



**INVESTIGATING THE LINK BETWEEN PERFORMANCE
AND LABOUR STANDARDS IN THE RETAIL SECTOR IN
SOUTH AFRICA**

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**A dissertation submitted in fulfilment for the requirements of Degree of
Master of Management Sciences: Human Resource Management**

**In the Faculty of Management Sciences, Human Resource Management,
Durban University of Technology.
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DECLARATION

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Hereby declare that the dissertation entitled:

**INVESTIGATING THE LINK BETWEEN PERFORMANCE AND LABOUR
STANDARDS IN THE RETAIL SECTOR IN SOUTH AFRICA**

Is the result of my own investigation and research and that it has not been submitted in part or in full, for any other degree or any other institution of higher learning. Subsequently, other sources are acknowledged and giving explicit references.

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INVESTIGATING THE LINK BETWEEN PERFORMANCE AND LABOUR STANDARDS IN THE RETAIL SECTOR IN SOUTH AFRICA

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A research thesis submitted to the Faculty of Management Sciences,
Durban University of Technology, Durban, in partial fulfilment of the requirements for
the degree of Master in Human Resources Management.

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ABSTRACT

The study presented in this thesis is centred around three research questions: (1) How have labour standards changed in South Africa over time? (2) What is the relationship between labour standards and performance? (3) What is the causal direction of the relationship between labour standards and performance? In addition to these questions the study tests the hypothesis that there is a relationship between retail performance and labour costs. To address the research questions and to test the hypothesis the study empirically examines South African labour productivity and labour costs data covering the years 1970-2014. The study utilises 184 data points pulled from 1967 to 2014. Analysis is done using the linear regression method (OLS), Ordinary Least Squares and error correction time series model.

The study highlights the connectedness between productivity, performance and labour standards within the South African context. Productivity is used through-out the document as a proxy for performance. The findings show that labour costs drive (performance) in the retail sector. The study also showed that there is statistically significant and positive relationship between labour standards and performance. The policy implications of this study is prioritisation of incentives that are tied to labour standards that motivate employees in the retail sector.

DECLARATION

I, Silungisele Yves Mfeka, declare that this research is my own, unaided work, except as indicated in the acknowledgements, the text and the references. It is submitted in partial fulfilment for the requirement for the degree of Master of Human Resource Management in the Faculty of Management Sciences at the Durban University of Technology, Durban.

It has not been submitted before, either whole or in part, for any degree or examination at this or any other university.

Silungisele Yves Mfeka

Signed at

On the day of 2016

DEDICATION

To my wife, Sithembile Doreen Mfeka and my children,
Zanininonke and Siyanda

You are an inspiration.

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Chapter One: Introduction and Background

1.1 Introduction and Motivation for the Study

South Africa is a country characterised by grave inequalities emanating from the historical context of racial segregation, which enveloped all aspects of the economy and society. In the view of McCarthy (2005: 7) South Africa is a middle-income developing country, which in the 1990s experienced fundamental political transformation, with the adoption of a democratic system of governance in 1994. McCarthy (2005: 7) further points out that the performance of economic development and productivity in South Africa has been substantially influenced by this transformation, in particular the discriminatory practices of the apartheid system that preceded it.

McCarthy (2005: 7) goes further in his introduction, pointing out that the political system of apartheid that prevailed had a pervasive effect on productivity. It played a role in a sustained economic income inequality, embedded discriminatory practices in the labour market and labour use, also forcing the black majority from 1979 to use their labour power in an effort to gain political equality. He further articulates that the democratic transition of 1994 brought an end to the isolation of the South African economy, it created a focus on trade liberalisation and export orientation, which was accompanied by policy measures aimed at addressing the skew distribution of wealth, income and opportunity in the South African economy (McCarthy (2005: 5).

Literature on the study of productivity, reveals that organisations with cultures of high productivity outperform their competitors and this was confirmed in a report on engagement by the AON Hewitt Human Capital Consultants in 2010 (Hewitt 2010: 6). In the same token, when scholars such as Sirota, Mischkind and Meltzer (2005: 5) focused on people and

productivity, they were of the view that poor employee engagement is an indicator for low productivity. In a study done by Sears, a retail company based in the United States, it was found that there is a link between employee engagement and company performance (De Vita, 2007: 1).

Sirota, Mischkind & Meltzer (2005: 29) further support this view of people engagement, when citing that the share price of organisations with highly engaged employees increased on average by 16% in 2004, in comparison to the industry average of 6%. Whilst still on the subject of people and their role in productivity, Ott (2007: 4) found that in public traded companies, if there were four or more engaged employees for every one disengaged employee, the organisation would experience 2.6 times the growth in an organisation which had a ratio of less than 4:1 engaged, versus disengaged employees. In a meta-analysis study conducted by The Gallup Foundation in 2004, it was discovered that organisations in the top quartile that had a 4:1 ratio or greater, have 12% higher customer support, 18% higher productivity and 12% higher profitability than the organisations in the bottom quartile (Ott 2007: 3).

Intuitively, it would be expected that highly engaged employees will be more productive and consequently, retail companies with highly productive employees will perform well. This study seeks to test this notion by looking at the levels of productivity at country level, to see if this is reflected at retail sector level. Secondly, the study seeks to examine the relationship between performance and labour standards.

1.2 Problem Statement

Productivity remains a key driver of organisational growth and for an organisation to prosper and remain competitive in a global market place, a need exists to remain competitive and innovative to grow productivity. For organisation to succeed, it is essential to ensure labour that is engaged. The construct of productivity has been a key topic in many areas of society, and there has indeed been a number of scholars that have contributed to the knowledge base on this topic, however the concept still remains elusive and somehow confusing. The biggest challenge as highlighted in the reviewed literature, has been the definition and measurement of the construct. The accepted standards of measure remain vague, thus highlighting the need for a clear cut measure, at both macro and micro level.

As alluded to earlier, the main concern for organisations is how they can improve productivity by applying effective and efficient conversion of resources (physical & human) into marketable products, that will determine business productivity (Wilcox *et al.*, 2000: 6). Despite a number of studies done at local and international level, productivity is still poorly measured and is characterised by the difficulty to gather data, integrate quality and innovate (Djellal and Gallouj, 2013: 283). Djellal and Gallouj (2013: 283-284) further highlight that much of the problem in the measure of productivity, when using the Index Based Method particularly in service orientated industries is in defining the numerator of the productivity ratio.

They also caution that other methods used in the measure, such as Data Envelopment and most popular The Econometrics also don't offer much, this is due to the validity of the results obtained and that the latter method requires considerable resources in terms of data, equation system updates and training for users of statistics. Lastly, they also highlight the use of multi-criteria approaches as a form of measure and caution again that there is controversy about what exactly constitutes the output or performance of a given activity at a given point in time. Furthermore, there is no single definition or indicator that is technically superior, thus arriving at the view that there is a necessity to give up the notion of measurement in favour of the evaluation of productivity (Djellal and Gallouj, 2013: 285-286). The controversy around the measurement and definition of productivity remains a key concern in the productivity discourse (Syverson, 2011: 330). According to Jorgenson and Schreyer (2013: 6), the measure should include output measures such as gross output and gross domestic product.

In a study by Ghatmiri in Iran (1996 cited in Salimifi *et al.* 2012: 7844) found that the value of production can positively affect productivity, whilst the proportion of capital in the labour force and employment has a negative effect. In another study done by Disney *et al.* (2003: 1) by applying an econometric approach with focus on the manufacturing sector in the United Kingdom, findings suggest that external restructuring affects about 50% of the labour force's productivity and has an impact on 90% of changes in Total Factor Productivity. Kiyondo *et al.* (2009: 308) conducted analysis of productivity in South Africa with focus on the economy and found that rises in factor productivity can result in gains from a more efficient use of resources, therefore impacting positively on the gross domestic product. In the latest study Hansen *et al.* (2013: 3) evaluated the productivity in the Danish retail sector, discovering that the planning act is a hindrance to productivity and limits competition.

Adding to the dilemma is the notion that productivity is measured through labour productivity, which is also linked to how labour standards have been embraced by organisations, also that labour is key to productivity growth. In the context of South Africa, labour's voice remains instrumental in shaping the economic trajectory of the country, considering the historical background of the country. It is therefore clear that the employee remains a critical touch point due to their constant interaction with the customer, so they are therefore instrumental in impacting on business productivity and performance. In the wake of high unemployment and low economic growth in South Africa, it is possible that the problems lie in issues related to productivity and labour standards.

It must be noted that in the South African context, labour played a crucial role in shaping the current dispensation and to date remains instrumental in crafting the political trajectory of the country, particularly that of the economic environment. In the labour standards discourse, Gunderson (2005 cited in Samuel 2014: 92) cautions that even though labour standards are beneficial, there are however some sectors or forces that resist its application, this is due to concerns that productivity will be affected as a result of the costs that emanate from implementing the labour standards. In a country that is categorised as third world, characterised by first world infrastructure and an economy that has some level of vibrancy in certain sectors, the question is can our companies embrace labour standards in totality considering the cost attached to their implementation? Gunderson (2005 cited in Samuel 2014: 92) further argues that the cost of implementing labour standards may price some jobs out of the market and posits that the private sector cannot pass the cost to the consumer.

However, given the above issues, there is evidence that compliance with labour standards leads to improvements on productivity and economic performance (Samuel, 2014: 93). In the context of South Africa, productivity has not experienced exponential growth, but based on the voice of labour, it is my view that most organizations do embrace labour standards, could it be therefore that the stumbling block to productivity is the slow economic growth, or labour that is not engaged in the workplace? Porter (1972: 151) argues that organisations that embrace labour standards, do indeed benefit through increased productivity.

Fergusson (1994: 387) goes as far as saying that increasing labour standards, that is, increasing wages, is likely to have a positive impact on productivity because the worker's commitment and loyalty increases (Ferguson, 1994: 387). Samuel (2014: 93) is of the view that when wages go up productivity may be impacted, due to the cost associated with implementation. Furthermore, Kucera (2002: 33) posits that labour standards relate to labour costs, union representation and employee rights. In his study Kucera (2002: 38) points out in unison with other scholars that see labour standards as being key for productivity, that low labour standards do not always result in high productivity and high profitability.

The issue of labour standards in South Africa remains a key matter that creates vibrant discussions amongst labour and business, however it remains vague in terms of the impact it has on the growth of productivity and profitability for organisations. There appears to be no evidence that labour standards have a greater positive impact on productivity, as a result of the analysis done in this study. There is however, a need for scholars to apply their minds to the subject and ensure that they unpack, in great detail at macro and micro levels, the drivers for productivity growth in the South African context.

The impact of labour standards on comparative advantage and trade is one of empirical magnitude, which requires further research focus in order to get to a point of clarity, therefore more studies should be conducted to explore alternative measures of standards and productivity, using models and samples for a range of countries (Freeman, 1996: 103).

It is therefore against the above backdrop that the study focuses on performance and labour standards in the retail sector, in South Africa. In the study, productivity will be utilised as a proxy to measure performance, while the labour cost will be used as proxy to measure labour standards. The study examines the relationship between performance and labour standards

in the retail sector in South Africa. Reviewed literature at local and international level has identified that, low labour standards are not only an instrument for attracting foreign investors, but are also a way of driving labour costs down in order to increase profitability (Kucera, 2002: 34-35).

This study seeks to test this notion using South African data. In so doing, the study will provide tangible guidelines on how to enhance productivity and business performance in South African retail organisations.

1.2.1 Research objectives

- (a) To analyse the extent to which labour standards have changed over time in South Africa.
- (b) To assess the relationship between labour standards and performance in the retail sector in South Africa.
- (c) To determine the causal direction between performance and labour standards in the South African retail sector.

1.3 Purpose and Significance of the Study

The research will contribute to the current body of knowledge on productivity and performance. The study will be instrumental in providing guidance to policy makers as to how to improve productivity, in a manner that enhances the performance of the private sector within the fast paced competitive retail environment. The main research objectives of the study is to analyse the extent to which labour standards have changed over the years in South Africa, secondly it is to assess the relationship between labour standards and performance in the retail environment in the country and thirdly to determine the causal direction between performance and labour standards in the South African retail sector.

