effect on staffing levels. Reducing employment costs in the form of retrenchments in order to sustain profitability has

become a growing phenomenon. Mergers, acquisitions, joint ventures and take-overs are some of the characteristics of the global age and the reviewing of employment levels as a consequence of globalization is receiving more and more attention. Optimal manpower strategy in any business should therefore always reflect the possibility of retrenchments and redundancies. Does this actually happen? And what do business and government do to prevent this from happening or to minimise it? Or are South Africans too inwardly focussed on transformation to do the right thing for the right reason at the right time? We cannot see into the future, and although the most modern forecasting and planning techniques are available, an accurate prediction of future events remains debatable. The tragic events on September 11, 2001 at the World Trade Centre and the effects on the world economy bear testimony to this. Do business and government have contingency plans in place to effectively manage the profound effects of such incidents?

The establishment of human rights, an occurrence vastly differentiating the modern age from former times, has lead to the establishment of a new set of guidelines for human interaction and the roles they play in business. The labour relations arena is no different. The profound changes after the 1994 elections heralded a new era for South Africa; resulting in a different approach to managing labour relations. Has South African business adapted to these changes in time or not, or does the pre-apartheid paradigm linger on? Do we have the inherent ability to manage change to such an extent that we can balance sustainable growth with the need to create employment for future generations? The changes in the world, the impact on South Africa and the associated social changes as phenomena will be interpolated with the need for retrenchment in chapter 3.

Bendix (2001:387) argues that previously it was deemed the right of the employer to change the workforce by enlarging or reducing it to suit the production and economic cycles with a view to business rationale. In Bezuidenhout *et al.* (1998:243), this view is upheld. The new Labour Relations Act (Act 66 of 1995) has changed the emphasis to a new growing focus on employee rights, especially the right to job security. In a

sense, this is a positive move towards sound labour relations, especially in a country with high unemployment figures where the social impact of retrenchments may very well lead to the demise of communities totally dependant on that particular employer.

Bond (1998) indicated the terrible effects of mass retrenchments by referring to the town of Welkom in the Free State as struggling for economic survival in the aftermath of mass retrenchments following a fall in the gold price. It goes on to say that approximately 50 000 employees in the gold mining industry found themselves unemployed and that the town of Welkom was fighting the economic decline that could turn it into a ghost town. A lay-off of this magnitude affected unemployment to a great extent and further added to the troubling crime rate.

## **1.2 PROBLEM STATEMENT**

Employers are forced to review staffing levels in the face of the reality of prevailing economic conditions, redundant technologies and production inefficiencies and economic downturn. This has become a sensitive issue, since the impact of retrenchments has enormous social consequences on society. It is well known that unemployment contributes significantly to crime levels. This places an enormous responsibility on employers to act in the best interests of business, the community in which it conducts its operations and society in general. When retrenchments become inevitable, do employers do enough to minimise the effects and to what extent do they accept social responsibility at the expense of improved profits? The effects on the community and the social responsibility of employers will be explored in greater detail in chapter 6.

It has been said that retrenchment can be equated to economic capital punishment. For this reason dismissals due to operational requirements are dealt with in the legislation. For the same reason an enormous responsibility rests on employers' shoulders to contribute positively to strategies by either averting or minimising

retrenchments. For the exact reason the International Labour Organisation has laid down guidelines to prevent and manage retrenchments. Internationally, many countries require preliminary procedures intended to minimise the prejudice against employees and these are inevitably laid down in the legislative framework (Grogan, 2001:185).

Guidelines, however, remain guidelines and the researcher postulates that the suggested change in approach to retrenchments and employment levels are not synchronised with the required speed of change. A South African example of how a changing world could affect staffing levels is worth mentioning in an attempt to dimension the problem:

The South African economy was built on gold, but the commodity has lost its lustre. The reason for this profound change was to be found in the ending of the cold war. Investors sought alternative and more adventurous investments, as the need for hedging against a potential world crisis diminished. In the mid-eighties, gold was selling for well above the US\$ 400 per fine ounce. The gold mines flourished and contributed significantly to the South African gross domestic product. Gold production in 1991 amounted to 601 tons, but was reduced substantially to a mere 428.2 tons in the year 2000, the lowest output in 46 years. During 1996, production fell to 498.3 tons and employment numbers in the gold industry stood around 350 000. During 2000, however, as demand and production kept on falling, volumes reduced to 428.2 tons with total employment numbers reaching only 215 450. During 2001 and 2002, employment levels further reduced to 201 698 in the face of the lowest production of gold since 1953 and the continued spate of mergers and acquisitions (Department of Minerals and Energy, 2001: 31; Department of Minerals and Energy, 2002:37).

Rationalisation became a first priority in order to survive; a few mergers and acquisitions soon followed suit, resulting in more employment rationalisation exercises. A major mining house, renowned for revitalizing marginal gold mines, purchased two metallurgical assets from another major mining house during 2000 and three more of the same mining house late in 2001 and immediately embarked on cutting substantial

percentages of its personnel, thereby reducing fixed costs. This was done in the face of imminent closure due to the reduced grade of gold extracted. The mines had been saved, for now. The difficulties faced by this industry continue on the back of a volatile South African exchange rate.

This example is quoted purely because the biggest contribution to fixed costs in the mining industry can be found in the labour component and secondly because it has had such a tremendous impact on unemployment figures in South Africa. It is a known fact that approximately 50% of the cash cost of gold production is to be found in the labour component. One of the arguments most often quoted against investment in South African gold stocks, especially for long-term investors, is the high labour contingent on deep level gold mines (Lamont, 2002:2). As a result, strike actions, AIDS and the high mortality rate due to mining accidents has had a profound influence on investment returns and as such, created cautious investment in gold.

Along the same vein, newer, more modern mines, such as Avgold's new Target plant, situated in the Free State town of Allanridge, rebuilt the gold extraction plant and sank new shafts by employing the latest technology in mining. The end result was a massive increase in production compared to the old plant, with substantially fewer employees on the payroll. Indeed, Lamont (2001:2) reported that the new mine will produce 350 000 ounces of gold per annum with a mere 600 employees, compared to other mines where a similar scale operation would require approximately 12 000 employees.

The above two examples indicate two separate methods for reducing cash costs that lead to the same effect - job losses.

South Africa is not known to be the most productive nation on earth. When the anomalies in expendable income structures are disregarded, labour costs, however, are still proportionately high when compared to international benchmarks.

To exacerbate the problem, the required paradigm shift towards global competitiveness did not materialise concomitant to the speed of the reduction of trade barriers in the post apartheid era. Chapter 3 deals more extensively with global competitiveness. One reason that could be postulated for this is resistance to change, marred by a highly politicised constituent of the new government and an entrenched paradigm of employment security for the previously advantaged groups.

McLagan (quoted by Keyser, 1999:2) supports this statement by saying that the era of apartheid and its particular form of authoritarianism has contaminated business and all its stakeholders. Business needed to keep pace with rapidly changing technologies, productivity improvement in line with world tendencies and world best practices in order to become globally competitive and very fast, at that.

In this respect we can stipulate that balanced energy expenditure should be directed at maintaining and creating employment opportunities and addressing the expectations of transformation. Change always requires energy, and if energy needed to improve productivity and competitiveness is spent on ideological transformation, international business opportunities may be lost - a situation South Africa can ill afford!

The real problem facing South African business and the government, now emerges: how to find the balance between meeting the expectations of the government's constituency, the need for job creation in the face of excessive unemployment figures and being more competitive internationally. Companies have to survive, and in the absence of solutions to the problems stated, a tragic means of survival may be more retrenchments as a quick fix.

This leads to the contentious issues surrounding globalization which will be dealt with in more detail in chapter 3. South Africa has to find answers to this challenge and it needs to do so fast. The anomaly as described in the above paragraph is fully supported by Finnemore (2000: 72-73) when the need to restructure industries that are

not competitive, the need for improved productivity and the impact of unions and management relations on South Africa is reviewed.

In closing, it would be naïve to think that retrenchments can be avoided. This research will therefore not be aimed at finding quick fix solutions to the need for retrenchments, but will serve to highlight and draw attention to a phenomenon that requires a paradigm shift in South Africa. This is the paradigm of responsibility. The author postulates that the social responsibility of employers (and the state) in the biggest possible context, must transcend political and economic goals.

### **1.3 RESEARCH AIMS AND OBJECTIVES**

The main objective of the study will be:

- To establish and analyze the relationship between global change, retrenchment, unemployment and corporate social responsibility in South Africa.

Flowing from this problem, the following secondary objectives will be addressed:

- To analyse the imbalance between the need for employment retention and creation versus increased competition and sustained profitability;
- To establish the role of business and the state in meeting the challenges of globalization with a view to improving employment levels;
- To highlight shortcomings in respect of government and corporate retrenchment management strategies and compliance with the Labour Relations Act;
- To establish the effectiveness of retrenchment management and the after effects; and
- Assessment of the effects of retrenchment on employees and society and associated corporate social responsibility.

## **1.4 METHOD OF RESEARCH**

The proposed method of investigation will be an in-depth study of literature on retrenchments and events, followed by some case studies. Information will be obtained by thoroughly studying local and international literature, articles, news items and reports and interviewing a number of employer representatives to gauge the level of compliance to legislation and to establish the adequacy of retrenchment and employment strategies.

Relevant international and local literature will form the base of the investigation and these sources will then be analysed and interpreted to establish qualitative trends in the global village and how these are interpolated in the South African context. From the results of the research, recommendations for the prevention and management of retrenchments as well as human resource management challenges in the global village are contemplated.

## **1.5 DEMARCATION OF STUDY AREA**

The phenomenon of change is a pervasive concept, ranging from the micro level of personal growth to the macro level of globalization, permeating all levels and functions of society. In terms of time and space, we recognize that change is ubiquitous and inescapable. Due to the vastness and the universal nature of this concept, the researcher attempted to highlight what is changing in the world economy and then indicate the effects of these changes on a global scale. Using these changes as a base, the regional effects on the South African situation are extrapolated. The macro level changes in the world are thereby funnelled into the micro level changes that affect the South African economy and labour force.



## 1.6 KEY CONCEPTS

### 1.6.1 RETRENCHMENT AND REDUNDANCY

Dismissals based on operational requirements; commonly known as redundancies and retrenchments are broadly defined as follows in terms of section 213 of the Labour Relations Act (Act 66 of 1995):

“Operational requirements mean requirements based on the economic, technological, structural or similar needs of an employer”. This definition appears vague and open to many interpretations. What then constitutes “economic needs?” According to Basson *et al.* (1998:186) it covers all the needs relating to the economic well-being of organisations. It therefore reflects a financial difficulty and examples of the need to retrench can be found in the form of economic downturn, reduced product demand, technological change, automation, and so forth.

Structural needs appear to be related to a change in the structure of an organisation and refers to typical re-structuring exercises, joint ventures, acquisitions, mergers and business process re-engineering. These needs include i.e. a change of the flow of work or shutting down of sections of a production plant.

Technological needs refer to the need for improved production efficiency, automation or new technology. Structural changes may very well follow technological changes. Typical examples are where automation, which implies new technology, results in layers of employees assigned elsewhere and the balance retrenched. New reporting structures may also follow.

Indications of similar needs are somewhat distinguished from the economic needs and tend to be more related to employees than the wider business need. What then is meant with “similar needs?” Four categories can be distinguished:

- Special operational needs of the business;
- The employees' actions or presence affect business negatively;
- The employees' conduct has led to a breakdown of the trust relationship; and
- The enterprise's business requirements are such that changes must be made to the employee's terms and conditions of employment (Basson *et al.*, 1998: 187).

These fall outside the scope of this study and will not be addressed herein.

### 1.6.2 SUBSTANTIVE AND PROCEDURAL FAIRNESS

Bendix (2001:375) defines fairness as an action or behaviour where there is balance between the parties, if both parties receive equitable treatment, if there is conformity with universally accepted standards and if consistency was exhibited. The word "fair", according to Salamon (1987:46), has to do with subjective, value judgments about concepts for which there are no universally accepted criteria. This is not surprising, as various cultures judge fairness according to custom and tradition and the concept may vary significantly from one to another. The Chinese culture treats woman differently to men, so does the Islamic faith.

Procedural fairness refers to meeting procedural requirements of the Act, where substantial fairness relates more to the actual reasons for contemplating retrenchments. The concept of fairness, however, is subject to circumstances and interpretation. The Act therefore provides for discretion in this regard.

The definition of operational requirements can be linked to the definition of substantive fairness, as the Act essentially describes the reasons for retrenchment. Operational requirements, as contemplated by the Act and as described here above, poses many questions. Although the words technological, structural, economic or similar needs appear in the definition, it does not necessarily address the fairness thereof. Can employers for example retrench employees to increase profits? The author feels that

employers have a moral obligation and a social responsibility. Balance seems to be the solution.

Throughout the rest of this study, the concept of fairness will emerge as a holistic phenomenon in the employment relationship as well as the social relationship.

### 1.6.3 SOCIAL CHANGE

Since an attempt will be made at indicating the relationship between globalization and retrenchments, we need to understand that the world is connected through a series of causes and effects. Along this vein, it becomes clear that social change also implies a series of causes and effects in systems, be it a social or any other system. To clarify this concept, we have to examine what a system means and then what a change in a system means.

Sztompka (1994:4) defines a system as a complex whole, consisting of multiple elements bound together by various inter-relations and separated from the environment by a boundary. Systems are dependant and inter-dependant upon each other, for example: We live in the universe with the moon and the sun having causes and effects on our existence, without us actively thinking about it. In the same way, our internal organs interact with our bodies and each other, without us thinking about it actively. This principle applies to the macro and micro levels and affects every aspect of our daily lives, including the society in which we live.

Social change then has to refer to cause and effect. According to Sztompka (1994:4) change refers to changes within or embracing the social system and he then defines social change as the difference between various states of the same system succeeding each other in time.

Change in the global village and the effects on societies within which organisations operate are a recurring phenomenon. Several factors contribute to the generation of change. In chapter 2 we will elaborate on these concepts.

#### 1.6.4 PRODUCTIVITY

According to Salamon (1987:456) productivity, as seen in the wider context, can be seen as the relationship between the output of the organisation and its overall utilisation of its resources. Obviously, labour is on one of these resources. The concept of productivity is directly linked to employment levels. Change and productivity go hand in hand, as an increase in productivity can only occur through i.e. a change of either the cost structure of the organisation, job restructuring, process re-engineering, organisational restructuring or job re-design.

Productivity refers to the relative cost of labour. Finnemore & van Rensburg (2000:154) states that for a given rate of economic growth, the demand for labour will be determined by both the cost of labour and the production produced by that labour. Political uncertainty, poor educational standards, unrealistic affirmative action targets, social conflict, crime and violence, lengthy transport routes brought about by demographic imbalances, basic health facilities and housing are but a few issues that contribute to low productivity in South Africa.

Where productivity falls below the required competitive benchmark, the markets' share for products or services offered will succumb to the more competitive organisation.

Salamon (1987:468) notes that the nature of bargaining on new work methods (to improve productivity) has changed significantly during the 1960's as a result of changes in the economic and industrial environment. In the 1960's, the new work methods were conducted against the backdrop of demand for both product and labour. The keynote was therefore more efficient use of scarce resources. In the 1980's, the backdrop was

one of recession and declining demand for labour. The introduction of new technology then focused the attention on its effects on employment levels. Concomitantly, reduced employee power and unions resulted in less emphasis on bargaining to obtain it.

Van Niekerk (1986:255) defines productivity simply as the ratio between input and output. He warns that productivity should not be seen as a measurement of production quantities or profitability, a guarantee against inflation or a technique to make employees work harder.

Venter (2003:134) defines productivity as the ratio between the amount of goods and services produced and the amount of labour employed in doing this. The output element is measured in the price paid for the product or service, while the number of workers is used as the measure for employee input. Ultimately, labour productivity is a sensitive indicator of a country's economic performance. Productivity and competitiveness goes hand in hand, as is evident from the explanation of competitiveness.

#### 1.6.5 COMPETITIVENESS

Competitiveness in global terms runs commensurate with productivity and in this regard, South African companies find themselves in dire straights. Lombaard (1998:4) reported that South Africa is rated 42<sup>nd</sup> out of 53 exporting countries in terms of global competitiveness, only slightly ahead of Zimbabwe, Russia and the Ukraine. This means that South Africa is seen to be the 12<sup>th</sup> least competitive nation in the world - not a good sign if we wish to avoid retrenchment and create job opportunities. However, she had an extremely negative view and the World Economic Forum reported a much improved figure in 2002. Despite this, several observers have claimed that South Africa's competitiveness is hampered by high wages, especially of low-skilled workers, which exceed corresponding productivity levels (International Labour Organisation, 2001).

This issue is addressed in detail in this work. Bendix (2000:490) notes that South Africa ranks second to last on the global competitiveness register. Various and different rankings have come to light through a variety of measuring mechanisms, but the actual ranking is of lesser importance than the indicative trend of very poor competitiveness and low productivity.

Dekker (1999:1) asks the question whether society is using its resources to produce goods and services in an optimal way so that the economy is productive enough to sustain and develop the quality of life of its entire people. He lists the following criteria that should be considered in the pursuit of increased competitiveness:

- Increased living standards;
- Productivity enhancement;
- Increased rate of employment;
- Industrial justice;
- Removal of barriers to job creation; and
- Creation of part-time jobs without discrimination, etc.

It would appear that the active pursuit and ultimate success in achieving these goals would alleviate the need for retrenchment in South Africa. Globalization, with its opportunities, can only be exploited by actively pursuing improved productivity and competitiveness. Calitz (1996:105) shares this sentiment by stating competitiveness will not be enhanced through the redistribution of wealth, but through focus on ways to improve productivity. Through his research he found that worker participation can be an effective intervention to improve competitiveness.

#### 1.6.6 GLOBALIZATION

The concept of globalization means more than just a company simply marketing its products into the international arena. The traditional distinction between domestic and

multi-national companies became progressively unclear by the end of the 1980's when international competition was no longer the preserve of industrial giants. By comparison, statistics in the 1960's indicate that 6% of the USA's economy was exposed to international competition- by the late 1980's the figure rose to over 70% and is increasing at a rapid rate (Evans *et al.* 2002:25-26).

When reasons for the emergence of globalization are contemplated, the concept highlights itself as change phenomena. The ingredients of change, although not exhaustive, are briefly:

- Steady dismantling of trade barriers in Western Europe and North and South America;
- Increased availability of global capital;
- Advances in computing and communications technologies; and
- Progressive convergence of consumer tastes.

Although all the key ingredients for globalization have been around for some time, a critical mass was achieved whereby these trends became mutually reinforcing. Other characteristics of the modern world contributed to this change phenomenon. Economic barriers such as national borders are becoming less relevant, widespread deregulation and privatization opened new international business opportunities, distance and time zones became less problematic when faxes made way for e-mail communication and fixed phone lines were replaced by mobile networks. The unexpected obliteration of communism in Russia and Eastern Europe, commensurate with China's adoption of market orientated economic policies resulted in huge new markets being opened up (Evans *et al.* 2002:26).

However, globalization also brings problems and threats. Society by its very nature is and will become more and more interdependent in respect of its social, political, economical and cultural dimensions (Sztompka, 1994:86). These threats lie in the ability of any one nation state to engage effectively in this new world. Mills (2000:4)

quotes the then German Vice- Chancellor and Minister of Foreign Affairs saying that globalization opens up entirely new opportunities for the exchange of information and goods, but also brings greater vulnerability to external influences against which the poorer states are often far less protected than other regions of the world.

One of the consequences of globalization is the increased occurrence of mergers, acquisitions, joint ventures and take-overs which has a bearing on employment and retrenchment. This aspect will receive more attention later in this study.

## **1.7 DEPLOYMENT OF THE CONTENTS**

Chapter 1 deals mainly with the purpose of this study and the area of application. A few key concepts that will manifest regularly during this study are defined and explained.

In chapter 2, some change theories are briefly discussed with a view to providing an orientation for the reader towards the ubiquitous nature of change. The need for change in South Africa is also addressed.

Chapter three deals mostly with globalization as the ultimate manifestation of economic change and addresses the impact that it has on South Africa. Critical problem areas are reviewed; in particular the need to improve competitiveness and productivity and to alleviate unemployment. The interaction between the challenges of globalization, the ultimate need for retrenchment and resultant unemployment is discussed through the interpolation of the role of the state and that of business.

Once the need for retrenchment can no longer be ignored and it becomes a reality to be faced by government and business, the need for institutionalizing procedures to manage it properly is addressed in chapter 4. These procedures and systems are found in the labour legislation and therefore the discussion has a strong legal



undertone. The economic rationale for embarking on such profound steps is discussed in some detail.

Once retrenchments are past the legal phase and it physically materialized, it has an impact on business, employees and the society. The strategies to avert it altogether and the management of the effects of retrenchments are discussed in chapter 5, with a view to providing some guidelines to minimise the macro and micro level effects.

Chapter 6 deals with the principles of corporate social responsibility and why business has a moral duty towards all of its stakeholders- the shareholders, the employees, the community and the environment. This duty includes the effort in ensuring long term employment prospects for the community in which it wants to operate legitimately.

Lastly, in chapter 7, concluding remarks, findings and recommendations are made with respect to the role of the state and business in terms of addressing the need for retrenchment and minimising unemployment resulting from it.

**CHAPTER 2**

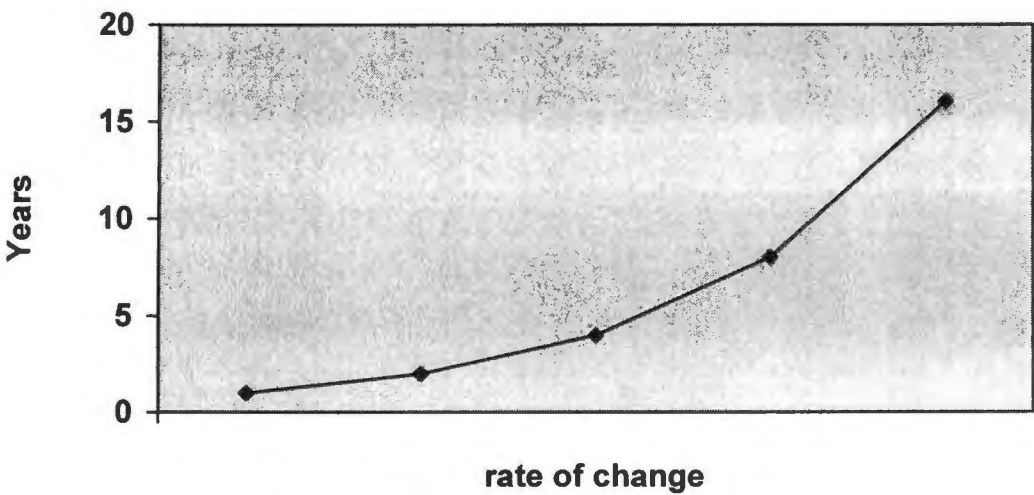
**GLOBAL CHANGE AND THE THEORY OF CHANGE**

**2.1 INTRODUCTION**

Change is an ever-recurring phenomenon. It is ubiquitous, occurs all the time and is known to be the only certainty in today’s world. The issue of change is a widely researched subject and a variety of theories of social change have been developed during the years.

Change is also a function of speed and the speed of change is happening at an exponential rate. To demonstrate exponential change:

Figure 1: The rate of change



Source: Researcher

It is then not surprising that so many theories have been developed regarding the phenomenon of change. For purposes of establishing the relationship between social

change and retrenchment, a brief discussion of some theories on change and the factors generating change (sources of change) is prudent. It will become clear that the sources of change are the same as those that cause retrenchment.

Of great significance is the way organisations inter-relate with change occurring in its operating environment and beyond. The above graph is indicative of the anomaly facing not just South African organisations, but also every organisation wishing to remain competitive and enjoy longevity. Organisations who fail to recognise the need for continuous and sustained change will inevitably face the reality of evaluating their workforce again and again, only to reach another dead end in their quest for survival.

Burnes (2000:252) commented that, according to research done in 1992, 80% of managers reported that their businesses encountered restructuring in the past five years and that there is no slackening in the pace of change. Ignoring the need for change can prove catastrophic for organisations, for if they do not keep pace with the world around them, the first cost-cutting exercise contemplated will be laying-off people.

Change in South Africa was profound after 1994, with the ANC assuming power in the national government. This change created many opportunities for the country, but also many threats. We are struggling with poverty in certain areas, and without the correct economic growth plan, unemployment cannot be addressed and will result in higher crime rates, which in turn will discourage investment (as opposed to foreign aid) - something we desperately need to stimulate growth and avoid retrenchments.

Kotze (2000) mentions that South Africa has been through unprecedented change during the past 10 years, resulting in more political, social and economic change than was ever experienced during the 70 years that followed the establishment of the modern South African state in 1910. The changes in our country come at a time when globalization takes effect at an alarming rate, increasing the urgency to effect a successful transformation of our society. To illustrate this point, after record profits in

2001/2002 that followed in the wake of the demise of the South African currency post September 11, 2001, things were looking on the upside for the gold industry. Within two years, the currency recovered from a low level of R 14/ US\$ back to R 7.20/US\$, destroying the growth prospects for this industry and leading to the imminent need for yet another mass retrenchment exercise.

The low level of education and shortage of skills also hamper economic growth and commensurate with low productivity levels and higher wages, we simply will not be able to compete internationally. Export poses a great opportunity, but at the expense of a weak currency. The value of the South African currency has and continues to change violently and with its extreme volatility, it is becoming increasingly difficult to manage these changes. The recent rally of the gold price to US\$ 350 / fine ounce against the backdrop of a weak currency which then swung around to a significant recovery made a mockery of the mine houses in deciding to hedge or not to hedge their gold exports.

## **2.2 THEORETICAL PERSPECTIVES ON CHANGE**

As was mentioned in the first chapter, the intricacies of the change phenomenon have triggered many studies that have lead to a variety of theories on change. Change theory is a complex subject and this section will only serve as a brief overview of some theories with a view to providing an introduction to global change and the consequences thereof.

### **2.2.1 EVOLUTIONARY THEORIES**

The basis for the evolutionary theories was envisaged as society proceeding through a fixed set of stages, for example, from savagery to barbarism through to civilisation. This evolution of society implied progress, development and advancement, each stage representing a higher stage than the previous and culminating in societal perfection

(Vago, 1999:46). The evolutionary theories cover human history and pre-history, but the key characteristic of the evolutionary theories is the emergence of modern industrial society, according to Etzioni-Halevy (1981:10). Sztompka (1994:101) argues that, in terms of the early evolutionists, industrial-urban-capitalist society is not an accident, but a natural, necessary outcome of preceding processes. As such, the evolutionary theories was based on the view that societies could be compared to living organisms, which passes through various evolutionary stages.

#### 2.2.1.1 AUGUSTE COMTE

According to Harris (1989:20), Comte understood social change by developing his theory around three successive stages of human transformation. Being a positivist, he believed that an evolutionary process takes place in society as a result of the intellectual effort of its citizens.

The road to perfect society involved the human intellect passing through three historical phases of sophistication. These phases are called the theological, the metaphysical and the positive. This road to progress is inevitable and irreversible, but remains a journey and never a destination.

In the theological stage, three more stages are identified. People think that inanimate objects are alive with their own will. Divine wills impose themselves on the objects and the conception is that the will of one god imposes itself on objects. In this stage, military life dominates (Vago, 1999:47). In support of this statement, Etzioni-Halevy (1981:10) states that priests dominated and military men ruled, encouraging warfare and conquest. This stage hence formed the basis of militarism as a form of social organization and equate roughly to antiquity. Ritzer (1992:15) notes that the world prior to 1300 was characteristic of this phase.

During the metaphysical stage, causality is explained as causes and forces replacing desires and one entity - nature - prevails. All phenomena were therefore explained by abstract ideas. The advancement from the previous stage is explained from the basis of a more disciplined and rational thought process. However, the weakness lay in the explanation of each phenomenon by a parallel concept, resulting in little clarification. This stage inexplicably formed the basis for a judicial-legalistic social structure, where wars were abandoned in favour of fortification and defence. This stage roughly equated to the period between 1300 and 1800, according to Ritzer (1989:15).

During the positive stage, people develop explanations in terms of natural processes and scientific laws based on empirical evidence, observation, comparison and experimentation. In this stage, it becomes possible to control human events and is known as an industrial society. This stage coincides with the modern era and roughly correlates with 1800 towards modernity. This stage alone enables man to exert control over nature and in this stage it is considered that scientific thought forms the basis of a technological advanced industrial society.

Social evolution was therefore the inevitable product of intellectual evolution, with specific reference to the cumulative development and successive rationalization of human thought (Etzioni-Halevy 1981:10). Comte believed that, because this was an evolutionary process, there was no need to encourage social upheaval and revolution.

Finally, this stage leads to the progressive abandonment of war and the successively peaceful society. This process culminated in the development of civilized Europe. Once the positive stage is reached, development becomes open-ended. Perfection can therefore not be achieved as a destiny, but a journey- as the pool of human knowledge increases incrementally. Essentially then, social evolution occurs through the force of ideas which adapt human beings in society to the new circumstances who themselves initiate further change (Harris, 1989:21).

### 2.2.1.2 HENRY LEWIS MORGAN

Another evolutionist, Morgan argued that the stages of technological development and kinship systems were associated with different social and political institutions. His conclusion was that culture evolves in successive stages that are basically the same around the globe. Three basic stages of evolution were identified, namely savagery, barbarism and civilization. From these, seven stages of the progress of humankind were identified, each stage distinguished by some form of technological advancement.

The stages were:

- Lower stage of savagery: From human infancy to commencement of the next stage, this stage ended with the discovery of fire and the acquisition of a fish subsistence;
- Middle stage of savagery: From the acquisition of a fish subsistence and knowledge of the use of fire that ended with the development of the bow and arrow;
- Upper stage of savagery: From the invention of the bow and arrow to the invention of the art of pottery, creating a watershed between savagery and barbarism;
- Lower stage of barbarism: From the invention of the art of pottery to the domestication of animals and the cultivation of crops;
- Middle stage of barbarism: From the domestication of animals and the cultivation of crops to the use of adobe brick and stone and ending with the development of the skill to melt iron;
- Upper stage of barbarism: From the invention of the process to smelt iron to the use of iron implements; and
- Status of civilisation: From the invention of the phonetic alphabet and writing, to the present time.

Each of these stages was also characterised by a commensurate development in family, religion, politics and property arrangements, with a major technological development preceding and initiating each stage. Human progress, from first to last, has been in a ratio essentially geometrical. Every item of knowledge gained became a factor in further acquisitions, until the present complexity of knowledge was attained. Consequently, while progress was slowest in time in the first period, and the most rapid in the last, the relative amount may have been greatest in the first, when the achievements of either period are considered in their relations to the sum, according to Lepore (2001). This sentiment was indicated by the researcher through the notion of the exponential nature of the rate of change.

Morgan was clearly a technological determinist with his focus on technology as a prime driving force in social change. In principle, we can relate to this phenomenon when evaluating the current speed of change brought about by modern technology. Technology has indeed gradually transformed the essence of human life on this planet.

According to Sztompka (1994:104), Morgan further argued that the continuity of evolution is based on the insatiable human material need, leading to an incessant search for the means to satisfy these. Once the technology is achieved to satisfy these needs, the character of society is changed, influencing the forms of family life and kinship organization and affecting the patterns of economy and politics, cultural values and everyday life.

#### 2.2.1.3 HERBERT SPENCER

Spencer held that societal evolution followed inexorable laws of nature that leads to progress, toward development of increasingly desirable and just forms of society. Equilibrium exists between the population and food supply. When the balance is disturbed (too many people and too little food) a struggle occurs, with survival of the fittest prevailing. Appelbaum (1970:30) suggested that an increase in mass or size in



either organism correspond to an increase in structure from a few like parts to numerous interrelated parts. Applying this to the globalization phenomenon, Naisbett (1994: 16) mentions that as the world integrates economically, the component parts are becoming more numerous, smaller and more important. This means that the global economy is growing, but with the commensurate shrinking of the size of the various parts.

Etzioni-Halevy (1981:10-11) discusses Spencer's' views further, but differentiates him from Comte through his emphasis on the analogy with biological organisms, conceiving evolution in terms of growth, differentiation and reintegration. Spencer argued that, much like the evolution of an organism, the evolution of society is firstly expressed in an increased size leading to growing differentiation or distinctiveness of parts. This differentiation means the development of specialization of function. Spencer held that evolution takes place as a steady continuum, whereby everything is synthesized at higher levels of complexity. The highest level of complexity is where the specialization becomes the greatest.

In Martindale (1981:83), it becomes clear that society for Spenser became an entity formed of distinct units characterized by a relatively permanent arrangement in a specific area and in a manner relating to the parts of a body forming a whole. Societies start as small units, eventually growing in aggregates of varying degrees to great size. The individual parts become increasingly dissimilar and more interdependent on each other. Society functions in the same manner. Where the degree of specialization is small, such as small hunting parties, a split in the group does not materially affect the existence of the group, but with large integrated societies, such as big cities, being isolated from the outside would seriously endanger its continued existence. Spencer's theory, not unlike other evolutionists, covered human history with implicit focus on the enormous transition from pre-modern to modern society. His theory also encompasses typifying society as "militant" and "industrial".

To summarize the dominant types of societies as seen by him:

**Table 1: Types of societies**

<b>Militant society</b>	<b>Industrial society</b>
Based on external warfare, internal coercion and rigid sanction.	Based on contractual relations, voluntary co-operation, protection of rights, self-restraint and permanent peace.
Features inheritance of positions	Features openness of rank and movement between positions.
Defence and conquest of territory	Peaceful production of goods
State domination, restricted freedom	State serving individual needs and freedom
Monopoly and state domination of other organization	Autonomy of private organizations
Centralized, autocratic political structure	Decentralized, democratic political structure
Low mobility and closed society	High mobility and open society
Autarky, protectionism and self-sufficient economic activity	Economic interdependence and free trade
Courage, discipline, obedience and patriotism are dominant values	Initiative, inventiveness, independence and truthfulness are dominant values.

Source: Adopted from Sztompka (1994:103) and Etzioni-Halevy (1981:11).

Sztompka (1994:102) discusses Spencer's theory as evolution proceeding through structural and functional differentiation, summarized as follows:

- From simplicity to complexity;
- From amorphousness to articulation of parts;
- From uniformity, homogeneity to specialization, heterogeneity;
- From fluidity to stability.

This progressive (or evolutionary) change process is universal - it applies to the development of life itself, society, literature, science, art, government, commerce, etc. and holds throughout successive differentiations.

#### 2.2.1.4 WALT W. ROSTOW

Rostow postulated that the lengthy process of economic development proceeds through the following five stages and that uniformities tend to occur in the sequence of development:

- The traditional society: Agriculture is predominant, little capital appreciation happens, mentality and attitudes of people hamper development. Mysticism and religion plays a major part in this simple, undifferentiated system of social organization.
- The pre-conditions for take-off: A population increase occurs; entrepreneurs come into existence, agriculture increases. Education follows from the need to support the new economy. Banks and other institutions come into existence and the state becomes more centralized. More workers become involved in developing transport and power supplies.
- The take-off: Economic growth becomes the normal condition. Characteristics of this stage are that the ratio of savings and investment to national income increases, high growth industrial development, and quick emergence of political, social and institutional frameworks to support to economic drive. Further characteristics are a marked rise in the rate of growth of national and per capita income, the leading sectors in the take-off have ranged historically from cotton textiles, through heavy-industry complexes based on railroads and military end-products, to timber, pulp, dairy products and finally a wide range of consumer goods. Lastly, the take-off is a relatively short period.
- The drive to maturity: The application of modern technology becomes a feature of the society. A still bigger portion of national savings is re-invested, allowing

output to outstrip the rise in population. The economy demonstrates its ability to move beyond the original industries that powered the take-off. Infrastructure, such as health care and education, is improved.

- The age of high mass consumption: The economy shifts from the production of basic commodities such as steel, machinery, textiles, etc. towards the production of consumer goods and services. More funds are allocated to social welfare and a power struggle emerges in the international arena (Vago, 1998:52-53; Kuznets, 1974: 25-26; Harris, 1989:31).

Rostow saw that development was a transition between two poles, from rigid tradition to constantly changing modernity (Etzioni-Halevy, 1981:37). A similar view is held by Harris (1989:31) when it is said that Rostow isolated technology as the key to progress. He believed that certain economic factors must be present to change from a simple to a complex industrial society. These factors were broadly categorised into two areas, i.e. men who must be prepared to lend their money on long term at high risk to back entrepreneurs, and agriculture which must produce more food.

#### 2.2.1.5 AUTHOR'S VIEW

The researcher believes that evolution certainly does take place in society. The progressive steps from whence mankind came as a being living close to nature to where we are today in a highly industrialized society, bears testimony to this pattern of change. One only needs to look at how technological advancement in transportation shrunk the globe in terms of accessibility. Similarly, evolution means progressive steps, but one could ask the question whether evolution equates to development, and also ask whether development equates to progress. The researcher does not believe that development necessarily equates to progress. When development does not equate to progress anymore, nature will evolve means and ways to take over and institute mechanisms such as AIDS and the earth's reaction to pollution to counterbalance the "development" which is out of step with nature. In this way, social

evolution will occur. Similarly, the stages of development cannot take place equally around the globe. The big backlog of Africa's competitiveness bears testimony to this.

## 2.2.2 CONFLICT THEORIES

The conflict theories assume that social behaviour can be understood in terms of tension and conflict. The base therefore assumes a situation of imbalance, where a struggle occurs between scarce commodities. Today, we will call it competition. Conflict refers to opposing needs of parties from where different goals are sought, as opposed to competition, where a similar goal is strived for. The conflict change theories presuppose that change, rather than order, is an essential element of social life. The source of conflict can be found in structural differentiation and change occurs through this conflict, not merely as an outcome of improperly functioning systems.

### 2.2.2.1 KARL MARX

Marx, according to Vago (1999:54), firmly believed that no progress can be made without conflict and described this occurrence as the law which civilization followed to the present day. He was of the opinion that every society rests on an economic foundation that he called the "modes of production of commodities". These modes entail the forces of production (physical or technological arrangements of economic activity) and the social relationships of production (the indispensable human interaction in carrying out economic activity).

Marx deemed the material economic conditions of society as its basis. He then defined the economic realm as containing the conditions and forces of exchange (including the structure of the market and the organization of commerce), the conditions of production (including the resources and historical settings), the forces and modes of production (including scientific knowledge, the means of production, capital and the organization of

labour and ownership), and the relations of production (relations between owners and controllers of production and those who actually produce). The relations of production form the basis of the class structure, whereby conflict occurs between the one that owns and controls the means of production and the other exploited party that actually produces. His premise was that individuals in a society are required to satisfy their basic human needs for food, clothing and shelter to survive. In the process of satisfying these needs, human beings enter into economic and social relationships with each other. It is the nature of these relationships which changes as the process of satisfying these needs change (Harris, 1989:36).

Lastly, Marx believed that the state is the superstructure of society whose shape depends on economic conditions and class interests (Etzioni-Halevy, 1981:12).

Changes in the modes of production produce changes in the relations of production. Five stages of history were identified, each characterised by some form of economic production and conflict, except the communist stage:

- Tribal ownership (a primitive type of communism);
- Ancient communal and state ownership accompanied by slavery;
- Feudalism;
- Capitalism; and
- Communism, which he divided into a dictatorship of the proletariat and “pure” communism.

The change theory postulates that economic and other conflicts arise between two or more opposing economic groups with separate and opposing economic interests. This conflict (conflict of classes) leads to further social and political conflicts with each group pursuing their own interests at the expense of others. This polar model means simply that society is divided into two classes- the Bourgeoisie and the Proletariat, the haves and the have-nots. The two parties stand in stark contrast to each other, leading to conflict: Ownership, wealth and abundance opposite hired labour, poverty and

deprivation; rich opposite poor; privileged opposite exploited; master opposite slave; patrician opposite plebeian; lord opposite serf; guild-master opposite journeyman, oppressor opposite oppressed- these concepts all stood directly opposite each other and contributed to class conflict (Sztompka, 1994:170).

Marx saw that this model had its own intrinsic dynamics, but at least two permanent changes did occur in society. The one permanent change is the split in the camp encompassing the whole polarized structure, whilst the other has to do with the components of the opposing structure.

Marx contended that, in a capitalist society, individuals will move from intermediate groups to become either proletarians (workers) or bourgeoisie (property owners). As class-consciousness and militant class action develops, the struggle between the two groups becomes inevitable, finally resulting in the overthrow of the system where communism becomes the stage where balance is achieved with all being equal. This model of how the struggle will lead to a revolution can be summarized as follows:

- The need for production;
- The expansion of the division of labour;
- The development of the private property;
- Increasing social inequality;
- Class struggle;
- Creation of political structures to represent each class' interests and then;
- Revolution (Vago, 1999:55).

In closing, it should be noted that Marx did not take enough cognisance of the other factors driving change, such as the identification of workers with religion, culture, language and occupations amongst other things, as will be addressed in the following pages.

This theory can be seen in operation in South Africa with the ANC/SACP/COSATU alliance, but evidence in Russia has shown this phenomenon of communism not to work in the modern world. The researcher argues that this is where a new struggle will emerge. However, when contemplating the unique South African situation, the author postulates that the class struggle continues. A new black- elite is forming, whereas the masses of poor continue to be poor and hence another revolution may be brooding. However, due to modern legislation and the principles of collective bargaining, the intensity and violence of such a revolution will not be nearly as intense as envisaged by Marx. The class struggle that has lead to profound social change in South Africa in the post-apartheid era therefore does continue.

#### 2.2.2.2 LEWIS A. COSER

The conflict theories gained momentum during the middle of the twentieth century as the class struggles, racial conflict and warring interests increased. Coser (1956:151) held that social conflict may contribute to the maintenance, adjustment and adaptation of social relationships and social structures. Vago (1999:57) discussed Coser's argument that conflict is part of the socialisation process and that no social group can be without conflict. He held that conflict has both positive and negative elements, as it can resolve disagreements and will eventually lead to unity. Conflict within a group may serve to remove dissociating elements in a relationship and serve to re-establish unity and cohesion where it has been threatened by hostile and antagonistic feelings among the members. Conflict and its resolution have a stabilizing function and becomes an integrated component of the relationship. People learn to get along as a result. Inter group conflict also leads to "in-group" cohesion as they stand together against a common enemy (Coser, 1956:121).

On the other hand, not all conflicts are positively functional. The negative impact of conflict, according to Dahrendorf (1976:207), is that open and loosely structured societies, by allowing conflicts, devise safety mechanisms against the types of conflict



that could possibly endanger basis consensus, thereby minimizing the danger of divergences touching the core values of that society. This is mostly due to the interdependency of antagonistic groups. The crisscrossing within societies of conflict in relation to the interdependence of conflicting groups serves to cancel each other out, preventing social disintegration.

Those whose needs are not satisfied will attempt to change the situation by confronting the opposing group that suppressed their goals. The benefit of conflict is recognised through the establishment of new boundaries, the alleviation of tension and the development of new group structures to deal with the conflict. New alliances may arise and the distribution of new social values will lead to a new social order. In this way conflict generates social change (Vago, 1999:57). The clash of values and interests, tension between what is and what should be, conflict between vested interests and new strata and groups demanding their share of power, wealth and status and so forth all contribute to the vitality and growth in society (Dahrendorf, 1976:207).

The post-apartheid government and new government structures commensurate with the expectations and behaviour of their constituency, bear testimony to this theory. The civil rights movement in the USA also serves as a good example of the application of this theory.

#### 2.2.2.3 RALPH DAHRENDORF

Dahrendorf developed his conflict theory on the basis of opposing needs for authority, rather than viewing social class differences as the source of conflict. In essence then, like Marx, he understood that society is divided into two groups, but portrayed the opposing groups as those who have authority and those who have not.

Social conflict has a structural origin and he claimed that conflict should be understood in terms of conflict about the legitimacy of relations of authority. He contended that two

opposing groups share in common experiences, roles and interests. One group seeks to maintain the status quo whereas the opposing group seeks change. The conflict then leads to change due to a change in the dominant relations (Vago, 1999:57).

He then views the basic factor of conflict not necessarily in the ownership of the means of production by one class, but rather the power that one class wields over another. It appears therefore that the ownership of the means of production is merely one instance of the general concept of power, resulting in the view that Marx possibly had a too narrow view of class conflict. Ownership can be abolished, but not power and where power gives rise to class conflict, this conflict can neither be abolished. In this way, the conflict will inflict social change (Etzioni-Halevy, 1981:41).

Dahrendorf further suggested that interest groups would emerge from what he termed "quasi" groups as members of the group develop leadership, effective intra group communication, a consistent ideology and an awareness of their common interest. As this group becomes more organized, the conflict with the other group will increase. The intensity and violence of this conflict will be determined by certain conditions of the conflict.

