Rose-tinted glasses

Kelvinator's liquidation

Etienne Vlok outlines different parties' views on why Kelvinator was liquidated. He concludes that NUMSA was mistaken in believing that low wage competition from Swaziland was the primary cause of Kelvinator's problems.

There is an old jazz standard, called 'La vie en rose', which means looking at life through rose-tinted glasses. It has to do with seeing things in a different way depending on who you are. This is the story of Kelvinator and its liquidation and seeing it in a different way depending on who you are.

Kelvinator's history

In December 1996 Sovereignty Investments bought Kelvinator, the domestic appliances brand, from Barlows for R1. Terry Rolfe was appointed chairperson and Simon Koch managing director.

At Kelvinator's relaunch, Koch pinpointed what he thought was Kelvinator's biggest stumbling block to success: cheaper imports. He criticised neighbouring states for employing cheap labour – R2,50 per hour against R10,51 locally. He suggested collective bargaining for the region and equal labour standards among southern African trading partners.

Koch targeted NUMSA and the workers to enhance competitiveness. In July 1997 NUMSA and Kelvinator entered into a two-year agreement on wages and conditions. They shifted from plant level bargaining to accepting centralised bargaining determinations. Old workers still received the Barlow's rate of R2 200 per month but new workers were employed at the industry minimum rate of R1 640. Koch also got the union to help the company fight imports, presuming that its relationship with the ANC would ensure a slower lowering of tariffs.

Kelvinator shopsteward Benjamin Marokoani explains: 'When Barlow sold Kelvinator, the new management identified areas that could stop the company from going under. They asked us not to have any work stoppages or demand excessive pay increases. We did this. The workers complained because they also lost privileges such as bursaries.' The workers' commitment to productivity was also shown when only the shopstewards embarked on a five-week national NUMSA strike in 1998.

By the end of 1997 Kelvinator had increased production from 175 units a day to 1 000. An ex-director explains: 'We continuously set targets. We increased production because we adopted a volume-driven strategy, producing as much as possible.'

In November 1997, Seartec acquired a 10% stake in Kelvinator for R20-million based on Kelvinator's growth potential, South Africa's electrification and the quality of the Kelvinator brand. In December 1998 the Commonwealth Development Corporation (CDC) took a 45% stake in Kelvinator for R34-million based on Kelvinator's strong management and productive workforce. These investments took place when Kelvinator showed huge losses which had increased by 350% since 1994.

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In November 1998, before CDC invested, NUMSA and Kelvinator signed an agreement to ensure the company's survival. It extended the 1997 wage agreement on the use of industry minimum rates to 2001. It also stated that changes in conditions of employment would not be negotiated if it increased the company's costs. George Choshane, regional secretary of NUMSA-Wits, explains: 'Koch told me to sign the agreement or there would be no investment. I did not like it but the members wanted it.'

Emmanuel Sikakane, a shopsteward, says that when CDC decided to invest, Kelvinator abolished all plant-level bargaining for central bargaining. It started paying workers monthly instead of weekly to improve its cash flow. By July 1999, according to its newsletter, the company was only paying overtime at one and a third and its minimum rate was R9,60 per hour.

A share of nothing

Koch wanted the workers to own part of the company so he allocated them a 20% shareholding 'Founder members' who had been working at Kelvinator got more shares than those employed after Koch took over. He also offered 20% to the union, but NUMSA did not take up the offer. The understanding was that, when Kelvinator listed on the stock exchange in 1998, the shares would be worth something. 'However,' says the ex-director 'because the company never listed, everyone's shares were worth nothing.'

Later, the shopstewards were bitter. Marokoani says 'the workers could not sell their shares or trade with them. If you left the job you could not get money for the shares.' Another shopsteward, Aaron Thinane, believes management cheated them. 'We were supposed to get part of the profits at the end of the year but it never happened. They took us for a ride. Management made promises and got us to work harder but nothing happened.'

Lance Cellier, the former human resources director, believes 'Koch brought a vision and the workers bought into it. He embraced them and the union. He wanted to be rich but he wanted to take the workers along.'

Choshane says Koch was very clever as he divided the factory into two groups. 'He made sure that the workers did not listen to the shopstewards. They were very loyal to Koch. I told them never to make management your shopsteward. You could be left on your own.'

