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THE IMPACT OF WAGE-SETTING INSTITUTIONS ON THE CREATION AND LONG-TERM SURVIVAL OF SMALL, MEDIUM AND MICROENTERPRISES (SMMES) IN SOUTH AFRICA

by

S.P. HADEBE

MINOR DISSERTATION

Submitted in partial fulfilment of the requirements for the degree

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in

BUSINESS MANAGEMENT

in the

FACULTY OF MANAGEMENT

at the

UNIVERSITY OF JOHANNESBURG

Supervisor: PF Blaauw

MAY 2010
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• My wife Linda, for her tolerance and support. And my three sons, Asanda Langalibalele, Luyanda Meluleki and Nala Siyabonga (jnr.), proved to be my pillars of strength.

• My parents Bernard and Constance Hadebe, who have always supported my academic and career progress and aspirations, provide an excellent example of diligence and perseverance.

• My fellow MCom classmates (in 2007 – 2008), colleagues and friends for their collegiality and friendship.

• To the Government of the Republic of South Africa, through the Department of International Relations and Cooperation (DIRCO), for their financial and non-financial assistance.
ABSTRACT

The overall aim of this study was to investigate the impact of the wage-setting institutions, including bargaining councils and minimum wages, on the creation and long-term survival of small, medium and micro-enterprises (SMMEs) in South Africa.

The objectives of the study focused on (i) gaining an understanding of how the legislative requirements impact on SMMEs; (ii) investigating what needs to be done to assist small companies in order to cope with the burden of compliance with the prescriptions and provisions of the law; (iii) demonstrating how the current wage setting mechanisms are partly responsible for the promotion of capital intensive firms at the expense of small- and medium sized entities; (iv) investigating how other countries approach the issue of exemption of small businesses from the stringent requirements of labour legislation; and (v) exploring the possibility for the establishment of a separate dispensation that may be utilised to govern the wage-setting environment for the SMME sector.

The study commenced with the review of different literature sources. First, the importance of the SMME sector in wealth creation and the role of the government in developing SMMEs were dealt with. Existing constraints and problems, other than labour-related factors, facing the SMMEs were identified with the sole purpose of highlighting the general conditions under which they operate. The support offered by government and other stakeholders in developing SMMEs in South Africa were also discussed. Second, an overview of wage-setting institutions that shape the South African labour market, i.e. the National Economic Development and Labour Council (NEDLAC), bargaining councils and the Employment Conditions Commission (ECC) was provided.

For the purposes of this study, two case studies (i.e. Sweden and Egypt) were chosen and a comparative analysis of these case studies focusing on the wage setting environment was performed, with the hope of drawing important lessons for South Africa. The cross-case analysis revealed that there are differences and similarities in the nature of wage-setting institutions that are found in Sweden, Egypt and South Africa. The lessons for South Africa are that there is a need (i) of strengthening of the role of NEDLAC (tripartism); (ii) of recognising the fact that globalisation is not a myth but a reality, even for SMMEs; (iii) of creating an institutionalised dialogue for the SMME sector, i.e. SMME representative body;
and (iv) of expanding the role of workplace forums in the South African environment to facilitate meaningful collective bargaining at local level.

Following the cross-case analysis, the research findings on the effects of wage-setting institutions on SMMEs were presented. This was achieved by examining empirical evidence. First, an analysis of collective bargaining and minimum wages was conducted by focusing on the different aspects of the wage-setting institutions that may be considered to have an impact on the creation and long-term survival of small and medium enterprises. This was followed by an exploration of empirical evidence if there is a need for creating a separate dispensation, i.e. two-tier labour market, for the SMME sector in South Africa.

Despite an intense scrutiny of the relationship between wage-setting institutions and their effects on SMMEs, the study found that there are no discernible impacts on small and medium businesses. As a result, this study proposes that the policy framework for developing a suitable environment for small and medium businesses in South Africa should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. These strategic policy interventions are given as recommendations of this study.

In concluding the study, the following recommendations are made:

• Strengthening of the social dialogue and collective bargaining in South Africa through the expansion of the role of workplace forums;
• The establishment of a separate dispensation for SMMEs in South Africa, e.g. two-tier wage system, is not necessary;
• A case is made for the establishment of a SMME representative body or bodies, independent of large companies, to collectively represent the interests of smaller businesses in general or in a particular sector of the economy or a geographical area in South Africa;
• A need for a shift in small and medium-sized enterprise policy in the South Africa away from “one size fits all” approach to clustering SMMEs in economic sectors that have growth potential; and
• SMME policies need to be re-focused to address the economic challenges the country faces due to external competition and globalisation, and this will ensure a more co-ordinated approach to the development of SMME policy in South Africa.
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<td>ANC</td>
<td>African National Congress</td>
</tr>
<tr>
<td>BBBEEA</td>
<td>Broad-Based Black Economic Empowerment Act</td>
</tr>
<tr>
<td>BCEA</td>
<td>Basic Conditions of Employment Act 75 of 1999</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
</tr>
<tr>
<td>CCMA</td>
<td>Commission for Conciliation, Mediation and Arbitration</td>
</tr>
<tr>
<td>CIPRO</td>
<td>Companies and Intellectual Property Registration Office of South Africa</td>
</tr>
<tr>
<td>COSATU</td>
<td>Congress of South African Trade Unions</td>
</tr>
<tr>
<td>CSBP</td>
<td>Centre for Small Business Promotion</td>
</tr>
<tr>
<td>CSIR</td>
<td>Council of Scientific and Industrial Research</td>
</tr>
<tr>
<td>DFIs</td>
<td>Development Finance Institutions</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>ECC</td>
<td>Employment Conditions Commission</td>
</tr>
<tr>
<td>ECDC</td>
<td>Eastern Cape Development Corporation</td>
</tr>
<tr>
<td>EEA</td>
<td>Employment Equity Act 55 of 1998</td>
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<td>EMIA</td>
<td>Export Marketing and Investment Assistance Scheme</td>
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<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GEAR</td>
<td>Growth, Employment and Redistribution policy</td>
</tr>
<tr>
<td>GEP</td>
<td>Gauteng Enterprise Propeller</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>ITHALA</td>
<td>Ithala Development Finance Corporation</td>
</tr>
<tr>
<td>KHULA</td>
<td>Khula Enterprise Finance Limited</td>
</tr>
<tr>
<td>KL</td>
<td>Swedish Association of Local Authorities and Regions</td>
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<tr>
<td>LED</td>
<td>Local Economic Development</td>
</tr>
<tr>
<td>LIMDEV</td>
<td>Limpopo Economic Development Enterprise</td>
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<tr>
<td>LO</td>
<td>Swedish Trade Union Confederation for blue collar workers</td>
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<tr>
<td>LRA</td>
<td>Labour Relations Act 66 of 1995</td>
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<tr>
<td>MAFISA</td>
<td>Micro-Agricultural Financial Institute of South Africa</td>
</tr>
<tr>
<td>MBL</td>
<td>Codetermination Act of 1977</td>
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<tr>
<td>NAMAC</td>
<td>National Manufacturing Advisory Centre</td>
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<tr>
<td>NEDLAC</td>
<td>National Economic Development and Labour Council</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>NEF</td>
<td>National Empowerment Fund</td>
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<tr>
<td>NGOs</td>
<td>Non-governmental organisations</td>
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<td>NSBAA</td>
<td>National Small Business Amendment Act 29 of 2004</td>
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<td>NSBC</td>
<td>National Small Business Council</td>
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<tr>
<td>NTCC</td>
<td>National Technology Transfer Centre</td>
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<tr>
<td>NUTEK</td>
<td>Swedish Agency for Economic and Regional Growth</td>
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<tr>
<td>NYC</td>
<td>National Youth Commission</td>
</tr>
<tr>
<td>NYDA</td>
<td>National Youth Development Agency</td>
</tr>
<tr>
<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<tr>
<td>SABTIA</td>
<td>South African Business and Technology Incubation Association</td>
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<tr>
<td>SACO</td>
<td>Swedish Confederation of Professional Associations</td>
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<tr>
<td>SACOB</td>
<td>South African Chamber of Business</td>
</tr>
<tr>
<td>SAMAF</td>
<td>South African Micro-Finance Apex Fund</td>
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<tr>
<td>SBDC</td>
<td>Small Business Development Corporation</td>
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<tr>
<td>SDA</td>
<td>Skills Development Act 97 of 1998</td>
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<tr>
<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
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<tr>
<td>SETAs</td>
<td>Sector Education and Training Authorities</td>
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<tr>
<td>SMEDP</td>
<td>Small and Medium Enterprise Development Programme</td>
</tr>
<tr>
<td>SMMDP</td>
<td>Small and Medium Manufacturing Development Programme</td>
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<tr>
<td>SN</td>
<td>Confederation of Swedish Enterprise for the private sector</td>
</tr>
<tr>
<td>STP</td>
<td>SEDA Technology Programme</td>
</tr>
<tr>
<td>TAC</td>
<td>Technology Advisory Centre</td>
</tr>
<tr>
<td>TCO</td>
<td>Swedish Confederation of Professional Employees for salaried employees</td>
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<tr>
<td>TEA</td>
<td>Total Entrepreneurship Activity</td>
</tr>
<tr>
<td>UYF</td>
<td>Umsobomvu Youth Fund</td>
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Chapter ONE

Introduction, problem statement and objectives of the study

1.1 BACKGROUND

South Africa has been confronted with a number of challenges of re-integration into world markets, re-addressing the inequalities created by the policies of apartheid, reducing high unemployment and the eradication of poverty. It has to contend with high expectations of the citizens regarding a more successful movement into a democratic dispensation. The expectations of citizens include the provision of basic needs (e.g. water, housing and electricity); job creation and investment in human capacities (skills).

After the 27th of April 1994, the African National Congress (ANC) came into power. Interventions were introduced by government to influence the labour market situation with the aim of addressing the inequalities in the market place, employment creation and the re-integration of previously disadvantaged individuals into the main stream economy. As a result, a number of laws were enacted to regulate the labour market such as the Labour Relations Act 66 of 1995 (LRA), the Basic Conditions of Employment Act 75 of 1999 (BCEA) and the Employment Equity Act 55 of 1998 (EEA) (Clarke, Eifert, Habyarimana, Ingram, Kapery, Kaplan, Schwartz, & Ramachandran 2005). Government also realised that it had to attain objectives of economic growth through competitiveness as well as encourage employment generation and income redistribution as a result thereof. The government has attempted and instituted plans to actively promote small, medium and micro enterprises (SMMEs) as active players in the economy. Unfortunately, the plans of promoting small businesses have not borne the desired results, and this failure has been attributed on the rigidities of the labour market (Altman 2005).

Berry, von Blottnitz, Cassim, Kesper, Rajaratnam and van Seventer (2002, p. 55) found that labour laws are a commonly perceived constraint of established SMMEs, i.e. they “… raise the costs of employment, especially of lower-skilled employees; artificially prolong retrenchments or corrective action; and not allow for adequate flexibility, especially in wage settings and the arrangement of working time”. The contribution of the SMME sector to the economy is thus undermined.
As much as the country wishes to achieve its goal of integrating previously disadvantaged individuals into the main stream of the economy, it can ill-afford to lag behind developed and emerging economies in terms of competitiveness. After all, countries should focus on trade expansion, foreign direct investment attraction and keeping costs of doing business (including labour costs) down in order to remain internationally competitive (International Labour Organisation (ILO) Governing Body 2000). One vehicle rightly identified by the government to achieve growth and performance of the economy in critical areas such as job creation, equity and access to markets is the creation of SMMEs (Department of Trade and Industry (DTI) 2005a).

Small and medium enterprises have long been identified as an engine for growth in most European countries. The Union of Industrial and Employers’ Confederation of Europe, for example, pleads for European Union member states to shift to the entrepreneurial economy and support small businesses by relaxing labour market regulations, through the reduction and simplifying the administrative and other burdens on small and medium-sized enterprises (Mihail 2004). This assertion is supported by the observation by the ILO Governing Body (2000, p. 15) that “... the wage-setting institutions that tend to be associated with strong trade unions are also criticised for creating rigidities in labour markets and obstacles to the flexible adjustment of enterprises”.

In the South African context, two elements of the law are said to be partly responsible for these rigidities. Firstly, the Employment Conditions Commission (ECC), created through the BCEA, advises the Minister of Labour on minimum wages for workers that do not fall within the area and scope of existing bargaining councils. Secondly, the LRA allows for the extension of the agreements to include non-parties. Though the LRA allows for exemptions, Nattrass, Wakeford and Muradzikwa (2002) argue that when granted these tend to be for issues that are unrelated to the wage. Therefore, all firms in the affected industry, irrespective of their size, are covered by provisions of bargaining council agreements. The main problem of bargaining councils, for example, is that bigger firms tend to set minimum wages above the level that is feasible for smaller, labour-intensive firms in the same industry, thus forcing them out of business. This situation in part could explain why South Africa’s production structure is so capital intensive and why South Africa has relatively few small- and medium sized enterprises (Nattrass et al. 2002). It can then be inferred that bargaining councils are
partly responsible for the promotion of capital intensive firms at the expense of small- and medium sized entities.

1.2 MOTIVATION

The motivation for the study emanates from the arguments that the South African labour market is rigid, hence hindering the SMME sector from achieving the envisaged goals of the government. From this statement it appears that there is a lack of consistency between the country’s labour market policies and SMME promotion strategies: Therefore, there is potential tension between (wage determination) policies pursued by the Departments of Finance and Labour (Nattrass et al. 2002, p. 167). As a result, the goal of having SMMEs as a source of employment and income generation is seriously undermined. SMMEs are forced to comply with legislative requirements which make it hard for them to succeed. The SMME sector therefore has had to contend with prescriptions and provisions of these laws in their attempts to remain in existence and profitable.

Nattrass et al. (2002) also point out that the National Treasury pursues a growth strategy with strong neoclassical underpinnings (market forces), whereas the Department of Labour appears not to be allowing the market forces to determine wages. Nattrass et al. (2002) then draw inferences from this situation, by remarking that by maintaining a high level of wage protection in an economic environment, characterised by restrictive fiscal and monetary policies will result in employment shedding. It can be assumed that the policies of the two departments are not in sync, hence the dichotomy (Nattrass et al. 2002).

A detailed analysis of the problems being faced by the SMME sector as a result of the prescriptions and provisions of labour laws and its wage-setting institutions on the creation and long-term survival of SMMEs would be invaluable, and may provide some light on how SMMEs can be accommodated in the broader framework of labour legislation.
1.3 PROBLEM STATEMENT

In this section the problem statement of this study is identified, i.e. in South Africa, all enterprises, irrespective of size, are required to comply to labour legislation requirements and provisions.

Due to the fact that all enterprises, irrespective of size, in South Africa having to comply with the legislated requirements for the purposes of collective bargaining and Ministerial sectoral determinations, as an illustration, the author believes that there will be a significant impact on the SMMEs as a result. Different literature sources show that there are a number of potential problems for small and medium enterprises that can be created by universal compliance with legislative requirements. Compliance with labour legislative requirements results in the administrative burdens or cost for SMMEs, including hiring, training and firing costs (Dobbie 2006). Mihail (2004) and World Bank (2005; 2007) are of the view that other forms of regulatory burden comprise company regulations, tax regulations, intellectual-property regulations, procurement regulations and trade administration. It is important to note that this study does not seek to quantify the magnitude of the burden problem, but it is looked at in generic terms.

The aim of the study is discussed in following section.

1.4 AIM OF THE STUDY

The aim of this study is to investigate the impact of the labour market or wage-setting institutions, including bargaining councils and minimum wages, on the creation and long-term survival of small, medium and micro-enterprises in South Africa. South African regulations will be compared with regulations in a middle income country and those of a developed economy in order to achieve the aim of the study.

Following from the above, the following objectives can be formulated:
To give an understanding of how the legislative requirements impact on SMMEs.

To investigate what needs to be done to assist small companies in order to cope with the burden of compliance with the prescriptions and provisions of the law.

To demonstrate how the current wage setting mechanisms are partly responsible for the promotion of capital intensive firms at the expense of small- and medium sized entities.

To investigate how other countries approach the issue of exemption of small businesses from the stringent requirements of labour legislation. This will be done by scrutinising cases from both developed and middle-income countries, with the hope of extracting a number of lessons for South Africa.

To explore the possibility for the establishment of a separate dispensation (permanent exemptions), e.g. a two-tier wage system, that may be utilised to govern the wage-setting environment for the SMME sector.

Before considering the effects of wage-setting institutions on SMMEs, the study will put the discussion in context, by providing an overview of labour market or wage-setting institutions and the SMME sector in South Africa. The following will be discussed, which will help to establish the size or magnitude of the problem:

- How important a role do SMMEs play in growing the South African economy and what is the government’s approach in encouraging SMMEs?
- What are wage-setting institutions and what are they meant to achieve?
- How do other countries manage the issue of wage setting in relation to small business?

1.5 DEFINITION OF TERMINOLOGIES

In order to gain a full understanding and appreciate the impact of wage-setting institutions on SMMEs, it is necessary to define the concepts of “wage-setting institutions” and “small, medium and micro-enterprises”.

1.5.1 Small, medium and micro enterprise (SMMEs)

There is no universally agreed definition of SMMEs, but the following definition by the National Small Business Act 102 of 1996 is accepted for the purpose of this study:

"... a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy" (Republic of South Africa 1996b, p.2).

According to the DTI (2005a, p. 5), the small, medium and micro enterprises or SMMEs cover

"... the full spectrum of business enterprises other than “large enterprises” or corporations and publicly owned enterprises. This includes categories known as micro-enterprises, survivalist enterprises, informal sector enterprises, and formal small and medium-sized enterprises. It also covers businesses in all stages of evolution, from pre-establishment to start-up, emerging, stable or expanding, as well as enterprises in distress. Furthermore, it includes enterprises that can be characterised as family-owned, black-owned, women-owned or co-operatively owned."

The Act also stipulates the criteria to be used to determine or classify such an entity as a micro-, a very small, a small or a medium enterprise. In terms of the table below, the Act utilises elements such as the number of employees, annual turnover, and total gross asset value, excluding fixed property to classify SMMEs. Twelve sectors or sub-sectors, in accordance with the Standard Industrial Classification, are provided for in the Act, and these are listed in the following table:
<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification</th>
<th>Size or Class</th>
<th>Total full-time equivalent of paid employees</th>
<th>Total annual turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>R 5.00 m</td>
<td>R 5.00 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 3.00 m</td>
<td>R 3.00 m</td>
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<td>Mining and Quarrying</td>
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<td>Micro</td>
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<td>R 0.20 m</td>
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<tr>
<td>Retail and Motor Trade and Repair Services</td>
<td>Medium</td>
<td>100</td>
<td>R 39.00 m</td>
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<tr>
<td>Wholesale Trade Commercial Agents and Allied Services</td>
<td>Medium</td>
<td>100</td>
<td>R 64.00 m</td>
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<td>R 6.00 m</td>
<td>R 0.60 m</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.10 m</td>
</tr>
<tr>
<td>Sector or sub-sectors in accordance with the Standard Industrial Classification</td>
<td>Size or Class</td>
<td>Total full-time equivalent of paid employees</td>
<td>Total annual turnover</td>
<td>Total gross asset value (fixed property excluded)</td>
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<tr>
<td>Catering, Accommodation and other Trade</td>
<td>Medium</td>
<td>100</td>
<td>R13.00 m</td>
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<td>Micro</td>
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<td>R 0.20 m</td>
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<tr>
<td>Transport, Storage and Communications</td>
<td>Medium</td>
<td>100</td>
<td>R 26.00 m</td>
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<td>Micro</td>
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<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>100</td>
<td>R26.00 m</td>
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<tr>
<td>Community, Social and Personal Services</td>
<td>Medium</td>
<td>100</td>
<td>R13.00 m</td>
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<td>Micro</td>
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</tbody>
</table>

Source: Republic of South Africa (1996b; 2003b; 2004)

This form of classification is not unique to South Africa. In order to qualify as an SMME, according to the World Business Council for Sustainable Development (WBCSD) (2007), a firm must have less than five hundred employees in the United States and Canada; and in the European Union (EU), the SMME classification is presented in table 1.2 below.

Table 1.2: Classification of enterprises according to the European Union

<table>
<thead>
<tr>
<th>Category</th>
<th>Headcount</th>
<th>Turnover</th>
<th>Or</th>
<th>Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>&lt; 250</td>
<td>□ € 50 m</td>
<td>□ € 43 m</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>□ € 10 m</td>
<td>□ € 10 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>□ € 2 m</td>
<td>□ € 2 m</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from WBCSD (2007); EIM (2009).
### 1.5.2 Wage-setting institutions

The terms of wage-setting institutions and labour market institutions are used interchangeably by authors such as Natrass (1998).

De Gobbi and Nesporova (2005, p.16) define labour market institutions as:

"... those entities which are regulated by national law and whose principal objective is to facilitate the match between labour supply and demand... bear responsibility for planning and coordinating activities aimed at promoting employment."

One of the important functions of these institutions is wage setting and this task of wage setting, according to Ishikawa (2003, p.17), involves "... minimum wages, pay structures, and the level and increase of wages including different forms of employees' financial participation." Dobbie (2006) distinguishes between two levels of wage setting, namely centralised (national) and decentralised (firm or enterprise) wage setting systems.

Wages are a key channel through which labour market institutions are thought to affect economic performance, particularly wage floors, as they can be established by collective bargaining agreements, unemployment insurance benefits and through minimum wage policies (ILO Governing Body 2000).

The main wage-setting institutions found in South Africa are the National Economic Development and Labour Council (NEDLAC), bargaining councils and the Employment Conditions Commission (Natrass 1998). According to Natrass et al. (2002, p. 165) bargaining councils and the Employment Conditions Commission are the only wage-setting institutions in South Africa. For the purposes of this study only these three institutions are to be covered, but with more emphasis placed on bargaining councils and the ECC.
1.6 RESEARCH METHODOLOGY OF THE STUDY

1.6.1 Introduction

In this section an outline of the research methodology and design that will be utilised to carry out this study is presented. The purpose of this study is to investigate the impact of the labour market or wage-setting institutions, including bargaining councils and minimum wages, on the creation and long-term survival of small, medium and micro-enterprises in South Africa. South African labour regulations will be compared with the regulations in a middle income country and those of a developed economy in order to achieve the aims of the study. Against this background, this study will be qualitative or exploratory in nature (Zikmund 2003).

The results of this study are presented in Chapter 4. This section describes the research methodology used, research design and data analysis. The qualitative methodology requires the researcher to conduct an in-depth analysis of information obtained from different sources of data, utilising the triangulation method. The need for triangulation arises from the ethical need to confirm the validity of the processes and the reliability of the study. In case studies, this could be achieved through utilising multiple sources of data (Yin 1984). The study follows a qualitative case study approach. The empirical base of this study is formed by two case studies, namely Sweden and Egypt. The use of a narrow selection of case studies is aimed at a deliberate variation in terms of the complexity of wage bargaining systems, i.e. from the least complex to the most complex and variations in the level of economic development. Then, the study adopts a comparative analysis to compare and contrast the information obtained on the two countries and on South Africa, with the aim of drawing important lessons for South Africa. To compare and contrast the cases, secondary data sources, i.e. information that has been gathered by other researchers and recorded in books, articles and other publications, are utilised. Such triangulation therefore enhanced the scope, depth and consistency in the methodological proceedings of this study. Data analysis in this study was performed concurrently with data collection from the different secondary sources given above. In order to establish relationships between the different variables, tables were used. The conclusions of the study then emerged when all the data had been collected.
1.6.2 Research method

To conduct this study in an unbiased and objective manner a scientific research method will be employed to expand knowledge in the chosen research topic. Knowledge obtained in this manner differs in important respects from a naive, or lay, person’s knowledge of human behaviour (Welman & Kruger 1999). A qualitative case study research approach is to be followed in conducting this study. The purpose of any qualitative case study research can be classified into three categories, i.e. explanatory, descriptive and exploratory (Yin 1994). Yin (1994, p.11) writes that explanatory *(explains what is happening)* and exploratory *(explores what is happening)* case studies are used to discover causal relationships; and, on the other hand, descriptive *(describes what is happening)* case studies provide complete descriptions of phenomena within their contexts. The objective of this study is to explore the effects of wage-setting mechanisms on SMMEs. Thus, the study is exploratory in nature as it involves reviewing literature and or data.

According to Stake (2000), the case study is typically qualitative. Zikmund (2003) views exploratory research and qualitative research as similar. At the same time, Zikmund (2003, p. 111) concedes that “… much, but certainly not all, exploratory research provides qualitative data”. Nonetheless, the terminologies of “exploratory research” and “qualitative research” are used interchangeably in this study.

There are several definitions of qualitative research. Denzin and Lincoln (1994, p. 2) provides a generic definition of qualitative research and write that it is “… multi-method in focus, involving an interpretive, naturalist approach to its subject matter”. While, Creswell (1998) sees qualitative research as “…an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The research builds complex, holistic pictures, analyzes words, reports detailed views of informants, and conducted the study in natural setting”. Creswell (1998) continues by providing distinct methodological traditions of enquiry in the field of qualitative research, i.e. biography, phenomenology, grounded theory, ethnography and case studies. Qualitative research is also defined as a form of systematic enquiry into meaning (Stake 2000). Cooper and Schindler (2001, p. 770) claim that exploratory research is necessary “… to gain or obtain a detail understanding of the insights of the research dilemma or problems proposed”. Thus, qualitative research searches for information that is supposed to examine, understand and consider phenomena through an inside perspective.
Kotler, Adam, Brown & Armstrong (2006, p. 122.) state that “... the objective of exploratory research is to gather preliminary information that will help define problems and suggest hypotheses”. Exploratory research often relies on secondary research such as reviewing available literature, informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies (Zikmund 2003).

Shields and Hassan (2006) maintain that qualitative research methods, including case study research and field research, are regularly used to conduct exploratory research. It was mentioned earlier on that there are good examples of qualitative research that are at the disposal of a researcher, namely biography, phenomenology, grounded theory, ethnography and case studies. Creswell (1998) provides definitions of these approaches in the following manner:

- **Biography** Exploring the life of an individual
- **Phenomenology** Understanding the essence of experiences about a phenomenon
- **Grounded theory** Developing a theory grounded in data from the field
- **Ethnography** Describing and interpreting a cultural and social group
- **Case study** Developing an in-depth analysis of a single case or multiple cases

Yin (1994) comments that qualitative methods are often related to case studies, where the aim or purpose is to receive information and thereby gaining a deeper understanding of the research problem. In addition to case studies, other categories of exploratory research experience survey, secondary data analysis and pilot study (Zikmund 2003). These categories of exploratory research are presented in Figure 1.1 below.

