THE IMPACT OF GLOBALISATION, MERGERS, ACQUISITIONS, REENGINEERING AND DOWNSIZING, ON INDIVIDUALS AND ORGANISATIONS IN SOUTH AFRICA

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Abstract

The environment in which individuals and organisations function is rapidly changing and the impact of these changes on individuals and organisations are manifold. Globalisation, and the resulting mergers and acquisitions, reengineering and downsizing, have had major impacts and consequences on individuals and organisations in South Africa. The two areas are dynamically linked. New market opportunities, increased competition, changing business models, privatisation, foreign direct investment, rapidly developing technologies, free trade initiatives, and trade liberalisation that are all associated with globalisation have resulted in organisations turning to mergers and acquisitions, downsizing and reengineering.

Keywords: Globalisation, Mergers, Acquisitions, Reengineering and Downsizing, Individuals, Organisations.

INTRODUCTION

Jones (2002) describes the characteristics of globalisation as “key drivers” in organisational restructuring: in order to be more effective and competitive in the global economy, organisations are undergoing massive reengineering and downsizing, labour intensification, an investment in new technologies and a change in organisational strategies. Appelbaum, Schmidt, Peytchev & Shapiro (1999:436) state that downsizing
is an inevitable result of “technological advances, business process reengineering, and a trend of cost-cutting brought on by economic downturn and a globalisation of the economy”. Morrison (2003) adds that free trade initiatives lead organisations to reengineer and downsize so that they remain competitive in the global economy. In turn, mergers and acquisitions (M&As) are believed to have accelerated globalisation by way of foreign direct investment (FDI), which have inclined towards M&AS rather than other types of investments (Kang & Thomas, 2000).

Furthermore, because M&As are now taking place across most sectors and industries, it reflects an additional need to reengineer and downsize in order to strengthen competitiveness in the global economy. Like downsizing is seen to be a direct result of reengineering, M&As is also increasingly bringing it about. The increasing lack of trade barriers because of globalisation, as well as liberalisation and privatisation, have facilitated multinational corporations (MNCs) access to acquisitions in other countries which help them to secure new markets as well as to acquire human and technological resources from these countries. Also, because of increased imports and falling demand for local products, market pressures have compelled organisations to reengineer and downsize.

THE DETRIMENTAL EFFECTS OF GLOBALISATION

In SA, the government’s focus on globalisation and its’ decision to liberalise and intensify trade has had detrimental effects on individuals and work. When the mining sector reengineered to adjust to market prices and global competition, 100,000 jobs were lost. When the clothing and textile industries downsized in response to global pressure, employment dropped drastically from 300,000 to 185,000 workers. Globalisation has in many ways also impacted on the type of labour that is now in demand in SA. The current labour market favours skilled labour and with the intensification of trade, the demand for skilled labour has increased. This has resulted in massive downsizing of unskilled labour. The liberalisation of trade has also meant cheaper goods being available, creating a competition with local goods, especially in the clothing industry (Triegaardt, 2008).
Went (2000) discusses four aspects of globalisation that has changed the functioning and organisation of the world. First, the world economy is becoming one, as global markets replace national markets. Second, the influence of MNCs keeps growing and global companies are now organising employment, production and distribution globally, with major consequences for organisations, work and employees. Third, power has shifted away from governments to supranational organisations like the World Bank, International Monetary Fund (IMF), G7, and the World Trade Organization (WTO). Fourth, macroeconomic policies are being globalised, with the neoliberal paradigm becoming unchallenged globally. Full employment under these policies are no longer a goal, instead the emphasis is on export-oriented growth, free trade, labour market flexibility, market policy, liberalisation and privatisation.

FOREIGN DIRECT INVESTMENT (FDI) AND GLOBALISATION
Globalisation can be considered under the following subheadings: trade, mergers and takeovers, technology, the global assembly line, multinationals and regional blocs (Went, 2000). The world economy is therefore becoming more open. There is also a rapid increase in M&As and FDI. FDI especially has prompted globalisation faster than international trade. By 1997, 143 countries had adopted special laws to encourage FDI and most countries have adapted their economy in some way to attract foreign investors. World FDI stock, which is the capital base for MNCs, increased to around $3.5 trillion this year. SA is one of the many countries working to attract FDI (Asafo-Adjei, 2007).

