

THE FINANCIAL IMPACT OF STRIKES: A WORKER'S PERSPECTIVE

JHvH de Wet*

Abstract

The consequences of labour strikes are many and varied and the aim of this manuscript is to focus solely on the financial ramifications of a particular strike. More specifically, it investigates the gains and costs from a worker's perspective, using the ex post data of three case studies of strikes that took place in 2010, involving the trade unions of Transportation Network (TRANSNET), Passenger Rail Agency of South Africa (PRASA) and Members of Automotive Manufacturers Employers' Organisation (MAMEO). The findings indicate that for Transnet the present value of the net benefits and costs was negative, indicating that the strike was not profitable from a worker's point of view, while it was indeed profitable as far as the PRASA and MAMEO strikes are concerned. The study also reveals that a breakeven number of strike days, appropriate to the peculiarities of each case, can be determined which can be used as a benchmark to monitor the length of the strike period.

Keywords: Industrial Action, Labour Unions, Living Standards, Wage Negotiations, Net Gains / Losses, Breakeven Strike Days

* *University of Pretoria, Pretoria, South Africa*

Fax: 012 420 3916

Tel.: 012 420 3731

E-mail: johannes.dewet@up.ac.za

1. Introduction

Strike action has proven to have far-reaching implications, for economies, corporate institutions and employees alike. In fact, Von Holdt (2002:288) reported that trade union activities in the years leading up to the first democratic elections in South Africa in 1994 were regarded by members as purely political. Since the change of government the trade union struggle has toned down and the militancy and the solidarity of the workers have diluted. Robertson (2007:781) confirmed that industrial conflict and political struggle are very much intertwined, observing that the strike has been a key tool, not only of industrial conflict but also of political struggle.

South Africa is a fine example of the interconnectedness of labour and politics. Basset and Clarke (2008:788) indicated that The Congress of South African Trade Unions (COSATU), one of the major trade union alliances in South Africa, played a pivotal role in the election of President Zuma in 2009. Despite rumours suggesting weakened support for the Tripartite Alliance in South Africa, Beresford (2009:411) provided arguments to the contrary, stating that COSATU's members remain extremely supportive of the (ANC) government of the day. COSATU has also been at the forefront of the struggle for democracy, a process in which numerous workers sacrificed their jobs and security for what they believed in. It is an open question whether the

subsequent policy-making by government has justified the support given by COSATU, especially in the case of the working class and the poor.

Industrial action in general and strikes specifically influence corporate culture and the risk profiles of the companies involved as well as the working and living conditions of workers. The financial impact of strikes is obviously a significant feature that must be factored into the decision-making process. An analysis of the financial benefits or disadvantage of striking from a worker's perspective is perhaps an angle that has not been explored too often in the past. This article attempts to shed some light on the feasibility of a strike from an employee's perspective by analysing the wage increases and relevant strike data for three South African institutions that experienced strike action during 2010, namely TRANSNET, PRASA and MAMEO.

The findings are that for TRANSNET, the present value of the net benefits and costs were negative, meaning that purely from a financial perspective, the workers would have been better off if they accepted the initial offer and did not strike. For PRASA and MAMEO, the strikes did result in net gains for the workers and this was accomplished, to a large extent by the relative short durations of the strikes. It also points out that the longer the strike lasts, the smaller the net benefits become in terms of present value and that a breakeven point in strike days is reached when the net benefits are zero. If the strike

carries on past the number of breakeven days the negative impact of losing wages causes the present value of the net loss to increase in magnitude.

The remainder of the paper is organised as follows:

- Section 2: Background and literature research;
- Section 3: Research questions;
- Section 4: Research approach and assumptions;
- Section 5: Case studies and results;
- Section 6 : Duration of strikes and breakeven days;
- Section 7: Main drivers of net gain or loss per worker; and
- Section 8: Conclusions.

2. Background and literature research

South Africa has a long history of wage negotiations and industrial action that significantly impacted the country's image as a fair return/risk investment opportunity destination. Asiedu (2002:107) commented on sub-Saharan Africa's inability to attract foreign direct investment (FDI). Greater FDI would bring with it employment, managerial skills and technology and therefore accelerates growth and development. In an effort to model the input variables that have the greatest impact of FDI, Asiedu (2002) included, among others, return on investment in the host country and political risk. One can only speculate what the impact of major strikes are on these variables and consequently on the amount of FDI in South Africa.

