Kelvinator

restructuring, collapse and struggle

Franco Barchiesi argues that a company's efforts to survive are limited by the structure of the economy and the demands of finance capital.

On 7 September 1999, the workforce of Kelvinator South Africa in Alrode was notified of the company's application for provisional liquidation. As a result, 1 200 employees were left jobless: about 840 of them are NUMSA members whose shopstewards declared that the company had not consulted the union over its intention to liquidate. In this way, what in 1997 had been announced as a courageous and innovative experiment in production and *human resource management* in a highly competitive sector came to a halt (see box on p 66).

Kelvinator was started as a producer of electric domestic appliances at the end of 1996 when Sovereignty Investment bought Barlows Appliances as an on-going concern for the price of R1. This followed the collapse of the company and the retrenchment of its 800 workers. At the time, Simon Koch, chief executive officer of Sovereignty, identified the company as a profitable business in what looked like a promising and expanding market because of:

- Eskom's electrification programme which strengthened expectations for a rising demand for durable consumer electrical goods;
- policies aimed at promoting a new black middle class;
- the spread of new consumerist attitudes promoted by the media.

A brief period of expansion for the South African 'white goods' industry seemed to confirm such expectations. The market leader, Fridgemaster, closed 1996 with a market capitalisation of over R700-million, while Defy announced spectacular turnover increases.

Companies operating in South Africa were eyeing promising opportunities for export in the continent, while new names, such as Whirlpool, entered the market with ambitious programmes for expansion. However, this short-lived boom did little to address the structural shortcomings of the industry, which became apparent once the sector was adversely affected by a broader economic downturn.

These shortcomings are part of a scenario where local producers have not been able to overcome their dependency on foreign multinationals. During the apartheid era, lack of competitiveness had been counterbalanced by protective tariffs against foreign competitors. This protection allowed the growth of many producers and brands in a relatively

Assessing participation

When Kelvinator relaunched, NUMSA members accepted wage deductions in order to ensure the company's viability. Shopstewards recognise now that 'it took a lot of strength for workers to start the company again'. In fact, workers' retrenched by Barlows had to contribute their packages into a separate account run by the new company. In this way workers defined as 'founder members' were given shares equivalent to 20% of the new company. They also accepted a no-strike pledge and a 'wage freeze'. NUMSA agreed to Seifsa wage rates for one year for newly recruited workers from 1 June 1997. Such rates were, at operators' grade 17, equivalent to R8,03 per hour, compared to the R10,42 that the workers had been getting. In this way, the union agreed to a breach of centralised bargaining, and introduced a division in the workforce.

When CDC invested in Kelvinator, it demanded that NUMSA accept what a senior shopsteward now calls a 'tough decision': an extension of the Seifsa minimums for new employees. They created a 'grade 17b' for new worker's whose wages would be lower than founder members in 'grade 17a', doing the same jobs. This ignited a sense of betrayal on the part of the 'new' workers, who had expected the company's wage differentials to be bridged. It radicalised the shopstewards who then embarked on lunch-time demonstrations.

Kelvinator management agreed that continuing the wage differential was 'not a great strategy', since it created a potential for disruption. It is, however, interesting to quote Simon Koch's analysis: 'It was a mistake to employ workers with matrics. I thought they were smarter and I wanted to give them a chance, but labour intensive production was not suited for them.' This statement recognises that hiring educated and conscious workers into a production process based on routinised manual labour and lowering wage levels could only intensify factory militancy among what Koch describes as 'disruptive young workers with nothing to lose'.

The company believed that the 'new' members resentment against the 'founder' members caused the low trust in the company. But many of the older employees felt betrayed by the company. In fact, founder members either did not oppose or even supported the 'new' workers demonstrations.

'Founder' members argue that dividends were never paid to them because the company never disclosed its financial statements. Koch's reply was that it was 'nonsense' that NUMSA did not have access to information. He stated that the company never paid dividends because it had not made a profit since 1996 and blamed the union for failing to communicate this to workers. He attributed this failure to the union's lack of trust and its boycott of the company's 'consultative forum' after the radicalisation of the shopstewards on the question of wage differentials. Shopstewards, on the other hand, reciprocated the accusation of lack of trust by attacking the company's strategy of mass capacity production, hinting at the fact that huge stocks could have been a strike-breaking device.

Kelvinator is one of the many recent examples of the failure of consultative or codeteminist workplace structures. NUMSA had initially agreed to the forum as part of its commitment to relaunch the company. The union had thought that it could use worker participation to engage management meaningfully and affect company policy-making. However, this was an illusion. Part of the reason that workers rejected workplace participation was that they were radicalised when the company unilaterally recruited casual employees and set up a wage differential. Once again, unequal power relations and unilateral restructuring limited the potential of participative and consultative workplace structures.

Kelvinator's liquidation threatened 1 200 jobs.

limited and racially skewed market geared to low- and middle-class white consumers.