Intensity and violence are then the variables, according to Dahrendorf (1976:211) of class conflict. These conditions are opportunities for social mobility and the responses of the agents of social control. The degree of intensity is determined by the energy expenditure, emotional involvement and animosity felt by participants. A certain conflict may be intense if the cost of victory or defeat is high, and hence the more importance is attributed to the issues and substances of the conflict, the more intense the conflict will be. In contrast to intensity is the violence of conflict. The violence of conflict relates more to its manifestations than its causes, or as Dahrendorf stipulates: "it is a matter of the weapons that are chosen by conflicting groups to express their hostilities".

Structural change is then also effected as a result of the change in the dominance relations. The conditions of this structural change depend on the ability of those in

power to stay in power and the potential of the dominated interest group to sustain the pressure. Examples of this theory can be found in the union versus management argument where the unions exerted pressure to the point where structural change occurs. Dahrendorf (1976:210) himself suggests that conflict groups, once they have organized themselves, engage in conflicts that effect structural changes.

#### 2.2.2.4 AUTHOR'S VIEW

The researcher believes that conflict is probably the most profound reason for change in South Africa. Conflict revolved around the availability of resources for the majority of South Africans, which was seen as being allocated in abundance to the whites only. The pressure borne from such an unequal society had to produce enough conflict and tension to cause the system to collapse under the pressure. This is a law of nature - if imbalance exists in a system, pressure will be borne until either the system collapses or the pressure is removed. You can only squeeze a balloon so hard before it explodes.

In this way, social change occurs as well. In an employment context, the same principles apply. Competition will result in either too many or too few competitors in the market. The market will react to the conflicting competitors through the demand for the product, either resulting in lower prices, or a fallen competitor- so restoring the balance. Retrenchment may result as another measure to absorb the pressures and conflict.

#### 2.2.3 STRUCTURAL- FUNCTIONAL THEORIES OF CHANGE

The word "structure" refers to a set of relatively stable and patterned relationships of social units. The word "function" refers to the consequences of social activity that leads to adjustment of a given structure (Vago, 1999: 59). By implication, this means that "function" means a dynamic process within the structure, where "structure" remains relatively stable. The structures are the various parts of the social system. In the

society, the structures referred to may be equated to the institutions of society, i.e. family, government, economy, religion and education, as examples. The analysis then focuses on the interrelationship amongst these institutions. Each structure has a specified function to assist society in fulfilling its functions.

The principle doctrine of the structural-functional approach is summarized as follows:

- Society must be analyzed holistically as systems with interrelated parts;
- Cause and effect relations are multiple and reciprocal;
- Social systems are in a state of “dynamic equilibrium”;
- Perfect integration is never achieved. Every system has strains and deviations which are neutralized through institutionalization;
- Change is a slow adaptive process and not revolutionary;
- Change is the consequence of adjustment of changes outside the system; and
- The system is integrated through shared values.

#### 2.2.3.1 TALCOTT PARSONS

Talcott Parsons, according to Harris (1989:25), argues that the basic premise of Parsons' work is that social life is conducted through mutual advantage and peaceful co-operation, rather than hostility and destruction, as opposed to the conflict theorists.

Parsons believed that a social system is made up of interrelated parts. As long as these parts are mutually compatible and fulfil a positive role towards each other, the social system will be relatively stable. The whole system is maintained in a state of harmonious equilibrium by an agreed value consensus. However, when two or more patterns become discrepant or incompatible, the equilibrium of the system is upset and social change will result (Vago,1999:59 ; Harris, 1989:25). Although his theory is classified here under structural –functional, it is also known as the equilibrium theory.

In support of this argument, Etzioni-Halevy (1981:34) shares the understanding that the basic assumption of the structural-functional theories is that the social system is made up of interrelated parts, as long as these parts are mutually compatible. Where anomalies occur, the strains will result in social change.

Vago (1999:62) sees social change in this context as boundary destruction and equilibrium restoration. These changes have two sources - endogenous (affecting boundaries within the system) and exogenous (initiated from one of the systems outside the social system). The external forces of social change are internal to the other systems. Examples of these forces are genetic changes in the population, technological advancement in the exploitation of nature, impact on other social systems (such as war or cultural influences). Internal changes are caused by the strains inside the system itself. Parsons saw the main concern of sociological analysis to be the scientific study of social institutions. These institutions should be seen as distinct, although inter-dependant groups having broadly similar cultural patterns. The similarity of these cultural patterns results from two different sources of influence. These sources are through the process of socialization, in which the individual internalizes group norms and values; and through external social controls, whereby individuals are under threat of punishment when deviating from prescribed legal patterns of behaviour.

When these systems are broken down into its primary components and dimensions, the following changes may be possible:

- Change in composition of a group, such as moving from one group to another, depopulation due to natural disasters, dispersion of a group, etc.;
- Change in structure, such as the reduction of inequalities (the new South Africa is a prime example hereof), power and friendship emergence, competitive or co-operative relationships that form;
- Change of function, such as specialisation, decay of family life, indoctrinating role adoption by schools and universities;

- Change in boundaries, such as company mergers, relaxing admission criteria; take over of one group by another, amongst others;
- Change in subsystem relations, such as ascendance of political regime over an economic system, totalitarian control of families and the whole private sphere. The former Eastern Block countries will serve as a good example hereof;
- Change in the environment, such as ecological disasters, whether unnaturally induced or caused by nature herself, earthquakes, illness, etc. On a macro level, we can already see how and to what extent AIDS and HIV will impact on population levels and what the impact on the micro level (organisations) will be.

No system is ever in complete balance and subtle changes will continuously occur within a system. A democratic society will for instance address grievances and meet challenges, changing subsystems in the system, without changing the essence or stability of the democratic system as such. Such a change would be deemed a change in the system. A change of the system implies a revolution and South Africa is a prime example hereof - a system that has borne so much tension that, not only did a total collapse of one system ensue, but a transformation on a massive scale followed in its wake.

Sztompka (1994:6) argues that the distinction between changes in and changes of the system is not that clear. He states that often one can see specific thresholds beyond which the extensiveness and intensiveness and the momentum of piece meal changes gradually transform the system into something totally new.

#### 2.2.3.2 WILLIAM F. OGBURN

Ogburn, according to Vago (1999:64) argued that society operates as a homeostatic mechanism. Changes that upset the equilibrium in one part tend to produce compensating changes to counteract this disturbance in order to restore the equilibrium. This new state of affairs results in different conditions and there is a lag

between the two states. This unequal rate of change produces a strain, causing this lag. The slower changing culture eventually catches up, restoring the balance. An example would be changing curricula to match technological change- the curricula only changes once the difference in technology and the need for improved education causes a strain such as unemployment.

He differentiated between material and non-material cultural change. Martindale (1981:298) refers to this as emphasis on the difference between material culture and adaptive culture. The material culture changes directional and progressive, such as an improvement in technology until superior machines are developed. The standards of this change are measurable and change in this arena is fast. Conversely, the nonmaterial changes that occur (known as knowledge, beliefs, norms and values) have no agreed standards and hence makes it difficult to measure. Therefore a difference in the speed of the material and nonmaterial changes results in this cultural lag. Material changes bring along required change in a variety of areas in the nonmaterial arena.

According to Martindale (1981:298), many things may interfere with the adjustment of this adaptive culture to the material base, such as those who have a vested interest will derive a differential advantage under existing conditions. Resistance may occur due to anything upsetting the tradition. This resistance to change become habit.

#### 2.2.3.3 AUTHOR'S VIEW

The need for emphasis on structural change is important because structural change has profound effects in the sense that changes of systems rather than changes in the system occur as a result. Social structures are the base on which society and its operations are founded. The effects of change are noticeable on many levels, from the macro, to the mezzo to the micro. As an example, on macro level we can refer to the effects of globalization, on the mezzo level the effects of political parties and

organisations and on the micro level families, communities, friendship circles, etc. These changes are inter-related, as the effects of globalization impact on strategies and profitability of companies - these in turn affect family income, labour distribution and therefore retrenchment.

## 2.2.4 SOCIAL-PSYCHOLOGICAL THEORIES OF CHANGE

### 2.2.4.1 MAX WEBER

Weber reminded us that it is people who change and all social actions (economies, political systems, and social organizations) are nothing but accumulated, lasting outcomes of social actions, emerging in the course of human history. He felt that it is important to explain change in terms of understanding the tracing of these institutions to human actions and in turn to understand human actions in terms of the psychological motivation which impel people to action, as well as cultural values, norms and rules that shape the form of these actions (Sztompka, 1994:235).

His theory focussed on the transition from the pre-modern to modern society and on a dichotomous distinction between the two. His theory focuses further on Western Society. For Weber, Western Society is distinguished by its rationality. The process of rationalization can be recognized in three related dimensions:

- The tendency to adapt means to ends ever more effectively;
- The trend to ever more systematic organization of reality; and
- The decline of myth and magic to a growing reliance on reason (Etzioni-Halevy, 1981:16).

Sztompka (1994:236) postulates that the central organizing principle of Weber's theory is the rationalized, efficient, profit seeking production of goods, based on private property and individual entrepreneurial efforts. The elements of this society are the



entrepreneurial organization of capital, rational technology, free labour, unrestricted markets and calculable law.

People are pre-occupied by the idea of making money and the acquisition of goods becomes the ultimate goal in life. Idleness, wastefulness or continued enjoyment of life is not allowed and life should be devoted to achieving. There is constant pressure to rationalize activities and to organize life so that credibility, punctuality, honesty, inventiveness and adaptability to new circumstances become integral parts of behaviour. Greed, however, is not the prime motivator. The acquisition and spending of money must be strictly rational, calculated and directed to the progressive, optimal accumulation as a goal (Vago, 1999:66).

Weber's theory of social change, according to Sztopka (1994:236-237), occurs in reverse order as follows: Capitalism is the result of human actions, driven by a specific type of action, carried out by a specific type of class or agent with its own motivation. The emergence of a new type of entrepreneur and worker served as the agents of such change. These entrepreneurs had a certain ethos or mentality. This ethos develops from either the "other worldly" or "this worldly" mentality.

## **2.3 FACTORS GENERATING CHANGE**

As was evident from the brief introduction to some change theories, a variety of factors and sources exist that influence and generate the change process. It also became clear that change does not happen in one society only, but across a variety of societies. As such, with the development of information and travel technology, the world is becoming smaller and smaller. As the globe "shrinks" and the global village emerges, the factors influencing change will become more profound and materialise in many more levels. To illustrate this notion, it is prudent to briefly reflect on these factors and sources.

### 2.3.1 TECHNOLOGY

Development in the technological arena of life has grown dramatically since the industrial revolution and has continued growing at an exponential rate. Today we live in a technological age. As Ramo (1980:275) puts it: "every year the fraction of all the goods and services we produce that properly can be labelled technological increases."

Technological change has had a positive and negative impact on change. This can be seen throughout history. For example, agricultural technology impacted on the quantities of food produced, resulting in a food surplus required for the growth of cities. The atomic bomb forever changed Japan. In a way this can be seen as a negative impact at the time, but out of this came the positive attitude of the people to reconstruct the country and develop it into a the super power economy that we know today. Industrialisation created the need for a change in gender roles and work environments. Traditional farmers who led a life of subsistence moved to cities to work in factories, creating a totally new social order. New friendships were forged and new problems with urbanisation materialised. Here we can already see the impact of industrialisation, originating from technological change - competition for scarce resources and the need to achieve more. A new power balance between labour and management was established with the formation of trade unions, a direct result of industrialisation and the exploitation of workers.

Technology influences society, the structures, functions and the very organisation thereof and as such, creates problems, but also opportunities. A higher standard of living could be achieved, but may also result in greater differentiation of classes, which in turn results in conflict or competition.

Increasing competition requires a more and more skilled and motivated employee. As technology advances, competition for markets increase and higher discipline levels evolve. Economies grow as a result and in this way, the economic factor of change is affected. As time becomes more precious, non-work time is affected. On the other

hand, highly automated industries can cultivate feelings of alienation, feelings of being powerless and meaningless, resulting in self-estrangement and social isolation. Technological changes also affect the composition of the workforce, the nature of work *per se* and where people work. In this respect, Apgar (1998:121) mentions that technological change enabled people to work very differently. This means that the traditional office bound, stuck-in-traffic scenario for employees may disappear in future. The alternative workplace is developing fast, resulting in work coming to employees and not employees going to work. It is already estimated that between 30 and 40 million American workers are home based or telecommute.

This is made possible with the development in communications technology and computers. In this respect, Gill (1985:3) mentioned that 15 years ago the power of computers have already increased 10 000 times. Where the computer of 1963 required several tens of thousands of hand-made connectors, the equivalent modern computer would only require ten elements in a large-scale integrated circuit.

The effects of technological advancement on employment levels can be severe, but the researcher will focus on these issues in the context of retrenchment in ensuing chapters. In this respect, the automation of industries to become more competitive will result in job losses, in turn affecting the society that needs to feed those mouths that lost their jobs, leading to other pressures borne by that society.

### 2.3.2 IDEOLOGY

Ideology underlies all social and political discourses and the function of ideology can be described as legitimisation and rationalisation of behaviour and social relationships, the provision of a basis for solidarity and motivation of individuals for certain actions. Development in industrial technology paved the way for the origins of capitalism. This occurred as a result of a change in work ethic, or as Max Weber called it "this worldly" orientation. The shift for farmers from subsistence farming to working in factories

underscores this belief. On the other hand, it is argued that ruling ideas of society are ideas of its ruling class. Karl Marx argued that ideologies are developed and maintained, transferred and the implications of an ideology determined and communicated and managed by powerful groups. This infers the development of ideas from people to move in a certain direction (change). Ideologies are therefore values and norms based. The effects of the communist ideology and the changes it brought about still reverberate in modern society, as we know it today. The effect of this ideology on the Eastern Block economies remains as evidence (Vago, 1999:15-18).

Political ideologies impact on institutions of society, creating the source for action and as such, may be viewed as the most powerful source of social change. Behaviour of people will be guided by the perceptions of people subscribing, as they measure the principles against their perception of reality. Examples are communism, democratic socialism, liberalism (divided in classical and modern), conservatism and authoritarianism. These ideologies clearly impact on the way economies are structured, access to resources provided (or the method of access), freedom of the society to make their own decisions, the composition of a society, and even competition. In a purer form of communistic society, competition is diluted to the point of almost extinction, impacting on economic growth. It then becomes clear that economic growth is the key to avoid retrenchments and therefore the ideology of the day is of paramount importance to avoid the negative repercussions of downsizing.

### 2.3.3 COMPETITION

Competition arises due to scarcity of goods that are universally desired and restricted by laws, tradition and custom. Competition, as seen above, is a cause and effect of change. Supporters of certain political ideologies differ with respect to competition in that competition is deemed a means of oppression, but necessary for progress. This relates back to the perceived notion of reality by the community.

Competition generates change where the possibility exists for securing additional resources and is found in many social arrangements. In a capitalist environment it impacts on economies, where increased profits and ever increasing standards of living are sought. It therefore controls choices of goals. Competition can also result in the internal structures of businesses. A re-alignment or cutback of resources may be required, resulting in possibilities such as restructuring, new rules and policies, entering productivity, have or exiting markets or acquisition of a competitor. Competition and its associated factor have a profound effect on employment and retrenchments, as we will see later under the chapter on globalization.

#### 2.3.4 CONFLICT

Conflict can be seen as another form of competition. The difference is found in the character of the goal sought. Conflict is about different goals, where competition is about similar goals. A few examples of conflict can be found in workers versus managers, students versus administrators, blacks versus whites, females versus males, international conflicts (war), etc. Conflict is ever present in humans, derived from man's changing needs and arises from a scarcity of commodities, be it anything from money, power and love to recognition, prestige, etc. The nature of conflict spreads over many strata in society - between countries, families, organisations, institutions and the like - and is endemic to all social relations.

Three bases of conflict can be established beyond substantive conflicts- symbolic, ideological or cultural. Symbolic conflict can occur where allegiance to a nationality is refused, ideological conflict relates to possible differences in views towards typically the economic structure of society (capitalism versus communism), and cultural conflict, driven by values and lifestyles. The inter-relationship can already be seen between conflict, ideology and economy. An example is the cold war where differences in ideology created conflict between nations and the structures of the economies.

Conflict, like technology, has positive and negative implications. Conflict is deemed necessary to move one party from a position to another as desired by another party, in this case to the benefit of both. As such, conflict plays a major role in change. Looking at the World Trade Centre disaster on September 11, 2001, the whole world order changed due to conflict and different ideologies. Conflict also generates energy for higher level thinking and finding innovative ways to accommodate another need.

Here are some practical examples of the impact of conflict on specific situations:

- Trade unionism conflict with management brought about profound changes in working conditions of workers. A general improvement in well-being was achieved. This impacted on economic conditions and ideology, as the psychological contract was seen to be more fulfilling.
- University students conflicting with administrators on national, international and community affairs had implications on investment policies, research results impacting on the military, involvement in community affairs, composition of curricula, etc.
- Racial conflict between black and white resulted in a whole new dispensation for South Africa.
- Conflict between male and female heralded an era of equality in certain societies. Roles of the sexes were affected as a result and new management styles emerged from woman leaders.
- International conflicts: The significance of war on nations at war impacts on ideologies, economies and social structures. Dislocation of family impacts on the structure of society; financial losses impact on the economy and the practice of an ideology may be endangered.
- Conflict in Eastern Europe and the former Soviet Union: The extreme change from a command economy to a free market economy and from communist control to a multiparty democracy depicts change in the extreme. Political, economic, religious and ethnic conflicts greatly contributed to this radical change. Results of the change similarly impact on the rate of change as they

battle with being competitive, reducing their ability to reform to a capitalist society (partly due to old technology and the cultural inclinations of low productivity of a communist society.) Unemployment rose, impacting again on social structures and family life. Class divisions deepened in a previously equal society.

From the above, it appears that conflict probably played one of the biggest roles in transforming society, although one could argue that technology has led to some of the conflicts described here.

### 2.3.5 POLITY

Political power relates to the ability to allocate resources that affects the change in the lives of people in numerous ways. Change in this regard takes place at a variety of levels, for example, national, provincial or municipal.

Polity plays an important role in effecting change, for example land reform, economic reform, systems affecting health, social structure, distribution and re-distribution of land and resources. Attempts at addressing racial issues have been seen to foster major social changes in South Africa. Change in this respect is effected essentially through a system of distribution (where small amounts of people are involved) regulation and re-distribution. Regulation here means restriction of certain actions, such as protection of consumer rights or labour relations management, whereas redistribution refers to a transfer of resources among or between large groups of people. Affirmative action can be seen as the re-distribution of opportunities, benefiting some in society and not others.

Political systems therefore are sets of values, beliefs and rituals, formal and informal institutional procedures that operate systematically and consistently to the benefit of

some and at the expense of others. This immediately infers conflict and resistance that can go so far as to affect change to counter the imbalance of power and benefit.

Economically speaking, polity can foster some of the following changes:

- Creation of conditions supportive of economic development without interference, for example support of trade, business, entrepreneurial and other activities; while protecting rights of ownership of resources;
- Regulation of activities such as protection of rights under an advanced capitalist system; and
- Direct involvement, interference and even ownership of economic activities, such as the previous communist systems (Vago, 1999:28).

In closing, polity facilitates integration of society through conflict regulation and accommodation of demands. The current ANC initiatives in forging multiracial societies bear testimony to this.

#### 2.3.6 ECONOMY

Economic systems shape the dimension of society. Capitalism in the USA and communism in the former Soviet Union provide an insight into the magnitude of the different impacts on the social structure, both systems originating from an ideology.

Technological advancement results in increased economic activity, gives rise to changes in spending patterns and influences class divisions. In turn, people affected by the economic system entrenched by polity need to change and adapt which could give rise to a change in demographics, in turn impacting on the social structures and kinships. Values of society are influenced by a change in morality originating from the ideology followed. Economic factors and systems impact on equality and inequality, depending on the system followed.



Not only does the economy influence stratification patterns; it can also make or break communities. It is commonly known that competition by regions for resources can lead to the development of some at the expense of others, all with a view to competition and a need to develop. Large organisations can become so powerful that it can put pressure on polity for change. In the same way, economic factors from abroad can affect change in a local community. Pressure to conform to international ideologies exists in full form today and manifests in issues such as sanctions and the removal of financial support. At present, Africa is a prime example of a very large community following the pressures of eastern and western ideologies.

## 2.3.7 THE EFFECT OF STRUCTURAL STRAINS

### 2.3.7.1 DEMOGRAPHIC IMBALANCES

Strain implies discrepancy in a system assuming that the social system is made up from inter related components. Where these components are compatible and serve each other, the system is stable. Conversely, if the balance is disturbed, change is inevitable. Demographic imbalances, anomie, forms of scarcity, role conflicts, imbalance between real and ideal, values conflict and status anguish are potential sources of incompatibility.

Population growth results in an increase in the scarcity of resources. This can lead to the seeking of alternative venues for attaining the sought after resources (e.g. employment opportunity), which can be a direct result of globalization, economic conditions, conflict, competition, etc. With the mobility of labour in this respect, comes the potential inability of the new system to accommodate the new arrivals. Economic growth of the new area may not be in the same proportion as the demand from the new dilapidated environment. Squatting arising from urbanisation can be seen as a good example of this.

Likewise, population growth creates imbalances in food supply, adversely affecting resource utilisation. Urbanization leads to big concentrations of people, competing for the available resources and due to the concentration of people, puts pressure on the infrastructure in coping with the masses. Traffic congestion, overloaded health care facilities, deterioration in the quality of education, etc. flows directly from this phenomena.

#### 2.3.7.2 ANOMIE AS A STRUCTURAL STRAIN

The source of this strain is the availability of socially validated guides. Goals to be achieved are set by society, but the means to achieve them are unequally available. People may wish to be popular, wealthy, and successful, but the economic conditions applicable to their situation may not facilitate the acquisition of this, resulting in frustration. Deviant means may then be sought to achieve these goals, resulting in crime, drug and alcohol abuse, even suicide where the strain becomes too much. Events leading to this in turn affect the economy, as means are devised and resources made available to counter-act deviant behaviour. Rebellion may ensue as a means to effect change (Vago, 1999:35). South Africa's pre- and post-apartheid manifestations bear testimony to structural strains and the move towards change.

#### 2.3.7.3 AMBIGUITY IN ROLE EXPECTATIONS AND CONFLICT IN SOCIAL ROLES

These issues can also lead to strains resulting in change. Female emancipation, entrance to the workplace of both parents resulting from economic strains may be viewed as good examples of role expectation conflicts. Because resources are required and these are scarce, this in turn may lead to conflict and change. Changes in moral standards lead to changes in legislation and underscore the values of the society (Vago, 1999:36). These changes impact again on the polity in formulating regulations to control the new values. An example would be legislation governing pornography,

which again impacts on the economy. AIDS as an example could be seen as such a change in values and we are well aware of the impact this will have on the economies of the world.

#### 2.3.7.4 STATUS ANGUISH

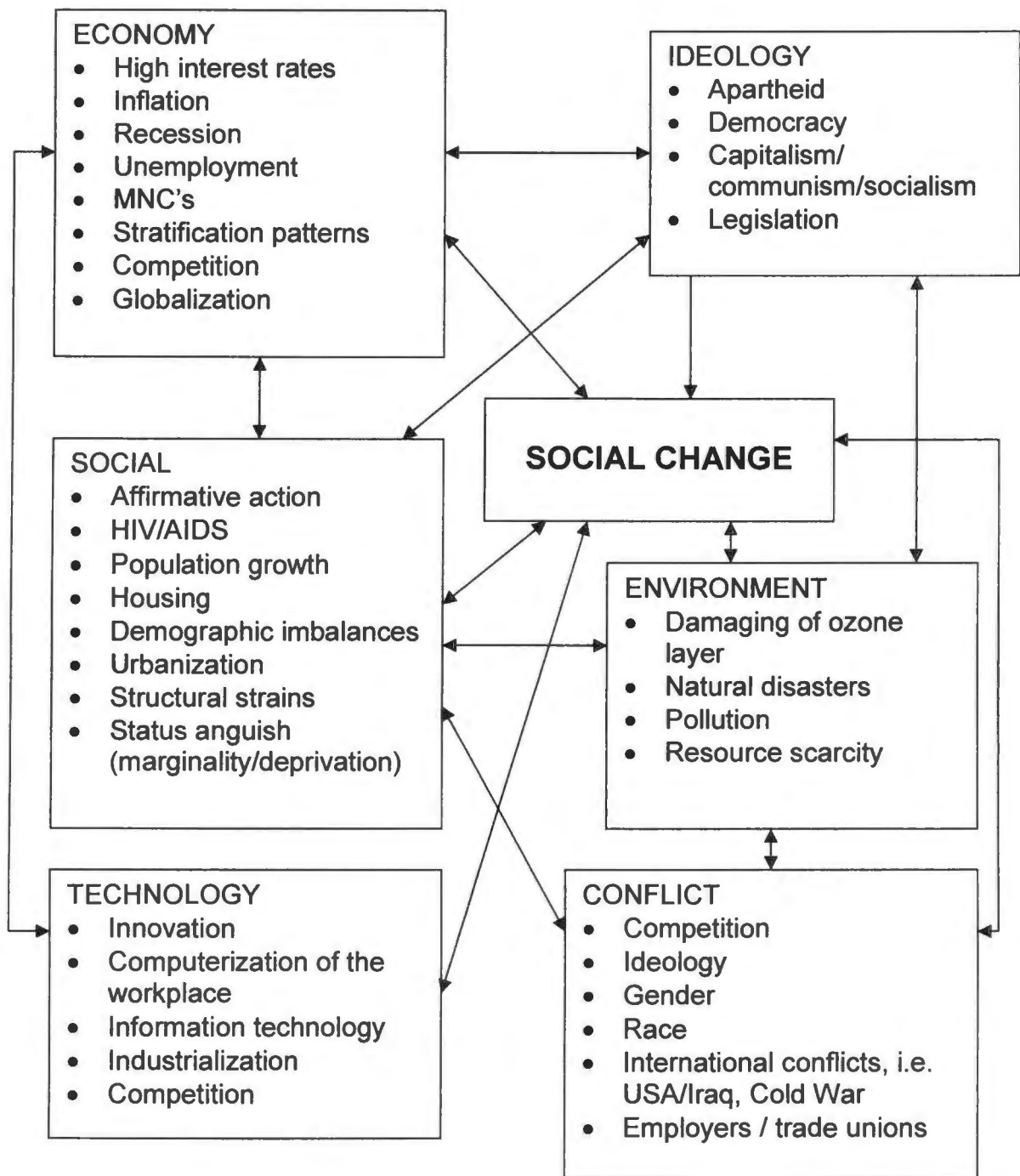
Status anguish can lead to strain in society as well. This phenomenon includes marginality, status inconsistency, status withdrawal and relative deprivation. Marginality means being present in two different worlds without being fully absorbed by either. Rural workers starting a new job in a big city can be cited as an example. His culture would still reflect his rural ways of living, yet he has to adapt to an urban lifestyle. Status inconsistency refers to the occupation of status that has differing implications for one's location in a system of stratification, for example the rising number of post- graduate unemployed persons. Relative deprivation refers to perceived deprivation in relation to a specific standard. Not being able to afford a sports car, but living in Beverly Hills in California can be used as an example.

#### 2.3.7.5 AUTHOR'S VIEW

The researcher argues that structural strains can have profound effects on employment levels and retrenchment in South Africa. Demographic imbalances left many people in areas where employment opportunities could not be pursued. This also resulted in squatting with its associated negative social consequences. These frustrations again can lead to heightened crime levels that in turn lead to the need for increased corporate social responsibility. Affirmative action can be seen as a conflicting social role. When a previously advantaged employee is expected to train a previously disadvantaged subordinate with the knowledge that he may be replaced by his trainee, conflict in his role will certainly be exhibited, regardless of the validity of his fears.

In summary, the following figure illustrates the vast interaction in the factors that generate and foster social change:

Figure 2: The interaction of the sources of social change



Source: Adopted and modified from Moolman (1996:28)

## **2.4 THE NEED FOR CHANGE IN SOUTH AFRICA**

The above theories serve as an explanation of how change occurs in the world, although not one single theory fully comprehends this phenomenon. The researcher believes that these social change theories originated from a variety of famous theorists, each contributing his/her unique thoughts and spawned by their individual economic, social, political and intellectual circumstances. This leaves social change in a state of flux, which is exactly what most of the theorists argued, albeit along many different lines. How do these theories then extrapolate into the impact of change on our unique South African situation? We know for sure that change in South Africa is critical for our survival as an emerging economy competing for foreign direct investment.

We live in turbulent times with an exponential increase in the pace of business and life. Moolman (1996:50) states that change is a continued process and that the rate of change increases exponentially. During a video-conference attended at the Potchefstroom University's Vaal Triangle campus, it was stated that we live in a "white water" world, where change is experienced as profound. The consumer revolution has accelerated enormously, people are a lot more enlightened and many more dynamic and competitive forces are operating. Organisations may be able to survive in a local market, but without global competitiveness, they will have no place to operate.

Tom Peters, in the sixth annual Worldwide Lessons in Leadership Series, explained that the new leadership challenge is to team principles with practices in a time of change. Dr. Steven Covey supports this philosophy in his well-known book, "Principle Centered Leadership". It was clearly stated that a company has a choice- be distinct or extinct. This statement indicates how serious the author was in establishing the need for change (Covey, 2001:140).

This implies a state of extreme turbulence and that change is happening at an ever-increasing rate all around us. Consumer awareness has changed enormously and companies, who do not learn this and adapt, will loose out on these opportunities, a

situation hardly affordable in an ever-increasing world of competitiveness. Quality standards have been raised to a point where there is no point in trying to fake it if a company is to survive in the global market.

To ignore this need for change, companies will face a great danger. To quote an old saying from Michelangelo Buonarotti: " the greatest danger for all of us is not that our aim is set too high and we miss it, but that it is set too low and we reach it". This saying has profound implications for companies operating on a global scale. There will be no room for low targets, as it will mean a destiny of failure.

It is fine if we understand that high targets should be set, but an organization should also realize that it would require the means to achieve this. The need for change is required in all sectors- healthcare, business, government, social, etc. The markets served by these organizations demand transformation. To meet customer demands, organizations need to be able to produce goods and services in a fast, friendly and flexible manner on a consistent basis that serve the customer needs. South Africa, coming from a protected environment, needs to take heed of these words and if it does not adapt in time, will die. Management needs to change and learn that employees must be enabled, encouraged and rewarded to give full force or effect to the needs for change. Creativity is needed for change and this is where many companies, too rigidly structured and operating from a base of hierarchical control, will lose their competitive edge. The typical reaction to this problem is to cut fixed costs- i.e. labour.

Ignoring change would be to allow a company to be swept away by a strong current, leaving it without control of its destiny. With an unknown destiny, how could such a company be steered to excellence, except by the stroke of luck? Although South Africa may be behind the rest of the world, a start has to be made in accepting change and even initiating change. This need is driven from the basics of removing poverty, resulting in empowerment. Empowerment will enable people to gather the strength to effect changes that are vital to the progress of our country.

We know now that building learning capability and changing organizations to learning organizations and developing knowledge workers is critical for the future. Ignoring such a need will surely lead to an organization incapable of meeting the requirements to compete in a global market. With the advent of technological advancement, organizations should accept that continuous improvement is critical in keeping up with development changes and that ignoring these needs for adaptation will lead to the early demise of such an organization.

## **2.5 SUMMARY**

By looking at the various theories of social change, the effects of industrialisation on society have been profound. The change process never ends, but keeps increasing in pace exponentially. Although change is ubiquitous, it takes place at various levels and at various paces throughout the world. The concept, however, is so immense that it becomes extremely difficult to fully comprehend the impact of change throughout the world. These change theories, as we have seen, can be applied to the unique South African situation in the social, economic, political, and structural realms. The ultimate form of change, for purposes of this study, is a phenomenon called globalization. A vast variety of ideas exist on exactly what the effects are on the world as we know it, but this concept will enjoy further in-depth attention in the next chapter. These change patterns have been seen to lead to retrenchment, as multinationals rationalise their workforces to save on fixed costs.

In the next chapter, globalization as a change phenomenon will be explored and applied to the South African situation.

## **CHAPTER 3**

### **THE RELATIONSHIP BETWEEN GLOBALIZATION AS CHANGE PHENOMENON AND RETRENCHMENT**

#### **3.1 TOWARDS GLOBALIZATION – INTRODUCTION AND DEFINITIONS**

Globalization can be defined as an evolving pattern of cross border activities of companies involving international investment, trade and collaboration for purposes of product development, production and sourcing and marketing (Leisink, 2000: 5). Another view, according to Schwartz & Gibb (1999:4) regarding the globalization phenomenon is:

- An increasingly shared awareness across many publics;
- A new, international financial web;
- New, open space into which dominating cultures can move;
- Progress from “inter-national” to global institutions;
- Declining geographical importance;
- Dangerous new linkages;
- Greater speed of events; and
- A trend away from nation states towards regions.

Globalization broadly refers to the expansion of global linkages, the organization of social life, the growth of a global consciousness and the ultimate consolidation of a world society. The following summaries quoted by Lechner (2001) may serve to highlight some views on globalization, as no single definition would appear adequate to describe this amazing phenomenon:

- The relentless integration of markets, nation-states and technologies never seen before on such a massive scale. This change enables individuals, corporations



and nation-states to reach into new countries quicker, deeper and cheaper, meaning the spreading of the free market system to virtually every country in the world.

- The compression of the world and the intensification of consciousness of the whole world leading to concrete interdependence within the 20<sup>th</sup> century.
- Globalization is a social process in which constraints of geography on social and cultural arrangements recede and in which people are becoming aware of the receding arrangements.
- The making or being made global by the active dissemination of practices, values, technology and other human products throughout the globe; when global practices exercise an increasing influence over peoples' lives; when the globe serves as a premise in shaping human activity.
- Integration on the basis of a project pursuing market rule on a global scale.
- The historical transformation of the economy, the livelihoods and modes of existence, loss in the degree of locally exercised control and in culture- a devaluation of a collective achievement.

Globalization can therefore be seen as the ultimate manifestation of global change. All the sources of change; be it technological, structural, economical or cultural will manifest in globalization. Globalization has been described by Henriot (2002:1) as the fourth stage of outside penetration into Africa by forces who have negative social consequences. The first three stages were slavery, colonialism and neo-colonialism. He argues further that the neo-liberal ideology (which forms the base for globalization) merely means that greed becomes a virtue, competition a commandment, and profit a sign of salvation. He states that economic growth under the auspices of globalization is an end in itself and the use of macro-economic indicators are the only means of the measure for a healthy society. The researcher feels, however, that his viewpoints are somewhat removed from reality, as the base for his argument borders on that of philanthropic ideologies.

Bendix (2001:677) notes that in many South African companies change has become a "buzz word". Despite the profound socio-political changes in South Africa since 1990, the process has just begun. She notes that a lot of catching up awaits our organisations, since we find ourselves out of step with global practices. To keep pace, change needs to occur very fast indeed. This extended change pattern stems from not only our new dispensation under a democratic South Africa, but from a steady, gradual and ever increasing pace of change in the global village. These changes will materialise in a shift in labour demographics and affect employment levels.

### **3.2 GLOBALIZATION AS CHANGE PHENOMENON**

As was already indicated, the world economic landscape is changing dramatically due to globalization. The globe is being pulled into a network of relationships (social, economical, political and cultural) that transcends conventional borders. Technological advancement, the widespread movement towards trade and capital market liberalization and the increase in multi-national corporate production and distribution systems are all contributing to the reduction of trade barriers and improved labour mobility. This phenomenon is creating opportunities, but also problems. There appears to be two schools of thought- one for and one against globalization. As a case in point, consider the following views on globalization:

- Jobs are exported from multinationals to developing countries by virtue of foreign direct investment and production in special economic zones. This bodes bad news for developed countries, but could benefit developing countries.
- Domestically produced goods are replaced with goods purchased abroad, negatively affecting the GDP of that nation. Trade liberalization is the main cause hereof.

- Globally operating companies specifically contribute to unemployment through the increased use of technology, thereby reducing their dependency on labour and causing retrenchment.

The opposite view holds that:

- Globalization, through foreign direct investment, new technology and liberalization contributes to growth, which is the key to employment.
- Unemployment is the government's failure to adopt sound macro-economic and labour market policies.

The position from whence this phenomenon is viewed will obviously be critical to the analysis. The following examples will illustrate the vastness of globalization:

- ITT employs over 400 000 workers in sixty-eight countries;
- Exxon operates in almost a hundred countries;
- General Motors has facilities in thirty-nine countries with annual revenue of over \$ 80 billion;
- Multi-nationals account for more than one fourth of total world economic production and this ratio is growing (Vago, 1999:32);
- The daily average volume traded on world foreign exchange markets has grown from US\$ 15 billion in 1973 to what currently exceeds US\$ 1000 billion;
- Global trade has expanded from a world export averaging US\$ 1,000 billion in the 1970's to US\$ 2,650 billion in the 1980's to an average of US\$ 5,440 billion in the 1990's;
- World trade as percentage of world gross domestic product (GDP) increased from averages of 33% and 38% in the 1970's and 1980's respectively, to 41% on average in the 1990's;
- The volume of foreign direct investment inflows as percentage of world GDP increased from 0.7% in the 1980's to 2.2% in 1998, whereas world foreign direct

investment inflows as percentage of gross domestic capital formation in all industries rose from 2.3% in 1980 to almost 11% in 1998;

- These trends took place despite a slow down in the world economy, which is clearly indicative of the unmistakable trend towards the globalization of production (Loots, 2002:47-48).

No country is a self-sufficient island, as was evident in the spectacular collapse of the South African apartheid regime. Societies become interdependent in many areas of life, be it political, economical, cultural or social and these interdependencies become truly global with time. The true depth of globalization as change phenomenon can possibly be better comprehended at the hand of the following analogy:

- The past societies encompassed an extremely diversified, pluralistic, heterogeneous system of isolated social units. Multiple and separable political entities ranging from hordes, tribes, kingdoms and empires to the most recent phenomenon called nation-states. The economies were independent, self-contained and autarkic units, with a variety of indigenous cultures that preserved their unique identities.
- The present unfolding society shows something very different. Politically speaking, the supranational units of variety jump to mind, such as NATO, the former Soviet Union bloc, the "Group of Seven", the European Community, the United Nations, and so forth. World governments are starting to emerge, evidence of which can be found in the European Parliament, the International Tribunal of Justice or Interpol. In the economic realm, we observe the development of supranational co-ordination and integration in the form of the OPEC countries, EFTA and EC, regional and international trade agreements, global division of labour and the growing role of multi-national and international corporations. The demise of planned, state controlled economies heralded the emergence of an economic universal embracing the globe. The sensitivity of currencies to global events bears testimony to this global economic emergence (Sztompka, 1994:86-87).

Vago (1999:33) argues that globalization has profound positive implications for developing countries, where new opportunities, wider markets for trade, an expanding variety of tradables, capital inflows and improved access to technology creates all these marvellous opportunities. However, the impact of globalization has to be established in every unique situation to weigh up the benefits and/or disadvantages to the nation. Despite his view, the researcher is of the opinion that this capital inflow has not been as strong as it should be. South Africa has not fully benefited from foreign direct investment, as the effects of change in our society (as will be evident a little later on) created negativity and caution in the investor's mind. This problem will receive more attention later in this chapter.

Globalization also fosters change in other ways. It contributes to the reduction of geographical and entrepreneurial frontier opportunities, sharpens the dichotomy between employed and unemployed and contributes to the rise in higher expectation and keener perception of the gap between potential and actuality. Economic difficulties such as fluctuation in currencies, foreign debt (of which Africa can never be left out of equation) and trade deficits can also trigger further change as, we will see later on in the study.

Sztompka (1994:95) supports the argument by saying that globality is an unavoidable problem of modern life, bringing both hope and danger. The process is all embracing in contemporary life - social, political, economic and cultural and is reflected in the social consciousness. New images of the world appear, some remaining at a level of common sense, some become articulated in globalism or anti-globalism ideologies.

What does this mean for Africa and in particular South Africa? The start of the new millennium, ironically, was a media event- one in which the vast growth in communication and information technology (so typical of globalization) was typified in the fears of the millennium bug. The fortunes of states are now, more than ever, dependent on external events, as we will see later on in this study. The backlog in global connectedness incurred as a result of the former apartheid policies, poses many

globalization challenges for South Africa. Globalization opens up many opportunities, but along with these opportunities come responsibility. One of the most important aspects to consider in this respect is the promotion of the rule of law and human rights. These are indispensable prerequisites for sustainable economic development and therefore for private investment, jobs, social equality and the reduction of poverty, according to Mills (2000:4-5).

Africa is plagued by a vicious cycle of conflict, poverty, failing states and lack of capital. He carries on by saying that Africa (and hence South Africa) depends on the international community for sustainable development and the improvement of the unemployment rate. Thabo Mbeki reiterated the role of the international community at the European Union's Africa Summit in Cairo during April 2000 when he stated categorically that he seeks agreement from Europe that extraordinary steps must be taken to encourage foreign direct investment inflows into Africa. The extent of foreign direct investment will be dealt with later on.

Globalization has a negative effect on Africa, a sentiment shared by many. Some argue that the continent's under-development stems from disadvantageous structural relations with the rest of the world. However, the author postulates that, although agreeing with the need for foreign direct investment, the message sent by African leaders has shown quite the opposite to that of responsible governance and that the time has come for African leaders to accept responsibility for their own actions. The developed world cannot rightly be expected to continually bail Africa out of the mess created by itself and its irresponsible leaders. Zimbabwe's catastrophic land reform policies are a case in point. No developed nation in his right mind will invest in such a country.

Challenges for Africa brought about by globalization, according to Mills (2000:6) are as follows:

- The declining importance of the control of territory as a critical factor in the creation of wealth;
- The awareness that modernity is created on industrialization, innovation and education. It is known that scientific invention has been the spark of economic growth, allowing for rates of expansion that outpace that of the population growth- something South Africa desperately needs;
- The understanding that peace and social harmony are a function of better governance. The reality of the current crime rate and racial tension in South Africa unfortunately does not portray this understanding;
- The realization that the supreme state power has given way to greater sovereignty by the people and the concomitant spread of accountability and justice within and between states; and
- The development of improved parity between sexes and races.

In the following section, the researcher will aim to address global change phenomena with a view to its impact on South Africa.

### **3.3 SOCIAL CHANGE IN SOUTH AFRICA**

#### **3.3.1 THE REALITY OF SOCIAL CHANGE IN SOUTH AFRICA**

It has been said elsewhere in this study that South Africa has been through profound change since the 1990's when our democratization began. South Africa fared reasonably well when considering the predictions of Afro-pessimists that the disintegration of authoritarian rule would not lead stable and accountable government, but to a state collapse and intensified corruption. This clearly indicates the critical importance of the role of the state in sustaining our democracy. However, the general sentiment tends to lean itself towards some negativity with respect to the effects of

social change on South Africa and the ANC government is not in an enviable position with respect to addressing these concerns.

The pace of change is not doing the South Africa population much good either. It has been found that the radical change that occurred in South Africa since the 1990's are causing people to experience change as traumatic due to the magnitude and speed of change. Communal life is experienced as insecure, unsafe, violent and corrupt, with mainly a negative future vision without hope. The changes to be faced are numerous, such as those brought about by technological progress, ecological problems, economic progress, and catastrophic and drastic changes in norms and value systems. Similar daunting challenges face many South Africans in the political, educational and social frameworks. Concerns that are becoming more and more prevalent, according to Prinsloo (1998) are:

- Many people are unable to cope with all the societal, political and economic changes because these changes are overwhelming;
- Some people have become disrupted and corrupt to the extent that they resort to crime and violence unknown on this scale;
- Some people have resorted to unreasonable demands for expected (and promised) privileges; and
- Some people have resorted to the indifference of utter hopelessness.

These concerns relate back to what was said in the first chapter of this study - the government's needs to marry the needs of the economy to that of the people within a very small timeframe. The following results from research done need to be considered with a view to understanding the implications of our new democracy and should serve as burning issues that need to be addressed in embracing globalization:

- Demographic shifts: Uncontrolled population growth, despite a general realization of the dangers of overpopulation. Lack of job opportunities drives people to the cities where urbanization is getting out of control (also due to



illegal immigrants and poor immigration control policies). The end result is high density living in squatter camps with health and safety risks to people and property respectively. Health and educational facilities are taking strain and there are more and more poor and unemployed people, putting additional strain on welfare. It is reported that the general living standard of the lower and middle economic classes is dropping rapidly.

