

An analysis of skills development in a transitional economy – The case of the South African labour market

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Abstract

This article evaluates the extent to which both the supply and retention of scarce skills is adequate for South Africa to compete with similar emerging, transitional economies such as the BRICS (Brazil, Russia, India and China) countries, a grouping it has recently joined. The aim of this article is analyze the basis for skills shortages, policy measures taken and capacity to implement plans. Using a labour market approach to skills formation and integrating this with institutional analysis, this article critically evaluates the nature of the skills shortage, barriers to skills retention, human resource strategies for talent management and public policy questions. This analysis concludes South Africa is adversely affected by a shortage of intermediate and certain high level skills. This analysis identifies four propositions for further investigation by policy makers and researchers. The implications of this analysis underline the importance of appropriate labour market supply-side policy measures and firm-level HR strategic choices for skills retention and utilization.

Introduction and Aims

The aim of this article is to provide a critical analysis of high level skills development and retention in the context of increasing attention being given to emerging market HR development challenges, especially in ‘transitional economies’ (Judge, Naouhbaeva and Douglas, 2009). The justification for a critical analysis in the South African context emerges from this labour market paradox of an over-supply of unskilled labour and a shortage of skills required to enhance economic growth (currently at 3.1%) needed to absorb high unemployment of over 23%. The article provides an analysis of high level skills development and assesses labour market skills formation at public policy and firm

level. A related aim is to assess the strengths and weaknesses of skills development measures intended to redress the legacy of Apartheid discrimination which adversely affected skills development. The analysis assesses labor market skills formation and retention at both public policy and firm policy levels.

An important question in South Africa's transition to a post-Apartheid political economy is the paradox of high unemployment of over 23 percent and skills shortages. From an institutional analysis perspective, the post-Apartheid state in South Africa in the 1990s and in 2000's, enacted some of the most progressive legislative measures including the Labour Relations Act (1995), Employment Equity Act (1998) (EEA), Skills Development Act (1998), Broad-Based Black Economic Empowerment Act (BBBEE)(2003), and Promotion of Equality Act. These legislative measures were introduced aimed at redressing the legacy of Apartheid labour market discrimination and distortions in skills development, access to training and equality of opportunity.

Employment law has therefore been at the forefront of the post-apartheid government's determination to remove unfair discrimination and access to skills training and development. But notwithstanding this formidable institutional armoury against unfair discrimination the paradox of an oversupply of unskilled workers and shortages in certain skilled and professional categories persist.

The analysis uses principles of labour market demand and supply. These however have limitations in explaining firm level behavior and choices and macro or public policy roles in the skills shortage discourse. Hence it is also useful to draw on institutional theory in this case by including regulatory processes structures, and thirdly to draw on human

resource management principles pertaining to talent management – attraction and retention in particular.

The article first provides an analytical framework, considers comparative emerging market development issues, evaluates the features of the changing occupational and skills labour market in South Africa, assesses barriers to skills formation, and retention measures taken to address skills development challenges. It identifies public and firm-level policy issues. Based on the analysis it provides four propositions for policy and firm level research.

Analytical framework

Macro and firm level labour market analysis of emerging market skills trends and human resource (HR) strategies in these countries is evolving (Chang, Mellahi, and Wilkinson, 2009; Horwitz and Mellahi, 2009, Takeuchi, Chen, and Lam (2009). South Africa has the dual imperative of a political-economic transition from Apartheid to democracy, and simultaneously enhancing its competitiveness and economic growth in a globally competitive world. Skills development is fundamental to both these dual imperatives.

Transitional economies are countries which experience a high level of turbulence and complexity in a transformation process from centralized command and control political economies to market oriented economies with varying degrees of state direction (rather than control). The analytical framework adopted for this article applies three perspectives (1) labour market supply and demand factors (McCord & Bhorat 2003, Kraak, 2004), (2)

institutional analysis (Benjamin, 2005) (3) human resource or talent management approaches to skills development and retention in a transitional economy.

There is an emerging body of work on transitional labour markets focusing on human resource development issues (Judge et al 2009, Horwitz and Mellahi, 2009 and Horwitz et al, 2006). Using secondary data, a labour market analysis approach is used to understand the nexus of public policy, institutional interventions and factors influencing demand and supply of identified skills types. This analysis then seeks to evaluate the further relationship between these policy, regulatory and institutional mechanisms in the labour market and organization policy and strategic options in respect of human resource development. The latter also draws on international human resource management (IHRM) research regarding attraction and retention strategies at firm level.

Analytically, a demand and supply side labour market perspective on the skills formation process is not considered as a singular explanatory basis for the skills shortage debate. This also needs to consider institutional, regulatory context and thirdly, the effectiveness of strategies for retention and effective utilisation of existing skills and talent within organizations. The 'nexus' of these three analytical perspectives forms an integral part of the various sections of this article. There are in this regard both 'push and pull' factors in international labour markets and hence variability in the degree to which certain factors are 'controllable' by individual organizations and policies. Understanding the mobility of scarce skills is therefore a multi-faceted and complex issue.