The research will focus on retail sector specific issues, around labour standards and productivity. The retail sector remains the biggest employer in South Africa and has potential for further growth. According to the Retail Sector Report by the Gauteng government, the retail industry is said to be amongst the top in term of share of employed labour force. This is evident through an increase of people employed in the labour force from 642, 000 in 2004 to around 800,000 in 2008 however with a decline noted in 2010 to 745,000. (Retail Industry on The Rise 2012: 24). The report further notes that the highest contribution made by the retail sector

to employment in Gauteng was noted in 2006 where it reached 7.9 percent and declined to 7.2 percent in 2010. (Retail Industry on The Rise 2012: 24).

A recent report has cited challenges faced by South Africa in increasing productivity, the report highlights that productivity has declined to an all-time low in the country, the lowest in 50 years (Mail & Guardian, 2013: 1-5) and according to Adcorp (the JSE listed human capital group) the employment figures in February 2013 show that South Africa's job situation has not changed, but instead that labour productivity has hit a 50 year low. It will also be important to note that the mining sector contributed to the decline due to the unrest in the Marikana area, after the killing of 44 people at the Lonmin mine by the South African Law Enforcement Agencies. The instability in the mining sector was also fuelled by Anglo American Platinum which intended to close two of its shafts in Rustenburg and shed about 14 000 jobs (Mail & Guardian, 2013: 1-5).

In a recent article by Schwikkard (2016: 1-3) with focus on the mining sector, which is a key production force in South Africa, the challenges faced by the mining sector are highlighted from a productivity perspective. He points out that mining companies are adjusting to the new world order of low commodity prices, and cites the World Bank Metals and Minerals price index which has declined by 32% since 2011 and the Precious Metals index down by 27%.

Furthermore, he points out the disconnection between labour productivity and the employment costs, indicating that earnings have grown 5% per year in real terms since 2005 (Schwikkard, 2013: 1-3). It is therefore against this back drop, that this study seeks to address some of the key labour standard indicator engagement drivers and the links to driving business performance and productivity.

1.4 Research Design and Methodology

This study used continuous quarterly data from 1967 to 2013, which amounts to 184 observations of quarterly productivity and labour costs. The data was sourced from the South African Reserve bank and was used to test the hypothesis that (1) there is a positive relationship between productivity and performance; (2) there is a positive relationship between labour standards and performance. To test the two hypotheses this study used the Ordinary Least Squares Method which is a regression technique that uses linear and metric values to test or predict the effect of one variable to the other.

Ordinary Least Squares regression is a generalised linear modelling technique that may be used to model a single response variable which has been recorded on at least an interval scale. It can be applied to single or multiple explanatory variables and also categorical explanatory variables that have been appropriately coded (Moutinho and Hutcheson, 2011: 224-229).

It has been noted that OLS regression is one of the major techniques used to analyse data and forms the basis of many other techniques (Rutherford, 2001: 114). OLS regression is particularly powerful as it makes it relatively easy to also check the model assumption such as linearity, constant variance and the effect of outliers using a simple graphical method (Hutcheson and Sofroniou, 1999: 55-56).

Ordinary Least Squares (OLS) is optimal in this case because the data used for this study is metric in nature. As pointed out by Moutinho and Hutcheson (2011: 224-229) Ordinary Least Squares regression assumes that there is a linear relationship between two or more variables and in the case of this study, productivity and performance. Ordinary Least Squares (OLS), according to Moutinho and Hutcheson (2011: 224-229), makes it possible for the labor standards which is measured with unit labor cost to predict values of productivity. The SPSS system was used to analyse the data generated from the South African Reserve Bank.

1.5 Research Problems & Aims

Productivity is a key measure in the growth of any economy. It is therefore of crucial significance that it must remain a high priority for an organisation or a country to yield growth. Productivity in this work is viewed as a proxy for performance and is a paramount economic goal as it makes the most of the limited resources, whereas labour productivity is a central force in the labour market (Adcorp, 2014: 3).

According to recent commentary by the media, South African labour productivity is at its lowest in 50 years. When one looks at the statistics in the country, they show that since 1967, output per worker per unit of capital in the country has fallen from R7 297 to R4 924 a year, which translates to a decline of 32.5% (Adcorp, 2014: 4).

In industrialised countries, economic growth has continued due to scientific and technical knowledge, which has been used to raise the productivity of labour and other production inputs. A comparative study done on Organisation for Economic Co-operation and Development (OECD) countries, van Ark *et al.* (2007: 64) documented the general trend in the share of low-skilled workers and the increase in the share of highly skilled workers in industry. Therefore, the aim of the study is to investigate the link between performance and labour standards, from the macroeconomic and retail sector perspectives. The study seeks to explain the extent to which labour standards and productivity are linked to business growth, or performance.

Chapter Two: The Retail Environment

2.1 Introduction

The purpose of this chapter is to understand the South African retail context and the economic environment it operates in. The chapter will start-off by exploring the South African economic context, then look at the retail sector in Africa. This will be followed by an overview of the retail sector that highlights the commonalities and differences in the retail environment, across BRICS (Brazil, Russia, India, China and South Africa) countries. The environment of the retail sector in South Africa is discussed in relation to the economic profile and challenges facing the South African labour market.

South Africa is a country that is characterised by grave inequalities that are of a historical nature. These inequalities stem from the past legislative framework that was promoted as part of the former regime policies, ensuring that only a minority benefits from the means of material production in the country. These benefits were derived solely from the commodities that South Africa is rich in, such as Gold, Platinum and Diamonds.

The means of production and ownership resided with a small minority and the means of labour utilised to produce these commodities emanated from a large black, unskilled and uneducated labour force, which became instrumental in driving the South African economy (Daniel and Bhengu, 2009: 145). The labour force which mainly consisted of poverty stricken rural South Africa, acted as a feeder to the urban and industrialised towns of Johannesburg. Resulting in a massive migration from the rural areas to these towns, in search of opportunities to provide for their families back in the rural households.

The policies of segregation played a role in maintaining the unequal status quo, which was beneficial to the minority, which enjoyed very high living standards alongside the poverty of the black and largely unskilled labour force. Regardless of the apartheid era policies, South Africa's potential to be a global player in Africa and the world remains relatively positive, even though such gross imbalances exist.

The country however is still struggling to meet the expectations of the masses of local African citizens that still are characterised by poverty, joblessness, poor standards of living, poor health, an ineffective education system and a very poor skills base. As a consequence of the above, and as pointed out by a number of scholars such as (Bhorat, Hirsch, Kanbur, and

Ncube 2013: 2) the majority of South Africans still struggle to experience the benefits of the economy, despite more than two decades after democracy. Their struggles are attributed to high levels of inequality that prevail in the country. It is therefore against this backdrop, that the retail sector is seen as having a potential to bring about growth and opportunities to the jobless masses of young South Africans.

2.2 Retail Sector in South Africa

A recent report by the Gauteng Government, titled "*The retail industry on the rise in South Africa 2012*" reported that the retail sector has experienced phenomenal growth in the last decade. This has created a situation where retailers have a wider choice regarding their trading operations. This is attributed, in part, to the tremendous growth in the number of Asian and African business migrant forces. In the Gauteng area and to some degree in most metropolitan areas of South Africa, there has been a prevalence of retailers that offer merchandise offered by mainstream retailers, at a fraction of the price that customers pay in a mainstream shop. This has created a competitive environment in the sector.

South Africa as a dual economy country is characterised by two economies, the haves and the have not. As such the retail sector, with a large proportion of informal traders is regarded as a solution to the unemployed and unskilled labour force. This is based on the fact that, despite the decline in the mining sector and other productive sectors of the economy, as illustrated in Table 1, the retail sector is on the incline.

Table 1: Annualised Quarterly Change in GDP in R million (at constant 2005 Prices Seasonally Adjusted)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Agriculture	976	1240	4088,1	-8171,9	3768	26382233,5	-26361621,1	701,1	-197,9
Mining	13580,1	6241,7	4306,4	-2510,5	-114,3	25937522,4	-25982635,7	21303,4	1155,7
Manufacture.	-14208	45536	60545,2	66724,4	57854,3	24800297,7	-24890391,2	59145,4	40894,9
Construction	9016	11504	16428	16096	25556	24437060,8	-24403830,8	1714	1112
Wholesale & Retail	17952	37319,2	51349	46495,2	43883,8	23549935,2	-23552067,5	33054,5	40265,7
Transport, & Logistics	30152	24688	28051,2	28540,8	38728	22916210,7	-22885368,8	13255,7	20944,1
Finance, & Services	47832	73684	63840,4	113991,9	101996	21493274,5	-21375330,5	32660	61392
General Government Services	21132	15016	34455,2	25544,8	33348	20497178,5	-20420158,5	27968	39260

Source: Based on calculations done on the basis of data obtained from Statistics South Africa 2012

The statistics of the sector should be viewed against the backdrop of the low economic growth projected for the country. The projected economic growth in 2015/2016 of at least 3,5% will not be realised as pointed out in the latest medium term budget report presented by the finance minister, as reported by the Daily Maverick Newspaper Online Reporter, on the 25 February 2015 (Anon. 2015). As per the report, the former finance minister Mr Nhlanhla Nene projected economic growth of 1.5% in South Africa, with a 1.7% rise in the next year (Anon. 2015). This dim economic outlook coupled with the developments in the tertiary education sector, where students are demanding a no fee hike and a free education for the poor, will undoubtedly put a great strain on an economy that is struggling to grow. This translates into an economy that is also not able to create sustainable livelihoods for a large uneducated and unskilled labour force.

The South African government is therefore faced with challenges to ensure that anomalies of the past created by segregation legislation, limited opportunities for jobs, education, and shelter are removed so that the general state of welfare of the people prevails. This should be coupled with a conducive environment for economic conditions, which is favourable for creating opportunities for those that want to enter into business and contribute to meeting the

challenges of government, by creating sustainable jobs and also growing their businesses in return.

2.3 Retail Sector Growth

The retail industry forms a major part of the trade divisions which includes wholesale and retail trade, repair of motor vehicles, motor cycles, personal and household goods and hotels and restaurants. In a Quarterly Bulletin titled “*The Retail Industry on the Rise*” commissioned by the Gauteng Provincial Government Economic Analysis Unit in 2012, the retail sector is composed of seven clusters, which are: general dealers; retailers of food, beverages and tobacco in specialised stores; retailers in pharmaceutical and medical goods, cosmetics and toiletries; retailers in textiles, clothing, footwear and leather goods; retailers in household furniture, appliances and equipment; retailers in hardware, paint and glass; and all other retailers which include reading material, stationery, jewellery, watches and clocks, sports goods, personal, household and second hand goods (Gauteng Government, 2012: 4).

The retail sector contributes immensely and adds great value to the South African economy and the public, as it offers more employment opportunities, especially to the youth. Even though there is growth in this sector, there are challenges ranging from operational costs and skills shortages. However, despite the challenges mentioned above it has well-developed infrastructure and institutions, to that effect the multinational companies view South Africa as a hub where they can establish and expand business to the rest of the Sub-Saharan African region (Gauteng Government, 2012: 36).

South Africa has a vibrant retail sector that contributes immensely to the South African economy and also employs a large number of the unskilled labour force. The retail sector in South Africa can be classified under the tertiary sector and thus falls within the wholesale and retail sub-sector (Aye, Balcilar, Gupta, and Majumdar, 2013: 2). The retail industry is said to be one of the biggest industries in the country, with a large part of the labour force employed in this sector. In 2006 this sector constituted a large contribution to employment, which amounted to 7.9 percent compared to 7.2 percent of employed people in the retail industry in previous years. As explained by Aye *et al* (2013: 2) the retail sector is the largest employer in the country.