- Economic progress: With the advent of the new government in 1994, great expectations arose in the minds of many South Africans with expectations of material and financial rewards in some or other way. These promises and expectations obviously never materialized, leading to bitterness in relationships arising from this desire for wealth and possessions. The “Ubuntu” spirit, calling for joint effort to the benefit of all, had to make way for a spirit of “as much as possible for myself.” Respondents in the research attributed the lack of basic necessities to a lack of interest to create job opportunities. The RDP program in the minds of the respondents failed dismally and the demise of previously well-functioning institutions are brought about by affirmative action as competent people being replaced by unskilled and uneducated people. Further economic decay is evident in the vandalising of schools, libraries, cinemas, parks and playgrounds and the culture of non-payment of bonds and electricity accounts. The unacceptable high crime rate is also bringing about fear and uncertainty, leading to the withdrawal of much needed capital and investment that could aid job creation and retention (Prinsloo, 1998).

Mills (2000:7) supports these concerns when mentioning the apparently declining ability of the government to provide for the increasing numbers of citizens and to generate economic activity, leading to lower unemployment figures. The researcher wishes to add the apparent inability of the state to control illegal immigrants to South Africa that adds to the burden. Visagie & Botha (1998:694) supports this notion when they unequivocally state that the single most serious economic issue facing South Africa is the relatively high unemployment rate.

How did we arrive at this threshold? The state has a major role to play in achieving the effective counteraction of the findings of the research. The following section will seek to address this issue.

### 3.3.2 THE ROLE OF THE STATE IN SOCIAL CHANGE IN SOUTH AFRICA

As we have seen in previous sections of this study, change is ubiquitous and increasing in pace. South Africans have no choice but to face the realities of changes brought about by not just our own transformations, but also those of globalization. Russel (2002:187) sums it up very well when she states that people are either connected and integrated as part of the new global network of capital, information and power, or not connected; dividing the world not into North and South anymore, but between the networked who makes money and the rest. Everybody either suffers or enjoys the consequences. Globalization therefore does not integrate everybody into the new economy; in fact, it currently excludes most people, but affects everybody.

Linked to this important role, is that of building institutional capacity, i.e. the ability to provide social services such as schools, welfare, economic infrastructure and symbols such as a national flag and anthem, official languages, etcetera. Part of this responsibility is to deliver these goods to the whole of the nation, where state autonomy transcends communal loyalties and obligations. If this does not happen, the state will be viewed as a partisan ethnic state serving as an instrument of dominion or discrimination favouring certain communities in the provision of public goods (Kotze, 2000).

To achieve this goal, the government announced its RDP plans, including fixed social-economic goals. One very important goal of RDP was the creation of some 2.5 million jobs in 10 years. Having failed to achieve what was set out to achieve, (despite some successes) the Growth, Employment, and Redistribution plan was launched in 1996 in replacement of the RDP. The RDP program would however continue as an instrument

of the government's socio-economic planning. The RDP program would serve in an explicit position in favour of a quota system for employment in the civil service. Personnel were subsequently replaced at an accelerated rate to the point where state autonomy came under pressure due to the vast losses in skilled people. This added to the brain drain, as professionals left the country and so left the state with an "experience deficit".

Now it appears evident that the state has a major role to play in sustaining its autonomy, implying its capacity meet its social and economic objectives. This is crucial for the growth of the economy, something that we need desperately to counteract the effects of retrenchment and unemployment. This capacity can be measured in terms of the effective execution of institutional, technological, administrative and political functions.

#### 3.3.2.1 INSTITUTIONAL CAPACITY

State administration should be seen to be stable and predictable. An increased or even perceived increase in crime, corruption, the misapplication of power and/or the jeopardizing of property rights indicates a weakening of state institutions. One merely needs to reflect on the disastrous consequences observed as a result of Zimbabwe's irresponsible land reform actions during the past few months to understand the importance of this statement.

The percentage of South Africans that believed that the government is on the right track declined from 76% in 1994 to 43% in 1998. A part of this problem is attributable to the fast pace of transformation in the government, leading to capacity problems arising from the loss of experienced people (Kotze:2000).

This growing pessimism is also attributable to the rising crime rate. The causal link between economic decay and rising crime has been shown many times, with statistics

indicating the most dramatic rise of crime in the post 1991 period. Contributing factors to rising crime were the appointment of black judges, reduced judicial output, the shortage of qualified public prosecutors and the numerous confirmed cases of corruption. This became so serious that the World Bank report of 1998 indicated corruption as the most serious government related constraint in doing business with South Africa (Kotze:2000). The World Economic Forum (2002:303) also ranked South Africa 70<sup>th</sup> out of 75 countries on organized crime!

### 3.3.2.2 ADMINISTRATIVE CAPACITY

Service sector budget cuts can also lead to capacity constraints. The profound effects of the transformation that the state went through reverberate into the aftermath of the collapse of provincial government. Kotze (2000) reasons that acute staff cuts may be necessary in certain provincial government structures to avert the total collapse of service provision and infrastructure. The Northern Province (Limpopo) of South Africa has already reached 90% of its annual budget by spend on salaries and certain state departments are grossly overstaffed.

These problems led to the inability of government to maintain a strong and effective government. The democratization of local government led to enormous capacity problems with the commensurate culture of non-payment for services resulting in debts worth R 10 billion. Despite Nelson Mandela's launch of the "Masakane" campaign in an attempt to speed up service delivery and re-instating a culture of payment of accounts, recalcitrant inhabitants continue with this culture. The end result will be a further decline in the ability to deliver service and hence more job losses may be incurred.

### 3.3.2.3 TECHNICAL CAPACITY

The ability to analyze and manage macro-economic policy has improved considerably since 1994. The GEAR strategy aimed to promote economic growth, job creation and inflation control. To achieve these goals, the GEAR strategy needed to deliver on sustained growth, requiring a competitive, export orientated economy. In the process, a growth rate of 6% was estimated together with the creation of 400 000 job opportunities annually by the year 2000 to meet the demands of international competitiveness.

The world agrees that this strategy is well designed, but concerns remain if sufficient political support is present for its effective implementation. An opinion poll conducted in November 1998 revealed that job creation/ unemployment (73%), crime (67%) and education (24%) are viewed as the most burning issues facing South Africa. These concerns are very valid considering the forecast unemployment rate of 37% by the year 2000 and that unemployment rose by nearly 20% during the period 1994-1997. This clearly indicates a high level of dissatisfaction with the state (Kotze, 2000).

Another concern relating to the state's capacity is the "orthodox paradox" of economic reform. In terms hereof, reducing the state's control over the economy requires an increase in technical and bureaucratic capacity. This means the ability to supply essential services, improvement of human capital and the facilitation of effective and equitable market functioning. It was mentioned that political support is required for effective implementation of the GEAR policy, but the increased tension between COSATU, the ANC and the SACP does not reflect enough support for it. However, technocratic decision-making and the internationalization of economic decisions have increased state capacity in this respect.

#### **3.3.2.4 POLITICAL CAPACITY**

The government initially did well in responding to the demands of civil society and to encourage public participation in decision-making and conflict resolution. Legislation is developed through extensive public consultation.

However, recent legislation has been passed without sufficient public participation with legislation being steam rolled through. This led some people to believe that the government does not care for its minority groups. This exclusion may result in loss of the state's capacity to create stability, pressurizing the state's legitimacy. The unchallenged implementation of the National Liberation Movement implies that the state is not a neutral, non-partisan entity; but an important instrument that is used to pursue the interests of a class or group of classes. The document states further that the struggle is ultimately about socio-economic resources and their allocation.

The NLM thus caters for the interests of black workers, the black middle strata, black business in its various ramifications and the rural poor and others. Lastly, with the emergence of a rising politically and economically important black capitalist class, the perception of an interventionist state is enhanced because of the emphasis on a state working for the advantage of black peoples. State autonomy, very much like the apartheid regime, may be eroded as a result (Kotze:2000).

### **3.4 THE SOUTH AFRICAN GOVERNMENT, GLOBALIZATION AND RETRENCHMENT - SOME PERSPECTIVES**

Many arguments have been floated to either support or destroy the approach taken by the South African government and other stakeholders with respect to globalization and the potential impact on employment levels and the society.

In support of the interference argument, Streak (1997:307) reasons that institution building and effective conflict management by the state will contribute to the promotion of development. The argument is based on a certain institutional configuration that will launch the economy into a higher growth path, something that is desperately needed to avert the need for retrenchment. Conversely, she argues that certain constraints are imposed on state action that undermines the creation of institutionalisation and therefore explains the opted route of liberalisation. However, she feels that this choice will render development opportunities uncertain, even poor and that this will leave accelerated growth programs primarily at the mercy of foreign investors.

Kotze (2000) holds a similar view when it is argued that state capacity is critical for achieving its political and economic objectives. This capacity is measurable in terms of effective execution of institutional, technical, administrative and political functions. The specific state factors that relate to capacity are stability and predictability. An increase in crime, corruption, misapplication of power and/or the jeopardizing of property rights serve to demonstrate a weakening in state institutions, whether these increases are real or perceived.

Enough evidence exists that South Africa has been accelerating its participation in the globalization process, but with mixed results. Since the ANC took over the leadership of the country in 1994, a major turn towards outward orientated policies has taken place. Employment performance, according to the International Labour Organisation report on the social impact of globalization (2001), states that employment performance over the past decade, despite a slight improvement in the GDP growth rates, has been far from satisfactory. Official data reports a strong decline in the total non-agricultural employment between 1990 and 1993, stagnation from 1994 to 1996 and further job losses in 1997, continued in 1998.

In this respect, the International Labour Organisation reported on the social impact of globalization and states that the process of trade liberalization initiated in 1994 may have contributed to weak employment performance in South Africa. It said that,

although the country has recovered from the recession and negative growth rates of the early 1990s, moderate rates of economic growth and an increase in labour productivity still have been associated with a weak employment performance during 1994-97. As a result of the poor employment performance, the already high unemployment rate increased between 1994 and 1997. Creating employment is therefore a priority in South Africa, but we cannot be too optimistic.

The International Labour Organisation further found that due to the specialised nature of a capital-intensive market, trade liberalisation favoured these sectors of the economy relative to labour intensive ones, thereby reducing the demand for labour. Furthermore, job losses, as they relate to retrenchments and redundancies, seem to be attributable to the process of rationalisation or downsizing. This downsizing became necessary as a result of increased international competition. However, the introduction of labour saving technologies in the form of new machinery and equipment, (although not the main factor at work), were also contributing factors. In a low-growth environment characterised by low investment rates, enterprises often react to increased international competition by rationalising production and downsizing employment.

Although it may appear prudent that some form of state intervention in the economy is necessary, this intervention should be applied in an appropriate manner. Following the strengthening of the South African currency against the backdrop of a weakened US\$ (after the invasion of Iraq), the gold mining industry is yet again facing tremendous difficulty. Record profits in 2001/2002 quickly made place for imminent mass retrenchments, as some major mining houses are looking towards restructuring its South African mining operations and to diversify their international interests. Brown, (2003) states that the DRD group is going from expansion to contraction, leading the company towards "a rightsizing" exercise to remain competitive, commensurate with an expected loss of some 1000 employees with further job losses likely. Bridge (2003) mentions that the Harmony Group warned that a further 10 000 jobs may be on the line if the rand continues to strengthen. At the peak of these difficulties, the government is attempting to steamroll through their ill conceived new Money Bill, requiring a 3% tax



on revenue from the mining houses! This will inevitably contribute to job losses. The South African Mining Development Association (SAMDA) states clearly that this bill will increase costs and decrease jobs.

Haffajee *et al.*, (2001:30) mentions that a deal was signed by the Millennium Labour Council and Anglo American with a winning formula for South Africa in 2000. The Millennium Labour Council consists of 12 leaders, 6 each from labour and business. The deal originated from the loss of 700 jobs in the last quarter of 2000 and the rising rate of unemployment. They clearly acknowledged that the economy's inability to generate jobs is a source of social and political instability.

The essence of the deal recognises that a dual economy must come into existence. Labour regulations for the small business should be more relaxed than for the medium to large companies. This foreseen dual economy also means a conflict for business in that the dual economy means minimal government interference or regulation for large companies, versus emerging small and black businesses that need subsidies, empowerment, incentives and regulation.

Controversy still reigns, however. Affiliated unions scathed COSATU for allowing the labour to be stripped of its militancy and thereby losing their bargaining chip, versus some industries who were worried about labour's right to strike over retrenchments and the new business transfer laws that will make former owners severally and jointly liable for the provision of retrenchment benefits. The business sector further worries that the threshold for the exclusion of the small business is too low (fewer than 50 employees). The main reason is that most new jobs will be created by small business, not the Anglo American companies of the world. The fear is therefore that these new laws could scare potential employers away, hardly a situation that we can afford (Haffajee, *et al.*, 2001: 30-33).

As was mentioned earlier in this chapter, controversy still prevails with respect to the correct model to follow amongst business and labour leaders. The model clearly needs

to address the already mentioned anomaly of balancing employment creation and retention with that of economic growth and improved productivity and competitiveness.

The proposed amendments to the Labour Relations Act (Act 66 of 1995) evoked an extremely strong response from COSATU. The difference between the perceptions of the Minister of Labour and COSATU could not have been starker. The state holds that the new amendments will contribute significantly to better governance of the labour market and improve the situation for employers and employees, employed and unemployed, large and small business, the public and the private sector. COSATU, on the other hand, held that these amendments would seriously destabilise the new labour dispensation and will facilitate and promote the mass destruction of jobs. They further argued that it will undermine the protection of vulnerable workers and will destabilise the current collective bargaining system (Nel, 2000:109).

The pleas from COSATU not to proceed with privatisation of state assets culminated in a planned strike that occurred on 1 and 2 October 2002. Smallhorne (2002:28-29) states that COSATU is extremely worried about the unemployment rate and fear a national catastrophe with the rise in unemployment from 16% (official and narrow definition) in 1994 to 29.5% in 2001. By using the wider definition which includes the discouraged and those who quit looking for a job, the rate stands at 41%.

Meyer (2000) notes that COSATU is extremely concerned about the socio-economic impact of restructuring and privatisation since it may lead to enormous retrenchment and job losses. Conversely, it is noted that generally speaking, business leaders in South Africa agree that privatisation will stimulate investor confidence, which is already badly dented by the high crime rates and the rands' landslide. The Afrikaanse Handelsinstituut (AHI) has the following view on privatisation:

- Decision-making independent of political approval should encourage better performance of privatised state owned enterprises;

- Improvement in the efficiency and profitability of these enterprises, stimulating economic growth, increasing state revenue directly through the sale and indirectly through tax revenue;
- Broader ownership in the South African economy;
- The more productive use of state funding through privatisation would no longer be necessary to subsidise unprofitable state owned undertakings; and
- Income generated through the sale could be used to repay state debt or expand infrastructure.

As can be seen, globalization certainly brings technological change to the developed world, but the paradoxes faced by many South African companies in finding the balance between capital intensive business (in order to compete globally) and the injection of labour into the economy to sustain social development is not an easy task. The further daunting challenge is to remain competitive, while having to invest heavily into job creation and the commensurate need for skills development to enable sustained competitiveness.

### **3.5 FOREIGN DIRECT INVESTMENT, COMPETITIVENESS AND SUSTAINED DEVELOPMENT.**

It has become clear by now that the one of the key elements of a sustained economic growth path which is critical to reverse the unacceptably high unemployment figure in South Africa is that business has to shape up and become globally competitive. Becoming competitive also infers having the means to become competitive. The means hereto refers to the availability of skills and capital. These skills may be brought in from abroad or derived from a national base. The same applies to the much-needed foreign direct investment.

### 3.5.1 FOREIGN DIRECT INVESTMENT

Foreign direct investment will go a long way in ensuring that technology (which may negatively affect employment levels in the short and medium term) is affordable to transform non-competitive companies into competitive companies. Improved competitiveness will also support the notion of sustained development.

A competitive nation will attract foreign direct investment, as the investment made should theoretically generate a decent return through its competitiveness. This poses the next problem for South Africa. How competitive are we, and how much foreign direct investment do we attract? Let us examine the total foreign direct investment stock available. The following table illustrates the point in case:

Table 2: World foreign direct investment stock

Region	Amount in Billions of US\$	Percentage of total
Industrialized countries:	<b>Total: 2,349.4</b>	<b>Total: 68%</b>
• Western Europe	1,276.5	36.9%
• North America	857.9	24.8%
• Other	215.1	6.2%
Developing countries:	<b>Total: 1,043.7</b>	<b>Total: 30.2%</b>
• Argentina, Brazil and Mexico	249.2	7.2%
• Other Latin America	126.2	3.7%
• China (incl. Hong Kong)	244.2	7.1%
• South-East Asia*	253.1	7.3%
• Other Asia	96.3	2.8%
• Africa	<b>65.2</b>	<b>1.9%</b>
• Other developing countries	9.4	0.3%
* Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan (China), and Thailand		

Source: Adopted from: World Bank (2000:38).

What is clear from the table is that foreign direct investment flow into Africa is low. Compared to other parts of the globe, Africa only attracted about 5% of the total foreign direct investment between 1991 and 1998. Of this foreign direct investment, the most important recipients were Egypt and Nigeria, accounting for about one third of foreign direct investment into the whole of Africa.

The South African government thinks that this situation will improve. In the address of Mr. Tito Mboweni, (Governor of the South Africa Reserve Bank) at the International Jubilee Conference of the Economic Society of South Africa during 2001, he stated that the new government supports an open economy. He felt that this is where South Africa's future lay as a competitive participant in a globalised environment. He claimed that South Africa has changed its focus of trade and industrial policy to the pursuit of employment creating growth through improved international competitiveness.

In furtherance of improved competitiveness, amendments to the Competitions Act (89/1998) were promulgated. These objectives are:

- Promotion of the efficiency, adaptability and development of the economy;
- Provide consumers with competitive prices and product choices;
- Promote employment and advance the social and economic welfare of South Africans;
- Expand opportunities for South African participation in world markets and recognize the role of international competition;
- Ensure that small and medium sized enterprises have an equitable opportunity to participate in the economy; and
- To create a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged people.

The government committed itself to the privatization process by selling strategic stakes and forming partnerships with the private sector. This process is expected to yield

benefits for the fiscal budget, attract foreign direct investment and help to reduce prices and improve infrastructure.

However, if we are to achieve higher levels of sustainable economical growth and improve our competitiveness, the following measures proposed by the National Productivity Institute need to receive urgent attention:

- Establishment of a national productivity agreement;
- Effective application of the new skills development legislation;
- Optimising opportunities presented by new trade dispensations between South Africa, the United States of America and the European Union;
- The beneficiation of raw materials;
- The innovative use of technology; and
- The development of SMME's and empowering historically disadvantaged groups.

The South African Social Plan was a response to the job shedding in South Africa and was agreed to by labour, the government and business. The approach is to strive to prevent job losses and stimulate local economic developments in areas that were hardest hit by job losses. Where retrenchments become unavoidable, the process and affected parties are managed as humanely as possible. In this way, the National Productivity Institute plans to develop the capability to anticipate job losses across all sectors of the economy. They will then establish a co-operative environment for strategies that will make industries more competitive by improving productivity and generating efficiencies. The Social Plan therefore is an appropriate response to the negative consequences of economic restructuring.

The question is: how are we doing with respect to globalization? The measurements for participation in the globalization process, according to Loots (2002:49), are:

- Trade (exports plus imports) as measurement of international trade. This figure serves as the openness of the economy as referred to by the Reserve Bank's president.
- Participation in international financial flows, including portfolio investment (equity and bonds) and
- Total net foreign direct investment inflows.

At this point in time, the unfortunate answer is that we are not doing so well at all when considering the following table:

Table 3: Regional globalization comparisons, 1994-1998 (as % of GDP)

<i>Region</i>	<i>Trade</i>	<i>Net FDI inflow</i>	<i>Net portfolio inflows</i>
All emerging markets	82.6%	2.8	1.8
Asia	129.7%	3.3	2.3
Latin America	37.9%	3.2	1.7
Eastern Europe	74.0%	3.1	1.5
Other	57.4%	1.1	1.0
South Africa	49.0%	-0.2	2.8

Source: Adapted from Loots (2002:50).

From the table it is clear that South Africa scores the lowest on foreign direct investment, although one reason quoted is that South African companies have used the opportunity to invest abroad.

Earlier on in this study, the researcher touched on the subject of the government's capacity and the implications of a rising crime rate. This appears to be a huge problem in attracting foreign direct investment into South Africa. The World Economic Forum (2002:303) rated South Africa 70<sup>th</sup> out of a possible 75 countries on organized crime! This figure simply has to be brought down substantially if we are to improve the

Western societies' perception of our country. The subject of crime and its relationship to retrenchment and unemployment will receive more attention later on in the study.

Thabo Mbeki, according to Bond (2001:89) desperately tried to attract foreign direct investment, but by mid 2000, he appeared to concede to the futility of his efforts. In his address to US corporate representatives in San Francisco, he stated that many countries have actually created climates conducive to investment, such as trade liberalization, privatizing state assets, reforming the tax structures, and generally adhering to the requirements of the investors. In particular, South Africa has:

- Reduced tariffs to levels equivalent to that of advanced industrialized countries,
- Restructured and reduced subsidies to the agricultural sector to make it one of the least subsidised agricultural sectors of all major agricultural trading nations;
- Developed sound macro-economic policies;
- Developed a sophisticated and equitable labour relations system;
- Played an active role in all multilateral agencies across the globe; and
- Developed and maintained stable and effective fiscal systems.

Despite the above measures, investment, as is evident from the above table, has all but materialized to the extent that it was expected to and unemployment and poverty levels remained high. The allegation made against this problem was that the world treats the continent as one country, punishing one country in the south for the sins of another country in the north. As evidence to this problem, the effects of the Zimbabwe fiasco still reverberate in our currency values as do the influx of unskilled labour from other African countries.

### 3.5.2 SKILLS AND COMPETITIVENESS

As was mentioned earlier on in this chapter, becoming globally competitive is a means of averting job losses in the form of retrenchment. Skills formation is vital in this



capacity and the government took the right direction with the promulgation of the Skills Development Act (97/1998). However, legislating and regulating this issue may be fine, but the ultimate test will lie in improvement in foreign capital that will ultimately be attracted, followed by improvement in the export volume to the globe and a rise in investor confidence in the country.

We know by now that economies need to transform from resource-based to knowledge-based economies if they want to become and remain globally competitive. At low levels of economic development, growth is measured by the mobilization of primary production factors, such as land, primary commodities and unskilled labour. South Africa has an abundance of unskilled labour. As the economy shifts from low to middle-income status, competitiveness becomes investment driven. In this process, global technologies are increasingly utilized for local production. During this phase, foreign direct investment is critical for integration into the international production system. The last phase of economic transformation is a nation generating technology rather than importing it. This could lead a nation to become a high-income economy which, in terms of global competitiveness, is critically linked to high rates of social and science based learning (World Economic Forum, 2002:17). This highlights the critical need for skills development.

Closely related to skills development has to be the retention of talent and skills. In order to achieve this, South Africa necessarily needs to create incentives to terminate or at least slow down the loss of skills from the country- commonly known as the “brain drain”. When contemplating the rating achieved for given to South Africa by the World Economic Forum for “brain drain” (we achieved 64<sup>th</sup> place out of 75 countries) the picture does bode well for our availability of skills. Secondly, it does not serve the country in its extreme need for scientific skills to launch the country into a technology exporter and therefore a high income generating economy.

Multi-nationals are becoming the conduit through which skills can be transferred to another country. The developed world, according to Brown *et al.* (2001:235) regards

skill formation as a prerequisite for prosperity and social justice. The knowledge economy now has become the symbol of the global, technological and social transformation of the 21<sup>st</sup> century. Information needs to be turned into knowledge, which in turn should manifest in technology and hence labour. The principle is that economic competitiveness relies on the talents and skills of everybody. Simply put, if everyone can acquire the skills required by business, it should be reflected in higher wages- so reducing the income polarity problems that society faces. The influences of the society must be considered before such a bold step will work, however. These influences will be discussed later (see section 3.8 – Labour Challenges).

The relationship between the role of government and the marketplace in the context of economic globalization for skills development, according to Brown *et al.* (2001:243) highlights the political economy and how the state, employers and trade unions position themselves in the formulation of skill formation policies. In this respect, a huge challenge will be faced by employees themselves; the issue of employability. Economic efficiencies today will be reflected by employees who have key skills in the arena of teamwork, communication, problem-solving and creativity. More emphasis is put on individual initiative and self-reliance that challenges the routine, rule following behaviour in the corporate world. The relationship to retrenchment can be found in the term “employability”. With the ever-increasing pace of globalization, the issue of life-time-employment can be challenged. However, employability also means shifting the responsibility for employment from the government to the individual, ultimately materializing in the balancing of responsibilities with the government who needs to provide regular training to keep an employee “employable” in order to keep up with developments in his work area.

The researcher postulates that, in the South African context, we are very much removed from this reality across the broader base of “employable” people. The first step to take would certainly be to devise steps to keep skilled South Africans from adding to the “brain drain” statistics. Secondly, a culture change is required to transcend people from a culture of being a “victim” to accepting responsibility for who

they are and what they become. The role of the government is to stop ill-conceived practices that exacerbate the loss of skills, such as forcing medical doctors to work for two years for mediocre salaries, but with huge study debt and then expect them to stay in the country. A last remark is that the government is probably too focussed on maintaining the support of its constituency through affirmative action and black economic empowerment rather than focussing on what the country needs to become more productive and skilled, hence the reduction of training and educational standards. The World Economic Forum indicates just this with a rating of 53 out of 75 for tertiary enrolment and 64 out of 75 for difference in quality of schools.

The relationship between acquiring skills and the “employability” of people, becomes stark when contemplating the organization of the future, as portrayed by Kotter (1996:161). He maintains that the employee of the future will have to face terrible hazards and wonderful opportunities in the organization, driven by globalization along with related technologies and social trends. He lists the following attributes of the organization of the future:

- A persistent sense of urgency. A high sense of urgency helps in completing the stages of transformation and if the external need to change increases, the sense of urgency needs to be high all the time. To achieve this goal, an extremely effective performance information system is required. Candid discussion of issues will become critical and there will be no more room for “political correctness.”
- Teamwork at the top. In a slow moving world, a good CEO will work. When the pace turns medium, teamwork will be necessary to deal with periodic transformations, but when the pace really turns on the heat, teamwork is required all the time.
- People will need to create and communicate a vision and strategies. This skill will need to be developed, as managers were taught how to maintain the status quo, whereas leaders will deal with change. The next century will require many more leaders than managers. Without this, transformation will not happen at a

pace commensurate with globalizations' requirements. Highly controlled organizations tend to destroy leaders, as people are not allowed to blossom, test themselves and grow. The new organization will have to incubate leadership.

- Broad based empowerment. All the hearts and minds of employees must be required to deal with the fast pace of shifting realities of the business climate. In a disempowered organization, critical information about quality will reside in the minds of workers and energy to implement change will lay dormant. The secret here lies in flat hierarchies, little bureaucracy, the propensity for risk-taking, self-managing employees and leadership, rather than management focus.
- Delegated management for excellent short-term performance. Excellent systems and a great deal of authority are required to support delegates in achieving results.
- No unnecessary interdependence. Meetings, reports and unnecessary paperwork infringes on the achievement of results. Unnecessary interdependence will become intolerable, leaving the need to have constant cleaning of the system.
- An adaptive corporate culture. Corporations with adaptive attitudes are immensely competitive, as they can embrace and initiate change, and in the process produce and innovate faster than any competitor. These companies run circles around their competitors.

The value of competitive capacity cannot be overstated. However, to maintain this capacity, the continued availability of high skills is imperative in an ever-changing world. The only way to ensure this continued supply of skills is to embrace a process of lifelong learning (Kotter, 1996:178).

### 3.5.3 LABOUR STANDARDS AND COMPETITIVENESS

Labour standards can have a profound effect on the competitiveness of industry. In the globalization of the world economy with increased labour flexibility, industry may seek to invest in countries where fixed costs can be saved through the utilization of cheap labour. South Africa is known for its violent and unstable labour relations history, but fortunately this phenomenon has levelled out. When the ANC took power in 1994, a variety of new pieces of labour legislation originated. In certain ways, this was good, but in other ways, the government is seen not to be pro labour, but pro union through its alliances with COSATU and the South African Communist Party. This relationship and the associated perception create difficulty in the eyes of potential investors, as restrictive labour relations legislation dissuades investment in such an oppressive environment. Mabotja (2002:48) quotes the warning issued by Van Niekerk that the perception of South African labour law reform will worsen the country's ability to attract foreign direct investment, blaming the government for being too interventionist.

There is also a positive side to it, however. Through the trade union movement seeking social justice for members, the International Labour Organization proposed certain standards for member countries, of which South Africa is one. These standards are invariably embodied in trade agreements between nations. Proving to comply with the conventions of the ILO, trade agreements and contracts can be secured which may assist in embracing globalization.

Raynauld and Vidal (1998:17) argue that the intention of labour standards are, not only to ensure the continued business relationship with reputable, non-labour exploiting trade partners, but to preserve a competitive environment that could otherwise be endangered as well. In this respect, the ILO conventions relating to retrenchment (see following chapter) will be enforced and may prevent foreign companies from exploiting cheap labour in South Africa to gain a competitive advantage. However, the argument for the believers that the liberalization of trade will lower the level of worker's wages

due to the need to be the lowest cost producer is torpedoed by the fact that the subscribers to the ILO conventions are all aiming to raise labour standards.

How does this all affect an organization's competitiveness? There certainly is a cost involved in adopting high labour standards, but the following three reasons should shed some light on the necessity for it:

- Workers are forced to acquire a number of minimum consumer goods and services to survive;
- When it contributes to the acquisition and financing of goods that are linked to employers in some way as a result of where it is consumed or how it is financed; and
- To take account of externalities (Raynauld & Vidal, 1998:22).

The cost of adopting these standards are measured in the number of jobs lost as a result of its adoption, eventually then reflected in consumer and producer surplus losses. This is where the role of the government becomes crucial. The challenge lies in the careful selection of standards, adjustment to incomes and the establishment of the extent, nature and appropriateness of government intervention.

The rationale behind labour standards can be found in the fear that developing countries may intrude on the competitiveness of developed countries, as traditionally, one would expect that developed countries pay much higher wages than the developing countries. This is not the case in South Africa, as we are rated 62<sup>nd</sup> out of 75 countries on pay and productivity with a view to competitiveness. This means that our labour costs are viewed as high, yet the average GDP per capita is only US\$ 9189. This picture is skewed because of the high unemployment rate.

The conclusion drawn is therefore that the government of South Africa (as reflected in the first paragraph of this section) has not yet managed to achieve the correct balance in the adoption of appropriate labour standards. This view is supported by the fact that South Africa enjoys position number 71 out of 75 in the labour-employer relation arena

(World Economic Forum, 2002:303). The sad reality here is that industry will struggle to sustain the drive towards utilizing the opportunities offered by globalization, as firstly we are not productive and competitive enough, yet have some of the most stringent labour standards in the world. This may negatively affect the need for retrenchment in the near future.

#### 3.5.4 SUSTAINABLE ECONOMIC DEVELOPMENT

In its raw form, sustainable development is defined as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs (Welford, 1995:6). It is the continued ability of the environment to supply raw materials and assimilate waste while maintaining biodiversity and quality of life.

In the process of becoming and remaining competitive, the ideology of business needs to change (as we will see in the chapter on corporate social responsibility) to avert the need for retrenchment. National and international legislation and environmental pressures are forcing companies to be more responsible about their operations. It is no longer good enough to simply add on environmental management to the rest of the management functions. It must be comprehended that business acquires its licence to operate from the community in which it operates. Accidental damage or environmental irresponsibility can shut companies down. The Thor Chemicals mercury poisoning case in Cato Ridge in KwaZulu-Natal in the 1990's proved that irresponsible practices could lead to litigation and claims that amounted to such vast amounts of money that the company can be liquidated.

Business must recognize that the issues surrounding human life and economical activity on this planet is a crucial interdependent part of wider ecological processes that sustain human existence. When operating outside these ecological parameters, the ultimate result will be a demise of those very activities as well as human existence.

Globalization with its phenomenal growth in technology and knowledge not only brought about greater environmental pressures, but also greater environmental awareness. Sustainable development then means the interdependence between economic growth, which is crucial for employment and the alleviation of poverty; and environmental quality. The Brundtland Report, issued by the United Nations, argued that mass consumption is not indefinitely possible and if it does not end soon, there will be nothing left for the future. This then clearly means there will be no need for employment, as the human race will cease to exist.

Lastly, it should be mentioned that to attract foreign direct investment, to remain globally competitive and hence retain employment levels, more and more pressure is exerted on companies to comply with requirements of not just sustainable development, but also more pronounced equity in the workplace.

In chapter 6, the researcher shall deal more extensively with sustainability as a corporate social responsibility.

### **3.6 IMPLICATIONS FOR SOUTH AFRICA**

As was mentioned in the beginning of this chapter, change and globalization can bring many opportunities for South Africa, but these opportunities have certain provisions and pre-conditions.

There can be no doubt that the world is amidst a multi-faceted and revolutionary change. Political systems have changed from oppressive, authoritarian and communistic systems to greater democracy. Swanepoel, *et al.* (2000:106) notes that the world has changed from a bi-polar to a multi-polar order. This shift also infers a drift away from power dynamics in the military sense towards economy driven power relations. Commensurate with these changes, came the information and



communication technology revolution. These changes set the stage for free trade and faster moving economic transactions and systems across the globe.

South Africa has not been left out of this equation. Being part of this global village, we need to sustain ourselves by gaining access to these markets and its opportunities. But, opportunities imply the means with which to compete. The means can be found in competitiveness, productivity, skills, effective government, etc. Companies must seek new ways of improving performance to compete in the global markets. One of these mechanisms, when looking at the current ability to capitalise on these global opportunities, is sadly a reduction in employment figures. The big question is how do we compete effectively with 93.8% of the population not having qualifications beyond the formal schooling years (grade 12)? The Skills Development Act will certainly contribute to the solution of this problem, but will it be too late for us?

The rest of the world cannot and will not wait for South Africa to catch up. Our own domestic problems require serious and immediate attention. These problems range from serious crime and violence statistics, to high expectations and growing impatience for drastic improvement in the quality of life of the ANC constituency, to fear of losing everything by others. These anomalies indicate mistrust, uncertainty and increased racism that all lead to tension between reconciliation and nation building, on the one hand, and retribution and dissent, on the other. Spending too much energy on these issues will leave us far behind in the global village and does not indicate any relief from the need for retrenchment.

However, the understanding of the urgency of addressing these issues can be seen in the project called "The Workplace Challenge", launched by NEDLAC in association with the National Productivity Institute and the Department of Trade and Industry in 1995. The essence is to help meet the challenge of re-entering the global village and improved competitiveness. Further aims were improved productivity and employment creation by increasing co-operation between management and labour at workplace level. We are doing some things right, but the researcher postulates that too many

highly skilled South Africans have already left and will continue to leave in the face of affirmative action initiatives and the inability of the government to create a trusting atmosphere. The South African government's silence regarding our neighbours' (Zimbabwe) land invasion did not contribute to a feeling of trust by both South Africans and the world, as was evident in the tail spin of our currency. This will leave our country destitute of skills and therefore the ability to effectively participate in the global economy.

Change means development and development means growth. Development again means reducing poverty (implying employment) and access to basic needs goods. Without growth, employment cannot translate into improved welfare outcomes. Our government does not have the means to finance basic needs goods. Streak (1997: 309) argues that development is not synonymous with economic efficiency, but is best conceived as a dynamic process involving economic change and growth characterised by the development of productive forces and the creation of competitiveness in increasingly skill intensive products. In this respect, the current growth trajectory of about 3% will fail to reverse the unemployment crisis and will fail to address the unequal distribution of income.

Streak (1997:321), takes the argument further by saying that international pressure is exerted through the World Bank, International Monetary Fund and World Trade organisation by means of their conditionality policies. These conditions disempowered the governments of developing countries in institutional innovation and the development of policies needed for rapid industrialisation. With South Africa a small, open economy with significance in international capital markets, the threat of capital flight will undermine the hopes of rapid development. Clearly, this does not bode well for employment levels and retrenchment aversion. In summary, development prospects and associated employment levels do not paint a colourful picture.

To support this view, the South African economy, according to Barker (2002:77) is becoming a capital-intensive economy. He states that low economic growth rates and

high population growth rates are important reasons for the high unemployment rate in South Africa. In essence, he argues that the employment levels in relation to South Africa's labour absorption capacity are on the decline. The shocking reality is that for the period 1973 to 1977, absorption capacity was 80%, when compared to -11% in the 1990's. He states that hardly any new entrants to the labour market found employment and in fact, many previously employed workers actually lost their jobs. Smallhorne (2002:28) echoes the words of COSATU'S Zwelinzima Vavi by stating that retrenchments are negotiated daily, that it has become their profession - how to save jobs, how to cushion the impact of job losses and mostly due to privatisation.

### **3.7 GLOBALIZATION AND THE AFRICAN RENAISSANCE**

#### **3.7.1 IS THE AFRICAN RENAISSANCE A REALITY?**

Much has been said about the African Renaissance, but Africa, through its leadership, has developed the obnoxious reputation of delivering only good speeches, and that's where it ends- no real delivery of the goods.

Unfortunately, it has become clear that, despite the apparent benefits of globalization to the developing countries, these benefits can only be fully utilized if the recipient country has the ability to start off with the necessary capacity to make the opportunity last and sustain itself. It has been said that the state plays a vital role in globalization and that it is not necessarily parasitic and corrupt. The policies of the World Bank and International Monetary Fund actually encourage the strengthening of key elements of the state, even though the structural adjustments and systematic reformation required by them indicate otherwise. Some of the key elements were addressed herein, such as state capacity building and the need for improvement in the quality of the labour force.

The following issues must be addressed, according to Cheru (2002:XV) if Africa wants to have any chance at successfully engaging the globalization phenomenon:

- Renewing democracy and improve governance;
- Investing in African education;
- Revitalizing agriculture and reducing poverty;
- Strengthening regional co-operation- this does not mean the silent approval of Zimbabwe's land reform and human rights atrocities;
- Managing fast growing cities and strengthening rural-urban interfaces; and
- Preventing conflicts and building the foundations of peace.

If the African Renaissance is to come to fruition, the following core elements must be present:

- Self-determination over political and economic development;
- An unwavering dedication to the promotion and protection of human rights; and
- Commitment to democracy and international solidarity.

This clearly implies that Africa, and therefore South Africa, should muster its forces and take responsibility for its own development, failing which permanent marginalization and increased poverty will stain the country. Unfortunately, the evidence at our disposal indicates that this is not happening.

The slow growth shown by a few African countries is not solid enough to indicate the start of such a renaissance, as only a few countries completed successful structural adjustments and returned to sustained growth. However, a slow down in growth became evident after 1990 due to civil wars, poor governance in some countries, and some serious externalities such as high oil prices and low commodity export prices. These problems also slowed down human development. The following issues facing Africa needs to be addressed:

- Decline in African education. The demand for educated people is outstripping the supply of facilities and resources;
- Limited access to health care services;

- HIV/AIDS- In the seven countries of Southern Africa (which suffers by far the highest incidence of AIDS), 20% of adults are infected. UNAIDS (2000) estimates that South Africa has the highest HIV infection rate than any other country. The problem with the epidemic is that it has measurably eroded economic development, educational attainment and child survival, and will lead to potential demographic problems in the foreseeable future. The problem simply consumes all resources that could have been applied in the quest to provide training and employment and prevent retrenchment.
- Demographic explosion- a race is taking place between the population explosion and the creation of resources to sustain it, resulting in serious economic development challenges.

### 3.7.2 THE NEW STRUGGLE

What is of greater concern is that a country's economic strength is vested in its political, security and judicial strength. No country can defend its spiritual, moral and cultural values without these. Tusenius (1998:16) states that, if a country is plagued by a high crime rate, increasing unemployment and not so prosperous businesses, the country is becoming ripe for a revolution with imminent collapse of the government and its structures. He argues that the values of a country permeate politics, the economy and the security and justice of the country. He maintains that a revolution of the spiritual, moral and cultural values must first take place before economic growth can be sustained.

History played its role in altering and contaminating the African culture and mindset. He argues that this awakening or rebirth should take place as follows:

- Re-energising traditional African values and the Ubuntu values;
- Removing the stains of slavery, apartheid, the Cold War and neo-colonialism;

- Adopting, adapting and integrating some desirable characteristics of successful cultures, such as punctuality, creative individualism and competitiveness (some of our members of parliament do not even bother to show up, least caring to be timeous); and
- Achieving a modern winning strength from African diversity.

With the advent of apartheid laws, a paradigm of the armed struggle followed all peaceful attempts to dissuade the government from its damaging policies. In this manner, a “struggle” mindset was borne and nurtured. This struggle was characterized by urban terrorism, intimidation, rent and other boycotts, disobedience against authority, necklacing, making the country ungovernable, liberation before education, burning of schools, political strikes, and many other forms of destructive behaviour.

This struggle hampered economic growth and damaged the economic foundation of the country. We all remember with not too much fondness how the ANC called for sanctions. The sad truth is that we now need foreign direct investment, economic development and job creation, but the lingering mindset of the struggle continues to hamper growth. The new struggle, according to Tusenius (1998:18) will be for economic development, job creation and survival in the globalization of the world economy, not a struggle to perpetuate history in order to kill the future. It is understandable that it will be difficult to “unteach” the behaviours previously tough to overthrow the government, but these behaviours or “struggle mentality” is no longer needed or desired and our government has not been successful in making this clear to its constituency.

In the effort to remove the obstacles to constructive socio-economic reform, the following paradigms must shift:

- Invite and accept constructive criticism. It will not help to keep blaming the apartheid government for the troubles suffered today. It is time, after ten years of being in power, that the ANC government takes responsibility for its own

directions and actions. Robert Mugabe still blames the previous government and England for the woes that he brought upon his country- twenty years after taking power!

- The culture of entitlement: A strong economy cannot be built if the politicians create a culture of self-enrichment at the expense of others. There are just too many fraud cases involving South African members of parliament, although much is done to curtail this problem. Social responsibility then also means not creating a culture in which people feel dependent on the state for social support, but one of hard work should prevail;
- Accept responsibility and do not blame others or circumstances;
- Transparency and truth: political secrecy and deceit are signals of arrogance, corruption, a guilty conscience and/or incompetence that will lead to disaster;
- Rewards for past victories: appointing people into leadership positions after winning the battle with no regard for their training, education level or skills can prove disastrous for a country;
- Cronyism and nepotism: this problem relates to rewards for the past, where the criteria for appointment are ignored and the position is offered for the wrong reason; and
- Questioning authority: political correctness is an enemy of true democracy.

### **3.8 HUMAN RESOURCE CHALLENGES DURING THE AGE OF GLOBALIZATION**

Critical challenges underlie the labour movement, business and the government. One of these areas, as mentioned earlier in this chapter, is vested in the human resource development arena. Indeed, it was mentioned that the challenge of globalization is not stopping the expansion of global markets, but to find the rules and institutions for stronger governance. The aim here is not only to preserve the advantages of global markets and competition, but to provide enough space for human, community and

environmental resources to ensure the workability of globalization (Finnemore & van Rensburg, 2000:75-76).

Clearly, the importance of human resource development in successfully engaging in a global economy cannot be overstated. In the next section, this aspect will be discussed.

### 3.8.1 EDUCATION

The current education levels of the economically active population leaves much to be desired, thanks in part to the deliberately inferior and non-compulsory education system for blacks pre the apartheid liberalization. Poor investment in education and training therefore contributed to skills shortages, low productivity and the inability to adapt to new technologies, poor conflict handling skills and poor competitiveness. The government took the right step by allocating a large percentage of the national budget to education. Business has done a lot in support of an upliftment of basic adult education and literacy through its adult educational programmes.

### 3.8.2 TRAINING

Training provides the basic skills required for any economy to become competitive. The previous disabling apartheid legislation left South Africa destitute of high skills. This neglect has to be redressed to equip employees to embrace new technologies brought about by the globalization. Business cannot afford not to invest in the production of a skilled labour force to enhance their global competitiveness, ultimately materializing in an empowered workforce. However, as said before, a cultural revolution is also prudent in correctly utilizing the skills so acquired. The new Skills Development Act will go a long way in addressing this crippling problem.



### 3.8.3 HUMAN RESOURCE DEVELOPMENT

Ulrich (1998) states categorically that the role of the human resource manager needs to change radically to utilize the opportunities of globalization - or else face a disaster. He claimed that the role of the HR manager matters more now than ever due to the challenges of:

- **Globalization.** Managers are faced with the paradoxical demand to think locally, but act globally. This means managers must develop to move people, ideas, products and information around the globe to meet challenges and utilize opportunities. It also means dealing with volatile political situations, contentious global trade issues, fluctuating exchange rates and unfamiliar cultures. Literacy with respect to international customers, commerce and competition is becoming critical. All this requires an increase in the ability to learn and collaborate and to manage diversity, complexity and ambiguity.
- **Profitability through growth.** After clearing debris through business process re-engineering, downsizing, retrenchment, de-layering and consolidation to improve efficiencies, revenue growth is what is required to remain profitable. Such growth drivers require unique talents, creativity, innovation and the open sharing of information and shared learning. When growth through acquisitions, mergers and joint ventures materialize, the capacities of its employees will ensure the sustained success of the new company.
- **Technology.** This characteristic of globalization will determine how and where people will work. Employees must figure out how to make the best use of technology to make it part of a productivity improvement - such as working from home and so save on energy in traveling to work and back. People will then have to learn to stay ahead of the information curve and learn to leverage it for the employers' benefit.
- **Intellectual capital.** Knowledge has become a competitive advantage for companies. Successful companies will be characterized by the ability to attract, develop and retain employees who can drive the company to embrace

globalization and making it responsive to both its customers and the burgeoning opportunities of technology.

