

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**MULTINATIONAL CORPORATIONS AND  
WORKFORCE EMPOWERMENT:**  
*an examination of the labour dimensions of a  
water privatisation venture in contemporary South Africa*

**KHUTSO MADUBANYA  
2001**

**MULTINATIONAL CORPORATIONS AND  
WORKFORCE EMPOWERMENT:**  
*an examination of the labour dimensions of a water privatisation  
venture in contemporary South Africa*

A thesis presented in partial fulfilment of the requirements for the degree of Master of  
Philosophy in Development Studies, Massey University, Palmerston North,  
New Zealand

**KHUTSO MADUBANYA**  
**2001**

## **ACKNOWLEDGEMENTS**

A very special thanks to all who made this work possible.

First and foremost, to Waterco and South African Water Company (SAWCO) officials and workers, as well as the officials of the Northern Transitional Local Council (NTLC) in South Africa, without whose help and co-operation, this thesis would not have been possible.

Secondly, to my supervisor, Dr Donovan Storey of Massey University for his guidance and unfailing support. Also thanks to other Massey University lecturers and staff, who in one way or another, have helped me throughout this work.

Lastly, to my family, friends and colleagues for their moral support and belief in me.  
Thank you!

## **ABSTRACT**

“FDI has become the largest and most stable source of external finance for developing countries.”  
(*World Investment Report 2000*: 58)

As private funds increasingly replace foreign aid as the main mode of defining North-South economic relations in the early 21<sup>st</sup> century, the debate over the impact of multinational corporations (MNCs) on host developing countries has become ever more alive. On the one hand, proponents view MNCs as conducive for development as they bring with them much needed capital, technology and skills without which developing country economies are deemed to be stagnant. Opponents, on the other hand, regard MNCs as exploitative of developing country resources and cultures, thereby being detrimental to the development of host developing countries.

This thesis attempts to examine this debate more closely. It examines foreign direct investment (FDI) in the form of water privatisation involving public-private partnerships (PPPs). It takes a close look at the operations of one water MNC, Waterco, acting as main shareholder and operator of the concession company South African Water Company (SAWCO) in the north-eastern part of South Africa. As customary of MNC operations worldwide, particularly concessions, Waterco operated in joint-partnership with a local black empowerment group, Localco, to form SAWCO. As the main driving force behind SAWCO, its operations are assessed through SAWCO's performance.

The objective of the study is to assess the impact of SAWCO on its workforce, in the light of the argument that MNCs arguably empower the workforce of the host country by creating employment, offering better conditions of service and transferring skills. In particular, the study seeks to examine the extent to which SAWCO had led to greater or lesser empowerment of its workforce by the end of its first year of operation. Lessons are then drawn from this examination in order to inform SAWCO's management, government bodies, stakeholders involved in the SAWCO concession, and global/local debates on considering similar concession agreements.

The study discovers that in the case of SAWCO, policies fostering workforce empowerment were in place. However, these policies suffered from lack of long-term foresight. The policies indeed mitigated against the possibility of a short-term erosion in employment quantity (job security) and quality (competitive conditions of service,

workplace democracy and skills upgrading) but lacked long-term prescriptions on these measures.

In practice, no short-term employment losses had occurred, though this result could not be guaranteed for the future, especially given the lack of long-term policy prescriptions. Employment quantity appeared to be mainly hindered by poor communication channels between the workforce and SAWCO's management and inadequate monitoring tools, which had bred numerous problems. These problems included worker discontent and confusion related to workers not knowing their work-related rights and entitlements, as well as company operations. The effectiveness of the training programmes offered by SAWCO were also questionable due to poor worker consultation. At the time of the study, no provisions were being made in terms of skills acquiring, to prepare for public operation of the services at the end of the concession period.

From analysing the type of input labour made in the establishment of SAWCO (labour participation), it became clear that labour never fully supported the privatisation process involving SAWCO. This was due to the fact that labour consultation had not occurred at some of the critical initial stages of the privatisation process. This outcome raises questions relating to the amount of national leverage, and subsequently 'protection', that the South African government is able to grant to its citizens (represented in this case by labour) against MNC interests.

Extrapolating from the SAWCO case study, it is concluded that in the context of South Africa where unemployment is high, labour union movements strong, the economy's labour absorptive capacity and labour's level of skills are low, involving MNCs in PPP arrangements has the *potential* to be beneficial for the empowerment of the local workforce. In order to make this possible however, the government bodies employing an MNC in such arrangements need to have leverage over the MNC by being politically cohesive, set stringent policies (with time-lines) governing the MNC's labour performance, create an environment fostering healthy industrial relations, and tighten monitoring tools to ensure compliance of the MNC with the laws and policies binding it.

