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Case study

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Item Type	Preprint
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Download date	2026-11-10 11:26:31
Link to Item	http://hdl.handle.net/20.500.12424/173408

ROSSOUW, Deon, *Case study: Downsizing and Executive Salaries*, |s.l.|, |s.d.|.

Case study: Downsizing and Executive Salaries
GJ (Deon) Rossouw

Kgosi Malan, general manager of Bon Voyage Wineries (BVW) in the Western Cape region of South Africa knew that the Board of Directors had some tough decisions on their agenda. With the international financial meltdown, the sales of BVW took as serious turn in the wrong direction. For the five years preceding the financial meltdown BVW benefited from a strong growth in wine exports to the UK and Europe, to the extent that by the beginning of 2008 just over 60% of the value of their sales was generated by export to these markets. However, with the global recession now in its second year, their exports to these markets were almost halved over the last 18 months. Also the local demand for wine is dwindling. The raise in sin tax on wine that the minister of finance announced in his budget speech last month did not exactly make life easier for BVW who already had to cut deep into its reserves to keep the company afloat.

Despite knowing that the board had to come up with an innovative strategy for coping with this awkward situation, the board's decision took Kgosi by surprise. The CEO of BVW, Sarie Williams came out of the Board meeting a few minutes ago and asked Kgosi with a wry smile: "Do you want to hear the good news or the bad news first?" Without waiting for his response she informed him that the Board has decided to downsize the workforce by 40 %, while at the same time giving the entire executive management team a 20% raise in salary in order to motivate them to stick with the company during this challenging period. Kgosi Malan was not sure whether he had to laugh or cry. Obviously the 20% raise in salary would bring some much needed relief as he was also feeling the pinch of the economic recession, but as general manager of BVW he would also be responsible for overseeing the downsizing of the company.

Kgosi has always taken pride in the good staff relations at BVW. In the seven years that he had been with the company he has developed good relationships with the shop stewards of both the unions who were represented in the company. Just recently he told a friend who was complaining about a stay-away in their supermarket group that BVW did not have a single strike since he has joined the company. "We are almost like a family" he boasted to his friend. Sitting behind his desk engulfed in a whirlpool of emotions he looked up to the *BVW Business Principles* that was standing in a frame on his desk:

BVW Business Principles
We make wines of the highest quality that delight our customers.
We encourage our clients to enjoy our wines in a responsible manner.
We adhere to high standards of corporate governance.
We are socially responsible and care for our community.

We respect the dignity of each employee.
We do not tolerate any form of unfair discrimination.

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We protect our natural environment and are committed to environmentally sound practices.