**Figure 1.1. Categories of exploratory research**

![Figure 1.1. Categories of exploratory research](source: Adapted from Zikmund (2003, p. 61))
Hill and Wright (2001) argue that this type of research (qualitative) is useful when the objective of the study is to cover a comprehensive view and an understanding of the whole phenomenon. The results of qualitative research provides some indication as to the "why", "how" and "when" something occurs, as opposed to quantitative measures that answer questions such as: "how often, how many, what proportion or what size" (Creswell 1998, p.17).

There are therefore three important reasons why a qualitative approach as opposed to another approach was selected for this study. One research objective of this study seeks to investigate the extent the legislative requirements impact on SMMEs, as an example. The study searches for answers whether legislative requirements do indeed affect the creation of SMMEs in South Africa and thus explores whether there are positive and negative factors impacting on the SMME sector. Secondly, this type of study was chosen because the topic needs to be explored. This implies that there are no existing theories at hand to explain the poor state of SMMEs in relation to wage-setting mechanisms. Finally, a qualitative study was seen as ideal to present a detailed view on the selected topic.

1.6.3 Research design

One most important and critical aspects of this study was the decision on how the data should be collected. A research design is "...a detailed plan or method for obtaining data scientifically and it provides the necessary structure" (Dooley 1990, p. 44). On the other hand, a research design is "...a plan or blueprint of how you intend conducting the research" (Mouton 2001, p. 4). The research design therefore focuses on the end product of the study and assists in determining the type of study which is being planned and the sort of result that is expected.

"...The components of a research design involve the maximum control over factors that could interfere with the validity of the findings" (Dooley 1990, p. 47). A research design is necessary to achieve a number of objectives, for example, planning and implementing a study; determining the specific setting, the sample and the phenomenon to be studied; and formulation of an overall strategy and rationale for the study. Furthermore, a research design is important in establishing the logic of the research study by linking the data to be collected (and conclusions to be drawn) to the initial questions or objectives of the study (Yin 2003).
As indicated above, the current study explores the issue of the impact of wage-setting institutions on SMMEs. As a result, the relationships with other constructs related to the operating environment of the SMMEs are also investigated, such as the factors that affect the sustainability existing programmes that were created in ensuring that the necessary support and assistance are provided to entrepreneurs, for example, the industrial policy framework adopted in a country. The format for the design of this study therefore pursues the traditional research approach of presenting a problem, statement of objectives, collecting data to address the identified objective, analysing the data, and addressing the research objectives.

The research design of this study has exploratory and descriptive research design characteristics. Yin (1994) recommends five components of a research design for case studies, i.e. a study’s questions, its propositions, its units of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings. Neuman (1997) provides the model of structuring a case-based study and this model will be followed in this study. This model is outlined below:

(i) **The problem is identified**: e.g. all enterprises, irrespective of size, in South Africa having to comply to labour legislation requirements and provisions.

(ii) **The context is discussed**: e.g. South Africa in the post-apartheid era, Sweden and Egypt.

(iii) **The issues are highlighted**: e.g. labour legislation requirements and provisions and other factors impede SMME creation in South Africa and in general terms.

(iv) **The lessons learnt are investigated**: e.g. the need for an institutionalised dialogue for the SMME sector.

(v) **Specific solutions are proposed**: e.g. the need for strengthening of the social dialogue and collective bargaining in South Africa through the expansion of the role of workplace forums (Neuman 1997).

In this study it will be shown that there is a need for a policy framework for suitable environment developing for small and medium businesses in South Africa. This framework should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. As a result, this study has utilised case studies of two countries, i.e. Sweden and Egypt. Similar studies have been conducted on the impacts of labour legislation on SMMEs in general, but very few have focused solely on the effects of
wage-setting mechanisms. Nonetheless, the use of case studies adds to the existing knowledge of experiences of SMMEs in South Africa and contributes to the understanding of ways wage-setting mechanisms affect SMMEs.

1.6.3.1 The case study approach

This study will follow a case study approach, and the selection of cases will be done on theoretical grounds. Yin (1984, p. 23) defines case study research as “...an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. Literature indicates that there are four steps define any particular case:

(i) The case is identified;
(ii) The case is bounded by time or place;
(iii) The data comes from multiple sources; and

Zikmund (2003, p. 115-116) explains that the case study method is a form of exploratory research that “…intensively investigates one or a few situations similar to the researcher’s problem situation”. Put in simpler terms, case studies seek conformity between the results in similar situations. In this study, it refers to other countries where the nature of the problem and the problem definition happen to be the same as the one experienced in the current situation (Sekaran 2000). It can then be deduced that the theory helps to pinpoint other similar events to the result (Yin 1994).

The strongest point of using case study research is that it allows for an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research (Creswell 1998). Thus, case studies emphasise detailed contextual analysis of a limited number of events or conditions and their relationships. Literature reveals that research can be conducted on a single case study or multiple case studies. A single case study is appropriate when a single case represents a single critical case, extreme or unique case, or even revelatory case. Yin (1994) mentions that the use of a single case is often subject
criticism that it the production of general conclusions is undermined. Yin (1994), however, counters this argument by stating that it does not matter how many cases are selected since the number of cases does not change the nature of the conclusions nor the ability to generalise.

On the other hand, the direction followed in this study is the use of multiple cases because a multiple case study design provides evidence that is more robust and more compelling (Yin 1994). Furthermore, the use of multiple cases permits for a detailed account of each case and then some form of cross-case comparison in prose or in a tabular summary (Creswell, 1998). Multiple cases are therefore quite useful when compared to single cases (Tellis 1997). Moreover, they are useful in instances when the cases may not be representative of the population from which they are drawn and when a range of experiences, outcomes, or situations is desirable. It needs to be pointed out, however, that the use of multiple cases limits the depth with which each case may be analysed and also has implications for the structure and length of the final report.

The use of purposefully selected, multiple case studies was, therefore, considered critical to this study as it allowed a broader view to be undertaken across countries. Yin (1994) is opinion that using of multiple data sources assists in providing a richer set of data and promote the transferability of the study's findings.

For the purposes of this study multiple case studies were chosen as this study does not depend on a single critical case, extreme or unique case, or even revelatory case. With the use of multiple case studies in this study, it is envisaged that evidence that is more robust and more compelling about the research purpose, pertaining to the impact of wage-setting institutions on the survival of SMMEs, would be obtained. The selection of cases would be based on judgemental sampling. Sampling in the case study research is bounded in time and place (Creswell 1998). The geographical location of this study is in three countries. The time covered by the study is 1994 to date (South Africa) and 1990 to date (in the case of both Sweden and Egypt). The focus of the cases is on the SMME environments and wage-setting mechanisms in the three countries. Case studies “... represent diverse cases to fully display multiple perspectives about the cases and to show different perspectives on the problem, process, or event” (Creswell 1998, p. 120). The sample of cases in this study is representative of the different forms of wage-setting mechanisms and assists in enhancing the understanding of the chosen topic.
1.6.4 Data and information collection

Data collection for case studies can be obtained from six sources: documentation, archival records, interviews, direct observation, participant observation and physical artefacts (Yin 1994). Secondary data, in the form of documentation, was selected for this study. At the centre of the research secondary data collection methods will be the primary focus. There are thousands, if not millions, types of information sources — each with a specific purpose. Cooper and Schindler (2001) provide some of these sources as handbooks, journals, electronic information and press articles. Yin (1994) and Stake (2000) recognise the sources of evidence in case studies as documents, archival records, interviews, direct observation, participant-observation and physical artifacts.

Yin (1994), however, argues in favour of using documentation in that documentation are stable, unobtrusive, exact and cover a broad spectrum. Thus, in this study documentation involves handbooks, journals, electronic information and press articles for obtaining and assessing secondary information. For the purposes of triangulation of evidence, as discussed in the next paragraph, documents assist to confirm evidence from other sources and for making inferences about events (Tellis 1997).

Both case studies and secondary data are therefore used in an attempt to address the objectives of the study. This process of corroborating data from multiple perspectives is called triangulation (Creswell 1998). Creswell (1998) argues that the process of triangulation enhances the depth of understanding of a particular theme and to provide verification. Not surprisingly, the case study is referred to as a triangulated research strategy (Tellis 1997). The critical issue that often comes up when discussing the case study approach is the validity and accuracy of results (Dooley 1990). Tellis (1997) suggests that the use of triangulation may assist to solve the validity and accuracy problems in case study research. The strength of using multiple case studies is that it permits for exploration, description and explanation within each case and also across cases to help provide "... lessons learned" (Creswell 1998, p.249).
1.6.5 Data analysis: analysing case study evidence

According to Tellis (1997), the exercise of analysing case study evidence is least developed and as a result the most challenging aspect of utilising the case study methodology. It is for this reason that some researchers in favour of quantitative research methods since they employ statistical analysis to present evidence collected. The assumption is therefore that the process would be easier and more acceptable. Literature suggests that not all case studies may be conducive to any form of statistical analysis. Miles and Huberman (1984) suggested analytic techniques such as rearranging the arrays, placing the evidence in a matrix of categories, creating flowcharts or data displays, tabulating the frequency of different events, using means, variances and cross tabulations to examine the relationships between variables, and other such techniques to facilitate analysis.

Zikmund (2003) is of the view that observer impression is the most common analysis of qualitative data. This implies that the observer scrutinises the data, interprets it via forming an impression and reports impressions in a structured and sometimes quantitative form. The use of case study methodology thus requires an analytic strategy that will lead to conclusions (Tellis 1997). Yin (1994) suggests that two main strategies for general use. The first approach relies on theoretical propositions of the study and then analyse the evidence emanating from those propositions. The second technique means developing a case description and this becomes a framework for organising the study. (Tellis 1997) also argues that in many other situations the objective of the case study may assist to pinpoint causal that could be analysed.

In order to address shortcomings that relate to poor data collection and to produce an analysis of the highest quality, four principles need to be observed, namely show that the analysis relied on all the relevant evidence, include all major rival interpretations in the analysis, address the most significant aspect of the case study and use prior, expert knowledge to further the analysis (Yin 1994).

The passages above indicate that manner in which data is analysed is important for any research study. For this study analysis would entail reviewing and the use of documentation. Qualitative data analysis focuses on data in the form of words, and Miles and Huberman (1994) propose that specific techniques can be utilised to analyse case study data namely, within-case study analysis and cross-case study analysis. In this study a cross-case study analysis will be adopted (i.e. cases will be compared with each other). It is based on within-
case study analysis for each country which showed how each case could be compared to the South African wage-setting institutions. While still using the South African framework, the cross-case analysis will focus on identifying similarities across the selected countries.

The method of analysing the data in this type of study is fraught with a number of limitations, i.e. “...lack of generalisability of results, non-standardisation of measurement, data collection and analysis can be time consuming” (Mouton 2006, p. 150). By utilising the qualitative approach, questions could be resolved on the subject of the nature of the phenomena. In this manner, the impact of the wage-setting institutions on the growth and survival of SMMEs using different countries as case studies can be described, understood and interpreted.

1.7 LIMITATIONS OF THE STUDY

This study will be limited by the lack of empirical research. Thus, information contained in this study will be obtained from secondary sources. Assumptions and inferences to be made will hinge on what will be considered applicable literature. It needs to be stressed however that the aspects that will be covered in the study are of critical importance to the long-term survival of small businesses in the economy.

1.8 ARRANGEMENT OF THE STUDY

The study will contain five chapters which are organised in the following manner:

Chapter 1: Introduction

The introduction sets the scene for the discussion and also provides definitions of the terminology used throughout this study, providing answers to questions such as “What is meant by SMME sector?” and “What is the definition of a wage-setting institution?” The chapter concludes by outlining the research methodology and design employed in this study.
Chapter 2: The importance of the SMME sector in wealth creation and the role of the government in developing SMMEs

This chapter deals with the importance of SMMEs in general terms. Furthermore this chapter aims at identifying existing constraints and problems, other than labour-related factors, facing the SMMEs with the sole purpose of highlighting the general conditions under which they operate. Finally, the support offered by government and other stakeholders in developing SMMEs is discussed.

Chapter 3: Wage-setting machinery: wage-setting institutions in South Africa

This chapter provides an overview of wage-setting institutions that shape the South African labour market, i.e. the National Economic Development and Labour Council, Bargaining Councils and the Employment Conditions Commission.

Chapter 4: Case study analysis: The wage-setting machinery in other countries

This chapter provides a critical analysis of wage-setting institutions in both a developed country and a middle-income country. From this exercise it is envisaged that a number of lessons for South Africa will be extracted. The research findings on the effects of wage-setting institutions on SMMEs will also be presented.

Chapter 5: Conclusions and recommendations

The final chapter will contain a summary of the research that has been performed and some recommendations with regard to the future of the "extension of the agreement to non-parties" as well as possible future studies are listed.
Chapter TWO

The importance of the SMME sector in wealth creation and the role of the government in developing SMMEs

2.1 INTRODUCTION

This chapter deals with the importance of SMMEs in general terms and aims at identifying existing constraints and problems, other than labour-related factors, facing the SMMEs with the sole purpose of highlighting the general conditions under which they operate. The support offered by government and other stakeholders in developing SMMEs is also discussed.

Berry et al. (2002, p. 4) highlight the significance of small enterprises in the South African context, by claiming that SMMEs "... have, at least in theory, the potential to generate employment and upgrade human capital". After all, employment growth is at the heart of governments’ policy to redress historical inequalities and therefore reduce unemployment (Clarke et al. 2005). Furthermore, the re-integration of South Africa to the global economy posed a question on its ability to compete effectively at a global stage. Without positive economic growth, policy objectives of reducing unemployment, competitiveness and redressing historical inequalities through SMMEs would be almost impossible to achieve. It is probably from these policy assumptions or objectives that the stimulation of SMMEs became government’s priority in the hope that the small business sector could become an important source of employment and income generation (Chandra, Moorty, Nganou, Rajaratnam & Schaefer 2001). As a result, SMMEs are said to be responsible for resolving problems of insufficient growth (Kesper 2000). Chalera (2007, p. 2) notes that the small business sector in Europe and Japan is the "...largest forefront in local economic development". Thus, SMMEs are still seen as an important intervention of advancing the goal of poverty and inequality reduction (Chandra et al. 2001). Since the mid nineteen nineties government has committed massive resources in developing and supporting the SMME sector.
Since 1994, the government has taken measures to ensure that small business development becomes a key policy focus. The initial step taken was the adoption of the *White Paper on a national strategy for the development and promotion of small business in South Africa* in March 1995. This White Paper is said to be the most comprehensive policy and strategy on small business development was formulated in the country in that it established several important objectives for the development of SMMEs (DTI 2005a). Secondly, the President’s Conference on Small Business was held in 1995. Following these two important milestones, government created institutions and programmes that are geared to improve the SMME sector’s access to critical resources, for example finance, infrastructure, training and counselling, information, markets and technology. The strategy or the White Paper puts emphasis on the improvement of the legislative and regulatory environment for the small business sector as well as on the strengthening of SMME’s associations and chambers (Chalera 2007).

The first major attempt on establishing a sound regulatory framework for SMMEs was the promulgation of the National Small Business Act 102 of 1996. Resulting from this piece of legislation, a number of development finance institutions (DFIs) were established and these DFIs continuously adapt their product offerings to fit the dynamism of the country’s economy (Berry *et al.* 2002). These institutions include the Khula Enterprise Finance Ltd (KHULA), Umsobomvu Youth Fund (UYF) and the National Empowerment Fund (NEF). One most important element of these initiatives is that they put emphasis on supporting previously disadvantaged people (and youth in the case of the UYF) in their efforts to compete in the mainstream economy and or within their local communities. The important DFIs, programmes and other institutions created for the support and development of the SMME sector are discussed at length in the latter sections of this chapter.

Notwithstanding all these efforts by government, it is still unclear whether an enabling environment has been created for the SMME sector to assist in the path towards achieving some of the objectives such as poverty alleviation, economic growth and job creation (Kesper 2000).
2.2 THE RATIONALE OF FOCUSING ON SMMES

In 1994, the Reconstruction and Development Programme (RDP) was implemented by government as its first socio-economic policy framework. The main aim of the RDP was to address social and economic development issues and it is in this vein that the SMME sector was seen a vehicle for achieving a number of possible economic outcomes such as solving problems of insufficient growth, becoming a source of employment and income generation (Chandra et al. 2001; Kesper 2000).

In addition to advancing economic efficiency or economic growth policy objectives, the essence of the RDP was to achieve other normative goals such as political stability, social cohesion, re-mediation of serious racial or ethnic discrimination, cultural pluralism, fairer distribution of wealth where significant imbalances exist because of past government intervention, rapid and equitable increases in employment potential and balanced regional growth. In line with this point of view, countries such as the USA and South Africa, for instance, regard SMMEs as “… means to re-mediate racial discrimination” (International Trade Centre 1998, p. 2). Special programmes are available for the previously disadvantaged people and the youth. Indeed, such programmes may be viewed in the negative light by sections of the society. The Growth, Employment and Redistribution policy (GEAR) replaced the RDP in 1996.

Furthermore, the level of entrepreneurial activity in South Africa is of great concern (Swanepoel 2008). According to the Global Entrepreneurship Monitor’s Total Entrepreneurship Activity (TEA) performance and opportunity indices, South Africa has been below the median since 2001. For example, in the 2006 survey it was ranked 33rd out of forty two participating countries (both developed and developing) in terms of people who take an opportunity of starting a business and entrepreneurship in general (Global Entrepreneurship Monitor (GEM) 2007). Swanepoel (2008) asserts that this in contrast to other developing economies, transitional and developing economies have low GDP per capita and TEA. Different literature sources ascribe the challenge of high unemployment in South Africa to low levels of entrepreneurial activity (Hudson 2006; Swanepoel 2008). In turn, government and other parties have rightly identified this challenge and continue to commit massive resources in developing SMMEs.
Nevertheless, in the South African context, SMMEs are more specifically targeted for the following reasons:

- The labour absorptive capacity of the small business sector is high;
- The average capital cost per job created is usually lower than in big business;
- Their role in technical and other innovation is vital for many of the challenges facing South Africa's economy;
- They allow for more competitive markets;
- They are suited to the exploitation of small, isolated niche markets, both domestic and export, through their superior ability to adapt to rapidly changing tastes and trends;
- They use local (often recycled) resources;
- They provide solutions for the newly urbanised, unemployed, retrenched, and rural and urban entrepreneur;
- At the smaller end of the scale they often require little or no skills or training, workers learn skills on the job;
- They have a high propensity to save and re-invest even at very low income levels; and
- Subcontracting by large enterprises to SMMEs adds flexibility to the production process (Chalera 2007, p. 1)

2.3 THE IMPORTANCE OF THE SMME SECTOR IN WEALTH CREATION

The importance of the SMME sector in South Africa manifests through a comprehensive set of programmes for supporting the development of SMMEs which government maintains. As complete as these programmes may be, the efforts are undermined by a lack of entrepreneurial tradition and culture amongst the previously disadvantaged populations, as well as lack of basic education and management experience needed to run successful businesses (Chalera 2007). As a result, the SMME sector has provided mixed results.

Berry et al. (2002) and Hudson (2006) are of the opinion that the legacy of apartheid could be responsible for relatively poor performance of SMMEs in the South African economy, unlike in other developing countries where their contribution to employment and economic growth is generally high. The structures inherited from the apartheid policies contribute to:
A highly dualistic economy, not only characterised by a high productivity (modern) and a low productivity (informal) sector with little interaction between them, but also a division along racial lines;

A transition phase marked by political uncertainty and considerable crime and violence, both impacting negatively on local and foreign direct investment in the modern sector;

A recent shift in industrial policy to liberalisation of trade and finance, and a rapid technological change reflecting a comparable process at the global level; and

Low levels of education and training among the participants in the traditional sector who have, in addition, suffered from the suppression of entrepreneurial activities (Berry et al. 2002, p. 5).

Despite these challenges, the importance of small enterprises in the economy can not be underestimated.

2.3.1 The SMME sector as a vehicle for reducing unemployment and for generating income

The DTI (2005a) identified SMME development as one of the ways that can be employed to reduce the high levels of unemployment and to gain access to foreign markets as well as a means that can be used to generate income.

Though the issue of unemployment goes far beyond the scope of this study, a brief discussion of the topic is necessary as it remains a challenge in the society. For example, unemployment showed a steady increase from 1995 to 2003, i.e. it increased by 2.3 percent per annum (Kingdon & Knight 2005). In a survey conducted by Bloomberg on sixty two countries in 2009, it was discovered that the jobless rate in South Africa is the highest amongst these countries (Seria 2009). The unemployment rate increased to 23.6 percent from 23.5 percent in the first three months of 2009, as opposed to 25.5 percent in 2006 (Seria 2009). Despite the improvements in macroeconomic and fiscal policies, South Africa continues to have very high levels of unemployment. Factors such as the high numbers of unskilled labour and labour regulation that is more rigid in South Africa than in many other middle-income countries are often cited as some of the reasons for high unemployment in South Africa (Berry et al. 2002; Clarke et al. 2005; Kaplan & Ramachandran 2006). Drawing inferences from these rather
important findings, this condition has the potential of discouraging firms from hiring new workers and can slow employment growth (Kaplan & Ramachandran 2006). It can thus be assumed that emerging businesses with their limited resources and capacity are mostly likely to suffer most.

As part of macroeconomic strategy reforms, the Department of Finance introduced the GEAR in 1996. The promotion of SMMEs was a key element in this strategy for employment creation and income generation. The assumptions of GEAR were that labour market reforms together with government support for labour-intensive job creation would certainly guarantee that more jobs would be created for every unit of output. GEAR foresaw several labour reforms, namely:

- Greater ministerial discretion over the extension of collective agreements to non-parties; and
- Greater sensitivity within wage agreements to regional labour market conditions, the diversity of skills in the firms of varying size, location or capital intensity and the need to foster training opportunities for new entrants to the labour market (Ministry of Finance 1996).

Unfortunately, the SMME sector has not responded in line with these expectations (Chandra et al. 2001; Clarke et al. 2005). Kingdon & Knight (2005, p. 27) remark that they “... are not aware of any good studies that shed the light to the SMME effectiveness in reducing unemployment in South Africa”. It is therefore necessary to establish reasons why the SMME sector in general has failed to meet the political expectations.

2.3.2 The contribution of the SMME sector to the South African economy

In economies of both developing and developed countries, small businesses play a significant role. The small business sector in Singapore comprised ninety four percent of business enterprises and contributed approximately seventy one percent of total employment (Ofori 1995). As noted earlier the small business performance in the South African economy varies. The SMME sector however plays a significant role in job creation and even more so as a major contributor to the gross domestic product (GDP). In 2000 to 2006, the small business sector was responsible for an average of twenty five percent of employment and it contributed
up to thirty four percent to the country’s GDP (Small Enterprise Development Agency (SEDA) 2007). It is important to note that SMMEs have played an important role in some countries in facilitating their transitions from developing to industrialised status and such transitions have generally been accompanied by the rapid growth and development of small and medium enterprises (Steel & Webster 1991; Ofori 1995). As South Africa aspires to develop its economy, it is apparent that the small business sector would remain very important in the future.

An assumption can thus be made that the role and the contribution of the SMME sector are varied and that small businesses offer several benefits to the economy of a country. The contributions by the SMME sector in the economy are summarised in the following points:

- They are an important source of employment opportunities at relatively low capital cost - particularly for low-skilled workers, as well as women and young people;
- They are an important source of local supply and service provision to larger corporations, which is important in developing national economies, alleviating poverty;
- Small businesses represent an important source of innovation;
- They have a vested interest in community development, i.e. they draw upon the community for their workforce and rely on it to do business;
- SMMEs can be more competitive than larger firms on some spatially dispersed projects because of their relatively low overheads;
- They provide an entry point into the economy for persons with limited capital, or technical skills;
- Their flexibility enables them to exploit niche markets both locally and internationally;
- They provide an opportunity to ensure more equitable income distribution and wider-ranging competition;
- A healthy SMME sector corresponds with a reduced level of informal or “black market” activities;
- They are able to successfully effect backward and forward linkages between other sectors of the economy; and
- Noting the global trends towards outsourcing, SMMEs provide a basis for sub-contracting by larger enterprises, thereby realising higher order efficiencies in some sectors of the economy (WBCSD 2007; Ofori 1995).
2.3.2.1 Statistics on SMME contribution on economic growth and employment

(i) SMME contribution on employment

The SMMEs are common across all the sectors of the economy. SEDA (2007) categorises sectors in the economy into seven distinct areas, namely agriculture, manufacturing, construction, trade and tourism, trade and communications, finance and business services and personal services. As it may be expected the employment share in the economy amongst these sectors varies. In 2005 to 2006, for example, the small business sector absorbed approximately twenty five percent of the country’s workforce (SEDA 2007).

(ii) Contribution to the gross domestic product (GDP)

In addition to the effect of creating employment across the seven economic sectors, the contribution to the gross domestic product of the SMME sector is significant. A country’s prospects are indicated by means of the economic growth rate. Two relevant sources on the SMME contribution to the GDP were published by the Department of Trade and Industry (DTI) and the Small Enterprise Development Agency (SEDA) in 2005 and 2007, respectively. The DTI (2005b) indicates that in 2004 the micro- and very small enterprises contributed twenty four percent to GDP, small enterprises fifteen percent and medium to large enterprises fifty nine percent. Corresponding figures also appear in the study by the SEDA in 2007 and these are presented in table 2.1 below.

Table 2.1: Contribution by the SMME sector to the GDP in South Africa: 2000 - 2006

<table>
<thead>
<tr>
<th>Type of enterprise</th>
<th>Percentage contribution to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-enterprises</td>
<td>8 -10 %</td>
</tr>
<tr>
<td>Very small enterprises</td>
<td>9 – 11 %</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>10 -13 %</td>
</tr>
<tr>
<td>Medium and larger enterprises</td>
<td>40 -50 %</td>
</tr>
<tr>
<td>Non-enterprise sectors</td>
<td>21 -24 %</td>
</tr>
</tbody>
</table>

Source: Adapted from SEDA (2007)
On the other hand, the Trade and Industrial Policy Strategies (TIPS) (2005) summarises contributions by micro- and very small, small and medium enterprises to the GDP in 2004 to 2005 in terms of table 2.2.

Table 2.2: Aggregate percentage (%) contributions by SMMEs to the South African economy in 2005

<table>
<thead>
<tr>
<th>Classification of enterprises</th>
<th>Percentage (%) contribution to the GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium and large enterprises</td>
<td>59%</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>15%</td>
</tr>
<tr>
<td>Micro- and very small enterprises</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Adapted from the TIPS (2005)

The above statistics corresponds with those of other countries. For example, in the USA smaller businesses with less than a hundred people employed approximately fifty two percent of the private sector workforce in the 2001 to 2002 period (Scarborough & Zimmerer 2003). Scarborough and Zimmerer (2003) also claim that since these enterprises are labour intensive they create more jobs than big enterprises. In the early nineteen nineties in both Germany and the United Kingdom small and medium-sized businesses employed forty five percent and 47.4 percent of the manufacturing force, respectively (Wittenberg 1994).

