

Industrial Change in South Africa: (Very) Initial Findings from the eThekweni Municipal Area (EMA) firm survey

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Background

- Some very early findings from a survey of medium & large establishments (45+ FTEs but officially focus with firms with at least 50 FTEs) in eThekweni Municipal Area (EMA) across 10 main manuf sectors
 - Survey based on a modified questionnaire for a survey of firms, conducted in early 2000s, in Gauteng & eThekweni (World Bank survey);
 - Context:
 - Major changes in labour legislation:
 - Basic Conditions of Employment Act
 - Labour Relations Act
 - Major tariff reforms under the Uruguay Round of GATT
 - Exchange rate volatility
 - Government programmes limiting growth of public spending
 - Interest rates high after 1997 Asian crisis

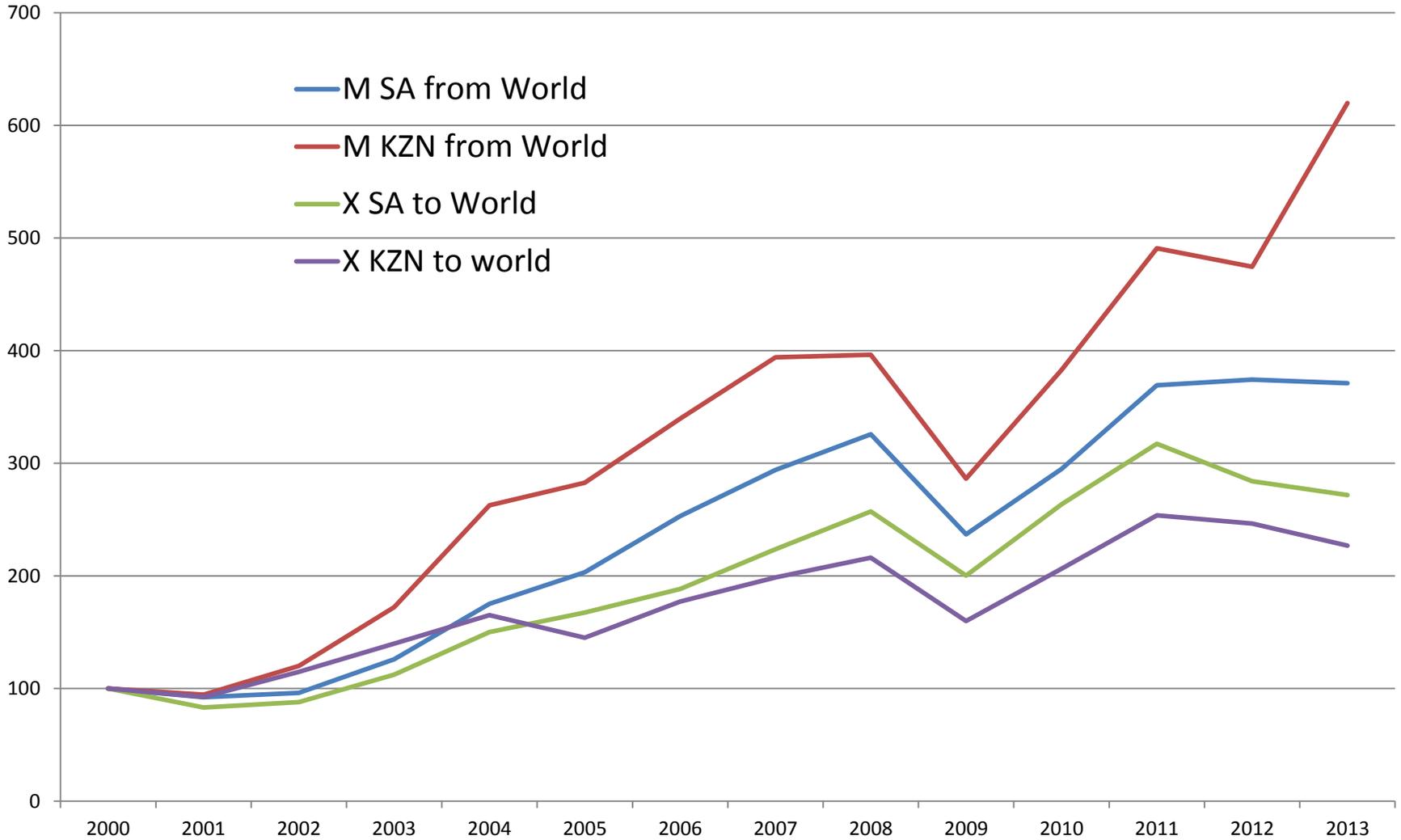
Background

- Modifications:

- For changed context/economic conditions in decade;
- Allowing for positive policy elements;
- Picks up more information on strategic decisions /importance of managerial capabilities

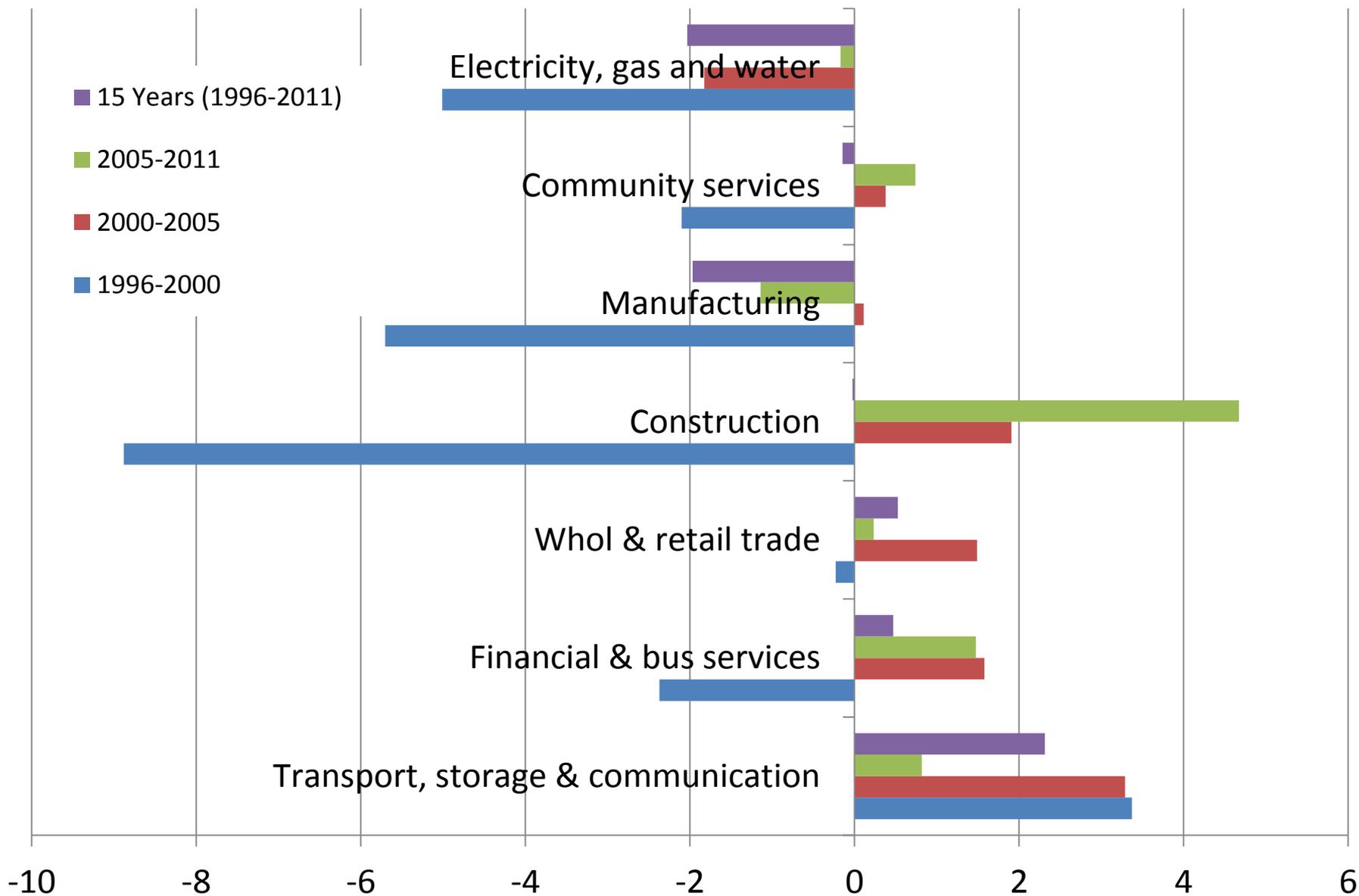
Adjustments are the results of:
FGs, PILOTING OF QUESTIONNAIRE
& SOME TRAINING INTERVIEWS