The South African retail sector remains one of the largest in the Sub Saharan region and is greatly profitable, presenting profitable investments for any player that seeks to enter the retail space in SA, this is according to the RNCOS Business Consultancy Services released in September of 2011. The growth in the retail industry is supported by an increase in both the supply of retail space, including the number of shopping centres in the country. This is largely influenced by the economic conditions that consumers find themselves in, which include the levels of interest rates, inflation and economic growth (Gauteng Government, 2012: 1). Scholars such as Humprey (2007: 440) and Reardon & Gulati, (2008: 377) concur that retailing has experienced drastic changes, mostly in developing countries since the early 1990s and South Africa has not been an exception to this phenomenon. The changes are largely attributed to aggressive modernisation and globalisation, which has seen international retail chains introducing new shopping experiences throughout South Africa.

According to the RNCOS Business Consultancy Services, the growth of the South African retail sector should not be separated from the global economy, stating that growth has risen to unprecedented scales attributed to new technologies, people capital and goods moving between countries at a rapid rate affecting people all over the world. However, there are still vast inequalities and income disparities between the rich and the poor and as the Business Consultancy firm's report points out, inequality does not only lead to a decline in productivity but it also breeds poverty, social instability and even conflict, this is evident in conflicting countries in Africa (Anon. 2015)

2.4. Retailing Sector in Africa

The rest of Africa has not been left behind in the retail revolution. Countries within the continent and also those from across the Indian and Atlantic Oceans have largely driven the revolution. A case in point is the entry of Walmart as pointed out by Thomas (2015: 2), which is an American retailer with an investment of R16.5bn in 2011, in brands such as Game, Makro, Builders Warehouse and Cambridge Food. There was a huge trade union voice when the Walmart and Massmart deal was announced which caused delays in the acquisition, this was due to the manner in which Walmart went about embracing labour laws in countries it operates in. In an article by the Mail and Guardian dated 20 July 2011 and published online, the trade unions, small businesses and the government had expressed concerns about the deal, saying that *“it could lead to cheap imports, which would result in job losses and harm small South African businesses”* (Abrahams, 2011: 2).

South Africa is not the only African country that has seen aggressive foreign retail interest. As pointed out in a report by PriceWaterHouseCooper, these ventures have been seen in Ghana which also opened its first R250m Accra Mall in 2009. The same has also taken place in Kenya's Nairobi, with a thriving retail sector which is being touted as one of the biggest economies in Africa. This has also spread to Nigeria which opened its iconic Ikeja City Mall, at a cost of over R700m. Whilst much closer to home, the Angolan capital, Luanda, has embarked on a multi-billion rand 15-year re-development of its seafront which will change the picture of Luanda for the better (PriceWaterHouseCooper 2012:13)

Scholars such as Dakora, Bytheway, & Slabbert, (2014: 1) also agree that the rapid expansion of retail companies across national borders, is a global phenomenon that is becoming a reality on the African continent. The authors also point out that South Africa has been a main player in driving the revolution, as the local retailers enter new and unexplored markets in Africa. It has to be noted that Africa is not an easy place to do business, due to external and internal environmental factors such as democracy, political stability, governance and the rule of law.

Africa is characterised by conflicts, civil wars and fragile economies. Root (1998: 301) and Hollensen (2007: 174) have highlighted the fact, that for foreign retail companies to succeed they must consider four key factors when venturing into business in Africa: (1) internal factors, which include all management and product related issues; (2) external factors (all macro or environmental issues); (3) characteristics of the entry mode; and (4) transaction related issues. One the other hand, South Africa is relatively more favourable for international countries due

to the fact that it has an economy that is stable, reliable and possess, good infrastructure that is comparable to most developing countries.

2.5 Retail Sector in BRICS countries

Having looked at the rapid growth and development of retail in Africa and South Africa, it is critical to also look at India which is one of the BRICS countries, of which South Africa is a member. It is important to note that there are other key role players in BRICS, namely Russia, Brazil and China, which I will briefly give a short background on as well as country and economic profiles.

According to Hathur and Dasgupta (2013: ix) the BRIC countries have been engaged with one another to enhance cooperation in various economic and financial areas. They further point out that the bloc has been enlarged with the addition of South Africa which joined the group during the BRICS Summit held in Sanya, China in April 2011.

With regards to the trade, Hathur and Dasgupta (2013: ix) point out that the trade is of a complementary nature between these countries and that Brazil and Russia are strong in the commodity and natural resources sectors while China and India are net importers in these areas. Key in the analyses is that China dominates the manufacturing sector whilst India's strength lies in generic pharmaceuticals, software engineering, textiles and business process outsourcing. And in terms of trade numbers, Intra-BRICS trade was to the tune of US\$ 230 billion in 2011 and they note the target set by the BRICS countries of trade between themselves to reach US\$ 500 billion by 2015 (Hathur and Dasgupta, 2013: ix).

As per Hathur and Dasgupta (2013: 2) in order to understand and analyse BRICS as a group, it is necessary to understand how these five emerging giants are positioned in the global context and further point out the value add of the countries in terms of GDP to be at or over a quarter of the world's GDP and at over 40% of the global population in 2011.

Furthemore, as per Hathur and Dasgupta (2013: 2) Russia is by far the largest in terms of landmass and in terms of demographics China is number one followed by India as the two most populated nations and together account for one third of the world's population and as a group BRICS account for over 40% of the worlds labour force. According to Hathur and Dasgupta (2013: 3) when it comes to unemployment, South Africa is at 25% and at 7,5% in

India, Russia and Brazil whilst in China is at 4% and as a result with such dynamics there is a need for skill and human resource development.

Table 2: Country Profile

	Area (km ²)	Population (million)	Annual Population Growth Rate(%) (2005-11)	Unemployment Rate	Poverty Rate	Income Inequality (Gini Coeff.)	Life Expectancy	Literacy Rate	HDI ranking (2011)
Brazil	8,514,877	196.65	0.96	8.3	21.4	53.9	73	90	84
Russia	17,098,242	141.93	-0.2	7.5	11.1	42.3	69	100	66
India	3,287,263	1,241.5	1.43	9.3	29.8	36.8	65	63	134
China	9,596,961	1,344.13	0.52	4.1	2.8	41.5	73	94	101
South Africa	1,221,037	50.59	1.15	24.9	23	57.8	52	89	123

Source: World Bank data, <http://data.worldbank.org>; ILO statistics, <http://www.ilo.org/global/statistics-and-databases/language/index.htm>; UNDP Human Development Indicators, <http://hdrstats.undp.org/en/indicators/default.html> (as accessed on 27/1/2013)

As pointed out earlier, South Africa was added to the BRICs grouping in 2011 and with the inclusion of South Africa, BRICS as a group accounted for 19.88% of the world GDP in nominal terms and 26.78% of the world GDP in PPP (Purchasing Power Parity terms in 2011 (Hathur and Dasgupta, 2013: 4).

Table 3: Economic Profiles

	GDP				Inflation rate p.a. (2005 -11)	Interest Rate (2005 -11)	Savings (% of GDP)	Investment (% of GDP)	Public Debt (% of GDP)	Fiscal deficit/surplus (% of GDP)	Current account deficit/surplus (US\$ bn)	FDI, net inflow (US\$ bn)	Forex reserves (US\$ bn)
	Nominal (US\$ bn)	PPP (US\$ bn)	Growth rate p.a. (2005 -11)	Per capita (US\$)									
Brazil	2476.6	2289	4	12593.9	5.3	46.5	18.4	20.6	64.9	-2.6	-52.5	71.5	350.4
Russia	1857.8	3015.4	4.2	13089.3	10.3	11.1	28.5	23.2	12	1.6	98.8	52.9	453.9
India	1848	4503.1	8.1	1488.5	8.1	11.3	31.6	35	67	-9.0	-51.8	32.2	271.3
China	7318.5	11290.9	11	5444.8	3.1	6	51.3	48.6	25.8	-1.2	201.7	220.1	3202.8
South Africa	408.2	554.4	3.5	8070	6.1	11.5	16.4	19.7	38.8	-4.6	-13.7	5.7	42.6

(All figures are for 2011 unless stated otherwise.)

Sources: <http://data.worldbank.org>, <https://www.imf.org/external/data.htm>, <https://www.cia.gov/library/publications/the-world-factbook/> (as accessed on 27/1/2013)

Hathur and Dasgupta (2013: 7) point to the fact that the BRICS group of countries have largely maintained macroeconomic stability however there are some concerns due to the fact that inflation is 5% or more in most BRICS countries and that interest rates have also been in double digits for BRICS minus China over the period 2005-2011. Furthermore, the fiscal deficit is 9% in India and over 4.5% in South Africa whilst Brazil and China run at a deficit of around 2.6% and 1.2% of GDP respectively. Compared to Russia which has a surplus of 1.6% on account of buoyant global energy prices, public debt (Gross Government Debt) as a percentage of GDP is around 65% in both Brazil and India therefore its evident from these numbers that there is a need to handle public finances prudently (Hathur and Dasgupta, 2013: 7).

The reason for examining India, is the fact that it is a major economic player within BRICS. India has a vibrant retail sector that is growing, characterised by a large population with a growing middle class, with an advanced technology sector (Chatterjee, Küpper, Mariager, Moore, and Reis, 2011: 108). India's technological advancement is cited by Chatterjee *et al* (2010: 136) as having positioned the country as a leader in technology, furthermore entry of the foreign retailers and other economic sectors has resulted in a positive impact on local economies, particularly in the ICT sector.

Similar to Africa, India is one of the most dominant industries in retail today (Nair, 2015: 1). In a similar fashion like Africa and South Africa, India has grown tremendously in recent years, this can be closely linked to the globalisation phenomenon Nair (2015: 3). The Indian Retail sector contributes about 10% of the country's GDP, also translating into a positive impact on employment at 8% of the labour force, this is based on a report titled the Indian Retail Sector – An Outlook 2005-2010. Retail in India is gradually inching its way towards becoming the next boom industry (Anon. 2005: 8). In South Africa, looking at the province of Gauteng which is the economic powerhouse of the country, the retail sector contributes more than a quarter to the total GVA (Gross Value Add) of South Africa, which was about 26.5 % in 2011, Moreover, it has been forecasted to contribute over 4% of the country's GDP (Gauteng Government, 2012: 18).

A Global Edge Report on Market Potential for Emerging Markets in 2008, ranked India at number eleven on the Market Potential Index. India has managed to maintain this ranking over the years, to such an extent that the Global Retail Development Index in 2007 placed India as the leading destination for retail investment, topping the chart above Russia and China. South Africa could easily achieve the same results, but with its global perception of corruption, a very

vocal union presence, coupled with political instability, which is characterised by frequent and debilitating union strikes, and a forecast for slow economic growth with downgrades by Moody's (Investor Services Company), has the potential to discourage potential investments in the economy.

The Indian retail sector is characterised by small family owned retailers, and is entrepreneurially driven (Agarwal and Mehrota, 2009: 3). The organised retail sector in India has grown at a more rapid pace than expected and was found to constitute more than 25% of the overall retail sector in 2011 (Agarwal and Mehrota, 2009: 2). The entry of foreign retailers in South Africa has reduced the small players like "Spaza Shops" to near non-existence in the townships. This has also led to xenophobic attacks aimed at foreign owned shops, as local businesses now have limited trading space due to foreign shops offering cheaper goods. A study done by Chileya, Herbet and Lombard-Roberts (2009: 61) found that due to the growth of the foreign owned shops by Asian and Middle Eastern retailers, local businesses are not happy as they feel that South Africans should own these businesses. It will be key to note that young people were at the forefront of the xenophobic attacks that destroyed foreign businesses.

Even though South Africa has a large young population that is not working, with no purchasing power, it also has an emerging black middle class that is fuelling spending in the retail sector. India's key growth in retail is due to the growing young working population that is living in urban areas Agarwal and Mehrota, (2009: 2). The authors also cite challenges with such aggressive growth, in the form of government regulation for the entry of participants and a great deal of competition from the foreign retail sector. Furthermore, the authors state that the lower skill levels found in local economies do hinder retail growth in many developing countries Agarwal and Mehrota, (2009: 4) As a result, South Africa is no exception, as it endeavours to grow its economy and create opportunities for its unskilled labour force. Agarwal and Mehrota (2009: 5) further point out that for the Indian retail sector to survive, it will need to innovate and learn from the foreign retailers. It will also have to understand the factors that hinder performance and develop a strong competitive advantage, which will help them in overcoming the above mentioned challenges.

