Impact of Teaching Firms about Labor Laws on Hiring in South Africa

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Sector(s): Firms, Labor Markets

Location: South Africa

Sample: 1,824 firms

Target group: Job seekers Small and medium enterprises Youth Large enterprises

Outcome of interest: Employment Attitudes and norms

Intervention type: Information

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Partner organization(s): UCT Law@Work Club

Firms often think that labor regulations are excessively strict, and the perceived difficulty in navigating the legal and regulatory environment may discourage firms to hire new workers. In South Africa, researchers investigated whether access to information about local labor laws could improve firms' understanding of the law. They found that free access to an existing subscription service that provided this information improved firms' understanding of labor regulations and resulted in large employment gains.

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Unemployment, especially among disadvantaged populations, has the potential to create social unrest and perpetuate poverty. In some contexts, high unemployment can persist even in the presence of economic growth. One reason for this might be firms' imperfect understanding of local labor and employment regulations. If firms perceive these regulations to be too strict or costly to comply with, they may hire fewer employees than they otherwise would. If firms had up-to-date and complete information about local labor regulations, they may be more likely to grow their firms and hire new employees.

Are firms hindered in their ability to grow because of imperfect knowledge of the rules governing labor markets? Can providing firms with accessible information about local labor regulations improve firms' understanding of local labor laws and increase hiring?

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Labor regulation in South Africa has been subject to drastic changes in the last quarter-century. Both the recency and complexity of regulations suggest the possibility that informational gaps may exist—firms might not fully understand the rules under which the labor market is governed. Furthermore, there is anecdotal evidence that firms in South Africa perceive the legal environment for hiring and firing to be more stringent than it actually is. These information gaps may in turn be constraining firm growth and job creation—contributing to the unemployment problem in South Africa, where 28.5 percent of adults and out-of-school youth did not have a job in 2019.

In this evaluation, researchers drew a sample of firms registered with the Unemployment Insurance Fund (UIF) between 1990 and 2012. Among this sample, knowledge of labor laws before the intervention was low. Additionally, 46.8 percent of sampled firms had less than 50 employees, 26.3 percent had between 50 and 99 employees, and 26.9 percent had 100 employees or more. Firms operated primarily in the agriculture and manufacturing sector (25.9 percent), wholesale and retail trade (24.1 percent), and in the construction and mining sector (20.3 percent).



South Africans at a training center.

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Researchers partnered with UCT Law@Work Club, a subscription-based labor law expert, to examine the effect of access to UCT's content about local labor laws on firms' perception of labor regulations and hiring.

Using South Africa's Unemployment Insurance Fund (UIF) database, researchers randomly selected 1,824 firms to participate in the study. Half were randomly assigned to a treatment group, the other half served as the comparison group.

Firms in the treatment group were offered biweekly newsletters and free access to UCT Law@Work Club's website over a 21-week period. The Club initially contacted the human resources managers at treatment firms via email, and followed up with up to three phone calls to encourage participation. The newsletters were designed to send concise and relevant labor law information to readers and to act as a bridge to motivate readers to learn more on the website. The first weekly newsletters were sent on Tuesdays and provided summarized management advice. The second weekly newsletters were sent on Thursdays and focused on South African case law and advice through the example of a case study. The website's content included video tutorials on various aspects of key South African labor regulations, as well as a case law library and tips on how to handle common human resources

and staffing issues. The website also contained an active discussion forum where labor lawyers would answer questions about any labor-law related issue.

Throughout the subscription period, the Club was able to monitor the opening rates of the newsletters and collect data on the activity of the clients on its website. Researchers also conducted an online follow-up survey after the subscription ended, soliciting information on firms' current employment levels, perception of labor regulations, and knowledge of labor regulation.

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Six months after firms were offered free access to the UCT Law@Work Club's content, treated firms changed their perception of labor regulations as a constraint and increased employment. Impacts were greater for smaller firms and for firms that used external human resources (HR) management support.

Perceptions of labor regulation: Firms who had free access to information perceived labor regulation as less of a constraint in hiring compared to firms in the comparison group. Treated firms were 21.4 percent (5.59 percentage points) less likely to report labor regulation as a constraint to hiring compared to firms without free access to the labor regulation content.

Employment: Free access to the local labor law information increased hiring—measured as the sum of permanent staff, fixed-term staff, and casual staff—by 15.2 percent (11.83 employees) compared to firms in the comparison group. The biggest absolute gains in hiring occurred for permanent workers and workers under fixed-term contracts.

Firm size: The intervention was effective among the smallest and medium-sized firms—firms that had less than 50 employees and those with 50 to 99 employees—but not those with 100 or more employees. Researchers hypothesize that smaller firms benefitted more than larger firms, as the former might be less familiar with labor regulations.

External HR support: Among treated firms, the intervention was only effective at updating perceptions of labor regulations and increasing employment for firms that used external services to manage at least part of their human resources needs. Researchers hypothesize this may be because firms that relied on external providers of HR services may be less familiar with labor regulations compared to firms that did not. Alternatively, external providers of HR services may paint an intentionally complex picture of the labor regulation environment to attract more business and charge higher fees. Interestingly, any measurable impact on the knowledge of labor regulation appears concentrated among firms that did not have external HR support.

Results suggest that imperfect knowledge of the legal environment in South Africa was a barrier to firm growth, and access to an information service about labor regulation via newsletters and a specialized website helped to overcome these barriers and increased hiring. The information service was also cost-effective, with cost per job created at less than $20.