



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

Private Bag x115, Pretoria, 0001 • Tel: +27 12 323 8911 • Fax: +27 12 323 3262

PO Box 29, Cape Town, 8000 • Tel: +27 21 464 6100 • Fax: +27 21 461 2934

SPEECH TO THE INSTITUTE OF PERSONNEL MANAGEMENT

TREVOR A MANUEL, MP

MINISTER OF FINANCE

2 OCTOBER 2006

Thank you ladies and gentlemen.

Thank you for this award that you have presented to me today. I am humbled by your support and vote of confidence which is not just for Trevor Manuel or for the Minister of Finance, but is for the work that has been done by this government in putting the economy on a sound footing and creating an environment where we, as a nation, can look to the future with such optimism and aspiration.

In one of the first budget speeches that I made, after becoming the Minister of Finance, I made the remark that the budget is about people, not numbers, not lines in a telephone directory, not lists of items to be purchased, but about people. That belief remains the single most important pillar of the management of public finances of South Africa. Anyone who does a phrase count on budget speeches and major speeches by our former and present Presidents will see that the phrase 'people-

centered society' probably comes up more often than any other phrase. We do this not to appeal to populism but because the principles that our democracy is based on puts people at the centre of our belief system.

Everything we do, from tough economic policy decisions to the redesign of our social security system, from education policy to crime prevention strategies... must benefit the majority of our people; it must reflect that we are a caring society; it must mirror the aspirations of our entire population.

Your profession, personnel management, is one that unambiguously puts people at the centre of our universe. In that spirit, I come to you today with more questions than answers. I seek to learn from you, to take away from your perspectives at the coal face of developing people.

Economists have spent much of the last few centuries trying to figure out what the recipe for higher economic growth and human development is. While physical infrastructure plays an important role in driving forward social and economic progress, there is almost total, universal acceptance that the quality of our people, the standard of education and training, the human capital stock of a country, the set of institutions and social constructs that we form to interact with each other drive social and economic development.

Let me focus on two areas today: the strength of institutions and the quality of education and training. Institutional economics is a relatively new branch of economics. This school of thought argues that a key determinant of the welfare of a country is the quality of its institutions, the strength of its organisations, social formations and communities.

The institutions that economists talk about range from the trust that people have in the judiciary, in the central bank, in the stature of universities, the quality of public services, the integrity of the auditing profession, the strength of corporate

governance, faith in the banking system, the quality of the media, trust in the information put out in the financial markets and so on. All of these institutional factors that are said to drive growth can be narrowed down into trust and how people are organised. In both regards, we have much to learn from the field of personnel management.

Let me illustrate this point using just one example. The integrity of a tax system, the trust and faith that citizens have in the revenue authorities and the competence of the people in the revenue service is a key factor in influencing whether people comply with the tax system. If people have faith in the systems and people in the revenue authority, there is less a need for draconian and distortionary tax measures. The restructuring of our revenue service since the dawn of democracy has been a success in institutional change and in managing the interaction between laws, systems and people.

Ms. Shirley Zinn, the IPM president, would be more familiar with the details of this institutional success story than I am. In fact, each one of you would probably be able to lecture me on the fact that at the centre of every institutional change is the 'people' issue.

The last 12 to 15 years have been turbulent times for us all, but especially for the personnel management environment. Human resource practitioners have had to cope with dramatic changes in the legal framework, a much more dynamic and fast changing economy, new technologies, international competition for scarce skills, employment equity, an inconsistent performance by the education system, a new skills development framework and new forms of production and supply chain technology.

In general, the HR practitioners have managed this complex minefield with enthusiasm and creativity. As an industry, there are many successes that you can be proud of. The fact that the economy is growing so much faster today is partly due

to your success. The increase in the diversity of our workforce has had positive social and economic repercussions that benefit all South Africans. On these fronts, a huge 'well done' is in order.

I've been told that Trevor Manuel has a bad habit. One of the risks of inviting Trevor Manuel to address your conference is that he often asks the difficult questions, he seems to like to see people squirm in their seats, no matter who the audience is. And yes I do have a couple of questions for you.

Leaving institutional economics for the moment, the area of what economists call human capital formation is a key factor in explaining development and underdevelopment in the world today. The knowledge base of the population, the technology that workers are able to use, the systems around which production is organised, the innovation potential of a workforce and the means of communication between agents in the economy are all key factors that drive long run economic growth. Looking carefully at these items, are they not the issues you grapple with on a day to day basis?

South Africa faces an unprecedented shortage of skills. While we have about four million unemployed people, we have about a million vacancies. The reasons for this shortage include the fact that the economy is growing much faster than at any point in the past two decades. The world economy is far more skills intensive today. At the same time, the collapse of the Apartheid education system in the late 1970s and probably more importantly, the poor state of schooling for all South African children from the 1960s onwards have had profound consequences on our economy and on our ability to improve living standards today. Investment in human capital takes decades to pay dividends.

To give you a sense of the skills shortages from the perspectives of employers, allow me to quote from a few news reports in recent months.