FDI includes export-oriented investment and M&As. The advantages of FDI are: growth, higher income, lessening of poverty, increased tax revenue, technology and management skill transfer, incentive structures, improvement in skills and wages in the labour force, increased demand for local producers and suppliers, and increased access to export markets. The downsides are: damaging competition for local firms, market dominance by MNCs, social disorder, environmental degradation, and a volatile economy.

Since 1994, SA has followed global trends to increase the liberalisation of FDI. In the SADC, SA dominates FDI, having foreign investors across many economic sectors. In
the service sector in SA, FDI has largely been in the form of M&As. There are many barriers that are preventing FDI in SA, one of the most important being a belief that the country’s labour regime is inflexible and over-regulated: employment equity legislation is regarded as a ‘put-off’ to investors, and the active role of trade unions is an obstruction to privatisation.

IMPACT OF GLOBALISATION

Advantages of globalisation such as increased employment, new technologies, new types of work organisations and a shift from ‘blue-collar’ to ‘white-collar’ work, have largely benefited industrialised countries. For developing countries like SA, globalisation has meant an increase in the assembly line, low-quality jobs, little option for advancement, and an increase in insecure, casual employment. This has a major impact on occupational health, which is generally less evident in developing countries (Loewensen, 2001).

In EPZs or IDZs, for example, unrealistic quotas and controls result in high job stress and pressure that with poor ventilation, dust and exposure to toxic chemicals, leads to cardiovascular and psychological disorders. It is believed that the reporting systems in SA underestimate occupational disease 50-fold.

Reaching organisational goals will not happen if workers are weak and cannot control the work process. Insecure and flexible work decreases the worker’s ability to control their work environments and lives. Unions are also unable to implement standards, as there are many restrictions on unions in areas such as IDZs, job insecurity, contract and temporary work, and quota-related pay. The opportunities that globalisation provides to improve occupational health still does not compensate for the health costs of workers in insecure employment: migrant workers, women, children, and temporary and contract workers.

The number of corporations that are operating transnationally has increased dramatically and amount to 53,000 in 1997 with 448,000 foreign affiliates. Among the world’s 100 largest economies, 51 are MNCs and 49 are countries: the gross domestic product (GDP) of Wal-Mart, for example, exceeds that of 12 countries combined.
Five SA companies rank among the top 250 retailers in the world: Pick ’n Pay, Shoprite, Massmart, Metro Cash and Carry, and Edcon. Both Edcon and Shoprite have undergone recent privatization (2007, SAinfo report). Toyota SA is also held to be a global producer, and the largest vehicle exporter in SA. As a result of its export-oriented focus, it aims to export 140,000 vehicles to 40 global destinations, in the process creating 4000 new jobs. Toyota’s growth is largely a result of FDI by its parent company and many other companies as well.

**MAJOR TRENDS GLOBALLY AND HOW THEY TRANSLATE LOCALLY**

Globally, two major trends relating to the rise of a contingent workforce have resulted from globalisation and impacted on individuals and organisations in significant ways. These are: outsourcing and contract workers, and temporary workers. SA seems to have also followed both these trends, and it may be useful to examine to what extent SA has grasped onto these trends, and what characterises the contingent workforce in SA.

In terms of outsourcing, there has been a rise in free trade or export-processing zones (EPZs). EPZs have found much support among SA governments. As Jauch (2002: 101) states, this is linked to the increasing acceptance of globalization: “Attempts to become internationally ‘competitive’, to move towards export-led growth… characterize most Southern African countries, and most governments regard EPZs as a suitable strategy to find a niche in the global economy”. EPZs signal a movement toward the export-oriented global economy, one of the first steps in liberalising trade. Governments believe EPZs increase growth, attracts FDI, and new jobs and industries. Special incentives typify EPZs: tax holidays, duty-free export and import, free infrastructure and exemption from labour laws. EPZs are believed to create jobs, but these jobs are often poor quality and not cost effective (Klein, 2000).