2.6 The South African Economy

The intention of this section is not to portray the historical economy of the country in detail, but to sketch a brief overview of the evolution of South Africa's economy. This can be traced back to the arrival of the Dutch community that settled in the country around 1652 in the cape area.

It has to be noted that in those years, South Africa was a much divided country, controlled largely by a white minority that owned all the means of production, leaving the black majority disenfranchised. With the advent of democracy these anomalies continue to haunt the country, even though the country is acknowledged as having an important regional influence due to the size of its economy, power of its state and capital-state interactions (Pa'draig & Carmodyl, 2012: 235). A good example of the power and influence that South Africa has can be traced back to 2006, where South Africa's trade with the rest of Africa was at a third of China's with the rest of Africa (Daniel & Bhengu, 2009: 145).

With such economic muscle, South Africa, as mentioned earlier, faces the challenge of inequality. The issue of inequality is seen to be a major downfall to the growth in retail and consumer spending. According to the Price Water House Coopers report dated 2012, unemployment deteriorated to 24.9% in 2011, from a low of 22.9% in 2008. When informal estimates are used, it puts this figure far higher, while youth unemployment is especially problematic. During the first quarter of 2012, the unemployment rate made its biggest quarterly jump in three years, to 25.2% (Price Water House Cooper 2012: 21).

Stable economic growth in any country creates a potential for ongoing success and prosperity for its citizens. In a country with a history like South Africa, such growth is crucial to balance the scales and redress the past injustices created by policies of segregation. It must be noted that since the advent of democracy in 1994 and through to the end of 2012, the economy of South Africa realised an annual growth rate in real GDP (Gross Domestic Product) of 3.28% (Bhorat, Hirsch, Kanbur, & Ncube, 2014: 2). However, in the period between 2005-07, South Africa experienced the most positive economic growth, as GDP growth rates exceeded expectations by about 5% every year in that period. However, this unprecedented growth was subsequently stifled by a slump caused by the global financial crisis in 2008-2009.

The slump in this period resulted in significant labour market consequences (Bhorat *et al*, 2013: 2). When South Africa experienced positive growth, the four key structural changes in the economy, as pointed out by Bhorat *et al*, (2013: 2) were observed. Firstly, the share of the mining sector as a portion of the GDP increased to 11% in 1994, but has decreased to about 5% in 2012. Secondly, the manufacturing sector remained very stagnant at the time. Thirdly, the financial and business services sector remained the key area for growth in the country. Lastly, the country saw an increase in GDP from the transport and telecommunications sectors. These factors mentioned above allowed the South African economy to progress from its dependence on the non-renewal sector (commodities). This sector has historically been instrumental in creating employment and driving economic growth for an economy that is global with a competitive, sophisticated financial and business sector (Bhorat *et al*, 2013; 2).

The country continues to suffer as manufacturing remains dormant. One of the issues identified by Bhorat *et al.*, (2013; 4) is that South Africa has a homogenous export profile, characterised by a very weak and unstable currency. As pointed out by Bhorat *et al*, (2013: 4) the export profile and the unstable currency remains a '*cancer*' for the economic prosperity of the country.

The South African economy does not operate in isolation, with the technological advancement that we are experiencing, economies all over the world are interlinked in a web that creates dependencies, across continents all over the world. Globalisation has indeed made its presence felt, with the result that what happens in Europe, Asia, the Middle East and North America has an impact in small and developing countries all over the world. With the recent devaluation of the Chinese currency in August and September 2015, which was felt by economies around the world, considering the fact that China is the world's second biggest economy after the United States of America This was confirmed in an article published by Mail Online dated October 2014 by US political editors Duncan and Martosko (2014: 2) and in South Africa commodities prices went plummeting and the value of the rand dropped drastically in comparison to other currencies. This proved to be clear evidence of the links that economies of the world have with each other. (MailOnline, 2014: 2)

In support of the above statements it is clear that South African exports of new and existing manufactured products to Sub-Saharan Africa, have been negatively affected by Chinese competition relative to exports from other countries (Chau, 2015: 46). As a result, in 2010, South Africa's exports to the region were 20% lower than they would have been, if they had been affected by the same degree as other countries and therefore the data suggest, that

Chinese exports of manufactured goods have diminished South Africa's participation and economic influence in the region (Chau, 2015: 50).

2.7 Inequality, Unemployment and Skills deficit in South Africa

2.7.1 Inequality

South Africa as a country has been recognised for a long time, as having some of the highest levels of inequality in the world. The only countries with similar levels of inequality are a handful of comparable countries from the two 'extra-high' inequality regions of the world, namely Latin America and Southern Africa (Finn, Leibbrandt, & Oosthuizen, 2014: 6). These high levels of inequality have added fuel to the surrounding debate, to such an extent that an African middle class has emerged in South Africa, over the past 20 years (Finn, Leibbrandt, & Woolard, 2014: 9). An increase in income is attributed to social grants to the poor, as part of government's policy of minimising the impact of poverty on the masses. Regardless of aggressive reforms, government support and the rising average income, there are still very deep racial disparities that currently exist and income inequality has increased over the post-apartheid period, both within and between racial groups (Finn, Leibbrandt, & Woolard, 2014: 9). However, scholars such as Leibbrandt and Levinsohn (2012: 13) argue that the state grants have helped to alleviate poverty and inequality.

The challenge of development advancement through essential service delivery, is another challenge facing South Africa. Borat *et al* (2014: 16), argue that though there has been an increase in access to basic services such as water, housing, sanitation and electricity for the masses, inequality has increased in the post- apartheid era. The poverty eradication programmes have only touched the tip of the iceberg, as racial imbalances in relation to income continue to be unequal in nature. There is indeed a correlation between inequality and access to quality education in South Africa. The black population had their own schools characterised by poor standards of learning and teaching as well as a lack of resources. At the other end of the spectrum the white population enjoyed well-resourced schools, with superior levels of education comparable to well developed countries. However, after 25 years of democracy scholars like Borat *et al* 2014: 17) still point to grave inequalities around education at primary, secondary and tertiary level.

With the end of the apartheid era in South Africa, there has been a gradual move for the previously disadvantaged black population from primary to secondary schools, but this has been accompanied by a very slow rate of graduation at secondary school level. (Bhorat *et al*, 2013: 17). Bhorat, *et al* (2014; 18) further point out that the grade 12 pass rates have been extremely disappointing, with very minimal improvements over the years. This results in learners progressing to tertiary level with a very low average pass rate, making it difficult for learners to cope at the higher level of tertiary education. On the other hand, Finn, Leibbrandt and Oosthuizen (2014: 37) compared South Africa with other countries such as Brazil and India, and concluded that South Africa has not seen education gains translate into productivity and employment growth, which would equate to a large decrease in poverty and inequality.

2.7.2 Unemployment in SA

South Africa experienced a major financial crisis that resulted in the loss of almost 1 million jobs in the period 2009 to 2010 (Verick, 2012: 1). One of the main issues to note in the area of unemployment, is the legacy of apartheid which contributed to poor levels of education, inequalities as well as barriers to entry in business, in the form of entrepreneurship (Verick, 2012: 6). Verick (2012: 6) further points out that the present inequalities in the labour space have predominantly impacted the African populace, who have historically been employed in the informal sector or unemployed, with some having given up the job search altogether. Furthermore, the fact is brought to our attention that young people still experience difficulty in making the transition from school to the world of work, thus policy needs to be a key focus for government, in order to drive economic growth and reduce potential social unrest and crime (Verick, 2012: 5). Another scholar, Banerjee *et al.* (2008: 6), finds that unemployment in South Africa is of a more structural matter than a transitional one.

In addition the author outlines some of the key reasons that have contributed to unemployment remaining high, especially amongst the African populace. The act of searching for jobs is made extremely difficult, due to spatial separation between business centres and rural areas. The lack of affordable transport and discrimination, the failure for the informal sector to absorb excess labour supply; and lastly the high reservation wages all contribute to this issue (Banerjee *et al*, 2008: 5). In addition to the point above Kingdon and Knight (2007: 14) also argue that the rise in the unemployment rate, in the period between 1995 and 2003 was due to inadequate economic growth, creating an insufficient demand for labour, relative to the rapid expansion in the labour supply that was experienced over this period. In contrast, around the period of 2002 to 2007, during the period of a global economic boom, there was a slight

decrease in unemployment, as economic conditions improved. This translated into a decrease of the unemployment rate in 2007, to 25 per cent, from 31.20 percent in 2003.

According to Statistics South Africa in their publication in 2015, the unemployment rate in South Africa decreased to 25 percent in the second quarter of 2015 from a ten-year high of 26.40 percent in the first quarter of 2015. The unemployment rate in South Africa averaged 25.27 percent from 2000 until 2015, reaching an all-time high of 31.20 percent in the first quarter of 2003 and a record low of 21.50 percent in the fourth quarter of 2008 (Stats SA, 2015).

Figure 1: Employment Trends in South Africa

The figure below reflects the employment trends as measured in 2015 by stats SA;



Source: Statistics South Africa, 2015 (www.tradingeconomics.com)

As per the graphic illustration above, the jobless rate in South Africa decreased to 25 percent in the second quarter of 2015, from a ten-year high of 26.4 percent in the previous period, as more people stopped looking for jobs, causing employment to increase by 1.3 percent.

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
25.00	26.40	31.20	21.50	2000 - 2015	percent	Quarterly

In South Africa, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force. This page provides - South Africa Unemployment Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. Content for - South Africa Unemployment Rate - was last refreshed on Thursday, September 10, 2015.

Source: Statistics South Africa, 2015 (www.tradingeconomics.com)

According to recent a publication by Statistics South Africa in 2015, it was reported that the largest gains in employment were observed in community and social services (98 000),

construction (79 000) and trade (73 000). In contrast, Statistics South Africa reported that job losses were recorded in finance, manufacturing and agriculture (31 000, 23 000 and 22 000 respectively). Another area that posted an increase in employment is the non-agricultural formal sector, which gained 39 thousand jobs while employment in the informal sector, increased for the fifth consecutive quarter by 177 thousand jobs. In the second quarter of 2015, the labour force participation rate decreased to 58.1 percent from 58.6 percent in comparison to the previous period (Stats SA, 2015).

2.8. State of Labour in South Africa

Any country that wants to remain competitive in a global economic environment, will need to have at its disposal a young and vibrant workforce that is skilled, educated and healthy. South Africa has a very vibrant labour force and active labour representation in key sectors of the economy. The retail sector is no exception, unions such as Sacawwu, Fedusa, and Fedcrow remain active and very vocal in the retail space. The main player is the umbrella body COSATU, which is key in infusing acceptable labour standards in South Africa. It is also important to note, that these unions mentioned above have played a significant role in shaping the democratic dispensation we currently enjoy and they continue to play a watchdog role in the labour and economic space. The discussion that follows briefly explores their role in South Africa, examining how influential their presence is, in the retail sector.

2.8.1. Labour Legislation & Standards in SA

In the past, the South African labour market has played a very significant role in the country's economic development. However according to Festus, Kasongo, Moses and Yo (2015: 2) during the apartheid regime, labour was used as a means to segregate society through the construct of various legislation, which segmented the labour market along racial lines, to the disadvantage of non-whites. The segregation had grave consequences, limiting the potential for achievement within the labour market, which consequently inhibited the ability to improve the standard of living for all sectors of society. The apartheid regime, was responsible for the grievous restrictions in the labour market, this, played a crucial role toward the abolishment of apartheid (Festus *et al*, 2015: 3).

Post 1994 elections, South Africa experienced radical changes in the labour arena, in the form of a battery of legislation that was key in changing the labour landscape and ensuring equality within the labour sector. The legislation enacted included the Basic Conditions of Employment Act of 1997 (BCE), which stipulates the minimum wages applicable to certain sectors, as well as specifying minimum working conditions for labourers and outlining some of their rights. The other piece of legislation is that of the Labour Relations Act of 1995 (LRA), which outlines processes regarding collective bargaining in the labour market and the resolution of labour disputes. The Employment Equity Act of 1998 (EE) is another important piece of legislation that encourages affirmative action, which essentially boils down to the need for employing more non-white workers in order to reduce societal inequalities (Festus *et al*, 2015: 4).