Liquidation

Kelvinator was placed under provisional liquidation on 3 September 1999 with 1 200 jobs under threat. On 8 September I

Kelvinator was one of the smaller companies in the industry.

met the Kelvinator shopstewards at the NUMSA office in Alberton. It is filled with SACP stickers proclaiming: 'Halt job losses! People before profits!'

Sam Namane, chairperson of the shopstewards, explains: 'On 1 September we were consulting with management about 200 retrenchments. They proposed 10 September for the retrenchments and a temporary shutdown of the company. Yet when we arrived for work on 2 September, production had stopped. Management told us that the company was under provisional liquidation and proposed that we shut down the next day... We never had a chance to save the company.'

'Workers see liquidation as a thorn – that they are going to forfeit everything,' says Thinane.

On 10 September, during the liquidation, the National Productivity Institute (NPI) announced the 37 winners in its annual productivity contest. Ironically, Kelvinator won a bronze medal.

Will the workers see any of the money from the liquidators? Hendrik Quinn, administrator to the liquidator, explains the procedure: 'Administration fees are paid first, including the liquidators. Then banks are paid as their assets are secured. Then we pay the Receiver of Revenue and other government taxes. The workers are next in line.' The liquidator will know how much the workers get once the offers for Kelvinator have been finalised.

It seems that companies going broke is only bad news for some. Liquidators receive more than R1-billion in fees each year. These fees are calculated as a percentage of the assets recovered from a liquidated company with 10% being the norm.

Why did it go under?

There are different opinions on why Kelvinator went into liquidation. Depending on what glasses people were wearing, they either blamed the low wages in neighbouring countries or Kelvinator's strategy.

Shopsteward Wiseman Ngwane does not know why the company went under. 'Top management knows. They reported to us that it is competition from Fridgemaster in Swaziland as they have fewer labour costs.'

NUMSA agrees and claimed in the *Business Report*, that Fridgemaster (which has about 50% of the local market) pays R2,50 per hour compared to Kelvinator's R10,01. Fridgemaster's reply was that their wage is R4,80 per hour.

Ephraim Dlamini, general secretary of the Swaziland Manufacturing and Allied Workers Union (SMAWU), says that wages at Fridgemaster are actually between R3,22 and R4,00 per hour. SMAWU does not have a recognition agreement with Fridgemaster as they have organised only 500 of the company's 1 600 workers. Dlamini claims that the relationship between the workers and management at the company is not good and that the company victimises workers for belonging to the union. 'Fridgemaster's attitude does not allow us to organise there.'

Cellier feels that the workers did their best. They all took a wage cut and productivity was unprecedented.

In reply to Dlamini's accusations, Geoff Mangan, chairperson and chief executive officer of Fridgemaster, explains: 'If one includes the incentive schemes and benefits, the wages come to R4,85 per hour.' Mangan denies Dlamini's claim of union members being victimised and the union being stopped from organising. 'I was a union member myself and respect its role.'

Mangan does not agree that his company's low wages brought Kelvinator down: 'In Swaziland we have a different situation to South Africa. Our workers only have one home – not another in a former homeland also. So their cost of living is cheaper.' Mangan claims that, because of custom duties and transport costs, his company has no advantage being in Swaziland. He says 'Kelvinator has been blaming everyone except themselves: Fridgemaster for cheap labour costs and Whirlpool for dumping. Half of Kelvinator's production was stoves and half was fridges. So even if our low wages in Swaziland brought Kelvinator down, it only explains half of their problem as we only produce fridges there. We produce stoves in South Africa where we pay industry rates.'

Cellier, however, agrees that Kelvinator went under because of Fridgemaster's lower labour costs. But then why did other local companies, like Defy, not go under? Cellier again: 'Kelvinator and Fridgemaster competed head on, whereas Defy was also strong in other areas. Defy is also a well-established business.'

According to Cellier, the industry felt that Barlow should have closed, rather than sold Kelvinator as the market was overcrowded. 'However, when Koch stepped in, he inspired and motivated us to the extent that we thought we could compete. Clearly there was not place for four manufacturers.' Cellier feels that the workers did their best. They all took a wage cut and productivity was unprecedented.

Ross Heron, Defy's managing director, describes Fridgemaster's labour rates as a factor, but not *the* reason for Kelvinator's demise. He believes the demise of Kelvinator, one of the smaller companies in the industry, is part of a rationalisation process as the industry is exposed to global competition. Tight economic conditions contributed to the situation.

