

## **PERCEPTIONS OF LOCAL BUSINESSES ON THE NEWLY PROPOSED NATIONAL MINIMUM WAGE IN SOUTH AFRICA**

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### **—Abstract —**

As a country faced with many socio-economic challenges government intervention prompting protests are not unique to South Africa. In light of these confining circumstances, requests from various economic agents, especially labour unions have been directed towards the implementation of a national minimum wage (NMW). Although theory advocates negative effects from minimum wages, international evidence regarding these labour market interventions shows conflicting outcomes. The main aim of the study was to analyse business owners' perceptions regarding the impact of the implementation of a NMW. A qualitative research approach was adopted to collect data with a total of 10 in-depth interviews conducted with business owners in the Vaal Triangle region, Gauteng. The results of the study showed that participants acknowledged the advantage of implementing a NMW, perceiving the intervention as a much needed step towards greater equality. Other perceived advantages involved the security a NMW provides job-seekers and the possible impact on improved demand for goods and services as higher wages stimulate the economy. Concerns however were raised regarding small firms' ability to cover these wages and the capability of the legislation to account for inherent skill differences in various sectors. The findings of the study provide valuable insights especially in the South African context and even more so from a demand side perspective regarding the possible impact of these labour market interventions.

**Key Words:** Minimum wage, Perception, Employers, Vaal Triangle, South Africa

**JEL Classification:** J20, J23, J31, J51

## **1. INTRODUCTION**

South Africa as a country is facing some of its most urgent challenges in recent times. On the back of a sluggish growth, significantly high poverty and inequality levels as well as considerably high unemployment rates, many South Africans are condemned to substandard living conditions (Festus, Kasongo, Moses & Yu, 2015). These circumstances all point to systemic problems which in fact have plagued the economy even before the transition into democracy (Cloete, 2015). Currently out of a population of 55.9 million people, half of the population lives below the poverty line (Stats SA, 2017a). In light of these circumstances, the importance of quality employment opportunities and decent wages prove pivotal. However, with close to 30 per cent of those who are actively searching for work unable to find it, current labour market conditions are insufficiently conducive to this feat (Stats SA, 2017a). What aggravates the situation is that even for those who are in employment, a large proportion is classified as vulnerable workers with some labourers categorized as the working poor (Bhorat, Lilenstein, Oosthuizen & Thornton, 2016).

In the face of these pressing issues various views have surfaced regarding the necessary means of improving the current situation (Anand, Kothari & Kumar, 2016). Amongst these, the call for a NMW has echoed; which as recently announced, is set to be implemented in 2018. In recent years, there has been a global trend towards the establishment or strengthening of minimum wages by developing countries (Rani, Belser & Ranjbar, 2013). The introduction of these labour market interventions however has evoked contentious debates. Some believe minimum wages to be effective tools in the fight against poverty and inequality (Fields & Kanbur, 2007). Others however have come to question their implementation (Betcherman, 2014). It is against this background that this study aims to contribute to the body of knowledge especially in the South African context. In doing so, the main purpose of the study is to analyse the perceptions of local businesses on the newly proposed NMW and the feasibility of the intervention in a labour market faced by its own unique set of challenges.

## **2. LITERATURE REVIEW**

### **2.1. Labour market conditions in South Africa**

South Africa's economy has made considerable progress since the fall of politically-motivated racial segregations. Regardless of the fruitful transition to an

equitable structure, labour market challenges and other socio economic issues still prevail (Lilenstein, Woolard & Leibbrandt, 2016). In particular, unemployment remains persistently high, debilitating both the country's social security and its long term economic growth and development prospects (Banerjee, Galianit, Levinsohn, McLaren & Woolard et al, 2008). Currently unemployment is at 27.7 per cent (narrow definition) which is the highest since 2003 (Stats SA, 2017b). According to Natrass and Seekings (2016), the high unemployment rate infers that a considerable number of those without jobs are exasperated work seekers. Factors such as inflexibilities in the labour market and frail connections between wage increments and productivity are some of the fundamental drivers of the economy's incapacity to assimilate an increasing labour force (IDC, 2014). At the same time, the country has experienced years of slow economic progress with growth rates that are unfavourable for the creation of the much needed job opportunities (World Bank, 2016).