According to Festus *et al* (2015: 2) the above-mentioned pieces of legislation have attempted to level the playing field in the labour space and have been instrumental in creating a wage environment that has the potential to reduce labour market income disparities. There is a view that they will impact positively on poverty reduction, addressing inequality and raising the standard of living for South Africans, that were previously marginalised.

2.8.2. Trade Unions in SA

Trade Unions are instrumental in protecting worker's right, ensuring that there is fairness in the workplace and that the applicable labour legislation is well adhered to at all times in the workplace. Within the South African and African context, trade unions have been very consequential in influencing the political landscape in Africa, where they have been active in bringing about democracy for the labourers on the continent. Furthermore, Crotty, Grissom, and Nicholson-Crotty (2012: 4) also acknowledge that trade unions in Africa have played a very important role in the political, social and economic development of the continent and during the 1960s, trade unions in Africa became instrumental in the struggle for independence, creating an important platform for ordinary people to voice their frustrations.

Glaser, Aristigueta and Payton (2000: 435) view trade unions on the continent as being at the forefront of the struggle for good governance, democracy, equality, fairness, respect for humans, workers' rights and social and economic justice. A question to pose considering the role of unions is "What impact do unions have on organisational or firm performance?" In response to this question, Gunderson (2005: 393) zooms in on the fact that there are positive benefits, such as productivity gains due to increased unionisation, in addition to the more well-known rent seeking behaviour of unions. However, Ash and Seago (2004: 424) argues that

unions may have a positive effect on performance by giving voice to worker concerns, improving management and labour communication, increasing morale, and decreasing turnover. Other scholars' such as Ash and Seago (2004: 425) share a different view as in their study of the impact of unions on the public health care sector, found that union activity in public agencies has no direct impact on employee performance. A crucial role to take cognisance of is the collective bargaining aspect of trade unions, ensuring that workers receive realistic earnings based on outputs they have contributed to in producing (Godfrey, Theron, and Visser, 2007: 8).

The country faces challenges due to the number of retail stores that are present, making it very difficult for the unions to organise workers. In addition, the current Labour Relations Act (LRA) makes it very difficult to operate, due to how it defines a workplace. Therefore, this limits SACAWU in that it can only have important sites for collective bargaining which include key national retailers such as Pick n Pay, Shoprite Checkers, Spar Warehouses, Mass Discounters, Clicks, Truworths, Foschini, and JD Group (Godfrey, Theron & Visser, 2007: 13). South Africa has a huge unskilled labour force that is poorly educated, this labour force views retail as the gateway to creating livelihoods.

2.9 Conclusion

This chapter has shown that the retail sector in South Africa, as well as in Africa has a major role to play in creating opportunities for growth, contributing to growth in productivity at firm and labour level. Looking at the retail sector from the perspective of BRICS countries, the retail sector was also found to have a positive impact on creating growth paths, for the respective economies of the BRICS countries. This chapter has also highlighted the important role of government and the private sector, in integrating policy-making efforts to ensure that the sector is given a key focus as a means of increasing productivity.

As discussed in the foregoing sections, the South African economy has the potential to grow the retail sector, thereby growing the potential to create employment in the sector. Due to global economic challenges, policy makers are faced with a challenge of finding innovative means of increasing the means of production to create more sustainable jobs, which will equate to the reduction in levels of unemployment and vast inequalities that prevail. Labour is therefore highlighted as a key focus area for economic growth. Some of the arguments in the chapter make the point, that a labour force that is skilled and educated has the potential to contribute immensely to economic and firm growth. It is imperative that there is also a vibrant union voice, which seeks to encourage fair labour standards through continuous engagement

of employers. The arguments in the chapter make a case for all sectors of society, government, civil society, and business to work collaboratively in creating avenues for economic growth.

Chapter Three: Literature Review and Conceptual Framework

3.1 Introduction

Economist and scholars have long recognised that productivity remains the only means of sustainable source of improvement in a nation which seeks to improve the material wellbeing of the citizenry (Eslake and Walsh, 2011: 4). As suggested by Eslake and Walsh (2011: 17) a country that has the desire to prosper must ensure that it has good policy that is aimed at driving productivity. In a country like South Africa that is characterised by vast inequalities and the legacy of apartheid, productivity therefore becomes key to improving the economy and ensuring that those that were previously marginalised benefit from the material well-being and have productivity that will create employment opportunities.

One of the key issues in productivity research is the definition and measurement of the construct (Syverson, 2011: 330). The abundance productivity definitions and the differences in these definitions have shaped research agendas in the area of productivity. As such, Syverson (2011: 332) advises that due to the debate on the best measurement, choosing a method should be a matter of checking which assumption is one most comfortable with as some assumptions must indeed be made in the measure of productivity.

Given the challenges above on the measurement and definition issue within the domain of productivity, the purpose of this review is to explore the variable of productivity and labour standards with a view of identifying appropriate measures of these variables. This paves way for designing research protocols that address research questions of this study:

How does the labour cost affect productivity in the retail sector?

3.2 The Construct of Productivity

3.2.1 Productivity literature from 1800 to the 1960

It is important to note that the term “productivity” was first mentioned in an article by Quesney (1766 cited in Milanovic 2010: 9) and various scholars have over the years attempted to provide concrete definitions of productivity to enhance our understanding of the variable and to this end, more than a century later in 1886 Littré (1883 cited in Tangen 2005: 36) defined productivity as an ability or faculty to produce. It is important to mention that Quesney is considered the founder of physiocracy (a group of French economist who believed that agriculture is the source of wealth for nations and did not see manufacturing as productive compared to agriculture) where he linked productive labour to the production of surplus. In his studies, he provides for the first time a rational explanation of the general process of production, exchange, distribution and reproduction of wealth.

Furthermore, Quesney (1766 cited in Milanovic 2010: 18) defines the social classes according to the role each of them has in the reproduction cycle and views the new wealth generated in every cycle as the surplus, he further posits that it is only labour which produces the surplus which can be called productive. Important to note that their studies around the productivity measurement goes back to the work of Jan Tinbergen (1942 cited in Afrooz *et al.* 2011: 84) and independently Solow (1957 cited in Afrooz *et al.* 2011: 84) wherein their respective studies formulated productivity measures in a production function context and linked them to the analysis of economic growth.

3.2.2 Productivity literature from 1960 -1980

In a study of productivity growth in western countries in 1950 – 1962 by Denison (1967 cited Siegman 2009: 4) came to a conclusion that to rank countries in terms of growth rates is determined by the inputs and gains from how resources are allocated and also by the fact that the magnitude of the difference in growth rates is largely due to economies of scale Denison (1967 cited in Siegman, 2009:4). Denison went further in his economic analysis to makes a distinction between total inputs and outputs in relation to total factor inputs and outputs and also follows the classical distinction in terms of input as labour, capital and land (Denison, 1967 cited in Siegman 2009: 7). In terms of a measure of productivity, Zell (1979: 18) points that Denison measured productivity in an agricultural context in his study of the US as output per person employed in the non- residential business sector inclusive of agriculture and therefore concludes that the slow-down in economic growth in the US is due to weaknesses in the drive for growth such as key advances in knowledge and technology (Zell, 1979: 20).

Another key scholar in this period, Phelps (1966 cited in The Kungi Vetenskaskademien 2006: 23) is of the view that education is a key driver for economic growth and productivity. Phelps (1996 cited in The Kungi Vetenskaskademien 2006: 23) further alludes to the fact that a manager that is well educated has the ability to be creative and can easily find solutions to grow productivity and adapt to changes in the economic environment. This is also supported by Zell (1979:18) therefore meaning that education is key to productivity growth and that most weaknesses in productivity growth are due to lack of knowledge. In the same period, Arrow (1962: 609) is another scholar that was instrumental and a big proponent of welfare economics and in his study explored to what extent competition lead to how resources are allocated in firms.

3.2.3 Productivity literature from 1980 – 2000

In the eighties productivity evolved to being defined as units of output to units of input by Chew (1988: 110) in an online article written for the Harvard Business Review in January 1988; however the measure of productivity remains to be elusive as per (Achabal, Heineke and McIntyre, 1984: 108); whilst on one hand (Fisher, 1990: 65) is of the view that it is value added based on the input of production factors whilst in the early 90s the Japan Productivity Centre as per Bjorkman (1991 cited in Tangen 2005: 36) defines it as what man can accomplish with material, capital and technology at his disposal and that it's also about self, our attitudes to life and what drives us to want to achieve.

The productivity discussion still rages on as a number of scholars have made inroads into creating more knowledge on the subject. Given the above, the definition and measurement of productivity remains a topic in a number of disciplines ranging from economics, engineering, agriculture, accountancy; human capital management and in operations research and Rachford and Stoops (1988: 241) are of the view that the retail industry is labour intensive and thus not easy to control which makes productivity gains challenging to achieve therefore a question that remains is, "how should productivity be measured" if the gains are hard to achieve.

Another key scholar on productivity, Azarbaijani (1990 cited in Salimifar *et al.* 2012: 7844) assessed the effective factors on total factors productivity in the industries of Iran and utilised the two multi-variable regression model. The key findings by Azarbaijani (1990 cited in Salimifar *et al.* 2012: 7844) are that the production in firms, percentage of educated human capital, effect of capital, and proportion of men labour in total employment of firm, proportion of individuals, salary and value added of inputs do not have any effects on the productivity of factors of production. In another study that was done by Fisher (1998: 14) on the measurement of productivity where focus was on business aspects of organisations performance where a standard cost accounting method was applied which is a technique based on the standard productivity model of $(P=O/U)$ realised that such an approach leads managers to make informed decisions on productivity.

As the productivity discourse evolved in the early eighties, Aspen *et al* (1991 cited in Tangen 2005: 36) see productivity as value added or input of production factors and as a ratio of what is produced to what is required to be produced and as per Hill (1993 cited in Tangen 2005: 36) whilst another scholar see it as the central long run factor that can determine any populations average standard of living (Thurow, 1993 cited in Tangen 2005: 36); (Koss and Lewis, 1993 cited in Tangen 2005: 36) see productivity as the state of yielding large results); Kendrick (1993) defines it as the ratio of output to inputs of labour and other resources which means that in order to increase productivity the output must grow faster than the increase in inputs used in the production process. In 1993, Koss and Lewis (1993; 280) acknowledge the work done by scholars on productivity, however caution that most focus has been on the quantitative measures and feel that appropriate measures have been ignored, their work explored the gap between the use of standard measures and the creation of appropriate means of productivity.

Another key scholar, Ghatmiri (1996 cited in Salimafir *et al.* 2012: 7844) investigated the productivity of industries in Iran during 1993 to 1996 where they employed the literacy index and the Kendrick index to calculate the total factor productivity of industries in Iran by using the regression analysis, capital variable, proportion of private units to total in each industry, role of wage and salary in value added, proportion of employment rate in each industry and value of production in order to assess the effective factors on productivity. In this study Ghatmiri (1996 cited in Salimafir *et al.* 2012: 7844) found that the value of production will positively affect productivity while capital, proportion of capital in labour force and proportion employment in each industry will negatively affect the number of firms in productivity.

In terms of Bernolak (1997 cited in Tangen 2005: 36) defines productivity as how much or how well a country can produce from the resources that were utilised. Rogers (1998: 2) defines it as the ratio of output to input for a specific production situation. Kaplan and Cooper (1998 cited in Tangen, 2005: 36) view productivity as a comparison of the tangible inputs to a factory with the tangible outputs from the factory. Jackson and Petersson (1999 cited in Tangen 2005: 36) define productivity as efficiency and effectiveness. In the era of the new millennium Al-Darrab (2000 cited in Tangen 2005: 36) define productivity as quality input leading to efficient utilisation of quality.