- Change, change and more change. The greatest competitive advantage of any company is the ability to embrace, even initiate change. It has been shown that companies with the highest longevity had the ability to embrace and initiate change. This means non-stop change with the ability to learn rapidly, and continuously, innovate ceaselessly, and embark on strategic initiatives faster and more comfortably. In order to thrive they would have to learn to be in a never-ending state of transformation, creating perpetual enduring change.

From these imperatives we can deduce the incredible importance of human resource development in South Africa. This unfortunately leaves much to be desired insofar our skills base is concerned, especially with the need for affirmative action and black economic empowerment. It certainly appears as if the choice has to be made to become competitive first, thereby creating capacity to endure affirmative action programmes.

Ulrich (1998) argues that the organization's capacity must be built to embrace change. To do this, high performance teams and a culture of change must be designed and woven into the organizational architecture.

The big challenge for organizations and its people wanting to compete globally is that they are often pushed into several contradictory strategic directions simultaneously, according to Evans *et al.* (2002:4), heralding what is termed the "transnational" organization. In this organization, companies need to respond to a variety of national demands, yet maintain a clear and consistent global strategy. As they put it, most worldwide companies recognize the need for global efficiency, national responsiveness, and the ability to exploit knowledge on an international basis.

As companies then merge, form joint ventures, get taken over or any other form of restructuring, the need to integrate the skills and knowledge after such restructurings

become paramount for the success of that venture. This principle will obviously also apply to local players who may be threatened by international competition. To maintain this competitive advantage, companies have to improve operational effectiveness, invest in human capital, develop core organizational capabilities and openly transfer and share knowledge. In summary, Peter Drucker (1997:22) reiterated that the only comparative advantage of the developed countries is in the supply of knowledge workers and knowledge constantly makes itself obsolete, with the result that today's advanced knowledge is tomorrow's ignorance.

### **3.9 SUMMARY**

The ultimate manifestation of global change is that of globalization. All the sources of change occur in this phenomenon and the impact on South African companies is and will continue to be profound. Money makes the world go around and it has become very clear that the globe will not wait for South Africa to catch up by first solving its domestic problems. Many employment opportunities created through the possibilities of globalization are lost daily through the awkward balance and needs of the government to be both internally and externally focused at the same time.

It is of paramount importance that South Africa's competitiveness improves radically through possible interventions by the state in securing economic growth first and then letting the growth sustain the development of the country beyond its apartheid's legacy of inequality and discrimination. Skills development and a massive paradigm shift is required if we are to succeed in the global economy.

Globalization, the impact that it has on South Africa, the government's reaction to it, the policies and agreements flowing from it and the commitment by both labour and business will ultimately determine to what extent South Africa will be successfully integrated into the world economies. Some state intervention may be necessary and even desired, but the economy simply does not have the capacity to meet the

expectations of the majority of people in the country, unless high economic growth is achieved. However, unlimited intervention may destroy growth prospects and will therefore not reduce poverty, according to Friedman (1992:33).

Finnemore & Van Rensburg (2000:72-73) summarised the impact of globalization on South Africa as follows:

- Urgent restructuring of uncompetitive industries is necessary to utilise opportunities brought along by globalization, but political transformation and economic liberalisation caused some difficulty for South Africa. This is mainly due to fierce competition from abroad and the inability to compete against much higher efficiencies and lower labour costs. The World Economic Forum rates South Africa 25<sup>th</sup> out of 75 countries on competitiveness. When compared to industrialized and developed countries, however, this is not good enough.
- Improved productivity is becoming critical to global competitiveness, as South Africa's productivity fell during the last two decades. Globalization forced some industries to address this problem and together with wages not exceeding the inflation rate and some other improvement schemes, the situation has improved.
- The impact on the union/ management relationship was profound. The focus has changed to actively seeking harmony, with joint visions of establishing organisational competitiveness, but simultaneously ensuring employment security as well.

Tusenius (1998:21) adds the following critical issues that need to be addressed if we want to succeed in the global economy:

- Punctuality - Improper timekeeping in today's fast paced world cannot lead to success;
- Work ethic and competitiveness- the hard lessons from post war Japan and Germany teaches us that hard, dedicated work and competitiveness leads to

success. Prosperity can only flow from hard, creative, socially responsible, competitive work and not political power;

- Taking action- translating thoughts, words and speeches into concrete action and practical results. African leaders enjoy the rhetoric of “we will look into this and we must do...” too much with too little action; and
- Creative, socially responsible individualism - Individualism means accepting responsibility and not hiding behind the masses. There is no more need for the strong solidarity so needed to free the country from oppressive apartheid legislation. Apartheid is now history and the country has to move on.

In the next chapter, retrenchment as a consequence of change will be discussed in detail.

## **CHAPTER 4**

### **RETRENCHMENT AS A CONSEQUENCE OF CHANGE**

#### **4.1 INTRODUCTION AND DEFINITIONS**

From the previous chapters it has become clear that many reasons generate the need for retrenchment and that retrenchment is a consequence of change. Some key factors involved in these profound steps are the increasing pace of change in the world, globalization, international competition, trade liberalization, etc. In this chapter, the focus will be on the need for institutionalising methods and procedures to govern the resultant job losses and the rationale of downsizing. Furthermore, the economic rationale behind retrenchment in a globalised economy will be discussed in some detail and lastly, the legal perspective on retrenchment will receive generous attention.

Dismissals due to operational requirements form part of the so-called “no-fault” dismissals. When one looks at the sequence listed in the Labour Relations Act (Act 66 of 1995) it would not be surprising to find that the dismissals based on operational requirements finds itself the last one in order of preference. This is the kind of dismissal that can truly be stated to be of no fault on the employees’ part. One could postulate that the other no-fault dismissals, such as incapacity due to injury or illness could potentially still be attributable to some form of employee contribution, such as lung cancer due to an unhealthy lifestyle, or an injury due to lack of attention, ignorance of safety procedures, for example.

In the case of dismissals due to operational requirements and where employees do make a contribution to the financial success or failure of the company, one cannot postulate the same degree of control on the employees’ part in respect of the need for retrenchments. This is because the wider economic conditions pertaining to that industry are completely out of the employee’s control. It has also been suggested that

retrenchment is a direct consequence of the inadequate workings of a capitalist system. In this respect, Swanepoel *et al.* (2000:833) states that dismissals due to operational requirements are deemed to be deserving of special treatment, comparing this action to economic capital punishment. The author further states that special compassion is called for on the part of employer.

Grogan (2001:187) argues that retrenchment by an employer can be contemplated, not necessarily to avert a financial disaster, but to increase profits. The expansive nature of the definition of operational requirements in the Labour Relations Act (Act 66 of 1995) clearly leans itself to this reason for retrenchment. It may therefore be deemed fair in terms of the LRA's definition of "economic needs," that an employer dismisses employees on this basis. The writer dares to postulate that an even bigger social responsibility rests on an employer's shoulders when he contemplates retrenchment for this reason. Conversely, it may well be argued that increasing profits will be contemplated to be commensurate with technological improvement, work method improvement and/or re-structuring, following retrenchments. However, this may not necessarily be the case, as evident from the strong resistance offered by the trade union movement.

A distinction between redundancy and retrenchment may also be prudent at this point. According to Engelhardt (quoted by Bezuidenhout, 1998:244): "retrenchment means the termination of the employment contract because of financial difficulties of the employer, or an economic recession... Redundancy means the termination of the employment contract due to technological changes or automation, where the specific post held by the employee becomes superfluous." The only difference between the two is in respect of the duration of such termination. Redundancy tends to be more of a permanent nature and arises mostly due to restructuring or technological advancement, whereas retrenchment may mean re-employment when the negative economic conditions disappear. Nel (1997:235) supports this argument by saying that redundancy occurs when jobs are permanently lost through re-organizing or the introduction of new technology, whereas retrenchment may only be contemplated as a

temporary measure to curtail costs in a slumping economy which may turn around again.

However, when viewing the following excerpt, the sad conclusion is drawn that retrenchments are not as temporary as we wish to believe, since re-employment under these circumstances seems unlikely: "Employment in South Africa is at its lowest point in sixteen years. Employment trends in different sectors of the formal economy from June 1996 to June 1997 show that all sectors have lost jobs, with the exception of the wholesale/ retail trade and financial services. In the formal sector, 62 000 jobs were lost in the first six months of 1997, flying in the face of GEAR targets" (Cosatu, 1998).

It is clear from these definitions that distinction is not always possible and that inter-dependence emanates from it regardless, as all the required needs for change will be economically driven.

The Labour Relations Act (Act 66 of 1995) does not provide for separate procedures for the two respective definitions above and we can therefore safely assume that they will be treated as similar cases. This seems logical from the perspective that the impact remains exactly the same, namely a reduction in personnel due to a change in the employers' business environment. Surely technological advancement or automation will be considered purely where business rationale dictates that it be considered. For this reason, we will treat both cases as being similar and will not distinguish retrenchment from redundancy.

## **4.2 THE IMPORTANCE OF UNEMPLOYMENT AS A CONSEQUENCE OF RETRENCHMENT**

Why is unemployment so much of an issue? The problem is not so much vested with the individual who is dismissed due to his own doing, than with the masses of people affected during a major retrenchment or downsizing exercise, hence the importance



hereof to society. This statement applies as much to potential retrenchees as it does to employers. Unemployment, as indicated by Kaufman & Hotchkiss (2000:645), is one of the most serious and pervasive economic problems in the labour market. They believe that low wages, discrimination, substandard working conditions and other market pathologies can threaten economic security and the well being of significant numbers of employees. The impact of unemployment can be seen as both a cause of economic hardship and wasted resources. The importance of this can be seen clearly from the public attention it attracts, because it affects everybody.

The rate of unemployment is further of great relevance because of the following reasons:

- It is a key indicator of the cyclical performance of the economy. The unemployment rate measures the percentage of the labour force that seeks a job but cannot find one; therefore an increase in the unemployment rate is indicative of a response of business to falling demand and production;
- It measures economic efficiency. With the central goal of any economy being the maximizing of the production factors in the production of goods and services, an increased unemployment rate then indicates that some labour input is not being used, with a consequential loss in production; and
- Unemployment adds substantially to the costs incurred by individual workers and their families. These costs take three forms. The first is loss of income, as with prolonged unemployment, significant hardship is induced. The second cost is incurred through scarring of the prospects of finding new job. Thirdly, prolonged unemployment causes significant psychological and emotional costs on workers and their families and lastly, society bears the brunt of high costs associated with heightened crime, drug abuse and other social maladies (Kaufman & Hotchkiss, 2000:647-648).

In the unique South African situation, with excessive unemployment, the profound effects of crime are all too evident. Businesses may then seek to re-locate from high

crime areas to continue operating in more tolerable areas of society. In a society of high crime, talent and resources are utilized to devise ever more devilish plans and so does not contribute at all to economic stability and progress, but to the demise of the society. The researcher postulates that two major reasons contribute to the high unemployment rate in South Africa- a population growth rate that outstrips the economic growth rate and mass retrenchment in the face of globalization. Following the causes of unemployment, are the causes of retrenchment.

The researcher postulates that retrenchment is largely a consequence of restructuring brought about by mergers, acquisitions, take-overs, joint ventures and closures of business or business restructuring. Restructuring on a macro scale will inevitably follow from a global merger or joint venture or on a micro scale through the processes of natural attrition or a normal business process re-engineering. The population growth rate falls outside of the scope of this study and hence the focus will be on retrenchment as a consequence of a change in economic conditions.

Venter *et al.* (2003:114) supports this notion when they state that a significant factor in South Africa's unemployment crisis is the poor economic performance that led to the shedding of jobs. They also state the relationship between globalization and the perceived need of organizations to downsize in order to become more competitive.

#### **4.3 THE NOTION OF EMPLOYMENT AND EMPLOYMENT RIGHTS**

Antiquity shows us that employment was seen as a negative dependency, abuse and regret. The term was a profoundly class based term, implying a low level connotation to it. So the term evolved into a quintessentially 20<sup>th</sup> century term, crystallizing in the 1930's. This is important from the perspective that employment as a phenomenon became a defining need. Industrialization required ever more employees, concomitant with the division of labour with a developing premium on employment stability (Standing, 1999:9).

With the growth of the principle of “secure” employment came certain rights. Article 6 of the International Covenant on Economic, Social and Cultural Rights says, according to Standing (1999:10): “The State Parties to the present Covenant recognize the right to work, which includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts, and will take appropriate steps to safeguard this right”. It continues to say that the steps to be taken to achieve the full realization of this right shall include policies and techniques to achieve steady economic, social and cultural development and full and productive employment under conditions safeguarding fundamental political and economic freedoms to the individual.

The ILO conventions echo these principles in its stated purpose to promote policies to achieve full employment and the raising of living standards. The Universal Declaration of Human Rights, article 23, continue on this trend by saying that everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. These and other labour rights finally culminate into the South African labour relations realm through the enactment of our Bill of Rights and the Constitution of South Africa.

It appears, despite the neo liberal economic inclination of the ANC, that the role of the state in social welfare is growing, as is evident through the employment equity and black economic empowerment initiatives. This means that a welfare state is sought to underpin the needs of the ANC constituency with a social net through the RDP programme. However, to sustain this welfare state, high labour force participation is a prerequisite, according to Standing (1999:19). Without fulfilling this requirement, society will not be able to afford these social rights.

#### **4.4 RETRENCHMENT AND UNEMPLOYMENT**

Now that the importance of high unemployment figures have been indicated, it is prudent to reflect on the realities facing South Africa. It has been mentioned numerous in this study that we are facing unacceptably high levels of unemployment.

Standing (1999:80) indicates that the growth and persistence of mass unemployment contributes to greater global labour flexibility, despite the notion that the greater the flexibility of the labour market, the lower the economic adjustment costs will be and the lower the loss of output. However, unemployment has contributed to this flexibility, because the employee bargaining positions were weakened. Persistent unemployment, like we are facing in South Africa, strengthens the employer bargaining positions and enables the abuse of employee fears of unemployment. By so doing, labour-saving measures are introduced more easily and with lesser resistance. In an environment of scarcity of skilled labour, this will not be so easy to do.

How are we doing with respect to the promises made by the ANC? The following tables clearly indicate that we are guilty once more of over promising and under delivering. It is evident that government spending was brought under control, as is the case with the inflation rate, but unemployment rose and the much-needed economic growth rate never materialized.

The table shows that the inflation target was met, but was countered with poor performance on the real interest rate, much less than expected government investment growth, and hopeless private investment growth, culminating in the achievement of only 50% of the expected economic growth rate. The unemployment rate consequently disappointed with job losses in all but the trade portfolio.

Table 4: GEAR's actual vs. projected results, 1996-2000

	1996	1997	1998	1999	2000	GEAR predicted average	Actual average
Inflation	7.4%	8.6%	6.9%	5.2%	5%	8.2%	6.6%
Real interest rate	12.6%	10.4%	15.85 %	10.3%	N/ a	4.4%	12.3%
Budget deficit (%GDP)	4.6%	3.8%	2.3%	2.4%	2.6%	3.7%	3.1%
Government investment growth	5.3%	4.4%	2.6%	-5.4%	N/ a	7.1%	1.8%
Private investment growth	7.4%	4.7%	-2.9%	-4.4%	N/ a	11.7%	1.2%
GDP growth	4.2%	2.5%	0.6%	1.0%	3.5%	4.2%	2.4%

Source: Adopted from the *South African Reserve Bank Quarterly Bulletin*, June 2000; Department of Finance Budget Review 2000.

Table 5: Employment in the formal non-agricultural business sector (1000s)

Industry	1994	1997	1998	1999	Change
Mining	601	524	443	416	-185
Manufacturing	1,432	1,374	1,321	1,291	-141
Electricity	40	39	37	34	-6
Construction	355	301	255	225	-130
Trade	740	786	831	884	144
Transport	285	268	249	238	-47
Finance	196	221	214	207	11
Community/social services	1,607	1,577	1,563	1,497	-110
<b>Total</b>	<b>5,256</b>	<b>5,091</b>	<b>4,914</b>	<b>4,792</b>	<b>-463</b>

Source: Adopted from Statistics South Africa, October Household Survey, 1999.

## 4.5 ECONOMIC REASONS FOR RETRENCHMENT

As was mentioned in the beginning of this chapter, many economic reasons lead to the need for retrenchment. Although not meant to be exhaustive, the following list should serve as a good indication of these reasons.

- Economic recession. These conditions are totally beyond the control of the enterprise too. The typical cycles of the commodity markets will serve as a good example. In reality, the commodity prices achieved by not just South African companies, but all commodity exporters, have seen a steady decline in real terms. This meant finding alternative ways to achieve growth and profitability, such as mergers, acquisitions and joint ventures;
- Relocation of business premises. This may be necessary to obtain a logistics advantage, to capitalize on tax holidays offered by government or cheaper business premises lease or rent. The availability of land for expansion or moving to less environmentally sensitive areas would also be valid reasons to relocate. The new Coega development project in Port Elizabeth is a good example hereof;
- Technological advancement and or/ automation. An example may be where an employer needs to become globally competitive through restructuring of his cost base or by becoming capital intensive;
- Take-over, mergers, joint ventures and closure of business. Numerous examples can be found in practice where synergy is sought between two competitors. The age of globalization is characterized by the multitude of mergers, acquisitions, take-over and joint ventures;
- Economic considerations due to decreased production arising from a weakening demand of the product sold. (See the mentioned example of gold production); and
- Similar needs, as contemplated by the LRA.

Some of these reasons will be discussed in more detail. As was seen in the study so far, global change has a profound effect on employment levels and the need for retrenchment frequently arises as a result of mergers, acquisitions, joint ventures or closures of business.

#### 4.5.1 MERGERS, ACQUISITIONS, JOINT VENTURES AND CLOSURES OF BUSINESSES.

A merger is defined as a combination of two companies in which only one survives- the merged company ceases to exist, according to Gaughan (1996:7). The acquiring company then assumes the assets and liabilities of the merged company. Mergers differ from joint ventures in that a joint venture means consolidation, where a combination of two or more companies forms an entirely new company. A subsidiary merger occurs when a merged company becomes a subsidiary of the acquiring company. A reverse subsidiary merger is when a subsidiary of the acquiring company is merged into the target company.

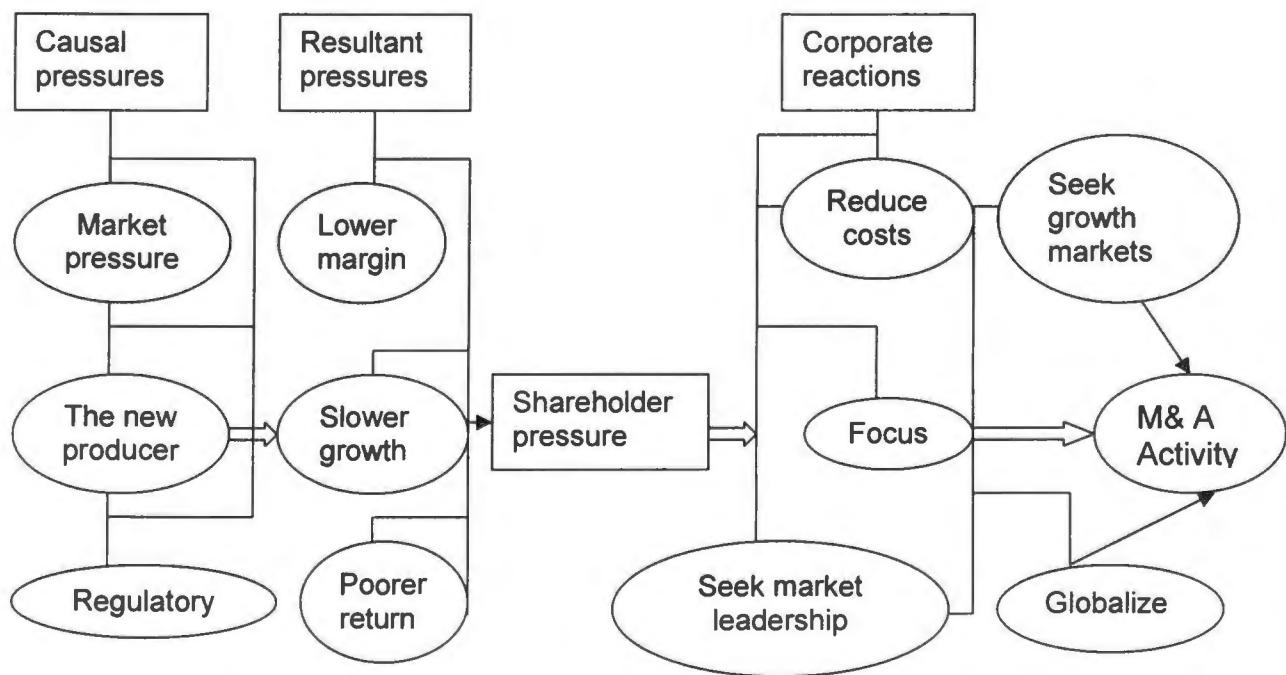
Bendix (2001:384) also mentions that the number of mergers and transfers in between different businesses has increased. It should be remembered, however, that a causal link exists between a change in economic climate and the need for a restructuring following a merger, acquisition, joint venture or closure. Such re-organizations do not take place just because the idea is palatable. There will inevitably be economic rationale behind such move, such as technological and competitive forces that contribute to the rise in foreign direct investment, which in itself has an impact on the need for retrenchment. This issue was discussed earlier.

The closure of a business unequivocally means that the employer can no longer afford to pay his employees, leaving any offer of labour without the ability to counter-perform in terms of the employment contract, i.e. the ability to provide compensation for it. The

poor economic performance of South Africa as indicated by the failure to reach GEAR targets accounts partially for the losses of jobs that occurred as a consequence.

From the following figure, it is easy to link the change in the industry with the need to reduce costs, either in the form of reducing the labour compliment through retrenchment or progressing with a merger or acquisition that will lead to a restructuring and so affect the total employment levels. It is very seldom indeed that such a merger will take place without rationalizing functions and subsequently merging and optimizing certain key functions in the new company with a resultant retrenchment of those that do not fit. Ingles (2000:73) reasons that a true merger of equals is very rare indeed and one could then safely assume that the dominant company will assert its own will and enforce its own means and ways of rationalizing the new combined labour contingent.

Figure 3: Drivers of change in companies



Source: Adopted from Ingles (2000:19).



The economic or structural reasons for retrenchment, whether it is a merger followed by a restructuring or a business re-engineering exercise, an acquisition or a technological improvement, are not independent from each other. As an example, a restructuring may follow a merger or acquisition, where the acquisition was made in an attempt to gain access to new technology. The economic reasons for retrenchment are therefore interwoven. This becomes very clear in Sturgess (1989:24-25) when he states some of the reasons for the increase in the global merger and acquisition activity as follows:

- Increased importance to larger companies of the implementation of global competitive strategies; and
- Restructuring of industries in following global shifts in demand patterns, cost bases and technological change.

Why do companies embark on such profound restructuring campaigns? Companies are forced to take action and seek low capital strategies to ramp up capacities, gain customers and cut costs. New ways to grow must be found and new sources of revenue are sought in new markets, customers, products and services and sales and marketing capabilities. Companies then seek to leverage their cost of operations by improving productivity and marketing and sales skills and finding economies of scale. Business risks are reduced by lowering investment levels and striving for better returns in the face of more demanding customers. This makes it increasingly difficult for companies to respond timely to these challenges alone and hence partnerships are being forged in response to these needs.

Gaughan (1996:10) states in this respect that the term “corporate restructuring” refers to forms of asset sell-offs such as divestitures. The needs for this action can typically be found in poor performance of a division, financial exigency or a change in strategic direction, such as selling of the non-core parts of its business.

Other forms of restructuring are cost and workforce restructuring. In the 1990's, many companies engaged in corporate downsizing in the quest for improved efficiency and productivity. These moves were encouraged by the recession of 1990-1991 and by international competitive pressures arising from globalization.

Typically during such a merger or take-over, three questions will arise with respect to employment and retrenchment, according to Powell-Smith & Marsh (1989:68):

- Whether or not the buyer wishes to inherit the employees of target company;
- If the employees are inherited, what are the consequences of retrenchment resulting from the post acquisition rationalization and /or plant closures?
- The ultimate harmonising of terms and conditions of employment of the target's employees with those of the acquiring companies' employees.

The European Community requires that European Community member states adopt laws to safeguard the rights of employees during and after the execution of such business strategies. The South African legal perspective to this problem is discussed under section 4.17 and 4.20.

Gill (1985:11) adds to this by stating that technological change can result in negative repercussions for employment levels. He argues that enterprises have to operate in climates of general economic instability, frequent and cyclical fluctuations, reduced productivity, rising production costs and stiffer competition. This leads to the need to offset the effects of inflation and high-energy costs by concentrating on labour saving techniques and radical transformations in company structures.

However, technological change can also be good for future employment. Sasol Polymers (then AECI Chlor-alkali and Plastics Ltd.) engaged in such an exercise in the early 1990's. The old production assets, utilizing carbide and acetylene as a feedstock for the production of PVC polymers, became uncompetitive due to exorbitant fixed costs and increasing electricity costs. Due to the pressures exerted by foreign

governments, investment in new technology was difficult to attract. World prices were very competitive and as such, continued loss of market share was fast becoming an issue that would lead to the closure of the company. At the same time, Sasol had an abundance of raw material available, specifically ethylene gas. A joint venture called Polifin emerged, following the provision of capital by Sasol to build a new plant at a cost of some R 700 million in exchange for half of the shares of the AECI flagship. This joint venture saved the old company from certain death and although retrenchments followed in the wake of this joint venture, it enabled the continued future employment capacity of the company (De Beer, 2003.)

Finally, became apparent that, in the event of a transfer of business, closure or merger, that the employees are notified of such strategies in time. Van Wyk & du Plessis (1992:271) note in this respect that the transferor should give reasonable notice and consult with the employees or representative union well in advance before the take over date and; steps should be taken to protect the interests of the employees, especially the retention of their jobs.

The way that the labour legislation views the retrenchment of employees as a result of such a business venture will be discussed in more detail under section 4.17 and 4.20 in this chapter.

## **4.6 THE LEGAL PERSPECTIVE ON RETRENCHMENTS - THE LABOUR RELATIONS ACT (Act 66 of 1995)**

### **4.6.1 THE NEED FOR A POLICY**

It is commonly known that the only certainty in today's world is that change will occur. Business reviews take place regularly in any organisation in the form of meetings, financial statements, etc. and with the innovations in communication technology; it should be reasonably easy for any organisation to forecast looming difficulties. This,

however, is a theoretical statement only, as we are commonly aware of many organisations being caught with their pants down.

In this respect, it is wise to ensure that a retrenchment policy is put in place and communicated to all employees. Bendix (2001:389) contends that this should be done regardless of union presence or not. A pro-active approach is therefore advisable, especially in the South African context where our currency is extremely sensitive to firstly, negative sentiment in the developing markets, secondly political incidents in Southern Africa and lastly to first world economic developments. We need only to consider the effects of the World Trade Centre disaster on September 11, 2001 on the international economic scenario. The gold industry was immediately sought as a safe haven, very similar to the uncertainty that reigned across the globe as a result of the cold war. This incident sparked similar uncertainty, providing a breath of new life into the gold markets, as was evident from the sustained gold price in excess of US\$ 300.

Organisations should therefore be prepared with a policy in such events and contingency plans formulated well in advance. Where unions are present, such policies should already have been negotiated and incorporated into the recognition agreements. In the case of bargaining councils, each member should have its own retrenchment policies. Such pre-agreed policies will serve well in informing employees of the manner in which management will handle retrenchments should the need arise and also in guiding management in the event of actual retrenchments becoming necessary.

In the case of Sasol Polymers, the standard company retrenchment procedure was accepted and incorporated into the recognition agreements between Sasol Polymers, SACCWU, MWU and CPPAWU. For purposes of representation, the unions kindly agreed to include staff members (who are not necessarily union members) in the agreement. They upheld the view that staff members have previously contributed positively to alternative mechanisms to retrenchment and so added value to their cause (Basil, 2002).

Bezuidenhout, *et al.*, (1998:245) mentioned that employers should incorporate the fact that they wish to stay in business and remain profitable, while acknowledging that changing circumstances may lead to a change in the workforce composition to remain profitable. According to Andrew Levy and Associates (quoted by Bezuidenhout, *et al.*, 1998:245) it is important to decide whether one will merely consult with the union, or engage in negotiations with respect to retrenchments.

Some form of consultation and even negotiation will inevitably occur during the process of establishing a retrenchment policy. During this phase, the following issues should be considered for incorporation into the policy:

- Conditions under which retrenchment will take place;
- The measurables for establishing the need for retrenchment (verification of conditions);
- Selection criteria and the exact procedures to be followed should retrenchment actually become necessary; and
- Alternatives to retrenchments that will be considered, such as redeployment elsewhere in the company and the criteria that will be followed in such an event, guarantees for re-employment once economic conditions allow this, etc. We will focus on these issues at a later stage in the text.

The Sasol Polymers retrenchment procedure allows for the following alternatives to retrenchments:

- Suspension on recruitment;
- Allowing the process of natural attrition to take its course;
- Voluntary early retirement for employees qualifying to do so in terms of the rules and regulations of their respective pension – or retirement funds;
- Voluntary retrenchments at management's discretion; and
- Transfer, redeployment and retraining where possible and under the guidance of the policy (Sampson, 1998:6).

In the following section, we will focus on the two legs of fair and legal retrenchments, that being procedural and substantial fairness.

#### **4.7 THE NOTION OF FAIRNESS**

What does fairness mean? The word “unfair,” or its converse form “fair” is concerned, according to Salamon (1987:46), with subjective, value judgments about concepts for which there are no universally accepted criteria. This is not surprising, as various cultures judge fairness according to custom and tradition and the concept may vary significantly from one to another. The Chinese culture treats woman differently to men, so does the Islamic faith. Since the concept of unfairness denotes two elements; one receiving and one giving party (or element), the concept of unfairness therefore means that one party will benefit to the detriment of another, otherwise the concept cannot exist. Therefore the omission of an act can also be to the disadvantage of one and to the benefit of another.

The word further implies that there must be a desire for something, the acquisition of which will satisfy the feeling of fairness or in the absence thereof, the feeling of unfairness. The act or omission leading to the perception of fairness does not necessarily have to involve an active party in the act or omission. For example: in a murder case, the suspect is judged by onlookers to be guilty, based on evidence or perceptions and he is acquitted of the charge, the onlookers may experience a feeling of unfairness towards the victim and his/her family. This then presupposes that in that specific culture, murder is deemed unacceptable when measured against acceptable norms in the society. Similarly, in a culture where human rights are highly valued by society, the same example could be as follows: The murderer is found guilty and receives a death sentence. Due to the high value on human life, the sentence may be deemed unfair, as a strong belief exists for the preservation of life. The onlookers then cannot condone the death sentence under any circumstances. In other cultures, where murder is deemed the ultimate crime, the death sentence will lead to a feeling of fairness, perhaps even for the murderer himself. The Japanese “hara-kiri” and the

equivalent Chinese “Seppuku” principles of honourable suicide to receive forgiveness, bear testimony to this phenomenon.

#### **4.8 SUBSTANTIVE REASONS TO RETRENCH**

The issue of substantive fairness means that a valid and justifiable reason must be present before an employee can be legally dismissed for operational reasons. The Labour Relations Act, Code of Good Practice: Dismissals place very specific obligations on the employer to ensure that all possible alternatives to retrenchments were explored before taking this course of action (Du Toit *et al.* 2001:380). The economic reasons to retrench was discussed in some detail in section 4.5.

The Code of Good Practice: Dismissal also states that, as a general rule, the economic reasons provided by the employer should relate to the financial management of the enterprise; technological needs should relate to the introduction of new technology that affects work relationships through the redundancy of certain positions or restructuring. The code views structural reasons more along the lines of redundancy of positions as a consequence to a restructuring. The same principles seem to apply to the other reasons, being that of “similar needs” of a business. These “similar needs” also have to be aligned with economic, technological or structural needs and hence a dismissal for reasons closer akin to race or gender diversity performed under the auspices of operational reasons will be deemed unfair. “Similar needs”, as contemplated by the expansive definition in the LRA, includes dismissal for incompatibility, a refusal to accept changed conditions of employment and dismissals at the behest of a third party (Van Niekerk, 2002:69). However, these fall outside the scope of this study.

Similarly, a dismissal for misconduct or incapacity performed under the smoke screen of operational needs will be deemed unfair. It is commonly accepted that many a time, a thin line divides the operational requirements from misconduct or incapacity.

How then does a company retrench employees fairly and with good enough reason? The Act is not very explicit in this respect, but the following question should receive due consideration:

- Is the employers' proposed action genuinely dictated by more than self-interest or preference, or not?

Du Toit *et al.* (2001:381) argue that if a suitable alternative is suggested during the consultation process, an interest dispute may be looming rather than an operational need. It has been held that the mere submission of an assertion of an operational need by an employer may not be enough, unless accompanied by a tacit or express acceptance by the employee.

The courts have consensus that the reason for the retrenchment must be properly and genuinely justifiable by operational reasons, therefore based on pure business rationale. Although it is generally accepted that the courts will not interfere in the management prerogative to make decisions regarding retrenchment, but to pass a judgment on whether the ultimate decision arrived at was genuine and not an attempt to cover up an ulterior motive for ridding itself of unwanted employees, such as union members. The exhaustion of the consultation process will bear the testimony whether indeed the reasons for retrenchment were valid or not (Du Toit *et al.* 2001:383).

Grogan (2001:187) argues that operational reasons do not necessarily mean a financial difficulty. It could be justifiable to retrench employees to increase profits. He further states that the courts will be slow to deem a retrenchment unfair solely because the employer could potentially have afforded to keep the employees in service. What is most important is that the retrenchment must have affected savings of some sort, even if the savings were not made due to mismanagement.

The Labour Appeal Court stressed that it is not the legislatures' function to "second guess" the economic and business efficacy of an employer, but to judge whether the



reasons for the dismissal was in fact a sham or not. This point was clearly illustrated in the *Kotze v Rebel Discount Liquor Group (Pty) Ltd.* (2000) 2 BLLR 138 (LAC). The appellant in the case (the retrenchee) alleged that no substantive reason was present to dismiss him and the judge clearly indicated that it is only the courts' duty to establish whether a valid commercial reason existed for the dismissal or not.

The researcher postulates that, even if legislature allows the maximizing of profits as a *bona fide* economic reason to retrench, an employer should not ignore the social consequences. The impact on the society is of utmost importance if the enterprise desires long term sustainability in the community from which it operates. Bendix (2001: 492) states in this regard that a circular relationship exists between crime and unemployment. As the crime rate rises, investor confidence dwindles, leading to lower economic growth that in turn leads to higher unemployment. To sustain themselves, the unemployed turn to crime. Therefore irresponsible retrenchment will lead to ill social effects and in the end; the business that effected the retrenchments will suffer the consequences of increased crime and economic fall-out. The social responsibility of employers will be dealt with in Chapter 6.

As some final remarks, It should be noted that the focus of the courts are in fact changing from a mere function of scrutinizing the consultation process to one of establishing onus of proof by the employer on a balance of probabilities of:

- the reason for the retrenchment;
- the definition of the operational requirement forming the base of the decision to retrench;
- a fair procedure in terms of the act; and
- The facts upon which a finding of a substantive fair reason for the retrenchments can be made.

An employer cannot merely rely on compliance to procedures contained in the legislation for retrenchment to be fair. According to Grogan (2001:186), the onus rests

on the employer to prove that savings can be effected by retrenching employees. Although a cursory reading of section 189 of the LRA indicates a procedural approach to retrenchments, the labour court suggested otherwise. The court implied in the case of *Johnson & Johnson (Pty) Ltd. v Chemical Workers Industrial Union & Others* (1999) 20 ILJ 89 (LAC) that a mechanical checklist to ensure compliance with the legislative procedures is inappropriate. It suggested that the occurrence of a joint consensus seeking exercise with a view to the purpose of this particular section of the act be in fact achieved.

The question of substantiveness should enjoy more attention. Employers should essentially run their businesses in such a way that retrenchments could be avoided or minimised, should economic conditions dictate this.

In a discussion with an industrial relations practitioner (name withheld for confidentiality reasons:2002), the following example materialised: A chemical manufacturer (company "A") acquired a competitor (a producer of a flaked mining reagent product), company "B" a few years ago. The acquisition was in line with the business strategy of company A to expand its market share. Although acquiring the competitor, most of the company B employees were retained. As time went by, the demand for the flake product became less and less, due to additional hazards of explosive gas liberation during dissolving of the flakes. Conversely, the demand for a liquid based product grew and grew. The first rationalisation project took place when capacity was reduced to enable a fixed cost saving and so maintain the profitability of the business. Demand kept falling for the flakes and kept on rising for the liquid product as substitute. The marketing department offered lower prices throughout the process to induce greater demand, but with limited success. Employees then became aware that final closure would be inevitable. The strangest of all was the unions' contributions to further cut the fixed costs of the business.

## 4.9 PROCEDURAL FAIRNESS

The seven procedural steps required for a fair dismissal on the grounds of operational requirements are outlined in section 189 of the Labour Relations Act (Act 66 of 1995) and section 41 of the Basic Conditions of Employment Act, 1997. We will analyse these steps in greater detail. Firstly it should be noted that the steps indicated are inter-linked, according to Basson (1998:198) and can sometimes not be separated from each other. An example would be where a retrenchment policy is still being formulated with a union or workplace forum and during this process consultation already took place. During consultations, representations to avoid retrenchment can already be made. We will see that, during the procedural steps, issues relating to the substantive fairness required by the act are interwoven in the procedural steps and we will therefore not deal with the substantive nature of a retrenchment separately.

Before we look into the details of the procedures to be followed, we must note that a *bona fide* reason to retrench was present. The employer has the duty to prove, on a balance of probabilities, that dismissals were in fact based on operational requirements, as contemplated by the LRA (Act 66 of 1995). The author supports this view, as retrenchments should not be used as an excuse to rid a company of unwanted employees, such as union supporters, non-performing employees, etc. Different mechanisms exist to deal with these issues.

### 4.9.1 PRIOR CONSULTATION

Consultation is very necessary, not just from the legal perspective, but we already mentioned herein that the impact of retrenchments on communities and the society in which the enterprise conducts its business is enormous. Employers therefore have a huge responsibility towards society.

Narrowing the focus somewhat to the effects on individual retrenchees, the knowledge that he/she may lose his/her job creates profound stress and anxiety, originating from the uncertainty of possibly losing his/her job. Uncertainty is a great killer of morale. In an interview with a manager (name withheld for confidentiality reasons) of a gold plant in the Free State province of South Africa, the following example can be used to illustrate this point. Once employees became aware that their operations would be sold to another mining house, the rumours about the operating philosophy of the purchasing mining house resulted in a vast decline in morale. The purchasing company is known for its ability to run similar operations with lesser people. Production fell with approximately 28% virtually immediately after the sale was announced. A commensurate increase in accidents marred the mine. In this example, no definite knowledge about who would be retrenched was made available and the grapevine did the rest.

Two points of view can be upheld in this regard.

- The sooner the fact that retrenchments are underway becomes known the better. The benefit of this approach would be to eliminate the lingering effects of prolonged uncertainty and commensurate problems as described in the example here above. Furthermore, it provides employees with enough time to seek employment elsewhere. The disadvantage will be reduced productivity and an increase in the accident rate. Sabotage may not be ruled out.
- Prolonging the final decision to the very last moment. This view may appear contrary to the LRA, but nevertheless happens in practice. The benefit of this approach would be a maintained productivity level up to the last moment and reduction of accidents. The disadvantage would clearly be the shock on the employee, leaving him disempowered to change his fate in time.

However, the grapevine in any organisation is a powerful communication tool and employees inevitably know that retrenchments are underway. In the text above, the analysis of the difference between retrenchments and redundancies was established.

However, in practice, retrenchments normally are more permanent than what one would want to believe, since the business cycles of the manufacturing industry linger too long for retrenchments to be reversed.

For purposes of this study, we will only focus on timely communication. Once an organisation's management becomes aware that retrenchments are inevitable, the need to consult becomes the next stage in the process. This process is vital in the retrenchment process and will be prevalent during various stages of the retrenchment process. Where a pro-active approach was adopted by negotiating and agreeing upfront on a retrenchment procedure, this could already be viewed as part of the consultative process (Bendix, 2001:389). Consultation should also be genuine, requiring an open mind and a willingness to explore the matter at hand *before* a decision is made, according to Anderson & Van Wyk (2002:50).

#### 4.9.2 WHEN TO CONSULT?

The LRA is quite explicit in this regard and clearly states that consultation should start the moment that management contemplates retrenchment. This ensures that the employees have the opportunity to influence the decision whether to retrench or not (Basson *et al.*, 1998:199). In (Anon., 2001:19) the case of *Langa & others v Active Packaging(Pty) Ltd.* was reviewed where a company immediately advised the union of impending financial trouble and possible retrenchments. The dismissals were held to be fair, even after appeal.

Grogan (2001:190) supports this view, but adds another dimension to it by stating that not only does consultation become necessary when retrenchments are contemplated, but, that the consultations should be exhaustive as a joint problem solving exercise as well. Consultations should therefore not be used as an excuse, but should be a genuine attempt to solve the problem. It is important to note that consultations should not commence after the decision to retrench was made, but when the need is

contemplated (Bezuidenhout *et al.*, 1998:249). This principle was firmly embedded in the case of *Decision Surveys International (Pty) Ltd. v Dlamini & Others*. (1999) 5 BLLR 413 (LAC). In this case, the employer notified the employees of the effective date of the dismissals, the number of employees affected and the selection criteria to be used while at the same time inviting them for consultation. However, these actions took place after the employer consulted a labour advisor and decided on a timetable for the dismissals. The invitation to consult in an attempt to reach consensus was therefore not genuine. Needless to say, the employer lost the case.

As a final note, a distinction between consultation and negotiation may be prudent at this point. Bendix (2001:390) asks the question whether consultation is sufficient and states that the possibility exists that those employers may in future be compelled to negotiate with employees or their representatives. The author rather supports Grogan in this respect, as it appears that consultation in itself has already been found unsatisfactory in many cases by the labour court. Essentially, it means that consultation should be genuine and not a sham in terms of meeting the procedural requirements of the legislation. The question of when to start consulting is not always an easy decision, as the business requirements may dictate that certain actions be taken before the decision to retrench is made, where the outcome of such decision may again influence the very reason to retrench or not.

#### 4.9.3 WHO TO CONSULT?

Brand *et al.*, (1997:230) lists as follows:

- any person whom the employer is required to consult in terms of a collective agreement;
- where no collective agreement requires consultation, a workplace forum where such a forum exists;

- where no workplace forum exists, a registered trade union in respect of employees likely to be affected;
- where no such union exists, the likely affected employees or their nominated representatives.

The Labour Relations Act (Act 66 of 1995) is very explicit in this regard and the labour court is very strict in the application of section 189 (1).

#### 4.9.4 ATTEMPT TO REACH CONSENSUS ON CERTAIN MATTERS

Linking closely to consultation is the second procedural requirement, that being the attempt to reach consensus on certain matters. In this respect, it would be wise to reflect on what consultation means. The definition of consultation is not be found in section 189 of the LRA, 1995, but Bezuidenhout *et al.*, (1998:199) reasons that the act regulates how consultation should be conducted by indicating “that the consulting parties must attempt to reach consensus...”

Once again, the Labour Relations Act (Act 66 of 1995) is quite explicit regarding the subjects that should be considered with a view to reaching consensus.

These subjects are:

- Appropriate measures to avoid the dismissals;
- Appropriate measures to minimise the number of dismissals;
- Appropriate measures to change the timing of the dismissals;
- Appropriate measures to mitigate the adverse effects of the dismissals;
- The method for selecting employees to be dismissed; and lastly
- The severance pay for affected employees.

Each of these subjects will now be analysed in more detail.

#### 4.9.5 APPROPRIATE MEASURES TO AVOID DISMISSALS

It is not surprising that this subject appears as the first one of the listed measures to be taken and a clear sequence of events prevails in the Labour Relations Act (Act 66 of 1995). In this respect, we refer to the International Labour Organisation's guidelines quoted in Bendix (2001:388) that state firstly "...positive steps should be taken by all parties concerned to avert or minimise as far as possible reductions of the workforce by the adoption of appropriate measures, without prejudice to the efficient operation of the undertaking, establishment or service." The legislation supports this principle by requiring consultation firstly to avoid dismissals.