Labour standards and relations are the most contentious aspects of the EPZs. These range from high labour turnover, absenteeism, stress, fatigue, low productivity, labour unrest, lack of unions or union activity, high work intensity, mostly female workers, low wages, little or no job security, and low-skill, monotonous, repetitive work: “EPZ jobs
can be described as “dead-end jobs” that do not offer any possibilities for promotion or professional development” (Jauch, 2002: 103).

The SAN Special Economic Zones Association is made up of organisations such as Eskom, Rainbow Chickens, Sanlam Properties, Spoornet, Mondi, Renfreight, Nissan and the Independent Development Trust (Jauch, 2002). There have also been proposals and policies for EPZs in SA, even though these have been kept relatively low-key, probably due to the negative press that international EPZs have received. The SANs equal to EPZs are called Industrial Development Zones (IDZs). Ryan, Gounden and Mushayanyama (2006:4) define an IDZ as “a geographic zone developed to encourage the establishment of industries by foreign and local investors. Investors will be attracted by tariff reductions and customs exemptions, as well as the facilities available in the zones themselves, which will be fully developed in terms of infrastructure and support services”.

There are currently four IDZs in SA: two at Eastern Cape in East London and Coega, one at Kwa Zulu Natal in Richards Bay, and one at Gauteng near the OR Tambo airport. Very little research has been conducted on the IDZs in SA as direct access to factories and workers have been refused. Much research is needed to determine the conditions for workers and the nature of work within IDZs, in order to establish whether these are similar to the foreign EPZs. COSATU, SA’s major union, opposes EPZs as an unfeasible development strategy for SA. Other unions, like SACTWU, also contest EPZs for economic and social reasons, believing that investors are ‘footloose’ and do not develop the national economy or create sustainable development. They also state that these zones have negative health and psychological consequences on the individuals who work in them, especially the poor living and working conditions and the lack of job security (Jauch, 2002).

The second type of contingent workers is temporary workers. Monage (ND) states that globalisation and the resulting increased competition, changing technology, short product life cycles, and low-skills means that full time and lifelong employment is no longer a reality. Internationally, the service sector has different ideas and agendas when it comes to part-time or temporary work; they see it as a way to avoid benefits
and overtime, keep wages low, and evade commitment, finding innovative ways to make the most of their ‘almost full-time’ employees, reducing their hours and at the same time maximizing their efficiency and productivity. By hiring workers on temporary contracts, companies bypass the laws that provide benefits to workers and that prevent them from firing without cause.

The nature of temporary work is also changing; it is now no longer temporary. Agencies now provide companies who do not want to commit to full-time workers, the opportunity to staff entire functions and divisions with temporary workers, as well as carrying out the administration and management of the task, allowing companies to focus their time, energy and resources on their core business (Klein, 2000; MacGregor, 2001).

There are two main reasons, besides globalisation, for the rise in temporary workers in SA (MacGregor, 2001). First, the costs of observing labour laws are high as is the direct administration of employees and organisations believe that temporary employment services (TES) are better equipped to comply with laws and manage employees. Second, TES have a pool of specialist employees that organisations may call in to use on short notices.

MacGregor (2001) states that the cost of using TES is 10% of what it would cost to directly employ a person. Proponents of TES assert that it allows the unemployed, under-employed and outsiders to enter the labour market, and that the exposure to different industries and positions increases their marketability and security. However, TES focus on employment security rather than job security, as it is believed that in this global economy, most countries are focusing on employment security – the right skills at the right time – because of the uncertainty of ‘decent work’ in the current environment.

Unions and certain organisations accuse the TES of leading to the lack of decent work, but proponents say that the International Labour Organisation (ILO) pillars of temporary work are in place in SA. According to the ILO, temporary workers should have: a fair income and access to benefits, employment security, social security, freedom of
association (unions), and a healthy and safe working environment (Montage, ND). Temporary workers internationally have not seen most or all of these notions that the ILO emphasises. As is the case with the EPZs/IDZs, the current research on TES in SA is insufficient to address the working conditions of temporary workers. Although SA has many laws and policies relating to TES, whether these laws and ILO pillars are actually in place is difficult to determine because of scarcity of research in this area.