2.4 THE OPERATING ENVIRONMENT OF THE SMME SECTOR

An organisation or enterprise, irrespective of size or wealth, does not exist in isolation and is not self-sufficient, but it is a system that operates in a specific environment (Smit & Cronjé 2004). A systems perspective of an organisation suggests that management of any organisation should maintain a fine balance between the organisation and the environment. This perspective is illustrated in figure 2.1 below.
The performance of an SMME is therefore affected by factors of the external environment, i.e. legislative/political, social, economic, technological, international and ecological. Swanepoel (2008) states that SMMEs fail as a result of the external environments. In a study conducted in the United States of America it was discovered that the majority of SMME failures occur in the first two to six years (Timmons 1999). According to Ligthelm and Cant (2002), the situation in South Africa is not different as less than half of newly established businesses survive beyond five years. As such, the following sub-section will focus on some of the challenges from these environments that limit the development of SMMEs in South Africa.

2.4.1 Constraints to SMME development

The WBCSD (2007) and World Bank (2007) note that small businesses often miss out on tax incentives or business subsidies, as well as suffer more than big companies from the large burden and cost of bureaucracy since they do not possess the necessary financial or human resources to cope with this situation. The small business sector in South Africa, when
compared to big business and small business in other countries, also faces a wide spectrum of challenges and constraints.

Literature reveals that a number of research papers have been presented in an attempt to assess constraints to SMME development. Due to the large quantities of these papers and their varying relevance, only two large surveys have been selected to present some of the challenges faced by SMMEs in South Africa. The first survey was conducted in the Greater Johannesburg Metropolitan Area in 1999 and the second in the eThekwini Municipal area in 2002 by Chandra and Rajaratnam (2001) and Skinner (2005), respectively. The findings from these surveys identified the following constraints:

- Access to financial services;
- Access to training, e.g. business skills and technical training;
- Industry or sector specific constraints;
- Access to infrastructure and basic services such as water and electricity;
- Access to business related infrastructure, e.g. manufacturing, trading and storage space; and
- Government and statutory regulations, e.g. labour legislation and liquor licensing (Chandra & Rajaratnam 2001; Skinner 2005).

2.4.2 Failure of SMMEs in an economy

Small businesses in an economy are obviously confronted by major challenges. The integrative model of entrepreneurial failure presents some key factors responsible for the failure of SMMEs, i.e. human capital, social resources embedded in relationships (including norms and values), lack of firm growth, strategies of the business, managerial variables and environmental factors (Liao 2004).

Dockel and Ligthelm (2002) distinguish between two types of factors contributing to the failure rates of SMMEs, i.e. exogenous and endogenous. Exogenous factors refer to the enabling environment that includes economic, technical and legislative environments. Endogenous factors refer to issues that inhibit or advance small enterprise growth, e.g. ease of entry to the market and the degree of competitiveness. Van Aardt, Van Aardt and Bezuidenhout (2000) identify eight factors that contribute to the failure of small enterprises,
i.e; poor management skills, poor human resources management, poor money management, poor record-keeping, poor planning, poor pricing practices, poor marketing of the business and the owner’s inability to adapt to the changing demands of a business.

It is apparent that there are many issues that contribute to the failure of SMMEs. Therefore, it is suggested that an awareness of all factors "... that result in failure as well as factors that increase the probability of performance could assist in evaluating the effectiveness of small, micro- and medium-sized enterprise support programme" (Swanepoel 2008, p. 9). NEDLAC (2006) also proposed that there was a need for a comprehensive package of support measures to develop the SMME sector. As such, section 2.5 explores some of the existing interventions of the government and other role players in support of the SMME sector.

2.5 THE ROLE OF THE GOVERNMENT AND OTHER ROLE PLAYERS IN DEVELOPING SMMES

As indicated in the early sections of this chapter, government regards the small business sector as a vehicle for increasing and redistributing wealth among previously disadvantaged people. As it is the case with large companies, the SMME sector also requires a favourable institutional framework (WBCSD 2007). The National Small Business Act 102 of 1996 was pre-empted by government’s promulgation of the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa in 1995, and this law was followed by the creation of institutions and programmes to support the development of the small business sector.

The DTI (2005a) suggests that all players in the South African economy understand the importance of investing in small businesses and therefore this clearly indicates that the role of developing the small business sector goes beyond the government and its institutions. Non-governmental and private organisations continue to play an important role in the development of the small business sector. For example, the Financial Sector Charter of 2003 was created to promote lending, access and Black Economic Empowerment (BEE) in the financial services sector. Other private sector initiatives include, and not limited to, the South African Breweries’ Kickstart and Anglo American’s Zimele programmes.
2.5.1 The evolution of the SMME policy framework in South Africa

The renewed focus on the SMME sector is in sharp contrast to the efforts of the previous government in developing the sector. Chalera (2007) claims that apartheid policy makers either neglected or actively discouraged the small business sector, especially in the case of black-owned enterprises. Perhaps this explains the shortage of research on small enterprises during this period. The first known government initiative designed for the SMME sector is the Small Business Development Corporation (SBDC). The SBDC was established in the early 1980s. It was not until the late eighties to mid-nineties that the real interest on SMMEs began to take shape (Chalera 2007). The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa of 1995 and the President’s Conference on Small Business in 1995 serve as good examples.

In 1995, the newly established Centre for Small Business Promotion (CSBP) was tasked with the drafting of the legislation to focus solely on the creation of a positive, enabling environment for SMMEs, with the impediments faced by black entrepreneurs taking a centre stage (Chalera 2007). From this effort, the mechanism for small business support outlined in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa of 1995 became law with the enactment of the National Small Business Act No. 102 of 1996. The Act is important in that it provides a comprehensive definition of SMMEs, as presented in Chapter 1.

2.5.2 Instruments to advance small business development and support

Small and medium enterprises are present in large numbers in all sectors of the economy in South Africa. Due to the diversity of issues and problems that face the SMMEs, support programmes, products and services for the SMMEs have been initiated by the various role players both inside and outside the public sector. This support includes a wide range of tools, instruments or interventions applied by these actors. The DTI (2005a) summarises these instruments, with a few examples given for each category, in table 2.3.
<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>Examples</th>
</tr>
</thead>
</table>
| **Policy frameworks with relevance to SMMEs** | - Integrated Small-Enterprise-Development Strategy  
- Micro-economic reform, poverty alleviation, BEE, local economic development and provincial growth and development strategies. |
| **Legislation** | - National Small Business Act 102 of 1996  
- Co-operatives Act 14 of 2005  
- Companies Act 71 of 2008 |
| **Regulations and administrative procedures** | - Company regulations  
- Tax regulations  
- Intellectual-property regulations  
- Procurement regulations  
- Trade administration |
| **Co-ordination mechanisms** | - National-government co-ordination structures (interdepartmental)  
- Provincial and local co-ordination structures  
- Co-ordination structures across delivery partners, including private sector, NGO and international assistance |
| **Information and advice** | - Industry and market information  
- Information about support services  
- Information channelled via institutions, mass media, networks, etc. |
| **Monitoring and evaluation** | - Development of indicators, monitoring systems, evaluation systems and feedback mechanisms |
| **Institutional capacity building** | - Enhancement of small-enterprise specialist institutions  
- Alignment of related institutions dealing with small-enterprise issues |
| **Leadership and promotion of SMME concerns** | - Public leadership, providing direction  
- Catalytic projects  
- Piloting of initiatives |
<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory structures</td>
<td>- National Small Enterprise Advisory Council</td>
</tr>
<tr>
<td>Research</td>
<td>- Baseline sector and area research</td>
</tr>
<tr>
<td>Training and capacity building</td>
<td>- Specialist small-enterprise training</td>
</tr>
<tr>
<td></td>
<td>- Sector-based training</td>
</tr>
<tr>
<td></td>
<td>- Entrepreneurship training</td>
</tr>
<tr>
<td>Networking organisations</td>
<td>- Chamber structures</td>
</tr>
<tr>
<td></td>
<td>- Sector associations</td>
</tr>
<tr>
<td></td>
<td>- BEE structures</td>
</tr>
<tr>
<td></td>
<td>- Interfirm, supply chain and cluster networks</td>
</tr>
<tr>
<td>Provision of finance</td>
<td>- Grants</td>
</tr>
<tr>
<td></td>
<td>- Loans</td>
</tr>
<tr>
<td></td>
<td>- Venture capital</td>
</tr>
<tr>
<td></td>
<td>- Sureties and guarantees</td>
</tr>
<tr>
<td>Access to infrastructure and utilities</td>
<td>- Transport (passenger and freight)</td>
</tr>
<tr>
<td></td>
<td>- Utilities: water, electricity, waste</td>
</tr>
<tr>
<td></td>
<td>- Information and telecommunications</td>
</tr>
<tr>
<td></td>
<td>- Security</td>
</tr>
<tr>
<td></td>
<td>- Street lighting</td>
</tr>
<tr>
<td></td>
<td>- Property</td>
</tr>
<tr>
<td>Targeted projects</td>
<td>- Sector-specific projects</td>
</tr>
<tr>
<td></td>
<td>- Competitiveness projects</td>
</tr>
<tr>
<td></td>
<td>- Technology-enhancement projects</td>
</tr>
<tr>
<td></td>
<td>- Small-business incubators</td>
</tr>
</tbody>
</table>

Source: Adapted from DTI (2005a)

Due to the large number of instruments available for SMME support, it is not feasible to discuss all these instruments in this study. However, a selected number of institutions that have been set up by the government and the corresponding private sector initiatives are discussed.
2.5.2.1 Public sector institutional arrangements

The National Small Business Act No. 102 of 1996 provides a legal platform for the establishment of a number of institutions, affirmative procurement reform and the formation of an advisory board to review SMMEs' legal and regulatory environment. Resulting from the Act, various programmes and institutions were created by government and its agencies to make the SMME development strategy more meaningful (DTI 2005a).

These institutions would support the non-financial needs (i.e. Ntsika Enterprise Promotion Agency) and also provide financial services (i.e. KHULA) of SMMEs. Ntsika has since been replaced by the SEDA. In addition, the government has also established an affirmative procurement strategy designed to assist SMMEs that are owned by previously disadvantaged people. The Department of Finance also continues to decrease the corporate tax rate, e.g. one percent reduction from twenty nine to twenty eight percent in 2009, to stimulate growth in the small and medium enterprise sector. Additionally, the South African Revenue Services (SARS) has continuously granted tax breaks to SMMEs to achieve the same objective (Hudson 2006).

Some of the government-initiated programmes or institutions are presented below.

Table 2.4: Government-initiated programmes or institutions

<table>
<thead>
<tr>
<th>Examples of government-initiated institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Small Enterprise Development Agency (SEDA)</td>
</tr>
<tr>
<td>- The SAMicro-Finance Apex Fund (SAMAF)</td>
</tr>
<tr>
<td>- Khula Enterprise Finance Limited (KHULA)</td>
</tr>
<tr>
<td>- Umsobomvu Youth Fund (UYF)</td>
</tr>
<tr>
<td>- National Empowerment Fund (NEF)</td>
</tr>
<tr>
<td>- Industrial Development Corporation (IDC)</td>
</tr>
<tr>
<td>- Sector education and training authorities (SETAs)</td>
</tr>
<tr>
<td>- Provincial Development Finance Institutions</td>
</tr>
<tr>
<td>- Provincial Small Business Development Agencies</td>
</tr>
<tr>
<td>- South African Revenue Service SMME Division</td>
</tr>
</tbody>
</table>

Source: DTI (2005a)
Only the most critical government programmes and or initiatives are focused on, and these include the following:

(i) **Department of Trade and Industry and related institutions (DTI)**

The DTI is responsible for the development and review of SMME related policies, with the aim of creating an enabling environment for the establishment and growth of small enterprises. The DTI also provides SMME related support, with the objective of accelerating the development of the sector (DTI 2008).

The DTI has created several incentive schemes for the SMMEs and these include the following:

- **Small and Medium Manufacturing Development Programme (SMMDP)** offers cash incentives for new industries as well as the expansion of existing industries and is targeted at a number of sectors, including SMMEs. It replaces the former Small / Medium Enterprise Development Programme (SMEDP). The SMMDP’s products include the establishment grant and the skills support programme (SSP).

- **Economic Empowerment Schemes (EES)** are established for the expansion or establishment of small businesses from the previously disadvantaged individuals (Berry *et al.* 2002).

- **Venture Capital Scheme** supports small and medium enterprises, especially those sponsored by historically disadvantaged entrepreneurs, with risk capital.

- **Import Finance Scheme** provides credit and guarantee facilities for importing capital goods and services.

- **Normal Finance Scheme** provides for low interest finance, which is administered by the IDC, during expansion of a business.

- **Short-term export finance guarantee facility** provides pre- and post shipment-export finance guarantee

- **Export Marketing and Investment Assistance Scheme (EMIA)** is a grant for primary market research, outward selling and inward buying trade missions and assistance to take part in exhibitions (DTI 2008).

The International Finance Corporation (IFC) (2006) claims that the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa served as an indication that the promotion and development of SMMEs was a clear priority of the government. According to the DTI (2005a), this document was aimed at creating a number of measures to foster an enabling environment for small businesses within the context of a modernising economy and increasing international competition, and to:

- Create an enabling legal framework;
- Streamline regulatory conditions;
- Facilitate access to information and advice;
- Facilitate access to marketing and procurement;
- Facilitate access to finance;
- Facilitate access to affordable physical infrastructure;
- Provide training in entrepreneurship, skills and management;
- Improve industrial relations and the labour environment;
- Facilitate access to appropriate technology;
- Encourage joint ventures;
- Build capacity and to strengthen institutions; and
- Introduce differential taxation and other financial incentives (DTI 1995).


One of the provisions of the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa was the creation of a national Small Business Act. As a result, the National Small Business Act 102 of 1996 was passed in 1996. This law legitimised the creation of implementing agencies such as the Ntsika Enterprise Promotion Agency, and the now defunct National Small Business Council (NSBC). Both Ntsika and the NSBC were created to play a facilitative role in the provision of non-financial services and to represent and promote the interests of small business respectively.

The National Small Business Amendment Act 29 of 2004 (NSBAA) was passed in 2004 to amend the National Small Business Act 102 of 1996. The most important features of this
piece of legislation are that it provides a comprehensive definition of what the small business sector is and also provides for the establishment of a number of institutions, such as the Small Enterprise Development Agency. SEDA incorporated the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre (NAMAC) and any other designated institution (IFC 2006). In addition to the SEDA, other state-owned development agencies include the National Empowerment Fund, the IDC, KHULA, and the SAMAF. Of the five above mentioned agencies, the SEDA is the only non-financial institution and provides business advisory services to SMMEs (Ntingi 2005).

(iv) Small Enterprise Development Agency (SEDA)

SEDA is responsible for strengthening support for SMMEs’ access to finance, creating an enabling regulatory environment, expanding market opportunities for specific categories of small enterprises, localising small business support through a grid of SEDA-coordinated information and advice access points, initiating a national entrepreneurship drive and expanding education and training for small business and co-funding minimum business infrastructure facilities in local authority areas across the country (SEDA 2008). The execution of this mandate is supported by a network of SEDA centres around the country with a strong focus on micro and small enterprises (IFC 2006). IFC (2006) also mentions that an Integrated Development Plan (IDP) and Local Economic Development (LED) programme was established at all metropolitan councils and the focus of the LED strategies is on infrastructure development as well as to link these strategies to dominant or high potential sectors in the local economy.

According to the SEDA (2008), the company has established strong partnerships with financial institutions, development finance institutions, NEF, SAMAF, Sector Education and Training Authorities (SETAs), government departments and government agencies, e.g. Umsobomvu Youth Fund, National Metrology Laboratory of the Council of Scientific and Industrial Research (CSIR), Companies and Intellectual Property Registration Office of South Africa (CIPRO) and South African National Parks.

SEDA’s special programmes include the SEDA Technology Programme (STP). The STP assists small technology enterprises by providing support services and incubation facilities in all provinces and linked to this is a fund that enables SMMEs to access funding for technology and technical services. Most importantly, it is a part of the government’s national strategy of consolidating small enterprise support interventions across different government
departments and government agencies. For example, the DTI and the Department of Science and Technology merged the Godisa trust with the National Technology Transfer Centre (NTTC) and the Technology Advisory Centre (TAC) to achieve this objective. The South African Business and Technology Incubation Association (SABTIA) was established to showcase best practice in South African incubation through links with similar bodies in other parts of the world (SEDA 2008).

(v) Khula Enterprise Finance (KHULA)

Khula Enterprise Finance Limited (KHULA) is also an agency of the DTI created in 1996 to facilitate access to finance for SMMEs through retail financial institutions, i.e. major commercial banks and non-banking financial institutions active in the SMME market (KHULA 2008). Extracted from the KHULA, SAMAF and SEDA briefing of Parliament on SMME funding in 2007, the company “... aims at the financing of the small, medium and micro enterprises (SMME) sector where the private sector was either not present or not interested, and seeks to play a role in the area of loans from R10 000 to R3 million” (Sabinet 2007). A range of financing products offered by KHULA is summarised in Table 2.5 below.

Table 2.5: A range of financing products provided by KHULA

<table>
<thead>
<tr>
<th>Product</th>
<th>Examples of finance vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Guarantee Schemes</td>
<td>Individual guarantees, Institutional guarantees and Portfolio guarantees</td>
</tr>
<tr>
<td>Loans</td>
<td>Loans to retail financiers, KHULA Equity Fund, KHULA Start and Land Reform Empowerment Facility</td>
</tr>
<tr>
<td>Joint Venture Funds</td>
<td>Anglo-KHULA Mining Funds, KHULA-Shoprite and Enablis-KHULA Fund</td>
</tr>
<tr>
<td>Thuso Mentorship Programme</td>
<td>Mentorship to clients with bank loans and a guarantee from KHULA</td>
</tr>
</tbody>
</table>

Source: IFC (2006)

The intention of these financial options is to ensure the availability of finance for enterprises across the spectrum by providing guarantees to businesses that do not qualify for bank loans and to retail financial intermediaries who would lend to very small and micro enterprises. Furthermore, the KHULA Start programme seeks to build enterprise lending in rural areas.
and the Joint Venture Funds and special mechanisms, e.g. the Land Reform Empowerment Facility, are intended to finance higher value ventures (IFC 2006).

(vi) **South African Micro Finance Apex Fund (SAMAF)**

The South African Micro-Finance Apex Fund was established to provide affordable financial services by providing micro-loans, institutional and client capacity building and support to the social capital mobilisation through co-operatives and other formations such as burial societies and stokvels (SAMAF 2008). The wholesaling funds for micro finance aims to reduce the level of household poverty (IFC 2006). The Apex Fund grants micro finance credit loans to ventures at interest rates of five to eight percent. In 2007, thirty four financial services co-ops and four micro-finance institutions had either been approved or given operational backing from the Apex Fund, totalling R69.6 million (Sabinet 2007). The financial services offered by the Apex Fund are listed in table 2.6.

**Table 2.6: Range of financing products provided by the Apex Fund**

<table>
<thead>
<tr>
<th>Product</th>
<th>Brief description of product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro Credit Loan Fund</strong></td>
<td>This programme provides for loans of up to R10 000 to households and micro entrepreneurs who depend on their micro enterprises for their livelihood. This fund comprises the micro credit for micro enterprise development fund and the poverty alleviation fund.</td>
</tr>
<tr>
<td><strong>Capacity Building Fund</strong></td>
<td>Equips partner organisations and micro finance institutions with funding on building infrastructure to ensure that they are functional, effective and sustainable.</td>
</tr>
<tr>
<td><strong>Savings Mobilisation Fund</strong></td>
<td>Provides funding to enhance savings mobilisation. The maximum fund of R200 000 will be made available to capacitate existing savings schemes.</td>
</tr>
</tbody>
</table>

Source: IFC (2006)
Other State-funded Development Finance Institutions

Other Development Finance Institutions funded by the government, whether by the national government and provincial development finance corporations, are as follows:

(a) Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF)

The IDC was established in 1940 to promote economic growth and industrial development and, in 2006, had total assets in excess of R37 billion (IFC 2006). It also has the mandate to extend its services beyond the borders of South Africa into the rest of the continent. The immediate objectives of the corporation are to create employment, develop black SMMEs and to accelerate black economic empowerment (BEE). The IDC, for example, facilitates access to finance through SAMAF, KHULA and NEF as well as sector-focused access to credit instruments created by other departments and their institutions, e.g. the Land Bank and the Micro-Agricultural Financial Institute of South Africa (MAFISA), under the Department of Agriculture.

The NEF was established in 1998 and seeks to facilitate and promote equality and transformation by offering a range of start-up, business growth, and rural- and community-upliftment financing products with a focus on BEE transactions. It also provides funds for rural and community development, capital markets, and strategic projects (DTI 2005a).

(b) Umsobomvu Youth Fund (UYF)

Created in 2001 by the Department of Labour, the aim of the UYF was to promote job creation and skills development among young South Africans between the ages of eighteen and thirty five (UYF 2008). The IFC (2006) lists the four areas that the UYF strategy is geared towards:

- Design and creation of job creation through enterprise development;
- Outsourcing the implementation of these programmes to service providers;
- Supporting existing youth initiatives; and
- Supporting capacity building for service providers.
The Fund works on voucher programmes through a range of service providers and provides a range of loans through intermediaries and is a lender itself (UYF 2008). For example, the Enterprise Finance programme provides microfinance loans between R1000 to R100 000 to micro enterprises. It also helps young people to write business plans and gain access to further resources for their businesses. Finally, government merged the UYF and the National Youth Commission (NYC) to form the National Youth Development Agency (NYDA) in June 2009 (Mahlangu 2009).

(c) Provincial small business support agencies

The task of supporting SMMEs is not the sole responsibility of the national government but provincial governments and related agencies are expected to play their part. IFC (2006) states that some of the provincial small business support agencies were originally founded as homeland development corporations but have since transformed to promote the policies of the government. Examples of these institutions and agencies are Ithala Development Finance Corporation (or “the ITHALA”), Limpopo Economic Development Enterprise (LIMDEV), Mpumalanga Economic Empowerment Corporation and the Eastern Cape Development Corporation (ECDC). Other provincial agencies include the Gauteng Enterprise Propeller (GEP) in Gauteng and Red Door in the Western Cape. The ITHALA, for example, provides a portfolio of financial and property services in KwaZulu-Natal. It focuses on business and micro finance, property development and management, savings and loans.

2.5.2.2 SMME support initiatives by non-government role players

In addition to government institutions and programmes, private sector-sponsored SMME support initiatives exist. Several South African companies and other partners have heeded the call for private-sector participation in small business development. Though there are hundreds of initiatives, outside the realm of government, geared towards SMME development, only the following two examples will be presented.
Launched by the South African Breweries, now called SABMiller, in May 1995, the KickStart Youth Entrepreneurial Programme is one of the company's key enterprise development projects and one which deals with youth entrepreneurship, i.e. young adults are assisted with business skills and provided many of them with seed capital to set up their own businesses (South African Breweries (SAB) 2006). The KickStart Competition promotes entrepreneurial awareness among previously disadvantaged youth and is one of the largest entrepreneurship development projects undertaken by a private sector company. KickStart focuses on the creation of sustainable enterprises (SAB 2006). Furthermore, the SAB KickStart programme has been successfully linked to the company's procurement system, i.e. successful entrepreneurs of this programme are given the opportunity to supply the SAB to make their businesses even more sustainable.

The SAB KickStart programme is valuable in the sense that it:

- Contributes to the sustainability of the newly created KickStart businesses;
- Participates in increasing the number of start-up/nascent firms by selecting more start-ups than existing business to participate in the programme;
- Extends the life of new firms beyond 3.5 years to become established firms,
- Assists in advancing the skills levels of entrepreneurial individuals with little business management knowledge and managerial experience;
- Facilitates the securing of contracts by the SABKickStarters;
- Participates in job creation, albeit at the bottom end of the scale;
- Plays a role in raising South Africa's competitiveness;
- Makes an effort to change South Africa's community to one which entrepreneurship flourishes;
- Trains entrepreneurs to professionally manage their businesses; and
- Attempts to prevent failure of the enterprises (Swanepoel 2008, p. 276).
Anglo American’s Zimele

Anglo Zimele was established 1989. This Anglo American’s the business development and empowerment initiative aims to create sustainable, commercially viable enterprises. According to Anglo American plc (2008), this is an initiative created by the company to develop enterprises and is similar to a venture capital fund, but with three key differences, namely:

- The Zimele model provides capital and financial assistance to promising businesses that banks and other investors will not support;
- It provides fledgling businesses with access to Anglo’s extensive legal, technical and managerial expertise; and
- Anglo’s procurement spend is leveraged to provide business opportunities.

Anglo Zimele is run on strictly commercial lines in the sense that businesses are supported so that they can compete for contracts like any other supplier and any loans are repayable. The unique feature of this initiative is that after three years Zimele sells its equity stake back at market value and profits are ploughed back into a fund. This fund seeks to support the next generation of new businesses. The Anglo Zimele project has greatly expanded its reach by forming partnerships with the DTI’s KHULA to create the Anglo KHULA Mining Fund. The Anglo KHULA Mining Fund is aimed at allowing black entrepreneurs to start junior mining companies. A network of ten small business hubs has been established in all of Anglo’s main mining areas (Anglo American plc 2008).

2.6 CONCLUSION

It is without doubt that the SMME sector plays a significant role in job creation in South Africa, and even more so a major contributor to the gross domestic product. The country continues to suffer from a shortage of requisite skills and unemployment. Therefore, significant growth in this sector is more than critical. The efforts of the government and other role players, through numerous programmes and institutions, are crucial for the success of smaller enterprises. It is therefore important that the government programmes and institutions are constantly monitored and reviewed on a regular basis to ensure that they achieve what they were created for. Indeed, their lack of influence in the SMME sector environment would
produce unwanted results and, amongst other things, lead to frustrations to owners of small businesses.