While employment is generally viewed as the primary means of escaping poverty, of more prominent concern is the incidence of working poverty; characterised as facing poverty in spite of being employed. According to the ILO (2017) in 2016 an estimated 34 per cent of all employed individuals in Sub-Saharan Africa were living in extreme poverty. In South Africa, approximately more than 30 per cent of all workers are categorised as in both low wage employment and poverty (Lilenstein et al, 2016). Low wages prevents these people from meeting their fundamental needs and those of their dependents given the significantly high dependency ratios in the country (Isaacs, 2016). In light of these circumstances, there have been requests by workers including trade unions on the implementation of policies such as a NMW that will enable the working poor to climb the income ladder more rapidly and.

## **2.2. Theoretical framework on minimum wages**

In general, a minimum wage is characterised as the most minimal wage that employers can remunerate to all low-wage workers as structured by the law (Isaacs, 2016). According to the ILO (2015), the motivation behind minimum wages is to guarantee that wages can fulfil fundamental needs of workers and their families. Moreover, they are crucial in light of the fact that they ensure that workers are not paid at a level that is beneath the standard of living (Campolieti, 2015). Theoretically, the negative effect of a minimum wage is that an excess supply of labour will result (Brown, Gilroy & Kohen, 1982). However since the

1990s, various studies (Dinkelman & Rachhod 2012) have actually found that the conservative explanation of the inverse relationship between minimum wage and employment does not entirely hold. In general, employment is either not affected or the negative employment effects are small (DPRU, 2016). However, in most cases, the effects of minimum wages on the labour market differ from country to country depending on various factors (Isaacs, 2016; Neumark & Wascher, 2007), and can be stronger for workers with low skill levels (Piek & von Fintel, 2017).

However, findings of a study by Bhorat et al. (2012) in South Africa confirmed the inverse relationship between minimum wages and employment. While an increase in the minimum wage in the Retail, Domestic work, Forestry, Security, and Taxi sectors resulted in increased average wages it induced further unemployment. Similar findings were also reported by Gindling and Terrel (2007) in Costa Rica and Bell (1997) in Colombia. A current report by Erero (2016) which examined the extensive potential effect of the NMW on the South African economy found that the introduction or increase of the NMW was more likely to impact small and medium enterprises. The findings suggest that these businesses do not have the capacity to sustain employment, especially considering the fact that they have a high proportion of low skilled workers. Consequently, employment projections of low skilled people would plummet, prompting a perpetual exacerbation of poverty (Neumark et al., 2014). Although the demand for labour might not be affected in the short run, the long run will see employers respond by substituting labour for capital (Sorkin, 2015).

### **2.3 History of minimum wage setting in South Africa**

From a more extensive viewpoint, minimum wages are nothing new to South Africa as the country has had instances of the implementation of minimum wages on a sectoral level since 1999. These have been implemented through the incorporation of bargaining council agreements, negotiations between trade unions and employer organisations and sectoral determinations (Nattrass & Seekings, 2016). The introduction of minimum wages likewise spilled over to other various sectors. According to the DPRU (2016) and Nattrass and Seekings (2016) the lowest sectoral determined wage is for Domestic workers with a monthly wage of R1 813 (2015), while the Retail Sector receives the highest sectoral determined wage of R6 506 per month (2015). Despite these prescribed wage levels, many workers in certain sectors are still not covered by the sectoral wage determinations. It is reported that over 6.7 million workers earn less than R4 000 a month (National Treasury, 2016). Furthermore, over half of the workforce

in South Africa earns below R3 700, and 4.6 million people don't even earn R2 500 per month.