## TABLE OF CONTENTS

|   |           |
|---|-----------|
| <b>CHAPTER 1: INTRODUCTION AND RESEARCH METHODS.....</b>                                  | <b>1</b>  |
| 1.1. Introduction to the Thesis Subject.....  | 1         |
| 1.2. Objectives of the Study .....  | 2         |
| 1.3. Justification for the study .....  | 4         |
| 1.4. Thesis Study Methods .....   | 6         |
| 1.4.1. Unit of analysis and research approach in fieldwork .....                          | 6         |
| 1.4.2. Data collection methods .....  | 8         |
| 1.4.2.1. Primary data .....   | 8         |
| 1.4.2.2. Secondary data .....   | 9         |
| 1.4.3. Troubleshooting during field research .....  | 10        |
| 1.4.3.1. Problems related to the unit of analysis and research approach .....             | 10        |
| 1.4.3.2. Problems with data quality .....   | 11        |
| 1.4.3.2.1. The validity of the variables/measures used .....                              | 12        |
| 1.4.3.2.2. Limited timing and budget constraints .....                                    | 12        |
| 1.4.3.2.3. Interview-related problems .....   | 13        |
| 1.4.3.2.4. Sampling problems .....  | 14        |
| 1.4.4. Ethical considerations .....   | 15        |
| 1.5. Thesis Structure .....   | 16        |
| <b>CHAPTER 2: MULTINATIONALS, THIRD WORLD DEVELOPMENT AND WORKFORCE EMPOWERMENT .....</b> | <b>18</b> |
| 2.1. Introduction .....   | 18        |
| 2.2. Definition of key terms .....  | 19        |
| 2.2.1. What are multinationals and Foreign Direct Investment? .....                       | 19        |
| 2.2.2. What is ‘development’? .....   | 21        |
| 2.2.3. What is ‘workforce empowerment’? .....   | 22        |
| 2.3. The extent and structure of MNC activity globally .....                              | 26        |
| 2.3.1. MNC and FDI recent trends and patterns .....                                       | 26        |
| 2.3.2. The scope of MNC and FDI activities .....  | 28        |
| 2.4. The MNC debate: the contribution of MNCs to Third World Development .....            | 29        |

|   |           |
|---|-----------|
| 2.4.1. Arguments in favour of FDI and MNC activity in developing countries .....      | 30        |
| 2.4.2. Arguments against MNC activity in developing countries .....                   | 31        |
| 2.4.3. MNCs and employment generation in host developing countries .....              | 34        |
| 2.4.4. MNCs and employment quality in host developing countries .....                 | 36        |
| 2.4.5. MNCs and skills upgrading in developing countries .....                        | 37        |
| 2.5. Policy choices for workforce empowerment in host developing countries .....      | 39        |
| 2.6. Conclusion .....   | 43        |
| <b>CHAPTER 3: WATER MULTINATIONALS, PRIVATISATION AND WORKFORCE EMPOWERMENT .....</b> | <b>47</b> |
| 3.1. Introduction .....   | 47        |
| 3.2. Infrastructure privatisation in developing countries: an overview .....          | 48        |
| 3.3. Water privatisation patterns worldwide and in developing countries .....         | 51        |
| 3.4. Water privatisation options .....  | 54        |
| 3.5. The impact of water MNCs on development: the water privatisation debate .....    | 58        |
| 3.5.1. Arguments in favour of water privatisation .....                               | 58        |
| 3.5.2. Arguments against water privatisation .....                                    | 59        |
| 3.5.3. Way out of the water privatisation impasse .....                               | 62        |
| 3.6. Labour dimensions of water privatisation .....                                   | 64        |
| 3.6.1. The nature of employment in the water sector .....                             | 64        |
| 3.6.2. The impacts of utility privatisation on labour .....                           | 66        |
| 3.6.2.1. Labour participation .....   | 66        |
| 3.6.2.2. Employment quantity .....  | 67        |
| 3.6.2.3. Employment quality .....   | 68        |
| 3.6.2.4. Skills upgrading in the water sector .....                                   | 70        |
| 3.6.3. Some policy options for workforce empowerment in the water sector .....        | 70        |
| 3.7. Conclusion .....   | 72        |
| <b>CHAPTER 4: BACKGROUND TO THE CASE STUDY .....</b>                                  | <b>76</b> |
| 4.1. Introduction .....   | 76        |
| 4.2. The National South African Context .....   | 77        |

|  |    |
|--|----|
| 4.2.1. The macroeconomic strategy .....  | 77 |
| 4.2.2. The state of FDI, MNC activity and Privatisation in contemporary South Africa ..... | 80 |
| 4.2.3. The extent of MNC privatisation in the water sector .....                           | 82 |
| 4.2.5. The national employment picture .....   | 84 |
| 4.2.5.1. Employment growth figures .....   | 84 |
| 4.2.5.2. Wages .....   | 86 |
| 4.2.5.3. Workforce level of skills .....   | 87 |
| 4.2.5.4. Industrial Relations .....  | 88 |
| 4.2.6. The state of service delivery: the example of water .....                           | 89 |
| 4.2.7. Change of governance structure .....  | 90 |
| 4.3. The <i>raison d'etre</i> for Waterco's operation in South Africa .....                | 92 |
| 4.4. Conclusion .....  | 94 |