The article first considers broader questions pertaining to emerging markets and then turns to the South African labour market. It finally considers public policy imperatives and organizational level human resource practices important in skills development and retention.

Skills retention and migration – emerging market comparisons

Skills shortages and competition for scarce skills are not unique to emergent markets and transitional political economies like South Africa. An increasing level of labour mobility in high growth emergent markets like China, India, South-East Asia, the Emirates and other Middle East emergent markets reflects a massive demand for scarce skills at premium wage prices (Horwitz 2007). ‘Despite its booming economies and huge numbers of people, Asia is suffering a shortage of skills. And it is about to get worse.’ stated *The Economist* August 16, 2007 - and it has undoubtedly made many leaders around the world sit up and take note. When considering new research emerging to support this claim, an image is forming of a global market increasingly in need of skilled labour. *The Economist* (ibid 2007)) argues that it seems odd when one considers the case of Asia – that in ‘the world's most populous region the biggest problem facing employers is a shortage of people,’ and that ‘businesses are being forced to reconsider just how quickly they will be able to grow, because they cannot find enough people with the skills they need. Emerging markets like South Africa have become ‘a fertile global hunting ground for other countries to pursue a strategy of replacement recruiting in a global village offering an open market for employment and career opportunities for scarce skills’ (Ray 2007).

By way of comparison, the establishment of country-wide institutes of technology has gone some way in increasing the supply of skilled and professional labor market entrants in other emerging markets such as India and Taiwan. Large-scale science parks with closely-linked training institutes have been developed in countries like Brazil, China, India, Singapore, Taiwan, and Malaysia, as these countries seek to make education and skills development a national competitive advantage and endeavoring to reverse the ‘brain drain’ in creating new white-collar jobs in emergent markets (Horwitz and Mellahi, 2009). Though China and India appear to have deepened its shallow talent pool, South Africa has been less successful, resulting in a rising ‘churn’ as more executives, professionals and skilled technical people job-hop. This creates an artificial demand in

the labour market and could be eased by more effective motivation and retention strategies.

‘Yet the demand for qualified staff continues to outstrip supply in most emerging economies. Turnover is higher; poaching is rampant and pay packages often overheated. Retaining talented staff means that their pay packages are sometimes more generous than those of comparable positions in the developed world’ (Pacek and Thorniley 2007). The 2007 Economist Intelligence Unit (EIU) Corporate Network Survey obtained the opinions of 600 chief executives of multinational companies with businesses across Asia. In China, the number one concern was a shortage of qualified staff. In India, it was rated as the fourth highest concern. The EIU study in Asia is but the latest body of global research adding weight to the reality of skills shortages. A recent World Bank survey also revealed that a shortage of skills was the factor most identified by management in the over 800 firms questioned as strongly retarding their further development (Economist 2007 and Horwitz 2007).

These trends are relevant for South African public and organizational skills development policy and practice. This global skills shortage challenge poses a number of lessons from the collective experience of business, government and public sector leaders, as they try to address this critical component for competitiveness and service delivery. According to Hermann (in Samodien and Bailey 2007) of the trade union Solidarity (in South Africa), service delivery is hampered by a 40 percent shortage of artisans in the country, with only 10 percent left of the number of qualified artisans available 20 years ago, and with one engineer for every 3 200 people compared with other emergent markets such as China and India where the ratio is 1:150. In South Africa, on the supply side, whilst technical skills shortages are partly to blame, only 1 440 apprentices registered in 2005, compared to 33 000 in 1975 (Business Day, 2007). This is similar to a ‘systematic shrinkage of skills’, which may require importing certain high priority skills in the short term (Abedian 2007). Poor knowledge and education about the opportunities for technical training together with perceptions that artisan and technical work is somehow of a lesser status to graduate qualifications, continue. Abedian estimates there are currently at least

500 000 skilled jobs that need to be filled to support South Africa's growth trajectory.

While improving the supply side production of graduates, technicians, artisans, and health care professionals from emerging market tertiary education institutions is critical, for corporate leaders the challenge lies in attracting, motivating and retaining intellectual capital. There are a number of key human resource management factors to addressing this challenge, which organizations are now beginning to understand and respond to. By creating a unique value proposition and managing talent well, organizations will then be in a better position to manage their valuable knowledge and enhance their capacity to execute strategies and service delivery. In addition, more companies could take greater advantage of the incentives offered to them to train and develop people internally, such as the skills levy/grant system – yet less than 20 percent of businesses in South Africa are using the system at present. As positive indications of economic growth are now occurring, concomitant social development and service delivery is clearly dependent on an ability to motivate and retain scarce skills; this given that sub-Saharan Africa is especially short of specialized and professional skills (Horwitz & Mellahi 2009). Getting to this point though begins with understanding and addressing the unique needs of scarce skills knowledge and professional workers today. According to the EIU survey, raising pay to above market rates was only the fourth most effective HR strategy amongst Asian firms. The top three all revolved around personal growth: Increased training was first, second was use of a mentoring system, and personal-development road maps or plans third. In South Africa, it was in this area of opportunities for growth that many firms would appear to be failing. The Deloitte National Remuneration (2007) showed that in regard to staff turnover, most South African workers quit their jobs because of a lack of career advancement and effective utilization of their knowledge and skills, lack of job satisfaction and resultant under-performance is often rationalised along racial or cultural lines.