Internationally and locally, strikes have resulted in the loss of productivity and sales income for employers and also had a tremendous impact on the lives of the employees involved. According to Banjo and Balkaran (2009:121) 2007 brought the biggest wave of strikes in South Africa since the end of apartheid. These strikes were considered the longest and the most intense the country has ever seen. In research done at a Durban University of Technology by Parker (2012:447) it was found that more than 81% of the students that responded were of the opinion that government should step in to settle the dispute when a strike occurs.

Jordaan and Ukpere (2011:1093) observed that industrial relations should be seen as a jewel with many facets, such as power, collective bargaining, different approaches, conflict, employers, employees, trade unions and the relationship between employers and employees. They also concluded that South Africans would only be able to maintain a harmonious labour relationship leading to sustainable economic growth, if it is based on equity, justice and love for humanity. Handley (2005:235) corroborated this view in stating that state and business interests are joined in the quest for a growing economy.

Carmody (2002:255) noted that the restructuring of the South African economy for increasing globalisation had major consequences for employment and the autonomy of the South African state. He remarked that in spite of the elimination of sanctions, since 1996 when economic reforms were introduced in South Africa, more than half a million jobs had been lost, compared to the 600 000 that were intended to be created. Carmody (2002) furthermore pointed out that in the first nine months of 2000, when the gold price dropped, more than 9% of gold miners lost their jobs and that the declines in employment has continued unabated since then. It was estimated that each of these gold miners supported ten people financially.

Hirschsohn (2003) reported that since 1994, South African companies have responded to intensifying international competition by a process of progressive tariff reduction. This in turn led to massive job losses in manufacturing in recent years. Piazza (2005:306) remarked that globalization led to the erosion of worker power as employers started outsourcing production abroad because of the profit squeeze. Von Holdt and Webster (2008:337) observed that increased competitive pressure, both locally and internationally, has led to management efforts to drive down labour costs in order to improve efficiency. They also commented that the globalization and restructuring of South African companies have been followed by closures and retrenchments, leading to growing unemployment. Trimikliniotis, Gordon and Zondo (2008:1336) found that massive inequalities among African states cause mass migrations toward the richer regions in search of jobs. In this context, political turmoil, poverty and inequality in the sub-Saharan region have resulted in an increase in migration to South Africa, exacerbating the challenges posed regarding employment.

As far as the impact of strikes are concerned, Nevin (2007:64) commented that excessive wage increases could push local inflation out of its 4% to 6% target range, at that time, with increased interest rates the inevitable consequence. This underlines the knock-on effect of abnormal wage increases, affecting the inflation rate, which in turn affects interest rates and the cost of capital and finally, shareholder value. According to The Economist Intelligence Unit (2009:11), in focusing on international risk rating, labour market risk plays an important role in determining the overall risk rating of a country and South Africa scored 57% (out of a 100% for maximum risk) in the 2009 risk rating for labour market risk. In financial terms, increased risk is associated with decreases in shareholder value (Gitman, 2010:207).

In a study based on American companies for the period 1962 to 1982, Becker and Olson (1986:425) concluded that strikes indeed had a significant effect on shareholder equity as measured by changes in the share prices associated with the strikes. They also

found that the stock market consistently underestimated the cost of a strike to shareholders as nearly two thirds of the total decrease of 2.7% in returns occurred after the strike was announced. Dividson III, Worrell and Garrison (1988:387) had some findings consistent with that of Becker and Olson (1886) and additionally found that the markets react more severely to strikes that turn out to be long in duration.

Wage strikes also significantly impacted the living standards of employees, sometimes for the better and sometimes for the worse. Bekker and Van der Walt (2010:138) report that just after the South African government spent billions in hosting the FIFA World Cup in 2010, around 1,3 million state sector workers stopped working for four weeks in what was then the biggest strike in recent South African history. There were partial victories and partial defeats, as well as many expensive lessons that were learnt in the process. Alegi (2008:416) alluded to the fact that a series of strikes at the construction sites of soccer stadiums in Cape Town and Durban for the World Cup 2010 were eventually resolved with wage increases and bonuses for workers. A further investigation into the financial ramifications of strike action from the perspective of an employee would hopefully provide a better understanding of possible outcomes and scenarios.