Logically, the avoidance of dismissals based on operational requirements should be the first step due to the negative social impact of retrenchments and the contribution that unemployment makes to crime. This is particularly true in the South African context. A disproportionate population growth rate in the face of the current economic growth rate poses a real threat for dismissed employees.

Alternatives certainly exist to taking the profound decision to retrench personnel. It should be noted that retrenchments do not always work the way they should, and similarly, alternatives to retrenchment do not always work equally well. The sensible approach depends on the magnitude of the downsizing and the amount of lead-time for implementation.

It is therefore of utmost importance that the correct alternative is chosen and implemented. The following table summarises a few approaches that can be considered. The role of the human resource manager will be critical to effectively execute such a strategy and a hands-on approach will be essential. Exercising the right choice will mean having thorough manpower planning. The human resource manager should be intimately involved in the business strategy and have a thorough understanding of the direction that the business will take.



**Table 6: Retrenchment options**

(Percentages indicate the approximate head count reduction).

15% +	Deep, across the board terminations	Spin off business units; Series of early retirement or buy-out offers	Close down business unit and re-deploy employees. Diversification based on skills of surplus employees
6-14%	Widespread early retirement/ buy-out; Bring subcontracted work back in-house; Pay reduction, job sharing, move to lower paying jobs	Mobilising troops; Selective terminations; Retrain; re-deploy. Retain; find jobs outside the company. Loan staff	Managed attrition.  Spin off staff departments
1-5%	Selective terminations; Target early retirement or buy-out programme	Managed attrition. Convert staff to consultants. Market staff services outside the company	Managed attrition (and many of the other options)
Time to Implement	Less than 1 year (responding to immediate economic threat)	1-3 years	3 years +

Source: Adopted from Tomasco (1990:200).

#### 4.9.5.1 NATURAL ATTRITION

Natural attrition means allowing employee reductions to take its natural course by not replacing people when they retire, resign, die or are dismissed for other reasons than operational requirements. This implies that a restructuring will occur in the specific department where the employee previously worked. In a large organisation, this means

a process of continued restructuring throughout. For this to work, the department as a whole needs to be evaluated for maximum efficiency and effectiveness by adding responsibilities to other employee portfolio's, restructuring workflow and removing non value adding activities. The old saying, "sweating your assets", should work wonders here.

Bendix (2001:399) supports this view by stating that this should be the first and most obvious choice of action.

Care must, however, be taken not to overburden employees, as the effects of stress and burn out may very well result in much lower productivity, thereby defeating the purpose of the exercise. The author postulates that in such an event, although money is saved, costs are not necessarily saved, since lower productivity of remaining employees could cost much more.

The benefit of this approach is that employee paradigms centre on that of continuous change, making change management much easier and can even lead to innovative approaches to improve the organisation. This approach therefore appears hugely beneficial when compared to any other solution, but unfortunately, it cannot be used in the case of a sudden threat to an enterprise's continued existence. A rapidly falling gold price, threatening production at a marginal mine, could be seen as a good example of this.

#### 4.9.5.2 THE GRANTING OF EITHER PAID OR UNPAID LEAVE

Unpaid leave may prove an important alternative to dismissing employees, but should this become necessary, time probably has already run out to avoid retrenchments.

Clearly an employer would need to consider which and how many employees he could afford to let go on leave. The nature of its operations, the duration of providing leave

and the perceived duration of the financial crisis (if this is the reason for its retrenchment needs), will dictate if this is a viable alternative to retrenchment.

An example would be where a technological change is foreseen and the company needs to save money to finance the installation of new technology. Once the operation is back on line, partial re-instatement may be possible.

#### 4.9.5.3 THE REDUCTION OR ELIMINATION OF OVERTIME, WORK ON SUNDAYS AND SHORT TIME

This appears to be a better alternative to retrenchment than the above example. Overtime in many industries are pretty expensive, especially where weekends and paid public holidays are deemed working days.

Significant savings may be achieved in this regard, potentially eliminating the need for retrenchments. Once again, the nature of the employers business will dictate if this could be a solution or not. A manufacturing industry, where operational plants run for 24 hours per day for the whole year would find this difficult. The small motor industry (panelbeaters, car sales dealerships, spares shops, etc.) use short time very successfully in avoiding retrenchments, since these industries are cyclical in relation to the motor vehicle accident rate and boom seasons, according to Kemp (2003). He did state that timeous warning of impending retrenchment is critical in ensuring the success of the avoidance mechanism.

However, if paid overtime is to be replaced with non-paid overtime, this would clearly be a change in the conditions of employment of the employees and would need to be negotiated and agreed with employees, unions, workplace forums or employee representatives before this can be implemented. The author is of the opinion that employees would much rather accept such an alternative than face retrenchment.

Short time appears to be simply a mechanism to delay retrenchments. This can, however, be more beneficial to companies that are somewhat overstaffed. In this event, should a company be in a position to allow for short time and the subsequent savings made, they already proved that the business is not optimised with respect to manpower. Productivity improvement will probably enhance the business performance more than short time and perhaps in this sense prove that retrenchments were necessary.

It must be noted that the nature of the employer's operations need to be critically reviewed before embarking on such an exercise. A delivery of meat after hours can clearly not stand until the next morning before unpacking it. A similar provision will for instance apply to a company who needs to have its cargo loaded onto a vessel ready for departure to an export market.

#### 4.9.5.4 MORATORIUM ON THE HIRING OF NEW EMPLOYEES

This alternative can be fruitful and should be considered together with other options to avoid retrenchments. In the above text, we already referred to an organisational paradigm of constant change. In this respect, the employer should in any event critically review any and all replacement of an employee under any circumstances, not just when contemplating retrenchment. This may very well pay off in the long-term and we could postulate that in this case, retrenchments could be avoided by having a long-term manpower strategy and optimum manpower utilization.

However, it still happens today that ineffective manpower strategies or simply bad human resource management results in appointment of too many or even the wrong personnel. This could make it very difficult for a retrenching employer to prove fair dismissals if he constantly employs more people. Bendix (2001:399) quotes that there are organisations that keep recruiting new employees, despite the knowledge that retrenchments are looming in the distant future. The hiring of temporary staff and

contract labour could similarly cast a shadow of doubt over the credibility and substantive fairness of a retrenchment exercise.

The unions are very adamant about this option and employers would only be able to justify employing new personnel by proving the need for highly specialized skills. Unions would otherwise vehemently oppose the recruitment of new personnel in the face of retrenchments, as it will for sure destroy any hopes of finding a substantive reason to retrench. Therefore, employing new candidates and embarking on contract labour and temporary staff could very well lead to a Labour Court finding against such an employer.

Alternatively, unions can use this option to exercise a form of industrial action. When an employer contemplates retrenchment (whether fairly or not), the ban on recruiting new employees or contract workers could serve as a strong deterrent to embark on retrenchment to rid itself of unwanted employees, such as trade union members. In this way, the union can serve to protect itself and keep its membership numbers strong.

#### 4.9.5.5 VOLUNTARY RETRENCHMENT

Voluntary retrenchments can take the form of early retirement or a bonus for employees who wish to leave with a retrenchment package. This could be a costly exercise for an employer, but seems an appropriate course of action where retrenchments in the longer term can be foreseen.

In the case of early retirement, it can be viewed as a kind of fast tracked natural attrition. Clearly it has to be viable for the employee, especially opposite the rules of the pension or retirement fund and would appear more appropriate for older employees. However, it may not be a solution to unskilled workers (Bendix, 2001:400).

In the case of the Sasol Polymers history of retrenchments, this option has always been used quite extensively. In this regard, the severance package allows for an additional three months salary to be paid if voluntary retrenchment is taken (Sampson, 1998:9). The author had the personal experience of having to retrench an employee due to a change in market conditions in the area of operation. During the consultation phase, it was indicated that his position would become redundant, but that a similar position at the distributor of the manufacturer was secured for him, with an improved remuneration package. He was advised to take voluntary retrenchment, as his position would certainly fall away and failing to do so, the three-month bonus would be forfeited.

#### 4.9.5.6 TRANSFER TO OTHER POSITIONS OR RE-DEPLOYMENT IN THE SAME COMPANY AND TRAINING OR RETRAINING OF EMPLOYEES

This application becomes meaningful where technological changes or the shutting down of part of its operations by an employer is contemplated. Where a department is shut down or a plant closed vacancies in the rest of the organisation should be considered for retrenched employees. Logically, they should be reasonably fit and competent to fulfil their new duties. Venter (2003:281) reasons that an obligation to consider transfers probably exists where either a group of related companies is involved or the existing company is large enough to facilitate inter-organizational transfers.

Where gaps exist and the employer needs to maintain productivity, retraining for the new positions can be effective alternatives to retrenchment. Where no such vacancies exist, or the employee does not meet the requirement of the position or does not have the ability to learn the skills necessary for the new position, retrenchment will be inevitable. Nevertheless, this avenue should be exhausted to avoid retrenchment.

#### 4.9.5.7 REDUCTION OF WAGES

A reduction of wages could be seen in parallel to unpaid leave and a reduction or ban in overtime, as it directly impacts on the net disposable income of the employee. This could be a viable alternative where the duration of the prevailing economic crisis is foreseen to be of short duration. However, at Common Law, in terms of the Basic Conditions of Employment Act (Act 75 of 1997) and the Labour Relations Act (Act 66 of 1995), no unilateral reduction in contracted wages is allowed, unless expressly permitted by an applicable wage regulating measure, such as a bargaining council agreement or wage determination. Where this does not exist, the employees or their union must agree to this. This then amounts to agreed altered contract of employment. Failing to do this will result in a unilateral variation of the terms and conditions of a contract which is impermissible by law, according to Venter (2003:280).

#### 4.9.5.8 PRODUCTIVITY IMPROVEMENTS

Clearly this solution should not be seen as a quick alternative to retrenchments. In any organisation, where retrenchments are becoming a more common phenomenon, the need for productivity improvement should be an ongoing concern.

By having a long-term strategy in place, where constant new work methods, improved efficiencies and international performance benchmarks are strived for, retrenchments may never materialise. This will of course not be applicable in the case where an unexpected and sudden change in the business environment necessitates retrenchments. For a retrenched employee one could argue that where a business was slack in remaining competitive or the politics of the organisation hinders timely decision-making with respect to changing strategies, retrenchments could have been avoided. In this respect, a responsibility rests on the employers' shoulders to run its business optimally, given the prevailing circumstances. The issue of improved productivity was discussed in some depth elsewhere in this study.

#### **4.10 APPROPRIATE MEASURES TO MINIMISE THE NUMBER OF DISMISSALS**

As soon as this phase is entered, retrenchments are inevitable, as all measures to avoid it have been exhausted. The next step would be to attempt minimising the number of dismissals. However, a close correlation exists between measures to avoid retrenchments and minimising the number of employees to be retrenched. In this regard, the only difference between consulting to avoid and implementation of retrenchment, is the fact that consensus has been reached that actual retrenchment is unavoidable.

Grogan (2001:196) argues that if measures to avoid retrenchments altogether fail, the same measures should be contemplated to minimise the number of employees to be retrenched.

#### **4.11 APPROPRIATE MEASURES TO CHANGE THE TIMING OF THE DISMISSALS**

Either prior to or during the consultation process, the employer intending to retrench should give an indication when it proposes to retrench.

Employees would wish to extend or prolong the process for as long as possible, whereas the employer may wish to perform the exercise as soon as possible (Bezuidenhout *et al.*, 1998:251).

It would be foolish of employees, however, to prolong the retrenchments for so long that the enterprise is disabled and closes its doors before severance packages have been paid.

Another alternative would be to spread the retrenchment over a period of time. This may well be beneficial for the employer too, as the financial impact due to the payment of severance packages will also result in improved cash flow. Similarly, by delaying the



timing and spreading the dismissals, the employer may by default then allow the process of natural attrition to minimise the impact on the number of employees to be dismissed.

#### **4.12 APPROPRIATE MEASURES TO MITIGATE THE ADVERSE EFFECTS OF THE DISMISSALS**

We already mentioned the responsibility that an employer has to the community within which an employer conducts its business. In this regard, one could argue that those special circumstances pertaining to an employee or a group of employees should be considered. An example would be where an employee supports a number of families, or where illness, without monetary aid, could result in the death of family member.

This matter could be considered to be of the same nature as representation by an employee or group of employees, as clearly the circumstances will be put forward for consideration. Grogan (2001:196) airs the opinion that the intent of this provision is not clear.

However, Bezuidenhout *et al.* (1998:251) lists the following considerations:

- Assistance in finding alternative employment. However, in the case of *Sikhosana & others v Sasol Synthetic Fuels*, the court rules that no legal obligation rests on the employer to do so. The author again refers to the responsibility of the employer towards his employees and suggests that, although not a legal requirement, the employer should consider this option;
- Making a venue available to complete job applications and conduct interviews;
- Provide a reference in addition to the supply of a certificate of service. This reference should indicate that the employee was retrenched in order to enhance his ability to find alternative employment; and
- Undertake to give priority to dismissed employees should vacancies arise.

In support of this argument, Basson *et al.*, (1998:203) contemplates that some protection is afforded to retrenched employees in terms of the LRA (Act 66 of 1995). It is argued that, where an agreement to this effect is in place, refusal to re-instate or re-employ a former employee constitutes an unfair labour practice. Such an agreement could typically compel an employer to give priority to dismissed employees for a specified period of time. Furthermore, the definition of a “dismissal” in section 186 of the Labour Relations Act (Act 66 of 1995) affords some protection in the event of retrenchment of multiple employees. This provision would apply where a number of employees were retrenched for similar reasons, and the employer offers re-employment to a select few only.

In closing, since retrenchment constitutes something along the line of “economic capital punishment” as quoted herein, it is clear that the effects of retrenchment on an employee are devastating. In this regard, the employer who retrenches employees could consider a support centre, where counselling can be obtained in dealing with their emotions more effectively.

#### **4.13 WRITTEN DISCLOSURE OF RELEVANT INFORMATION**

The facts relating to the need for retrenchments must be communicated i.e. the justification or business rationale. The following should be communicated in writing during the process of consultation:

- Reasons for the proposed dismissals. This may include financial statements, contracts received or lost, falling demand for the product, production inefficiencies resulting in a too high cost structure, weakening exchange rates in an import market or strengthening of the local currency when the enterprise exports most of its products.
- Alternatives considered, already described herein;

- Reasons for rejecting proposals for alternatives. Suggested alternatives may not alleviate the financial burden;
- Number of employees potentially affected and job categories;
- Proposed method for selecting employees to be dismissed;
- When the dismissals will likely take place;
- The severance pay involved;
- Offered assistance by the employer;
- Future re-employment prospects;
- The number of employees employed by the employer; and
- In terms of the new Labour Relations Amendment Act 2002, the number of employees that the employer retrenched in the preceding twelve months (Van Niekerk, 2002:71).

There is, of course, information that may not be supplied, such as trade secrets, confidentiality agreements with customers or ratios of costs that may be extrapolated into raw material ratios, leading to disclosure of production secrets. This knowledge would endanger license agreements with the suppliers of production technology and may result in total closure of the business. In support of this statement, Basson *et al.* (1998:208) states that information relating to other employees or the employer that may cause them substantial harm may also not be disclosed.

Section 16 of the Labour Relations Act (Act 66 of 1995) states that an employer need not disclose information that:

- Is legally privileged;
- May not be disclosed by law or any order of court;
- Is confidential and, if disclosed, may cause substantial harm to an employee or employer; and
- Is private and personal to an employee unless that employee consents to the disclosure.

The disclosure of information is closely related to consultation, as without disclosing information, the consultation will be meaningless. Section 189 (3) of the Labour Relations Act (Act 66 of 1995) is clear with respect to what information must be disclosed, although the list is not meant to be exhaustive (Anderson & Van Wyk, 2002:51).

#### **4.14 ALLOW AN OPPORTUNITY TO MAKE REPRESENTATIONS AND THE CONSIDERATION THEREOF**

It would hardly seem fair if employers contemplating retrenchments do not allow opportunities for representations and would indicate a gross negligence towards its responsibilities. During this phase, individual or collective cases may be put forward for consideration in respect of any of the issues contemplated by the LRA (Act 66 of 1995). These have already been cited as possible alternatives to retrenchment, challenged reasons for retrenchments, measures to minimise the impact, etc. and we will therefore not focus on these again.

What is important, however, is that employers make a genuine effort at considering these representations. Just listening to representations does not meet the requirements of a fair dismissal. Where the employer disagrees with such a representation, its reasons must be stated.

Individual representations may be made on the basis of personal circumstances, such as illness of a family member, or other personal reasons. Should such case be acceptable, the practice of bumping may occur. Bumping occurs where an alternative employee would be identified as a retrenchee as opposed to the initial candidate, based on the consideration of the initial candidates' representation and was discussed earlier in this chapter.

Van Wyk (1990:104) found in his research in the chemical industry in the Vaal Triangle that the personal circumstances of potential retrenchees are not often considered by employers. The researcher feels that his research was possibly too narrow in the context of a *then* incestuous chemical industry and was applied at a different time. However, with the heightened focus on corporate social responsibility and due to massive restructuring of the chemical industry, this may have changed. This is particularly prevalent following the international exposure of some of these companies.

#### **4.15 SELECTION OF EMPLOYEES FOR DISMISSAL**

The selection criteria should be agreeable to all the relevant parties and where no such criteria exist, fair and objective criteria should be established and applied (Basson *et. al.*, 1998:211). Once again, the LRA (Act 66 of 1995) is quite explicit in this regard. Similarly, where a retrenchment procedure has been agreed on between an employer and employees, it must be adhered to.

The only contentious issue would seem to be: what do fair and objective criteria mean? It is prudent to assume that both criteria should be used in its establishment. In this respect, Grogan (2001:198) argues that a difference in the two standards applies. Criteria can be objective, but unfair, for example all members of a particular race or union. He quotes that "fairness is, however, probably ensured by the provisions relating to automatically unfair dismissals, which cannot be justified by the fact that it occurs in a retrenchment context."

The last-in-last-out (LIFO) principle appears to be the most commonly used criteria and has been applied numerous in practice. It has been held that this principle may not be suitable to apply across the whole spectrum of a large industry. The circumstances prevailing in that business must be considered. It may not be prudent to retrench highly skilled employees, possessing special skills necessary for the continued operation of the business, although they may have joined the company at a later stage.

The question of what LIFO means also arises. An employee may have been transferred to a new department and as a result, deemed to be the last in. He may have worked for the company for twenty years before the transfer. In this respect, the LIFO principle does not seem fair and reasonable.

What is important to note, however, is that agreement must be reached on what criteria to be used and that these criteria be applied in such a way that the interests of the employer and the employee be taken into consideration. A variety of agreed criteria could be the answer.

Basson *et al.*, (1998:204) lists the following as possible selection criteria:

- Seniority, or "LIFO": Long serving employees are retained at the expense of those with shorter service in similar or less skilled categories of work;
- Conduct: Conduct will be deemed a fair criterion of the employee in question was made aware of unacceptable behaviour and the base for such conduct is objective, such as attendance records and warnings;
- Efficiency, ability, capacity, experience, attitude to work and productivity: These criteria can be used if it is measured objectively and if the employee knew of its importance. Logically, employers will show an affinity towards hard working individuals;
- Attendance: This criterion can be used only if the employee knew the seriousness of this to the employer;
- Bumping: Where retrenchment affects only one department of a business, LIFO can be used to retrench and then to drain the other employees off into other departments. Where the skills of the longer serving employee cannot be used, a less skilled job is offered to replace the less skilled employee in the other department. The court also noted in the case of *Porter Motor Group v Karachi* that the bumping of an individual in the absence of other relevant factors, seldom causes problems and the fact of longer service establishes the fairness thereof. Employees may also be bumped into other divisions of a company with

due consideration to the costs and inconvenience suffered as a result (Anon., 2002:10).

- Early retirement: Employees who have reached the minimum retirement age will be viewed as the first targets. This criterion can be used where physical fitness and strength is a pre-requisite. The choice, however, remains with the employee, or else an automatically unfair dismissal will be imminent;
- Volunteers: Any employee who volunteers for retrenchment. This will typically be an employee who has already found alternative employment;
- Non-residency: Employees who do not reside in a specific residential area could be selected, but care must be taken to avoid an automatically unfair dismissal;
- Double income families: Where both family members are employed by the same employer and one is selected for retrenchment on this basis. This criterion may be fair, but again, care must be taken to avoid an automatically unfair dismissal.

#### **4.16 SEVERANCE PAY**

The Basic Conditions of Employment Act (75/1997) requires that retrenched employees are entitled to compensation over and above leave pay or pay in lieu of notice. The minimum requirement stipulated in the act is equal to at least one week's remuneration for each completed year of continued service with that employer. The Minister of Labour may, however, grant exemption from this rule in the event of financial distress (Bezuidenhout, *et al.*, 1998:255). The subject of severance pay must, however, be a subject of negotiation and agreement. The law merely requires a minimum to be paid.

A few points are worth mentioning:

- An employee, who has been offered alternative employment and unreasonably refuses to accept it, will forfeit the severance package. The position offered must, however, be substantially the same. It has been held that where the newly offered

position is substantially different in nature, wage, status, etc., the refusal of acceptance may very well not be viewed as unreasonable.

- The affected employee's other rights to amounts due to him are not prejudiced. This implies that other money legally due to the employee cannot be withheld because he has been paid a severance package.
- The Minister may review the stated minimum severance pay by publishing a new minimum in the Government Gazette.
- Employers are welcome to offer better benefits than the legal minimum in the event of retrenchments.
- The acceptance of a severance package does not necessarily prejudice the right of the employee to pursue an unfair dismissal action.

Bendix (2001:406) cites that retrenchment planning is very important. It would indeed be very costly to pay retrenchment packages, only discover that re-employment becomes necessary shortly after the dismissals. In such a case, temporary lay-offs would be a more suitable financial alternative for the employer. In the case of the Sasol Polymers retrenchment policy, provision is made for severance payment as follows:

- Three weeks severance pay for each complete year of service;
- Pro rata payment for the incomplete year in which he will be retrenched;
- Four months' wages in lieu of notice;
- All accumulated annual leave not taken;
- Where a voluntary package is accepted, an additional three month's wages will be offered;
- The company contribution to the pension or retirement fund of the employee; and
- All pro-rata bonuses payable (Sampson, 1998:9).

It can be postulated that the provision of financial advice to retrenched employees could be seen as an attempt at minimising the effects of retrenchment on employees.



In such a case, the best tax directives can be pursued and sound investment opportunities sought.

Basson, *et al.*, (1998:212) indicates an interesting notion in the legislation. In terms of the Basic Conditions of Employment Act (75/1997) payment should be made in money or in kind or in money and in kind. Although "in kind" is not specifically defined, but is understood to include issues such as housing, meals, travel allowances, etc. In the offering of a retrenchment package, these issues should also be considered.

Severance pay and the policies agreed to with unions or employee representatives should not be taken lightly. It is intended to soften the effects of retrenchment and to compensate employees for losing their jobs by no fault of their own. The minimum legal amount payable should then also deter employers from contemplating retrenchments lightly.

#### **4.17 MERGERS, CLOSURES, SALES OF BUSINESSES AND ACQUISITIONS**

In terms of the Common Law, the closure of an employer by closure of the business, sale, merger, take-over or any other means, results in the termination of the employment contract. Closure of a business means giving notice to the employees for contract termination, but in terms of the Labour Relations Act (Act 66 of 1995), such a dismissal would be deemed for operational reasons. Severance pay will then become due and payable. Section 197 of the Labour Relations Act (66/1995) provides for these circumstances as follows:

The employee has to provide his consent to transfer his contract of employment from his old employer to his new employer, unless the whole or part of a business is transferred as a going concern. The Act contemplates the concept of transferring as a going concern only when an employer is insolvent, wound up or sequestered or because a scheme or arrangement/ compromise is entered into to avoid sequestration,

winding up or insolvency (Grogan 2001:207). When such a transfer of his employment contract takes place, the service is deemed uninterrupted, but previous liabilities can still lead to prosecution, conviction and a sentence (Bendix, 2001:410). This is of particular importance should the employee be retrenched by his new employer.

After transfer as a going concern, the rights and obligations of the old employer will also be transferred, but any trade union or workplace forum agreements can change. Insolvency, liquidation, sequestration, scheme of arrangement or compromise of a business will, however, not lead to a transfer of rights and obligations, but only a transfer of employment contracts. The new employer could not be prosecuted for transgressions of the old employer.

The requirements of the Labour Relations Act (Act 66 of 1995) lead to more questions than answers and as such, the Labour Relations Amendment Bill of 2002 proposed some changes to Section 197 to address these concerns. The following questions arose:

Was the transfer of employment contracts under the transfer of a business as a going concern obligatory or enabling? In the case of insolvency, it became obligatory and not enabling, as derived from the meaning of the words: "transfer automatically". Bendix (2001:410) further mentions that controversy reigned with respect to the meaning and interpretation of the terms "transfer", "parts of the business" and "going concern". The debate in whether a sale was deemed adequate or whether a change of ownership through the share disposition, transfer of assets, mergers, take-overs or other restructuring processes, is needed, left more questions than answers. These questions were left to the courts to decide. Generally, they took account of substance, rather than form, by looking at what has happened rather than what the transaction was called.

To solve these problems, amendments were proposed to the Labour Relations Act (Act 66 of 1995) and have now been promulgated. These changes, according to Grossett (2001:46) address the following:

- The difficulty in applying section 197 has been clarified;
- The introduction of a new section into the LRA (197A) caters for insolvencies, ensuring consistencies with the Insolvency Bill;
- In the absence of a collective agreement, the new employer may either negotiate new conditions with trade unions or offer conditions that are more favourable on the whole. This will allow more flexibility with transfers;
- The obligations of the new and old employers will be clarified in respect of collective agreements, pension and provident fund obligations, outstanding claims and the circumstances in which severance pay may be claimed; and
- Additional obligations will befall the transferring employer in ensuring that the new employer will be in a position to honour the benefit obligations already accruing to employees.

In terms of the spate of insolvencies, liquidations and mergers, acquisitions, disposals and other business strategies, section 197 of the Labour Relations Amendment Act 2001 were designed to offer some protection to affected employees. The terms of transfer need not be identical, they must, on the whole, not be less favourable than those enjoyed when employed by the old employer. Where employees are not satisfied that the terms and conditions of their new contracts of employment are as favourable, they may object to the terms of the transfer.

No prior consultation or negotiation with employees is required where the obligations of the old employer transfer automatically to the new employer. However, where any terms and conditions of employment or any obligations are to be altered, either the old employer, the new employer or the old and new employers acting jointly will be obliged to engage in negotiations on the terms of such changes. These negotiations must be

conducted with the trade union representing the employees affected; or in the absence of such trade union, the employees individually.

The old employer must conclude a written agreement with the new employer specifying which employer will be liable for the payment of any amount in respect of accrued leave pay, severance pay if dismissal for operational requirements were contemplated and any other payments that have accrued to the transferring employees but which had not yet been paid by the old employer. In the case of apportionment of liability between the old and new employer, the terms of that apportionment must be spelt out.

Section 197 (b) of the LRA requires an employer facing financial difficulty to advise the trade union representing employees or, in the absence of any trade union representing employees, the employees themselves, of such circumstances. Furthermore, such application must be copied to the representative union or employees for their information (Wilken, 2002).

The amendments to section 197 of the Labour Relations Act (Act 66 of 1995) also provides that, if the employment contract is transferred to the new employer with substantially lesser terms and benefits to the employee and he does not accept it, the new employer will be deemed to have effected the dismissal. A dismissal that occurs “on account of a transfer” becomes automatically unfair, according to Grogan (2001:215).

#### **4.18 RESOLUTION OF DISPUTES OVER RETRENCHMENTS**

Section 23 of The Constitution of South Africa provides for certain labour rights, one being the right to fair labour practices. Since a dispute, arising from retrenchment will be a dispute of right the dispute can be adjudicated by the Labour Court.

However, where a bargaining council has jurisdiction, the dispute has to be referred to the bargaining council, but if the collective agreement does not provide for dispute

resolution mechanisms or does not have jurisdiction, the CCMA must attempt to conciliate the dispute. No arbitration can be performed without the consent of the parties as the Labour Court has jurisdiction over this kind of dispute. Grogan (2001:114) is clear about the permission that an employee has to refer a dispute relating to an alleged unfair retrenchment to the Labour Court for adjudication. This is merely permission, meaning that the employee may choose the arbitration route via the CCMA or even a private arbitration.

The employer does not have a choice and has to abide by the request of the employee. It should be noted that such a referral could only take place after the employee has been dismissed, otherwise the Labour Court and/or the CCMA will lack jurisdiction. Nevertheless, when a dispute is declared, the employee must refer the dispute to either the Labour Court or CCMA (depending on his preference) within 30 days of the date of the dismissal. The 30-day period may be condoned if the referring employee shows good cause for such delay.

The Commissioner has the option of referring the dispute to the Labour Court if the category of the dismissal is not clear, where a question of law arises, or where the matter is very complex or where the public interest demands this. The Commissioner must entertain representations by the parties to the dispute before referral to the Labour Court.

#### **4.19 REMEDIES FOR UNFAIR RETRENCHMENT**

A variety of remedies are available to an employee, who was found to be unfairly retrenched, be it for substantive or be it for procedural reasons. The Labour Relations Act (Act 66 of 1995) is very clear in stating the following remedies:

- Re-instatement for a date not earlier than the date of the dismissal;

- Re-employment, either in the work in which the employee was involved prior to the dismissal or any other reasonably suitable work; or
- Compensation. (Basson *et al.*, 1998:227)

The difference between re-instatement and re-employment, according to Basson *et al.* (1998:227) is as follows:

Re-instatement restores the broken contractual relationship to its former status as if it was never broken, whereas re-employment implies the start of a new employment relationship. Since the difference in the two concepts may have an effect on pension fund payouts, it is worth considering the difference between the two.

There are situations where re-employment or re-instatement will not be feasible. An employee may wish not to be re-instated since he secured employment elsewhere. The second situation could be where the continued employment relationship with the dismissed employee will make the relationship intolerable. This is self explanatory, since an intolerable relationship cannot work. The third scenario could be where it is impractical to re-instate or re-employ the dismissed employee. A retrenchment followed by a typical mechanizing exercise is a good example hereof.

As a last note, re-instatement or re-employment may not be ordered if the dismissal was found only to be procedurally unfair. Compensation then becomes the last form of remedy in the event of an unfair retrenchment. Once again, the Labour Relations Act is explicit in its regulation. Basson *et al.* (1998:228) notes the following:

- If the dismissal was only unfair because a procedure was not followed, compensation must be equal to the remuneration that the employee would have received between the date of dismissal and the last day of the hearing of the arbitration or adjudication. The employee must not have caused any unreasonable delay in initiating the claim.

- Where the reason for the retrenchment was found to be unjustified, the amount of compensation should be equitable, but never more than the equivalent of twelve months' remuneration, calculated at the rate of remuneration when the employee was dismissed.
- If an employee were retrenched, but the real reason for the dismissal is found to be automatically unfair as contemplated by section 187 of the Labour Relations Act, the compensation must also be just and equitable, but not more than the equivalent of 24 months' remuneration, calculated at the rate of remuneration applicable at the time of the dismissal.

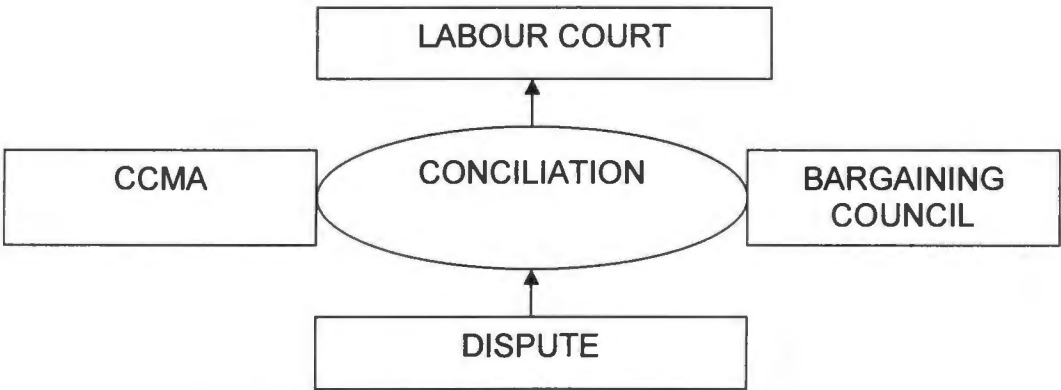
Although it appears fairly simple to establish what the compensation would be, it is actually not. Confusion has reigned for a long time in the courts as to what the discretion means in monetary value. What is important, however, is that fairness must apply to both the dismissed employee and the dismissing employer (Anon., 2002:6).

Where an unfair retrenchment is alleged, the affected employee may apply for other forms of relief. These are:

- The granting of an interdict, in line with the provision of making any other order that may be deemed appropriate under the circumstances, or
- Before the dismissal actually takes place, the employee who alleges an unfair retrenchment may apply for urgent interim relief pending the final resolution of a dispute. The requirements for this relief, according to Basson *et al.* (1998:230) are:
  - Urgency;
  - A *prima facie* right in respect of which irreparable harm will be suffered if the relief sought is not granted;
  - No adequate alternative remedy exists;
  - The damage and inconvenience suffered in the event of the order being refused will be greater than the damage or inconvenience suffered should the order not be granted.

This kind of relief can be sought when the loss of benefits such as a reputation in the marketplace and membership of a medical aid scheme or pension fund scheme is at stake. The following figure summarises this point:

Figure 4: Dispute resolution



Source: Brand *et al.* (1997:232).

**4.20 THE LABOUR RELATIONS AMENDMENT ACT 2002**

Various amendments to labour legislation that could materially affect employers came into effect on 1 August 2002. Of significance to this research are the changes to the provisions regulating retrenchment.

Section 189 of the Labour Relations Act (Act 66 of 1995) was significantly revised, resulting in new employee rights and new extended employer obligations, according to Grossett (2001:45). The amendments imply that the consultation process now has to be more meaningful and attempts at genuine consensus seeking must be evident. To facilitate the process, a facilitator from the CCMA may be used in the event of a major retrenchment.

Grossett (2001:24) mentions that, if the process fails after 60 days, the union may call for industrial action in organisations employing more than 50 employees or elect to



refer the matter to the Labour Court in respect of dismissals over a specified size. However, the provisions of the Labour Relations Act (Act 66 of 1995) for striking must be adhered to, except that 14 days notice is required for a secondary strike. This means that *individual* employees can now refer disputes to the CCMA, instead of the Labour Court. Nel (2000:110) argues that this amendment will significantly increase the load in the CCMA, while decreasing the load on the Labour Court. Strike action in terms of a dispute over retrenchment is limited to substantive reasons - no strike action will be protected if the dispute is over procedural matters.

Should employees elect to refer the dispute about substantive fairness to the Labour Court, the Court may only adjudicate that a dismissal was in fact based on operational requirements, whether the reason was justified on operational grounds, whether viable alternatives were exhausted and whether fair and objective criteria were used.

Where an employer refuses to disclose certain information, the onus will be on the employer to prove the irrelevance of the information. The intent hereof, according to Grossett, is to improve the ability of the unions to participate more meaningfully in the consultation process through the improved access to information. COSATU, according to Nel (2000:110) disagrees with this. Where the government attempts to streamline large-scale retrenchments by avoiding unnecessary delays, COSATU had hoped for mandatory negotiations. The proposed facilitated consultation, according to them, will not only exclude the majority of workers, but could speed up retrenchments.

Also new to the Labour Relations Act is the addition of section 189 (A). This section applies to any employer who employs more than 50 employees. According to Van Niekerk (2002:70) this section also applies when an employer contemplates dismissing at least:

- 10 employees if the employer has up to 200 employees in his service;
- 20 employees if the employer has more than 200, but not more than 300 employees in his services;

- 30 employees if the employer has more than 300, but not more than 400 employees in his service;
- 40 employees if the employer has more than 400, but not more than 500 employees in his service; and
- 50 employees, if the employer has more than 500 employees in his service.

The numbers to be dismissed is calculated by also considering the number of employees dismissed for operational requirements in the 12 months preceding the period for which the new dismissals are contemplated. The date for such calculation will be deemed the date on which notice was served in accordance with section 189(3) of the Act. It is of utmost importance that an employer who contemplates dismissing employees in terms of section 189 (A) recognizes that the calculation will be based on the number of employees contemplated to be retrenched, regardless of the number of dismissals that will eventually transpire.

Another major development, although not part of the labour legislation, is the Insolvency Amendment Bill, under the jurisdiction of the Department of Justice. In essence, it facilitates a more equitable position for employees with respect to their substantive rights in terms of their contracts of employment. The NEDLAC agreement stipulates that a contract of employment can be suspended, rather than terminated and limited consultation can take place for employees to find measures to save the employer from liquidation.

Major developments for employees in terms of this mean:

- The entitlement to severance pay when employment contracts are terminated due to insolvency;
- Paying over of employers' contributions as well as deductions made from benefit funds within seven days of the deductions made or the contribution becoming due; and

- Requiring in the Labour Relations Act that employers notify unions or employees of circumstances and proceedings leading towards insolvency, therefore allowing advance notice of sequestration proceedings (Grossett, 2001:46).

The implications for employers may be profound, as reasons for increasing profits may be severely challenged by the unions. In line with this argument, employers may now be forced to establish proper social corporate responsibility programmes. This issue is dealt with in Chapter 6. It also appears that the legislators intended to make it difficult for employers to cover up other reasons for retrenching employees, rather than real operational requirements. These deceptive actions typically engaged in by employers will be exposed.

#### **4.21 SUMMARY**

From the research in so far, it has become evident that a very real need exists to continually review staffing levels. Change in the world leads to the need to adapt and sometimes employment levels are the appropriate means to address the changing environment in which a business operates. For this reason, legal protection is necessary to protect the rights of the employees, as unscrupulous employers will not think twice to dismiss employees as they see fit. Numerous cases can be quoted where either or both substantive reasons or procedural reasons lead to litigation. These could have been prevented by merely following the requirements as laid down by legislation.

Although dismissals for operational reasons are deemed a no-fault dismissal, employees should realise that they do have the ability to influence the ultimate destiny or profitability of a business. To effectively reduce the potential for retrenchment, employees should undergo a paradigm shift, away from the antagonistic and traditional management/ union relationships towards one of co-operation where change is

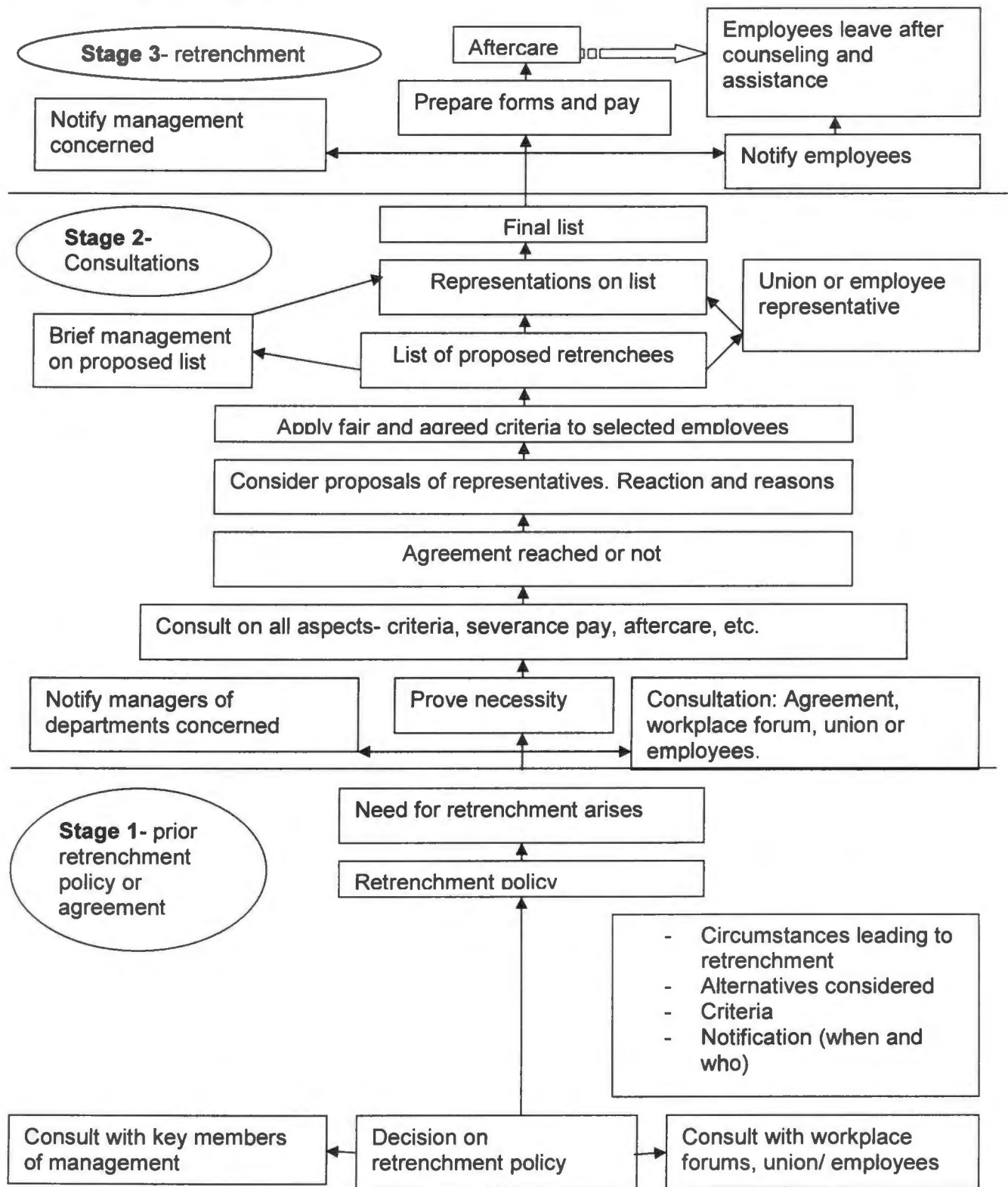
embraced as a natural phenomenon. Unfortunately, South Africa is not a highly productive or competitive country, as the pre-apartheid animosity and mistrust still lingers and union members still vehemently act the victim.

The substantive and procedural fairness of retrenchment, as well as the procedures to be followed when contemplating such a traumatic exercise was explored in detail, as were the mechanisms for minimising the impact of retrenchments at company level. In the next chapter, the social impact of retrenchment will be discussed in more detail. The responsibility of large employers in the society in which they operate will also be discussed with a view to the impact of retrenchments on the society.

Finally, changes to the Labour Relations Act (Act 66 of 1995) have been made through the passing of the new Labour Relations Amendment Act of 2002. These changes reflect the change in the world and the impact it will have on retrenchment. These changes will result in improved worker rights insofar retrenchment is concerned, reflecting improved conditions for employees. Clarification of compensation payable in the event of an unfairly dismissed employee still remains somewhat problematic and the rule of “nothing or everything” seems to be applied more and more by the courts and commissioners.

The following figure summarises the process of dismissal for operational reasons.

Figure 5 – Retrenchment procedure



Source: Adopted from Bendix (2001:407).

## **CHAPTER 5**

### **MANAGING THE IMPACT OF RETRENCHMENTS**

#### **5.1 INTRODUCTION**

Nobody escapes the harsh realities of retrenchment. The horrendous impact on not just employees, but also on the employers and indeed on the community as a whole, cannot be understated. Hagevik (2001:43) supports this statement when she says that it is hard for those who will leave; those who remain and those delivering the message, with little prospect of retrenchments ever diminishing. Losing a position, an income, security, job function, title, responsibility, friends, colleagues, access to information, etc. can be devastating.

Once the legalities and systems driving the process of retrenchment are over and done with, retrenched employees have to face the reality of being unemployed. This may be a very difficult time for such an employee, as the reality of the high unemployment rate was already mentioned. Issues such as the prevalence of black economic empowerment and affirmative action, although very necessary initiatives, also contribute to the problems faced by certain races when becoming unemployed as a consequence of retrenchment.

Similarly, the managers who effectively seal the fate of the retrenched employees also face certain difficulties in ensuring that the retrenchment effort yields the desired result in the interest of the business. The trauma suffered by managers is very real and employees remaining behind are also not excluded from the process either.

The society into which the retrenched employee is absorbed faces its own unique sets of problems. Someone has to feed the mouths of the retrenchees' family members or

face the effects of mounting crime. Without the necessary support structure, such an ex-employee may become a social parasite and contribute to the ills already facing society.