**EFFECTS OF GLOBALISATION ON INDIVIDUALS AND ORGANISATIONS**

There are many more effects that globalisation has on individuals and organisations (Went, 2000). First, globalisation of capital markets and the liberalisation of capital flows means that the suppliers of capital are ‘making and breaking’ many governments and their countries, as they are the ones dictating the global market. Countries who want to draw this capital or FDI must adapt to the wishes of those who have the capital, and in this way they are pressurised to adapt their policies to the demands of the market, that is, those who hold the capital. The IMF forces Third World and Eastern European countries to prioritise export and payment of foreign debt. The result is that these countries “domestic populations’ interests and needs remain neglected as long as their governments do no see or do not opt for a way out of the IMF’s straightjacket” (Went, 2000: 27).

Second, as markets become more integrated and global trade barriers are removed, and restrictions on transnational flow of goods and services are eliminated, the result on wages, working conditions, employment and social security are devastating. By moving production sites to countries with cheaper labour or by importing goods from these countries or even threatening to do so, working conditions are under constant pressure from MNCs whose profits increase by billions while their workforce diminishes more every year.

Development is established on lower wages as trade in goods, services and capital becomes freer as a result of global market policies. MNCs have become obsessed with continual cost-cutting through the shrinking of their workforces and the consequent saving on wage and social security. The effects of these changes are far-reaching.
For example, since globalisation has gained momentum in SA in the early 90's, poverty has escalated among employed and self-employed individuals. Van Holdt and Webster (2008: 338) state that this increase can be explained by the “replacement of stable full-time jobs by low pay casual jobs and the growth of the informal sector”. Between 1995 and 2003, the number of employed individuals living in poverty (based on the poverty line earnings of two dollars a day) doubled from 900,000 to two million: 1.5 million working poor and half a million informally self-employed.

The authors state that SAn workers can be divided into three zones. The working population in SA are 20.3 million. In the first zone, the core, are 6.6 million workers who have stable employment relations, wages, benefits and access to trade unions. In the second zone, the non-core, are 3.1 million workers, with much less stable employment relations: part-time or temporary contracts or those working in informal factories such as the IDZs. The third zone is the periphery, made up of 2.2 million informal and 8.4 million unemployed workers (van Holdt & Webster, 2008). Trade unions have no voice with workers in the non-core and periphery zones. COSATU has created proposals but has been unsuccessful in applying these.

Third, companies all over the world are being privatised on a large scale. Third World governments are being pressurised by the World Bank to privatise even more so that their economies may be more efficient. The negative implications of this are clear to all. While governments earn money by selling companies, making tax cuts possible and attracting investors, this results in job losses, less affordable products, and worse service provision. Fourth, globalisation has increased migration and refugees. Went (2000) asserts that it is only logical that with the increase in the international movement of goods, capital and people, there will also be an increase in the movement of people across boundaries. People are uprooted or see migration as a compulsion especially when another country is more economically desirable. In addition, in major cities there is an increased demand for low-paid and low-skilled work, which is increasingly decreasing.

COSATU has argued that in SA the working class and the unemployed are the ones that are enduring the social and economic costs of globalisation (Edwards, 2001).
Liberalisation as a result of globalisation has had severe effects on ultra-labour intensive sectors. Even though employment created by exports has somewhat matched those lost to imports, the export led increase in employment has not been enough to reduce unemployment in SA. The shift in the type of employment that is now needed in the country has moved from ultra-labour intensive sectors to capital-intensive sectors. In other words, globalisation and increasing technology has brought about a movement from low-skilled jobs to higher skilled jobs.

It is believed that SA organisations are increasing skill levels in response to increased global competition (Edwards, 2001). This is having a harmful effect in SA as majority of the working population are unskilled. SA is ranked second last or last in terms of availability of skilled labour. Thus, Edwards (2001) suggests that it is necessary in the global environment to improve the education and skills levels of the labour force.

Fifth, the economy is characterised by rising inequality and slow or no growth. All the features of globalisation such as increasing liberalisation, deregulation, privatisation, and flexibility, are leading to social differences within and among countries. Thus, increased profits are associated with rising unemployment and reduced pay.