The ex-director also does not see Fridgemaster as the reason for Kelvinator's demise. 'The reasons were the volume-driven strategy, the company being top heavy, the economic conditions and the role of the retailers. With hindsight, volume production was the wrong strategy. Every month we reached the targets set and would still lose money. With a volume-driven strategy, you flood the market, causing supply to go up and giving the retailers the power to get the cheapest price. It also increases inventory costs.'

CDC, who had invested R34-million in Kelvinator ten months earlier, also attributed Kelvinator's demise to its volume-driven strategy. Another factor was its weak position in the appliance market.

Meschack Robertsons, NUMSA regional organiser, believes that the reasons are multiple. 'Kelvinator increased its production rate so quickly that it had to reduce its prices. The SADC trade agreement is another reason. We have had fruitless meetings with the Department of Trade and Industry (DTI) to ensure that tariffs are not reduced quicker than required.'

Meschack Robertsons of NUMSA.

Company for sale

At the time of my interview with the workers, they were looking for someone to buy Kelvinator. One possibility was their own investment company. However, it is not allowed to invest in the sector where NUMSA organises. So who can invest in this sector?

Two candidates are Kelvinator's competitors, Defy and Fridgemaster. Choshané believes they only want Kelvinator's brand name and might close down the factory.

Mangan denies that Fridgemaster is interested in buying Kelvinator or the brand name. Heron, however, admits that Defy wants to buy Kelvinator's assets and not only its brand name. Defy has made an offer and is currently in negotiations with the liquidator. If the offer is successful, Heron believes it would be necessary to rationalise. 'We will start a new operation with 250 sustainable jobs and produce to viable levels and activity.'

If Kelvinator were to open again, the ex-director suggests it uses its quality. 'People will pay a premium for quality but then your production must match demand. If you flood the market with your expensive product and it does not sell, you will have to offer your fridges to the retailers at a cheaper rate. Then they will never buy your fridge at the original price again.'

Another offer is from a consortium including employees and Koch.The proposal entails each worker putting down R10 000 to finance the offer. Choshane explains:'The workers can get the money from the Metalworkers' Provident Fund but if the company goes down the workers will be in trouble.The workers accepted the proposal but the leaders have advised against it. Nevertheless, it is the workers' decision in the end.The other problem is Koch's involvement. He messed up the company in the first place.'

The consortium has agreed that the workers will be paid R9 per hour – under the industry minimum – to ensure survival. However, the difference between R9 and Fridgemaster's wages is still large. Choshane believes 'you can only match Fridgemaster if you pay the same wages. People do not buy fridges because there is a South African flag on the side.The price is all that matters.'

'The only thing that can save Kelvinator, is government involvement,' argues Choshane. He believes government should link its RDP housing projects to Kelvinator products.'Putting fridges and stoves in houses will keep jobs, generate taxes and stimulate the economy.'

SADC

Choshane argues that the SADC and the DTI need to look at low wages being paid in neighbouring countries. He suggests labour law be put on the agenda when discussing trade and that competition be based on labour cost as well.

Heron warns 'the situation of companies moving out of South Africa must not get out of hand.The SADC agreement should include labour legislation so unions can organise and bargain in all the countries. It is unfair if unions are not able to organise everywhere.'

Sipho Ngcobo of the *Business Report* agrees. He says that the DTI has not addressed appeals for tariff protection against competitors with lower labour costs.'If Kelvinator is not a lesson to South Africa, nothing will ever be. Cheap imports from low-wage economies destroy South Africa's manufacturing base.'

More than workers

Depending on who you are, you probably saw Kelvinator's liquidation differently.The disappointing aspect of the story is the glasses that NUMSA put on. It accepted management's call that low wages in Swaziland caused the company's demise, even when the main reason might have been the volume-driven strategy. If the union had done more research it might have realised this and done more than accept wage and benefit cuts and try to keep protective tariffs up. It could have been more progressive through challenging power within the company, building solidarity and linking to development projects – for example, it could have challenged management strategy, linked up with the Swazi unions and taken up Choshane's proposal on the RDP housing projects.

Another issue concerns the role of management and government.This story shows the workers' determination to make Kelvinator work.They took pay cuts, made sacrifices and gave up benefits. Did it work? No, their company closed down. But it takes more than the workers. It is about choosing the right company strategy if you are the management and creating a conducive environment if you are the government. It takes three to...tango. ★

References

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