## **2.4 Empirical investigations from the employer's perspective**

Albeit the significant attention diverted towards the impact of minimum wages on the supply side, very few studies have delved deeper on the demand side of the labour market. In fact, research on how employers perceive minimum wages is scarce. A recent study by the DPRU (2016) explored the views of employers on the introduction of a NMW and found that a greater part of the respondents were of the opinion that having a NMW would provide advantages to both employers and workers. The respondents believed that having a NMW would ensure equality and job stability. This is true especially given that the majority (54%) of full time workers in South Africa receive low wages and are unable to lift themselves out of poverty (Isaacs, 2016). Thus having a higher NMW would bridge the gap between those earning less than R2 500 and more than R3 500. More findings by the DPRU (2016) show that some of employers argued that the immediate business response to the introduction or raising of a minimum wage would be increasing the prices of the products sold by the business, indicating that cutting the actual employment was seen as a last resort. These results mirror those of a 2014 survey by Refresh Leadership on the perceptions of US employers. From this view, employers would not resort to reducing hiring but would transfer the costs of the minimum wage hike to customers in the form of raised prices (Price, 2014).

## **3. METHODOLOGY**

### **3.1 Research design**

Given the aforementioned, the primary research objective of the study was to, in depth, analyse local businesses' perceptions of the newly proposed NMW in South Africa. For this purpose a qualitative descriptive research approach was utilised through the use of semi-structured interviews.

### **3.2 Study area and sample**

The study was undertaken in the "Vaal-Triangle" region. The area is situated north and south bound of the Vaal River on the border of the Gauteng and Free

State provinces in South Africa. The region comprises three local municipal areas of Emfuleni, Metsimaholo and Midvaal. The area is mostly urbanised, with major towns including Vereeniging, Vanderbijlpark, Sasolburg, Zamdela and Meyerton. Various well known peri-urban township areas are also present including Sharpeville, Sebokeng, Boipatong and Siculo. The participant sample included local business representatives in the area. Small, medium and large businesses from all sectors were considered.

### **3.3 Data collection and procedure method**

Based on the nature and rationale of the study, a purposive sampling technique was used to select participants. Participation was based on the criteria of owning a business and being involved in the logistics of the business' management. An interview schedule was developed based on the literature review. The standardised schedule included closed ended questions pertaining to the business' background and a total of 13 open ended questions. Examples of the open ended questions that were asked included: "What do you think about the newly proposed NMW policy in general?", "Do you think the implementation of the NMW would impact businesses in your sector specifically? Please elaborate".

Prior to the interviews taking place, respondents were contacted and the background of the research clearly and fully explained. Venues and times of the interviews were selected at the convenience of participants. During the face-to-face interviews, the researchers followed a non-evaluative stance, implying that reactions to the participants' responses were kept neutral. All interviews, subject to the participants' approval, were recorded and subsequently transcribed verbatim. Additionally, field notes were taken during the interviews to record any situational factors and other non-verbal cues from the participants. In total, 10 in-depth interviews were conducted. During the 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> interview, no new information, findings or issues came to light to which the point of saturation was established.

### **3.4 Data analysis**

Transcripts emanating from the interviews were systematically analysed through a content analysis procedure. Analysis of the transcriptions involved, firstly, both authors reading and rereading the transcripts whilst simultaneously listening to the recordings. This allowed a state of immersion whilst achieving a clear sense of the situation (Tesch, 1990). Throughout this process memos were kept, which assisted

in the conceptualisation of the data. Thereafter, transcripts were examined by one of the authors and codes assigned to the content that captured key thoughts. The coded data, based on their linkages were inductively categorised into sub themes and themes that resembled a specific set of repeating ideas (Auerbach & Silverstein, 2003). Thereafter, identified codes and themes were discussed by both authors in order to ascertain that the data were faithfully represented. Finally, all themes, sub themes and categories were assigned titles shown and discussed in the succeeding results section of the study.

### **3.5 Validity and trustworthiness**

Various strategies were employed to ensure the quality and validity of the qualitative analysis process. Firstly, the interview schedule used was subject to peer review by fellow experienced researchers to ensure that questions were structured adequately. During the data collection and analysis procedures regular peer debriefing sessions between the primary author and fellow researchers were held. This allowed for an improved reflection and validation of the identified categories and themes, whilst also significantly assisting towards establishing the point of data saturation (Mauk, 2012). Furthermore, after the completion of the transcription process, member checking was employed by emailing the completed transcripts back to the respondents. This ensured that the breadth of collected data accurately reflected the participants' responses.