In contrast to the South African scenario, evidence produced by Rosenfeld (2006:257) based on strike activity in the United States, indicated that strikes at the time no longer positively influenced worker pay at the industry-region level. Strike activity also failed to accomplish a narrower wage distribution for workers in specific industries and regions. Rosenfeld (2006) concluded that 'Whatever the specific circumstance, the general effect of the once-powerful strike has withered away, rendering an already uneven battle that much more lopsided.' Gill (2008:10), in a study based on Australian companies highlighted the dwindling of union power and the importance of cooperation between management, government and trade unions in order to pursue high performance work practices (HPWP), which is in the best interest of all stakeholders.

Sitas (2004:833) did a study based on a sample of South African citizens and found that the 'transition' since the 1990s affected different groups in varying ways. For 51% of the sample, those considered to be 'upwardly mobile', the decade since the release of Mandela in 1994 has been materially fortuitous. For 25% no significant improvements in life standards transpired and they remained stuck in their old job and activities. For 22% the 'transition' brought the loss of jobs and previous resources and they were forced to rely on the informal sector to survive. The remaining 2% took the low road to serious crime and/or the peddling of drugs.

In spite of the better outlook for some, a vast number of employees in South Africa are currently

facing considerable erosion in the level of their lifestyles and quality of life. This is due to, among other factors, increases in energy and food costs and the general upward trend in consumer price inflation. Workers seek relief from these economic hardships through the wage negotiation process. According to Bhorat, Van der Westhuizen and Goga (2009:65) 'In the period 1995 to 2005, union membership not only awarded wage premiums across the wage distribution, it also served to reduce wage inequality.'

Ferguson (2007:77) indicated that the ANC government substantially raised pensions in 1994 and also instituted grant schemes, like disability and child support that have been expanded since their inception. In spite of this, the poor majority of South Africans have in some ways become worse off since the end of apartheid. The main contributing factor was that the 'Growth with Employment and Redistribution' (GEAR) policy led to massive job shedding, especially low-skilled, low-tech jobs most often held by the poor. Ferguson (2007) reported that unemployment in South Africa had doubled from 2,2 million in 1994-1996 to 4,5 million in 2003. The official estimate of unemployment was conservatively approximated at 26,7% of the economically active population. In many poor households it was only the pensions and the grants that kept them afloat financially.

Bond (2011:113) stated unambiguously that the current South African government has failed to address the serious problem of poverty and unemployment, while resorting to 'crony capitalism' and 'tokenistic welfarism' and that this has led to a spate of labour unrest. Hodge (2009:488) presented another perspective by concluding that the main reason for the persistently high and increasing rates of unemployment since the mid-1990s was the very large increase in the labour force in South Africa, and not the lack of growth or employment performance of the economy.

In South Africa the major bargaining tool at the workers' disposal is industrial action. In order for the wage negotiation process to benefit workers, it must leave them in a better position than if they had accepted the employers' initial offer. The purpose of this article is to gain new insights in establishing the effect of industrial action on the income of workers. According to the Annual Industrial Action Report (2010) by the Department of Labour, approximately 20 674 737 working days were lost in 2010 from 74 work stoppages in South Africa. Employees lost R407 082 302 in total wage, compared to R238 458 414 in 2009 and this is due to the no-work-no-pay principle implemented by employers. In conjunction with this, the median salary increase given by employers was 9%, which is well above the consumer price inflation that ranged between 5.9% and 3.4% in 2010.

According to the GINI index of South Africa (2012), which gives a measure of the degree of

inequality in the distribution of family income in a country, South Africa is ranked as one of the most unequal societies in the world. With South Africa being the largest economy in Africa, employees are becoming more restless in their need to gain better wages. Labour unions have justified their demands for above-inflation wage increases by pointing to the fact that workers need to feel an improvement in their living standards and not just keep abreast with inflation.