The institutions such as the SEDA, IDC and KHULA are utilised to encourage entrepreneurial development and thus a need arises that their performance(s) be assessed over time to see if they address some of their original objectives. The performance of these programmes unfortunately is not good news for the SMME entrepreneurs (Orford, Wood, Fischer, Herrington & Segal 2003; Nhlapo 2004; Hudson 2006). Hudson (2006, p.226) goes further to state that the track record of the government in supporting entrepreneurs in South Africa is "...is not well-regarded". These assertions are supported by more research on these institutions (Pretorius & Van Vuuren 2003; Nhlapo 2004). Pretorius and Van Vuuren (2003) discovered that the core focus of these entities is on existing businesses through initiatives such as finance, growth, expansion and competitiveness, rather than on start-ups, and that there is little or no evidence that these programmes contribute directly towards the development of entrepreneurial orientation. However, the most startling discovery is that forty percent of the entrepreneurs in the Kroonstad area were not familiar with the services of these three agencies (Nhlapo 2004). Authors such as Orford et al. (2003) and Nhlapo (2004) concluded that these programmes are not known to the intended recipients and accessing them is complicated.
Chapter THREE

Labour market and legislation: uniform wage-setting machinery

3.1 INTRODUCTION

This chapter provides an overview of wage-setting institutions that shape the South African labour market, i.e. the National Economic Development and Labour Council, bargaining councils and the Employment Conditions Commission. A study conducted by the Organisation for Economic Co-operation and Development (OECD) in 1994 attributed the high unemployment in the EU member countries to labour institutions that reduced wage and employment flexibility (Organisation for Economic Co-operation and Development (OECD) 1994a). It is for this reason that policy-makers and economists elsewhere now pay more attention to the institutions that mainstream economics had previously viewed as peripheral to aggregate economic performance (Freeman 2007). Current labour laws in South Africa are also generally perceived to be posing a threat to the growth of enterprises (Leach 2006). Stemming from government’s identification of the small and medium business sector as a vehicle for employment creation and for stimulating economic growth, it is necessary to analyse certain aspects of labour legislation which might have an effect on the performance and growth of the SMME sector. Berry et al. (2002) suggests that the role of labour, labour markets and skill levels are probably the most important contributors to SMME growth.

The classical model purports that “... labour market flexibility is regarded as an important mechanism for job creation and an important element in the battle against unemployment” (Barker 2003, p. 39). Evidence exists that if the regulatory environment is improved it can result in a positive effect on the growth and survival of new and small enterprises and this regulatory burden on the private sector should be as modest as possible and matched to the state’s capacity to implement these regulations (Hudson 2005). Hudson (2005) reasons that one the most critical actions that government can pursue involve getting rid of inappropriate regulations when stimulating growth of SMMEs. The World Bank (2005) discovered that reforms on the regulatory environment are necessary for the growth of small enterprises. In a separate follow-up research, the World Bank (2007) concluded that the South African labour
market is relatively rigid and as a result it increases the regulatory burden on businesses and curtails employment creation and economic growth.

A need therefore arises for investigating whether the alleged rigidities in the South African labour market exist or not, especially in the context of growing and developing the SMME sector. In this study, it would not be possible to investigate the South African labour market in totality, thus the focus is only on the small component thereof, i.e. wage-setting institutions and related laws. As such, some theoretical perspective on the need for labour market institutions, including wage-setting institutions, and their intended or unintended consequences and costs have to be examined.

3.2 THE NEED FOR LABOUR MARKET INSTITUTIONS

Blau and Kahn (1999) are of the opinion that labour market institutions, including those responsible for setting wages, are important and necessary for the following reasons:

- Labour market regulations can correct market failures, more relating to imperfect information. In this instance, regulatory interventions may therefore increase economic efficiency by changing the outcome that would have otherwise emanated from the operation of market forces.

- Institutions provide an efficiency rationale for wage-equalising mechanisms because they do not only impose a low level wage inequality on major portions of the labour market, but also eliminate large industry wage differentials through wage-setting intervention.

- Institutional interventions can potentially increase economic welfare on efficiency and equity.

- Finally, while there can be many other types of labour market failures that could be remedied by government intervention, issues such as job security, wage-setting and job search are of greater importance.

It is apparent that the presence of wage-setting institutions is necessary to correct labour market failures in an economy. Although markets, including the labour market, are still regarded as important agents of economic development it is now generally accepted that they
can be imperfect, incomplete or missing. Thus, a need for a regulatory framework must be instituted.

3.3 COLLECTIVE BARGAINING: A THEORETICAL PERSPECTIVE

To understand the context in which labour legislation and related institutions exist and function, it is important to lay the foundation by focusing on the different aspects of collective bargaining from a theoretical perspective. Industrial systems play a very important role in determining economic and labour market performance in any country, and are also made up of rules relating to economic agents who generally find it beneficial to reach a degree of consent and co-operation. Furthermore, the role of industrial systems is to provide procedures for consensus building and conflict resolution. As such these arrangements are shaped by specific national legislation and labour market conditions as well as by the attitudes of work, conflict and cooperation (Organisation for Economic Co-operation and Development (OECD) 1994b).

The consensus building and conflict resolution rules (or collective bargaining) are laid down in labour law, however, the ways in which governments intervene in employee – employer relations differ. In South Africa, several labour laws are essential in understanding the labour market. These laws are discussed in detail in point 3.3.1.

The decision making process of collective bargaining involves an interaction between parties representing employee and employer interests which implies the negotiation and continuous application of an agreed set of rules to govern substantive and procedural terms of the employment relationship (Windmuller 1987). There are many ways to analyse and interrogate labour relations systems. OECD (1994b), for example, examined the labour relations in OECD countries using two criteria, i.e. union density and the extent to which employees are covered by collective agreements. Thus, collective bargaining can take place in two ways, that is, it can involve trade unions and individual companies (single employer bargaining) or between union federations and employer associations (multi-employer bargaining). The bargaining systems, for example, of the United States of America and Belgium are classified as single employer bargaining and multi-employer bargaining, respectively. Windmuller (1987) asserts that bargaining introduces an element of industrial democracy in the workplace.
OECD (1994b) is of the view that the asymmetry of bargaining strength leads to different employer and employee preferences.

3.3.1 Important legislation in the South African labour market

Four pieces of legislation are essential in understanding the South African labour market, i.e. the Labour Relations Act 66 of 1995 (LRA), the Basic Conditions of Employment Act 75 of 1997 (BCEA), the Employment Equity Act 55 of 1998 (EEA) and the Skills Development Act 97 of 1998 (SDA) as well as the Broad-Based Black Economic Empowerment Act 53 of 2003 (BBBEEA) (Clarke et al. 2005; Bhorat & Van der Westhuizen 2009).

The LRA was passed in December 1995. Clarke et al. (2005, p. 69) argues that of the four laws the LRA remains “... the most comprehensive piece of legislation”. In broader terms the Act outlines organisational rights, sets a framework for collective bargaining and extending council agreements to non-parties, provides mechanisms for resolving disputes (including unfair dismissal) and regulated industrial action, and enables the establishment of workplace forums. The second piece of legislation is the BCEA. Examples of areas which are covered by the Act include working time, leave, remuneration, termination, child and forced labour and sectoral determinations.

The third law is the Employment Equity Act 55 of 1998. According to Barker (2003), it covers the basic ideas of unfair discrimination and affirmative action as well as institutions that govern these policies. The fourth law to be promulgated is the SDA and it is aimed towards improvement of labour force skills through a levy-grant scheme. The other law is the Broad-Based Black Economic Empowerment Act 53 of 2003. The primary aim of the legislation is changing the racial composition of ownership and management structures of existing companies and new enterprises.

For the purposes of this study, only the LRA and the BCEA are relevant and their main features are presented in table 3.1.
Table 3.1: A summary of the LRA and the BCEA

<table>
<thead>
<tr>
<th></th>
<th>Labour Relations Act</th>
<th>Basic Conditions of Employment Act</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main aims</strong></td>
<td>- Promote orderly collective bargaining, workplace democracy, and effective resolution of labour disputes</td>
<td>- Extend an improved “floor” of rights to all workers</td>
</tr>
<tr>
<td></td>
<td>- All workers, excluding the defence force, secret services and essential services</td>
<td>- Improve enforcement mechanisms</td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>- Dispute resolution institutions, Labour Court and the Commission for Conciliation, Mediation, and Arbitration (CCMA)</td>
<td>- All workers, excluding defence force and secret services(including part time and casual workers)</td>
</tr>
<tr>
<td><strong>Institutional implications</strong></td>
<td>- Voluntary centralised industry- collective bargaining through the setting up of bargaining, and statutory councils</td>
<td>- Employment Conditions Commission</td>
</tr>
<tr>
<td></td>
<td>- Extension of bargaining council agreements to non-parties, and provision for exemptions</td>
<td>- Overtime payment, annual leave, maternity leave, and family responsibility leave</td>
</tr>
<tr>
<td></td>
<td>- Establishment of workplace forums</td>
<td>- Notice provisions and regulations on termination of employment</td>
</tr>
<tr>
<td></td>
<td>- Regulations on unfair dismissals</td>
<td>- Variation of Act allowed through collective bargaining or by the minister</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Sectoral determinations by Minister upon the advice of ECC</td>
</tr>
</tbody>
</table>

3.3.2 Collective bargaining: wage bargaining systems

Wage bargaining systems differ from country to country but they can be categorised according to the level at which bargaining is conducted (Calmfors 1993). Collective bargaining takes place at the level of individual firm (decentralised wage setting). At the other end of the scale, it can also occur at national or industry level (centralised wage setting). Though these two extreme levels of bargaining continue to be found, many European countries are moving towards more decentralised bargaining (Windmuller 1987).

Different literature sources indicate that the importance of analysing various bargaining systems was prompted by macroeconomic consequences in a number of countries, especially in the OECD countries. There is a widespread notion that centralised wage bargaining favours aggregate real-wage restraint and low unemployment (Calmfors 1993). In South Africa, for example, economic growth has been relatively good but with high unemployment (Guliwe 2008). However, the goal of employment creation through SMMEs raises the question as to whether SMMEs should be treated differently in terms of the application of the labour legislation is highly contested. The National Economic Development and Labour Council (NEDLAC) (2006) contends that “.... the longer the issue remains unresolved, the fewer the chances of ‘decent work’ agenda being accomplished”.

Evidence exists that either highly centralised systems with national bargaining or highly decentralised systems produces lower unemployment outcomes than would be obtained under more intermediate, industry level bargaining (Calmfors & Driffill 1998). Calmfors and Driffill (1998) also argue that the outcomes of bargaining at enterprise level are favourable to unemployment outcomes since unions do not have market power at this level, and centralised bargaining could also produce unemployment outcomes as unions take into account both the inflationary and unemployment effects of wage increases. Nattrass (1998) states that collective bargaining in South Africa takes place principally at industry level. This can possibly explain the reason South Africa still experiences high unemployment, with all other things being equal, because unions at industry level have the ability to exert some market power at the same time ignore the macroeconomic implications of their actions (Calmfors & Driffill 1998). Thus, it has been concluded that “...the effects of the bargaining system on aggregate wage formation may be far more complex than was originally acknowledged” (Calmfors 1993, p.162).
3.4 WAGE-SETTING INSTITUTIONS IN SOUTH AFRICA

There are several ways in which wages are determined in a market economy. Barker (2007) identifies contracts of employment, collective bargaining, government regulations and methods that link wages to productivity or profitability as important mechanisms of wage determination. In the South African labour market, the ECC, NEDLAC and bargaining councils are the three main wage-setting institutions (Nattrass 1998). These institutions are discussed below.

3.4.1 Employment Conditions Commission (ECC)

The first wage-setting institution that is found in the South African environment is the Employment Conditions Commission.

South Africa is one of the few countries in the world, together with India, Pakistan, the Russian Federation, Belgium and Austria, which have several types of mechanisms for setting minimum wages (Infante, Marinakis & Velasco 2003; Evain 2008). The first mechanism in which minimum wages are set in South Africa is through sectoral determinations (Godfrey, Maree & Theron 2006). Section 59 of the BCEA provides for the creation of the Employment Conditions Commission. The ECC comprises five members. Three of these members are appointed by the Minister of Labour by virtue of their knowledge of the vulnerable workers and non-organised workers, and the minister also appoints the other two members representing organised labour and business in NEDLAC. The objective of this body is to advise the Minister of Labour on minimum wages for workers that do not fall within the area and scope of existing bargaining councils, i.e. sectoral determination. Thus, the ECC advises the Minister on the most appropriate minimum wages that ought to be set (Bhorat, Lundall & Rospabe 2002).

The International Labour Organisation (ILO) (2006a, p. 1) defines a minimum wage as "...the minimum amount that must be paid to the majority of the workers of a country, generally on an hourly, daily or monthly basis; and which is ideally fixed in such a way as to cover the minimum needs of the worker and his/her family, in light of the prevailing national economic and social conditions". The manner in which the minimum wage is determined varies from country to country, for example the government can decide alone, can decide on the
recommendation of a specialised body or can decide in consultation with the social partners (collective bargaining) (ILO 2006a, Evain 2008). The importance of the ECC cannot be over emphasised as mandated minimum wage coverage directly affects wage distribution (Blau & Kahn 1999). Therefore, the BCEA empowers government, through the ECC, to decide on the minimum wage on its own.

The second manner in which minimum wages are determined in the South African environment is through bargaining councils (Evain 2008; Barker 2007). Barker (2007) reasons that the minimum wages are also automatically determined when the agreements are extended to cover all employers and employees in the specific sector. The bargaining councils are discussed in more detail in sub-section 3.4.3.

South Africa is not the only country to promulgate minimum wage law. This type of intervention is popular in a number of nations. At present more than ninety percent of countries have legislation on fixing a minimum wage (ILO 2006a; Pluta 2009). Interestingly, since 1993 the UK has been the only OECD country without mandated minimum wage coverage of any type. While in a country such as Sweden, to be discussed in detail in Chapter 4, no workers receive a minimum wage due to centralised collective bargaining (Blau & Kahn 1999). Therefore, variations of the minimum wage law exist in different countries.

3.4.1.1 Trends in the minimum wage determinations in the South Africa

Section 51 of the BCEA makes provision for the Minister of Labour to make sectoral determination on the advice of the ECC, following an investigation by the Director General and the submission of such a report to the Commission. This report takes cognisance, inter alia, of the ability of the employers to conduct their businesses successfully, the operation of SMMEs and new enterprises, the likely impact of any proposed condition of employment on current employment or the creation of employment, and the alleviation of poverty. Following the recommendations of the ECC, the Minister may then make a sectoral determination (Bhorat et al. 2002; Godfrey et al. 2006). Numerous determinations have already been promulgated in South Africa and these are presented in table 3.2.
Table 3.2: List of sectoral determinations

- Sectoral Determination 1: Contract Cleaning Sector
- Sectoral Determination 2: Civil Engineering Sector
- Sectoral Determination 5: Learnerships
- Sectoral Determination 6: Private Security Sector
- Sectoral Determination 7: Domestic Workers
- Sectoral Determination 8: Farm Worker Sector
- Sectoral Determination 9: Wholesale and Retail Sector
- Sectoral Determination 10: Children in the performance of advertising, artistic and cultural activities
- Sectoral Determination 11: Taxi Sector
- Sectoral Determination 12: Forestry Sector
- Sectoral Determination 13: Farm Worker Sector
- Sectoral Determination 14: Hospitality Sector
- Sectoral Determination 15: Ministerial Determination for Small Business Sector

Source: Benjamin (2005); Godfrey et al. (2006)

Leach (2006) views sectoral determination as an instrument through which an appropriate balance can be secured between security and flexibility in a particular sector where small businesses are predominant. It would therefore appear that a sectoral determination attempts to accommodate small businesses in a wider array of statutory requirements. Benjamin (2005) states that sectoral determinations are already in place for the contract cleaning, wholesale and retail, private security and clothing sectors.

The research conducted by Statistics South Africa and the Department of Labour on the analysis of the mean and minimum wages came to the following conclusions, namely:

- Significant differences are found in statutory minimum hourly wages of unskilled workers in different industries;
- Minimum wages set through collective bargaining are higher than those set through sector determinations, i.e. average difference at fifty percent; and
- The lowest minimum wage set through sector determination is found in transport and the highest is in the finance industry (Statistics South Africa 2000).
It is essential to point out that the effect of these determinations to relevant sectors is not known (Altman 2005). As a result, "...some theoretical work has been done to guess at the possible impact" (Altman 2005, p. 73). COSATU (1999), for example, argued that the introduction of the Ministerial Determination on Small Business would lead to a downward variation of the basic conditions as provided for in the BCEA and collective bargaining agreements and would effectively create a two-tier labour market in South Africa. However, the main argument in favour of these determinations is that a significant majority of the population in the labour market earn very low wages (Valodia, Lebani & Skinner 2005). Sectoral determinations were set for domestic workers and agricultural workers in 2002, for example. Workers in these two sectors comprise approximately seventeen percent of employment in the economy (Benjamin 2005).

Altman (2005, p. 18) argues that "... the potential impact of minimum wages relies heavily on the extent to which the wage determination is actually significantly higher than what is already being paid, and the expected wage elasticity. In a case where the minimum is higher than the current wage, a significant wage/employment trade off could actually result in overall income losses".

### 3.4.2 National Economic Development and Labour Council (NEDLAC)

Nattrass (1998) identifies the NEDLAC as the second wage-setting institution which is found in the South African labour market. It was established through the promulgation of the National Economic, Development and Labour Council Act 35 of 1994. NEDLAC is formed by three structures, i.e. the executive council, chambers and management committee. It also convenes an annual meeting which is chaired by the country's Deputy President.

NEDLAC was created to facilitate cooperation and consensus between business organisations, the state and organised labour on public finance and monetary, labour market and development policy matters (Wood & Mahabir 2001). At the level of NEDLAC, bargaining takes place at an economy-wide scale (OECD 1994b). The principle underlying NEDLAC is a stated aim for broader social partnership. As a result, the community (represented by civic organisations, women, rural people, the youth and the disabled) are also a party to the council. The council is responsible for promoting economic growth, participation, economic decision-
making and social equity as well as seek to reach consensus and conclude agreements on matters pertaining to social and economic policy (Tustin & Geldenhuys 2002).

The prominence of social dialogue and tripartite cooperation has its roots in the existence of strong employers’ and workers’ organisations and this creates the necessary balance of power within the functioning of the industrial relations process (Mallis & Messios 2003). However, social partnership was criticised in Germany that it impeded reform and caused unemployment. As a result, Germany’s economic success is attributed to economic freedom and competition rather than on the social partnership’s often assumed ability in ensuring equity and efficiency (Lambsdorff 1997).

Barker (2007) maintains that the legacies of the past and the adversarial nature of relations between business and labour unions make it impossible for NEDLAC to meet the expectations of what could be achieved by social dialogue. In the South African context it remains to be seen whether NEDLAC will ever be involved in influencing wages (by way of a social accord or incomes policy) and whether organised labour and business are really in a position to start negotiating ambitious accords at national level. Nattrass (1998) states that there is little evidence that supports the notion that organised labour is interested in wage restraint for two reasons:

• it still remains a contentious issue if either of the ‘social partners’ is sufficiently strongly and comprehensively organised to articulate a coherent position and deliver its members’ support; and
• the industrial-level wage bargaining is also constrained by the range of feasible agreements that could be negotiated in NEDLAC.

Barker (2007) is of the opinion that the influence of NEDLAC on the macroeconomic policy is undermined by a number of factors, including the government’s introduction of GEAR and the view that the Department of Labour had exclusive rights to consider laws as well as the tensions that existed between COSATU and the ANC. Nevertheless, it appears that the country needed a structure of this nature to facilitate transformation in the nineteen nineties.
3.4.3 Bargaining Councils

The LRA recognises bargaining councils as one of the official wage-setting institutions in South Africa. In South Africa, industry level collective bargaining takes place through bargaining councils (Nattrass 1998). Bargaining councils are a form of sectoral bargaining and aim at standardisation of the terms of employment in one industry (OECD 1994b). A bargaining council is composed of employers' associations and employees' associations (trade unions), of which each has an equal representation. For a council to be recognised, the affected trade unions must show the Ministry of Labour that they represent, and employers' associations must show that their members employ, over fifty percent of workers in that particular industry. All firms falling under the scope of the council must register with the bargaining council and are covered by its provisions. In 2009, there are forty eight bargaining councils that are registered with the Department of Labour in South Africa.

The issues that are covered by the provisions of bargaining councils include minimum wages, hours of work, leave and bonus provisions and retrenchments. When the topic of bargaining councils is discussed, the indeterminate nature of decisions reached through consensus make bargaining councils a bilateral monopoly. In this case, wages are set by the relative strength of each party in the bargaining council (Barker 2007).

3.4.3.1 The extension of the agreement to non-parties

Governments influence collective bargaining coverage by defining the rights and duties of the bargaining parties. The determinants of coverage include union recognition and union security provisions, regulating the right to strike and extension rules. The legal implications of extension provisions imply that both employers and employees who are not affiliated with any of the bargaining parties are covered. In countries such as Portugal and France, ministerial decrees extend collective agreements to include non-affiliated workers and employers (OECD 1994b). Section 32(1) of the LRA, for instance, covers the extension of the agreement to non-parties and declares that a bargaining council may request the Minister of Labour to extend a collective agreement, concluded in the bargaining council, to any non-parties that are within its registered scope. Even if these conditions are not met the Minister can still exercise his or her powers as long as parties are sufficiently representative. Such a
provision in the extension of the agreement to non-parties regime has proven to be highly controversial (Barker 2007).

All private sector bargaining councils in industries covering more than one firm are said to be extending their agreements to include non-parties. To avoid unnecessary discrimination, the LRA stipulates that persons who are not part of the collective agreement may take submissions to an independent body to be exempted or not to be bound by the collective agreement. However, it needs to be pointed out that this proviso in the LRA seems to be very arbitrary in its nature. Though the LRA allows for exemptions, when these exemptions are granted, they tend to be for issues that are unrelated to the wage (Nattrass et al. 2002). Nattrass et al. (2002) also point out that the main problem of bargaining councils is that bigger firms tend to set minimum wages above the level that is feasible for labour-intensive firms in the same industry, thus forcing them out of the business. As a result of the extension mechanism, it can only be assumed that smaller, less profitable enterprises would find themselves having to pay higher than optimal wages. In part, this could explain why South Africa’s production structure is so capital intensive and why South Africa has a relatively few small- and medium sized enterprises (Nattrass et al. 2002).

The most interesting and unique features of collective agreements in Spain and France are that they do not discriminate in favour of union members. OECD (1994b) argues that these types of bargaining structures may serve as a disincentive for workers to join trade unions. Workers in Europe, for example, are also discouraged to become members of a union by widespread terms and conditions of collective agreements while at the same raising the coverage rate. In both instances workers do not necessarily need to be affiliated to a union to enjoy the advantages of union contracts (OECD 1994b). On the other hand, bargaining structures may encourage members to join unions. The system of “arbitrated” awards in Australia and New Zealand and the close shop arrangements in certain industries prove to be good incentives for workers to obtain union membership (OECD 1994b). Sections 23 to 26 of the LRA provide for the creation of a closed shop. There is no evidence that these close shop arrangements have stimulated union membership in any manner.

In order to encourage more worker participation and dialogue in the South African labour market the law also provides for pseudo-bargaining councils, i.e. statutory councils and workplace forums. Though these institutions are similar to bargaining councils with very
limited powers, their presence in the South African labour system cannot be overlooked (Nattrass et al. 2002).

### 3.4.3.2 Statutory councils

The LRA also provides for a simplified version of a bargaining council in the form of statutory councils. In a sense the statutory councils are much easier to form compared to bargaining councils since less representation is required by the parties. The other distinguishing factor is that these bodies have much more limited powers than bargaining councils. In the case of statutory councils the representation threshold is at least thirty percent (Wood 1998; Godfrey, Theron & Visser 2007).

### 3.4.3.3 Workplace forums

Chapter 5 of the LRA provides for the establishment of workplace forums (Van der Walt 2008). They are consultative bodies that focus on practical factory-level issues, i.e. the organisation of work, but not on areas which normally fall within the ambit of collective bargaining, i.e. wage and wage related issues. Furthermore, the forums have a joint decision-making role in areas such as disciplinary and grievance proceedings, unless otherwise regulated by a collective agreement (Wood 1998). The forums can only be established through an application to the relevant authority by a representative trade union in a workplace with a hundred employees (Anstey 1995). Workplace forums are generally popularly elected by employees, with seats being allocated according to the occupational distribution of the workforce. As such, this measure ensures that workers who are not members of the union, in the absence of a closed shop agreement, also have a say on the forum (Wood 1998). Therefore it can be concluded that forums are unique in the sense that they allow non-unionised workers to participate in decisions, at least a plant level.

The scope of responsibility of workplace forums excludes wage and wage related issues in South Africa (Wood & Mahabir 2001). They therefore do not qualify as wage-setting mechanisms. Thus, OECD (1994b) sees workplace forums as a supplementary type of bargaining. The forums permit workers, irrespective of unionisation, to partake in decisions at a plant level and hold a promise for wage-setting at a much lower level than bargaining councils. The discussion of wages at plant level in South Africa remains in a distant future.
International experience however shows that most work councils in European countries were “…effectively collective bargaining institutions at plant level” (Jackson 1991, p.153). Unfortunately, this is a clear violation of institutional separation between collective bargaining and consultation (Anstey 1997). Nevertheless, workplace forums are increasingly seen as instruments for employment flexibility, including the deregulation and the decentralisation of wage determination.

It is worth to point out that the peaceful co-existence of both bargaining councils and workplace forums can be threatened by a possibility of demarcation disputes (Van der Walt 2008). In other words, employees who, on account of their non-union membership, believe that they are being excluded from the collective bargaining process may use the forum as a means of voicing their grievances over substantive issues such as wages.

3.5 INSIDER-OUTSIDER THEORY (INSIDER-OUTSIDER RELATIONSHIP)

In order to enhance the understanding of the functioning of collective bargaining, and wage setting in particular, the insider-outsider theory is introduced. The insider-outsider theory would assist in the examination of the relationship between the government’s goals of employment creation and income generation (through the creation of SMMEs) and the bargaining power of influential parties in the bargaining council structures. Researchers such as Kingdon and Knight (2005) warn that in protecting the rights of formal sector workers, the legislation and its implementation may harm the interests of those outside the formal sector. The implication of this assertion is that the goal of employment would not be realised unless the issue of ‘insider power’ is thoroughly looked at.

Altman (2005) views unions to be creating a divide in the labour market between the insiders and outsiders, and argues that they focus largely on the insiders. The insider-outsider relationships are advanced to explain a range of phenomena, principally the persistence of unemployment. In Australia, for example, Dobbie (2006) conducted a study to examine the extent to which insiders are protected, when wages are set, from competition by outsiders. Dobbie (2006) explains how enterprise bargaining influences the relative power positions of insiders and outsider by stating that:
Insiders ignore outsiders in wage setting. Interests of unemployed individuals are not taken into account when the union bargains over wages in the bargaining process.

The source of insider power comes from a range of turnover costs. These costs mean that the firm's incumbent workforce cannot a costless exchange for unemployed outsiders. These turnover costs create a rent to be bargained over, and therefore, the possibility of wage outcomes that make it unprofitable for employers to employ outsiders. These costs include hiring, training and firing costs.

The long-term unemployed remain as outsiders. Long-term unemployment could result in skill atrophy and or demoralisation. Either or both of these will diminish the ability of the long-term unemployed to compete in the labour market. In addition, employers may use unemployment duration as a screening mechanism. These ideas lead to the conclusion that the long-term unemployed are marginalised in relation to wage outcomes.