Looking from different productivity lens, Barney (1991: 102) is of the view that human capital is a key resource especially in an increasingly competitive environment that continues to become more dynamic. This, he posits is largely because of the ability of the workforce and human resource systems to produce firm-level competencies that create sustainable competitive advantage (Barney, 1991: 110). On the issue of measurement Kawai (1994: 375) in his study in Malaysia in 1970 to 1980 where the effects of import substitution, effects of developing exports and foreign direct investment on domestic capital stock were employed found that stability in macroeconomic situations has meaningful effects on productivity. Tham (1995 cited in Salimifar *et al.* 2012: 7843) in his study on productivity, growth and development in Malaysia, mentioned that the changes in exports and foreign investments are the most important factors affecting the growth rate of productivity.

3.2.4 Productivity literature from 2000 – 2015

According to the Organisation for Economic Corporation and Development in 2001, productivity is seen as the ratio of output production in relation to input efforts (OECD, 2001: 11). While there is no disagreement with this notion, a look at productivity literature and its various applications reveals that there is no definitive single measure of productivity (OECD, 2001: 11). In the new millennium productivity is defined by Moseneng and Rolstadas (2001 cited in Melo *et al.* 2015: 8) as the ability to satisfy the market needs with goods and services by using minimal resources. Sharpe (2003: 19) in his study on the productivity of industries in Atlantic Canada where he employed the accounting approach, investigates the effects of the effective factors such as innovation, capital usage, human resource quality and economics of scale on productivity and suggests that innovation is the most important factor among these factors which affect productivity. Disney *et al.* (2003: 1) by using an econometric approach assess the role of internal restructuring like new technologies and structural changes and external restructuring on the productivity growth of UK manufacturing and find that external restructuring approximately affects 50% of labour force productivity changes and 80% to 90% of changes in total factors productivity.

In terms of Diewet and Nakamara (2005: 19) they highlight the different types of productivity measures and draw distinctions and distinguish between measures of productivity in terms of productivity level and productivity growth. Another study that was done by Miller and Robbins (2008 cited in Samilifar 2012: 7843), where they looked at productivity through budgeting in the management section of Rutgers University in New Jersey State of USA, showed that budgets have different goals and that all of them can increase productivity and can be used as a planning and control instrument, as well as a motivation method.

According to Syverson (2011: 329) productivity is efficiency in production, in other words how much of the output is gained or received from inputs and what went into developing the product. Another scholar, Sharpe (2010a) posits that productivity is a key factor that determines living standards in the long run. In his research, Avillez (2011: 94) defined productivity as a measure of how much output is produced per unit of input. Avillez (2011: 97) cautioned that there are two key dimensions that should be considered in the productivity discussion: measuring the concept using the partial factor or multifactor approach, and whether the focus is growth rates, levels or both.

Hansen *et al* (2013: 3) in their report focusing on the Danish retail sector, define productivity as hourly labour productivity measured as gross value added per hour worked. Their report was focused on investigating three key areas, one was the relationship between suppliers and retailers, secondly was to explore the laws and regulations in the retail sector and thirdly was to examine the trends that are expected to influence the sector in the future. The key findings of their study zoomed in on the fact that the Planning Act which was a key piece of legislation at the time hinders productivity and competition in the sector, and that compared to other key European countries such as Germany, Netherlands, Norway, Sweden and the UK, the laws and regulations seem to be more stringent when it comes to starting a retail business (Hansen *et al*, 2013: 18).

Barnet *et al* (2014: 2) posits that the concept is in actual fact a measure of how well resources are allocated and used to get to the desired output. From an economic view, productivity is viewed from a labour productivity and capital productivity where labour productivity is measured using the GDP (Gross Domestic Product) whilst capital is measured through output per unit of value as per Van Beveren (2012: 1) and Dias and Evenson (2010: 3793) highlight that this approach to productivity has limitations as the process is merely of estimation as opposed to measurement and is open to scrutiny.

It is important to note that there is a recent move from researchers to focus their productivity comparisons on individual sectors and countries which has added value to the definition of productivity (Gholizadeh, 2014: 13). As highlighted earlier, the measurement debate in productivity is vast as Jorgenson and Shreyer (2013: 6) posits that the measures of productivity at a national or country level should include output measures such as gross output, gross domestic product. Kiyondo *et al* (2009: 308) in their analysis of productivity in the SA economy and gender where they used the GCE model (Computable General Equilibrium) found that factor productivity rise results in gains from a more efficient use of resources which has potential to increase Gross Domestic Product and government budgeting. Looking at productivity from a human capital point of view, Markos and Sridevi (2010: 89) view employee engagement as a stronger predictor of positive organizational performance and this is due to the fact that engaged employees are emotionally attached to their organization and are highly involved in their job and perform with great enthusiasm for the success of their employer therefore going beyond the employment contractual agreement.

According to McCarthy (2005: 45) in their case study on productivity performance in developing countries, they found that in the case of South Africa the issues that have impacted to poor performance range from, the political system in the apartheid era, employment growth that is not keeping up with capital formation, the factor productivity that is not linked to employment growth, failure of financial institutions that have failed to address the needs of the poor. McCarthy (2005: 47) also further highlights some of the issues, such as a cohesive need between policy direction and productivity which is required and that a collaborative effort is key between business, government and labour in the design and implementation to improve productivity.

In an analysis performed by Reynolds and Thompson (2007: 4) where they utilized a common measure of productivity which is that of output and input in the form of sales revenue divided by employees thus creating a partial factor productivity which in reality is the most reliable way to measure productivity in a retail environment. In their study, Chilya, Hebert and Lombard-Roberts (2009: 61) also used financial measures such as profitability, operational indicators, market share and other key financial reports to gauge financial performance in grocery shops in Mdatsane South Africa. The ongoing debates about how productivity should be measured is relevant as Maicany and Orthz (2014: 1) point out that the firm reactions to changes in the market environment depend on firms' productivity levels and are influenced by internal factors that are within the firms' control.

However, according to Syverson (2011: 341) there has been limited work that has attempted to quantify the effect of regulations on productivity and as a result, Maicany and Orthz (2014: 1) propose a dynamic structural model to assess the implications of local market entry and argue that entry regulations affect productivity.

Furthermore on productivity, McKinsey and Company in their report on Global Growth (2015: 66) challenge conventional thinking on productivity and zooms-in on the source of productivity growth due the role it plays in economic performance, however McKinsey (2015: 84) also cautions researchers, economist, policy makers and management teams not to generalise a countries competitiveness and future growth, they further argue that countries that have a high exposure to competition will yield high productivity numbers and cite an example of Sweden where productivity improved drastically by removing pricing barriers. Other key scholars such as Reynolds, Howard, Dragun, Rosewell and Ormerod (2005: 6) tackled the productivity debate by defining it as measurement and analysis in a manner that is relevant and meaningful and Reynolds *et al* (2005: 16) goes further and highlights that the problem will persist and that there is a need of an all-inclusive, clear-cut classification in the productivity research.

Shang *et al* (2013: 15) used consensus estimates of Asian productivity growth from 1970 to 2000 to measure productivity and utilised data from UNIDO (United Nations Industrial Development Organisation and the Solow's measure based on the Cobb-Douglas production function with constant returns to scale. Syverson (2011: 330) highlights that there are some issues around the data quality in measurement of productivity, hence he prefers using cost share based TFP (Total Factor Productivity) index numbers as they are simple to construct. Further gaps in productivity that Syverson (2011: 357) cites relate to the importance of demand as productivity is seen as a supply-side concept. Gato *et al* (2008: 952) also highlights that that productivity measurement is a "*condition sine qua non*" for empirical analysis due to the array of methodologies available and that researchers need to choose the right method for macro and micro measurements. To this day, the debate on the definition on productivity remains open and scholars continue to enhance understanding on this variable which will stretch more centuries to come.

The elusiveness of a concrete definition remains as to how productivity should be measured. Other key gaps emanating from the literature review relate to the availability of data and that data should ideally have a cover lag of 24 to 50 years and the current lag in SA is 14 years if we look at productivity within the agricultural context as per (Ramalla *et al*, 2011: 22). The database that is used for productivity estimates at district and provincial level is not readily available in some parts of the world (Ramalla *et al*, 2011: 23).

3.3. Conceptual Framework, Labour Standards, Costs and Labour Productivity

Standing (1999 cited in Broembsen 2012: 2) describes labour as *arduous*-perhaps alienated work and epistemologically conveys a sense of pain-animal *labourans* and defines labour as an activity done under duress and some form of control. Broembsen (2012: 6) highlights that labour costs comprise of wage and non-wage costs. As explained by Broembsen (2012: 6) wage costs include money and benefits and non-wage costs are a percentile of the overheads that are incurred by the employee. Cervini-Pla *et al* (2010: 16) delved deeper into the components of non-wage labour cost and included dismissal costs and payroll costs, and in his analysis he suggested that decreasing dismissal costs and payroll taxes have a positive effect on wages of newly hired workers. Consequently Cervini-Pla *et al* (2010: 2) proposes that a substantial reduction in non-wage labour costs has a substantial impact on a firm's cost management.

In the labour discourse, another variable that is discussed extensively is that of unit labour costs, defined by Lewney *et al* (2012: 78) as the ratio of labour costs to output. Lewney *et al* (2012: 12) noted that unit labour costs is endogenous and will take into account the changes in cost of labour in relation to the unit of output. In an environment that is characterised by globalisation and a competitive nature of doing business, labour standards and costs remain a central focus for businesses and play a crucial role in determining business profitability. This notion is echoed by the Organisation for Economic Cooperation and Development, ECD (1996: 3) and by Charnovits (1987: 566), who argue that the core labour standards are considered to be important and universally applicable and intended to provide a benchmark of how workers should be treated in all countries. It is for this reason that the unit of labour cost is universally accepted as a concept that represents a link between productivity and cost of labour in producing that output.

Palley (2002: 5) unpacks the labour standards as freedom of association, elimination of all forms of forced labour, abolition of child labour, and elimination of discrimination which is in line with the ILO (International Labour Organisation). Furthermore, scholars like Brown, Alan, and Deardorff (1996: 28) in line with other scholars view labour standards as a means to establish a worldwide minimum level of protection of labour from inhumane labour practices. Baccini and Koenig-Archibugi (2012: 34) posit that labour standards are meant to ensure a global economic system that enables workers to benefit from economic growth of which they are critical in creating as labour.

Adding a different angle to the debate Gunderson (2005 cited in Samuel 2014: 92) cautions that even though labour standards are beneficial, there are however some sectors or forces that resist its application due to concerns that productivity will be affected as a result of the costs that emanate from implementing the labour standards. Gunderson (2005 cited in Samuel 2014: 92) further argues that the cost of implementing labour standards may price some jobs out of the market and posits that private sector cannot pass the cost to the consumer. However, given the above issue, there is evidence to the effect that that compliance with labour standards leads to improvements on productivity and economic performance (Samuel, 2014: 93). This view is also supported by Porter (1972: 151) who argues that organisations that embrace labour standards do indeed benefit through increased productivity. Fergusson (1994: 387) goes as far as saying that increasing labour standards, that is, increasing wages, is likely to have a positive impact on productivity because the worker's commitment and loyalty increases (Ferguson, 1994: 387). Samuel (2014: 93) is of the view that when wages go up productivity may be impacted due to the cost associated with implementing them. These arguments show that there is a consensus that there is a positive relationship between performance and labour standards, but what is in dispute is the causal direction of the relationship. Accordingly, this study tests the following hypothesis:

H1: There is a positive relationship between labour standards and performance in the retail sector.

There has been a number of debates in the South Africa with reference to the minimum wage matter. Cosatu's Coleman (2014: 5) in an article published in *The Daily Maverick* in November and Isaacs and Fine (2014: 1) do favour a high national minimum wage but are of the view that it should be informed by key policy reforms. The raging debate is centred on employment flexibility. According to Baker (2007 cited in Mathekga 2009: 25) employment flexibility or labour market flexibility refers to the extent to which an enterprise can alter various aspects of its work and workforce to meet the demands of the business. In support of this flexibility debate Horton (1999 cited in Mathekga 2009: 25) highlights three main factors of labour market flexibility. Firstly, numerical flexibility, gives employers powers to lay off workers and make use of low cost workers such as casuals. A second factor related to flexibility is latitude given to employers to pay a certain amount for a certain number of hours worked. The third factor is process flexibility, which refers to the way in which production and grading are organised to manage labour costs.