Retrenchment will affect the organisation in a variety of ways, i.e. the effect of low morale prior to the event, the effects of low productivity and ultimately the effect on those employees who will remain after the event. These effects should be managed as effectively as possible. The impact of retrenchment on the business, employees and the community as well as the devastating effects of a high crime rate on the economic growth path of the country will receive some attention in this chapter.

## **5.2 IMPACT OF RETRENCHMENT ON BUSINESS**

Economically speaking, a negative change in the economy will contribute to the prime reason for retrenchment, i.e. to save money. Employers know all too well that their labour contingent can cost them anything from 10% to 85% of their operating costs. When savings become necessary to survive, the higher the budget element as constituent of the total budget, the softer the target budget becomes.

The notion of saving money is subjective, since hidden costs may arise from downsizing. Furthermore, retrenchment as a cost saving exercise can actually leave a company devastated if handled incorrectly. In the next section, some negative effects of retrenchment on the business are discussed. People are regularly viewed as the most important asset of any organization. This means that when employees are retrenched, it amounts to the same thing as "asset stripping", leading to problems for the retrenching employer when the buoyant years return.

### 5.2.1 LOW MORALE, PRODUCTIVITY AND COMPETITIVENESS

Low morale and lack of motivation and concentration can lead to serious trouble for a company that wishes to downsize. The very first negative impact of retrenchment on the business happens when either:

- The perception that retrenchment or restructuring is planned is formulated (regardless of the validity of the perception);
- Rumours are spread about retrenchment or restructuring;
- The fact that retrenchment or restructuring is planned is officially announced; or
- During any other phase in between the first three possibilities.

Once knowledge of such a change is obtained, employees will invariably start feeling uncomfortable. Fear will become palpable, consuming the energy of employees that should have been directed towards the achievement of organisational goals. Keeping up the morale of the workforce is not just an act of goodwill, according to Myers (1993:28). Failure to do so will result in significant downside for the company, including:

- lower productivity;
- the inability to reach economic goals and objectives;
- potential loss of the best employees who may survive the downsizing; and
- increased accident rates, especially in the manufacturing industry.

Markets could shrink as a result of the resultant lesser competitiveness that could in turn worsen the downsizing. The best employees may very well leave after the event, not wanting to sacrifice any more for the “uncaring” company. This will put the final nail in the company’s coffin, as the word about this company will spread, leaving potential new employees reluctant to accept employment. In today’s world, where knowledge workers can make the difference between the survival and demise of a company, such



ill reputation may leave it unable to attract the appropriate talent in the right quantity and hence negate the benefits of the downsizing.

The increased accident rate that may result from low morale, lack of attention or the pre-occupation with the looming retrenchments can paralyse a retrenching company and counter-balance the benefits of a cheaper labour contingent. The cost of accidents can soar due to possible settlement claims, litigation, investigations and eventually the payment of compensation to injured employees.

### 5.2.2 ECONOMIC RATIONALE AND PROFITABILITY

The business may harm itself further. Guterman (1992:27) argues that companies who view restructuring as a short-term, crisis orientated, cost saving exercise do not enhance their capacity to respond and adapt quickly to changing circumstances. It implies that restructuring should be done humanely and with a view to having an effective company in the future. He carries on to say that, although downsizing may be necessary for short-term survival, it seldom solves the core problems that led to the symptoms in the first place. Downsizing may therefore be similar to drinking aspirin for a brain tumour.

Similar arguments were aired by Ligus (1994:28). He mentioned that lost market share resulting from stiff foreign and domestic competition drove executives to seek solutions. The MRP, TQM, JIT, CIM and other quick fix solutions failed, as well as downsizing and decentralisation. The main reason was simply that the elimination of jobs without changing the way people work, left huge voids in the basic processes. This means that a total business re-engineering exercise should be done, but this does not always happen. It is too difficult for employers to overcome the organisational inertia associated with such a major change initiative. Simply put, retrenchment without restructuring or business process re-engineering does not work in the longer term.

In terms of the argument aired by Ligus, the researcher asks the following: What should be done first? Should the organization first restructure with a view to improving efficiencies and productivity and then retrench the resultant occupants of redundant positions? Perhaps a retrenchment exercise should be performed to save costs first, (as does happen in industry), followed by a restructuring of the remaining positions to optimise what is left in its wake. Ligus leans towards the argument that restructuring should follow in the wake of downsizing to optimize the benefits. The researcher feels that moral duty should prevail and positions should be optimized first, before downsizing what is left.

Karake-Shalhoub (1999:7) argues that a link exists between stock prices and the announcement of downsizing by direct comparison of rising stock prices during a merger or acquisition. The researcher disagrees when contemplating the earlier researched statements indicate that no substantial stock value gains are generally reported following a downsizing. The researcher rather argues that the news that a company is downsizing may negatively affect shareholder value and stock prices, as it could indicate poor financial performance. Investors may wish to withdraw their investments in order not to lose more of its value.

Under certain circumstances, this may not be the case, as profitability may increase as a result of technological advancement and hence lower costs. These circumstances may arise when companies merge or acquire others as a growth strategy, but not as a downsizing strategy. Customers may start feeling uncomfortable in the continued business relationship with a "struggling" company and look to place their business elsewhere. A clear external communication strategy will therefore be crucial in ensuring the continued business relationship with customers. In this way, the rumours of retrenchment will at least not hurt the markets served by the employer.

Research has established that organizational restructuring in the form of downsizing, has little, if any positive impact on stock market performance or earnings, yet companies continue to downsize. The negative effects are in fact starting to rear its

head. Companies continue to report that they are struggling with serious loss of morale, productivity and mistrust following in the wake of continued restructuring and downsizing. The majority of “right-sized” companies have in fact found themselves worse off than when they started.

### 5.2.3 ORGANIZATIONAL CULTURE

According to Fink, Beak and Taddeo, (as quoted in Karake-Shalhoub, 1999:57), the organization itself goes through various stages upon the news of a retrenchment or downsizing announcement. These are:

- As the employees as members of the organization become aware of the threatened survival of the company, the organization goes through an initial shock phase. Interpersonal relations become fragmented as individual employees start taking an inward look at themselves, caring more about their own well-being than that of others. Inter-group relations may deteriorate, communication becomes more difficult and decision making paralysed.
- The second phase, called the “defensive retreat,” is entered whereby strict controls are implemented in order to survive. This can be seen when a “cost saving” drive is announced. Salary increases are suspended, budgets are cut and bonuses forfeited. The company becomes more centralized, information is restricted and planning and goal setting becomes short term orientated. Performance criteria may become more tangible at this stage.
- The next stage is entered when the acknowledgment phase approaches. Individuals look forward to resolving the problems faced by the company. Attempts are made at improving communication, leadership and the decision-making process becomes more participative. Planning and goal setting extends into longer-term exercises. During this phase, organizational changes in structure are anticipated, since uncertainty still surrounds the solutions to the crisis and has not gained enough momentum. The big question emerges -

should top management be axed and replaced with new management to solve the crisis? The logic can be found in the need to demonstrate that the company is on the verge of renewal, the old top management represents failed past strategies and new perceptions may be required about the crisis. Although this may be a good theory, the researcher has his doubts if this is the case in the South African situation. Invariably, it is both middle management and the blue-collar workers who are retrenched, hence the strong union movement in our country.

Once the retrenchments are over and done with, the relationship between the remaining employees and the company can never and will never be the same again. This will lead to a new culture in the organization. Low levels of morale, loss of leader credibility, increased uncertainty and ambiguity, heightened levels of mistrust and insecurity, decreased participation and greater emphasis on control may emerge as new corporate characteristics.

#### 5.2.4 SABOTAGE

The impact of sabotage as an act of revenge for being retrenched can devastate a company. Dean Kingsley from Deloitte Touche Tohmatsu states that cyber revenge in the information age is expected to increase with the advent of retrenchments and companies do not have necessary protection in place.

The following real life examples indicate how sensitive this issue can become:

- Planting a virus in the emergency networks' computer system;
- Hacking into the network from home and deleting employees' hard-drives as they log in;
- Taking a computer copy of a customer master file and selling it to a competitor;

- The systematic destruction of critical files from a bank computer system by hacking in from home. The program was written before he was axed;
- An insurance company employee slipped through the security checks and attacked the mainframe computer with an axe, shutting the system down for several hours;
- An information technology expert wrote a “logic bomb”, instructing the mainframe system to destroy vital data if his personal file was dropped from the payroll.

These may cause serious disruptions in the continuation of the companies’ business, but more seriously could be the wilful damage of property in a manufacturing firm where the safety or even the very life of employees could be endangered. As an example, imagine an employee sabotaging some control instrumentation that regulates temperatures of a chemical reactor that produces toxic or explosive gasses.

Moolman (1993:145) supports the notion that industrial sabotage may follow in the wake of the knowledge that retrenchments are imminent.

In this sense, it is important to gauge the probability of this occurrence, as it will have a direct impact on the consultative process (see section 4.9.1) in chapter 4. The timing of the communication with respect to retrenchment is therefore critical in the avoidance or minimizing of sabotage.

### **5.3 THE IMPACT OF RETRENCHMENT ON EMPLOYEES**

#### **5.3.1 RETRENCHMENT**

People accept employment and start careers for many reasons. The psychology of unemployment is a study on its own and hence it is not the intent of this chapter to

discuss this issue fully. It is important to reflect on the need to work to enable understanding of the effects of retrenchment, however.

Why is losing a job so traumatic?

Standing (1999:8) argues that work, as human development need, should:

- Ensure a secure subsistence, on an improving basis;
- Ensure that the activity of work does not needlessly endanger intellectual, physical or psychological health;
- Foster and allow individual creativity in the social production process;
- Be compatible with worker competencies, whilst allowing the development of potential competencies. This means the individual has autonomy over decisions on what, with what and how to produce and for whom and what purpose; and
- Foster self-respect.

This phenomenon is best understood simply by referring to Maslow's hierarchy of needs. Du Toit, (1986:430-432) lists these needs as follows:

- Physical needs, including the need for food, water, protection, warmth, rest, sex, and other physical needs. Employment provides the money to purchase these things, whereas retrenchment will endanger this security.
- Safety needs may include the loss of income, protection against bodily harm, illness, medical insurance, pension, uncertainty, etc. Kroon (1986:431) argues that job security constitutes a very important component of this level of need.
- Love and acceptance. This level of need includes membership of groups, acceptance, friendship, understanding and care. These needs become more social in nature and are fulfilled with contact with other people. Retrenchment therefore endangers this level of need through the disruption of contact at work with colleagues.

- Egoistic needs include elements of pride, self-respect, self-confidence, acknowledgement, praise, status, etc. During this level of needs satisfaction, the individual will feel wanted, needed and useful. Being retrenched will obliterate this level of need satisfaction.
- The fifth level of needs, being self-actualisation, will obviously be the last thing going through the mind of the retrenched employee. He may, however, feel incredibly betrayed by his management after being retrenched.

Where these needs cannot be met in the working environment, they can be met in other arenas, such as possibly sports and hobby clubs which may assist the retrenchee in finding meaning in his life again.

It is important to understand that a relationship exists between an employee's career and his assessment of his identity and self-worth. It has been said in the introduction that losing a job can be an extremely traumatic experience that can lead to such a serious consequence as suicide. In Frankl (1975:61) the well-known psychiatrist also mentions the impact of unemployment on an individual when he states that losing a job makes it difficult for an individual to focus on the future, since life loses meaning for such a person. Losing meaning in life has disastrous consequences, as it disables an individual to continue on his way forward and he tends to start living in the past. Hence the importance of work for an individual becomes even more pronounced when he loses his job. When this happens, the individual will move through a series of phases. It is prudent to reflect on some of these phases:

Phase 1: This phase occurs immediately after an employee received the knowledge that he lost his job. Typical reactions are shock and disbelief, sometimes accompanied by feelings of optimism towards completing tasks at home. The situation may resemble a forced vacation. If unemployment figures are high and the individual battles to find employment, the feelings of anguish and shock may be acute.

Phase 2: During this phase, acknowledgement of the reality of the situation becomes unavoidable and the effects on personal work identity start manifesting. The identity of "unemployed" slowly settles in, resulting in meaningless and forced leisure activities. The self-worth of the individual stagnates. During this phase, disorientation may occur due to the lack of routine. The relationship with the family becomes strained and it becomes critical for the family to support the unemployed family member. More desperate attempts at finding work will be made. Where failure persists, the hopelessness will increase.

Phase 3: The state of unemployment fully manifests in this phase with no work identity. This phase may be characterised by settling into a new style of living and acceptance of different living conditions. From a social perspective, the family becomes the main point of contact, as the bonds with previous colleagues fade away. If the financial situation allows this, the adult children or the wife becomes the main economic contributor in the family. The symptoms of this phase could also materialise in feelings of inferiority and subordination. This state of affairs has been described as psychosomatic symptoms and the health of the individual may deteriorate (Gerdes *et al.*, 1988:280-282).

Morabe (2001:2) states that the effect of retrenchment on an employee influences his subjective quality of life, where the phenomenon is indicated by emotional well-being, satisfaction with life and general mental health. Morabe supports the notion that retrenchment causes severe negative psychological and physiological effects.

When losing a job, an employee needs to go through a variety of cognitive processes to deal with the trauma. Three dimensions of cognitive processes were identified in a study performed mentioned by Leana & Feldman (1992:50-57). These were intensity, reversibility and causality.

- Intensity. Many people who took part in research on the impact of losing a job describe the experience as the worst thing that ever happened to them. The



experience generally indicates one of severe intensity. Some even equated the experience to losing someone to death.

- The second problem, which the researcher deems very relevant to the South African situation, is the perception of the reversibility of unemployment. Hopelessness sets in for the retrenched employee soon after numerous failed attempts at finding alternative employment. This hopelessness stems not only from not finding a new job, but also from not being able to generate the same income to sustain the previously known living standards. The hopelessness also stemmed from the perception that their fate was irreversible; hence the future in the minds of those former employees in the study appeared bleak. General feelings expressed were discouragement, pessimism and despair.
- The third cognitive element that a retrenched employee deals with is causality. This issue relates to the assignment of blame. Numerous newspaper reports, articles in journals and books attempt at explaining the rationale behind retrenchment, from mergers and acquisitions to changes in the capital markets to stiffer competition to globalization. Organized labour and even individual employees have neither escaped blame for either reduced productivity or the loss of the "hard work" ethic. Retrenched employees tend to fix the blame on the employer for allowing it to happen. Managerial competence and intra- and inter- company politics is viewed as part of the problem. The government also does not escape blame for not stemming the ever-flowing tide of foreign imports and their failure to offer assistance in the face of declining profitability.

It then becomes clear that, besides the economic necessity to work, the identity, self-assessment, self-worth, health and family roles and family relations of the worker is strongly affected by his occupation. Being retrenched therefore has serious consequences for a retrenched individual, as a lot more than monetary income will be lost.

Before retrenched employees actually leave the engagement with his employer, it remains important to design a careful strategy to avoid problems. Employees may

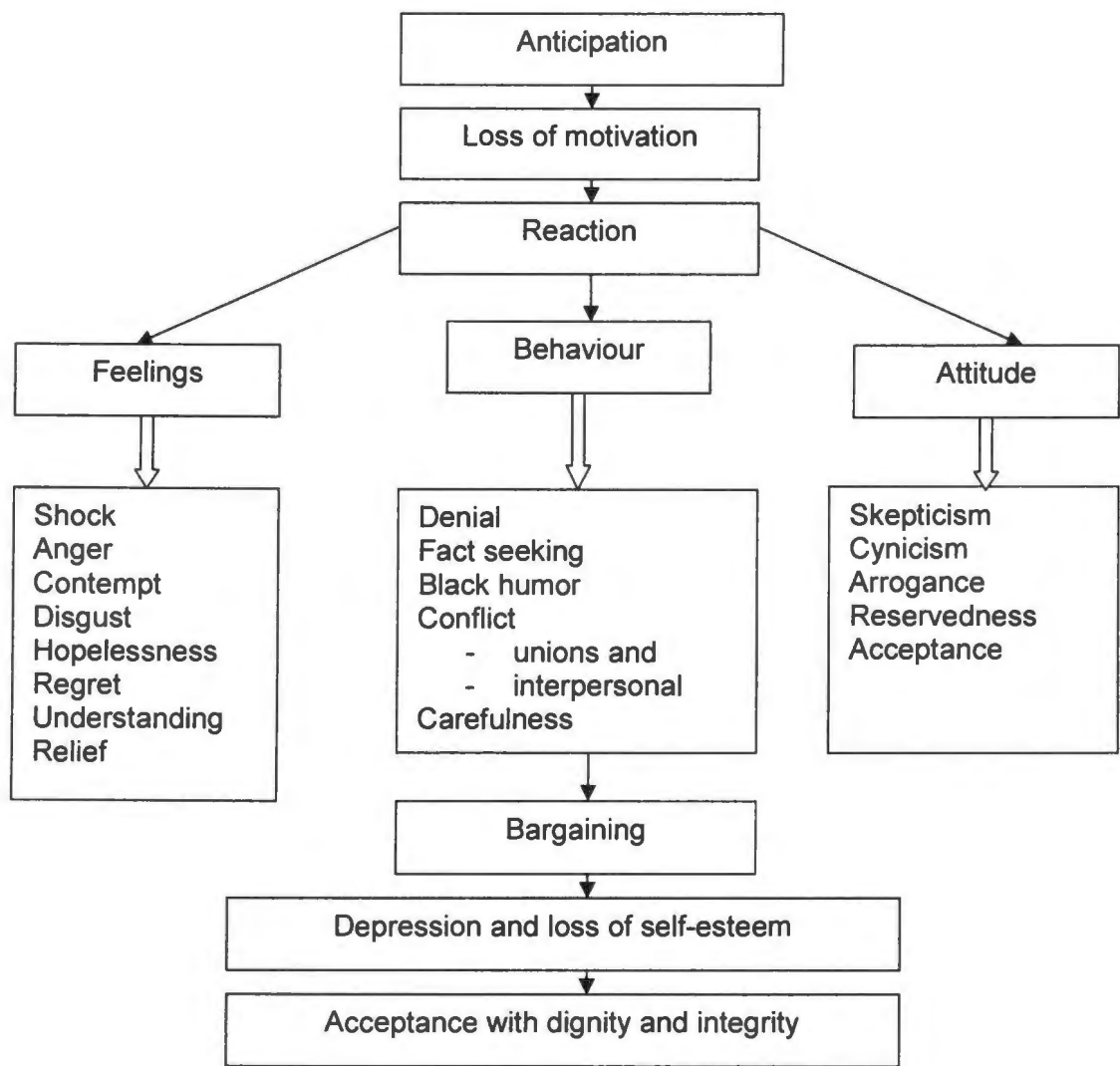
have already received their notices of termination, but need to continue working their notice periods. In this respect, Myers (1993:29) warns of the following:

- Maintain productivity. This is of vital importance, especially if long notice periods were required;
- Avoid union organized drives. This could potentially explode into chaos if unions are allowed to instigate employees and instil a culture of retribution;
- Avoid sabotage. This is critical in the prevention of major damage, especially with regard to causing production disruptions and the increased risk of safety hazards. This problem could also materialise in the disclosure of confidential information to competitors, such as disclosing production secrets and customer information; and
- Lessen the shock to affected employees.

The suggested key area of focus seems to be to ensure that morale does not suffer too much. The role of senior management in this respect is critical, according to Wilson (2002:21). The effects of downsizing on remaining staff can be devastating, but if employees understand that they share the same fate as senior management, it may cause a greater willingness to stay and see things through. This is where true leadership becomes critical, when the leaders are seen to be taking the responsibility for the actions and avoid indecision and evasiveness. It is suggested that time be spent with key people and get the bad news out all at the same time. In this way, open and honest communication, resulting in trust, can already rebuild the burnt bridges left in the wake of retrenchment, thus ensuring the desired results of becoming more competitive or profitable.

In summary, an organization that announced retrenchments may have employees facing the following process:

Figure 6: The person-centred dynamics of retrenchment



Source: Adopted from Volpe (s.a.).

5.3.2 REMAINING EMPLOYEES

The impact of retrenchment on the employees remaining behind should not be negated. Employees who were spared the axe have their own sets of problems stemming from the impact of a retrenchment exercise. They tend to find it difficult to return to their normal duties, fearing the next wave of cutbacks. Fears and uncertainty

may also prevail in the face of new and added responsibilities with smaller pay increases and lesser bonuses.

(Anon, 2002:10) discusses this problem and identified the symptoms as “survivor sickness”. Although the article focuses on the effects in a law firm, the problems discussed are as relevant to any other employer. The problems associated with “survivor sickness” are typically described as job insecurity, perceptions of unfairness, depression, stress from increased workloads, fear of and resistance to further change, loss of loyalty, reduced risk taking, unwillingness to go the extra mile, denial, negativity, decreased productivity, insecurity and resentment. These negative traits are exactly the opposite of what a company that faces downsizing to cut costs and improve competitiveness needs.

Myers (1993:30) indicates that those employees remaining behind can indeed suffer from severe morale problems following the announcement of downsizing. Job attitudes and morale suffers from a variety of factors. These include having more work to do, displeasure at the loss of friends, anxiety or guilt, facing stagnant pay and loss of paid overtime opportunities and the possible loss of benefits.

Paige (2001:15) reasons that a huge toll is also taken on remaining employees, managers and HR personnel that can last for years. She says that remaining employees find it very hard to witness the undignified exit of their colleagues and then wonder why they escaped the axe. Secret feelings of guilt and the fear that they may go next time consume their energy. This may leave them in such a state of fear of putting a foot wrong and so traumatized that it may take months to recover and be fully productive again. Typically, such remaining employees experience the erosion of trust, a devastated morale and a general feeling of fear and paranoia. Continued contact with retrenched colleagues may deepen the sense of guilt and resentment to towards management. It is clear that these consequences are counter-productive to the very efficiencies that the downsizing sought to achieve.

Leana & Feldman (1992:139) argues that losing the social support of friends and colleagues at work is one of the most distressing aspects of losing a job. This applies as much to the departed employees as to those remaining behind. Such employees will also feel angry with management for having caused the retrenchment of their friends in the first place, or for mishandling the process and support for departing retrenchees or for speaking disparagingly about them.

Research done by Allen, *et al.* (2001) on work transitions included job changes relating to inter- and intra-organizational mobility as well as job redesign, change of boss, and change of co-workers. Included is the issue of job loss. They found that remaining employees also go through various stages during and after a retrenchment exercise, but concluded that the various inclinations of remaining employees may change with time. Their hypothesis was supported over longitudinal studies. These stages are preparation, encounter, adjustment and stabilizing.

The immediate antecedents and consequences of the change event consist of the preparation and encounter phases, with the preparation phase primarily concerned with psychological readiness. The encounter phase refers to the first few days and weeks following the change event. Psychological defence mechanisms such as denial and withdrawal occur early in the encounter phase before finally assimilating and integrating the change. Once they worked through the initial shock and surprise, the adjustment phase is entered when a new set of priorities emerge, such as adjusting to the new colleagues, new work roles (typically more responsibilities as jobs are rationalized), the culture of the new environment, etc. Lastly, the stabilizing occurs when the employee starts striving to maintain valued elements of his current role or making finer adjustments. Success or failure may follow in its wake.

In summary, environmental variables, such as role clarity, role overload, satisfaction with top management and job security may be influenced through the effects of retrenchments. Some positive consequences may also arise, such as new challenges,

seeing the downsizing as an opportunity to grow, better career opportunities through a thinner layer of management and more autonomy.

### 5.3.3 MANAGERS

Managers are not monsters who take pleasure in causing widespread misery for employees by removing their livelihoods. They sometimes have to make the profound decision of retrenching a number of employees based on their experience and knowledge of where their business is going. Executives will also suffer the feelings of guilt because of being seen as denying a family its livelihood or overhearing himself as being described as ruthless and cold-hearted. Brandt (2002:19) simply states that if an executive enjoys hiring and firing, he is a sadist unqualified to lead. Yet the task has to be executed professionally.

He says that many times managers break down emotionally in front of the very people that they retrench, as they become so absorbed in their own pain that they are blinded to the wounds inflicted on the employees around them. They confuse self-absorption with sensitivity. To avoid this pain, a manager owes it to his employees for every single possible alternative to be exhausted, such as improvement plans, reorganizing talents more effectively, cutting of other expenses, even temporary, etc. Unfortunately, too often the run down excuse of retrenchment is used to cover up other evils and inefficiencies that lie deeper and managers tend to embark on these mindless reactions too quickly.

Once this decision is made, the leaders of the organization tend to isolate themselves from others. They do this because they wrestle with the difficult decision and because they fear the effects of communicating the bad news to those who should absolutely not know about it. The first consequence hereof is that rumours start to dominate communication, sometimes to the extent that the fear of losing their jobs can paralyse enough people to seriously endanger the productivity of the company.

The second consequence of withholding information or communicating only half the information is that the rumours are reinforced and take on a life of their own. Once the retrenchment is over and done with, it is very hard to break the cycle of mistrust and bad communication.

Management should heed and take note that much of the remaining negative behaviour of employees may be masked by the energy generated by the restructuring and the business of “going back to business” once the retrenchment is over and done with. This could lead to longer-term problems for the organization. These are stress and burnout suffered from continuous long hours of work and expected higher performance, higher attrition, (particularly from key players who may feel isolated and not supported in the new organization), difficulty in acquiring new talent, etc. Managers may suffer the very same symptoms, as many a time they may have lost key support personnel and even friends in their area of responsibility.

Most managers and HR practitioners, according to Paige (2001:15) are ill equipped to deal with retrenchments and counselling, where it is expected of them to remain detached from their colleagues and deliver the death sentence without emotion. In companies where a manager is expected to repeatedly perform this horrendous task, they tend to become depressed and increasingly traumatised by having to maintain a balanced and dispassionate appearance.

The negative effects of retrenchment on managers are echoed by Gertz & Baptista (1995:20). They also spoke of the “survivor sickness” which is commonly known as the combination of guilt and depression that often plague survivors of airplane crashes and military combat. These are the very core employees on whom the company depends on for leadership and creative solutions. Studies have shown that these managers are often suffering from stress, morose, over caution and fatigue.

Lastly, the impact of prolonged cost cutting and downsizing could cause managers to develop tunnel vision. The condition develops when executives are so focused on

gaining efficiencies and reducing costs that they fail to think about new possibilities for future growth. The challenge is to change the focus from survival to growth.

## **5.4 IMPACT OF RETRENCHMENT ON SOCIETY**

### **5.4.1 UNEMPLOYMENT, RETRENCHMENT AND CRIME- THE CIRCULAR RELATIONSHIP**

Honoré de Mirabeau (1749-1791) once said: "I only know of three ways of living in society: one must be a beggar, a thief or a wage earner."

Anstey (1983:16) discusses the meaning of unemployment for an individual, his family and his society. He states that work is a social activity with the two main functions of producing goods required by society and binding the individual into the pattern of interrelationship from which society is built up. Work can therefore be seen as a form of social cement in society. Losing his employment then has serious consequences for an individuals' economic, social and psychological functioning. He carries on to say that a continuous unemployed and poor in an affluent society is a defeating and oppressing circumstance that produce psychological fatigue, resulting in apathy, hunger, frustration and anger. These then become fertile grounds for more violent modes of responses to an apparent careless society.

The author postulates that this is exactly where the circular relationship between the violent crime dominating South Africa and the high unemployment rate manifests itself in the most profound way. An employee who has lost his job will feel rejected by society, enforcing feelings of the need to turn against society through retaliation in the form of crime. This could occur because he may think that the world owes him something and will probably argue that the world has taken what rightfully belongs to him. In a discussion between the author and a young and upcoming colleague who



came from a township, it became evident that a view is upheld by some unemployed people that things that belong to the “haves” also belong to the “have-nots,” and that it is perfectly acceptable to share in the abundance that belong to the collective. Likewise, unemployment can contribute significantly to psychological disorders, such as depression that can lead to suicide.

Bendix (2000:229) refers to this circular relationship as the “Boomerang Effect” when the direct relationship between unemployment, poverty and crime may ultimately result in the destabilization of a society and the economy. She argues that in the long term, massive retrenchments may destabilize the very organizations who engaged in the retrenchments in the first place.

It is known that free market economies, such as we have in South Africa, have relatively low funded social programmes. A flailing economy will lead to higher joblessness, less money for charity and social safety nets and greater difficulty for retrenched employees to find alternative employment. Such affected individuals may turn to crime to sustain the basic economic needs of his family. The retrenched employee may view the benefits of lawful activity as not outweighing the risks of criminal activity anymore. Two schools of thought exist on the link between economy and crime. Some argue that doing crime is the free choice of an individual whereas the liberal economists emphasize the role of institutions, family structure, and societal forces in the commission of crimes. However, the majority of studies prove unequivocally that the crime rate is directly related to the state of the economy. These findings were jointly made through the combined efforts of economists and criminologists.

The social responsibility of employers now seems more evident. A decrease in income and potential earnings associated with involuntary unemployment, such as caused by retrenchment, increase the relative returns to illegal activity. Chronic unemployed individuals also have less to lose by being arrested and incarcerated. In this manner,

unemployment is an important determinant of the supply of criminals and hence the crime rate (Amburgey, 2002).

#### 5.4.2 ECONOMIC DOWNTURN

A further repercussion on a society facing mass retrenchment is the effect of lower sales volumes generated in the wider society. Smaller businesses that came into existence in support of the community in which the former employees resided, such as the supermarkets and clothing stores, may suffer a similar fate due to reduced sales, than the larger companies that downsized. Along the same vein, the support industries that came into existence in support of the large organizations, such as engineering works, safety clothing suppliers, stationary suppliers, etc., will suffer turnover as a result of the downsizing of the larger company. Consider for a moment the negative effects of the massive downsizing that occurred at Iscor Vanderbijlpark. This steel factory employed approximately 23 000 employees in the 1980's. Since the process of downsizing began, employment levels have shrunk to approximately 6 000. The battle for survival continues, as the town of Vanderbijlpark came into existence directly as a result of this company.

Potential new developments will not proceed, as the foreseen market for its products will not materialise and in this way, affect the local building industry. The local municipal council will generate less revenue, as the retrenched employees may have to leave the community in search of alternative employment. They may also find it difficult to maintain the payment of taxes. Sport and recreation facilities may need to close down and so the snowball effect can carry on. Lastly, the property market may suffer tremendous consequences as an excess supply of homes opposite low demand will negatively affect the attraction of owning a home in such a society. The banking institutions may also suffer from the sudden increase in delinquency rates from resulting from the incapacity of retrenched employees to pay their bonds and car

instalments. The cycle of economic despair may therefore develop a life of its own and start a devastating series of causes and effects.

Leana & Feldman (1992:152) supports this statement when they argue that communities that came to rely on big companies for their economic vitality may be devastated by a massive retrenchment or closure of a big company. The departure of corporate taxpayers heralds the depletion of municipal funds. Public services will soon start feeling the strain as the swelling ranks of unemployed people increase the demand on it. They state that three different possible community responses prototypes to massive downsizing. These responses will be based on who decides to shut the plant down and who should deal with the consequences:

- The bystander response. The local government and community leaders play a passive role. Where the closure of the plant is subject to debate, local officials may be present at community or labour-management meetings, but they do not participate in the debates. In this way, market forces are simply allowed to dictate the fate of the plant or company.
- The off-set approach. The local government attempts to influence the process and types of decisions made. It does not make any primary decisions, however. The government would therefore participate in the pursuit of influencing whether and how the plant should close and how resources should be allocated to ease the transition of those affected. Financial inducements may be offered in the form of a tax holiday, offer financial assistance in retraining those affected or special social programmes.
- The player role. In this stage, the local government may cross the line by utilizing policies and resources to readjust the process through public decision-making. They play an active role in finding a solution to the problem such as finding a buyer for the business, appointing a new CEO or finding a new product line to replace an obsolete one. An active, rather than a reactive stance is taken.

During any of these responses, the local government can form an alliance with the exiting business or with labour. Arrangements like these can work to the benefit of both the public and private sectors. Local government can receive support and assistance from the big companies and in exchange, the big companies can affect the community in ways that serve its own interests while at the same time serving as citizens who work for the public good.

In the South African scenario, these devastated societies are characterized by the emergence of second hand stores, second hand garage dealers and loan shark businesses that will prey on the misery of the retrenched employees. Many new little businesses may start up as retrenched employees are forced to try their hand at entrepreneurship. Many more will fail as they fail to make the transition from an employee to an employer. In the beginning of chapter 1, the after effects of mass retrenchment on a society were indicated.

#### 5.4.3 CULTURAL VALUES AND THE FAMILY

The culture of retrenched workers plays a major role in how they will react to losing their jobs. The sociological effects of unemployment as a consequence of retrenchment on various cultures fall outside the scope of this study, but one example will be prudent. In certain black cultures, where unskilled workers are retrenched, they have no option but to return to their communities from whence they came. With limited economic opportunities, infrastructure in disarray and eroded agricultural assets, retrenched workers under these circumstances have little prospect of escaping the poverty cycle.

In these cultures, migrant workers enjoyed lots of status in their communities, as they earned money that they could send home. Migrant work was prized, as the society cared for an individual who was profitable. With the loss of their jobs through retrenchment came the loss of dignity, status and respect. Since many of these

cultures were based on patriarchies, the retrenchment of many breadwinners led to the foundation of these cultures being shaken to the root.

The next stage occurs when the retrenched men are increasingly seen as superfluous and burdensome on the society, as they no longer own livestock that was traditionally viewed as being wealthy. These hardships can lead to divorce and the breaking up of families. In this way, the cornerstone of society is demolished. As a result of these continued hardships, children may be taken out of school at an attempt to earn an income to support the basic needs of these families, exacerbating the skills shortage problems of the country (Ngonini, 2001:35-38).

The families of retrenched workers also suffer negative consequences following the retrenchment of the breadwinner. Relocation in itself has been shown, through research, even by choice and possibly into a better paying position, to be stressful. This is probably due to the uncertainty being faced. Having to relocate to another area in search of a job or possibly to take up a new job (and possibly not one of choice) will certainly take its toll on any family. The children need to adjust to a new school, new friends and the whole social support structure for that family changes.

Leana & Feldman (1992:31) quotes the words of a participant in their study of the effects of downsizing on families: "Our marriage got pretty rocky when I got laid off. My husband quit his job and we away. He thought we would be able to run from things that had happened. I was offered my job back in December, but I turned it down to stay with my husband."

Children have to live with angry and frustrated parents who are out of work and are at home. They see less toys and vacations, no more dinners at restaurants, no more week-end outings. The reversing of traditional gender roles may occur. The husband may take up tasks previously performed by his spouse with tension in the marriage arising due to the diminished status of the retrenched breadwinner.

## **5.5 STRATEGIES FOR THE EFFECTIVE MANAGEMENT OF RETRENCHMENTS**

Lots of research has been done on how to manage retrenchments effectively and many practical lessons have been learned by organizations. Clearly, the first thing is to avoid retrenchments altogether. This is Utopia, no doubt, but having human beings in charge of organizations mean that failure can occur from time to time. To ease the pain of such “failure”, perhaps it is prudent to mention that there is no such thing as failure in nature; only consequences and lessons. The legislation also provides for extensive mechanisms to compensate employees who are retrenched, but the effects are a lot more profound than just loosing employees. The next section will focus on strategies to minimise the effects of retrenchments on a variety of segments.

### **5.5.1 AVOIDING RETRENCHMENT**

Downsizing does not always pay off. In research performed by Anderson Consulting, it was found that across a study of 537 companies over a three-year period following an employment or asset downsizing, that cutting employee numbers resulted in a decline on their return on assets of approximately 3%. The reason for this is to be found in ill prepared downsizing strategies, not comprehending the negative effects of low morale and lower productivity following such strategies. One could hardly imagine any employee getting excited over the fact that his job security is endangered.

The same applies to business process re-engineering. The Fast Magazine evaluated the impact of re-engineering exercises and found that in a study of 99 cases, 67% of the results were judged mediocre, marginal or failed. Similar comments can be passed with respect to mergers, acquisitions and alliances. Despite its popularity, these business ventures often fail to achieve its objectives. An Andersen Consulting study in 1998 found that of 300 merger deals bigger than US\$ 500 million, only 43% of merged companies out performed their peer groups with respect to shareholder returns after

three years. In another study involving 34 major acquisitions in 1980, 70% failed to improve shareholder value. The reasons cited were the loss of flexibility, clashes of cultures, loss of management focus, etc. These are all effects brought about by the famous resistance to change phenomenon and the failed efforts of change management.

This problem is highlighted when considering the following summary of failed business restructuring efforts by Galpin & Herndon (2000:2):

- 23% of all acquisitions earn their cost of capital;
- Stock prices only rise 30% of the time when a merger or acquisition is announced;
- 47% of executives of an acquired company leave within the first year and 75% leave within three years after the acquisition;
- In 70% of the time, projected synergies never materialize;
- Productivity falls up to 50% in the first four to eight months after a merger or acquisition;
- CEO's and CFO's cite "people" problems and cultural issues as the main reasons for the loss of benefit through mergers or acquisitions; and
- The average financial performance of newly merged companies is graded C-minus by their managers.

A key assumption in understanding the value of retrenchment is that every time that it is used as a strategy to improve profitability, it leaves a smaller organization to cut in to yet smaller pieces. Downsizing therefore must be diminishing in value. The above statistics are echoed in the research done by the AMA (American Management Association) when Gerts & Baptista (1995:13) mentions the findings. According to this survey that started in 1988, approximately 45% of downsizing companies reported an increase in operating profits, the same percentage experienced no change or decline in profits after downsizing. To add insult to injury, two thirds of the surveyed companies involved in downsizing strategies have gone back to two or more rounds of workforce

reductions. These statistics show a tendency of executives to act from a position of weakness and to use “quick fixes” to boost their bottom line performance. This is aptly described as developing an anorexic organization to achieve health for a company and is not sensible at all.

This leads to another approach to business - go back to the basics. Profitable growth appears to be a strategy that could be used to avert the need for retrenchments. Four distinct kinds of companies could be distinguished when contemplating the downsizing strategy of improving shareholder value, according to Gertz & Baptista (1995:14):

- The shrinkers. These are companies whose revenues and operating profits grew more slowly than the industry in which they compete. They are therefore shrinking both in revenue generation and profits when compared to competitors.
- The cost cutters. These companies showed faster revenue growth than competitors, but grew profits more rapidly. Profit growth, by implication came through cost cutting. Many retrenching companies will find themselves in this category. By continuing this trend, they will eventually reach a point where their costs are 0% of their sales at which point revenue growth will be required to grow profits.
- The unprofitable growers. These companies managed to increase revenue faster than competing industries, but without a commensurate growth in profits.
- The profitable growers. These companies managed to increase both revenue and profits faster than their rivals.

In the light of the above, the difficulty faced by companies who do not find themselves as a profitable grower, is that sooner or later, their rivals do exactly the same exercise that leaves them in the same position as before the downsizing. Cost cutters will then eventually run out of fat to trim. The need to generate a future stream of revenue now becomes paramount. Research indicates that downsized companies are outperformed by growing companies, both in the short and long term (Gross, 2001). The sustained



growth of the Sasol group of companies during the past few years bear testimony to the incredible growth path required to succeed in a globalised economy.

Since we now understand the interdependency between business restructuring, mergers, acquisitions and joint ventures and how these lead to retrenchment, the value of completely avoiding retrenchment as a consequence and rather actively pursuing alternatives and/or proper change management principles cannot be overstated. Management and human resource practitioners can learn a lot from this.

However, there are many cases where downsizing accompanied by proper business process re-engineering lead to the survival and ultimate growth of companies. Being competitive means not always being in a position of charity, where layers of bureaucratic managers sat and produced systems and rules to justify their positions. Too many management layers and excessive checks and balances kept unseen white-collar workers employed to enforce rigid and unnecessary procedures. Sometimes the need existed to enhance the speed of decision-making by removing layers in the organization. In such cases, there was no mention of growth, but of utter survival.

Besides the legal requirements of exhausting all the possibilities of averting or minimizing the adverse effects of retrenchment, a moral duty rests with the employer in genuine consideration of *all* possibilities to avert retrenchment altogether. Job preservation is a critical necessity for South Africa, given the following:

- The current population growth. South Africa's population doubles every thirty years;
- The unacceptably high unemployment rate. This statistics were discussed earlier in this study, but it is worth mentioning that the absorption rate of new entrants to the economy's formal sector has declined from 74% in 1970, to 35% in 1975-1980, to 12.5% in 1985-1990, to less than 10% currently;

- The rapid and accelerated urbanization which aggravates urban unemployment, crime, poverty, stress and social demise. Failing to avoid retrenchment then contributes significantly to the ills of society; and
- The rate of retrenchments is unacceptably high (Keenan-Smith, 1992:8).

Other lessons learnt in the process and from which companies can learn are, according to Anon (2001:26):

- Downsizing does not always increase profits, especially if a “business as usual” approach is adopted;
- If the downsizing amounts to an across the board cut, it is inevitably a sign that management did not exercise due diligence in workforce planning;
- Avoid letting too many people go by first looking at restructuring tasks and performing a proper business process re-engineering exercise. Too often, management elect to panic to either a real or even a perceived external economic threat and embark on a mindless “knee-jerk” response and say: “when the going gets tough, the staff cuts gets going;” and
- Seek the opinions of employees on how to conduct business in an improved manner, despite the fact that retrenchment may seem the best alternative at the time.

Karake-Shalhoub (1999:64) stated that companies who managed to avert retrenchments were those who *continually* “right-size.” They do this by having a continuous, pro-active assessment of mission-critical work and its associated staff requirements. It is suggested that the process starts at the top of any organization. The trick is to run lean and mean, but without having to damage muscle and bone.

## 5.5.2 MITIGATING THE NEGATIVE EFFECT ON THE DEPARTING EMPLOYEES

Employees who were advised that they are going to be retrenched or that has been retrenched have to face enormous obstacles, as discussed earlier in this chapter. Besides their legal duties, a moral duty rests on the shoulders of reputable employers to attempt everything possible to mitigate the effects of the retrenchments on departing employees. Paige (2001:15-17) discusses a few suggestions:

- The willingness to exhaust every possible alternative and the willingness to explore absolutely everything available in order to prevent the retrenchment will go a long way in creating understanding amongst employees and lessen the impact on loyalty of remaining employees. When the tide turns and re-employment becomes an option, the necessary talent may then again be available in sufficient quantity and quality to sustain and grow the company.
- The departing employees should be assisted in finding a new role in society. Companies can do a lot to assist in this respect, such as establishing what skills they have, creating understanding of what options are available to them that they may not be aware of, helping them understand what retraining they may need, sending them for aptitude testing and make suggestions along the findings and assisting in the creation of entrepreneurial skills.

These suggestions may assist a retrenched employee not to adopt a fatalistic approach to life, as they will understand that they have choices, have more confidence in themselves and be more open to explore other opportunities without fear of failure.

Further suggestions include:

- Offering extended membership of a medical aid for a specified duration, as this may become necessary due to the development of disorders resulting from the retrenchment;

- Attempt to secure employment at other companies. The researcher had the personal experience of being able to secure alternative employment with equitable remuneration for a subordinate before retrenching him;
- Giving retrenchees time off to attend job interviews and then allowing them to leave as it suits the employee, not the employer;
- Offering sound investment advice and counselling them not to invest their retrenchment packages in sham investments such as pyramid schemes;
- Helping retrenchees to obtain pay-outs from insurance companies;
- Assisting in the compilation of curriculum vitae and sending it out on their behalf; and
- Provide retrenchment counselling.

### 5.5.3 MITIGATING THE NEGATIVE EFFECTS ON THE REMAINING EMPLOYEES

It became evident in this chapter that it is critical for the success of the cost saving exercise that remaining employees remain focussed on the job at hand, however difficult it may be. Low morale and poor job attitudes could further harm the economic viability of a company. Karake-Shalhoub (1999:62) is very clear in saying that the reactions of survivors may have potentially important implications for the survival of the company. Myers (1993:30-31) suggests the following approach in solving morale and job attitude problems:

- Team building: Team-orientated production methods and employee involvement programs may assist. It may help in involving employees more in fully in the decision-making processes and in the process boost productivity. Care should be exercised not to jeopardize the settling in period of employees. The researcher suggests that, if possible a time interval should prevail in which the employees are given lesser responsibility to allow settling into the new post retrenchment environment and allow them to work through their own emotions.