The power of unions in the collective bargaining process possibly explains the prevalence of high unemployment in South Africa. Through extension of the agreement to non-parties, the influence of trade unions is likely to affect smaller businesses in the bargaining council concerned. For example, wage dispersion between firms in a given product market may be reduced, particularly amongst low skilled workers (Altman 2005, p. 70). Judging from the high number of unskilled workers in the economy, it is possible that the strong union presence reduces wage dispersion and benefits these workers at the expense of smaller firms who normally rely on their skills. As a result, the question as to whether SMMEs should be treated differently in terms of the application of the labour legislation is highly contested. NEDLAC (2006) contends that “… the longer the issue remains unresolved, the fewer the chances of the ‘decent work’ agenda being accomplished”.

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3.6 LABOUR MARKET FLEXIBILITY: CENTRALISATION VS. DECENTRALISATION

The National Treasury pursues a growth strategy with strong neoclassical underpinnings (market forces), whereas the Department of Labour appears not to be allowing the market forces to determine wages (Nattrass et al. 2002). This seems to represent a clear conflict between the country’s macroeconomic strategy and labour market policies. By maintaining a high level of wage protection in an economic environment, characterised by restrictive fiscal and monetary policies will result in employment shedding (Nattrass et al. 2002). GEAR purported that there was a need for greater labour market flexibility as well as labour-intensive growth. The vision of GEAR is dramatically different to the policies followed by the Department of Labour. The assessment of GEAR and labour market policies in general is beyond the scope of this study, but it needs to be pointed out that GEAR was motivated by the notion that trade liberalisation and economic reforms should be complemented by labour market flexibility (Nattrass et al. 2002).

Research elsewhere in the world shows that the government’s role in the centralisation of wages is not appreciated by both unions and employers (Wallerstein, Golden & Lange 1997). These parties removed wages from the control of government. For example, Wallerstein et al. (1997) found that government actions played a prominent role in the decline of confederal wage-setting in Denmark and the Netherlands. In the Netherlands, Pen (1963) (quoted by Wallerstein et al. 1997) argued that the bodies that administered wage controls were accepted when the machinery worked to implement collective agreements reached by unions and employers, but they began to break down when governments forced wage contracts to conform to their own policy preferences. Whereas Due, Jorgen, Carsten and Lars (1994) point out that in Denmark, government intervention in the form of mediation was accepted by both sides for over three decades. Government intervention in the form of six consecutive years of parliamentary wage-setting provoked both unions and employers to decentralise bargaining in order to remove wages from government control.

It appears that government and related structures has a lesson to learn from other countries and that there is a need to make all forms of wage controls as flexible as possible to avoid the unintended outcomes as a consequence of strict application of their provisions.
3.7 ARGUMENTS FOR REGULATORY REFORM TO FACILITATE SMALL ENTERPRISE GROWTH

A number of arguments in favour of regulatory reform to facilitate small enterprise growth exist. However, the overarching argument is that in instances where wages are rigid, the impact of these shocks shows up in unemployment as firms are unable to adjust wages downwards to meet competitive pressures and therefore respond by hiring less labour (Chandra et al. 2001, p. 32). It needs to be stated that this appears to be an over simplification of reasons why employers hire less workers. Too much obsession with regulations seems to overshadow the other factors contributing to or restraining SMME growth (Lewis 2001).

The World Bank (2005) found that businesses in poor countries face much larger regulatory burdens than in rich countries, overly complex regulations and weak property rights exclude the poor from doing business in the formal sector, and the payoffs for reform appear to be large because regulatory reform allows businesses to spend less time and money on dealing with regulations, and so does government. With regards to the South African labour market it was concluded that South Africa’s relatively rigid labour market increased the regulatory burden on businesses and curtailed employment creation and economic growth (World Bank 2005; 2007).

Some of the most resounding findings come from the review of the regulatory and other obstacles to the development of the small business sector in South Africa by the South African Chamber of Business (South African Chamber of Business (SACOB) 1999). This study cited three main problems that small businesses face with the labour legislation, namely:

- It imposes significant additional direct costs on businesses
- There is a “high hassle factor” associated with compliance
- The legislation “robs” owners and managers of some of the control and flexibility which they perceive as being both desirable and necessary for the effective running of their business (SACOB 1999, p. 5).

Nickell and Layard (2007, p. 3061) states that “...when studying labour market regulation, it is important to distinguish between rules which simply add to labour costs, such as mandatory sick pay, and rules which raise both the cost of employment adjustment, such as
employment protection legislation. In the former case, if wages adjust appropriately, the impact on the labour market is very limited. In the latter case even if wages adjust fully to compensate for the legislation, intertemporal pattern of labour demand may be different."

3.8 CONCLUSION

The LRA and the BCEA are important laws in the South African labour market and provide for the creation of the ECC, NEDLAC and bargaining councils. These three wage-setting institutions also lead to labour standards that individuals, unions, firms and employer associations have to observe. Unlike other countries, South Africa has both statutory minimum wages and the extension of collective bargaining agreements. A number of arguments on the flexibility or lack of flexibility of these laws are often raised, especially their effects on employment, economic growth or even attractiveness of the country to investors.

The SMME sector is covered by the provisions of the ECC, NEDLAC and bargaining councils in the same manner as their large counterparts. However, no evidence exists that South African small and medium enterprises partake in the decision making of these bodies through some form of representation. It is only through ad hoc arrangements that SMMEs may be exempted from the provisions through section 32(1) of the LRA. As such, it is almost impossible to determine the nature of difficulties that SMMEs face in implementing the provisions as set by bargaining councils and ECC. Therefore, the topic of labour market flexibility is raised in order to stimulate the growth of the small business sector.

The next chapter will provide a critical analysis of wage-setting institutions in both a developed country and a middle-income country. From this exercise it is envisaged that a number of lessons for South Africa will be extracted. Furthermore, the effects of wage-setting institutions on SMMEs will be explored by reviewing secondary sources on issues related on the effects of wage-setting institutions on different economic outcomes, with a special emphasis to small and medium businesses.
Chapter FOUR

Case study analysis: The wage setting machinery in other countries

4.1 INTRODUCTION

This chapter provides a comparative analysis of two case studies focusing on the wage setting environment, in both a developed country and a middle-income country: An analysis of the two selected case studies, i.e. Sweden and Egypt, will be conducted. The detailed account of the cases is given under point 4.2 below. A cross-case analysis will then be presented in which the two cases will be compared to each other and to South Africa, with the hope of drawing important lessons for South Africa. The analysis is necessary to explain the differences and similarities of the nature of wage-setting institutions that are found in the countries under investigation. A number of countries have devised different measures in their economic systems to alleviate some of the problems experienced by SMMEs, particularly in the area of wage setting. Given the considerable variation in wage-setting institutions across nations, it thus makes sense to search for this effect in the context of international comparisons.

The first part of this chapter will provide an introduction of the case studies to explain the varying approaches in the selected countries to industrial relations and wage setting processes in a broader perspective. By only focusing on the wage determination processes, without thoroughly understanding the background against which they take place, the analysis would run a risk of neglecting the uniqueness of each country under investigation. This section therefore takes into account the general political and economic environments in the selected countries. Furthermore, the characteristics and nature of the SMME sector and support programmes geared towards the stimulation of small and medium enterprises are also presented. From this, the differences and similarities between the two selected countries and South Africa will be drawn. This comparison attempts to show, from an SMME perspective, the types of wage-setting institutions that are found in the three countries and how they differ from each other. The outcome of the analysis would be summarised in a table format, see tables 4.2 and 4.3 below. Following the comparative analysis, it is envisaged that a number of
lessons for South Africa can be extracted from the experiences of both Sweden and Egypt with regards to creating enabling environments for SMMEs.

In the latter part of the chapter, the research findings on the effects of wage-setting institutions on SMMEs will be presented. First, this study will analyse both collective bargaining and minimum wages by focusing on the different aspects of these wage-setting institutions that may be considered to have an impact on the creation and long-term survival of small and medium enterprises in South Africa. This will be achieved by examining empirical evidence. Second, the investigation will also focus on assessing if there is a need for creating a separate dispensation, i.e. two-tier labour market, for the SMME sector in South Africa.

The empirical base of this study is therefore formed by two case studies. The use of a narrow selection of case studies is aimed at a deliberate variation in terms of the complexity of wage bargaining systems, i.e. from the least complex to the most complex and economic development.

Below, an introduction to the individual cases and the main results are presented.

4.2 DATA PRESENTATION: THE CASE STUDIES

In this section, the empirical data collected from the two selected case studies is presented. Each case will provide a background on the country in question as well as the main characteristics of the industrial relations environment, the wage-setting institutions and the characteristics of the small business sector in each country.

An examination of how other countries handle the applicability of labour laws to the SMME sector, allows a number of specific insights to be gained on the coverage of provisions of wage-setting institutions of the small and medium business sector. The following benefits can be obtained from such an international review:

• An opportunity to gauge the impact of provisions of wage-setting institutions on SMME development in the context of broader SMME development policy frameworks, and
• Consideration of international experience on changes within the wage setting mechanisms that are likely to have the largest positive impact on SMMEs.

Sweden was selected as one of the two cases because of its long history, attempts and successes in fostering an economic environment which is conducive to the growth and development of small and medium enterprises against the background of a complex and heavily unionised environment. The wage-setting process in Sweden is dominated by collective bargaining and, according to the European Commission’s Directorate General for Enterprise and Industry, the majority of businesses may be categorised as SMMEs (Göransson 2008; Buhr & Hermansson 2004; European Commission 2009). Sweden is very advanced in its economic policies and has introduced a number of changes in its wage bargaining systems in recent years to improve the country’s competitiveness.

On the other hand, Egypt, as a developing country, was included in this study to gain a better understanding of South Africa’s position as a developing economy. Egypt is a middle income economy which lacks the dynamism of Sweden with regards to union – employer relations. In Egypt, the industrial relations landscape is heavily restricted and the processes of wage bargaining remain underdeveloped (De Gobbi & Nesporova 2005; International Confederation of Free Trade Unions (ITUC) 2007).

Sweden and Egypt have policies to encourage the growth and survival of small and medium enterprises. As is the case in South Africa, the small and medium business sector is viewed as an important means of enhancing industrial competitiveness, generating employment and income redistribution. This is shown in a number of research papers, policies and legislations that were developed in an attempt to create enabling environments for the SMME sector in a number of areas, ranging from reducing taxation compliance costs to the reduction of the effects of labour legislation in general terms. The focus on creating enabling environments for doing business in both Sweden and Egypt puts an emphasis on small and medium enterprises. Most importantly, all matters affecting small businesses are handled through co-ordinated and centralised business advocacy units, often situated in or linked to government. These entities are at the forefront of articulating the needs of and implied required policy changes for the SMME sector (De Gobbi & Nesporova 2005; Ahlm & Rydåker 2006; Buhr & Hermansson 2004).
The Sweden case provides an informative point of departure on a highly sophisticated and successful labour market system, whilst the Egypt case provides a contrasting picture of a labour market system that is not well coordinated.

4.2.1 Sweden

The Kingdom of Sweden, or simply Sweden, is a member of one of the most important regional economic blocks in the world, the European Union. In what is now termed "the Lisbon Strategy" or "the European Charter for Small Enterprises", in 2000 leaders of the EU identified the growth and development of the SMME sector, especially those that are knowledge- and technology based, as one of the top priority goals for development and job creation in its member states (Ahlm & Rydåker 2006). Ahlm and Rydåker (2006, p. 6) also claim that the Lisbon Strategy is "... a response to the reduced competitiveness of the European Union in traditional sectors, which is mainly caused by the industrialisation and the fast growth of new economies from other regions of the world, e.g. East Asia and South America".

In line with the Lisbon Strategy, Sweden recognised the important role which SMMEs play in the economy by shifting its industrial policy from large enterprises in favour of small and medium enterprises. Buhr and Hermansson (2004, p. 32) attribute this change in policy to factors such as "... the effects of globalisation and rationalisation of operations that larger companies has to dealt with". As such, the government’s focus and commitment of massive resources towards developing a vibrant SMME sector are encouraged by two important factors. First, Sweden is a small open economy with a high export share and its competitiveness is crucial at international level. Second, the tendencies of large enterprises to expand employment offshore led to the over dependence of the Swedish economy on small enterprises for employment growth (Ohlsson 2002; Swedish National Board for Industrial and Technical Development (NUTEK) 1996).

In the 1990s, Sweden recovered from her deepest and longest recession since the 1930s with a high rate of unemployment and an increase in the public sector’s budget deficit. Its welfare state and employment system continues to thrive with a high level of social protection based on universal coverage and solidarity, a significantly large public sector, low unemployment, a
labour market regulation based largely on collective agreements and comparatively high economic growth rates (European Industrial Relations Observatory (EIRO) 2007).

The characteristics of the Swedish industrial relations system and wage determination mechanisms are discussed below.

4.2.1.1 The main characteristics of the Swedish industrial relations environment

In Sweden there are two important statutes that regulate the labour market, i.e. the Constitution and the Codetermination Act of 1977 (or the MBL for "Medbestämmandelagen"). Freedom of association and the right to take industrial action are guaranteed in the constitution. The MBL is the key law for the system of collective regulations (EIRO 2007).

EIRO (2007) states that the level of union membership in 2004 was seventy percent of the total workforce and forty seven percent of these workers are employed in the public sector. The main trade unions are the Swedish Trade Union Confederation (LO) for blue collar workers, the Swedish Confederation of Professional Employees (TCO) for salaried employees and the Swedish Confederation of Professional Associations (SACO) for civil servants and professional employees with academic degrees. Other notable trade unions are the Building Workers’ Unions, the Building Maintenance Workers’ Union, the Swedish Electricians’ Union and the Painters’ Union. The important employer organisations are the Confederation of Swedish Enterprise (SN) for the private sector, the Swedish Association of Local Authorities and Regions (KL) representing local authorities and the Swedish Agency for Government Employers responsible the employer policy of agencies in the central government sector. The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) (2004), claims that in 2005 ninety nine percent of the SN member companies were SMMEs.
4.2.1.2 Wage-setting institutions in Sweden

Anxo and Niklasson (2006) are of the view that the decentralised nature of regulating pay through collective bargaining and agreements create a favourable institutional framework for a flexible and efficient labour market policy in Sweden. At this point, it is necessary to explore the modes of setting wages in Sweden, and these are discussed below.

(i) Collective bargaining system in Sweden

Ahlberg and Bruun (in Blanpain 2005) assert that collective agreements, together with collective bargaining, are accepted by Swedish employers as the only instruments of regulating pay.

Collective bargaining in Sweden occurs at two levels, i.e. national/sector level and local company level, and the issues covered comprise pay, wage formation and other working conditions. As in the other Nordic countries, the system of employee representation at the firm level is single channel. European Commission (2004: 21) defines a single channel as "...where the workplace representation of employees (i.e. rights to information, consultation or co-determination) is controlled exclusively by the trade unions. ... [union] does not deal with the problems of non-union members, and employees in non-unionised firms are excluded from the collective representation..." Therefore, there is no institution, e.g. workplace forums, other than the union for workplace interest representation, including information, consultation, and codetermination. These rights can be established by law or by central agreements with employers, or by a combination of both.

Sweden’s mode of coordinating wages is well advanced. In 1996, following the decade of turbulence in collective bargaining and wage formation, the employer and trade union federations decided to follow a norm wage increase based on the average wage increase in Sweden's main European competitors (EIRO 2007). As a result of this paradigm shift, it meant that there was a move away from national level wage coordination to a more decentralised system of sector level bargaining. For example, the metal and or the engineering industries are pace-setters in this regard and other sectors, including private business, government and municipalities, would follow suit only after the former have concluded
agreements. Notably, legislation is last to provide a framework for sectors where no agreement was concluded (Anxo & Niklasson 2006).

Sectors and industries, as opposed to companies, however remain the dominant level of wage bargaining. Sector/industry agreements are precursor for agreements at company level especially on the differentiation and individualisation of wages. In essence, this gives an opportunity to local actors to distribute parts of the centrally agreed wage increase at the local level according to their preferences. Anxo and Niklasson (2006, p.14) remark that “... the high level of decentralisation and autonomy in the organisational structure of labour market authority appears to be one of the salient features” of the Swedish system. When compared to other countries in the EU, Sweden’s collective bargaining system is still highly centralised (EIRO 2007).

In order to minimise the negative effects of the insider – outsider relationship, discussed in Chapter 3, certain agreements in Sweden provide for payment of a fraction of the wage sum into a fund (covering all companies participating in the agreement) that finances measures to help redundant workers to get new jobs (EIRO 2007).

Finally, labour legislation in Sweden does not include the principle of statutory extension of collective agreements to cover the entire sector or industry. It is important to state that a form of extension or “closed shops” existed exclusively in the building industry until 2003 (Berg 2003). In this instance, the Council of Europe’s Committee of Ministers ruled that this practice was a breach of the European Social Charter and the European Convention for the Protection of Human Rights and Fundamental Freedoms. For a company in a sector in which a collective agreement exists but is not a member, there is a possibility to conclude so-called pending agreement if there is at least one trade union member at the working place (EIRO 2007; UEAPME 2004).

(ii) Minimum wage

As indicated above, the entire Swedish labour market is covered by collective agreements. At sectoral level, however, parties to the agreement agree on the lowest wage, and deviations in this regard amount to breaking the collective agreement. As such, Sweden has no legislation for a minimum wage (Ahlberg & Bruun in Blanpain 2005).
In Sweden, there has been a shift in favour of more bipartite decision-making, especially at the workplace level. According to Ohlsson (2002), tripartite negotiations are not common in Sweden and, in fact, social partners do not accept the government or any other party intervening in collective bargaining. However, the Swedish system is unique in that both union and employer associations are highly committed to economic and social affairs (tripartite issues). For example, their representation on Parliamentary and Government committees with responsibility for drawing up labour laws ensures that this legislation has some legitimacy (Anxo & Niklasson 2006).

Overall, "... the unique nature of Sweden's labour market policy is generally attributed to the existence of a broad consensus between the two sides of industry and the Government" (Anxo & Niklasson 2006, p. 14). Factors such as cordial relations between and commitment by social partners and changes in wage formation have played an important role in economic development in Sweden (Ohlsson 2002).

In summary, the following points are given as the main features or characteristics of the Swedish industrial relations system, namely:

- There is a very high degree of unionisation;
- Employers have accepted collective bargaining and collective agreements as instruments for the regulation of working life, thus collective agreements are the only instruments for regulating pay;
- There is a very good climate of cooperation on the labour market; and
- There is an unusually high degree of collective autonomy and non-intervention by the state (Ahlberg & Bruun in Blanpain 2005, p. 117).

4.2.1.3 Characteristics of the small business sector in Sweden

In this sub-section, the characteristics of the SMME sector in Sweden and types of support offered to stimulate their growth and competitiveness are presented. Though a member of the European Union, Sweden does not utilise the EU definition of SMME, but the official
definition of small and medium sized businesses in Sweden simply recognises those ENTER
prises which employ fewer than 250 people (UEAPME 2004).

Table 4.1: Number of companies in Sweden 2007

<table>
<thead>
<tr>
<th>Company Size</th>
<th>No. of employees</th>
<th>No. of companies</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>One person company</td>
<td>0</td>
<td>454 407</td>
<td>68.3%</td>
</tr>
<tr>
<td>Small (1)</td>
<td>1 – 9</td>
<td>178 613</td>
<td>26.8%</td>
</tr>
<tr>
<td>Small (2)</td>
<td>10 – 49</td>
<td>27 278</td>
<td>4.1%</td>
</tr>
<tr>
<td>Medium size</td>
<td>50 – 249</td>
<td>4 389</td>
<td>0.7%</td>
</tr>
<tr>
<td>Large Companies</td>
<td>250 +</td>
<td>861</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total of companies</strong></td>
<td><strong>665 548</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Adapted from Göransson (2008)

As is the case with the rest of the EU, the small business sector is quite dominant in the Swedish economy. As presented in table 4.1, SMMEs constitute ninety nine percent of all enterprises, create approximately sixty five million jobs and, most importantly, contribute to entrepreneurship and innovation (Göransson 2008). Buhr and Hermansson (2004) and EIM (2009) also confirm this by stating that SMMEs are approximately 99.7 percent and 98.8 percent, respectively, of all enterprises in Sweden. These figures clearly point out that the small and medium businesses form the majority in the Swedish economy. Two-thirds of the enterprises have no employees at all (Göransson 2008; JEREMIE 2007). EIM (2009) mentions that the SMME sector provides sixty three percent of total private employment in Sweden.

4.2.1.4 SMME support and development institutions in Sweden

Sweden has created numerous public bodies with a sole focus on the development of the SMME sector and in comparison to other similar European economies, the number of role players could be regarded as significantly high (Joint European Resources for Micro to Medium Enterprises (JEREMIE) 2007). JEREMIE (2007) and Berg (2006) provide the
following as the main institutions responsible for the support and development of SMMEs in Sweden, namely:

- **Ministry of Industry, Employment and Communications** is responsible for the development of Swedish SMMEs. One task for the ministry is to further the development of Swedish companies, including fostering entrepreneurship, regions and individuals in the labour market. The Ministry is responsible for many of the public authorities and organisations in the business development area.

- **Swedish Agency for Economic and Regional Growth (NUTEK/ Tillväxtverket)** operates as the managing authority to oversee the multiple number and levels of public agencies that exist on behalf of the Ministry of Industry, Employment and Communications. It is the central public authority for enterprise and regional development and therefore financed by the Government.

- **Swedish Governmental Agency for Innovation Systems (Vinnova)** is a state authority that aims to promote growth and prosperity throughout Sweden and its responsibility comprises the issuing of grants to support innovations linked to research and development.

- **Innovationsbron** contributes to the commercialisation of research-based and knowledge-intense business ideas through grant and investment mechanisms. It is also active in growth areas in research with the objective of taking ideas through a process that creates successful companies on the global market and work to provide the support required to address the series of dynamic demands that characterise the situation faced by the frontrunners.

The operating environment for businesses in Sweden is characterised by the high cost structure of the economy, universal welfare provision, high government expenditure and taxation and high levels of trade union membership and collective bargaining coverage (Parker 1999). Furthermore, labour legislation in Sweden does not make a distinction between large businesses and SMMEs. UEAPME (2004, p. 258) concludes that “…the right to conclude collective agreements is based on whether there is at least one trade union and the employer is a member of an employers’ association”.

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4.2.2 Egypt

In this sub-section, the second case of this comparative study will be covered, the Arab Republic of Egypt ("Egypt").

It should be noted from the outset that the analysis of Egypt as a case study was hampered by shortage of relevant literature on the topic of wage determination as well as the labour relations environment in general.

The SMME sector, together with export promotion, is a critical component of the Egyptian government’s drive towards economic reform and trade liberalisation (Canadian International Development Agency (CIDA) 2003).

Economic Research Forum (2004, p.122) states that the "... Egyptian Constitution carries a significant bias toward socialist principles and central planning. Egypt is described as a socialist democratic country and its economic system as socialist democracy (Articles 1 and 4). The economy is to be organised in accordance with development plans that guarantee fairness of distribution, the elimination of unemployment, guaranteed minimum wages, and the tying of wages to production". As a result of this commitment to centralisation of institutions, Egypt’s industrial relations system relies heavily on the close relationship which exists between government and the umbrella body of trade unions, namely the Egyptian Trade Union Federation (ETUF). De Gobbi and Nesporova (2005, p. 19) are convinced that the ETUF is the "... only legally recognised trade union federation".

A significant majority of the existing body of literature on the Egyptian labour market is in agreement that rigidities and inefficiencies exist (Economic Research Forum 2004; De Gobbi & Nesporova 2005; ITUC 2007). The union coverage rate is minimal in Egypt and is only limited to employees in state owned enterprises. As will be demonstrated in the latter sections, trade unions do not play any significant part in negotiating or setting wages. Hassan and Sassanpour (2008), however, point out that collective bargaining and industrial actions have shown a steady increase in recent years.
Though union membership and activity in private businesses, including SMMEs, is minimal, it is necessary to discuss the legislative framework that is in place for wage determination in Egypt. Of particular interest is the Labour Act No. 12 of 2003 (hereafter “the new labour law”). This law was promulgated in 2003 and is aimed at regulating all employment relations in Egypt. The new labour law is aimed “... at striking a balance between labour market flexibility, which it recognised as an essential ingredient for employment generation, and the protection of labour rights. The consensus is that the Law introduced greater flexibility in that part of the private labour market which is governed by formal employment contracts and established practices” (Hassan & Sassanpour 2008, p.13).

4.2.2.1 Main characteristics of the industrial relations environment in Egypt

According to the Economic Research Forum for the Arab countries, Iran and Turkey (Economic Research Forum) (2004), in Egypt the rights of all individuals are embodied in the Constitution, and these include a multiparty political system, equality of citizens and non-discrimination, personal freedom, freedom of expression, press freedom, freedom of association and of forming organisations, syndicates, and unions and judicial independence. In order to extend these rights to cover the labour market, the new labour law, as introduced above, was enacted. Business Today Egypt (2006), states that although the new labour law recognises the formation of unions, it lacks the mechanisms to protect those who try to organise.

There are twenty three official trade unions in Egypt; each of them represents a different industry or service. Professional associations or unions are called “syndicates”, for example journalists are represented by the Press Syndicate (Carr 2008; De Gobbi & Nesporova 2005; ITUC 2007). In 2005, the number of workers covered by trade unions was said to be twenty percent of the total labour force, of which the majority belonged to the services sectors and public agencies (De Gobbi & Nesporova 2005).

The most disturbing aspect of union recognition in Egypt is that all trade unions must be belong to the ETUF, the only officially recognised trade union federation and a close ally of the ruling party (ITUC 2007). This practice is in contradiction to the principle of freedom of association, as confirmed by the ILO Committee of Experts on the Application of Conventions and Recommendations (De Gobbi & Nesporova 2005). The industrial relations
environment in Egypt is therefore dominated by the close relationship between the government and the ETUF. ITUC (2007) claims that the right to strike is almost non-existent in Egypt and that the security forces use violence to bring an end to industrial disputes.

As a result, labour coverage in the Egyptian labour market is generally poor because of the centralised structure of unions as well as the alleged government interference and regulation of labour unions (Economic Research Forum 2004).

4.2.2.2 Wage-setting institutions

Egypt has poorly defined labour market institutions that make a difference in the wage determination process. However, two types of wage-setting institutions are found in the Egyptian labour market, namely the minimum wage and collective bargaining. When it comes to wage setting mechanisms in Egypt, a further distinction is made between the private sector and public enterprises (De Gobbi & Nesporova 2005).