The changing occupational and skills labour market

From a labour market perspective, according to the IMD World Competitiveness Report (2007), South Africa has the worst skills shortage of 55 countries studied. A telling figure in this regard is that the country has only 10 percent of the number of artisans it had 20 years ago, with some arguing that 'unless the education system starts to deliver to the needs of the growing economy, the skills crisis will hemorrhage the economy for years to come (Lunsche 2008). Skills shortages could cost the country up to 1% of GDP, not to mention placing key business and government service delivery strategies at risk. It is concluded that it is essential that organizations, sectors and the state make wise policy choices and focus on implementation and delivery if South Africa is to attain its economic and social objectives, such as achieving a targeted 5.5 percent economic growth and halving unemployment by 2014 (Horwitz 2006a).

In this regard, three skills levels can be identified, namely low, intermediate and high skill levels. The importance of intermediate skills (National Qualification Framework (NQF) level 4-5) is considered crucial; this more so compared with low skills (NQF level 1-3, pre-matriculation) and high skill levels (equivalent to higher education degrees and postgraduate qualifications (NQF level 6-8) (Kraak, 2004). The intermediate skills category includes artisans and technicians with matriculation or post matriculation diploma qualifications. Recent shifts in the occupational structure have not displaced the importance of intermediate level occupations. For example, a Human Sciences Research Council (HSRC) survey into enterprise training showed the greatest skills shortages and the highest levels of difficulty in recruiting staff were experienced amongst technical and craft categories (Kraak et al 2000). Kraak (2004) and McCord & Bhorat (2003) argue that the most important structural shift in the South African labour market over the past three decades of late Apartheid reform and post-apartheid transformation, has been the rise of African semi-skilled and skilled workforce as the labour market has assumed greater capital and skills-intensity. Supply-side provision at the high end of the skills spectrum should facilitate rather than constrain economic growth (Kraak, 2004 op cit,

p.75). Comparatively however, there is no consensus on what categories of work constitute high and intermediate skills levels. Artisanal and technical skills are often considered as intermediate and graduate engineers for example, as highly skilled workers. However, international labour market demand as reflected in visa requirements of some countries such as Australia, New Zealand and the United Kingdom have variously considered the former group as highly skilled. Clearly there is a fluidity in labour markets which both defies traditional definitions of skilled work and which reflect temporal shifts in supply and demand.

However, present demand both locally and internationally in excess of supply and extant 'push and pull' factors highlight the intermediate skills level as particularly problematic and a possible constraint on growth. Alarming there has been a discernable decline in engineering throughputs from universities of technology, originally established to provide such training, and similarly in respect of apprenticeship training as part of a larger decline in enterprise training (Kraak 2004 op cit p.80-82), whilst enrolment for business and management qualification programmes has increased. There is no doubt that capacity improvement in the latter areas is also needed, especially in the public sector, for example in health care service management.

Institutional, regulatory measures and skills development

The government's national skills development strategy has included a holistic focus on what is termed Broad Based Black Economic Empowerment (BBBEE), an integrated statutory approach (BBBEE Act 2003) with sector charters requiring employers to develop targets and timetables for employment equity, diversity of representation at all organization levels, human resource and enterprise development, procurement and share capital ownership. BBBEE scorecard methods are used in a points awarding process. As discussed previously, Employment Equity legislation (1998), the Skills Development Act (1998) and the Labour Relations Act (1995) all have introduced measures which promote the fair selection and recruitment, HR development and equitable employment practices. A further development process begun in 2007 - the Joint Initiative on Priority Skills Acquisition (JIPSA) involving the tripartite partners, may also provide the impetus for a

revival of enterprise and higher education level technical, engineering and project management training with state funding being made available to increase engineering enrolments at universities. Some measures such as BBBEE and employment equity have however, been found to be incremental rather than transformation in enhancing representation and skills development (Horwitz and Jain, 2011); with BBBEE being criticized as not having sufficient ‘trickledown effect’ to the broader population. However given that unfair workplace discrimination is outlawed, it could be expected that this will facilitate and enable further skills development together with the incentives and indeed ‘sticks and carrots’ compliance measures of the above regulatory interventions. These initiatives are discussed in further sections of this article.

‘Growing your own timber’ – supply-side labour market skills development and human resource interventions

The purpose of this section is to examine the interrelationship between supply and demand side measure and the intervening variables of human resource strategies for motivation and retention. This section argues that firm level choices regarding talent development and retention practices are important in understanding the broader skills shortage discourse.