### **3.6 Ethical considerations**

This study adhered to strict ethical guidelines such as ensuring objectivity and maintaining moral integrity throughout the research process. High levels of values, norms and transparency were adhered to during conducting the interviews and analysing the data. Participants were assured that participation was completely voluntary and that they could withdraw without any repercussions. Interviews took place only after formal consent was given and participants were ensured that all data and results would be anonymously reported.

## **4. RESULTS AND DISCUSSION**

This section objectively reports the results which emanated from the qualitative interviews. The demographic profile reveals that among the sample participants, six resided in the Emfuleni local municipal area, two in the Midvaal local

municipal area and two in the Metsimaholo local municipal area. Six of the interviewed participants were male and four were female. Furthermore, seven of the participants indicated involvement in the business for more than 11 years with three indicating ownership or employment of no more than 10 years. Amongst the businesses represented, five were classified as micro enterprises (1 – 5 workers), two as small (11 – 49), two as medium (50 – 200) and only one as a large business (200+). Moreover, these businesses represented different sectors. These included manufacturing (2), construction (1), wholesale, retail and trade (4) and the private household sector (3).

The analysis of the transcribed interview recordings yielded five important themes relating to the implementation of the NMW. The identified themes enriched the understanding of the implication of implementing a NMW from the employers' perspective. These identified themes are reported in Table 1 and discussed thereafter.

**Table 1: Identified themes on the NMW**

| Theme                    | Operational definition                                                      | Excerpts from interviews<br>(Assigned number of participant)                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Benefits of a NMW        | This theme identifies the perceived benefits of introducing a NMW           | <i>"Workers that aren't schooled will be protected"</i> (3)<br><i>"I do believe we need a living wage, its hard out there"</i> (6)<br><i>"We have approximately 17 million people living off grants in the country"</i> (2)<br><i>"Listen, we do need something that can help a lot of those who are poor"</i> (1)<br><i>"It can help towards more equality in the country"</i> (9)                                                                                                     |
| Disadvantages of the NMW | This theme accounts for the participants perceived disadvantages of the NMW | <i>"It's all about affordability"</i> (2)<br><i>"The people who are the poorest in the country will suffer the most"</i> (5)<br><i>"A guy of standard eight can get the same wage as somebody with a higher qualification, I don't think it will be fair"</i> (10)<br><i>"I am not sure how one can implement this in an equitable basis in the job market"</i> (8)<br><i>I can't lower my staff's current salary, so for me it won't have an impact, sectoral would be better"</i> (6) |
| The lack of consultation | This theme relates to the level of public                                   | <i>"They must have spoken to someone but we were not informed"</i> (5)                                                                                                                                                                                                                                                                                                                                                                                                                  |

|                                                 |                                                                                                                 |                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                 | <b>sector consultation with businesses on the implementation of the NMW</b>                                     | <i>"Much of these decisions are politically driven"</i><br><i>"The practicality of it is zero" (2)</i><br><i>"It is still unclear how they are going to implement it" (4)</i><br><i>I think there is a lot of poor communication between government and private sector" (1)</i>                                              |
| <b>Potential economic impact of the NMW</b>     | <b>This theme relates to the potential economic impact the NMW would have on businesses and their decisions</b> | <i>"Small business creation will decline" (10)</i><br><i>"More small businesses will shut down, they are already struggling" (9)</i><br><i>I think a lot of people's employment is going to be affected, especially domestic workers and staff like that" (7)</i><br><i>Employers are going to look to reduce hours" (8)</i> |
| <b>Restrictive labour legislative framework</b> | <b>This theme relates to the perceived general restrictive labour legislation</b>                               | <i>"There is just too much legislation" (2)</i><br><i>"This will just add to the current regulated policies" (1)</i><br><i>"Unions don't want to settle for reasonable levels, they are misrepresenting their members" (6)</i>                                                                                               |