- Empowering middle managers: Due diligence should be exercised in seeking the feedback of middle managers in finding new direction, as they are normally particularly hard hit by retrenchments. They should be encouraged to design solutions to the problems at hand and given the freedom to implement their recommendations.
- Mentoring/training programs: Employers may not be able to offer employment security for remaining employees, but it can contribute to raising the employability of employees into future positions in the marketplace or even inside the organization if downsizing becomes necessary again. It also contributes to their feelings as valuable assets.
- Maintain enhanced communication: Great effort may be needed to keep employees up to date and involved in future developments of the organization, to give them the necessary skills to fulfil these goals and advise them of their place in the company.
- Recognition programmes: Performance goals should be rewarded when targets are met, possibly with the payment of bonuses. This will lend credibility to the need for the downsizing. Commitment to promoting from within should be genuine and sure.
- Restructuring of benefits: When planning the downsizing, the remaining workforce should not be forgotten. The correct planning of the remaining workforce will be crucial in ensuring that the correct number and quality of employees remain to see the organization through the difficult time. Overloading remaining employees will not serve the interests of the company and may destroy the potential financial value of the downsizing. Similarly, when having to rehire employees after a year or two because of too few employees left, the credibility of future downsizing programmes will be endangered.

Adding to this, Anon (2002:11-12) reasons that the following suggestions may help alleviate problems suffered by remaining employees:

- Use peer-counselling programmes to allow people to speak their minds about what is happening;
- Ensure that burnout and frustration is properly dealt with. Use an external councillor if required;
- Address job gaps. Before embarking on the retrenchment, draw up an organizational chart and establish the exact numbers of people that need to go. Finding out later that the employer lost indispensable employees may wreak havoc in the company;
- Restate the company's commitment to quality of life options, such as flexible work arrangements, job sharing and telecommuting;
- Address cultural and moral issues as a matter of priority;
- Demonstrate genuine receptiveness to suggestions and further ideas for cutting costs and increasing profitability;
- Provide emphatic counselling for all remaining employees and professional career counselling to assist remaining employees in evaluating their career paths in the company;
- Acknowledge that remaining employees will have continuing relationships with retrenched employees, but ensure that the remaining employees protect the confidentiality and security of the company; and
- Build confidence in individuals regarding their own value, contributions, competence, performance and future in the company by increasing feedback, especially employees whose friends and peers were retrenched.

#### 5.5.4 MITIGATING THE NEGATIVE EFFECTS ON OTHER STAKEHOLDERS

Should the wrong message go out, external entities such as suppliers, customers and the community could also be affected by the company downsizing. (Myers, 1993:29) suggests that a white paper for external communication is a necessity to ensure a consistent outflow of information. This paper should clearly indicate the causes of the need for the downsizing and the nature of the reaction to it by the employer. It is

further suggested that all external communications be handled by a small group of people or just an individual public relations officer. Should any employee be questioned, he should divert the question to be answered by the correct person or clear the answer prior to release. Information that conveys the wrong message could send shockwaves through the shareholders and other stakeholders could damage the company any even further, especially by demoralized employees.

Likewise, no employee would want to hear about possible retrenchments in his company from the media without being advised by his employer that this radical step is imminent.

## **5.5 SUMMARY**

In this chapter, it became evident that retrenchment as a consequence of change remains a necessary evil in our society. Economic conditions keep getting tougher and competition becomes stiffer by the day. The advent of globalization and the pressures brought about by it leaves nobody untouched.

Unfortunately, it also brings about the need to dismiss employees for no reason of their own. An employer has to survive and grow to sustain itself and its capacity to provide employment opportunities. Sometimes this means downsizing its workforce. The impact that this drastic step has on employees and their families, the business itself, the managers and the community, is tremendous. Such a profound decision cannot be taken lightly and should be the absolute last resort. This impact is pervasive, penetrating the very core of society and in some cases, leading to its total demise.

Despite evidence to the contrary, workforce downsizing is still perceived as an effective means of reducing costs and improving competitiveness. Retrenchment as a cost cutting exercise does not always work, and in fact tends to fail in addressing causes of the illness of the employer that lie deeper, such as cultural and structural problems.

Nevertheless, these strategies are pursued in the quest for ever-improving productivity and competitiveness that would hopefully yield increased profits.

However, employers are not monsters that are out to destroy the very society that gives it its moral licence to conduct its business and from whence it draws its resources for survival and growth. The symbiotic relationship between employers and the society with all of its constituents should not be neglected by employers (and employees, for that matter). Large corporations are powerful and they have the means, ability and sometimes the authority given to it by the society to influence society for its own benefit. However, no relationship is ever a one-way street and employers have a duty to also give back to society.

This means using its power and resources to minimize its negative footprints left in the wake of its operations. These footprints relate not just to its environmental impact, but the total impact on society. When retrenchments become necessary for whatever reason, a huge obligation rests on the shoulders of involved and non-involved organizations to mitigate the adverse effects thereof of on itself, the remaining employees, the departing employees and the society in general.

Having obtained its licence to operate in a given society, employers then have the responsibility to look after it to a larger or lesser extent. This leads to the issue of corporate social responsibility and the social investments made in society. This forms the basis of the next chapter.



## CHAPTER 6

### CORPORATE SOCIAL RESPONSIBILITY AND RETRENCHMENT

#### 6.1 INTRODUCTION

A new world scene in which business must operate is emerging after the Enron scandal and the September 11 events. Westernization and commercialization are facing anti-globalization voices with harsh criticism aimed at multinationals and governments that support free trade. Many companies are being scrutinized by government for unethical and irresponsible practices, including employment practices. The new youth is growing up more enlightened with career choices more aligned with their own personal values and these are the future leaders and/or consumers. This will lead to increased pressure on companies to engage with corporate social responsibility.

As with the speed of change described in chapter 2, the advent of corporate social responsibility will gradually increase speed in the face of consumers becoming more enlightened and sensitive to irresponsible companies. The Mori Corporate Social Responsibility Update reviewed this issue and found that 81% of respondents involved in the study indicated that social responsibility was becoming more important for their businesses (Anon, 2002:51).

By studying the relevant literature, the researcher stumbled across the following typical statements:

- This is a business, not a welfare organisation;
- Companies do not care;
- Money talks and makes the world go around;
- Survival of the fittest; and

- The bottom line is all-important, etc. (Anstey, 1983:13).

The overall responsibility of employers, however, extends way beyond the traditional avoidance of environmental liabilities and the maximization of profit as a social goal. This issue is rather one of acceptance of responsibility that extends into various dimensions of the communities in which they conduct their business affairs. This responsibility includes the provision of longer term employment opportunities, as the very people who helped generate the profits in the first place and contributed to the success of the business has a stake in the society in which he/she exists. Society develops around businesses and interdependency develops. Does business then accept this extended responsibility, to what extent does it accept it and how compassionate are companies towards the fate of their employees? Does business realise the impact of retrenchment on the already high crime rate? Many more of these questions can be asked and the aim of this chapter is not to find answers to all these questions, but to explore a few concepts relating to the social responsibility of employers and how this responsibility interpolates with retrenchment.

Corporate social and environmental responsibility is becoming an important issue for civil society and corporate leaders. This is so partly because the free trade spirit allowed corporations to become immensely powerful, commensurate with a decrease in governments' ability to regulate business activities. It is well known that governments simply do not have the means to effectively address poverty and will progressively rely on big corporations to contribute to social upliftment programmes. Clearly it would not be necessary for social upliftment if society had been in a decent state of affairs.

Consequently, frustration develops in communities when business leaders claim that certain labour, environmental and human rights issues are the responsibility of the society. At the same time, the same leaders are found lobbying for policies, legislation and trade agreements aimed at improving trading conditions while weakening the government's power to address appalling social and environmental conditions.

Ultimately, society pays the price while attempting to solve the problems caused by business in the first place.

Big business should realise that they are an integral part of the society in which they conduct their operations and should therefore ensure the proper treatment of people, including the responsible utilisation of employees. This means a huge responsibility when contemplating retrenchment, as the society so affected may become vigilantes and retaliate with boycotts, unrest and crime.

The concept ranges across many dimensions of business and society, but this chapter will focus on the corporate social responsibility of employers opposite the interaction with retrenchment and unemployment across the various strata in society. The other elements of corporate social responsibility therefore fall outside the ambit of this study.

## **6.2 DEFINITIONS AND AN EXPLANATION OF THE CONCEPT**

The first few questions asked in the introduction of this chapter relates quite horrendously to a statement made by a Nobel Peace Prize winner (Milton Friedman). He said that: “corporate social responsibility is a fundamentally subversive doctrine” and made statements to the effect that the only corporate social responsibility of business is to increase profits (Esterhuyse, 2002:10). This implies the complete opposite of corporate social responsibility. The researcher postulates that corporate social responsibility cannot be avoided because of the interdependence of business and the society in which it operates. However, the level of commitment and acceptance will vary from industry to industry and one would expect a social commitment commensurate with the size of a company. Surely without the society, there would be no labour available and no markets to serve, hence no need to exist.

Since corporations vary enormously in size, complexity and products, it is very difficult finding a definition that will suit any or all companies, but what then does corporate

social responsibility mean? Many views have been expressed, but the concept of the triple bottom line will become of fundamental importance if companies wish to enjoy longevity and remain profitable and acceptable in the community in which it operates. In support of this statement, Esterhuyse (2002:10) quotes Henry Ford on a similar sentiment: "If business concentrates on social goals at the sacrifice of short term profit, it may find itself destroyed in its neglect of its long term future. On the other hand, if it emphasises profit to the exclusion of social goals, it may find itself abandoned and destroyed by the people it has ignored". This profound statement should reverberate through big business in South Africa, as we struggle to find the balance between employment retention and creation versus the need for transformation in business and society.

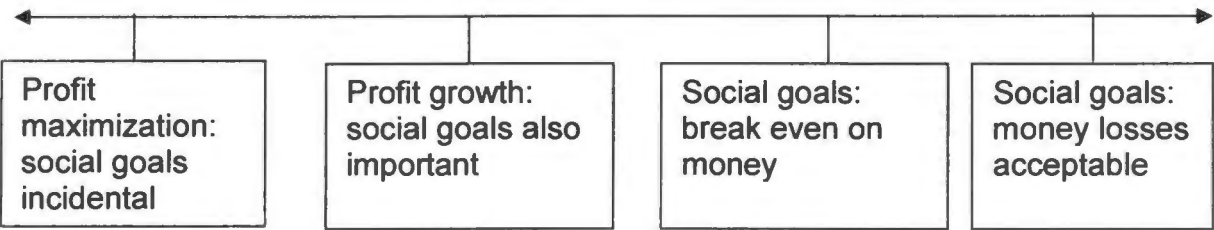
Esterhuyse continues this line of argument when he states that the Henry Ford statement represents capitalism with soul, capitalism with a human face and caring capitalism. He calls this special responsibility free enterprise in partnership with other stakeholders where the notion of partnership is an inclusive approach to sustainable success.

Farmer & Hogue (1985:4) defines it as follows:

"Socially responsible actions by a corporation are actions that, when judged by society in the future, are seen to have been the maximum help in providing necessary amounts of desired goods and services at the minimum financial and social costs, distributed as equitably as possible."

The complexities arising from this definition and the degree to which a company will be deemed to be socially responsible may best be understood by using the following figure:

Figure 7: Social goals of an organization



Source: Adopted from Farmer & Hogue (1985:6).

In the context of the above model, it is of paramount importance to understand that corporate social responsibility should not be left only for big companies. Social responsibility includes every business and it does not have to generate millions in revenue to qualify as a socially responsible company, especially regarding employment practices.

Bennett & Bennett (2002:42) describe corporate social responsibility as the relationship of a company with its suppliers, its environment and its customers, containing all aspects of business beyond worrying about the next quarterly profits.

The European Commission, according to Anon (2002) is described as the process whereby companies decide voluntarily to contribute to a better society and cleaner environment, with the concept of responsibility towards the community going beyond the legislative requirements and satisfying stakeholders.

From a spiritual perspective, Mathew (2003:6) states that charitable and enlightened behaviour is what is supposed to set us apart from lower life forms, but looking at the mess we have created on the planet and the way we sometimes treat each other makes you wonder where our species stand in the civilization league table.

Van Wyk (1984:6) refers to social responsibility as going well beyond the immediate responsibility of the enterprise itself and includes issues such as employment of minority groups, reduction in pollution, greater contribution and participation in community development, loss control and safety and security. The aim is, according to him, to improve the quality of life of employees and members of society.

The social responsibility of employers can be defined in many ways and it encompasses various types of involvement. These activities could include, but may not necessarily be limited to:

- Sponsorships for social events, such as a theatre to promote cultural awareness;
- The granting of study bursaries to members of the community in which the business operates;
- Organizing exhibitions to foster the need for education in scientific skills;
- Career counselling facilities for the community;
- AIDS awareness campaigns;
- Holding employee respect and care as a company prime value;
- Actively seeking ways to balance profitability with care for the society and not letting profit be the beginning and end of all business activities;
- Maintenance of employment levels;
- Post retrenchment programmes;
- Safety, health and environmental commitments, such as Sasol Polymers' LEOPARD process that led to world class safety performance; and
- Assistance in fighting crime. The business against crime initiative is a good example hereof.

### 6.3 THE DIMENSIONS OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility, much like change, is pervasive and influences business and society in a variety of ways. Four distinct dimensions can be identified, according to Carrol & Buchholtz (2000:33):

- **Economic responsibility.** This means that business must produce goods and services for the wants and needs of the society at a fair price. The fair profits so made should be adequate to ensure perpetuation and growth to ensure long-term employment opportunities and investor returns. Economic responsibility according to the researcher also means sustained employment and the running of a business in such a manner that retrenchment is either averted or minimised. In this respect, Phillips & Claus (2002:1) noted the importance of avoiding scandals that could seriously affect employment, such as formerly encountered at Enron. Scandals of this magnitude reverberate through world markets, shaking it to its core.
- **Legal responsibility.** These responsibilities reflect the codified ethics of a business, driven by the permission by society to business for the assumption of a productive role. The business responsibility rests with compliance to these laws and includes not abusing the general ignorance of the labour legislation of employees by retrenching them unlawfully and unfairly.
- **Ethical responsibility.** Ethics imply doing things not just because it is required by law. It includes activities and practices that are expected or prohibited by societal members. It embraces the concept of fairness, as uttered by society in relation to norms, standards and expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair. The moral rightness of this issue is therefore intended. It can be postulated that ethics, being a strong driver for action, pre-empts legislation and is the very driving force behind it. Furthermore, ethics can be seen as embracing and reflecting new emerging values and norms as expected by the stakeholders and therefore goes beyond the basic legislative requirements. An example hereof

would be the Responsible Care ® programme, where co-signatories commit themselves to a cradle to grave approach with respect to the products they sell. Another example could be found where a company injects resources into obtaining emissions levels well below the legal limitations.

- Philanthropic responsibilities. These are referred to as voluntary or discretionary responsibilities and include activities that are not explicitly expected of the business, such as humanitarian programmes, sponsorships, etc. Contributing at this level will lead to corporate citizenship.

In earlier times, the maximizing of corporate profits by a company was seen to be meeting its social responsibility. As time passed, more and more legislation became necessary, simply to enforce the needs and desires of society and the environment so seriously and arrogantly ignored by large companies. However, the socially responsible companies do contribute in solving the problems of society, many times indeed occurring as a result of the companies' presence. However, the degree to which they contribute is subject to the perception of the community.

These dimensions are occupied by stakeholders of variety. Clutterbuck *et. al*, (1992:12) extricated seven core stakeholders from their research. These are customers, employees, suppliers, shareholders, the political arena, the broader community and the environment. They state that these voices have the power to influence the fortunes of organizations for better or worse, although not all of them have their own voices.

One key element that needs consideration in terms of a corporate social responsibility, in all of its manifestations, is that it has to be an honest and genuine attempt. Attempts at window dressing will result in loss of credibility and therefore investor confidence when such a company is exposed. Jenner (2002) states in this regard that if any company wishes to take a strategic approach to corporate social responsibility, absolute commitment is essential. When compiling a policy and communicating it internally and externally, but does not follow through, it will fail. Many companies have beautiful glossy publications showing how much they care. Public speeches resound



from Seattle to Sydney and boardrooms are buzz with this jargon. The Enron scandal can once again be quoted. Their last corporate social responsibility report was sprinkled with images of sunlit foliage and smiling ethnic faces. The report told stories of how they conserved trees in Bolivia, and told their security told men at its Indian subsidiary to stop beating people up, according to Cook (2003). The delusion of grandeur that impressive corporate social responsibility reports can conjure up is amazing. She also quotes the Enron example, a model citizen just before its demise, their good intentions showing in a glossy report. She also says that many companies just do not get it at all. Much of their rhetoric amounts merely to a huff and puff at best and a smoke screen at worst. How does this relate to retrenchment? It shows in the inconsistency between a companies' charitable activities and the lousy customer service, insensitively handled redundancy programs (or even just the fact that it happens to increase profits) and the excessive executive salaries and pay out schemes. The real disclosure of activities also needs attention, as much is hidden behind the gloss and glamour.

#### **6.4 BUSINESS AND THE SOCIETY - THE TRIPLE BOTTOM LINE**

In former times, famines, floods, earthquakes and other natural disasters affected large numbers of people, blaming their demise on nature. The advent of mining and industry changed this forever. An explosion, fire or spill of hazardous chemicals could involve hundreds of employees and their families. Although legislation can be, and indeed has been passed to protect employees, communities and the environment against the impact of business, it remains the responsibility of business to implement it in a responsible manner (Cannon, 1994:176).

Large corporations are much talked about, as they are both influential and powerful. They provide thousands of jobs, produce much needed goods and services, provide various forms of satisfaction for society and its employees, they earn profits for shareholders, support education, training and other good things, but they also create

problems by polluting the air and the water. Therefore, they are admired, envied, hated, feared and frequently despaired by both admirers and critics. This leads to the importance of triple bottom line. Bhopal, Piper Alpha, *Exxon Valdez*, Herald of Free Enterprise, Three Mile Island, Chernobyl and the likes, are still fresh in the memories of those affected and those that are not and remind us of the crucial role of business responsibility. Companies with high international profiles are particularly prone to scrutiny.

The already mentioned “triple bottom line” approach to business implies care for three distinct dimensions, according to Esterhuyse (2002:10):

- Financial health of the organisation and the need to improve stakeholders’ wealth;
- The safety of workers and products; and
- The well being of the natural and social environment in which the company operates.

Triple bottom line therefore means putting environmental concerns and people equity issues on an equal footing with shareholder return. Included in this will then be the contentious issues of black economic empowerment and affirmative action in South Africa. According to Bennett & Bennett (2002:42), executives should take account of the impact that their decisions may have on employees, the local communities and even the country, while at the same time making a profit.

The social well being as well as the financial health of business again implies an element of responsibility not only to shareholders, but also towards employment and retrenchment practices. Although retrenchment may improve the competitiveness of a company, the impact on the community should receive equal consideration. We have already mentioned in the introduction of this study that some communities are built around a specific industry or company and major retrenchments may lead to the total obliteration of that community.

The effects of a major industrial disaster could similarly herald the demise of a community. The horrendous space shuttle “Challenger” disaster is a point in case. NASA had to lay-off thousands of people soon after the disaster when the space programme came to an abrupt halt. Including the support industries and job loss in the surrounding community resulting from NASA's downsizing, a total of approximately 6 000 employees were retrenched. The economic impact was incredible, with hotels in surrounding areas reporting occupancy rates of 50%, down from its former 90% achievements, the real estate industry fell by 18%, construction contracts dropped by 8% (Leana & Feldman, 1992:26). The list carries on.

Dekker (1999:1) supports this argument, but adds the element of competitiveness into the equation. He lists the following as criteria for competitiveness:

- Increased living standards;
- Productivity enhancement;
- Increased rate of employment;
- Industrial justice;
- Removal of barriers to job creation; and
- Creation of part-time jobs without discrimination, etc.

However, these goals do require an institutional base to prevent violence, crime and corruption from disrupting the society and a commitment by the labour-market parties (unions and employers) to world-class manufacturing.

Kofi Hannan, the United Nations secretary-general, appealed to the private sector during the 1999 World Economic Forum for assistance in creating a compact set of shared values and principles to give the global economy a human face. In his plea, according to Esterhuyse (2002:10), he included social responsibility in the global business order. Three areas of action were identified:

- Human rights;
- Labour standards; and
- Environmental concerns.

Esterhuysen (2002:10) included the following three areas specifically for South Africa:

- Poverty;
- Job creation; and
- People development.

This importance of triple bottom line management and reporting is culminating in the setting up of the Corporate Social Responsibility Indices on stock exchanges, both abroad and in South Africa. It is expected that South Africa will follow in the footsteps of the FTSE4GOOD Indices by October this year. This will be achieved in conjunction with the FTSE Group, with the first draft "Philosophy and Criteria" document revealed in October 2002 (Bennett, 2003:21). These indices will enable benchmarking of companies by comparing management processes and performance with others in the key areas of workplace and human rights, marketplace, environment and the community in order to improve performance. Responsible companies currently want to start reporting their impact and its improvement to the community (Anon, 2002:4). A good example of real and genuine commitment to corporate social responsibility is Sasol. The company undertook the following initiatives during the past few years (Fourie, 2003):

- The introduction of natural gas to the Sasolburg site (US \$1,2 billion);
- The carbide and acetylene plants at the Sasolburg site were closed down and replaced by the environmentally efficient VCM-Oxy Plant (R560 million);
- The chlorine plant at Umbogintwini was closed down and replaced by an upgraded facility at the Sasolburg site (R100 million);
- Chlorine replacement at Baltimore with a more environmentally friendly process (US \$100 million);

- Upgrade of the sulphur recovery plants in Secunda to reduce hydrogen sulphide emissions (R260 million);
- Installation of a tubular reverse osmosis plant to treat water in Secunda (R120 million);
- Installation of a crystalliser evaporation plant to recover salts from effluent in Secunda (R235 million);
- Rehabilitation of the black products site in Secunda (R130 million); and
- Installation of a waste recycling facility in Secunda (R500 million).

What this essentially means is that social responsibility and good corporate citizenship make a huge amount of business sense. It renders a company legitimate in the society in which it operates. Furthermore, since it makes business sense, perhaps the business will enter a new domain of employment and industrial relations that could negate or minimise the need for retrenchment due to high morale and thus improved productivity. This means staying in business and staying in business means retained employment opportunities. Ultimately, the community therefore benefits through the social and moral responsibility of staying in business through reduced crime rates and social peace.

## **6.5 THE CHANGING SOCIAL ENVIRONMENT AND THE SOCIAL CONTRACT**

In support of the need to remain profitable and the obtaining of a license to operate, Carrol & Buchholtz (2000:18) discusses the concept of the social contract. This legitimising of a business arises from the interaction between the society and business.

As business continues to operate, it evokes criticism from the society in which it operates, leading to changed perceptions and expectations of the community. According to Carrol and Buchholtz (2000:18), an increased concern for social environment grew out of criticism of business and the idea of the power/responsibility

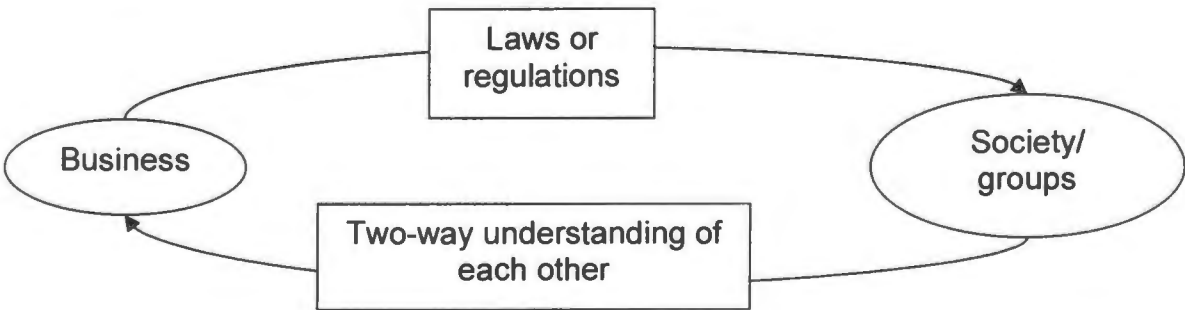
equation. Acceptance of the changed responsibility leads to a new social contract. The social contract is articulated through the following:

- Laws and regulations that society has established for the business to operate in; and
- Shared understandings prevailing to each group's aspirations.

It has become clear that the terms and conditions of this contract are changing. Just consider for a moment the changes in labour legislation since the beginning of the industrial revolution. The expectations of business to become more involved in society, commensurate with an increase in serving a wider range of human needs and values will forge new social contracts. Extrapolating this concept into the realm of retrenchment, it simply means acting with a greater awareness of the impact of such actions, perhaps even at the expense of improving profits. To quote Carrol & Buchholtz (2000:19): "...to strike a new balance between the need to cut costs to be globally competitive and the need to be more responsible corporate citizens." The change will thus continue.

The elements in the social contract can be depicted as follows:

Figure 8: Elements in the social contract



Source: Carrol & Buchholtz, (2000:19).

The social contract encompasses the stakeholders of the business. One of these stakeholders is the employee of a company. These stakeholders are affected by change, and in particular the needs to re-organise, restructure, re-engineer or re-invent themselves. The resultant downsizing and loss of employees will lead to the emergence of a new social contract. The three dominant forces driving this contract will be:

- Global competition;
- Technology changes (particularly computers and telecommunications); and
- Deregulation (particularly telecommunication and transport).

We have already seen how the trade union federation COSATU changed its relationship to its former alliance (the ANC government) as a result of efforts to balance the need for employment and poverty alleviation with that of competitiveness. One of the key arguments upheld is that privatisation lead to job losses. The counter argument can also be upheld and that is that we have a very inefficient public service and that privatisation will lead to longer-term sustainability. In this respect, Phillips & Clause (2002:9) argues that sustainability links to resource usage, including human capital. They mention that sustainable companies do not deplete its raw material or human resources, but take measures to ensure that they remain consistently available and productive.

With the way South Africa has changed after 1994, and with the advent of human rights and the concepts of equality, the inference for South African business and its associated corporate social responsibility is very clear. It is just unfortunate that imposing legislation becomes necessary, rather than business showing a pro-active willingness to embrace its social responsibilities.

However, Masi (as quoted by Anstey, 1983:17) points out that the roles of business, welfare organisations and the state cannot be carelessly scrambled. Business still

remains business for profit and in remaining profitable can continue to provide employment and goods and services to the community.

Narrowing the focus somewhat, the new national social contract emerged as the culmination of the Jobs Summit in 1998. Pressure from labour initiated the process and NEDLAC came up with the idea. This plan, which is entirely voluntary, indicates how retrenchment on a national basis should be handled, where the magnitude is large and it potentially impacts on sectors, regional or national interests, proving vital where jobs can potentially be saved in the form of avoiding retrenchment altogether. The plan is divided into three sections, every one led by a different government department, according to Vlok (2001):

- Saving jobs, under the auspices of the National Productivity Institute;
- Managing retrenchments, under the guidance of the Department of Labour who will ensure that if retrenchment becomes inevitable, that the impact is minimized; and
- Creating jobs for local economies, under the leadership of the Department of Provincial and Local Government.

The workability of the plan remains to be seen, although some successes have been reported. However, it indicates a real commitment from labour, the state and business to avoid the negative consequences of retrenchment.

## **6.6 ELEMENTS OF CORPORATE SOCIAL RESPONSIBILITY**

Esterhuyse (2002:11) lists Archie Carroll's ethical components of corporate social responsibility:

- Performance in a manner consistent with the expectations of social norms;
- Recognise and respect new or evolving ethical norms adopted by the society;



- Prevention of the compromise of ethical norms in order to achieve corporate goals;
- Good corporate citizenship should be defined as doing what is expected ethically; and
- Corporate integrity and ethical behaviour goes beyond mere compliance with laws and regulations.

It was mentioned in chapter 4 that employers may retrench employees to improve profits, not only because they cannot afford to keep the employees in a job any longer. By extrapolating and following the above concepts to the reality of retrenchment, it is evident that organisations will find it increasingly difficult to retrench employees for the wrong reason.

The Body Shop chairperson, Anita Roddick, proved that businesses could make a profit and make a positive contribution to the society. She made a strong stand when saying that it is foolish to ignore poverty, because when you act in a revolting manner, people will react by revolting. Linking back to Dekker's statement on institutionalising criteria for competitiveness, Roddick argues that if business does not become more thoughtful, responsive to the community and more reflective and if business is not regulated, it will become criminal in its behaviour (Roddick, 2002:22-23).

In this respect, Dekker (2002:3) states that the notion of competitiveness should be used holistically by integrating the social and economic dimensions of development and not by cost cutting through the erosion of and retrenchment of worker rights. He does not support the denial of the necessity of efficiency and effectiveness in production processes, but promulgates that these outputs and outcomes should be achieved by the endorsement of human rights. By this it is understood that the identification of certain behavioural responsibility and leadership commitments go sufficiently beyond organisational self-interest in seeking societal values reflecting the ability to satisfy the needs of all groups in that society. The researcher feels strongly that this notion should be interpreted to address the need for retrenchment, not just to ensure survival or

increase profits to new records. If not, organisational self-interest at the expense of the community will prevail, with disastrous social consequences.

Dekker (2002:5) argues validly that the societal responsibility given to the unions and employer organisations allows for the creation of common values. This can be done when a society consciously responds to globalization through strengthening civil society. They in turn can encourage labour market parties to institutionalise industrial relations conflicts. His view is that companies will then be able to restructure without drastic retrenchment.

## **6.7 SUSTAINABILITY AND HUMAN RESOURCE MANAGEMENT**

By inference the discussions so far in this chapter implied major change, the associated need for retrenchment and corporate social responsibility in terms thereof. This means a new dimension in human resource management. One of the key factors that will affect retrenchment in the new global village is that of sustainability. Sustainability links back to employment retention and the optimal use of the human resource as a key management function. The new global village is stained with business acquisitions, mergers and joint ventures and it is known that this phenomenon invariably leads to retrenchment of excess employees.

For this purpose, it is worth mentioning that by 1983, one third of the 1970 Fortune 500 companies had been acquired, broken into pieces or merged with other companies. This figure is much higher today. This implies an early corporate death with a commensurate impact on retrenchment and hence the society. The evidence suggested by De Geus (1997:1) is that corporations fail because policies and practice are based too heavily on thinking and the language of economics. This implies that managers focus exclusively on producing goods and services and forget that the organisation is also a community of human beings. These humans are in the business

to stay alive too and managers concern themselves with land, labour and capital, forgetting that labour means people.

What does all this mean? It simply means that organisations with proven longevity managed change properly. They were good at learning and adapting, rather than simply cutting their personnel short. Learning then implies education. Another trait of the successful companies was that their employees all felt part of the whole. The sense of belonging and identifying with its achievements is key to its success.

To avoid the tragic early death of a company or to at least attempt the avoidance of retrenchment, the human resource manager must therefore ensure that employees are allowed to grow within a community held together by common values. This growth should be viewed concomitant with training in the widest possible sense. Commitment to people should be put before assets, respect for innovation before devotion to policy, the messiness of learning before orderly procedures and the perpetuity of the community before all else (De Geus, 1997:3). He continues to say that organisations allowing benefits to accrue to only a few people, will allow employees to be outsiders and not members, resulting in grave difficulty in organisational continuity.

Phillips & Claus (2002) supports this notion when they argue that sustainability is tied to the notion of short-term run versus long-term business planning. Decisions on short-term runs versus long-term stability have to be made frequently, but ultimately short-term benefits must be foregone in favour of long-term benefits. They argue that corporate social responsibility programmes do actually add life to organisations by adding profits in the longer term.

When business is not prepared to invest in social responsibility, the consequences can be severe. Growing acceptance is evident of the notion that an investment in the society is an investment in a company's long-term sustainability. The following strategic approach to social investment is deserving of some attention.

Table 7: Strategic approach to social investment

	GREEN	GREY
HIGH COST	LEADER High profile, high investment policy	PUNISHED Retro-fitting required: loss of market share
LOW COST	CONFORMER No-cost, low cost measures	LAGGARD Do nothing

Adopted from Sadgrove, (1992:204)

From this table, it is clear that major benefit can accrue to a company accepting its social responsibility, with severe punishment accruing to the company who chooses to ignore it. Sustainability is inextricably linked to resource usage and hence a sustainable company does not deplete its raw materials or human capital by viewing them as dispensable assets.

Commensurate with the promise of improved employment of talented employees in responsible companies is the notion of increased profitability. The focus got very sharp after the Enron and WorldCom scandals, calling on Pres. Bush of the USA to give a wake up call to the CEO's of companies to act responsibly. This should be seen in the light of the right business case, as employers may still fear the cost implications of corporate social responsibility. The business case is strong, according to Ross (2003:8). He states that corporate social responsibility gives you a competitive advantage for having the capacity to attract and retain talented employees which as we have seen, makes the difference in being competitive or not.

## 6.8 EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON EMPLOYMENT

According to Phillips & Claus (2002), corporate social responsibility can lead to a competitive advantage. This is achieved through cost reduction, human capital,

reduced regulations, access to capital, consumer demand, improved business conditions and new market opportunities. The above factors can certainly only have positive implications for growth opportunities and hence potential retrenchment. The notion of growth versus cost cutting was also addressed by Gertz & Baptista (1995:14) and discussed in the previous chapter.

Cost reduction is achieved through cleaner, more efficient technologies. By avoiding environmental and compliance liabilities cost reduction is also achieved. Human capital is improved through the attraction and retaining of employees, reduced turnover, increased productivity and quality of work.

It was found that prospective job applicants are more likely to pursue jobs from socially responsible companies, most important when considering the importance of talented employees as a source of competitive advantage. In chapter 5, we have seen the potential negative effects of employees and consequently future employment prospects when downsizing insensitively. Becoming an employer of choice is increasingly becoming a management prerogative, especially with the emergence of the “knowledge worker”. Potential employees, especially those with rare and valuable skills, place significant value on the reputation of a potential employer. This will happen on two accounts, according to Clutterbuck *et al.* (1992:59):

- How it behaves towards the world at large - does it care for the community and the environment?
- How does it treat its employees?

Developing an ill reputation of a “hiring and firing” organization with no compassion will only serve to attract the left-overs of a potentially talented employment pool. This is not at all desirable for a company who recognizes that capable and motivated employees can make a company competitive.

Access to capital improves because of greater confidence in companies who go beyond the mere legal requirements. They send the right messages to investors. This trait can be a hard lesson to companies who act irresponsibly. As an example, the Thor Chemicals debacle still reverberates through the chemical industry.

Consumers are becoming more socially conscious and are demanding good company behaviour, leading to higher demand for their products and hence improving the longevity of the company. Boycotts will be minimised, as people have become a lot more aware of irresponsible companies, thanks to the advancement of communications technology. Business conditions will also improve since such investment will build the capacity of the community, yielding such benefits as greater resource availability, better-trained workforce and a better consumer market that can sustain the business.

Corporate social responsibility is fast becoming a mechanism that may attract more foreign investment and so stimulate economic growth and employment opportunities. International investors are attracted to responsible companies, as it will enhance their own reputations. Ross (2003:8) notes in this respect that new research indicates that an organizations' corporate social responsibility is increasingly becoming important to investors. According to him, 80% of private shareholders want information on the non-financial performance of companies.

It was noted that companies also have a political responsibility. The withdrawal of investment and contracts from irresponsible companies can seriously hamper employment opportunities. Clutterbuck *et al.* (1992:149) argues that American and European companies that pulled out of South Africa as a result of public pressure against apartheid, made commercial decisions based on the cost of loss of business elsewhere against the profits from their South African operations. The author postulates that this unfortunately also endangered the job and training opportunities for the previously disadvantaged, contributing to the high quantity of low and unskilled employees facing unemployment today. In this respect, these companies may have acted responsibly in their own countries, but not so in their South African operations.

Many remaining companies took it upon themselves to develop the skill base of their workforces, despite the apartheid policies of the government of the time. AECI (African Explosives and Chemical Industries) have been running a successful program called "black advancement" as early as the early 80's.

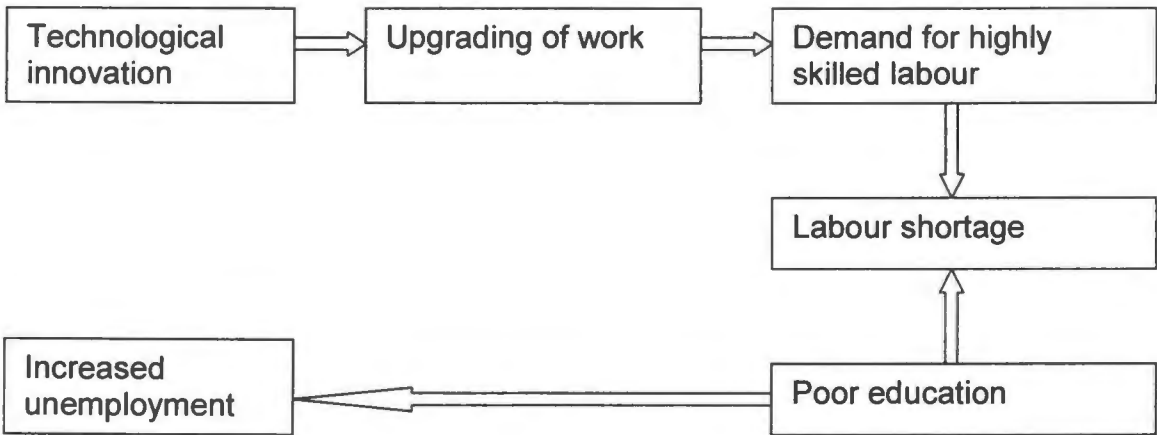
The effectiveness of corporate social responsibility is also echoed by Anon (2002:62) when it is said that corporate social responsibility builds trust and gives companies the benefit of the doubt when dealing with customers, workers and legislators. It allows for the effective weathering of storms such as downsizing and retrenchments and it gives the edge in attracting good employees and customers. A good example is South West Airlines in the USA. They are deemed one of the most considerate employers in its industry. After September 11, it was the only airline that did not retrench employees and in 2002, attracted 120 000 applicants for 3 000 positions, plus it was the only sizeable American airline to make a profit.

## **6.9 CORPORATE SOCIAL RESPONSIBILITY AND TRAINING**

The lingering effects of apartheid policies of preventing or restricting access of certain categories of people to training and exposure to higher level jobs, needs to be addressed urgently. Without the necessary skills and knowledge to embrace technological change, the global challenges cannot be met and opportunities will be lost. The shortage of skills and knowledge in South Africa puts the country behind the Western economies with a tremendous backlog to catch up. The low economic growth rate versus the population growth further puts pressure on the educational system, according to Beetge (1995:91).

She saw the process as follows:

Figure 9: Unemployment as a result of poor training



Adopted from Beetge (1995:91).

Big business therefore has a role to play in terms of upgrading the skills base of the country to allow the embracing of change and global challenges. This will enable the availability of skilled labour from the communities in which they conduct their business. Moving beyond the need for skills development in order to assist retrenched employees in finding alternative employment and to embrace stiff competition, it is essential to focus briefly on another dimension of training in terms of corporate social responsibility. Surely the lack of ethics training may be at least one of the reasons why corporate social responsibility is only now becoming a big issue. Why did we have to encounter an Enron scandal or the tragedy at Bhopal in India (1984) when Union Carbide (now Dow) killed 3 000 local residents and injured 200 000 more through the emission of a toxic gas cloud over a residential area (Grayson, 2002:38)? Surely these profound incidents could have been averted by having a strong ethic undertone built into the training of employees and managers. Such training, although it could never be guaranteed, may bring about a paradigm of responsibility and ethics.

Gioia (2002) argues that too many business schools do not take ethics training as seriously as they should. Business ethics and corporate social responsibility is marginalized at the behest of so-called “core” business subjects. He states that for all



the “goods” that economic perspectives do, they emphasise a view of the world in dollars, profits, returns, value added, and so forth. Unfortunately, at the same time, it de-emphasises other ways of conceptualizing business responsibility. Managers were taught to be lured to the attraction of shareholder returns and share prices. If these returns are not substantially there, it is made to appear that it is there - enter **Enron**. Conceiving the impact of such unethical activities on employees (those that lost their jobs as a result of closure or take-overs) and unsuspecting investors never formed part of the training. By training new MBA's with an emphasis on practical ethics pervading all the management functions, the paradigm may just shift for the benefit of improved social responsibility, or at least serve to remind us that shareholder value and share prices are not the only values that matter to companies, societies and even shareholders.

## **6.10 SUMMARY**

From the above chapter, it becomes evident that retrenchment and unemployment is a growing problem for South Africa, and in fact, the world. The retrenchment of employees often fails to address the root causes of problems encountered by companies and only lead to extremely negative consequences in the society in which a business operates. This continued operation is subject to the approval given by the community, although unscrupulous companies will beg to differ. They will pay the price.

Business must realise that the impact of retrenchment bounces back to the business, as interdependence develops between the community and the business. A living system develops with time, with the community becoming the consumers of the products produced by the business. The impact of retrenchment is therefore also felt by business, particularly with respect to rising crime levels and a demoralised community from whence its workforce originates.

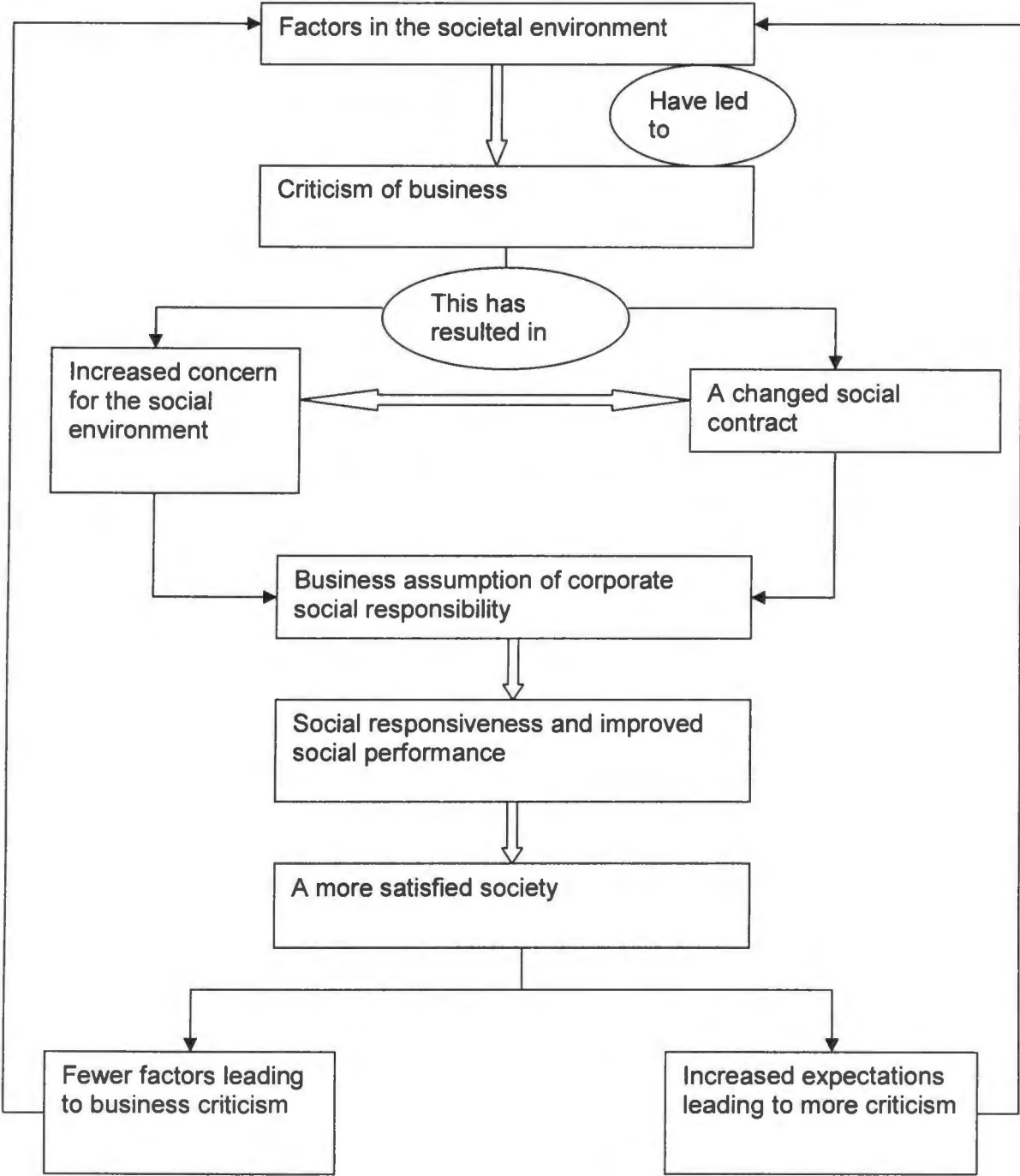
The ability to retain and attract skilled and talented employees to ensure a sustained competitive edge is emerging as a management prerogative, especially with the advent of the knowledge worker. Accepting their corporate social responsibilities will assist businesses to continue to operate and ensure longevity. The concept is gaining momentum, as investors increasingly demand responsibility in the running of their business investments. It pays off.

The potential impact of large corporations falling prey to the paradigm of maximizing profits, shareholder value and share prices at all costs can be devastating, reverberating through the corporate world. Such behaviour can lead to the demise of communities. The impact of big industrial disasters could similarly lead to community obliteration.