Cosatu's Coleman (2014: 6) in the article in the Daily Maverick published in November further points out that a national minimum wage should be imposed and that it should be substantially higher than the current sectoral minimum wages. This is based on an argument that a higher minimum wage would not only reduce the exploitation of lower-paid workers but would also generate job creation through consumption fuelled growth which will enable higher consumption by workers (Seekings, and Nattrass, 2014: 2). Seekings and Nattrass (2014: 3) are of the view that wages should indeed be regulated and should take into account the likely negative effects on employment as well as the potential it may have on improving growth and productivity.

These debates show that the issue of labour standards in South Africa is highly contested. It is not clear from literature whether the causal direction of retail performance is such that high labour standards (including high wages) result in high performance or the other way round. For example Rodrik (1999: 709) argued that while democracies such as South Africa pay a higher wage, productivity has not kept in line dropped. This then begs the question whether high labour standards lead to performance. Accordingly this study tests the causal direction of the relationship between retail performance and labour standards.

3.4. Conclusion

This chapter has shown that productivity as a concept has been widely researched, and many authors have ascribed different meanings to the concept. As pointed out by Nattrass and Seekings (2015: 7), while South Africa has robust and diverse economy, it faces a challenge of devising labour and industrial intensive policies to support existing high productivity activities. It is clear that labour standards are key in ensuring that labour is treated fairly and that companies or firms need to strive to embrace labour standards and be in line with the international labour organisation expectation. In a country with a vibrant union voice, labour remains a key role player in gatekeeping labour fairness through various legislation that are instrumental in a country that embraces fair labour practices.

The foregoing discussion has highlighted the connectedness between productivity, performance and labour standards. This study however focuses on how labour standards affect performance of retail stores. Literature has shown that labour standards is a concept that is related to cost of labour including wages. This chapter has also shown that there are many ways in which scholars have measured labour standards. In line with the OECD, and the Statistics South Africa which supplies the South African Reserve Bank with data that generates unit labour costs quarterly and annual, this study adopts the definition of labour cost

as a ratio of total labour cost to real output. The latter part of this chapter provides a conceptual framework used to frame the hypotheses of this study that (1) there is a significant change in the labour standards in South Africa; and that (2) there is a positive relationship between labour standards and performance.

Chapter Four: Research Methodology

4.1 Research design

In this chapter the main problem will be operationalized and the research design briefly explained. This will be followed by a description of the population under study as well as the methodology to be used, and where data will be sourced from.

In a quantitative study, there are several ways to examine relationships between variables and one of them is by a quantitative analysis. The study will make use of time series data on labour productivity and labour costs generated by the Reserve Bank of South Africa.

The study will utilise the Ordinary Least Squares regression analysis and will be using the statistical program known as EViews. The OLS method will enable the researcher to explain the relationship between multiple independent variables and a dependent variable (Cameron and Trivedi, 2005: 70-80), which other words mean that the behaviour in the dependent variable can be explained by the multiple independent variables.

4.2 Data Description

The study empirically examines South African labour productivity and labour costs data covering the years 1970-2014 to test the hypothesis that there is a positive relationship between labour standards and performance in the retail sector. As mentioned in the literature review chapter, that the measurement of productivity remains a point of discussion and as per Koss and Lewis (1993; 280) they acknowledge the work done by scholars on productivity, however caution that most focus has been on the quantitative measures and feel that appropriate measures have been ignored, in their work they explored the gap between the use of standard measures and the creation of appropriate means of productivity. In order to measure labour productivity, the measure of hourly labour productivity measured as gross value added per hour worked will be employed utilizing the ordinary least squares regression model Hansen *et al* (2013: 13).

4.2 Variables

Economist and scholars have long recognised that productivity remains the only means of sustainable source of improvement in a nation which seeks to improve the material wellbeing of the citizenry (Eslake and Walsh, 2011: 4) and that labour productivity is seen to be a key determinant of performance in most countries. This study embraces labour productivity and labour standards measured via labour costs through using the OLS (Ordinary Least Squares) regression test and the two key variables being performance and labour costs. This study predicts that labour standards will have a positive relationship with performance which increases productivity. Intuitively, this makes sense because if labour standards are embraced by organisations, they will have a greater impact on economic growth which in turn will boost productivity in the country or organisation level.

Table 2: Variables, Data Source

Variable Name	How Variable is Measured	Data Source
Performance	Productivity	South African Reserve Bank
Labour Standard	Labour Costs	South African Reserve Bank

Productivity is a key determinant of success for a country or an organisation, how an organisation performs is instrumental for its sustainability and also for creating a good atmosphere for the workforce to deliver on expectations. Labour therefore is also a key ingredient in driving company performance and ultimately productivity at macro level. It goes without saying that companies that have entrenched labour standards stand a good chance of having happy, motivated, engaged employees that will go an extra mile to ensure that the organisation succeeds and they benefit thorough increase in wages, after all labour must yield the fruits of their hard labour. As such, this study postulates that labour standards will have a positive relationship on performance and productivity.

4.3 Model Specification

In order to find out the impact of labour standards on performance and ultimately productivity in South Africa, the study specifies the following equation:

$$Y = C(1)*LABOUR_COSTS + C(2) \quad (1)$$

Y= Productivity (performance)

C(1) = regression weight (beta coefficient)

C(2) = Error term

To test the hypothesis, the Error Correction Model (ECM) technique is used. ECM is a category of time series models that estimate the speed at which a dependent variable Y returns to equilibrium after a change in an independent variable X. The basic structure of an ECM is as follows:

$$\Delta Y_t = a + b\Delta X_{(t-1)} + b [EC]_{(t-1)} + e_t \quad (2)$$

Where EC is the error correction component of the model, and measures the speed at which prior deviations from equilibrium are correlated, and e_t measures the error term (Brooks, 2008). In the Engle and Granger Two-Step Method the EC component is derived from cointegrated time series as Z.

$$\Delta Y_t = b_0\Delta X_{t-1} - b_1Z_{t-1} \quad (3)$$

b_0 captures the short term effects of X in the prior period on Y in the current period.

b_1 captures the rate at which the system Y adjusts to the equilibrium state after a

shock. In other words, it captures the speed of error correction. To obtain Z, Y is regressed on X and all the variables that are expected to cointegrate are included. Secondly, the ΔY is regressed on Z_{t-1} .

4.4 Model Estimation

To prevent the use of non-stationary data Unit Root test (Augmented-Dickey-Fuller (ADF) test) was carried out to test for stationarity of the endogenous and exogenous variables. The ADF test is based on the following regression:

$$\Delta X_t = \delta_0 + \delta_1 t + \delta_2 X_{t-1} + \sum_{i=1}^k [\alpha_i \Delta] X_{t-1} + \varepsilon_t \quad (4)$$

Where Δ is the first difference operator, X_t , is the natural logarithm of the series δ_1 , δ_2 , and δ_i , to be estimated; and ε_t is an error term. The null hypothesis of a unit root was tested against an alternative hypothesis of no unit root. A stationary series has a finite root and variance that do not depend on time.

$$X_t = \alpha + \rho X_{t-1} + \varepsilon_t \quad (5)$$

where $|\rho| < 1$ and ε_t is also stationary with a mean of zero and variance σ^2

After checking for stationarity, the number of co-integration equations among the variables was determined using the Johansen (1988: X) co-integration approach, to check whether an equilibrium relationship exists. A necessary condition for equilibrium is that the data series for each variable involved exhibit similar statistical properties. In other words, data series should be integrated to the same order with evidence of some linear combination of the integrated series. An integrated series is expressed as a function of all past disturbances at any point in time.

$$X_t = \alpha + \rho X_{t-1} + \varepsilon_t \quad (6)$$

where α is a constant drift, $\rho=1$

Given that ρ is a unit, X is said to have a unit root. If two time series are integrated of the same order and some linear combination of them is stationary, then the two series are co-integrated. Co-integrated series share a stochastic component and a long term equilibrium relationship. If X_t is non-stationary, the variance may become infinite and any stochastic shock may not return to a proper mean level. As shown by Engle and Granger (1987), such a non-stationary

series has no error-correction representation.

4.5 Summary

Annual and continuous data covering the years 1970-2014 have been used to test the hypothesis that labour standards have a positive relationship to performance. The a priori expectations of how the variables would be linked is described and justified. The model was duly specified, and the measures as well as the analytical tools to analyse the data were described. The next chapter proceeds with the analysis of the findings.

CHAPTER FIVE: FINDINGS

5.1 Introduction

The aim of this chapter is to present the key findings of the research. The OLS (Ordinary Least Squares) regression analysis was used to discover trends in productivity in South Africa. As mentioned in Chapter 1, the overall aim of this study is to investigate the relationship between performance and labour standards from the macroeconomic and retail sector perspectives. The study seeks to explain firstly whether there has been change in labour standards over time and whether there is a relationship between labour standards and performance. As also mentioned in the foregoing methodology chapter, the three research questions that this study seeks to address are:

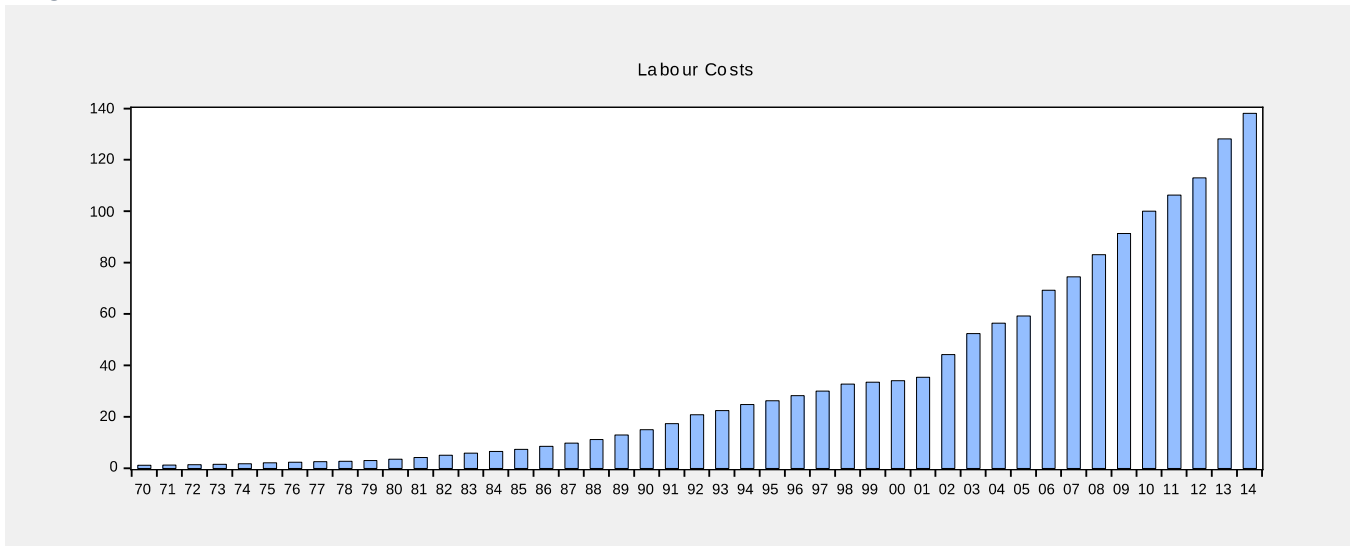
- a. How have labour standards changed in South Africa over time?
- b. What is the relationship between labour standards and performance?
- c. What is the causal direction of the relationship between labour standards and performance?

The purpose of this chapter is to present the results of the analysis of labour productivity over a period of 1970 to 2014. Accordingly, this chapter is structured as follows: the first part looks at the performance variable within the retail sector, the second part presents findings in relation to the second variable of labour costs and lastly a brief discussion on the research questions followed by concluding remarks.