Simon Koch's Kelvinator entered such a scenario with an ambitious programme for restructuring, diversification and expansion. The company opened a new cookware division and planned to increase production. This would stretch its capabilities in a market where retailers can set prices, and relationships with distributors depend on providing for bulk orders. According to Kelvinator's financial director, Andy Fenn, this scenario forced the company to opt for a high-volume approach. It aimed to benefit from economies of scale and negotiate better prices with suppliers through bulk deals. Production was therefore pushed from 200 units per day in 1996 to 1 000 by the end of 1997 with a target of 1 300 units per day for the following year. Kelvinator focused on producing stoves because they were more profitable. At the same time, however, the market became more competitive. Between 1996 and 1997 there was an increase in supply of 750 units per day. Moreover, the mass-capacity route followed by the company meant increased stocks and work-in-progress.

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Road to collapse

Regardless of the union's commitment, the expected upturn in demand failed to materialise when high interest rates dented the company's profit margins. Kelvinator's stocks increased and selling

prices plunged – 1999 prices were 10% lower than in 1997.This created renewed tensions between the company and retailers, making some managers question the validity of the mass capacity road. However, Koch continued to defend it as the only viable solution at the time. Market problems and overproduction ultimately shifted management strategies towards containing wage costs to increase competitiveness. Management also identified a challenge to the company's survival – lower labour costs and a greater capacity to hire and fire in Fridgemaster's new Swaziland plant. Koch accused Fridgemaster of dumping fridges in South Africa – fridges made in Swaziland at hourly rates reported by NUMSA as R2,10, against R11,10 paid at Kelvinator. Ironically, Kelvinator's management were paid 2,5 to 3 times higher that Fridgemaster's management. Moreover, during 1999, Fridgemaster took over the liquidated UNIVA plant in Alrode to produce stoves and to store imported fridges. NUMSA reported production increases at the UNIVA plant from 90 to 200 stoves a day, mainly achieved through using short-term, lowly paid contract workers in an anti-union environment.

When Kelvinator decided to liquidate it cited market difficulties and a breakdown in relations with the workers as the main reasons for its decision.

Kelvinator intensified its own low-wage competition strategies.The Commonwealth Development Corporation's (CDC) investment in Kelvinator of R34-million in 1998 was conditional on extending the Seifsa rates beyond their June 1998 deadline for 170 new non-permanent employees (see box on p 66).

When Kelvinator decided to liquidate it cited market difficulties and a breakdown in relations with the workers as the main reasons for its decision. One year earlier Kelvinator had made a commitment to banks and shareholders that it would cut production to 700 units a day. But this had ultimately proved ineffective in reassuring investors. CDC withdrew from an earlier agreement to contribute a new rescue package in what had become a risky business for them. Banks then withdrew their support for the company. Kelvinator management agreed that the bank's and shareholders' decision was due to a 'panic reaction', based on over-estimating the market difficulties and the labour problems experienced.The banks and shareholders had also underestimated Kelvinator's competitive potential. Pricewaterhouse & Cooper's liquidation process defined Kelvinator's decision as 'premature' and not based on its effective viability. However, shopstewards claim the decision to liquidate effectively stalled NUMSA's demand for full disclosure of the company's financial situation – information it needed to consult around proposed retrenchments. Koch and Fenn agree that the decision to liquidate was premature and that the company would need to be fundamentally restructured if it were to continue.

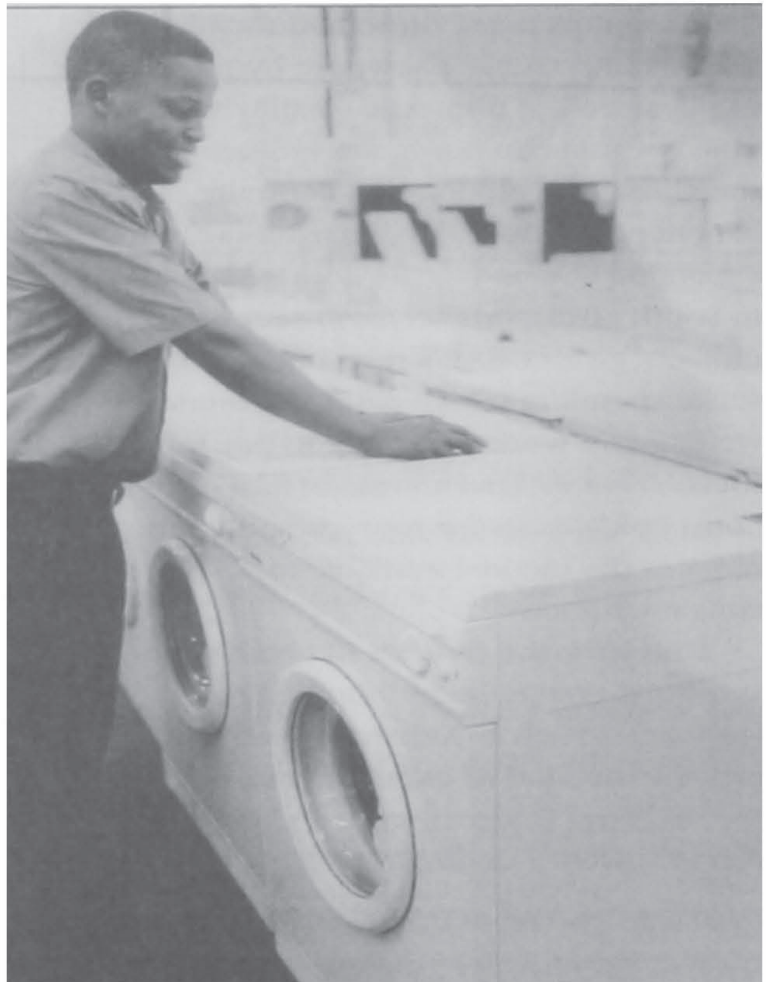
Kelvinator's fall (and rise?)