Understanding the nature of the skills shortage needs to consider the range of factors that would form part of such a solution, starting from the ground up, and including the graduate output in key priority skills areas from institutions of higher learning as well as technical and artisan training. A start would be to take a more thorough look at the extent to which the shortage is a supply-side throughput issue due to insufficient output of graduates and technicians from our institutions of higher learning and whether these numbers would be effectively increased by raising the actual outputs of graduates by qualitative improvements in the throughput of students needed in priority skill areas such as engineering, accounting, actuarial sciences and business management. Figures released by Statistics SA show only 9.1 percent of people older than 20 completed diploma or degree programmes in 2007 compared with international graduate output rates of 30-40

percent in developed economies such as the United States and European countries (Keating 2007).

It is however, an over-simplification to argue that universities need to simply increase their intakes on the assumption that after four or five years the outputs will match this increase. Two related areas are pertinent in this regard:

- * Improved preparation of high school learners for a university education. This includes more emphasis on appropriate subjects for university study, career counseling, and subject choices or streaming pertinent to a university education
- * Quality of the university educational process itself, with improved teaching and learning, and student support may well have a more productive impact on both the quantity and quality of graduates produced by institutions of higher learning. This is critical in improving throughput rates.

A key issue in the skills debate is the employability of graduates and sustainable employability over time (Ward 2008). Continuous adult education and learning is said to enhance the individual's employability security in the labour market, if not job security. Formal and informal skills (e.g. social and team work skills) contribute to the increased economic value of the individual (Tome 2007). Knowledge is considered as the principal factor in employability in economies requiring increasing intermediate and high level skills. Modern-day organizations require people who not only have technical and functional skills but also life skills, emotional intelligence (EQ), the ability to adapt to rapidly changing environments, work effectively in project teams, leadership and social skills. Crucially young graduates have to be able to engage with diversity and complexity which vocational qualifications are often unable to provide due to other pressing curriculum priorities and not enough time in the programme design. Normatively, institutions of higher learning should add to the curriculum these kinds of courses in a range of sectors, not only in humanities and social sciences faculties - where they do provide sound education in critical and independent thinking.

Private enterprise training is vital to support and sustain improved levels of economic growth and the skills requirements of large infrastructure projects. These projects are creating employment largely at the intermediate and also at high skills level and some at low skills levels. The South African economy generated some 350 000 jobs a year according to the 2006 Budget Review. This will have to be increased to an estimated 525 000-725 000 jobs a year to attain the targeted halving of the unemployment rate by 2014 (Kane-Berman 2006). However, this momentum has received recessionary setbacks.

The above discussion has focused on supply-side issues. It is submitted that this provides a partial explanation for skills shortages. Micro or organisational factors play an explanatory role in the shortages phenomenon. Demand can be artificially inflated if organisations are unable to retain key skills. Therefore it is necessary to examine the causes of high turnover of high-level and intermediate-level skills. This is retention and human capital utilization rather than a recruitment or supply-side skills availability issue. Retention strategies are as relevant as improving the supply side production of graduates, technicians, artisans, and health care professionals. The argument here is that the question of skills shortages` cannot be solely explained or indeed addressed by public policy choices, but also organization choices in the way human resources are managed and developed.

Home grown talent development strategies or ‘growing one’s own timber’ at the firm level are crucial in addressing the skills shortage. Both skills development and retention strategies by firms are therefore key factors in effecting supply in the broader economy.

The retention of skills is critical in certain sectors where the demand for particular skills is more insistent. For example, over R375 billion was planned for infrastructure development over the next few years, placing an emphasis on the need to retain intermediate-level skills, such as artisans and technicians. The 2007 Deloitte survey of some 300 South African companies found that 82% of the respondents said an employee retention strategy was one of their top priorities. But only 31% had a formal strategy.

The focus has been on competitive talent attraction strategies, but effective utilization and development as a key to retention is often neglected (Manyi in Salgado 2007). This is not simply a function of external supply and pull factors in the labour market or throughput of higher education institutions, but crucially pertains to the ability of organizations to position themselves as an employer of choice, for whom people want to work and develop a career - and where an organization seeks to 'build or grow one's own timber', not just 'buy in' human capital. The Deloitte (2007) survey found that 35% of participating companies offered a premium to attract employment equity candidates. Talent management research in South Africa and East Asia shows that professional workers at high skill levels in knowledge intensive industries highly value work motivation, job satisfaction effective skill utilization (Horwitz et al 2006, Sutherland and Jordaan 2004 and Sutherland 2006). This raises the question of firm level barriers to skills development and retention.

Organization level barriers to skills retention

Migrancy and the flight of skilled and professional labour from Africa or between African countries has become critical as more African countries seek to attract, develop and retain scarce skills needed to grow their economies and compete domestically and globally. In Africa, the main labour receiving countries are Botswana, Mauritius and South Africa. According to the Department of Home Affairs only 9 percent of the 35 200 scarce skills quotas made available to import foreign skills were taken up in 2007 (de Lange 2007). Reasons for this slow uptake appear to include limited business awareness of the newly-introduced skills quota system, delays in publishing the scarce skills categories and a global shortage of skills.