3. Research questions

From the discussion of the background on strike action above, it is clear that it is a multi-faceted phenomenon that has both quantitative and qualitative consequences that affect a range of stakeholders. Considering the diverse impact and pervasive nature of the strike repercussions, it only makes sense to explore the financial impact in greater detail. To date, some evidence of the impact of strikes on shareholder value have been reported, but very little, if any, research has investigated the financial impact from the perspective of the worker in South Africa. The research questions of this study are therefore to determine the financial impact of a strike on an employee and to ascertain what the drivers are that have the greatest influence on the net financial gain or loss for the worker.

4. Research approach and assumptions

For the purpose of accessing financial data, it was decided to use a case study approach and to gather the appropriate data from three big South African trade unions that had strike activity in 2010. Some general assumptions had to be made to facilitate consistency and comparability of calculations.

Assumptions:

- The average remuneration in terms of cost to company in each case amounts to R130 000;
- Employers have implemented the “no work no pay” policy and lost wages due to industrial action are deducted equally over a three month period;
- Salary negotiations occur in 12 month cycles; and
- The effects of taxation, both from a company and an employee perspective, are ignored.

5. Case studies and results

The profitability of embarking on a strike, from the viewpoint of the worker is determinable by using both quantitative and qualitative factors. For example, not only do the decisions taken impact on the finances of both employer and employee, it also affects the hours worked, the working conditions and other factors. This study seeks to measure only the quantitative gains or losses of industrial action.

The profitability of industrial action is measured as the difference between the final increase settled on and the employers’ initial offer. The gain or loss is measured in nominal terms and then the time value of money is taken into account by discounting the monthly gain or loss by the current prime lending rate of 9% per annum. Each of the three scenarios is based on actual wage negotiations where industrial action has been employed by workers as a negotiation tool and is now discussed briefly.

TRANSNET

Workers of this major publicly owned enterprise embarked in strike action that lasted for 17 days, demanding an across the board wage increase of 15%. Management’s initial wage offer was an 11% increase. The parties agreed on the following:

- An 11% across the board increase;
- 1% once-off increase in May based on annual salaries; and
- 1000 contract workers were to be given permanent employment by October 2010 and an agreement was reached regarding the placement of the remaining contract workers.

It was widely reported that the economy lost R7 billion as a result of the prolonged strike action. In this case workers ended up accepting managements’ initial offer of 11% as it was significantly above the inflation rate of 5.7% that prevailed at that time. Although the settlement did result in employees getting a premium above inflation, the industrial action eroded those gains as a result of lost wages incurred during the period. The net result of the industrial action for workers was that they were worse off, both in terms of nominal value and present value.

PRASA

On the 17th of May 2010 workers declared a dispute with management, demanding a 16% wage increase, whilst management revised their initial offer from a 3% to an 8% wage increment. The industrial action lasted for 13 days and 12 000 workers were engaged in the strike, disrupting train operations of both Metro Rail and Shosholoz Meyl. On settlement of the dispute, the parties agreed on the following:

- A 10% across the board wage increase;
- A 12.5% salary increase for Shosholoz Meyl workers earning less than R70 000 per annum;
- A 12% salary increase for Metro Rail workers earning less than R70 000 per annum; and
- All workers will receive a once-payment of R1 000 in June 2010.

The net result of this industrial action for the workers was that they were better off, both in terms of nominal value and present value.

MAMEO

On the 11th of August 2010, 31000 workers in seven vehicle manufacturing plants embarked on industrial action. The strike lasted for 8 days. Workers demanded an across the board increase of 15%, while employers offered a wage increase of 7%. Workers also demanded the same benefits to be afforded for short-term and contract workers with permanent employment after three months of work, a reduction in working hours to 8 hours per day from Monday to

Friday and the scrapping of the use of labour brokers. The parties agreed to the following:

- A 10% across the board wage increase;
- Medical, pension and other benefits to be extended to short term employees; and
- The discontinuance of the use of labour brokers by January 2011.

The net result of this action was that the workers gained in terms of nominal value and present value.

Table 1 contains a summary of the results and calculations for the three strike actions.

Table 1. Summary of results of three strike actions

	TRANSNET	PRASA	MAMEO
Employer's initial wage offer	11%	8%	7%
Workers' initial wage demand	15%	16%	15%
Increase settled on	11% plus 1% once-off on annual salary	10% plus R1000 once-off.	10%
Period of Strike	17 days	13 days	8 days
Annual salary after settlement (A) (Note 1)	R139 545	R141 970	R140 151
Annual salary adjusted for initial offer (B)	R144 300	R136 500	R139 100
Difference A - B Nominal benefit / (loss)	(R4 755)	R5 470	R1 051
Net present value of benefit / loss (Note 2)	(R4 675)	R5 102	R909

Note 1

This annual salary not only includes the increase settled on, but also the wages not earned because of the strike.