### ***Benefits of a NMW***

Upon interviewing the participants, one of the emerging themes pertained to the benefit of introducing a NMW. From their perspective, employers did recognise that current pervasive poverty and inequality levels in the country were of utmost concern. In this context, they believed that the introduction of a NMW would contribute especially towards better job and income security for workers. More specifically, participants believed these benefits would apply more to lower skilled and younger labourers in the job market. Similar findings were also reported by the DPRU (2016), which suggested that the introduction of a NMW would assist in providing more secure income guarantees for those labourers who most likely are in entry level positions or employed in more vulnerable working conditions. Another recognised potential benefit of a minimum wage intervention raised included the demand stimulation nature of these wage interventions. This finding supports the view reiterated by Coleman (2013) which attributes the additional incomes to act as injections into the economy.

### ***Disadvantages of implementing the NMW***

In recognising the potential benefits of this specific labour market intervention, participants likewise raised several concerns regarding the implementation of a

NMW. Amongst these concerns, which appeared to be common threads among the employers, included the failure of the NMW to account for inherent skill and qualification differences. Participants felt that a NMW would not be fair as it would be possible for lower qualified workers to earn similar incomes than higher qualified workers. Based on these views, and much similar to the effects reiterated by Belser and Rani (2015) and Neumark et al. (2014), employers suggested it would lead to a more significant decline in demand for lower skill workers especially in labour intensive industries. Adding to these concerns, when asked about the preferred process of wage determination, several participants indicated that a NMW would have distortive effects which would impact the efficiency of wage setting. Moreover, they believed that a NMW would fail to account for the different economic dynamics in the different sectors. In fact, all participants indicated they would prefer sectoral determinations and the use of bargaining councils as opposed to direct national interventions in their wage setting practices. One of participants expressed their concern:

*“If you look at the free market system, if you are willing to work for a wage you feel is fairly negotiated why would you want anybody to intervene?”*

*“You must speak to employees directly, a lot of people are willing to start work for a lower wage”*

#### ***A lack of public sector consultation***

This theme emerged out of the employers' perceived lack of consultation by the public sector in implementing the NMW. Given the announcement on the implementation of the NMW, participants unanimously agreed that they were not sufficiently consulted prior to this decision being made. Various participants believed the decision to be politically driven whilst lacking practicality. Others expressed that the process of implementation was unclear. The general perception on public – private sector consultation and collaboration was quite negative, which raised the notion of a significant lack of effective communication between the public and private sectors in the country (Spicer, 2016). In fact, employers believed that insufficient communication with the public sector was one possible reason why many people were unemployed. They acknowledged that to make significant inroads in improving employment and subsequently poverty and inequality, these communication channels had to drastically improve. Froy et al. (2011) stress the importance of effective public-private sector collaboration especially towards job creation. These partnerships, if effective and clear, enable

enhanced policy formulation conducive to the needs of communities and a refocus of skills and development activities where needed. Moreover improved communication can eradicate various administrative and bureaucratic obstacles that prevent much needed employment stimulation (OECD, 2014).

### ***Potential economic impact of the NMW***

When asked what they believed the economic impact of introducing a NMW would be, nine of the 10 participants indicated that they perceived the overall impact as negative. The main reasons cited by the participants were based on the selective impact of the NMW, the added pressure it would put on smaller businesses and the significant impact it would have on lower income workers and more specifically those in more informal working positions. These findings correspond with those of Erero (2016). Smaller businesses as compared to larger corporations have much lower income streams. Hence increasing labour costs for many of these smaller entities can impact sustainability and their job creation potential. Furthermore, participants noted that businesses were most likely to transfer the burden to the consumer with increases in prices or reduce the working hours of workers. These findings were in line with those of the DPRU (2016) and Barker (2006). Participants with these views were quoted as saying:

*“I don’t think bigger businesses will necessarily feel it given that their current minimum wages are much higher than R3 500, but the smaller guy will definitely be impacted”*

*“I will have to increase prices on goods, I mean I get that a lot of people out there are struggling at the moment but it is not fair for us to carry the extra burden, government must look after us as well”*