Reducing core business skills retention is the widespread move towards labour market flexibility through increased sub-contracting, as work is externalized (Horwitz 2006). Informalisation and casualisation especially at the low and intermediate skills levels is increasing even in countries with more regulated labour regimes as in South Africa. The problem of retention of scarce skills is two-edged, with flexible contracts and work

practices having unintended opposite effects. Whilst certain high level knowledge workers prefer such flexibility as research has shown (Horwitz et al 2006); conversely, certain types of flexibility associated with short term contract flexibility may create precarious labour market conditions with associated insecurity leading to a greater tendency to job hop for better remuneration and benefits. Numerical and temporal flexibility and even pay flexibility have profound effects on employment tenure, the psychological contract and workplace arrangements of professional staff. Reasons for high attrition rates and barriers to retention in South African organizations have been well researched (Booyesen 2007). These include:

- Low leadership commitment level to valuing and leveraging diversity for innovation and competitive advantage
- Managerial reluctance to delegate decision making responsibility and accountability
- Lack of cross-cultural awareness and sensitivity
- Self perpetuating power dominant cultures within organizations
- Hiatus between espoused policy and practice with insufficient focus on implementation processes, including recruitment, development and retention processes
- Resistance to change due to fear and prejudice
- Lack of talent management strategy, including career planning, mentoring and coaching
- Relative lack of training, development and growth opportunities
- Ineffective consultation and communication on employment equity
- Transformation resistant culture

In evaluating these factors Judge et al (2009) argue that firm level strategic performance in transitional economies is a function of 'organizational capacity for change'. Their research found that this capacity is positively associated with firm performance (op cit p. 1737-1751). These authors contend that institutional turbulence associated with transformational change in transitional economies makes public policy and firm strategic

choices different than in developed economies. Sources of competitive advantage and associated HR strategies have been evaluated variously in these economies. For example Judge et al (2009) conclude that ‘dynamic organizational capability’ for change, or what has been posited as ‘organisational readiness for change’ (Armenakis et al 1993) is pertinent in the ‘white water’ uncertainty and volatility of transitional economies.

Firm level strategies for attracting, motivating and retaining scarce skills

Global labour market demand is a factor leading to loss of skills in a country as certain professional workers such as nursing staff have been lost to the health care sector in Britain and Dubai. This has led to shortages occurring in South African hospitals in public and private sectors. Other para-medical occupations such as occupational therapists, and high and intermediate level engineering and technical skills are being lost due to both demand pull factors in global labour markets, and local push factors such as poor remuneration, working conditions, employment policies and crime. Estimates are that up to 6 000 engineers, technologists and technicians were required for major projects in South Africa over a 5-7 year period (Cape Argus 25 October 2005).

The labour market demand factor however, intersects with the use of progressive human resource policies adopted by firms for talent retention and motivation. Budget constraints together with poor human resource management practices resulting in under utilization of existing staff, and in some instances poor application and unintended consequences of employment equity measures, have made retention of scarce skills problematic. The relationship of these factors with an organisation’s strategic alignment is also pertinent in seeking measures to effectively address skills shortages. Development and service delivery is clearly dependent on an ability to motivate and retain scarce skills; this given that sub-Saharan Africa is especially short of specialised and professional skills. Getting to this point though begins with understanding and addressing the unique needs of scarce skills knowledge and professional workers today as discussed earlier. The Deloitte National Remuneration (2007) showed that in regard to staff turnover, most South African workers quit their jobs because of a lack of career advancement and effective utilization of their knowledge and skills within their organisations.

Identifying new ways to attract, motivate and retain human capital in a transitional political economy such as South Africa, is required (Horwitz et al 2006). In this context the following proposition is made.

Proposition 1

The association of variables workplace culture, skills development opportunities, flexible employment practices, reward and benefit systems, employment equity and broad based black economic empowerment with effective talent management schemes, require investigation.

It has been commented that ‘We do not only have a ‘brain drain’ but also a ‘grey drain’ (Cape Argus 2007). Instead of flexible work practices, older highly skilled and experienced people are often encouraged to take early retirement or even when retiring at ‘normal’ retirement age are lost to the economy. They could be re-employed on a contract basis in training, mentoring or coaching roles to help develop and better utilize younger talent. Older employees ought to be encouraged to remain active in the labour market longer and take on new non-executive roles which could add immense value in developing much needed skills and experience. Though age discrimination is prohibited in South African labour law, the Cape Argus Report (2007) notes that on average, older workers want to work for an additional 4-5 years beyond retirement age. This could be an assisting factor in easing the skills shortage.