## **CHAPTER 5: WORKFORCE EMPOWERMENT IN THE CASE OF SAWCO .. 96**

|   |     |
|---|-----|
| 5.1. Introduction .....                                   | 96  |
| 5.2. The private company .....                            | 98  |
| 5.3. The state of delivery: one year into operation ..... | 101 |
| 5.4. Critical Operational Features .....                  | 106 |
| 5.5. Case Study Results .....                             | 107 |
| 5.5.1. Labour participation in contract design .....      | 108 |
| 5.5.2. Workforce Employment Policies .....                | 111 |
| 5.5.2.1. Employment quantity .....                        | 111 |
| 5.5.2.2. Employment quality .....                         | 112 |
| 5.5.2.2.1. Conditions of service .....                    | 112 |
| 5.5.2.2.2. Workplace democracy policy .....               | 113 |
| 5.5.2.2.3. Training and skills transfer .....             | 113 |
| 5.5.2.3. Workforce Empowerment Practices .....            | 115 |
| 5.5.2.3.1. Employment quantity .....                      | 115 |
| 5.5.2.3.2. Employment quality .....                       | 115 |
| 5.5.2.3.2.1. Conditions of Service .....                  | 115 |
| 5.5.2.3.2.2. Workplace democracy .....                    | 117 |
| 5.5.2.3.2.3. Training and skills transfer practice .....  | 118 |
| 5.6. Conclusion .....                                     | 121 |

|   |            |
|---|------------|
| <b>CHAPTER 6: WORKFORCE EMPOWERMENT LESSONS FROM THE<br/>SAWCO CONCESSION .....</b>   | <b>125</b> |
| 6.1. Introduction .....   | 125        |
| 6.2. Brief contextual summary .....   | 126        |
| 6.3. An analysis of SAWCO's workforce empowerment performance .....   | 126        |
| 6.3.1. Labour participation .....   | 126        |
| 6.3.2. Labour Policy .....  | 131        |
| 6.3.2.1. SAWCO's employment creation policies .....   | 131        |
| 6.3.2.2. SAWCO's employment quality policies .....  | 132        |
| 6.3.2.2.1. Conditions of service .....  | 132        |
| 6.3.2.2.2. Workplace democracy .....  | 133        |
| 6.3.2.2.3. Training and skills transfer .....   | 133        |
| 6.3.3. Labour practice .....  | 135        |
| 6.3.3.1. SAWCO's employment quantity performance .....  | 135        |
| 6.3.3.2. SAWCO's employment quality performance .....   | 136        |
| 6.3.3.2.1. Conditions of service .....  | 136        |
| 6.3.3.2.2. Workplace democracy .....  | 137        |
| 6.3.3.2.3. Training and skills transfer programmes .....  | 138        |
| 6.3.3. Labour practice .....  | 135        |
| 6.4. Concluding discussions .....   | 140        |
| 6.4.1. SAWCO's labour performance: cross-country comparison .....   | 142        |
| 6.4.1.1. Labour participation .....   | 142        |
| 6.4.1.2. Employment quantity .....  | 144        |
| 6.4.1.3. Employment quality .....   | 146        |
| 6.4.1.4. Training and skills transfer .....   | 147        |
| 6.4.2. Lessons for other PPPs and the wider South African national policy<br>context concerning FDI and workforce empowerment ..... | 149        |
| 6.4.3. The MNC/FDI debate .....   | 151        |
| 6.4.4. Areas of future study .....  | 153        |

## **APPENDICES**

|  |            |
|--|------------|
| Appendix 1: Sample of structured interview questionnaire –<br>addressed to SAWCO .....                               | 154        |
| Appendix 2: Number of parent corporations and foreign affiliates by area and<br>economy, latest available year ..... | 155        |
| Appendix 3: Photographs showing the different levels of service delivery in the<br>SAWCO concession area .....       | 156        |
| Appendix 4: SAMWU vision for Water Provision .....   | 158        |
| Appendix 5: “Water for All” draft resolutions by RSDN .....  | 162        |
| Appendix 6: PSI Water Code .....   | 167        |
| Appendix 7: SAWCO’s skills audit questionnaire sample .....  | 170        |
| <b>BIBLIOGRAPHY .....</b>  | <b>179</b> |
| <b>REFERENCES .....</b>  | <b>188</b> |