### ***Restrictive labour legislative framework***

Emanating from the interviews was the general notion that current labour market legislation was far too restrictive. Employers signified that in this regard, the implementation of a NMW would further add to this rigid framework. Some participants were quoted as follows:

*“The legislation is far too rigid, if compared to other countries, I think we need to rethink our approach, employers are not well represented and the legislation is mostly one sided which in my opinion makes job creation very difficult”*

*“It is much too complicated, I mean I have to hire a labour consultant just too deal with all the paperwork and processes and that too already is a monetary burden, now they want to further add to this”*

Compared to similar developing countries, South Africa has showcased significantly higher rigidity in its labour market processes (Fedderke, 2012). Responses highlighted in Table 1 and above confirm concerns that these processes have in fact contributed to the underlining stance of unemployment in the country (CDE, 2013). In this regard, general perceptions on the various implemented legislation deterred the participants' view on the potential impact of a NMW. From theoretical perspectives it is evident that comprehensive labour legislation aim at protecting workers especially in times of economic downturn (Tasci & Zenker, 2011). However, too rigid processes and regulations were found to reduce flexibility in employment decisions, consequently making it difficult to adjust to altering economic conditions. Maasdorp (2013) reiterates that rigid labour market regulations impact employers' future hiring judgements considering the potential transactional cost as well as inflexible dismissal regimes.

## **5. PRACTICAL IMPLICATIONS AND RECOMMENDATIONS**

The aim of the study was to investigate the perceptions of local business owners and employers on the newly proposed NMW. From the findings, there seems to be cognisance of the potential positive impact of a NMW in light of the current socio-economic circumstances in the country. However despite this recognised positive impact, previous research in the South African context, albeit only on sectoral levels, suggest the implementation of these interventions to be somewhat intricate. Adding to this evidence, the study's findings likewise signify various implications for the implementation of a NMW:

- The implementation of a minimum wage floor fails to take cognisance of inherent skill differences in various sectors as well as their specific economic undercurrents.
- The current R3 500 minimum wage level is well below the current negotiated minima wage in larger firms and industries; with the impact predominantly to be felt by smaller businesses, workers in lower skilled positions and younger workers.
- The NMW will increase pressure on small businesses that are already constrained by lacklustre growth and could have a significant impact on employment with possible cost-push inflationary pressures for consumers.

- Implementation of such interventions adds regulation to an already rigid labour legislative framework in an economy facing significant challenges.
- Introduction of these interventions necessitates much stronger and improved public-private sector collaboration, especially with current partnership formation found to be lacking.

In light of these implications and moving forward towards addressing the pervasive nature of poverty and inequality in the country the introduction of the NMW should be done with careful consideration. On the one hand, it needs to be set at a level high enough so that it acts as a meaningful alleviation instrument. On the other hand, the possible negative impacts, especially for small business development, should be taken into account. Its implementation should be accompanied by the promotion of collective bargaining in all sectors and industries. These employer-employee interactions significantly improve workplace understanding whilst also providing a platform for other occupational training opportunities. In addition, increased importance should be directed at fostering strong public-private sector partnerships, with government officials strongly considering a relaxation of labour legislation, fostering an enabling environment for job creation and duly understanding the needs of the private sector.

## **6. CONCLUSION**

The implementation of minimum wages has received a significant amount of attention globally. Despite perceptions of their ability to induce unemployment effects, there has been renewed interest in their ability to serve as an effective tool to reduce poverty and inequality levels. The study however shows that the implementation of these systems is far from simple. Burdened by high unemployment, poverty and inequality levels together with a high percentage of the labour force situated in vulnerable working conditions, universal minima wage regulations and employer decisions prove complex in the South African context. Nevertheless, the use of a minimum wage system in the country does have merit. Current sectoral determinations do not cover all workers, attributing significant wage differences in various sectors. On its own however, a NMW cannot serve as tool to effectively address the current poverty and inequality problems of the country. Aiming towards improving current circumstances, it should form part of a well-designed restructuring policy package that focuses on skill development, infrastructure investment and productivity.

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