The above measures may help to create a unique value proposition that cannot easily be replicated by competitors. In this regard HR executives in particular, are required to become actively involved in aligning strategic priorities in the organisation. According to the global ‘Aligned at the Top’ study conducted by Deloitte Touché Tohmatsu and the EIU (2007), a global and cross-industry survey of 531 HR and non-HR executives, people issues are at the top of the strategic agenda for global companies. Previously, discussions of people issues tended to focus on the efficiency and effectiveness of HR operations. The emphasis is shifting to leadership development, talent and performance

management, culture change, and strategies for creating more value with the people they have (Horwitz et al 2006).

It is questionable, however, whether the strategic skills development agenda is being effectively addressed. This is a common challenge to HR leaders and senior business executives alike. Human resource development is in a process of transformation in South Africa and HR functions are beginning to shift from a personnel administration role to one of influencing firm strategy. As the Deloitte (2007:1-20) survey argues ‘many have yet to develop the capacity and capabilities required to tackle their company’s current and future strategic challenges’. ‘Ultimately skills development is a national and organization challenge and not purely a functional one. Senior line and HR executives are called to create a new vision and plan for talent management. It is a shared challenge in emergent markets from Asia to Africa. Organisations that take the lead will undoubtedly steal a march on the competition, in terms of people and profits’ (Horwitz and Mellahi 2009). However, a purely market driven approach to skills development is not likely to be effective in emergent markets. The notion of a developmental state in emerging markets such as South Africa, China and Korea as well as in more developed Asian states such as Singapore committed to developing the country’s human resources in partnership with the private sector and organized labour can remove the many constraints to international competitiveness such as skills development and better education (Soko 2007).

This notion of a balance and better integration between the between the market and regulatory institutions is integral to the government’s New Economic Growth Path (NGP) (Habib, 2011). This set of proposals includes an incomes policy (which is somewhat controversial for both employers and unions), new policies aimed at stimulating economic growth and employment, investment in infrastructure, mobilization of development finance, industrial and competition policies which stimulate entrepreneurial development and enhance education and research capabilities. Hence public policy can and should set an enabling context for organizational HR development practice.

Public policy and institutional challenges in skills formation and retention

An important question is whether the need for entrepreneurial skills development is not only relevant for employment creation but also an inherent skills priority in the economy. BBEEE policy and its associated scorecard point system encourage firms to develop entrepreneurial skills in their communities. There is a debate at public policy and firm level about the centrality of entrepreneurial skills as part of the discourse on skills needed in the economy. Hence it is appropriate to include this issue in this analysis as it arguably informs a skills debate on the type of skills needed or in short supply in an economy.

In assessing the NGP proposals, a neglected question in the skills policy debate and under-resourced too, is the question of entrepreneurial skills development. The linkages between entrepreneurship development, employment and economic growth have been identified (Global Entrepreneurship Monitor (GEM) 2005). Research on small, medium, and micro-enterprises (SMMEs) and the education and skills development of 'survivalist' business entrepreneurs shows that there is a positive relationship between educational and skills training of an entrepreneur and propensity for that enterprise to create employment (von Broembsen and Wood 2005). The GEM project found that tertiary-educated adults have a greater potential to create jobs than those who have not completed high school. Support for SMME job creation is therefore vital, but particular support for training and development of entrepreneurs or potential entrepreneurs may be a key contributor in the propensity of SMMEs to create employment beyond 'survivalist' self-employed micro-enterprises to formal small businesses. The conversion of such firms from 'a survivalist' stage to formal small enterprises is in a part, related to the knowledge, skills and education of these start-up owner managed firms. Von Broembsen and Wood (2005) conclude that level of educational attainment of an entrepreneur is the best predictor of job creation potential of a firm. They argue that the bulk of new jobs will arise from a small proportion of owner-managed firms that create 20 or more jobs. The evidence from the GEM project is that the likelihood of such firms arising from survivalist entrepreneurial activity, or among entrepreneurs who have not at least completed secondary education, is low (op cit, p.29). The above researchers argue that the South African schooling system is failing to provide the vast majority of its learners with the

basis knowledge and skills needed to start a business. They find there are large inconsistencies in the provision of entrepreneurial education and skills in schools, with the probability of learners in black schools largely in poorer urban and rural areas, acquiring critical entrepreneurial skills and attitudes is as much as 50 percent lower than for their counterparts in predominantly white or multi-racial schools. The greatest weakness was found to be in financial arithmetic. Educator commitment to teaching of entrepreneurship subjects like business ventures, enterprise dynamics, financial literacy and hands-on planning skills are a function of materials and resource availability.

Education and training is therefore a key determinant of a country's entrepreneurial capacity and represents a concerning skills gap based on historical inequality in education provision not yet adequately addressed. This would appear to have created a job or employment expectation culture rather than an entrepreneurial one - with the former manifested by an expectation held by the vast majority of school leavers and graduates who seek employment rather than to create employment by establishing their own business. Whilst other African emergent markets such as Nigeria and Egypt experience higher levels of entrepreneurial activities much of this too is reflected in a failure to convert or grow from micro-survivalist endeavours to formal successful small business enterprises that create further employment. Just as there is an attrition rate in larger organisations not retaining scarce skills, SMMEs experience attrition in the large proportion (over 50 percent) who fail in their first two years, or who are unable to grow into more sustainable formal enterprises.