As working conditions and income are under strain, the MNCs ability to find the most profitable investments keep increasing. The result is that the combined wealth of the world’s 225 richest people: $1 trillion, is the combined annual income of the world’s poorest 2.5 billion people. Thus, globalisation has benefited the strong economies and marginalised the weak, and even within countries there is growing disparity in wealth and prospects between rich and poor. In southern Africa, the highest-paid 20% of the population manages 10-20 times the income of the lowest 20%.

**MERGERS AND ACQUISITIONS**

Mergers and acquisitions, or takeovers, involve the amalgamation of two organisations, for rapid growth and strategic change. The reasons behind M&As are: diversification or vertical integration; increased access to global markets, technology or resources; and gaining greater innovation, or resource sharing. Globally, in 2002, there were 23,500 M&A deals worth approximately $1.4 trillion. Failure of M&As result from: insufficient
due diligence processes, lack of strategic rationale, impractical expectations of synergy, paying too much for the combination, and incompatible corporate cultures.

According to reports, M&As in SA rose sharply in 2007, total deals increased 81% from the previous year, the top ten deals were worth R208.1 billion, and there was a 51.5% increase in the top ten deals from 2006. The report stated that SA mirrored international trends in terms of private equity deals: “This trend was most evident in the sale of clothing retailer Edcon to a private equity consortium, which was the third-largest overall deal in SA last year and the largest private equity deal in emerging markets as a whole” (SAinfo report, 2008:1). The main force behind M&As is Black Economic Empowerment (BEE), in keeping with the aim to create a new and inclusive SA society. The largest M&A deals were transnational and global, so that organisations would gain a larger presence.

Another report found that the high rate of M&A deals were directly related to BEE in that BEE ensures a business’s sustainability, and in this way SA “offered the greatest opportunity for a new generation of business leaders” (2007, SAinfo report). It was found that globalisation is directly linked to the increase in M&A deals in SA, with foreign direct investment (FDI) playing a major role in M&A deals: “The year’s biggest announcement was the 20% investment by China’s largest bank, Industrial and Commercial Bank of China (ICBC) into Standard Bank. Valued at R36.7 billion, the deal was also the largest investment made into Africa in 2007” (SAgoodnews report, 2008:1). The reason behind this is that SA’s emerging markets is attracting international interest as it has shown higher growth than developed markets.

Many foreign private equity groups find the SA market attractive because of the rate of growth, its’ richness in resources and its’ infrastructure development opportunities. BEE is also thought to play a major role in that it provides the major difference between international and local M&A deals. The 2010 Fifa World Cup was also a major contributing factor to the increasing interest.

However, a recent major M&A deal that went awry in SA is raising many questions (Pressly, 2009). The deal would have led to one of the biggest organisations in SA,
MTN, to merge with India’s Bharti Airtel, to form a massive MNC, a “perfect investment”. It is believed that government feels that MTN needs to remain a SA company, and that they are protecting jobs in the event of a crisis where a foreign company could easily pull out and this would have destructive consequences on jobs. Opposing parties, however, believed that the deal was a huge investment in the country, and should not have been denied. Some of the reasons behind the collapse of the deal were: suspicions held by all the shareholders and regulators of MTN, organisational structure, price, problems with due diligence assessment, and incompatible cultures in terms of exchange-control issues.

**DOWNSIZING AND REENGINEERING**

Downsizing concerns interventions intended to reduce the size of the organisations. This happens by means of layoffs, attrition, early retirement, or reducing organisational units through outsourcing, divestiture and delayering. A major consequence of downsizing is the rise of a contingent workforce: like outsourcing and temporary workers, discussed above in relation to SA. The smaller full time and larger contingent workforce has major benefits for the organisation, the most important one being cost reduction.

Downsizing is generally a response to four conditions: it is related to reengineering, M&As; it is an effect of organisational decline due to loss of revenues and market share and industrial and technological change; it can occur when organisations adopt a new structure; and, there is social pressure that smaller organisations are better and more flexible (Cummings & Worley, 2005).

One of the more familiar downsizing and reengineering in SA has taken place in the South African Defence Industry (SADI) (Batchelor & Dunne, 1998). The SADI was established prior to World War II to supply arms to the South African Defense Force (SADF).