Wages for public employment and public enterprises are determined by law. For example, the minimum wage and wage increases for different job categories, qualifications and fields of specialisation are linked to the cost of living. De Gobbi and Nesporova (2005) maintain that wages in the formal private sector are set by labour demand and supply, i.e. an individual’s personal skills and degree of specialisation are key factors in determining his or her wages. The setting of a minimum wage, social insurance, special wage increases and living-cost allowances is the responsibility of the national government. However, all these are simply ignored by private sector employers and cannot be imposed by weak trade unions (De Gobbi & Nesporova 2005). In the informal and agricultural sectors wages are also determined by “... the market and are flexible” (De Gobbi & Nesporova 2005, p.20).

On paper there is an institution which is responsible for determining the minimum wage in Egypt, the National Council of Wages. In practice, however, this institution is largely dormant as it has failed to do the tasks it was created to perform (Hassan & Sassanpour 2008; AfDB/OECD 2007).
Since 2002, the new labour law was introduced to regulate all aspects of collective bargaining in Egypt, including the aspects of union recognition, wage bargaining, the rights of employees and employee participation in the workplace (De Gobbi & Nesporova 2005). The issues of trade union bargaining power and the degree of coordination in wage bargaining are not very developed in Egypt (ITUC 2007; Carr 2008). As pointed out earlier on, the proportion of employees covered by collective agreements is almost non-existent, especially in the private sector.

Below, the collective bargaining machinery and minimum wages in Egypt are discussed in detail.

(i) Collective bargaining

In Egypt, collective bargaining can be exercised in all enterprises and the new labour law also permits collective negotiation at all levels starting at company level and reaching national level (De Gobbi & Nesporova 2005; Economic Research Forum 2004). Pertaining to the aspects of collective bargaining, the new law shows a considerable improvement when compared to previous labour laws (Economic Research Forum 2004). According to the law, in firms, with fifty employees or more, negotiation occurs between the union committee at enterprise level, the general union at industry level and the employer (De Gobbi & Nesporova 2005). Issues that are covered in collective negotiation include improving labour terms and conditions, fostering cooperation between various labour parties to achieve workers' social development, and settling disputes between workers and employers (Economic Research Forum 2004).

Even though collective bargaining and the right to strike are allowed by law, these rights however are not adequately guaranteed (Neumayer & de Soysa 2006). The law forbids direct participation by workers, in firms with less than fifty workers, in negotiations on the improvement of working conditions and the settlement of disputes. In this instance, negotiations are held between the general union and the employer's association. De Gobbi and Nesporova (2005) are of the opinion that this arrangement presents considerable limitations to the collective bargaining processes in Egypt since the majority of total workers are employed in establishments with less than fifty workers, i.e. in the SMME sector. This and other limitations on trade unions led to the conclusion by the head of the General Union
of Spinning and Weaving that the practice of collective bargaining does not exist in Egypt (Carr 2008).

Literature reveals that wage coordination in Egypt is also problematic. Since the government and the EFTU dominate the employer-employee relations in Egypt, it is understandable that a number of shortcomings, when it comes to wage determination, will arise. Business Today Egypt (2006) mentions that the law does not make a provision for trade unions to collectively bargain their members' wages, working hours or other general conditions of employment, and on the other hand, employers have the right to unilaterally set employment conditions. As a result, unions claim that the close association between EFTU and government make collective bargaining impossible in Egypt (Carr 2008). ITUC (2007) concurs that these legal restrictions on collective bargaining throughout the economy, render it extremely difficult for trade unions in the private sector and almost nonexistent in the public sector.

According to the Economic Research Forum (2004) collective labour agreements are required to be concluded between one or two trade unions and the employer or a group of employers, or one or more of their organisations. Before any of the parties can conclude an agreement, the absolute majority of its board members must approve it in advance (Economic Research Forum 2004). The limited activity of trade unions in Egypt has been deliberated on extensively earlier on, therefore there is no need to try and explain the theoretical workings of collective agreements. It is obvious that collective agreements, if they exist at all, are simply a rubber stamp of the government and the EFTU.

(ii) Minimum wage

According to the International Labour Organisation (ILO) (2009), minimum wages are an accepted policy instrument in most countries with the exception of those in the Middle East. It is often claimed that there is no minimum wage set for the private sector in Egypt (Hassan & Sassanpour 2008; De Gobbi & Nesporova 2005). The assertion that there is no minimum wage in Egypt is not entirely correct.

The state machinery for setting and enforcing the minimum wage is largely dysfunctional and, at the same time, the issue of setting a minimum wage poses a problem in that "... the minimum wage in Egypt is not only very low, but also poorly enforced" (AfDB/OECD 2007, p. 283).
As part of the ongoing reforms of the labour market, in 2003 the government promulgated a new labour legislation. Amongst many of the institutions created by this law is the National Council of Wages. The Council is responsible for setting the minimum wage and create a balance between wages and prices. When created it stipulated an annual increase in the minimum wage of not less than seven percent (De Gobbi & Nesporova 2005). In 2008, interestingly, the Council had "...not issued any decisions since its inception" (Hassan & Sassanpour 2008, p.12). The private sector disregards the minimum wage set by the government, and in part the low level of unionisation aggravates this practice (De Gobbi & Nesporova 2005).

(iii) **Tri- and bipartite negotiations**

In the earlier sections of this chapter it was mentioned that the EFTU, a close ally of the government, is the only trade union federation that is recognised by law in Egypt. Taking into account the limitations emanating from this close association between the government and EFTU, it is impossible to objectively declare any genuine existence of bi- and or tripartism in Egypt. In response to this shortcoming, in 2008, the ILO launched a project entitled: Promoting the Fundamental Principles and Rights at Work and Social Dialogue in Egypt and this is geared towards promoting an appropriate legal environment and a culture of consultation and dialogue (Carr 2008). It remains to be seen if this project would bear tangible results in the future.

4.2.2.3 **Characteristics of the small business sector in Egypt**

Following the international trend of realising the role of SMMEs in the economy, the Egyptian government identified the SMME sector as a source of growth and of job creation. The Small and Medium Enterprise Law was passed in 2004. Though SMME development is a priority in Egypt, it is not insulated from the challenges that face smaller businesses elsewhere in the world. CIDA (2003) identifies the lack of sophistication, over reliance on unskilled labour and low levels of competitiveness as some of the major problems confronting the small business sector in Egypt. As a result, they face fierce price competition and have limited ability to shift to higher value added products (CIDA 2003). Most importantly, these characteristics would obviously undermine the export role which has been targeted for SMMEs by the government.
The lack of statistics relating to SMMEs in Egypt makes it difficult to discuss the nature and characteristics of this sector. The official national definition of SMMEs in Egypt refers to enterprises with a maximum of fifty employees (Gibson & van der Vaart 2008). When both the EU and the NSBA classifications of enterprises, as discussed in chapter 1, are utilised, there are essentially only micro- and small enterprises and no medium-size enterprises in Egypt. Amici (2006, p. 9) refers to the lack of medium-size enterprises in Egypt as the “missing middle-sector syndrome”. It is estimated that almost seventy percent of new jobs were created by micro and small enterprises in 2002. In the late nineteen nineties, it was estimated that the SMME sector accounted for over ninety percent of private non-agricultural enterprises and employed approximately seventy five percent of the total labour force working in such enterprises (De Gobbi & Nesporova 2005).

The characteristics of the SMME sector in Egypt may be summarised in the following manner:

- Micro enterprises are classified as enterprises which employ less than five people, and small businesses can have from five to fifty workers;
- Egyptian SMMEs are reported to be characterised by low productivity, low levels of income and unsafe and hazardous working conditions;
- The failure rate of SMMEs was approximated to be as high as eighty percent in 1998;
- Programmes in support of SMMEs are often not very successful due in part to the lack of support services, e.g. access to capital and financial services;
- The contribution of formal institutions and even NGOs and special programmes is almost invisible;
- Other major problems for micro and small enterprises are reported to be low effective demand, limited managerial and accounting skills, lack of marketing and high taxes;
- Small enterprises tend to hire workers informally; and
- Egyptian small enterprises themselves are increasingly becoming informal (De Gobbi & Nesporova 2005; Amiri 2006).

In conclusion, labour legislation in Egypt does not make a distinction between large businesses and SMMEs. However, the law states that a group of at least fifty workers has the right to form a local committee at their workplace and register with their respective syndicate.
This clause in the legislation prevents smaller enterprises from participating in industrial relations since the majority often employ less than fifty workers. Finally, poor enforcement by government and non-compliance by businesses with regards to wage setting in Egypt have led to the assumption that wages for the private sector are set by the interplay of supply and demand for labour (Hassan & Sassanpour 2008).

4.3 DATA ANALYSIS: SIMILARITIES AND DIFFERENCES BETWEEN THE SELECTED CASES

This sub-section provides a comparative analysis of the case studies given in section 4.2 above. Given the lack of data, this analysis will be limited to a set of main themes and common observations in the case studies.

There are a number of features that may be used to analyse the industrial relations systems and wage determination mechanisms of countries. For instance, political systems of different countries inform the manner in which the basic rights of citizens are respected and protected. Labour laws extend these rights to include the rights to collective bargaining and to strike, as an example. Wage setting and related institutions are also determined through labour legislation. It goes without saying that the ways in which wage-setting institutions function and their scope of operation hinge on the strength of a country's laws, including the constitution. The next section highlights important similarities and differences between the wage-setting institutions in Sweden, South Africa and Egypt.

4.3.1 Similarities

4.3.1.1 Collective bargaining

In making some form of generalisation on the existence of institutions for employee participation in the industrial relations of the three countries, a number of similar institutions are found in Sweden, Egypt and South Africa.

In Sweden, South Africa and, to a lesser extent, Egypt, a number of trade unions participate in collective bargaining and are recognised by law. In the case of South Africa and Sweden, no
single trade union dominates collective bargaining and the recognition of unions ensures independence, irrespective of size. Trade unions are found in all the sectors of the economy. However, union recognition is unusual in the case of Egypt because all trade unions or syndicates are required to be affiliated to a single umbrella trade union federation, the ETUF (ITUC 2007). This stipulation in the law prevents the independence of trade unions and meaningful collective bargaining in Egypt. The sector level is a dominant level at which collective bargaining agreements and pay determination occur in both Sweden and South Africa (EIRO 2007; Wood & Mahabir 2001; Nattrass 1998).

Trade unions dominate all matters pertaining to the representation of workers in the workplace and no other channels, e.g. workplace forums, exist for determining wages in Sweden and Egypt. Amid subtle differences in the two countries, their systems may be categorised as single channel. In this type of system, unions have greater powers in relation to dual channel systems, i.e. works councils or workplace forums (Makó, Csizmadia & Illéssy 2006). The South African system of industrial relations may be classified as dual or mixed channel and is discussed under 4.3.2.1. No works councils are found in Sweden, as is the case in many countries in the European Union, but pay determination also occurs at local level albeit not dominant. Instead, the representation of workers in the workplace is through the local union at the workplace. Collective bargaining takes place at industry level but the majority of employees have part of their pay determined at local level. For example, the differentiation and individualisation of wages are done at company level. As a point of interest, pending agreements are signed with non-members in the situation where a company operates in an area which is covered by the agreement (EIRO 2007; Anxo & Niklasson 2006).

With regards to the treatment of the SMME sector as a separate entity in terms of labour legislation, all three countries do not make a distinction between large and small businesses on collective bargaining matters. According to Barker (2007), collective sector agreements in South Africa are extended to include non-parties, such as small and medium enterprises. Although the law does not provide for the extension of collective agreements to include non-parties, the level of coverage of collective agreements in Sweden is high. In that country the majority of companies can be classified as SMMEs (Göransson 2008; Buhr & Hermansson 2004).
One of the main criticisms levelled at collective bargaining in both South Africa and Sweden is that bigger enterprises dominate the employer party bargaining at the expense of SMMEs. In South Africa and Sweden, a collective sector agreement is equally applicable for both SMMEs and large companies. In South Africa, however, the labour law permits for ad hoc exemptions from the extension of the collective agreements and subsequently the requirements of bargaining council agreements. According to Bhorat and Van der Westhuizen (2009), this exemption system is the most important way in which the legislation accommodates SMMEs. In 2002 and 2004, for example, approximately two-thirds of all exemption applications received were from small and medium enterprises and between seventy two to seventy eight percent of these applications for exemptions were granted (Godfrey et al. 2006; Bhorat & Van der Westhuizen 2009).

None of three countries has a representative bargaining body to collectively represent the interests of smaller businesses in general or in a particular sector of the economy or a geographical area. As indicated earlier, the majority of businesses in the Swedish economy fit the SMME definition. The Federation of Private Enterprises is a network organisation for small and medium enterprises in Sweden, but this organisation does not partake in collective bargaining at all (EIRO 2007). EIM (2009) mentions that due to the growth in the SMME sector, the interest of trade unions in these types of enterprises is also increasing. The fact that the Swedish firm structure is dominated by SMMEs implies that workers in SMMEs should have a higher degree of influence on the labour unions due to high membership. To the contrary, collective bargaining in Sweden, as in South Africa, is dominated by larger firms and takes place at national or sector level (Nattrass et al. 2002; Göransson 2008; Godfrey et al. 2006).

In Egypt, though the labour law does not necessarily make a distinction between large and smaller enterprises, it appears to exclude employees in smaller enterprises. The same can be said with section 27 of the LRA in South Africa which demands that employers’ associations must show that their members employ over fifty percent of workers in that particular industry for a bargaining council to be recognised. The only complication in Egypt is that economic and labour laws are not in sync. For an enterprise to be recognised as an SMME, it must have a maximum of fifty employees, and the labour legislation suggests that in firms with fifty employees or more negotiation occurs between the union committee, the general union at industry level and the employer (Gibson & van der Vaart 2008). As a result, it is assumed that
this provision in the law would exclude members of the SMME sector from the collective bargaining processes.

4.3.1.2 Minimum wage

Of the three countries under study, only South Africa and Egypt have minimum wage laws. South Africa has comprehensive minimum wage legislation. First, the Employment Conditions Commission is responsible for setting minimum wages for sectors through sectoral determinations (Godfrey et al. 2006). Second, the ‘extension’ provision in the LRA can also be viewed as a way of setting a minimum wage in the affected sectors. Kingdon and Knight (2005) argue that there are serious penalties for not complying with the collective agreements. In the case of Egypt, the law tasks the National Council of Wages with the setting of a compulsory minimum wage and when this entity was created it stipulated an annual increase in the minimum wage of not less than seven percent. However, the National Council of Wages has not been active since its creation in 2002 (De Gobbi & Nesporova 2005; Hassan & Sassanpour 2008). Government also sets the minimum wage for the public sector, though largely ineffective (De Gobbi & Nesporova 2005).

In Sweden, there is no statutory minimum wage law. However, annual collective bargaining contracts contain clauses on minimum compensation (Berg 2006).

4.3.2 Differences

4.3.2.1 Collective bargaining

In sharp contrast to the adversarial relations between employers and trade unions in Egypt and South Africa, the Swedish system of industrial relations promotes a spirit of cooperation and collusion. As a point of interest, when the Saltsjöbaden Agreement was signed 1938, it was agreed that hostility between employers and trade unions were not allowed during negotiations of new labour agreements. The European Commission (2004) states that government is not involved in the employer – employee relations in Sweden and collective agreements are treated in the same manner as private contracts between private citizens. This makes collective agreements a powerful legal instrument in Sweden. In South Africa,
collective agreements are governed by the LRA. As such all rights and obligations of parties are clearly stipulated and private and labour contracts are, therefore, separated by law. The proportions of wage workers under collective agreements also differ a great deal between Sweden and South Africa. Collective agreements covered more than seventy percent of workers in Sweden in 2008 but in South Africa the level of coverage was estimated to be around twenty percent between 2002 and 2004 (ILO 2008; Godfrey et al. 2006).

In the previous section it was mentioned that the industrial relations system in South Africa is a dual or mixed channel, as opposed to the single channel systems in Sweden and Egypt. It provides for more than one channel of employees' participation (bargaining councils and workplace forums) and wage determination (collective agreements and sectoral determinations). In a mixed channel system, the workplace representation of the non-union members is achieved by the trade unions or through a supplementary channel for the non-unionised workers (Makó et al. 2006).

In South Africa, collective agreements are the only manner of determining wages in sectors covered by bargaining councils and can be extended to cover non-parties. In the sectors that are not covered by bargaining councils, wages are determined by means of sectoral determinations. Therefore, wages in South Africa are determined by means of bargaining councils and sectoral determinations. In addition to bargaining councils, the South African LRA makes provision for the creation of workplace forums to facilitate employee participation in the workplace and these forums are additional to trade union representation. A system of workplace forums in South Africa, a form of works council, was introduced in 1995. Workplace forums are only consultative bodies and focus on practical factory-level issues but exclude wages and wage related issues (Wood 1998; Wood & Mahabir 2001). Workplace forums in South Africa do not enjoy the privileges and powers of the work councils in Germany, for example, as they do not deal with wage determination (Makó et al. 2006).

Even though worker representation in Sweden and Egypt is single-channel (union dominated), the Swedish system shows elements of flexibility in that it allows for pay determination to be done at local level with trade unions in line with the central agreement. In this case, the law requires the employer to negotiate with the unions at the workplace before making any major changes to industry level agreements. It must be noted that worker representation in Sweden is still considered single-channel since no workplace forums or works councils exist. Though
the LRA provides for the creation of workplace forums, these entities do not deal with pay and are largely ineffective in South Africa (Wood & Mahabir 2001).

Both in Sweden and South Africa, legislation does not prescribe the minimum number of workers for recognition purposes in the workplace. Whilst in Egypt, the law states that a group of at least fifty workers has the right to form a local committee at their workplace and register with their respective syndicate (De Gobbi & Nesporova 2005). This clause in the legislation therefore does not encompass small and medium enterprises since the majority often employ less than fifty workers.

The system of collective bargaining in South Africa is highly regulated, and some of its most important features are bargaining councils and the extension clause of these agreements to non-parties (Bhorat & Van der Westhuizen 2009). Sector level bargaining therefore dominates the wage determination in South Africa. The same can also be said for Sweden’s collective bargaining process, but the two systems have distinct and visible differences. First, though collective bargaining is conducted mostly at industry level and pay determination is done at local level in Sweden. This pay determination at local level normally follows the terms of the main national/sector agreement. As a result, the system of collective bargaining in South Africa is much more centralised when compared to that of Sweden (Godfrey et al. 2006). Second, in the South African context the BCEA determines the basic conditions in the workplace. On the other hand, Swedish labour legislation only stipulates that employers are compelled to negotiate with local unions before making any changes in the workplace and all matters relating to conditions of employment are covered in a collective agreement.

Furthermore, the extension of collective agreements to cover non-parties, as indicated above, is a dominant feature in the South African industrial relations environment (Bhorat & Van der Westhuizen 2009). No such stipulation exists in Sweden and Egypt. However, the overall coverage of collective bargaining agreements is very high in Sweden when compared to other EU countries, and, of course, South Africa. The nation wide contracts emanating from these collective agreements have a legislative impact. For example, the rights of all parties are stipulated by the agreement, instead of legislation. In South Africa, however, the LRA protects the rights of the parties to any collective agreements.
4.3.2.2 Minimum wage

Of the three countries, South Africa and Egypt are the ones with a minimum wage (Bhorat et al. 2002; Hassan & Sassanpour 2008). Unlike both Egypt and South Africa, the labour legislation does not make provision for a minimum wage in Sweden. In its place, the term of "minimum wage" would refer to the minimum rate, the pay minima, which must be paid in all circumstances for the work done or to employees belonging to a certain category as determined in the collective bargaining agreement. As such an employer who pays rates below those agreed in the agreement is said to be in breach thereof (Berg 2006).

4.3.2.3 Tri- and bipartite negotiations

Of the three countries under investigation, only South Africa has a tripartite structure in the form of NEDLAC (Wood & Mahabir 2001). Unlike in Sweden and Egypt, employers, trade unions, government and a range of social partners meet in NEDLAC to deliberate on various industrial relations related issues. NEDLAC does not set any binding agreements but only a framework for collective bargaining.

In all three countries small and medium enterprises are seen as key to solving their economic challenges, such as unemployment and poverty. Sweden, Egypt and South Africa have sought to encourage SMMEs by adopting policies supportive of SMMEs. Evidence from the comparative analysis suggests that substantial resources have been committed in an attempt to make SMMEs a success, as demonstrated by the institutions that have been set up in the three countries. Similarly, the three countries, with Egypt to a lesser extent, have very strong wage-setting institutions to regulate their labour markets. The operating environments for SMMEs differ from country to country but similarities also exist. A summary of similarities and differences, with respect to wage-setting institutions and SMME sector operating environments, between Sweden, South Africa and Egypt are presented in table 4.2 and table 4.3 below.
Table 4.2: Wage-setting institutions in comparative perspective: Sweden, Egypt and South Africa

<table>
<thead>
<tr>
<th>Wage setting Institution</th>
<th>Sweden</th>
<th>Egypt</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Collective Bargaining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Representation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representation of employers’ associations and trade unions. Issues of union recognition not determined by number of employees</td>
<td>Equal representation of employers’ associations and trade unions to form a BC, as determined by the LRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law and collective agreements confer rights to employees</td>
<td></td>
<td></td>
<td>LRA also covers aspects of union recognition and rights of employees</td>
</tr>
<tr>
<td>The issues covered by the provisions of bargaining councils comprise pay, wage formation and other conditions of employment</td>
<td>Only ETUF has the legal right to participate wage determination processes. <em>(Individual trade unions may not participate in meaningful collective bargaining)</em></td>
<td></td>
<td>The issues that are covered by the provisions of bargaining councils include minimum wages, hours of work, leave and bonus provisions and retrenchments</td>
</tr>
<tr>
<td>Agreements are treated as a binding contract between private citizens once concluded</td>
<td>No evidence of collective agreements.</td>
<td></td>
<td>Agreements are regulated by LRA once concluded</td>
</tr>
<tr>
<td>• Scope of issues covered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Only way of determining wages in the whole Swedish economy</td>
<td>Only ETUF has the legal right to participate wage determination</td>
<td></td>
<td>Only manner of determining wages in sectors covered by agreements</td>
</tr>
<tr>
<td>• Collective bargaining and wage determination</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage setting institution</td>
<td>Sweden</td>
<td>Egypt</td>
<td>South Africa</td>
</tr>
<tr>
<td>--------------------------</td>
<td>--------</td>
<td>-------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Employee representation channel</strong></td>
<td>Exclusive control by trade unions (Single channel)</td>
<td>Exclusive control by one trade union federation (Single channel)</td>
<td>Collective bargaining and workplace forums (Mixed channel)</td>
</tr>
<tr>
<td><strong>Wage bargaining levels</strong></td>
<td>Non existent</td>
<td>No evidence</td>
<td>Non existent</td>
</tr>
<tr>
<td>Inter-sectoral level</td>
<td>Dominant level</td>
<td>Existing level but weak</td>
<td>Dominant and exclusive level</td>
</tr>
<tr>
<td>Sectoral level</td>
<td>Existing level but not dominant</td>
<td>Existing level but weak</td>
<td>Existing but not functional</td>
</tr>
<tr>
<td>Company level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Extension of collective agreements</strong></td>
<td>No provision for extensions of collective agreements</td>
<td>Not applicable</td>
<td>Section 32(1) of the LRA makes provision for extensions of agreements</td>
</tr>
</tbody>
</table>

**II. Minimum Wage**

| Legislation | No legislation. Annual contracts determine minimum compensation | National Council of Wages (private sector) and government (public sector) determinations | Collective agreements and sectoral determinations |
| Minimum wage and wage determination | Not applicable | Weak enforcement | Only way of determining wages in sectors covered by sectoral determinations |
| **Enforceability** | Not applicable | Weak enforcement | Comprehensive minimum wage legislation and moderate enforcement |

**III. Bi- and Tri-partite relations**

| Mostly bi- partite, as employers’ associations and trade unions do not allow government involvement | No evidence | Tri-partite relations in the form of NEDLAC, but no wage setting capabilities |

Source: Author’s summary of literature
Table 4.3: SMME sector operating environment in comparative perspective: Sweden, Egypt and South Africa

<table>
<thead>
<tr>
<th>Wage setting institution</th>
<th>Sweden</th>
<th>Egypt</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of the SMME sector in the economy</td>
<td>SMME sector makes ninety nine percent of all enterprises</td>
<td>SMMEs constitute over ninety percent private non-agricultural enterprises</td>
<td>Not known. Majority of small businesses are informal</td>
</tr>
<tr>
<td>Prevalence of support programmes for SMMEs</td>
<td>Strong</td>
<td>Weak</td>
<td>Medium</td>
</tr>
<tr>
<td>Separate dispensation for SMMEs i.r.o. labour law</td>
<td>None</td>
<td>None</td>
<td>None (LRA allows for <em>ad hoc</em> exemptions from the extension of the collective agreements)</td>
</tr>
<tr>
<td>SMME representative body in collective bargaining</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

Source: Author’s summary of literature
4.4 LESSONS FOR SOUTH AFRICA

The following broad lessons can be extracted from the experiences Sweden and Egypt with regards to creating more enabling environments and promoting small business development in South Africa:

4.4.1 Strengthening of the role of NEDLAC (triptasm)

The Swedish system of collective bargaining is based on shared understanding and mutual trust. This is perhaps the strongest lesson for the South African social partners. Strengthening the role of NEDLAC in the running of the economy is critical. "... a shared understanding of the economic and social context, and of key mechanisms driving growth, productivity and employment, greatly increases the probability of wage bargaining being conducted in a cooperative way, in which each party has an eye on their own long-term self-interest and the common good, and not only to their short-term interest or purely sectional concerns" (European Commission 2004, p. 44). Wage-bargaining coordination at central level ensures that wages in the economy are not set at above the level which can have detrimental effects on the economy (Lah, Redek & Susjan 2008). One such solution can be to set wage increases within the three to six percent inflation target of the South African Reserve Bank, as an example.

The proposition that there is a need for the role of NEDLAC to be strengthened also suggests NEDLAC should complement the ECC in the deciding the appropriate minimum wages for different sectors. Evain (2008) states that in countries like Italy, Germany, Sweden and Switzerland, minimum wages are determined by the social partners.

4.4.2 Globalisation is not a myth but a reality, even for SMMEs

Linked to the point above, the foundations of the Swedish system of wage determination have an outward orientation and global focus (Parker 1999). The social dialogue in South Africa appears not to take cognisance of global phenomena that have a direct impact on the economy (Bosch 2009). Despite the global financial crisis, for example, trade unions in the majority of sectors demanded wage increases in the months of June and July 2009.
4.4.3 Institutionalised dialogue for the SMME sector: SMME representative body

According to Berry et al. (2002), the needs of SMMEs differ from those of big businesses with regards to collective bargaining and agreements. However, no evidence shows that small and medium enterprises have expressed an intention of creating a structure whereby their interests and needs can be articulated at sector level. This form of institutionalised dialogue for the SMME sector can ensure that the specific needs of small players are recognised by trade unions, who in most cases are concerned with interests of members from the big organisations.