- According to Cisco systems in South Africa, by 2009 South Africa would be unable to fill 113 900 jobs in the IT networking field alone. If we take advanced networking technology (internet protocol telephony, security and wireless), about 30% of posts or 69 700 positions would be unfilled. Alfie Hamid, the area academic manager at Cisco systems said that South Africa had 32 ICT academies producing only 3 133 technicians a year, far short of what is required.
- Con Fauconnier, chief executive of diversified miner Kumba Resources, said that his company was already experiencing a lack of artisanal skills because of South Africa's growing economy. Fauconnier went on to say that the average age of artisans in South Africa is 54.
- Martin Westcott from PE corporate services, a firm well known to most of you, reported on a survey conducted in the IT industry that in an 860 firm sample, the number of firms reporting staff shortages averaged about 30% for the past few years. This year, this number has shot up to 48%. He also says that the number of companies who claim to pay a premium for particular skills has risen to 56% in 2005, from 26% in 1995.
- The world's fourth largest gold producer, Gold Fields, has warned that the sector is in critical need of training as skilled workers are being poached by new mines amid a commodity boom.
- Ricky Douwes, MD of Ability Solutions, says that Southern Africa is poised for a mini-industrial boom. He says, 'we believe that in mining, power generation and petrochemicals alone, there could be a labour shortage in the region of 15 000 people.'
- A recent study by JCP International revealed that 88% of participating companies indicated that they face a shortage of technicians.
- At a municipal level, the problem is even worse. Of the 283 municipalities, 83 have no civil engineers, technologists or technicians, 46 have only one civil engineering professional and only 44 employ a civil engineering professional below the age of 35.

I could go on all day with similar reports. South Africa is experiencing its longest sustained boom in over 40 years. Our ability to broaden the scope of beneficiaries of this boom is limited by our poor human resource capacity. Many of our companies cannot take advantage of the present economic environment because they haven't planned properly. You - this organisation, represents a large spectrum of our HR managers. While there are many factors that explain our skills shortage, you must take some of the blame. Companies, and the HR industry in particular has not been proactive enough to develop the human capacity that companies need in order to increase capacity and profitability. We are experiencing this skills crisis...on your watch.

There are companies, under difficult circumstances, who have continued to renew their human capacity by training, up-skilling and reorganizing their production systems to take advantage of the new environment. However, too many companies sought short terms solutions. Pay more, train less has been the mantra in many sectors of the economy. This is a shortsighted approach that is now coming back to bite. Investing in people in an organisation is hard work. It requires patience, creativity and effort. And it is not cheap either. But surely, the benefits outweigh the costs. Surely this is a better approach than paying a fortune for the new kid on the block only to see them leave 18 months later for even more money somewhere else.

HR managers lament the changing nature of work. They complain about the new culture where loyalty counts for nothing and where hired guns are the order of the day. We must ask ourselves, have we not contributed to this culture ourselves? What is it that we have done to contribute to this culture of short-termism evident in so many companies?

The World Economic Forum recently released the World Competitiveness Report for 2006. This report makes for interesting reading. Out of 125 countries, we ranked 45, down from 40th in the last report. When it comes to South Africa, the report literally reads like a tale of two different countries. On certain issues, we rank in the top 30,

way ahead of many advanced countries. The report praises our corporate governance, accounting standards, judiciary, system of property rights, air transport infrastructure, macroeconomic performance, local equity market access and university/industry research collaboration.

However, in other categories, we lag behind many of our competitors. In one or two areas, we are as low as 121st out of 125 countries. The areas we score poorly on include the costs of crime to business, businesses' response to HIV and Aids, the quality of maths and science education, hiring and firing practices, pay and productivity and the availability of scientists and engineers. The report concludes that while some sectors of our economy are efficiency driven, very few sectors are innovation driven.

Again, I turn to our HR industry and ask the question: 'What do we have to do differently to turn things around?' How do we better position our companies to take advantage of this economic performance? At the heart of the solution must be to invest more in staff, through training, mentorship, rotation and greater exposure to diverse sectors of the business. HR managers are at the heart of the challenges we face, both as individual companies and as a country. We need our companies to produce the type of people that would drive innovation, productivity and profitability. Our country needs productive, innovative and successful companies.

I know that many of you would say that you do have learnership programmes, that you do offer bursaries, and that you do train your staff. I'm sure that many of you would argue that it is because 'other' companies do not train, that forces the market to think short term. This may all be true. Some of you may also argue that it is a minority of companies that bid up costs of skilled labour and that they are forced to respond appropriately. However, as an industry, we must all recognize that there is more that we can do. There are innovations in the field of personnel management that we can adopt. We must do more training and development to support the business plans of our companies.

For the first time in a generation, the economic prospects look exceedingly positive. In addition, for the first time in a decade, almost every analyst is convinced that we can sustain this economic acceleration, not just for a few years but for the next two decades. The kind of structural change that we are seeing today in the economy is characterized by the fact that the economy is sound, risks, though there, are being mitigated, the public finances are sound, the regulatory regime is slowly maturing and the resilience of our economic institutions is now a striking feature of the environment. We have created the Constitutional and political platform for a stable society. Upon that, we've built an economic structure that is dynamic yet robust. This present economic boom is sustainable. Are our companies going to take as much advantage as they should? Are we going to broaden the scope of beneficiaries of the boom, to ensure its sustainability?

As HR managers, your responses are key to answering these questions.

Thank you ladies and gentlemen. And again, thank you for the award that you've bestowed upon me.