The Armaments Corporation of SA (Armscor) oversaw 2000 private sector firms that were involved in arms production by 1984. With the transition to democracy, the need for the industry quickly declined, leading to downsizing and reengineering. By 1996, the
defence budget was cut by more than 50%. Together with the cuts, many other measures were taken. The SADF was rationalised and restructured, many units were broken up, certain bases and installations were closed, major weapon projects were cancelled, surplus equipment was sold, the nuclear programme was terminated, and compulsory conscription to the army ended. This had a dramatic impact on the size and structure of the SADI, leading to it undergoing massive reengineering and downsizing.

Armscor was split into two companies, the other being Denel. Many organisations went out of business or left the defence market. Between 1989 and 1996, employment dropped by over 55,000, including 10,000 in the public sector. Skilled workers, such as engineers and scientists, also felt the impact of the downsizing, and many could not find work in other sectors of the economy.

Furthermore, the government did not use the huge savings from downsizing and reengineering to create employment for skilled workers in other sectors. Downsizing also had a major effect on contractors, subcontractors and product suppliers. The negative impacts of the above were most severely felt in the cities, towns (for example, Simon’s Town) and regions that relied heavily on defence spending, mainly because they were located near military bases or production facilities. Nearly 80% of retrenchment took place in the PWV region, and almost 20% in the Western Cape. Many regions were unable to absorb the impact this strain had on their economies.

Thus, the SADI, reengineered and downsized in response to organisational decline due to loss of revenues and market share and technological and industrial change, a new organisation structure, competitive conditions and environmental demands. In response to such dramatic change, an organisation can either take an offensive or defensive adjustment strategy (Batchelor & Dunne, 1998). With an offensive strategy, the organisation will try to maintain or increase its business through exports, mergers, acquisitions and joint ventures. With a defensive strategy, the firm will try to reduce its dependency on the current sector through plant or company conversion or diversification.
The SADI adopted both strategies in response to the reengineering and downsizing. Due to the major change, the SADI has had to review organizational strategies and structures. Denel and its' major contractors have outsourced less, reducing demand from smaller firms. Small and medium-sized firms have merged with or been acquired by larger firms. The biggest response is that bigger firms have pushed forcefully for exports. Most of the firms have pursued international joint ventures and foreign direct investment. Denel has diversified through M&As with civilian organisations, development of civilian products and investment in reconstruction. A few of Denel's divisions have also converted all or some of its facilities to civilian purposes. These dramatic organisational changes and strategies have had moderate to large success, but only among the larger organisations.

In SA, reengineering does not always lead to large-scale job losses. The Buffelsfontein Gold Mine in North West province was undergoing restructuring, but a deal between the employer and four trade unions facilitated by the SAn Commission for Conciliation, Mediation and Arbitration (CCMA), resulted in an agreement that saved 495 jobs. The mine needed to lose 500 jobs due to an increase in material costs and an inability to meet targets. But, thanks to the agreement, 495 jobs were saved, trade unions agreed to work an extra shift till year-end, and the mind agreed to replace temporary labour with permanent employees. The reengineering and downsizing affected only five employees. The CCMA director said that in order for reengineering and restructuring not to lead to job losses in SA, “business and labour needed to be committed to working together and coming up with workable plans to avoid retrenchments” (SAinfo report: 2009:1).

CONCLUSION
Globalisation, mergers and acquisitions, as well as reengineering and downsizing, is not positive for everyone. It is changing everything, especially the nature of work for individuals, and national states or trade unions can do very little or even nothing about it. As with all other developing countries across the world, SA is also experiencing the consequences and impact of these changes.
With the rapidly changing environments and the widespread results that these changes are having on individuals and organisations, Organisation Development (OD) is more relevant today than ever before. Although some argue that because of the cultural foundation of OD, it may be inapplicable in certain cultures like SA’s diverse society and its’ range of cultures, others argue that the cultural background of OD is irrelevant.

Despite the different positions, because of the massive organisational changes and restructuring that the global economy is bringing about, change today has become constant and inevitable, and since OD is synonymous with change, OD practitioners are needed to manage, facilitate and deal with this change.
References