The private sector should also work to build closer, enjoined working relationships/partnerships with education institutions of higher learning and the Department of Labour (Kraak 2003). The third sector is also important, but little research occurs in respect of its employment and human resource development role. It continues to play an important role in emerging markets such as South Africa, in augmenting state service provision, for example in school education. A more cohesive social partnership in skills development between government, business and third sector organizations would be beneficial. This may hopefully have begun through ASGISA and JIPSA. It is not clear though that these initiatives will be sustained in the longer run as they need institutional infrastructure specifically directed at attainment of skills formation and strategically and practically

enjoined or integrated with other existing human resource development institutions and a long-term human resource development programme for the country (HRDP-SA) (Hirsch 2008). Whilst some Sector Training Authorities (SETAs) appear to be improving the talent supply pool in particular sectors, many are not. With some exceptions artisan training through SETAs together with other technical skills is proceeding slower than the demand for such skills. It is time to consider reintroducing the erstwhile apprenticeship system which was a ‘baby thrown out with the bathwater’.

The country is experiencing the adverse or more positively, the ‘teething’ consequences of a new system which has not succeeded in addressing the skills shortage in certain key sectors. The efficacy of the training levy systems is questionable. It should arguably rather be replaced with a tax incentive for training expenditure. Positively though, McGrath and Paterson (2008) find that enterprise training has indeed strengthened since 2003. They show that training growth occurs in both medium and small formal enterprises as well finding considerable training activity in microenterprises where less formal training takes place. They found that learnerships have also accelerated, though there is considerable sector variability in most dimensions of training. Evidence of weaknesses in the operations of certain SETAs was found but these researchers argue that the Department of Labour and its stakeholder partners are addressing these weaknesses. The government increasingly recognizes that training has to become a national imperative to address skills shortages, but requires a more integrated and coordinated planning process.

Proposition 2

Identify enabling factors required for (1) public policy prioritization of skills development, and (2) firm-level prioritization of skills development and talent retention.

This would foster internal growth, up-skilling and career progression. Drawing on six research studies, Badroodien (2004) found in this regard that the National Skills Development Strategy (NSDS) has the basis and key indicators to effect success in

enterprise training. He provides data on the quantum of trained employees, including learnerships and NQF levels of training by firm size and notes sector variation. He found a stronger preference for in-house training especially for lower skill employees (op cit p.156), and that training in firms in most high skill sectors still seem to reflect the racial and gender legacy of the segmented labour market of the apartheid era.

Benjamin (2005) argues in this regard that in transitional economies, regular and careful management of the transitions between education, training and employment is necessary.

Proposition 3

- 3.1. Identify viable policies for fostering on-going training and continuing education,
- 3.2. Determine individual needs that require more flexibility in the organization of work.

This necessitates more investment in education and training (on average it is estimated South African organisations spend around 2.5 percent of their payroll on human resource development) and adoption of core labour standards that include both seemingly paradoxical imperatives of flexibility and security. Labour market policy should give clearer emphasis on finding a viable balance between employment generative and employment protective measures. As previously discussed education and training are associated with employment creation by SMMEs.

Notwithstanding a long-standing debate on this, it is not evident that the 'right' balance between these policy positions has been struck in South Africa. Labour market regulation needs to be rethought to achieve both productive and equitable outcomes. These need not necessarily be mutually exclusive in spite of tensions between the demands of competitiveness and employment standards (Lansbury 2005). Trade union and employer strategies will need to shift skills development higher up the employment relations agenda (Horwitz 2006b). This offers the possibility of engaging one another in a problem centered and developmental relationship, notwithstanding the still evident legacy of

adversarialism and power-conflict models. Skills formation and protection offers a new terrain for constructive employer-union engagement and opportunities for exploring more effective practices for skills retention – a beneficial goal for both employers and trade unions. Arguably an effective way to redistribute wealth is a large-scale skills redistribution plan aimed at large scale ‘up-skilling’ into intermediate skills levels. This would serve as one measure in possibly diffusing the serious threat of social discontent by a disaffected underclass. Based on the above arguments the following proposition is put:

Proposition 4

Identify the requisite elements for a national skills development plan. Assess the feasibility of partnered state and private sector funding for identified infrastructure and public works programmes and how the necessary skills development for these would be sustained over time.

This proposition would require a review of under-performing and serious improvements to current training institutions such as SETAs and FETs; (There are however, positive indications that certain SETAs have demonstrably moved into artisan apprenticeship training, for example, the Services SETA); enjoined public-private partnerships including providers of high level skills such as tertiary educational institutions with state directed additional funding for specified professions such as engineering; institutionalizing a longer term coherent national human resource development framework (NGP proposals previously mentioned); incentivizing skills development at the firm level through tax concessions and in Broad Based Black Economic Empowerment (BBBEE) code implementation. These arguably underpin an argument for a state directed or developmental state role in respect of developing the skills of the country’s labour market.