Note 2

For the purpose of calculating the net benefit or loss of the strike action from a worker's perspective, the difference between what was settled on and what was offered initially was first determined on a monthly basis for one year. Using the current bank rate of 9% (adjusted for a period of one month), these differences were then discounted to take into account the time value of money and added together in order to determine the present value of the net benefit or loss.

From Table 1 one can deduce the following:
TRANSNET

- The workers made a loss due to the length of the strike period and the low premium negotiated of 1%. The nominal loss was R4 755 and the present value of the loss amounted to R4 675 per worker.

PRASA

- The 2% premium negotiated, coupled with the R1000 once-off payment resulted in a nominal net gain of R5 470, and in terms of present value there was a gain of R5 102 per worker.

MAMEO

- In nominal terms workers had a gain of R1 051 and when the time value of money is taken into account, a net gain of R909 per worker is calculated.

One could argue that the success or failure of a strike should be determined by a comparison between what percentage increase was eventually settled for and the inflation rate at the time. For 2010 the average

CPI inflation rate amounted to 4.36%, meaning if the increase settled for was more than this the employee would at least be able to maintain his/her living standard. However, the increase percentage relative to the inflation rate is a result of both the offer made by the employer and the negotiation and strike process.

So in order to isolate the effects of the strike it makes sense to compare only the difference between what is initially offered and what is settled on eventually after the strike. It is acknowledged that in each of the scenarios considered there are other benefits, for instance better maternity leave benefits in the case of Transnet that are not easily translated into monetary values and for the purposes of comparison and simplicity, have not been taken into account.

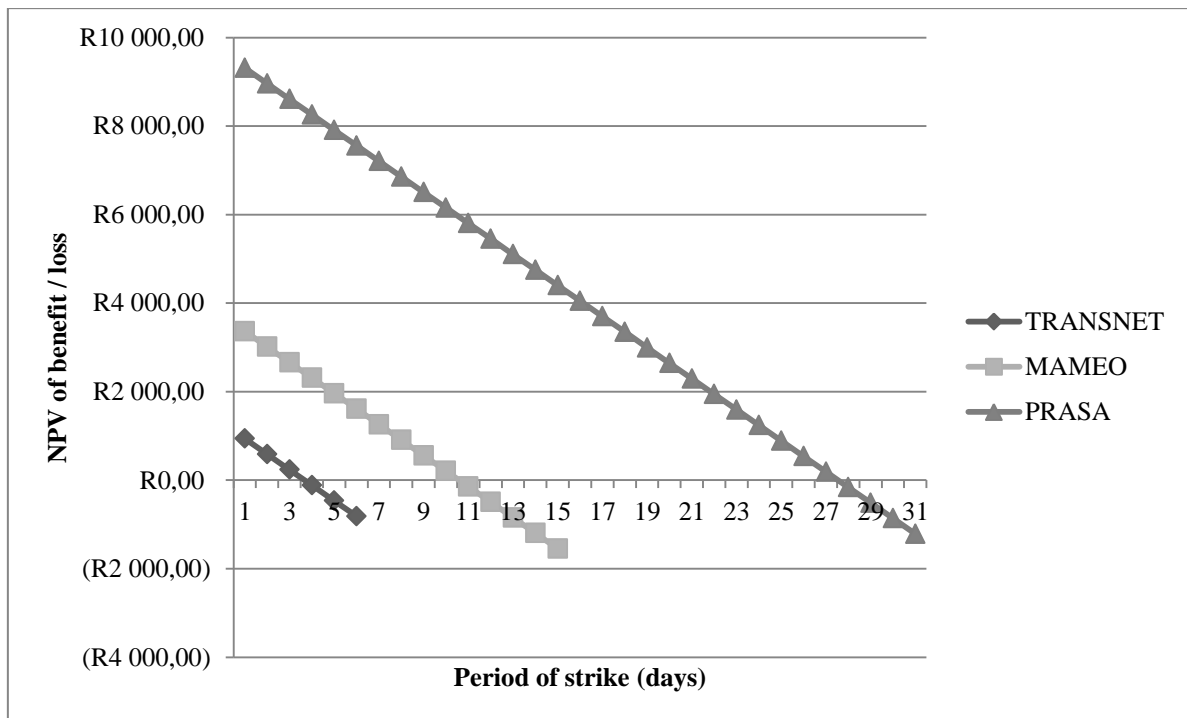
6. Duration of strikes and breakeven strike days