Godfrey et al. (2006) state that the manner in which SMMEs can make their voices heard in the collective bargaining process is by joining or forming employers' organisations. None of the three countries, which were used as case studies, has a SMME representative body in collective bargaining. Umbrella organisations for SMME employers are found in countries such as Belgium, Czech Republic, France and Finland. The European Association of Craft, Small and Medium sized Enterprises and the Pan European ICT & e-Business Network for SMMEs represent small and medium enterprises at the European Union level (EIM 2009).

The position of the SMME sector and industrial relations appears more complex than initially anticipated. First, there is no sufficient evidence to suggest if small and medium enterprises in South Africa implement the provisions of labour legislation or not. Instead, literature shows that the small businesses' knowledge of labour legislation and other labour regulations in general terms is poor (Godfrey et al. 2007). Second, in the opening chapter it was also pointed out that bargaining councils tend to favour bigger firms by setting minimum wages above the level that is feasible for smaller businesses in the same industry. In this instance, the special needs of SMMEs are widely ignored (Nattrass et al. 2002). Therefore, the creation of a SMME representative body would ensure that the voice of small and medium businesses in South Africa is taken into account when collective agreements are concluded.
4.4.4 Workplace forums

Alternative to the formation of a SMME representative body, the expansion of the scope of workplace forums in South Africa needs to be investigated. In Sweden, the mode of representation of employees in the workplace is also single channel, as opposed to the dual or mixed channel system in South Africa. In a single channel system, unions have greater powers, as compared to a dual channel system, i.e. works councils in Germany (Makó et al. 2006). In terms of the LRA, workplace forums can only be initiated by trade unions and are the second mode of representation of employees in South Africa, in addition to bargaining councils. However, this Act fails in separating these two institutions (Khoza 1999). Together with the extension clause of collective agreements, the dominant role given to trade unions in the formation of workplace forums has the potential of overshadowing the voices of non-union members and employees in non-unionised firms (Van der Walt 2008).

The lesson for South Africa in this regard, is that workplace forums can be as important as bargaining councils, especially when it comes to information, consultation and or co-decisions in the workplace. Though the LRA provides for the creation of workplace forums, no evidence exists that SMMEs create workplace forums at all (Godfrey et al. 2006). The existing threshold of a hundred employees for establishing a workplace forum by a representative trade union can also be revised to reflect the economic realities of SMMEs. For example, it is unthinkable that the majority of small businesses employ such a large number of employees.

The dual channel system provides for a separate channel of employee representation in firms, which is additional to the trade union(s), and is found in a number of countries in the EU, such as Germany, Austria, France, Belgium, Luxembourg, the Netherlands, Spain, Slovakia and Slovenia (European Commission 2004). As such, the forums should be formally independent from trade unions and their bargaining powers should be expanded to include matters of wage determination at local level. Workplace forums can facilitate the participation of all workers, including non-union members, in collective bargaining and pay setting in the workplace. However, caution should be taken to ensure that there is no competition for territory between bargaining councils and workplace forums.
4.5 RESEARCH FINDINGS: THE EFFECTS OF WAGE-SETTING INSTITUTIONS ON SMMES

The presentation of the research findings of this study is based on the review of different literature sources and on the insights gained from the cross-case analysis conducted in point 4.3 above.

To understand how the minimum wage legislation and bargaining councils could be impacting on small and medium businesses, it is suggested that the analysis commences with a thorough examination of the coverage of the BCEA and bargaining councils in South Africa. As such, the number of employers and employees who actually fall within the existing bargaining councils or sectoral determinations and those who are covered by the extension of collective bargaining agreements could be determined. The analysis will also focus on different secondary sources to evaluate if minimum wage legislation and the provisions of bargaining councils impact negatively on small and medium businesses. Despite an intense scrutiny of the relationship between wage-setting institutions and their effects on SMMEs, literature indicates that there are no discernible impacts on small and medium businesses. For example, the findings of contemporary economic research (Waltman, McBride & Camhout 1998; Pluta 2009; Bernstein 2004) cast a long shadow of doubt on the contention that increases in minimum wages result in unemployment and that they are not good for the development of the small and medium business sector. The effects of the minimum wage are discussed intensely under point 4.5.1.1 of this chapter.

The LRA and the BCEA are the sources of bargaining councils and sectoral determinations in South Africa. Approximately 9.5 million employees in the country were covered by these two pieces of legislation in 2006. Bargaining council agreements and sectoral determinations covered about twenty five percent and thirty six percent of these employees, respectively (Godfrey et al. 2006).

The following section highlights controversies on whether wage-setting institutions impact negatively on small and medium businesses or not.
4.5.1 The effects of minimum wages on small and medium enterprises

Minimum wage laws were first passed in Australia and New Zealand towards the end of the last century (Pluta 2009). It must be pointed out that when the topic of minimum wages is raised, the distinction between minimum wages that are prescribed by law and those that emanate from collective bargaining agreements is not that obvious. In Germany, for example, no minimum wage is set at federal level and most minimum wages are determined through collective agreements, but wages in specific industries, such as construction, roofing, painting and demolition, are set by law (International Labour Organisation (ILO) 2008). The situation is not that complex at all in the South African environment since minimum wages are determined through collective agreements and sectoral determinations (Barker 2007).

Unlike in other countries, in South Africa, a minimum wage is not set by the law but minimum wages are introduced to sectors through sectoral determinations. This implies that there is no single minimum wage for the whole country but different minimum wages are set for different sectors that do not fall under bargaining councils. Godfrey et al. (2006) point out that although sectoral determinations cover many employees in South Africa, they have not attracted a lot of controversy in comparison to bargaining councils. The majority of EU countries, Latin America, Asia and Africa, including Egypt, set a single minimum wage for the whole country (Infante et al. 2003; Ahlberg & Bruun in Blanpain 2005; Evain 2008; Hassan & Sassanpour 2008).

4.5.1.1 The effects of minimum wages on employment, with an emphasis on SMMEs

Even though more than ninety percent of countries in the world have legislation on fixing a minimum wage, the debate on whether minimum wages affect other economic outcomes, e.g. employment, or not has been ongoing (Pluta 2009; ILO 2006a; ILO 2008). Literature shows that diverse opinions exist on this topic. Different authors (Levin-Waldman in Pluta 2009; Waltman, et al. 1998; Pluta 2009; Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007) reached various and diverging conclusions on the subject of minimum wages and their effect on employment, as a goal of SMME development. These findings can be categorised into three perspectives, namely (1) there is a positive correlation between minimum wages and unemployment; (2) minimum wages do not cause unemployment; and (3) no good evidence that suggests that minimum wages cause unemployment.
The first perspective or the mainstream market model of demand and supply suggests that a positive correlation between minimum wages and unemployment exists. This model also proposes that minimum wages are to be avoided because they are responsible for unemployment, harm the low-income workers they are designed to assist, increase prices in the economy and, most importantly harm the small businesses that must absorb labour costs (Levin-Waldman in Pluta 2009). In broad terms, the exponents of the market model of demand and supply argue that small businesses that are labour intensive and that employ mostly low-wage earners would be negatively affected increases in the minimum wage. As a result, they would be compelled to reduce their employment levels in order to cope with the new minimum wage (Fiscal Policy Institute (FPI) 2006).

These presumptions regarding the negative impact of minimum wages on employment appear not to be entirely accurate. This is supported by means of the empirical data to show that the correlation between minimum wages and unemployment is not simplistic at all (Waltman, et al. 1998; Pluta 2009; Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007; Bernstein 2004).

Another perspective of studies advocates that minimum wages do not cause unemployment. Current research reveals that there are instances where increases in minimum wage have either resulted in only minimal job losses or have actually caused an increase in the number of jobs (Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007).

The importance of minimum wages is not only relevant for developing countries such as Brazil, China and South Africa but they are also important for developed countries (ILO 2008). This was shown by the revival of the system of industry level minimum wages in the United Kingdom in 1999 after it had been dismantled in the nineteen eighties. Ireland also introduced minimum wages in 2000 (OECD 2006). After the re-introduction of the minimum wage in the United Kingdom, a study was then conducted to determine the employment effects of the national minimum wage and it was concluded that the effects on employment had "... been small or non-existent" (Metcalf 2007, p.21). This position was supported by many other contemporary researchers (ILO 2006b; OECD 2006; Card & Krueger 1998).

In 1992, a study was conducted to examine the effects of minimum wages on employment in the fast food industry after the State of New Jersey in the United States had raised the minimum wage. In this instance, the fast food industry executives had strongly argued that
they would be forced to lay off workers as a result of the increase. The outcome of this study was that an increase in the minimum wage had little or no effect on unemployment (Card & Krueger 1998). Similar conclusions on the effects of minimum wages on employment were also reached by the ILO (2006b), Pluta (2009) and the OECD (2006). The ILO (2006b) showed that minimum wage laws generally created either a modest decline in employment or an increase in the number of jobs. Furthermore, when unemployment increased in thirty OECD member countries in Europe in 2006, a conclusion was reached that the minimum wage laws in these countries were not responsible for the increase in unemployment (OECD 2006). Pluta (2009) states higher minimum wages have made employees more productive, improved morale of employees and may be beneficial to small and medium business owners.

In contrast to the mainstream market model of demand and supply, the group of studies presented above as a second perspective refute suggestions that minimum wages must be scrapped altogether because of their supposed negative effect on employment and smaller enterprises. These divergent points of view show clearly that the issue of minimum wages is rather complex and that there are no simple answers. The third perspective provides testimony to this observation by suggesting that there is no detectable evidence to prove that a positive relationship exists between employment and the effects of minimum wages (Waltman, et al. 1998).

As mentioned above, the third view puts forward an argument that there is no good evidence available to show a direct relationship between employment and the effects of minimum wages. First, the study by the FPI (2006) also found that no evidence of negative employment effects on small businesses as a result of minimum wages. An examination of government data between 1996 to 2006 showed that none of the many states across the United States that had raised their minimum wages above the federal level experienced labour market or other economic problems arising from their higher rates (FPI 2006). Waltman, et al. (1998, p. 221) also conducted a study over a thirty year period in the United States to determine if there is a relationship between minimum wage increases and the business failure rate and reached a conclusion that "... there seems to be no discernible correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year. If anything, the evidence leans the other way" (own emphasis). It is therefore possible that the effect of minimum wage legislation on employment is less clear as minimum wages are generally too low to have an important effect on the labour market (Blau & Kahn
1999). Additionally, minimum wages are also typically set low enough not to have a significant impact on employment and economic growth (Nickell & Layard 2007).

One persistent criticism against minimum wages is that they have negative employment outcomes. From 1996 to 1999, minimum wage increases in California, in the United States, were accompanied by declining rates of unemployment and also by a drop in the unemployment rate for teenagers, i.e. between sixteen and nineteen years old, from 23.5 to 16.5 percent. Galpern (1999, p. 3) caution against any over simplification of the relationship between minimum wage and employment by stating that “...a more plausible interpretation is that economic growth has simply overwhelmed any employment effect caused by increases in the minimum wage in California”. In fact, empirical evidence shows that there is no correlation between unemployment and higher minimum wages (Chapman 2004).

Finally, a study on the impact of higher minimum wages on small firms discovered that firms affected by higher minimum wages actually performed far better than expected, payroll growth was faster in higher minimum wage states, the number of small businesses grew twice as quickly in states with higher minimum wages and employment also grew one and half percent faster in high minimum wages states (Bernstein 2004; Fiscal Policy Institute (FPI) 2004; 2006).

Whether minimum wages exist as a by-product of social partner agreements or as a result of legislation, they play an important socio-economic role in many countries and their significance in the labour market cannot be downplayed. By establishing a minimum wage, many countries do it for social reasons and to stimulate demand for locally made goods and services in the local economy (Infante et al. 2003; Connelly 2009). For example, families get an opportunity of earning decent incomes and thereby helping domestic demand for the goods produced in their respective countries to increase (Connelly 2009). In a country such as South Africa, minimum wages help the poor to earn decent wages, in this manner reducing poverty, reducing wage inequality and ensuring that the economic exploitation of the vulnerable workers is also minimised (Cheadle 2006).

In the paragraphs above, three perspectives on the effect of minimum wages on employment, with an emphasis on small and business enterprises, were reviewed. The outcome of this review highlights the fact that the issue of minimum wages is not simple after all.
As a result of this rather important observation, this investigation leads to two other important points on the topic minimum wages in South Africa. First, the major point of concern is that it is not clear if SMMEs in South Africa implement minimum wages at all. Research in Chile, for example, discovered that less than twenty five percent of micro-enterprises, i.e. enterprises of between one and five employees, paid minimum wages. Moreover, in 2000 twenty four percent of employees in micro-enterprises in the non-agricultural sector received less than the minimum wage and this number was seven percent in enterprises with two hundred employees or more (Infante et al. 2003). This may be a clear indication that the impact of minimum wages on small and medium enterprises could be over exaggerated. Also, it needs to be pointed out that the low and non-compliance by small and medium enterprises undermines the achievement of the main objective of the minimum wage policy, i.e. the amelioration of living conditions of low-paid workers (Infante et al. 2003; Cheadle 2006).

Second, no minimum wages exist for young people in South Africa (Evain 2008). It is important to note that the rate of unemployment among young people in South Africa is higher than that of other groups (Guliwe 2008). Bernstein (2008) states that the official unemployment rate for people between the ages of fifteen and twenty four is almost twenty four percent higher than the rate for the total population. It therefore seems pointless to only focusing on limiting the scope of minimum wages in South Africa.

It is then argued that in addition to protecting vulnerable workers, minimum wages in South Africa can also be used facilitate the inclusion of young people in the labour market. Belgium, France, New Zealand, Norway, Portugal, Uruguay and Spain have specific minimum wages for young people (Infante et al. 2003; ILO 2008). The Young European Socialists (2009) note that the minimum wage for the youth is necessary because it enables young people to enter the labour market easier at the same time protecting them from exploitation in unpaid internships or short-term contracts without proper social security. This may be achieved in several ways, but only two countries are looked at. In Uruguay, young workers under the age of eighteen years receive seventy five percent of the national minimum wage. In the case of The Netherlands, there is an ascending scale which commences at the age of fifteen years and reaches hundred percent at twenty three years (Infante et al. 2003).

The following sub-section explores the effects of collective bargaining on SMMEs.
4.5.2 The effects of collective bargaining on SMMEs

From the cross-case study analysis above, it was found that collective bargaining is very strong in South Africa and Sweden. However, the economic successes of the two countries portray two contrasting pictures. South Africa struggles to create jobs but employment in Sweden is generally good. Though no collective bargaining agreements are signed in Egypt, the economy is also not generating sufficient jobs (Hassan & Sassanpour 2008). Accordingly, it is now opportune to conduct a detailed analysis to see whether collective bargaining affects job creation efforts in general terms.

In South Africa, bargaining councils are found in many sectors of the economy and differ in size as they range from very large national councils to small local councils. At this point, it is now necessary to take consideration of the country’s trends in the numbers of workers who benefit from collective bargaining. The International Labour Organisation (ILO) (2008) mentions that this can be measured by the so-called “coverage” of collective bargaining and defines the coverage of collective bargaining as the proportion of wage workers under a collective agreement. As such, the coverage of bargaining councils and representivity issues in bargaining councils in South Africa are explored with the intention of determining the effects of bargaining councils on SMMEs.

4.5.2.1 Coverage and representivity issues in bargaining councils

There is generally insufficient data on the coverage of collective bargaining in South Africa. However, a study on the coverage, compliance and exemptions in small business enterprises estimated that, in 2004, all bargaining councils (including the public sector councils, the local government council and Transnet) covered 20.3 percent of the total labour force, excluding only the Defence Force (Godfrey et al. 2006). The ILO (2008) also estimated level of coverage of collective bargaining in South Africa to be between fifteen and fifty percent in 2007. The most striking result is that the coverage rate of collective bargaining in South Africa is typically low when contrasted to the levels of coverage found in EU countries, especially in Sweden. Moreover, the low number of workers covered casts doubts on whether employees in SMMEs are covered at all. The low level of coverage of collective bargaining could also be interpreted as a shortcoming of the country’s collective bargaining system. Withstanding this shortcoming in the rate of coverage of bargaining councils, it is still vital to
analyse the areas of the LRA that may be responsible for the low number of SMMEs in bargaining councils South Africa.

First, section 27 of the LRA specifies that for a bargaining council to be recognised the employers' associations must show that their members employ over fifty percent of workers in that particular industry. This provision in the law does not encourage representation by small and medium firms. The majority of employer organisations in South Africa comprise large enterprises (Nattrass et al. 2002). It can be argued that the failure to include a provision in the LRA which compels the employers' associations to show that a specific number of their membership is made up of small and medium enterprises would imply that the number of SMMEs in the employers' organisations would never be representative of all firms in a particular industry. Instead, sections 30(b) and 54(1)(f) of the LRA, as amended in 2002, require that the constitution of every bargaining council must provide for the representation of small and medium enterprises and that bargaining councils should submit to the registrar data regarding small firms that fall within their scope, respectively (Republic of South Africa 1995; 2002). This may be interpreted as a good attempt to bringing the small and medium enterprises to the meaningful collective bargaining fold in South Africa. Due to a lack of research in this regard, it is not possible to gauge the influence of the amendments to the LRA in 2002.

Second, bargaining councils set admission criteria which can act as a barrier to employers' organisations comprised mostly of small and medium firms. For instance, the Cape Building Bargaining Council requires that to gain admission the members of an employers' organisation have to employ at least hundred employees in the industry (Holtzhausen & Mischke 2004). In terms of the classification of enterprises in South Africa, the highest number of workers that may be employed in SMMEs is two hundred (Republic of South Africa 2003; 2004). These findings indicate serious inconsistencies in the legislation in South Africa. Therefore, harmonisation of policies of the Department of Trade and Industry and the Department Labour in all matters pertaining to SMMEs may be necessary.
4.5.2.2 The “extension principle”: Extensions of collective bargaining agreements to non-parties and exemptions

As discussed in the comparative analysis, the labour law in Sweden does not make provision for extending collective bargaining agreements to cover non-parties (Berg 2003). In South Africa, however, a collective bargaining agreement may be extended to cover non-parties. The LRA stipulates that persons who are affected by this extension may make submissions to an independent body to be exempted from the provisions of collective bargaining agreements. Most important, section 32 of the LRA states that before any bargaining council agreement can be extended it should adhere to specific requirements (Republic of South Africa 1995). For example, the LRA requires of the terms of an agreement that they must not discriminate against non-parties.

For the purposes of analysis it is necessary to indicate upfront that the intention is not to scrutinise the mechanisms and criteria that are utilised by bargaining councils to determine which applications qualify for exemptions and those which are refused. Godfrey et al. (2006) state that employer parties and non-parties alike apply for exemptions for a range of reasons and that these applications relate mostly to provisions that are not perceived as core to the agreement in question, such as minimum wages.

Pertinent data is available on the outcome of applications for exemptions from the provisions of bargaining councils in South Africa.

**Table 4.4: Exemption applications, granted and refused by bargaining councils in South Africa in 2000, 2002 and 2004**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2002</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total applications made for exemption</td>
<td>494</td>
<td>708</td>
<td>649</td>
</tr>
<tr>
<td>Total exemptions granted in full</td>
<td>321</td>
<td>432</td>
<td>264</td>
</tr>
<tr>
<td>Total exemptions partially granted</td>
<td>22</td>
<td>63</td>
<td>203</td>
</tr>
<tr>
<td>Total exemptions granted subject to conditions</td>
<td>14</td>
<td>28</td>
<td>37</td>
</tr>
<tr>
<td>Total number of applications refused</td>
<td>135</td>
<td>185</td>
<td>145</td>
</tr>
</tbody>
</table>

Source: Godfrey et al. (2006)
Table 4.4 indicates that the exemption applications, granted and refused by the South African bargaining councils in the 2000, 2002 and 2004 periods. In summary, there was an increase of forty three percent in the number of applications for exemptions between 2000 and 2002, compared to a decrease in the 2004 period. The overall proportion of exemptions granted (whether granted in full, partial and subject to conditions) was approximately seventy percent in 2000, 2002 and 2004, but there was an increasing number of partial exemptions as opposed to full exemptions (Godfrey et al. 2006).

Based on the data presented, Bhorat and Van der Westhuizen (2009) argue that the exemption system appears to be working well, providing SMMEs with the opportunity to be exempted from some or all of the clauses of agreements. Nattrass et al. (2002), however, claim that when these exemptions are granted, whether in full, partial and or subject to conditions, they tend to be for issues that are unrelated to the wage. The main argument that is often associated with the “extension principle” is that it exacerbates the unemployment problem in South Africa (Guliwe 2008). The other problem of bargaining councils is that bigger firms tend to set minimum wages above the level that is feasible for labour-intensive firms, mostly SMMEs, in the same industry (Natras et al. 2002; Guliwe 2008).

The comparative analysis brought to light the fact that collective bargaining is dominated by larger firms in both Sweden and South Africa (Nattrass et al. 2002; Göransson 2008; Godfrey et al. 2006). The prevalence of small and medium enterprises in the South African economy presents a very different picture when compared to Sweden. As indicated in the analysis, the SMME sector constitutes a majority of enterprises in the Swedish economy and massive resources are committed by the government to promote small and medium businesses on an annual basis.

In Sweden, the industrial policy seems to have been the key in unlocking the potential of the SMME sector rather than a change in wage setting mechanisms. There are two main and important features of the nature of SMMEs and support programmes that are found in Sweden. According to Parker (1999), the SMME policy in Sweden, firstly, focuses on special programmes, rather than one-size fits all, that are geared towards improved growth potential for enterprises in building, and machinery, and marketing and product development. Second, it emphasises the need to address poor access to capital and skills deficiencies in small enterprises with the aim of improving their long term viability and competitiveness. It is accepted that since the early 1990s the Swedish model of wage negotiation has seen some
changes towards a more decentralised format but the principles have remained largely unchanged.

4.5.2.3 Collective bargaining at local level: Workplace forums failure in South Africa

In South Africa, the LRA makes a provision for a dual system of worker representation in the form of workplace forums, in addition to bargaining councils (Khoza 1999). Unlike in other countries, including Germany, the establishment of these forums is not entirely separate from bargaining councils because they are forbidden to cover issues such as wages that are supposed to be in the ambit of bargaining councils. Wood & Mahabir (2001) are of the opinion that workplace forums were “stillborn” because of their limited scope. On the other hand, there is no proof that SMMEs establish works councils in South Africa. Godfrey et al. (2007) surveyed the small businesses’ perceptions of bargaining councils and other types of labour regulation in 2007, and discovered that their knowledge of labour legislation and other labour regulations was generally poor. In spite of this, this study then argues that workplace forums can become an important vehicle for SMMEs to engage in some form of collective bargaining. Cheadle (2006) and Godfrey et al. (2007) propose that this needs to be supported by legislative changes by granting more powers to workplace forums, especially wage determination.

The level at which collective bargaining occurs and the degree of coordination between the different possible levels are said to affect wage outcomes (ILO 2008). The proposal of granting workplace forums more powers, therefore, does not intend to replace bargaining councils at all, but it seeks to reinforce the scope of collective bargaining in South Africa. Evidence shows that the untimely decentralisation of collective bargaining may lead to higher wage disparity in a number of cases, including in Australia and Chile (Bertola, Blau & Kahn 2002).

4.5.2.4 The effects of collective bargaining on employment, with an emphasis on small, medium and micro enterprises

Early in this chapter, it was shown that wage bargaining systems vary from country to country and that they offer different degrees of co-ordination or decentralisation. At this juncture, it is important to mention that wage setting through collective bargaining in South Africa does not
replace but complements the minimum wage-fixing machinery (Evain 2008). However, Godfrey et al. (2006) maintain that bargaining councils generally set wages above the levels set in sectoral determinations. Nevertheless, the arguments made regarding the impacts minimum wages on SMMEs and employment, under point 4.5.1.1, also hold for collective bargaining as it also fixes wages through agreements.

Be that as it may, the discussion on the effects of collective bargaining on employment often singles out the extensions of bargaining council agreements to cover non-parties as problematic (South African Foundation 1996; Berry et al. 2002). With this provision, collective bargaining councils set similar standards of employment for the whole sector, including a compulsory minimum wage (Godfrey et al. 2006; 2007). In line with the findings on the effects of minimum wages on employment, the impacts of collective bargaining on employment are also mixed (Krueger & Pischke 1997; Blau & Kahn 1999; Freeman 2007).

In South Africa, collective bargaining is responsible for setting minimum wages. One assumption of the market model of demand and supply, as discussed in 4.5.1.1., is that SMMEs that are labour intensive and that employ mostly low-wage earners would be negatively affected increases in the minimum wages (FPI 2006). Different authors (Krueger & Pischke 1997; Blau & Kahn 1999) provide contrasting evidence on the effects of minimum wages (in the context of collective bargaining) on small businesses, as the main employer of low skilled employees. Krueger and Pischke (1997) conducted a study on administered wages and employment by comparing the United States of America and Germany over the 1979 – 1991 period. The conclusion of this study was that wage rigidity in the German labour market did not appear to cause relative disemployment in the low skilled. Evidence also exists that compressed wages have adverse effects on relative employment. Blau and Kahn (1999) concluded that in countries with rigid wage structures, e.g. the former West Germany, Norway and Austria, workers with low skills achieved lower employment rates in relation to workers with middle levels of skills. Compressed wages result when trade unions narrow the wage distribution by raising more the wages of low-skilled workers in relation to those of high skilled employees (Card 1996). The findings of these studies also provide a clear indication on the existence of opposing views when it comes to the effects of collective bargaining on employment.
A small number of SMMEs are covered by collective bargaining agreements in South Africa and that they are even not sufficiently familiar with the provisions of various labour legislations (Godfrey et al. 2006). As such, it may be argued that impact of collective bargaining on SMMEs is over stated. This study therefore emphasises that the relationship between bargaining systems and their effect on employment are not as straightforward as is often assumed and therefore should not be generalised (Freeman 2007).

4.5.3 The need for creating a separate dispensation (permanent exemptions) for the SMME sector

Since 1994, the debate on the reform of South Africa’s collective bargaining system was introduced by proposals by employers for greater flexibility and the introduction of a two-tier labour market. The South African Foundation (1996) suggested that labour law reforms were necessary in South Africa to allow a flexible-wage labour tier, especially in the formal sector, to emerge next to the existing high-wage capital-intensive tier. In the first chapter it was noted that the South African economy is dominated by large, more capital-intensive enterprises and that small- and medium sized enterprises are relatively few (Nattrass et al. 2002). The proposals for the introduction of flexible-wage labour tier could be interpreted as a way of increasing the small- and medium sized enterprises in South Africa and of ensuring that they are also not covered by the collective bargaining system. The South African Foundation (1996, p. 23), in the motivation for the need for a flexible-wage labour tier system, suggested that such a system would require (a) the elimination of extensions of industrial council agreements to non-parties; (b) the maintenance of only the minimum labour standards (e.g. health and safety regulations) that would not hurt the poor and the unemployed; (c) avoidance of implementing minimum wage regulations which threaten jobs; and (d) legislative changes aimed at encouraging new jobs, new investment and the employment of the youth.