The story of the CDC involvement in Kelvinator shows that the survival of relatively low-technology sectors exposed to intense international competition depends on interventions by financial actors with no specific and deep rooted interests in the industry.This demands short term, drastic processes of

'rationalisation' in exchange for new investment. In the case of Kelvinator, this involved downsizing production, retrenching workers and increasing wage flexibility – which ultimately contradicted the company's 'mass capacity' strategy. However, the liquidation process provides opportunities to restart the company on a terrain that is closer to the priorities of management, shareholders and financial capital. Such priorities are currently shared by a very influential section of Kelvinator's managment. In fact, Andy Fenn is openly critical of the 'mass capacity' strategy which created 'unnecessary tensions' between the company and the retailers. He also recognises that the shareholders' premature lack of support was a product of impatience of poor financial results, high wages and worker resistance. At the same time, however, he is of the opinion that a restructured Kelvinator will not be able to continue as before and will be forced to downsize production and the workforce.

Current rescue bids for the company promote rationalisation. Defy's offer aims to gain control of the Kelvinator brand for producing fridges, close down the cookware section, and re-employ 350 of the current 850 production employees.

While totally opposed to this rescue attempt, NUMSA is currently dealing with the Industrial Development Corporation, whose availability to invest in the company is conditional on identifying other equity partners. They may be looking to Electrolux and NUMSA is likely to approach also COSATU investment fund, Kopano ke Matla. While this latter scenario could have more positive consequences for the maintenance of current employment levels, it nonetheless reinforces the impression that the future of the company will largely depend on strategies of brand management determined at the level of large multinational conglomerates and local financial capital.



The white goods industry is very competitive.

Implications

Kelvinator's 'mass capacity' strategy faced inherent contradictions that ultimately accelerated a setback for local manufacturing capital. In particular, the company's assumptions that domestic demand would expand, proved unrealistic. Mass demand for 'white goods' from the rising black urban middle classes failed to materialise. This is not just a product of temporary factors such as the high interest rates. It has rather to do with the absence of a sustained domestic demand for 'white goods'. A model of mass production and

consumption based on semi-durable goods was made possible elsewhere by policies of expansion of domestic (mainly working class) demand. In particular, welfare states, social security models and centrally bargained productivity-related increases expanded demand in the domestic market. In South Africa, this scenario seems unlikely, given GEAR's restrictions on social spending which results in limited welfare and workers having to pay for social services. This increases the households' costs for reproduction and reduces the income available for consumer goods.

Moreover, the policies of cheap labour and wage containment followed by companies such as Kelvinator can hardly provide the kind of expected mass consumers for their own products. Moreover, an industrial area such as the South-East Rand is affected by high formal unemployment – calculated at above 25% by the Development Bank's (DBSA's) Gauteng Development Profile – and the new jobs that are being created are casual or contract low-wage employment.

It does not come as a surprise then if the market for 'white goods' remains restricted and unpredictable and as a consequence management continues to reduce wage costs to restore profits. This takes place at the same time that local and international financial capital are demanding increased employment flexibility, reduced wages and downsizing as conditions for investment.

Kelvinator's collapse should be analysed in a more general scenario of the crisis of a model of manufacturing development where rationalisation and profitability demand lower employment levels and lower working conditions.

Finally, the story of Kelvinator's liquidation carries important lessons and implications for union strategy. Not only does it reveal the importance of full information disclosure in order to assess company's claims and strategies. It also questions the very usefulness of company-specific information. In fact, mere figures and data showing performance and productivity results are of little value when powerful financial actors compel companies to restructure, downsize and retrench.

Moreover, unions must be able to deal with information on the structural problems of the industry. This includes knowing the labour practices of foreign competitors and strategies of domestic companies. Such information should then be used to co-ordinate resistance to low-cost management strategies, define alternative views and win popular support.

Kelvinator's collapse should be analysed in a more general scenario of crisis of a model of manufacturing development where rationalisation and profitability demand lower employment levels and lower working conditions. This underlies the problem of a working poor – workers who are earning less and less, but having to pay higher prices for goods and having to pay increased amounts for social services. Unions need to therefore not only fight to retain employment and conditions of employment, but also for a social wage, based on the redistribution of social resources and access to universal decomodified social rights. ★

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