The above focus is largely on supply-side measures. As previously discussed these alone, though necessary, will not address the retention challenge at firm level in a demand driven highly mobile global market for scarce skills. However, in the long-run an investment in human capital by both the state and private sector can yield a positive return and sustainable economic growth.

Conclusions for Human Resource Management

The main aim of this article was to provide a critical analysis of the high level skills shortage problem and development priorities for the transitional labour market in South Africa. From this, the article sought to identify propositions which would help further impactful policy research and practice at both public and firm-levels.

The methodological approaches for the four propositions identified would require a triangulated research framework. The research would be of an exploratory, investigative nature. Comparative empirical findings and critical analysis of similar human resource development challenges in other transitional economies is necessary. Second, both qualitative interviews with key stakeholders such as governmental agencies and human resource directors at the firm level, as well as survey data would be apt. Third, qualitative data from focus group interviews with identified subject experts would add depth to the studies. Variously these approaches could be adopted for all four propositions. Proposition 4 which refers to public-private partnerships would need to include employer association, trade union and governmental stakeholders in the research, as would propositions 2.1 and 3.1 which refer to public policy.

The core measures of future research would need to reflect sufficient large-scale data validity; hence being more comprehensive than an exploratory study. This said, a series of studies on each proposition would be apt. Measures would include potential subsequent impact assessment of these studies on public and organizational policy adoption.

Our analysis finds that human resource development and education in skills and competencies needed are critical to South Africa's twin challenges of global competitiveness and elimination of unfair discrimination. This implies that several economic sectors need both high and low level skills. The former are in the information economy and high value adding occupations, while the latter are in services sectors such

as hospitality. It is also concluded that a balance will need to be struck between responses to past discrimination and the clear need for high performance practices. A further implication is that a multi-pronged human resource development approach is needed, comprising a joint high skills and intermediate skills strategy on the supply-side, underpinned by a demand-driven strategy seeking to stimulate large-scale labour absorbing employment growth supported by appropriate inputs of lower-level skills training (Kraak op cit p. ix).

An important implication from this analysis is that given the diverse ethnic demography with a large underclass in South Africa, organizations will need to shift from a legal or institutional compliance model to a commitment model that has an organizational culture reflecting the notion of African 'ubuntu' – a group oriented collective social identity and capacity building. As considered previously, organizations in transitional economies such as South Africa face a double transitional challenge – to redress historical inequalities by building a democracy based on human rights and tolerance, and to simultaneously and speedily develop its human capital capacity to compete in a harsh global economy' (Horwitz and Mellahi 2009, op cit p. 274). This means that skills formation and entrepreneurial development are vital, especially in countries with huge transitional challenges such as South Africa, China and Russia (Horwitz et al. 2004). These can be summed up in one word – “development”. National skills policies in South Africa have introduced mechanisms such as a 1% of payroll levy to finance human resource development in order to meet national, sector and organizational development objectives. This suggests that large-scale labour absorption into a shrinking formal labor market is unlikely, given the shift of employment to service and informal, non-core work mainly outside the ambit of employment equity legislation. This further suggests that a priority of practical policy initiatives by government, private sector firms, labor market institutions such as sector training authorities and bargaining councils, must be large scale initiatives to train and retrain for enhancing employability in the changing labor market (Horwitz and Mellahi, 2009 op cit, p.275).

This is supported by Gomez and Sanchez (2005) who conclude that human resources can play a strategic role in building social capital in the process of balancing local and global forces. They argue that HR can be critical in helping organizations implement skills formation practices that are critical for its global strategy and local development needs. HR practices are associated with social capital. Practices such as human resource development, fair labor practices and standards, diversity and equal opportunity, employee engagement and equitable wage structures and incentive schemes, cross-functional team development, performance management systems incentives and other practices differentiate firms with high levels of social capital from those with low levels. Our analysis concludes that organizations should take into account the mediating variables of external institutional context and internal 'soft factors' such as organization culture, work motivation and job satisfaction as enabling or inhibiting skills development and retention. The context of skills development policy and practice remains important given a changing institutional/regulatory environment. A further implication is that at organization level, resource capabilities (such as technical and managerial competencies) require 'understanding that the HR-performance relationship essentially requires exploring the heterogeneities of implementation' (Khilji and Wang (2006:1173).

In this context, it is debatable argue van Agtmaal (2007) and Battersby (2007), how long the paradigm of emerging markets and the developed/developing construct will be able to explain the fundamental shift of power under way in transitional economies. Our analysis supports Judge et al's (2009) work which posits that 'strategies often emerge' within highly uncertain environments (op cit, p.1741). These strategies require robust public policy and institutions and agile, adaptable HR strategies. The human resource research agenda especially but not exclusively pertaining to skills development in emerging markets such as South Africa will require flexible and proactive public policy and organization-level strategic interventions to enhance both competitiveness and employment growth.

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