The concept of triple bottom line management is gaining momentum. With the development of communications technology in the face of globalization, awareness of the responsibility of business is growing and the youth are seemingly aligning their career choices more with that of their values. This will lead to increased pressures to act responsibly. At the same time, the corresponding training in establishing a paradigm of responsible business as opposed to the culture of profit maximization is not aligned. This will not form a solid base for the launch of a new generation of corporate executives. The community will act accordingly and exert even more pressure.

The interactive nature of business operations with and that of the community can best be depicted by the following model:

Figure 10: An interactive model for social responsibility



Adopted from: Carrol & Buchholtz (2000:29)

## **CHAPTER 7**

### **SUMMARY, RECOMMENDATIONS AND CONCLUDING REMARKS**

#### **7.1 INTRODUCTION**

Throughout this study, the researcher attempted to indicate the relationship between global change, how these change patterns physically manifest in the employment realm and what the consequences in terms of employment levels are. It became evident that change is the only constant in today's life and that adaptation to these changes have become a matter of survival for most companies. The world is facing an increasingly complex, networked and fast-changing environment, with the rules of success and survival becoming ambiguous and murky, the choice of strategy uncertain and the pressure to act quickly immense.

These changes can and do lead to retrenchments and leave employees the victims in its wake. The focus on global change has led to the impact on South Africa and the reality of its effects on employment levels. Now that the relationship between global change, globalization and retrenchment is better understood, the next step is to establish how to manage these issues with a view to retaining employment levels in the longer term. This controversial issue has enjoyed the attention of government and labour alike, and huge conflict still exists in this regard. Where retrenchment has become unavoidable, the correct strategy must be followed to manage it correctly. This applies as much to departing as to remaining employees.

Retrenchment versus increased competitiveness and the need for employment retention versus the expectations of the populace of South Africa poses serious challenges for South Africa. This also poses a serious challenge for the human resource practitioner and will become a more pressing agenda item during collective

bargaining. COSATU has already flexed its muscles in protest to the mismanagement of change and its impact on our country.

Once retrenchment becomes necessary, the legislative requirements must be dealt with. New labour legislation was promulgated in 2002 relating to retrenchment and some of these key concepts were discussed. One of the major changes in terms of the new labour legislation is the ability to embark on a protected strike due to a dispute about retrenchment. The legislative framework of retrenchment was discussed throughout chapter 4, and in later sections of the work the importance of adhering to the relevant pieces of legislation became evident. Negative legal exposure does therefore not contribute to a company's image in the community in which it operates.

Once retrenchment has become unavoidable, damage is left in its aftermath and this can have a profound impact on a community. The mining towns of South Africa (notably Virginia, Welkom areas) can serve as good examples of the devastating impact that retrenchment can have on a society, potentially leaving only ghost towns behind. As such, companies have a huge responsibility towards society, obtaining their license to operate through the approval of the community in which they function. The commensurate increase in focus on corporate social responsibility bears testimony to the importance of managing the effects of retrenchment. This increased focus appears equal to the exponential nature of the rate of change.

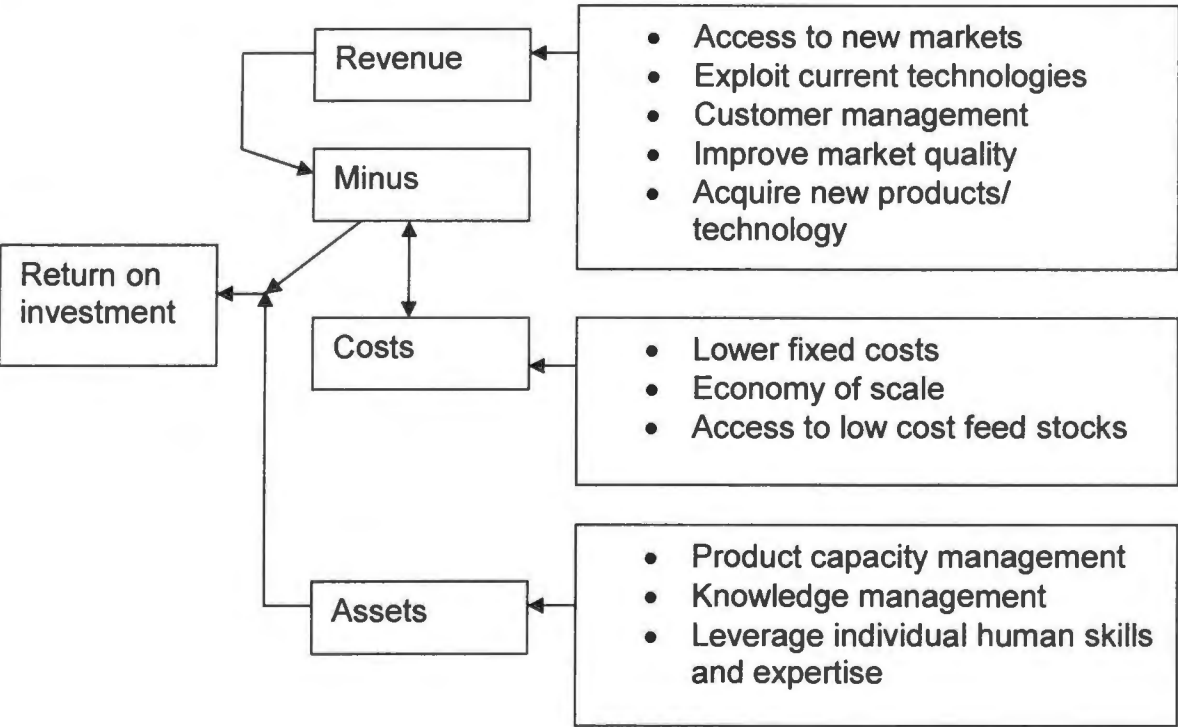
## **7.2 GLOBALIZATION - CHALLENGES FOR SOUTH AFRICA**

During the study, it became evident that globalization, as the ultimate manifestation of change, is a harsh and inescapable reality, bringing with it not only opportunity, but also commensurate difficulty and required change for the emerging markets. This phenomenon is possibly one of the most contentious of all change patterns. The reasons for this can be found precisely in the nature of this change pattern. It crosses and disregards borders, stretches across the globe and impacts ruthlessly on the entire

globe. It disregards religions, value systems, existing social order and culture and that leaves only two choices. These are simply, adaptation to utilise the opportunities or resistance and death of an economy.

The need to embrace globalization and the opportunities it brings is accurately summarized by the following figure:

Figure 11: Drivers of globalization



Adopted from: Van Doesburg *et al.* (1999:32).

One of the biggest stumbling blocks in meeting the challenges of this required change in the new order is the ability to adapt to new demands timely. Anon (2003) aptly asks the question on how to develop the necessary flexibility and capacity to serve customers and markets and grow profitably. To effectively adapt, the nature of work must also be changed and the emergence of the knowledge worker bears testimony to this. With this knowledge comes productivity and competitiveness, without which a

company will not enjoy longevity. This is where South Africa is in a desperate situation. The quality of South Africa's university training was ranked 2<sup>nd</sup> out of 24 African countries in 1998 by the World Economic Forum, but despite this positive attribute, the availability of skilled labour remains problematic. This is evident through the ranking of our tertiary enrolment rate as 53<sup>rd</sup> out of 75 on a global scale (World Economic Forum, 2002:303). The challenge is to shift our comparable African advantage upmarket, away from current dependence on low skill, low income, slow-growth activities. Skills are required to meet this challenge and South Africa is desperately short of skilled labour. The government took the right direction with the promulgation of the Skills Development Act (97/1998) thereby addressing the desperate need for skilled workers, but this will take time to take effect.

Internal challenges, such as deeply embedded cultural and structural problems and obsolete products and external challenges, such as over capacity in the private sector, technological driven changes, new competition such as growing customer sophistication and market saturation should become management prerogatives as a matter of urgency.

Hawkins, (1998:57) stated that the region must seek export growth through extra-regional trade, meaning trade away from just the SADC regions. A far greater participation in the globalization process than currently would mean securing competitive advantages through private investment (not aid) in productive and technological capacity. Currently, the SADC region has a low globalization co-efficient when contemplating the low openness indexes, foreign direct investment inflows, non-equity linkages (in the form of cross border strategic alliances) and the international mobility of skills and expertise.

Tourism and travel could help in achieving sustainable economic growth, provided the fears generated by the high crime rate are addressed effectively. Solid marketing is needed to achieve this. Naisbett (1994:104) mentions that tourism as a contributor to the global economy has no equal. South Africa is seen as the world in one country and

with the enormous exposure suffered due to apartheid, the country needs no introduction to the world. The following statistics indicate just how much tourism could assist:

- Tourism employs 204 million people worldwide, 10.6% of its total workforce;
- Tourism is the world's leading economic contributor, contributing approximately 10.2% of the world gross domestic product;
- Tourism produces tax revenues of US\$ 655 billion;
- Tourism is the world's largest industry in terms of gross output, approaching US\$ 3.4 trillion;
- Tourism accounts for 10.9% of all consumer spending, 10.7% of all capital investment and 6.9% of all government spending.

South Africa should not fail to capitalize on these golden opportunities, as a growing number of countries are recognizing the desires of people of the world to experience environments and cultures other than their own. This brings us to the next challenge.

The economic policy of South Africa will dictate the success in alleviating poverty, as the inflows of foreign direct investment is directly proportionate to investor confidence; something that will only improve if we send the correct messages to international investors. To achieve this goal, it is suggested that the government:

- Consolidate its young and liberal democracy and reform its economy to become globally competitive;
- Strengthen the state's ability to provide essential services in the face of reduced capacity resulting from globalization and create a climate conducive to economic growth within the wider global context; and
- Prioritize a large amount of socio-economic issues, including but not limited to: education, HIV/AIDS, unemployment and poverty reduction, corruption and good governance, the excessively high crime rate and the weak criminal-justice system.



The questions asked in chapter 1 are aptly discussed in Mills (2000:326). He reasons that this is crunch time for Pres. Thabo Mbeki. He has to maintain domestic stability by managing the social and political costs of necessary economic reform. At the same time, he has to have a central foreign policy, which has immediate domestic implications, notably the need to stabilise the violent and weak regional neighbours.

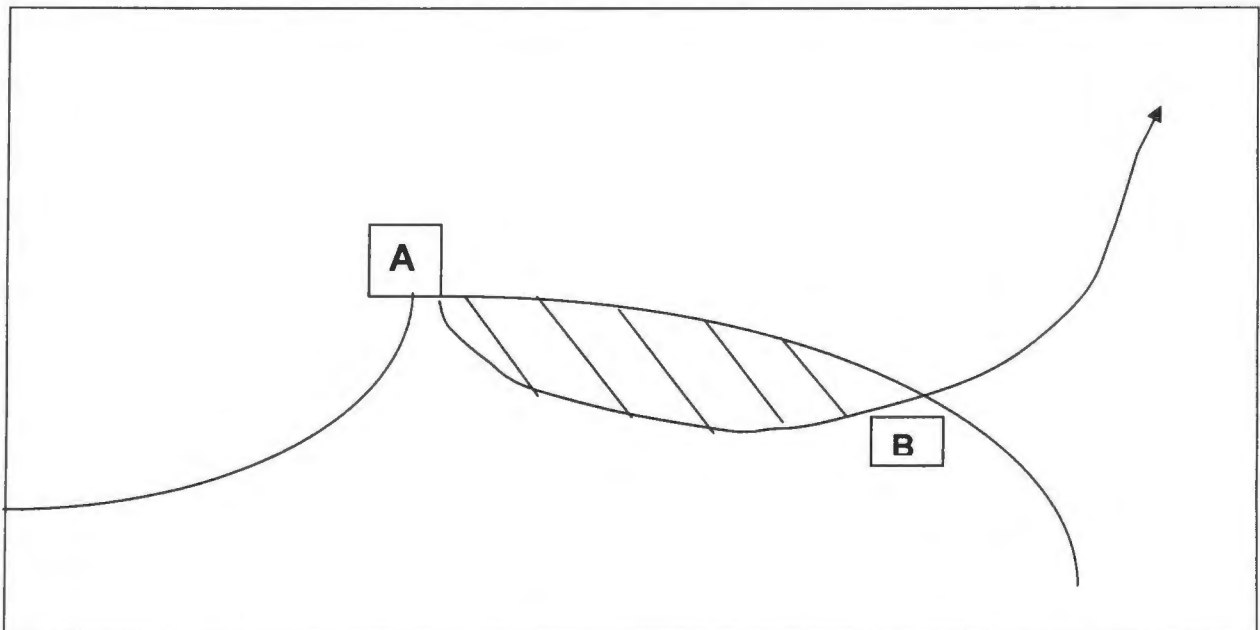
### **7.3 IMPROVED PRODUCTIVITY AND COMPETITIVENESS**

Improving productivity and competitiveness means a change in approach of business. The process of continuous improvement should be aligned with the change patterns in the operating environment of an organisation. This means a constant drive towards improved productivity and competitiveness, although it may result in retrenchment and job losses. Although in a catch-twenty-two-situation, the researcher feels that, meeting global challenges should be considered first. Once competitiveness is established, a strong platform for the launch into an employment-creating mode will follow. Without first becoming competitive, global economic growth opportunities will not be within reach. When contemplating the withdrawal of foreign companies during the apartheid-era, multi-national companies are evidently more focused on local business than on international trading partners, despite the growth in corporate social responsibility. This implies that the South African government cannot afford to become arrogant and play the entitlement game with foreign companies and governments. Foreign companies and governments have economies and businesses to run and what matters most to them is the business case.

Conversely, if a business fails to capitalise on global opportunities, job losses will be more severe as companies lose market share and succumb to international competitors. Retrenchment will then become the ultimate survival mechanism, resulting in a downward spiral that leads to the demise of the economy.

Companies should further embrace change as a constant and actively pursue change strategies. This is of particular importance, as timely change in the face of globalization may ensure longevity. In accepting these change patterns, companies may need to “right size”, restructure, re-engineer, or apply any other means of adapting to change, as long as the economic rationale justifies the cause and does not unnecessarily be the cause of retrenchment. Rightsizing or downsizing should in any event *never* be done without an accompanying proper re-engineering exercise. The following figure may illustrate the point better:

Figure 12: The Sigmoid curve



Adopted from De Kock (1997:153)

According to De Kock (1997:153) the correct timing for change would be at point “A”, when the organisation will have enough resources to drive the change. If point “B” is reached, it may be too late or difficult to turn the organisation around into a strong competitor.

Improved productivity and competitiveness are prerequisites for economic growth. Only from real economic growth can employment be created. Since 1994, the

geopolitical situation in South Africa has improved radically, but sustained growth remains problematic. In terms of becoming more competitive globally, the World Economic Forum foresees only two alternatives for South Africa:

- Technological upgrading to improve productivity, raise quality standards and cut costs, and;
- Enhancing cost competitiveness by maintaining or raising productivity while cutting costs. This can be achieved by reducing the real cost of labour and rightsizing (The World Economic Forum, 1998:58).

However, the country needs investment desperately to ensure that technological upgrading can occur, but the country is lagging behind in terms of investor confidence, thanks to the high crime rate that was brought about in the first place by unemployment. This vicious circle is enhanced by the degeneration of the governments' institutional capacities.

South Africa has a long road ahead to improve productivity and competitiveness. During 1998, the World Economic Forum rated South Africa 7<sup>th</sup> out of 22 African countries in terms of competitiveness and 25<sup>th</sup> out of 75 in 2002 on a global scale. However, it is known that South Africa's government is one of the worst in terms of efficiency and the impact of affirmative action in state departments has a telling effect on its labour cost. The World Economic Forum ranked the competence of public officials 71 out of a possible 75. Likewise, private business increasingly has to devote resources to help the government. Three issues were specifically noted as major concerns by the World Economic Forum.

- Affirmative action may increase the cost of labour if it is imposed;
- Competition from the developed world is likely to impact on the ability to provide reasonable returns to shareholders;
- High crime rate discourages foreign investment of capital and resources (World Economic Forum, 1998:146).

Despite the low productivity, there is a host of positive attributes prevalent in our country to attract investment. The infrastructure (roads, rail, airways, ports and banking facilities) in South Africa is rated the best in Africa. These facilities, together with productivity, union contributions, may well make the difference between failure and success, despite concerns over the loss of jobs due to privatisation of some of these state owned assets.

Lastly, the researcher recommends that, despite the promises and expectations brought about by the official affirmative action programmes imposed by the government, it should be slowed down. Taking second place behind the economic need for competitiveness and productivity will serve the country's economic needs better, although the political cost may be high. Redressing the past cannot be done commensurate with an urgent need to become more globally competitive. With the exponential nature of the rate of change and globalization, getting stuck on ideologies will cause the loss of investor confidence and hamper economic growth, and global competitiveness will not wait for South Africans to first become competitive. This is precisely what the country does not need in the quest to improve the high unemployment rate by avoiding retrenchment. Business carries on, with or without South Africa.

**7.4 THE VALUE OF DOWNSIZING AND BUSINESS PROCESS  
RE - ENGINEERING**

Throughout this study, the value of downsizing was continually challenged and in more than one case, the evidence showed against the value of downsizing and retrenchment as a strategy to improve competitiveness and profitability. Given the fact that downsizing then fails to deliver the promise of improved shareholder value or share prices, it clearly becomes crucial to do it right when deciding to opt for this strategy.

The following approaches may assist in solving such problems:

- Involve the human resource practitioners and function up front in the due diligence studies;
- Include cultural differences in the due diligence studies; and
- Include a due diligence study of the human resource policies before proceeding.

In order to become and remain competitive and profitable, radical transformation may be necessary. Unfortunately, it may leave retrenched employees in its wake, but would ensure the survival of the company. If the downsizing must then mean anything substantial enough to justify such harsh action, then the exercise should not have been done in vain or for the wrong reason. To achieve this goal, Lingus (1994:28-29) lists the following requirements:

- Strong leadership, with the CEO driving the change process. He/she should lead the company to new heights;
- Consensus at top management level that radical change is needed. In this respect, the politics should be left outside the boardroom and a genuine attempt at consensus be made. Contributions should be real and not politicized;
- A shared vision, well articulated into reachable and measurable performance standards. This vision must be cascaded down the organization in a proper manner. Each employee must share in this vision through his own performance standards, with a clear view of his stake in the success;
- The right attitude, without hidden agendas and a message to get on board or get out of the way. A major collective effort may save the company;
- Commitment to see the transformation through to the end, including altered plans along the way where necessary. Never back off, unless going in the completely wrong direction;
- Involve as many as possible employees, empowering them to change the way things are done. Individualism should be rewarded, but in a team environment. This is the suggested way to encourage participation;

- Empower employees permanently all the way down and get rid of unnecessary layers of management. Team leaders provide direction, priorities and facilitation to the team;
- A comprehensive and systematic approach is needed. Included in the master plan is the cultural change, reward systems, strategy, process and staffing skills to achieve leverage. Efforts and results should be linked and broken down into manageable parts. The process does not stop;
- Long-term focus and the willingness to take risks should be encouraged. Sacred cows must be obliterated;
- Establish ownership of change with the vast majority of employees. Peer pressure should take care of the non-committal remnants;
- Continuous trustworthy communication all the way down and up and back down again; and
- Resources: cost/ benefit analysis should form the base and resources provided as needed to drive the change through.

Downsizing as a strategy to improve competitiveness can be equally replaced with a growth strategy, although this may not be easy. Developing a growth strategy in the face of globalization is imperative. SME's (small to medium-sized enterprises) currently provide employment for a large part of the South African labour force and hence the development of SME's in South Africa will become increasingly important in job creation. Commensurate with employment creation, it also creates balance in the economic development of rural and urban areas, which may assist in the demographic shifts occurring as a result of globalization. Economic stability is enhanced in this manner. This may be the correct mechanism to realize the black aspirations created by the ANC and so address the questions asked in chapter 1. Their contribution to society is likewise essential in the form of social services, training and employment opportunities. These enterprises have the ability to substantially contribute to economic growth and job creation according to Visagie & Botha, (1998:694). Unfortunately, smaller companies tend not to have specialized labour relations and professional human resource practitioners and so may fall short of their corporate

social responsibility in terms of employment practices. This issue should receive serious attention.

Growth can be achieved by expanding into logically related businesses, such as Sasol that adds value to downstream chemical derivatives arising from downstream processes. These businesses should have shared economics that reinforces the core business. Unrelated expansions into “hot” markets should be avoided. Anon (2003) argues that reaction to these challenges should be quick with translation of the strategy into effective structures with the right talent that deliver results. This and this alone, will yield sustainable and profitable growth. According to their 2002 annual report, the Sasol group of companies achieved a compounded earnings growth of 10% on US\$ terms for the last 5 years, which contributed to the sustainable success of the company.

Finally, Gertz & Baptista (1995:47) found certain permanent requirements for growth to be profitable and sustainable. These are competitively superior value (as defined by customers), comparatively superior economics across the value chain and consistently superior strategy execution through organizational alignment. When viewing the Sasol growth and expansions strategy as an example, this is exactly what was achieved.

In the final analysis, sustainable and profitable growth seems to be the answer to the growing rate of unemployment and spate of retrenchments in South Africa.

## **7.5 HANDLING RETRENCHMENTS**

With the discussion on the impact of retrenchment on a society, it became evident that retrenchment can have disastrous consequences. This leads to the responsible manner in which companies need to effect retrenchments if they cannot avoid it anymore. The consequences of retrenchment are all pervasive, as we have seen in chapter 5.

The avoidance of retrenchment and hence the negative social consequences is of paramount importance. The following guidelines can be used to good effect:

- Communicate regularly with employees and unions on the status of the enterprise. By doing so, employees and unions would be in a position to establish the progress and profitability of the enterprise on an ongoing basis. The logic behind this would be that employees could establish when profitability is suffering and therefore be able to contribute themselves by improving productivity and working smarter by their own accord. This could lead to the aversion of the need to retrench;
- The adoption of open and honest communication as a company value and upholding the integrity of such a value from the top management could be a useful tool in this regard. Unions should theoretically then also adopt a different attitude towards their traditional crippling wage negotiations and subsequent industrial action. A spirit and atmosphere of trust may likewise be fostered with this approach, leading to lots of credibility when retrenchments are imminent;
- Establish a climate of continuous change. Employees in a learning organisation would be in a better position to manage change and a spirit of growth may prevail. The pride in such an organisation may contribute to profitability and lessen the need for retrenchment. This is adequately portrayed by Paige (2001:16) when she discusses the emergence of a new “moral” contract, where employees commit to engage in a process of lifelong learning, commensurate with a company undertaking to ensure not the dependence on employment security, but the freedom of each employee’s employability and hence his self-determination. This does require courage on behalf of employees, however;
- Retrenchments should be viewed as the final resort and only be pursued once all possible alternatives have been fully exhausted. This will in any event be the paradigm of an enterprise that accepts its social responsibilities;
- Develop a business model that enables accurate forecasting. A pro-active approach may very well lead to a style of management where foreseen



retrenchments can be managed to the minimum by timely adjustment of the business strategy;

- Develop a culture of responsibility and ethics amongst employees. By cultivating and nurturing a culture with an entrepreneurial spirit, companies are already equipping employees with life skills to take care of themselves when retrenchments become imminent. This is the reality of business in the new South Africa;

If the lay-offs cannot be avoided anymore, retrenched employees need a lot of support. Enlightened companies, those who accept their social responsibility, will go out of their way to assist employees who are retrenched. The following is recommended:

- Offering equitable severance packages. This may include ongoing medical insurance for a specified time. This is of outmost importance, especially in South Africa with high unemployment figures and low possibilities of alternative employment. Frankl (1975:65) notes that hopelessness and despondency has serious implications for the health of a person. This is so because of the loss of a goal to live for;
- Contacting other employers on behalf of retrenched workers. This will certainly lean a lot of credibility to the job seeker, as all doubt will be removed from the potential new employers;
- Giving time off to attend interviews at alternative employers;
- Providing facilities to potential employers to conduct interviews on site;
- Assisting employees with payouts from insurance companies and offering sound investment advice;
- Assisting in compiling curriculum vitae to assist in finding alternative employment;
- Providing redundancy counselling to employees. This will enable employees to maintain their senses of self-worth and persist in maintaining an optimistic approach to life;

- Ensure that the morale of the remaining employees and potential retrenchees are kept up, although this may be very difficult in South Africa. This is purely so because of the high current unemployment rate;
- All actions should be designed to maintain productivity, avoid any union organisational drives, avoid sabotage, lessen the shock to affected employees and most importantly, lessen any possibility for legal claims by strictly adhering to the requirements of the Labour Relations Act (Act 66 of 1995);
- Empower retrenchees by offering assistance in the setting up of their own businesses. Initial financing and the payment of marketing, financial and skills training, accompanied by some hand-holding while the paradigm shift from the employee mentality to the employer mentality takes place. As an example, Sasol Polymers have engaged with an “owner-driver” scheme in the transport department and offered secure contracts for former employees to get their businesses embedded. The South African Breweries project NOAH jumps to mind as an incredible success story of empowering employees to run their own businesses; and
- Ensure that whatever a retrenched employee needs before he/she goes (within reason) is available to him/her. This is not the time to be harassing him/her with short pay, incomplete personnel records, the unavailability of someone in a senior position to talk to, etc. He/she will need the FULL support of the personnel administration function at this time.

The following recommendations can be useful for handling the effects of retrenchment on remaining employees:

- Avoid allocating too much work to employees – this will only serve to further demoralise them;
- Offer support for the loss of work-related friends and social contacts;
- Focus strongly on team building and ensure more participation by the employees;

- Communicate in a brutally honest manner. Employees should never second-guess where the company is going. Knowing what is going on will go a long way in empowering employees. This will also foster a spirit of free and unhindered contributions to new ways of running the business and avoid similar situations.
- Ensure that the “employability” of all employees is addressed through a proper training needs analysis. Then allow this training to take place!! This will not only build morale, but also empower employees to take future downsizings in their stride.
- Employ a motivational speaker who could assist in boosting morale and productivity.

Furthermore, a humane approach to retrenchment should be seen not only as meeting a legal requirement, but also as part of any company’s corporate social responsibility. Therefore, the conclusion is drawn that companies should not consider retrenchment that will merely improve their profits. It should be building capacity with its employees to endure the storms that will be coming from globalization and only be considered when its survival is at stake.

## **7.6 THE IMPACT ON THE EMPLOYEE**

Equating retrenchment to economic capital punishment is correct. Losing a job leads to all sorts of difficulties for an affected employee. Sulcas (2001:15) described a few suggestions for affected employees on how to deal with the situation:

- Retrenchment is not a negative reflection on the individual, but has to do only with the terms and conditions of the employment contract;
- Psychologists should be able to assist in coming to terms with the situation;
- Develop an understanding that the decision to retrench was made very seriously and that all implications were first considered by management;

- Being selected is more a reflection of the group performance, and not the individual;
- Being retrenched is not a reflection of your abilities or skills;
- Acknowledge the fact that retrenchment took place – denial towards the family will only cause internalised aggravation;
- Be honest in the communication with family and friends and use their support and possible suggestions on how to deal with the situation;
- Devise a realistic budget, ensure that spending of the severance package is done wisely and avoid “get rich quick” investment schemes;
- Use the still existing network of contacts and be pro-active in finding alternative employment;
- Avoid getting despondent if things are not happening fast enough for you and persevere. Most companies take some time to work through their employment processes;
- Rather consider exercise than taking prescription drugs to assist in dealing with the situation and avoid alcohol abuse; and
- Don’t live in the past - you need to move on with your life and work on rebuilding your career.

## **7.7 CORPORATE SOCIAL RESPONSIBILITY**

It became very clear throughout this study that companies have more obligations than just paying salaries to employees on a monthly basis. Big business has a major role to play in shaping the society in which it operates, but conversely, they obtain their license to operate from the community.

Extrapolating this responsibility to employment in South Africa, this obligation becomes even larger, since the country is facing rising unemployment in the face of failed government initiatives and inefficiencies. (South Africa’s police service and the effect of organised crime was rated 20<sup>th</sup> out of 24 African countries and 70<sup>th</sup> out of 75 on a

global scale by the World Economic Forum.) Similarly, big business will have to consider increasing their support to local communities, as the local government has deteriorated to a dismal state of affairs. This leads to the increasingly contentious nature of retrenchment. The trade unions are acting out of desperation to save jobs. Their focus will increasingly change from aggressive wage negotiators to job savers.

Corporate social responsibility is growing as a concept amongst wise business leaders. It became evident during the study that the higher the investment in the society, the higher the profile of the company will become in the society in which it operates. This may appear not to be that beneficial, but when a major problem does materialise, the company will have the credibility in the eyes of the community to deal with it more effectively (consider Thor Chemicals' difficulty). When attempting a strategy towards corporate social responsibility, the authenticity of the effort cannot be doubted. If any company dares to try impressing its stakeholders with glossy reports and fail to deliver in practice, they risk walking the plank, like Enron.

There are of course reasons why companies need to invest in society - they make mistakes! The most common pitfalls to avoid are:

- They fail to create a culture that tolerates disagreement. Non-financial risks are not taken seriously. It was mentioned that longevity of companies are directly related to the ability to radically and quickly change and embrace change as a normal business activity. Too many like-minded people are employed and mavericks ignored and worked out of the system as "non-conformists".
- Focus is exclusively on financial performance measures;
- They avoid criticism and only talk to people and information and source;
- They allow other considerations such as financial, ethical and social to be left behind in the pursuit of a particular project or product; and
- Senior management leaves ethical and social issues for others to handle (Schwartz & Gibb, 1999:177).

When considering these mistakes, it appears possible to turn corporate social responsibility into a core competency that will enhance shareholder value. Nelson Mandela (as quoted by Schwartz & Gibb, 1999:138) said that development could no longer be regarded as just governments' responsibility. Partnership with the private sector, labour and other non-government organisations is required and there are many ways in which the special skills and know-how of the business community can assist with development objectives. The research clearly showed that an enormous penalty awaits the irresponsible and unscrupulous employer. Conversely, major benefit will befall the company who builds its credibility with its community.

Contemplating the implications of corporate social responsibility on retrenchment, employers must realise that unemployment is not a matter that disappears after removing employees from the factory gate. Someone, somewhere, will need to feed those mouths. It is by recognising this and the awareness of the social and political implications of retrenchment and unemployment; that employers are requested to review their retrenchment policies and practices. Failing to accept this responsibility will remove the right of employers to bleat in the face of social unrest and excessive crime in their environment (Anstey, 1983).

Lastly, the apartheid policies of the former National Party did not serve the country with respect to social responsibilities. It did, however, expose those multi-nationals that pulled out of the country during these difficult years, as companies who made commercial decisions based on the losses incurred in domestic markets by continuing to be profitable in South Africa. By so doing, they not only contributed to a contracting instead of growing economy, but also deprived the previously disadvantaged of much needed skills development and exposure. Some good came from these policies, such as the knowledge that South Africa has the talent and potential to become a technology exporter, as is evident through the design and export of armaments and fuel production technology (Sasol) to the rest of the world. This country has developed a superior infrastructure, despite the boycotts and sanctions imposed on the country. Now is the time to launch into a growth path from this solid platform.

In the final analysis, it then seems that corporate social responsibility can become a reconciling mechanism between globalization and anti-globalization forces and government and self-regulation.

**7.8 CLOSING REMARKS**

The researcher set out to establish that easy answers do not exist for the many anomalies faced by our country as set out in the objectives of this study. Unemployment and the need for job creation go hand in hand with retaining employment levels. Globalization poses many opportunities, but also numerous threats.

The amendments to the Labour Relations Act (Act 66 of 1995) give a clear indication of the concern facing the South African government. COSATU, in almost a desperate attempt to provide a wake up call to the government, influenced the government to at least provide some form of protection against job losses. These changes were echoed in the sections of the Act that deal with mass retrenchment, but it still does not reflect any creative methods to create and retain jobs and improve productivity and competitiveness. Affirmative action, despite the extreme urgency to redress historical injustices, will not assist in improving competitiveness, however convincingly we try to justify it. The timing simply is not right and we need to build a competitive base to create and retain jobs first.

The researcher firmly believes that retrenchment is a corporate crime to be averted at all cost. The cost to the employer, the employees and the community in a country struggling with enormous unemployment and rampant crime is also too high in comparison to the mediocre and short-term gains made through retrenchment. In the final analysis, retrenchment is the ultimate manifestation of corporate failure, economically and socially speaking. Employees have a major contribution to make in averting the need for retrenchment, but we are miles away from making a paradigm

shift towards reaching a dream, which the author prefers to equate in a positive manner to the “American Dream.” We should first rid ourselves of the culture of entitlement and build one of responsibility for our own destiny. South Africa has the talent to make something out of this country, as long as there is something to believe in.

The debate continues – neo-liberalism or more state intervention? Should the Asian model or another be followed? Where is the relationship between COSATU, the government and the SACP heading and how will this materialise in the employment realm? How does this relationship affect the social expectations of the ANC constituency?

A lot of research has been done on globalization and its effects on South Africa and the suggestions, although far from being complete, should serve as yet another step in the right direction to address the growing monster lurking in the shadows of retrenchments and unemployment. It has become evident through this study that a clear relationship exists between change, globalization, retrenchment and the corporate social responsibility following in its wake. Further empirical and/or literature research is required in the following areas to quantify and further qualify the findings made herein:

- Quantitative trends in the association of downsizing with global change patterns;
- The changing nature of South African business in terms of global corporate social responsibility;
- Affirmative action, global competitiveness and productivity;
- Qualitative and quantitative trends in the circular relationship of crime, unemployment and investor confidence; and
- Education, training, skills development and practical competence in South Africa with a view to the challenges of globalization, amongst other things.

In closing, the corporate world seriously needs a rock hard commitment to preserve their production factors, the least of which should not be its human capital. We should protect the human resource element through training and development in order to



remain value adding factors in any company. By acknowledging current and potential employees as valuable assets in any company's value system and cultivating and nurturing a culture of responsibility to all its stakeholders, the South African dream may become a reality. After all, we all are humans sent to the planet for a higher purpose.

## **UITTREKSEL**

### **VERANDERING EN PERSONEELVERMINDERING: 'n OORSIG VAN DIE OORSAKE, DIE PROSES EN DIE GEVOLGE IN SUID-AFRIKA**

#### **INLEIDING**

Personeelvermindering as gevolg van operasionele redes word gelykgestel aan ekonomiese doodstraf, aangesien geaffekteerde werknemers weinig, indien enige skuld het aan hierdie traumatiese ervaring. Die groeiende bekommernis oor hierdie verskynsel en die totstandkoming van mense- en arbeidsregte het dan ook veroorsaak dat hierdie verskynsel omsigtig en deeglik benader word deur beide wetgewers en arbeidsorganisasies op 'n internasionale vlak.

Verandering in die wêreld vind plaas teen 'n snel pas en deurvleg alle terreine van die samelewing. Hierdie pas is besig om met rasse skrede toe te neem. Suid-Afrika is onlosmaakbaar deelgemaak van hierdie wêreld deur die ANC se verbintenis tot 'n liberale ekonomiese beleid. Suid-Afrika word dus ook blootgestel aan honger internasionale maatskappye wat almal veg vir oorlewing in 'n afgekoelde wêreld ekonomie. Dit laat Suid-Afrika met 'n dringende behoefte om meer kompetend te word. Om dit te kan bereik, moet aan die knellende behoefte aan opleiding aandag geskenk word, sowel as aan die skepping van aantreklike internasionale beleggingsgeleenthede. Hier is Suid-Afrika vër agter die Ooste. Die tendens van globalisering en die uitwerking van sekere aspekte daarvan op werkloosheid noodsaak dus dringende fokus op kwellende kwessies, soos: Hoe om werkloosheid te verminder, teenoor die behoefte aan verhoogde produktiwiteit en verbeterde internasionale mededingingsvermoë.

Hierdie veranderinge het ook meegebring dat verbruikers, werknemers en die gemeenskap waarin maatskappye besigheid bedryf, uiters sensitief begin word het vir onverantwoordelike optrede van maatskappye teenoor die gemeenskap, die werknemers en die omgewing. Hierdie veranderinge en die gevolge daarvan lei tot 'n ernstige behoefte aan korporatiewe sosiale verantwoordelikheid. Die waarde hiervan word in al hoe groter mate besef en maatskappye aanvaar hierdie verantwoordelikheid toenemend in alle dimensies van die gemeenskap.

Personeelvermindering as gevolg van operasionele redes, wat ookal die regverdiging daarvan, het 'n geweldige negatiewe uitwerking op die onderneming, die werknemers en die samelewing. Gevolglik het dit die aandag van die wetgewers reg oor die wêreld aangegryp, insluitende die Internasionale Arbeid Organisasie. Daar is inderdaad nie aanvaarbare antwoorde vir die dilemmas wat die regering in die gesig staar nie, maar daar sal op 'n plan van aksie besluit moet word en die politieke, ekonomiese en sosiale pryse vir elke plan van aksie geprioritiseer moet word. Dit sal die regering noop om 'n rigting in te slaan, wat uiteindelik tot voordeel van een party en tot nadeel van 'n ander gaan lei, omdat daar eenvoudig net te veel mense met te min geleenthede is.

Intussen sal personeelvermindering voortgaan (ten spyte van die siniese sieninge aangaande die ekonomiese waarde daarvan), en dit plaas 'n enorme sosiale verantwoordelikheid op werkgewers. Die goed nagevorste verband tussen misdaad en werkloosheid dui duidelik op die ondermyning van die regering se bestuursvermoë. Uiteindelik is die gevolg hiervan 'n onaanvaarbare hoë misdaadsyfer, wat weer lei tot 'n gebrek aan beleggingsvertroue, wat op sy beurt weer lei tot personeelvermindering.

## **DOEL VAN DIE STUDIE**

Die navorser het met hierdie studie onderneem om die verband aan te dui tussen veranderinge in die wêreld, hoe dit personeelvermindering tot gevolg kan hê en wat die effek op die belanghebbendes van die organisasie is. Daar is verder gefokus op hoe

hierdie verskynsel se frekwensie verminder kan word en hoe die nadelige uitwerking daarvan bestuur moet word.

Die hoofdoel van die studie was dus:

- om die verhouding tussen wêreldverandering, personeelvermindering, werkloosheid en korporatiewe sosiale verantwoordelikheid vas te stel en te analiseer.

Voortvloeiend hieruit, was die sekondêre doelwitte van die studie:

- Om die wanbalans tussen werkskepping, verhoogde mededinging en volhoubare winsgewendheid aan te dui;
- Om die rol van besigheid en die staat vas te stel teenoor die uitdagings wat voortspruit uit wêreldverandering, met spesifieke verwysing na die behoefte aan die verligting van werkloosheid;
- Om die tekortkominge van die personeelverminderings- en bestuursstrategieë van die staat en besigheid aan te dui, tesame met die gebrekkige nakoming van die arbeidswetgewing;
- Om die effektiwiteit van die bestuur van personeelvermindering en die nagevolge daarvan vas te stel; en
- Om die effek van personeelvermindering op werknemers en die gemeenskap vas te stel met verwysing na korporatiewe sosiale verantwoordelikheid.

## **METODE VAN ONDERSOEK**

Die navorser het van 'n deeglike literatuur- en wêreldgebeurlikheidstudie gebruik gemaak. Daar was beoog om met die afleidings en gevolgtrekkings wat uit die studie voortgespruit het, die kwalitatiewe tendense van wêreldverandering toe te pas op die unieke Suid-Afrikaanse situasie. Die doel hiervan was om riglyne daar te stel wat

sommige van die brandpunte in Suid-Afrika se ekonomie aanspreek. Hierdie brandpunte, wat in 'n spesifieke verhouding tot mekaar staan, is die buitengewone hoë werkloosheidsyfer, misdaad en die tekort aan beleggings en beleggingsvertroue, wat weer op die beurt negatief inwerk op die moontlikheid om personeelvermindering te verhinder of te bekamp.

## **GEVOLGTREKKINGS EN AANBEVELINGS**

Die verskynsel van verandering is allomteenwoordig en neem eksponensieel toe. Die wêreld word dus ook toenemend meer kompleks waar die reëls van sukses en oorlewing vir ondernemings al hoe meer dubbelsinnig en vaag word, gepaardgaande met ongeëwenaarde druk om betyds aan te pas by hierdie veranderinge. Waar hierdie aanpassings nie betyds gemaak word nie of geïgnoreer word, is die uiteinde die voortydse agteruitgang en sluiting van so 'n onderneming, wat personeelvermindering en werkloosheid tot gevolg het. Soms is personeelvermindering wel nodig, maar dit moet met die grootste omsigtigheid en uiterste verantwoordelikheid benader word.

Suid-Afrika het 'n drastiese verbetering in mededingingsvermoë en produktiwiteit nodig om te kan kapitaliseer op internasionale geleenthede, maar die tekort aan geskoolde arbeid en 'n verkeerde werksetiek verhinder dit tot 'n groot mate.

Die volgende aanbevelings behoort mee te help om hierdie probleme aan te spreek:

- Konsolideer die land se jong demokrasie en hervorm die ekonomie om meer mededingend te word. Staatsintervensie, ondersteun deur die kundigheid van die bedryf, is nodig om dit te bereik. Hierdie intervenisie moet ongetwyfeld die onproduktiewe werksetos en gebrek aan geskoolde arbeid van Suid-Afrika insluit. Die navorser voel sterk dat regstellende optrede, alhoewel baie nodig, met 'n verlaagde pas, oor 'n hoër tydsraam en met 'n laer intensiteit toegepas moet word.

- Versterk die staat se politiese, institusionele, juristiese en administratiewe vermoë om brandende sosio-ekonomiese probleme aan te spreek, soos misdaad, armoede en werkloosheid;
- Vermyn personeelvermindering sonder die gepaardgaande herontwerp van die besigheidsproses.
- Put *alle* moontlike alternatiewe finaal uit voordat 'n oorhaastige besluit gemaak word om personeel te verminder. Dit sluit in die vereiste visionêre leierskap om slegs personeel te verminder wanneer die maatskappy absoluut nie meer kan oorleef nie, of waar die kostebesparing aangewend gaan word om toekomstige werkseleenthede te skep of te verseker.
- Verseker dat die arbeidswetgewing streng nagekom word wanneer personeelvermindering onvermydelik is. Duur litigasie kan die kostebesparing van personeelvermindering uitwis.
- Empatie en alle moontlike ondersteuning aan alle werknemers, die afgedanktes en diegene wat agterbly, moet opreg en vir die regte rede gegee word. Enige persepsie van valsheid sal opgemerk word en die onderneming sal die gewraakte gevolge daarvan dra.
- Samesmeltings en oornames van organisasies het 'n kenmerk van die hedendaagse tyd geword en het 'n groot bydrae tot personeelvermindering. Die waarde van hierdie strategieë om produktiwiteit en mededingingsvermoë te verbeter word betwyfel. Waar sulke strategieë wel werklik nodig en voordelig is, moet die kundigheid van die gedragswetenskaplikes in die organisasie gebruik word in die werkbaarheidsstudies om sodoende die versoenbaarheid van die nuwe mannekrag samestelling en die onderskeie kulture te bepaal en korrek te integreer.
- Bestuur moet besef dat korporatiewe sosiale verantwoordelikheid 'n positiewe bydra kan maak tot die winsgewendheid van die organisasie. Die filosofie moet opreg wees en deur topbestuur weerspieël word. Rookskerms sal vervaag en die organisasie ontbloom as oneerlik wat op sy beurt die bestaansreg van die organisasie in daardie gemeenskap negatief sal beïnvloed.

- Kweek 'n kultuur van konstante verandering in die organisasie. Dit sal die werknemers se aanpassingsvermoë verhoog en die weerstand teen verandering verlaag.
- Kommuniqueer gereeld met die hele werksmag oor die stand van sake in die organisasie. Dit sal sorg dat werknemers vroegtydig bereidwilligheid aan die dag lê om kreatief te raak oor kostebesparings wat hulle poste kan regverdig as dit finansieël begin sleg gaan.
- Kweek 'n mentaliteit van sosiale verantwoordelikheid en etiek by topbestuur. So 'n paradigma sal deurskemer tot op grondvlak en as personeelvermindering werklik nodig word, sal daar kredietwaardigheid aan so 'n strategie verleen word, en die negatiewe effek op die onderneming verminder word. Op hierdie manier kan die maksimum waarde en kostebesparing geput word uit die personeelvermindering.

## **SLOT OPMERKINGS**

Ten slotte word daarop gewys dat Suid-Afrika oor die talent, die vermoë, die infrastruktuur en die geleenthede beskik om homself te bewys as ekonomiese kragpunt van die sub-kontinent. Die frekwensie van personeelvermindering kan verminder word, maar 'n paradigma skuif van die staat en besigheid is nodig om 'n kultuur van verantwoordelikheid teenoor die land as geheel te kweek.

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