Two-tier wage systems are found in countries such as Spain and Italy (Boeri & Garibaldi 2007; Bentolila, Dolado & Jimeno 2008). The most disturbing aspect of two-tier wage systems is that they are not free of problems and controversies. According to Micklethwait (2009, p.28), the two-tier labour market in Spain divides workers between those with permanent contracts and those with short-term deals and this results in “... a privileged group cocooned from the reality of recession and the disadvantaged on temporary contracts, in unemployment or in illegal jobs”. After many years of high economic growth, Spain is
currently experiencing slowdown in the rates of growth of GDP and employment (Bentolila et al. 2008). In July 2009, the rate of unemployment stood at eighteen percent and the country’s GDP is predicted to drop by 3.2 percent at the end of 2009 (Micklethwait 2009).

Labour market flexibility was credited for Spain’s early economic successes (Bentolila et al. 2008). However, the problems of high unemployment and falling GDP rates raise a number of serious concerns regarding the viability of two-tier wage systems in general. Boeri & Garibaldi (2007) explains that two-tier labour market reforms have a transitional “honeymoon” or job creating effect. Spain’s two-tier labour market provides flexibility at the expense of underclass of temporary workers (Micklethwait 2009). Moreover, it is often suggested that labour market flexibility and lower firing costs, for example, result in higher employment. However, fixed-term contracts and lower firing costs increase the volatility of employment by raising both the hiring and firing rates (Bentolila, et al. 2008).

When taking a closer inspection of the South African labour market, the two-tier wage system can potentially raise a number of problems. COSATU (1999) interpreted the introduction of Sectoral Determination on Small Business in 1999 as the creation of a two-tier labour market in South Africa. The main arguments of the trade union federation were that the determination would undermine the BCEA, encourage big businesses to split their business into smaller operations to avoid regulation by the BCEA and condone the exploitation of vulnerable workers, especially in smaller business enterprises (COSATU 1999). Cheadle (2006) also concurs with the views of COSATU by stating that labour market reforms with an intention of accommodating the concerns of small business and the need for job creation should not undermine the main purpose of labour laws, i.e. the protection of workers, particularly the most vulnerable workers. Other disadvantages of a two-tier labour market system include a widening of the wage distribution for higher-educated workers, employers become reluctant to train short-term workers and, at the same, are also not keen on hiring employees on permanent contracts (Micklethwait 2009; Bentolila et al. 2008).

The debate on the change in the collective bargaining system through labour market reforms, especially the two-tier wage system, reflects a quite complex situation. This study argues that it is difficult to imagine that the normal pattern of collective bargaining in South Africa, for example, would ever be radically changed for the sake of accommodating SMMEs. For instance, trade unions would interpret the changes in labour legislation as an attempt to
weaken their influence through bargaining councils. Godfrey et al. (2006) discovered that in any case the coverage of bargaining councils is decreasing.

4.6 CONCLUSION

This chapter was divided into two sections. First, the first section dealt with a comparative analysis of two case studies focusing on the wage setting environment in Sweden and Egypt. The two countries were compared to each other and to South Africa, with the hope of drawing important lessons for South Africa. This assisted in explaining the underlying similarities and differences of wage-setting institutions that are found in the three countries. In addition, this comparison also assisted in determining the characteristics of SMME development and support in these countries. A key issue to emerge from the comparative analysis is that approaches to industrial relations and wage setting processes differ from country to country. The effect of pay determination mechanisms on small and medium enterprises also show very mixed results, in that there is no evidence which suggests that a linear relationship exists between the centralisation of wage setting environment and the failure or success of SMMEs. This was demonstrated by the relative success of Sweden in creating a dynamic small business sector in a very complex labour relations environment against the failure of Egypt to achieve the same results despite the lack of definitive control over the pay setting process and the weak influence of trade unions in general terms.

The second section of the chapter represents the crux of this study. The assessment of the relationship between wage-setting institutions and SMME development was entered into by examining the different sources of data. The LRA and the BCEA are key sources of the most important wage-setting institutions in South Africa, i.e. bargaining councils and minimum wages (through sectoral sector determinations). It was estimated that the two laws covered 9.5 million workers in 2006. In order to bring to light the controversies on the effect of minimum wages on small and medium enterprises, the study highlighted a number of points of view, from an economic perspective. These ranged from the suggestion that a positive correlation between minimum wages and unemployment exists to the opinion that there is no good evidence available to show a direct relationship between minimum wage legislation and the effects on employment. With regards to the effects of bargaining councils on SMMEs, the study looked at the different aspects of bargaining councils, e.g. coverage and representivity issues. The purpose of this exercise was to determine the impact these have on SMMEs in
general terms. Employment creation was used to test the effects of wage-setting institutions on SMMEs.

Overall, empirical evidence shows that there are no discernible impacts on small and medium businesses as a result wage-setting institutions. The study also showed that there is lack of knowledge about industrial relations issues in SMMEs, as evidenced by the shortage of literature focusing on this topic, with a particular emphasis on pay determination mechanisms.

Nonetheless, the general importance of SMMEs and their role in job creation are widely recognised in a number of countries including South Africa. However, "the issue of directly linking SMME growth to job quality remains to be addressed. Evidence exists that the SMME sector is not really an exception to the general rules governing industrial relations. This study takes the view that the notion that SMMEs universally generate jobs in an economy and that they therefore deserve a special treatment with regards to labour legislation also appears to be over exaggerated. Different authors (Parker 1999; Pluta 2009) refute this popular notion that SMMEs create employment, especially quality employment for that matter, and that a separate dispensation in terms of labour law should be enacted for small and medium businesses. Instead, any efforts of creating a suitable environment for small and medium businesses should "... be based on targeted programs rather than general measures such as tax reduction or labour market deregulation" (Parker 1999, p. 63).

As a result, an emphasis to the change of labour legislation to accommodate SMMEs seems to be overstated. The overall assessment is that it appears that the impact of wage-setting institutions is considerably more mixed contrary to popular belief.

Referring to the comparative analysis, Egypt and Sweden represent extreme ends of labour market (de)regulation. If is assumed that wage setting mechanisms do indeed affect the capacity of SMMEs to generate jobs, then Sweden would be highly affected with its high unionisation and collective bargaining coverage. With Egypt's low unionisation and weak collective bargaining coverage, the neoclassical liberalism perspective assumes the position that wage setting mechanisms are extremely favourable to all businesses in general, i.e. wages for the private sector are set by the interplay of supply and demand for labour. Instead, Sweden continues to produce SMMEs of quality and low levels of unemployment and the SMME sector in Egypt has not had a significant contribution in creating jobs and alleviating poverty.
The industrial policy seems to be a key in unlocking the potential of the SMME sector rather than a change in wage setting mechanisms.

South Africa has travelled a long way in ensuring that the conditions of all workers are improved. Both the BCEA and the LRA are important in improving the conditions of employment and ensuring the protection of the marginalised, respectively. The concept of labour market flexibility, therefore, should not be an erosion of attempts for bridging the gap between the first and second economies (Cheadle 2006). The prevalence of the informal business sector in the South African economy cannot be ignored. As such, any attempts of stimulating growth and employment in the economy through small and medium enterprises should not negate the gains in the labour market achieved since the dawn of democracy in 1994. The focus of improving the business environment of SMMEs should not be on demanding significant changes to the law and its institutions. Efforts of ensuring a favourable climate for small and medium enterprises should not be achieved at the expense of all programmes created to address the injustices of the past, e.g. the wage-fixing machinery. The minimum wage, for example, was introduced in South Africa to protect the lowest paid and historically marginalised workers from “... the vicissitudes of the market place” (Bernstein 2004).

In agreement with Parker (1999) and Pluta (2009), this study proposes that the policy framework for suitable environment developing for small and medium businesses in South Africa should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. These strategic policy interventions are given as recommendations of this study under point 5.5 in the final chapter.
Chapter FIVE

Conclusions and Recommendations

5.1. INTRODUCTION

The final chapter provides conclusions and recommendations of the study. The conclusions are based on the literature review and the comparative analysis of the cases which was performed in the previous chapter. The overall finding of this study is that despite an intense scrutiny of the relationship between wage-setting institutions and their effects on SMMEs, evidence shows that there are no discernible impacts on small and medium businesses. Recommendations are also provided based on the findings of this research study.

5.2. THE AIM AND OBJECTIVES OF THE STUDY

The overall purpose of this study was to investigate the impact of the wage-setting institutions, including bargaining councils and minimum wages, on the creation and long-term survival of small, medium and micro-enterprises (SMMEs) in South Africa. The following points were provided as the objectives of this study:

• To give an understanding of how the legislative requirements impact on SMMEs;
• To investigate what needs to be done to assist small companies in order to cope with the burden of compliance with the prescriptions and provisions of the law;
• To demonstrate how the current wage setting mechanisms are partly responsible for the promotion of capital intensive firms at the expense of small- and medium sized entities;
• To investigate how other countries approach the issue of exemption of small businesses from the stringent requirements of labour legislation. This will be done by scrutinising cases from both developed and middle-income countries, with the hope of extracting a number of lessons for South Africa; and
• To explore the possibility for the establishment of a separate dispensation (permanent exemptions), e.g. a two-tier wage system, that may be utilised to govern the wage-setting environment for the SMME sector.
5.3. SUMMARY AND OVERVIEW OF THE RESEARCH

The first chapter of the study lays the background of the whole study by providing a map to be utilised in the navigation from one chapter to another until conclusion. It sets the scene for the discussion by providing the background, research methodology and motivation of the study. Definitions of “wage-setting institutions” and “small, medium and micro-enterprises” are also given in the chapter.

Chapter 2 highlights the importance of the SMME sector in the economy as well as the institutions that were created by government and other stakeholders to stimulate the growth of small and medium enterprises in South Africa. Furthermore this chapter identifies existing constraints and problems, other than labour-related factors, facing the SMMEs with the sole purpose of highlighting the general conditions under which they operate.

Chapter 3 explores the theoretical and legal framework of collective bargaining in the workplace with specific reference to wage-setting institutions that are found in the South African labour market, i.e. the National Economic Development and Labour Council, Bargaining Councils and the Employment Conditions Commission.

In Chapter 4 a comparative analysis of wage-setting institutions is conducted in both a developed country (Sweden) and a middle-income country (Egypt), with the view of explaining the differences and similarities of the nature of wage-setting institutions that are found in the countries under investigation. From this critical assessment, lessons for South Africa are put forward. Furthermore, the research findings of this study are presented based on the review of different secondary sources and on the insights gained from the cross-case analysis.

Chapter 5, the final phase and component of the research study, provides conclusions regarding the findings of the study. The conclusions are based on the literature review and comparative analysis of the cases, and this is followed by recommendations. The implications for future research will also be discussed in this chapter.
5.4. CONCLUSIONS OF THE STUDY: THE EFFECTS OF WAGE-SETTING INSTITUTIONS ON SMMES IN SOUTH AFRICA

There are a number of key findings from chapter 4. These findings of this study can be summarised in the following manner:

5.4.1. The effects of minimum wages on small and medium enterprises, with an emphasis on small, medium and micro enterprises

Three perspectives on the effect of minimum wages on employment, with an emphasis on small and business enterprises, were reviewed. Different authors (Levin-Waldman in Pluta 2009; Waltman, et al. 1998; Pluta 2009; Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007) reached various and diverging conclusions on the subject of minimum wages and their effect on employment, as a goal of SMME development.

The first perspective, or the mainstream market model of demand and supply, suggests that a positive correlation between minimum wages and unemployment exists and that minimum wages are to be avoided because they are responsible for unemployment, harm the low-income workers they are designed to assist, increase prices in the economy and, most importantly, harm the small businesses that must absorb labour costs (Levin-Waldman in Pluta 2009). These presumptions regarding the negative impact of minimum wages on employment were assessed to be inaccurate. This is supported by means of the empirical data to show that the correlation between minimum wages and unemployment is not simplistic at all (Waltman, et al. 1998; Pluta 2009; Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007; Bernstein 2004).

In contrast to the mainstream market model of demand and supply, the second perspective of economics research reveals that there are instances where increases in minimum wage have either resulted in only minimal job losses or have actually caused an increase in the number of jobs (Card & Krueger 1998; ILO 2006b; OECD 2006; Metcalf 2007; Pluta 2009). The third perspective provides testimony to this observation by suggesting that there is no detectable evidence to prove that a positive relationship exists between employment and the effects of minimum wages. The last and third view puts forward an argument that there seems to be no discernible correlation between minimum wage increases and a rise in business failures (Waltman, et al. 1998, p. 221).
These divergent points of view show clearly that the issue of the effect of minimum wages on SMMEs is rather complex and that there are no simple answers. Resulting from this review it was argued that the issue of minimum wages is not simple at all and this study takes the view that no good evidence is available to show a direct relationship between the effects of minimum wage and employment.

Moreover, minimum wages play an important socio-economic role in many countries and their significance in the labour market cannot be downplayed. By establishing a minimum wage, many countries do it for social reasons and to stimulate demand for locally made goods and services in the local economy (Infante et al. 2003; Connelly 2009).

As a result, this investigation leads to two other important points on the topic minimum wages in South Africa. No clear evidence was found to show that SMMEs in South Africa implement minimum wages at all. On the other hand research conducted elsewhere indicates that non-compliance is prevalent amongst small and medium businesses. The study conducted in Chile, for example, showed that less than twenty five percent of micro-enterprises paid minimum wages (Infante et al. 2003). This is an indication that the impact of minimum wages on small and medium enterprises is over exaggerated. It was also pointed out that the low and non-compliance by small and medium enterprises undermines the achievement of the main objective of the minimum wage policy, i.e. the amelioration of living conditions of low-paid workers (Infante et al. 2003; Cheadle 2006).

The study then argued in favour of the expansion of the role of minimum wages in South Africa. In addition to protecting vulnerable workers, minimum wages can be used facilitate the inclusion of young people in the labour market. Countries such as New Zealand, Norway, Portugal, Uruguay and Spain also have specific minimum wages for young people (Infante et al. 2003; ILO 2008).

5.4.2. The effects of collective bargaining on small, medium and micro enterprises

The cross-case study analysis showed that the level of collective bargaining, or even lack of collective bargaining, is not a true determinant of economic growth and job creation. The economic successes of Sweden, Egypt and South Africa are very different. The levels of collective bargaining are generally considered to be high in both Sweden and South Africa.
However, South Africa struggles to create jobs but employment in Sweden is generally good. Even though no collective bargaining agreements are signed in Egypt, the economy is also not generating sufficient jobs (Hassan & Sassanpour 2008). Therefore, the effects of collective bargaining in an economy vary and yield complicated results.

5.4.2.1. Coverage and representivity issues in bargaining councils

There is generally insufficient data on the coverage of collective bargaining in South Africa. The most striking result, however, is that the coverage rate of collective bargaining in South Africa is typically low when contrasted to the levels of coverage found in EU countries, especially in Sweden. Furthermore, the low number of workers covered casts doubts on whether employees in SMMEs are covered at all. The low level of coverage of collective bargaining could also be interpreted as a shortcoming of the country's collective bargaining system.

The representivity issues in bargaining councils were raised as a point of concern in the study and are viewed as major contributors to the low number of SMMEs in bargaining councils. First, section 27 of the LRA does not encourage representation by small and medium firms. The study then argued that the failure to include a provision in the LRA which compels the employers' associations to show that a specific number of their membership is made up of small and medium enterprises would imply that the number of SMMEs in the employers' organisations would never be representative of all firms in a particular industry. Second, admission criteria of bargaining councils can act as a barrier to employers' organisations comprised mostly of small and medium firms. For instance, the Cape Building Bargaining Council requires that to gain admission the members of an employers' organisation have to employ at least hundred employees in the industry (Holtzhausen & Mischke 2004). In terms of the classification of enterprises in South Africa, the highest number of workers that may be employed in SMMEs is two hundred. This indicates a serious inconsistency in the policies of the Department of Trade and Industry and the Department Labour in all matters pertaining to SMMEs.
5.4.2.2. Extensions of collective bargaining agreements to non-parties and exemptions

In 2000, 2002 and 2004, the overall proportion of exemptions granted in full, partial and subject to conditions was approximately seventy percent, but there was an increasing number of partial exemptions as against full exemptions (Godfrey et al. 2006). As a result, the exemption system appears to be working well, providing SMMEs with the opportunity to be exempted from some or all of the clauses of agreements (Bhorat & Van der Westhuizen 2009). At the same time, when these exemptions are granted, whether in full, partial and or subject to conditions, they tend to be for issues that are unrelated to the wage (Nattrass et al. 2002; Godfrey et al. 2006). The other problem of bargaining councils is that bigger firms tend to set minimum wages above the level that is feasible for labour-intensive firms, mostly SMMEs, in the same industry. Nattrass et al. (2002) concluded that this leads to capital intensive production structure and a relatively few small- and medium sized enterprises in South Africa.

In both Sweden and South Africa, resources are committed by the respective governments and other stakeholders to promote small and medium businesses on an annual basis. However, small and medium enterprises are less prevalent in the South African economy compared to Sweden. This study therefore found that Sweden’s industrial policy appeared to be the key in unlocking the potential of the SMME sector rather than a change in wage setting mechanisms. The SMME policy in Sweden focuses on special programmes rather than one-size fits all, that are geared towards improve growth potential for enterprises in building, and machinery, and marketing and product development. It also stresses the need to address poor access to capital and skills deficiencies in small enterprises with the aim of improving their long term viability and competitiveness (Parker 1999).

5.4.2.3. Collective bargaining at local level: Workplace forums failure in South Africa

The labour law in South Africa provides for collective bargaining at local level through workplace forums. The study however found that from the beginning workplace forums in South Africa were created with limited functions or “stillborn” (Wood & Mahabir 2001). This resulted in the over dominance of bargaining councils of the country’s collective bargaining system. There is no proof that SMMEs establish workplace forums in South Africa and the small businesses’ knowledge of labour legislation and other labour regulations is generally
poor (Godfrey et al. 2007). This study then argued that workplace forums can become an important vehicle for SMMEs to engage in some form of collective bargaining.

5.4.2.4. The effects of collective bargaining on employment, with an emphasis on small, medium and micro enterprises

The arguments put forward regarding the impact of minimum wages on SMMEs and employment are also applicable for collective bargaining, as it is also mechanism for fixing wages through collective bargaining agreements.

Be that as it may, the discussion on the effects of collective bargaining on employment often singles out the extensions of bargaining council agreements to cover non-parties as problematic (South African Foundation 1996; Berry et al. 2002). With this provision, collective bargaining councils set similar standards of employment for the whole sector, including a compulsory minimum wage (Godfrey et al. 2006; 2007). In line with the findings on the effects of minimum wages on employment, the impacts of collective bargaining on employment are also mixed (Krueger & Pischke 1997; Blau & Kahn 1999; Freeman 2007).

This study therefore emphasises that the relationship between bargaining systems and their effect on employment are not as straightforward as is often assumed and therefore should not be generalised (Freeman 2007). As such, it appears that suggestions for the change of labour legislation to accommodate SMMEs are overstated.

5.4.3. The need for creating a separate dispensation (permanent exemptions) for the SMME sector

The debate on the change in the collective bargaining system through labour market reforms, especially the two-tier wage system, reflects a quite complex situation. This study argued that it would be difficult to imagine that normal pattern of collective bargaining in South Africa, for example, would ever be radically changed for the sake of accommodating SMMEs. Any attempts of accommodating the concerns of small business and the need for job creation should not undermine the main purpose of labour laws, i.e. the protection of workers, particularly the most vulnerable workers (COSATU 1999; Cheadle 2006).
This study then reached a conclusion that any attempts of stimulating growth and employment in the economy through small and medium enterprises should not negate the gains in the labour market by demanding significant changes to the law and its institutions. Therefore, the focus of improving the business environment of SMMEs should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. These strategic policy interventions are given as recommendations of this study.

5.5. RECOMMENDATIONS OF THE STUDY

This study therefore proposes that the policy framework for developing a suitable environment for small and medium businesses in South Africa should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. These strategic policy interventions are given below as recommendations of this study.

In concluding this study, the following recommendations are made:

• **Strengthening of the social dialogue and collective bargaining in South Africa through the expansion of the role of workplace forums**

The role and the importance of minimum wages in the South African society cannot be over emphasised. Minimum wages afford families to earn decent wages and ensures equality in the labour market. However, the manner in which minimum wages are set for different sectors of the labour market raises concerns for the fact that they are unilaterally set government. The involvement of the broader spectrum of social partners in the process of setting minimum wages is viewed as one way of ensuring that the social dialogue is strengthened in South Africa.

The ILO (2008) provides examples of instances where social partners are involved in minimum wage fixing, albeit with differences. In countries such as Belgium and Greece, a national minimum wage rate is negotiated directly by social partners and the government’s role is to only validate the outcome of such negotiations. Whereas in Germany, Italy and Switzerland, sectoral minimum wages are determined exclusively through collective bargaining, and thus avoiding state intervention into process of fixing minimum wages (Evain 2008). In South Africa, minimum wages are set for many sectors of the economy but this
reliance on overly complex systems of minimum wages discourages the entrenchment of collective bargaining in the South African labour market.

One way of strengthening social dialogue in South Africa is through exploring ways that the country’s collective bargaining can be enhanced against the background of a tough environment in which it exists. The ILO (2008) argues that collective bargaining goes beyond protecting vulnerable workers but it actually benefits a broader spectrum of workers than do minimum wages. Furthermore, the other advantage of collective bargaining is that it does not only involve wage negotiations, but it goes to cover other aspects of working conditions, such as hours of work and quality of employment.

The limitations of the LRA need to be looked at. One such example, it is the failure of the country’s bargaining system to recognise non-unionised members in the workforce and non-standard employment. Non-standard employment includes sub-contracting, outsourcing and home working arrangements (Godfrey et al. 2006). One suggested way of reaching and including this category of employees is via workplace forums.

Therefore, there is a need for a new framework for bargaining councils in South Africa. Collective bargaining may be cascaded to the workplace level by means of workplace forums in the long-term. However, caution should be exercised in managing competition and friction between the two levels collective bargaining, i.e. workplace forums and bargaining councils. The scope of workplace forums may be expanded to include wage bargaining, which is currently a sole responsibility of bargaining councils. In addition, the role of workplace forums may be to attract non-unionised members in the workforce and non-standard employment. In this manner, the industrial relations and wage determination may be improved not only in small and medium enterprises, but also in the South African workplace in general.

- **The establishment of a separate dispensation for SMMEs in South Africa, such as a two-tier wage system, is not necessary**

A growing body of research has dismissed widely held beliefs about the capacity of SMMEs to generate jobs in universal terms. Literature also showed that the work environment and the quality of jobs in small and medium enterprises are questionable. As such, the contents of any labour market reform initiative should not result in deviations from the current provisions of
the labour law, especially the LRA, the BCEA and the existing sectoral determinations. Despite the argument in favour of collective bargaining against minimum wages, this study maintains that the current labour dispensation should be maintained. There is still a strong case for the protection of vulnerable workers in South Africa. The establishment of a separate dispensation for SMMEs in South Africa, such as a two-tier wage system, is therefore not a recommendation of this study and should be avoided.

**A SMME representative body**

Members of the small and medium business sector in Europe, for example, have long realised the need to pull their resources together and to deal with their challenges in unison. They achieve this by forming business organisations. Such organisations perform a range of activities not only to promote the interest of their members but also support their members. Other functions of these small and medium business organisations include political lobbying, participation in fairs or exhibitions, networking, fostering cooperation and exchange of information between members, participating in business delegations, providing education and training, counselling and performing research (EIM 2009).

A case is therefore made for the establishment of a SMME representative body or bodies, independent of large companies, to collectively represent the interests of smaller businesses in general or in a particular sector of the economy or a geographical area in South Africa. One main advantage of establishing such an organisation is that it would ensure that communities of SMMEs are represented in collective bargaining processes rather than as individual SMMEs.

**Clustering of SMMEs:**

Government sees the small and medium business enterprises as the growth engine of the economy that would help in its wealth distribution, job creation and poverty reduction efforts. Government and independent stakeholders have comprehensive plans to assist in the creation of SMMEs. Micro, small and medium-sized enterprises are present in all the sectors of the economy and are present in large numbers.
No SMME policy can be comprehensive enough to cover all types of SMMEs adequately. Therefore, there is a need for a shift in small and medium-sized enterprise policy in the South Africa away from "one size fits all" approach to clustering SMMEs in economic sectors that have growth potential.

- **Competition and Globalisation**

Linked to the recommendation above, SMME policies need to be re-focused to address the economic challenges the country face due to external competition and globalisation and this will ensure a more co-ordinated approach to the development of SMME policy. Therefore, the focus of SMME development policy should be on improving their long term viability and competitiveness.

5.6. **FURTHER RESEARCH POSSIBILITIES**

As discovered in this study, literature review challenges the conventional argument that collective bargaining and minimum wages have a negative impact on small and medium enterprises.

The study is there suggestive of the need for further research to:

(a) Develop a complete picture of the institutional environment of small and medium enterprises with regards to the quantitative elements of the wage-setting regime in the South African environment. More quantitative approaches to the analysis may provide a better understanding of the elements of the wage-setting institutions and their provisions and requirements. The findings reported on in this study are only the qualitative indicators of the complex phenomenon.

(b) Determine whether small and medium enterprises comply and implement the provisions and requirements of collective bargaining and minimum wage legislation.
5.7. CONCLUSION

In South Africa, as is the case in other countries, small, medium and micro enterprises are seen as part of the solution to redressing historical inequalities, reducing unemployment and enhancing competitiveness. Government and non-state actors have created plans to actively develop, support and promote SMMEs as dynamic players in the economy. However, these plans of promoting small businesses have not borne the desired results, and this failure has been attributed on the rigidities of the labour market. Thus, the impact of the wage-setting institutions, including bargaining councils and minimum wages, on the creation and long-term survival of SMMEs in South Africa was investigated. Despite an intense scrutiny of the relationship between wage-setting institutions and their effects on SMMEs, the study found that there are no discernible impacts on small and medium businesses. Furthermore, this study proposes that the policy framework for developing a suitable environment for small and medium businesses in South Africa should be based on targeted strategic policy interventions rather than general measures such as tax reduction or labour market deregulation. These strategic policy interventions were given as recommendations of this study in point 5.5 above.
List of references