## **LIST OF FIGURES**

|  |     |
|--|-----|
| Figure 2.1: Multinational Enterprise Network .....   | 19  |
| Figure 2.2: Regional Distribution of FDI inflows and outflows,<br>1995-1998.....   | 26  |
| Figure 3.1: Infrastructure investment in Developing countries involving<br>private participation by sector (1990-1998) .....                     | 48  |
| Figure 3.2: Cumulative infrastructure investment involving private participation,<br>1990-1998, in Developing Countries, 1998 US\$billions ..... | 50  |
| Figure 4.1: Year on year FDI, converted at each year's average<br>exchange rate .....  | 80  |
| Figure 5.1: The structure of the SAWCO concession .....  | 101 |

## **LIST OF TABLES**

|  |      |
|--|------|
| Table 2.1: A summary of the MNC debate .....   | 33   |
| Table 3.1: Water privatisation projections for selected regions .....                                      | 51   |
| Table 3.2: Top Five Sponsors by number of projects, 1990-97 .....  | 52   |
| Table 3.3: Top Five Sponsors, by Region, 1990-97, No. of projects .....                                    | 52   |
| Table 3.4: Allocation of key responsibilities under the main private sector<br>participation options ..... | 55   |
| Table 3.5: Private water and sewerage projects in developing countries, by type,<br>1990- 97.....          | 56   |
| Table 3.6: Water privatisation ventures in Africa, August 2000 .....                                       | 57-8 |
| Table 3.7: Summary of the water privatisation debate .....   | 61-2 |
| Table 3.8: Possible stakeholder issues and policy responses .....  | 71   |
| Table 4.1: Top FDI deals in South Africa (1995-99) .....   | 81   |
| Table 4.2: Employment in the formal sectors in South Africa .....  | 84   |
| Table 5.1: Water multinationals: population served .....   | 99   |

|  |       |
|--|-------|
| Table 5.2: Waterco's sectoral breakdown of turnover, profit and assets,<br>year end March 1997 ..... | 99    |
| Table 5.3: Waterco's geographical breakdown of turnover and assets,<br>year-end March 1997 .....     | 99    |
| Table 5.4: SAWCO concession: Chronology of key events<br>involving labour.....                       | 108-9 |

## **LIST OF ABBREVIATIONS**

|        |  |
|--------|--|
| ABET   | Adult Basic Education and Training           |
| BEE    | Black economic empowerment                   |
| BOTT   | Build, Own, Train and Transfer               |
| CDE    | Centre for Development and Enterprise        |
| CMU    | Committee Monitoring Unit                    |
| COSATU | Congress of South African Trade Union        |
| DCD    | Department of Constitutional Development     |
| DBSA   | Development Bank of South Africa             |
| DWAF   | Department of Water Affairs and Forestry     |
| FDI    | Foreign direct investment                    |
| GEAR   | Growth, Employment and Redistribution        |
| HRO    | SAWCO's human resource officer               |
| ICC    | International Chamber of Commerce            |
| IMATU  | Independent Municipal and Allied Trade Union |
| ILO    | International Labour Organisation            |
| ISA    | Trade and Investment South Africa            |
| IT     | Information Technology                       |
| LGA    | Local government authority                   |
| M&As   | Merger and Acquisitions                      |
| MNC    | Multinational corporation                    |
| MNE    | Multinational enterprise                     |
| MIIU   | Municipal Infrastructure Investment Unit     |
| NTLC   | Northern Transitional                        |
| PPI    | Public-Private Initiative                    |

|         |   |
|---------|---|
| PPP     | Public-Private Partnership                            |
| PSI     | Public Service International                          |
| RDP     | Reconstruction and Development Programme              |
| RFP     | Request for Proposals                                 |
| RSDN    | Rural Services Development Network                    |
| SALGA   | South African Local Government Association            |
| SAMWU   | South African Municipal Workers Union                 |
| SANGOCO | South African Non-Governmental Organisation Coalition |
| SARB    | South African Reserve Bank                            |
| SAWCO   | South African Water Company                           |
| SECTOR  | The Department of Sectoral Activities (ILO)           |
| SETA    | Sectoral Education and Training Authority             |
| SLE     | Suez-Lyonnais des Eaux                                |
| TNC     | Transnational corporation                             |
| TO      | SAWCO's training officer                              |
| WIR     | World Investment Report                               |