5.2 Addressing the first research question

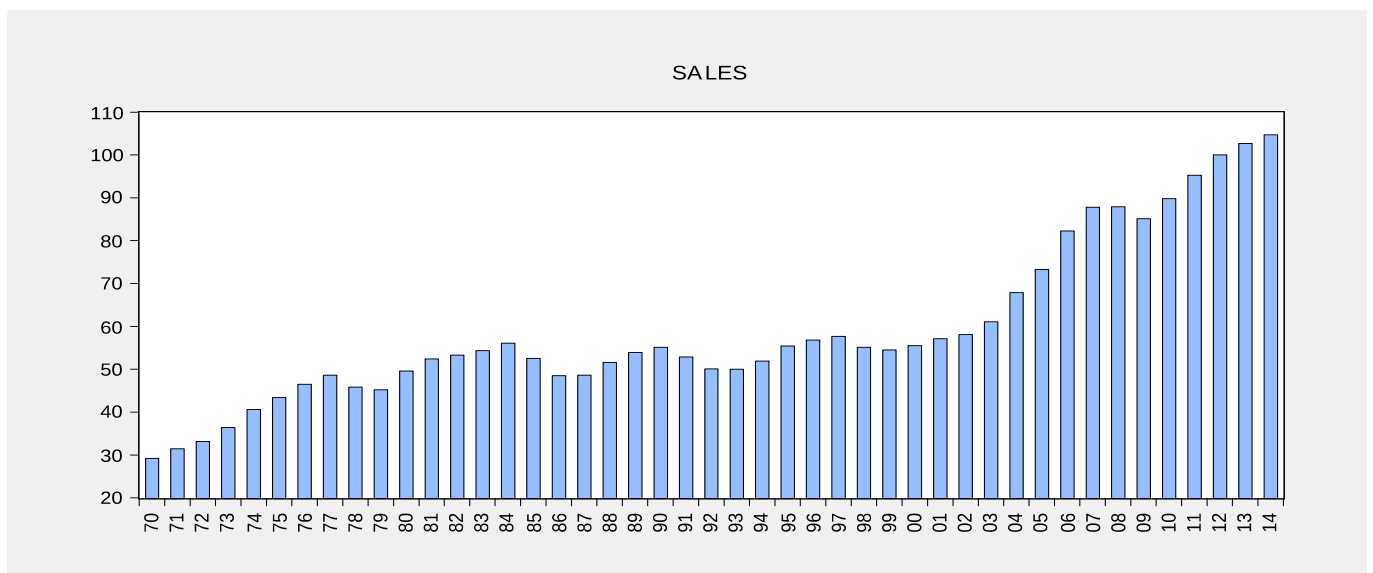
As figure 5.1 shows labour costs have increased exponentially from the 70s to the 90's, with a steep incline in the 2000s

Figure 2: Labour Costs



The retail sales have been fluctuating between 1977 and 2014, with a slight dip in 78 and 79. The dip in sales is observed again in 1998-2002 at a time that corresponds to the global economic melt-down.

Figure 3: Retail Sales 1970 - 2014



The highest record of sales (104.70) as seen in Table 1 is recorded in 2014 while the lowest record of sales minimum is recorded in 1970.

Table 3: Descriptive Statistics of the Dependent Variable - Retail Performance

Retail Sales	45 Observations
Mean	59.31
Median	54.30
Maximum	104.70
Minimum	29.20
Std. Dev.	19.08

Table shows that median (54.3) value of retail performance is not far off from the mean value (59.3). The standard deviation of 19.08 shows that the amount variation of retail performance in South Africa has been modest.

5.3 UNIT ROOT TEST RESULTS

The results of the ADF for unit root for the variables are listed below. The null hypothesis is that the exogenous variables have a unit root. The rejection of the null hypothesis for ADF test is based on the Mackimon (1996: X) critical values and p-values 5% and 1%.

Table 2: In Level and 1st Difference Series

	In level series		1 st difference Series	
	ADF	P value	ADF	P value
Labour Cost	4.023	0.0002	-4.668	0.000
Productivity (Performance)	-0.409	0.68	-4.656	0.000

The results in Table 2 show that the null hypothesis of unit root cannot be rejected. In level labour cost series yielded stationary variables whereas productivity yielded non-stationary variables. At first difference bot the labour cost and productivity variables were stationary.

5.4 JOHANSEN COINTEGRATION RESULTS

Trace test as illustrated in Table 5 indicate no cointegration at 0.1 level. Max-eigenvalue test indicates no cointegration at level 1. Based on the Max-eigenvalue test we assume that there exists a long-term relationship linking labour cost with productivity as specified in the model.

Table 4: Johansen Cointegration test

Sample: 1970 2014

Series: LABOUR_COSTS PERFORMANCE

Lags interval: 1 to 1

Selected (0.05 level*) Number of Cointegrating Relations by Model

Data Trend:	None	None	Linear	Linear	Quadratic
Test Type	No Intercept	Intercept	Intercept	Intercept	Intercept
	No Trend	No Trend	No Trend	Trend	Trend
Trace	1	2	2	1	2
Max-Eig	1	2	2	1	0

*Critical values based on MacKinnon-Haug-Michelis (1999)

Information Criteria by Rank and Model

Data Trend:	None	None	Linear	Linear	Quadratic
Rank or	No Intercept	Intercept	Intercept	Intercept	Intercept
No. of CEs	No Trend	No Trend	No Trend	Trend	Trend

Log Likelihood by Rank (rows) and Model (columns)					
0	-197.8967	-197.8967	-196.2711	-196.2711	-189.0836
1	-185.1924	-184.9666	-184.3692	-184.1676	-182.4452
2	-185.1577	-178.3407	-178.3407	-178.1096	-178.1096

Akaike Information Criteria by Rank (rows) and Model (columns)					
0	9.390544	9.390544	9.407958	9.407958	9.166681
1	8.985692	9.021700	9.040428	9.077565	9.043961
2	9.170124	8.946079	8.946079*	9.028353	9.028353

Schwarz Criteria by Rank (rows) and Model (columns)					
0	9.554376	9.554376	9.653707	9.653707	9.494346
1	9.313357*	9.390324	9.450009	9.528104	9.535458
2	9.661622	9.519493	9.519493	9.683683	9.683683

5.4 Addressing the second research question: What is the relationship between labour standards and performance?

H02: There is no relationship between labour standards and performance

H12: There is a positive relationship between labour standards and performance

Table 5: Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LABOUR_COSTS	0.466803	0.033495	13.93656	0.0000
C	43.57018	1.722114	25.30040	0.0000
R-squared	0.925862	Mean dependent var		59.99773
Adjusted R-squared	0.924097	S.D. dependent var		18.74176
S.E. of regression	5.163447	Sum squared resid		1119.770
Long-run variance	70.84876			

Estimation Equation:

=====

$$\text{Productivity (performance)} = C(1)*\text{LABOUR_COSTS} + C(2)$$

Substituted Coefficients:

=====

$$\text{Productivity (performance)} = 0.466802847606*\text{LABOUR_COSTS} + 43.570183829$$

The results show that there is a positive and statistically significant relationship between labour costs and performance for the period examined in the study. This implies that as labour costs increases performance increases. The high R square statistic (0.92, $p < 0.0001$) as shown in Table 4 confirm the hypotheses that there is a positive relationship between performance and labour costs.

5.5 Addressing the third research question: What is the causal direction of the relationship between labour standards and performance?

Table 6: Granger Causality Test

Null Hypothesis:	F-Statistic	Prob.
LABOUR_COSTS does not Granger Cause Performance	7.13864	0.0023
Performance does not Granger Cause LABOUR_COSTS	0.40034	0.6729

As the results above show, the null hypothesis that labour cost does not Grange Cause is rejected ($p < 0.05$). The null hypothesis that Performance does not Granger Cause labour costs could not be rejected meaning that performance does not cause labour costs to increase.

5.6 Conclusion

The results show that there is a positive and statistically significant relationship between performance and labour costs and the causal direction between the two variables goes from labour costs to performance.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter provides the conclusions and recommendations of this thesis. The study presented in the thesis is centred around three research questions: (1) How have labour standards changed in South Africa over time? (2) What is the relationship between labour standards and performance? (3) What is the causal direction of the relationship between labour standards and performance? This chapter presents the conclusion around these three questions.

To address the above mentioned research questions, a discussion on the retail government at local, regional and international levels was presented in Chapter two. The purpose of the chapter was to highlight the important role that government and the private sector play in creating a macro and micro economic environment for the retail sector to flourish. The chapter also showed how skilled labour or absence thereof impact on productivity. As discussed in the foregoing sections, the South African economy has potential for growing the retail sector, thereby growing the potential to create employment in the sector. Some of the arguments in chapter two make a point that a labour force that is skilled and educated has potential to contribute immensely to country level and firm growth provided that there is also a vibrant union voice which seeks to encourage fair labour standards through continuous engagement of employers. The arguments in chapter two make a case for all sectors of society, government, civil society, and business to work collaboratively in creating avenues for economic growth.

Chapter two is followed by the formulation of the conceptual foundation to address the study hypothesis that there is a positive relationship between performance and labour costs. A review of literature on retail performance, productivity and labour costs (Chapter three) provided the conceptual grounding of the study hypothesis. The conceptual framework gave a well - supported rationale that shows the connectedness between productivity, performance and labour standards. Chapter three also showed that *labour standards* is a concept that is related to cost of labour including wages.

To address the research questions and to test the study hypothesis, chapter four provides the methodology for estimating the parameters of the OLS regression. Regression assumptions, the research design and the data analysis procedures were presented in Chapter four. The structure of the Error Correction Model, a category of time series models that estimate the speed at which a dependent variable Y reaches equilibrium was explained. How each regression parameter is to be estimated and how each of the four regression assumptions are to be tested was described. The chapter concluded by looking at how Rsquare and t-statistic will be used to check reliability and validity of the quantifiable findings.

6.2 Conclusion on the Research Questions and the study Hypothesis

The findings of this study show that there has been a significant growth in labour costs whilst there has been an inconsistent trending in sales growth within the retail sector. Based on the data above, it is evident that labour costs started peaking around the year 1990, the growth in labour costs seems to have escalated and in 2014 is at its highest at close to 140%. It can be assumed that the sharp rise in labour costs is a result of a dominant labour cluster which through collective bargaining has managed to negotiate for yearly increments in wages for labour.

The drastic increase in labour costs may also be related to the fact that more organisations have embraced labour standards. There is an inconsistent sales trends with a sharp increase in sales from 2004 to 2014, this could also be driven by the fact that retail growth has been exponential around the same period. Ideally, there should be a correlation between the labour standards and performance, but judging from the sales trend and labour trends from 1970 to 2014, there seems to be no link between sales trends growth and labour costs, creating the view that wages are growing faster than sales or productivity.

6.3 Recommendations

In light of the study findings discussed about this study offers a number of recommendations:

- Due to global economic challenges, policy makers are faced with a challenge of finding innovative means of increasing the means of production to create more sustainable jobs and thus reduce levels of unemployment and vast inequalities that prevail. It is recommended that labour be highlighted as a key focus area for economic growth.
- It is therefore recommended that the allocation of country resources be prioritised towards up-skilling and capacitated labour to improve retail productivity because the growth trajectory of the retail sector promises to absorb more employees than any sector in the economy.
- Given the causal direction of the hypothesised relationship from labour costs to productivity, it is recommended that retail companies embrace labour standards that motivate employees to perform at peak. Performance is likely to improve as labour is motivated, engaged and content with their working conditions and the wages they received in return of their labour.
- There is a critical need for a collaborative effort between government and private sector to drive economic growth through aggressive retail formats and thus contribute to job creation.
- A climate conducive to international investments in retail is key to growth in the sector which will ultimately impact positively on productivity in the country.
- A more transparent wage environment is also key to building a workforce that is adequately compensated in line with productivity and sales trends in the retail sector as this will contribute immensely to building motivated and an engaged labour force.

6.4 Study Limitations and Further Research

First this study was constrained by limited data availability concerning the performance of the retail sector. More observations could be used to test the hypothesis that there is a statistically significant relationship between retail performance and labour costs. For this reason the findings of the study should be interpreted with caution.

Another limitation is that the study did not pay further attention to possible interaction and indirect interplay among other variables that could affect retail performance including macroeconomic variables, and internal organisational dynamics such as leadership and organisational culture. To address these limitations further research needs to introduce additional variables in the error correction model that are likely to affect retail comments.

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