From the calculations contained in Table 1 it is clear that the number of strike days plays an important role in the financial outcome for the worker. If the strike period is short enough, the present value of the benefits would most likely outweigh the present value of the pay lost and therefore yield a net benefit. The longer the strike is prolonged, the heavier the penalty of the no pay and the greater the likelihood of a net loss from the worker's perspective. Ndungu (2009:91) points out that the majority of strikes in South Africa since 1996 have been of short duration because of lockouts and the 'no work, no pay' principle.

By importing the available data for a given scenario, one can determine the breakeven number of strike days that would lead to no net benefit or loss. The results for the three case studies are presented in

Figure 1. It indicates clearly what the net result for each strike would be per worker for different levels of the duration of each strike. For instance, for the PRASA strike, the net gain would have been just below R10 000 if the strike lasted for only one day. As the duration of the strike lengthens, the net gain diminishes, until it translates into a net loss after about 27 days. The graph also shows that the breakeven strike days are approximately 3 for TRANSNET, 27 for PRASA and 10 for MAMEO (rounded to the nearest full day). It also transpires that the greater the percentage difference gained by the strike, the longer the strike can continue before breakeven is reached. In summary, the graph demonstrates that there are net gains for strike periods shorter than the breakeven days and net losses for longer strike periods.

Figure 1. Net present value of benefit / loss relative to the number of strike days



7. Main drivers of net gain or loss per worker

The analysis done reveals that the nature and order size of the financial result of a strike for a worker is dependent on a number of variables. These variables are:

- Base salary at time of strike – the higher the salary, the greater the impact up or down;
- Difference between % increase settled on and employer's offer – the greater the difference the more the benefit to the employee;

- Length of the strike in days – the longer the strike duration, the more negative the impact for the worker because of no-work-no-pay;

- Interest rate used as a proxy for the cost of money – the higher the rate, the greater the negative impact on the present value of the net gain or loss for the worker. Because of the relative short time lag of the cash flow implications of the strike, the impact of the interest rate and the time value of money proved to be not that significant.

8. Conclusions

When it comes to strike action and economic unrest, South Africa has been no exception compared to its international counterpart countries (Thomas 2002:242). In fact, our country has had its fair share of industrial action as well as the inevitable concomitant repercussions that flow from such action. It is virtually impossible to make an accurate assessment of the impact of strike action. However, if one focuses in on a specific strike and break down the data for a specific case study, perspectives, perhaps not observed before, may surface.

A perusal of recent research in South Africa on strike action reveals that very little evidence exists that ventures to determine the financial impact of the strike on employees. This article uses an employee perspective and analyses the wage increases and relevant strike data for three South African trade unions that embarked on strike action during 2010, namely TRANSNET, PRASA and MAMEO.

Based on certain stated assumptions, the financial analysis incorporating the time value of money, yielded different results for the three strikes investigated. For TRANSNET, the present value of the net benefits and costs were negative. This result can be interpreted as indicating that from a financial point of view, the workers would have made a better choice if they accepted the initial offer and did not strike. For PRASA and MAMEO, the strikes did result in net gains for the workers and this was brought about, to a large extent by the relative short durations of the strikes.

It became clear that the longer the strike carries on, the smaller the net benefits become in terms of present value. A breakeven point in terms of strike days is reached when the net benefits are zero. If the strike is prolonged past the number of breakeven days the negative impact of losing wages causes the present value of the net loss to increase in size, constituting financial value destroyed for the worker. The analysis of the three case studies also highlighted the main drivers that determine the net financial outcome of a strike for a worker. These were the base salary at the time of the strike, the difference between % increase settled on and employer's offer, the length of the strike in days, and the interest rate used as a proxy for the cost of money.

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