Export & Import – RSA & KZN



Source: Quantec – Trade by Province database

eThekweni – Period growth of GVA at 2005 constant prices (% per annum)



- Examples of questions:

3.22 What do you see as the 3 main problems and 3 main advantages associated with collective bargaining?

Problems	Advantages
1. _____ _____	1. _____ _____

73Pb		76Adv
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3.37 What do you see as the 4 main benefits and as the 4 main disadvantages of the SETA training system in the training commitments made by the establishment?

Benefits	Disadvantages
1. _____ _____	1. _____ _____

137Ben		141Dis
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1.24(h) What comments would you make about the role of the IDC for your establishment/for establishments in your sector?

1. _____ 167

1.32(c) How has the list of products manufactured or assembled changed since 2008/ OR since the establishment has started its operations if less than 5 years old?:

_____ 18

Background

- Survey has:
 - A panel element by returning to some establishments already approached in 2002/03 in study area as provide useful insights;
 - Firms re-approached irrespective of whether current FTE meets criterion & thus include firms with less than 50 FTEs;
 - Cross-section with new establishments brought in sample for data to be sectorally representative of situation of establishments in study area;
 - Requires constructing population of establishments in EMA from data obtained from a variety of sources;
 - Requires checking that est. meet criteria – NB: FTE information considered confidential/hard to get! Also, some resistance to respondents to confirm production status when many also providing services;
- NB: The 360 degrees approach in data sought motivated by complex causality & capture nuances;
 - Knowledge sought from specialists within a firm but from a 7 modules questionnaire → 3 main modules with experts: CEO, FD, HR manager or representative thereof;
 - Yields a long questionnaire → Repeat visits / "Chasing after"
 - Module 1 – CEO: Almost 70 Questions
 - Module 2 – FD: 12 questions
 - Module 3 - HR & Labour: 39 Questions;
 - Weakness: No direct question on innovation & IP.

Background

- Data collection for survey is quantitative but captures a number of qualitative elements – open ended answers which are subject to interpretation bias;
- Data collection ... still ongoing and main data still to be transferred in relevant statistical package for proper analysis;
So far data obtained for around 75 establishments (nearing 80 but some incomplete files) but data loss associated with 2 main versions of questionnaires with changed/added questions;
- Presentation will focus on a presentation of:
 - Some basic information from data captured to date;
 - A qualitative feel for what is happening on the ground – e.g. through face-face discussions, FGs and examination of fieldworkers' feedback in the main questionnaire and beyond main questionnaire.

Survival - Situation of 2002/03 Sample Est (14/05/2014)

Sector	Closed	Possibly Closed	Refusals	Refusals at present	Moved away from manuf. (excl closure) or never manuf	Manuf but not in eThekweni	Never Manuf in eThekweni	Initial sample	Valid sample (excl refusals at present)
Food processing & beverages	1	1	5		1		1	21	12
Textiles	18	1	4		5	1		47	18
Paper & furniture	6	1	5		0	3		40	25
Chemical products	2		4	1	1			28	21
Iron and steel	0		1		1			5	3
Metal products	1	1	4	1	3			16	7
Electrical & electronic machinery	3		2	1	2			15	8
Vehicles & automotive components	4		2		3			20	11
Leather and footwear	4		3		0	2		11	2
Non-metallic mineral products	4		4	1	0			22	14
Total	43	4	34	4	15	7	1	225	121
	21%		17%			3%			

Includes cases of reports of sets of establishments never being separate establishments – 3 such sets;

Survival – some comments

- Entry/exit affects productivity levels through relocation of resources – if new firms are more productive than incumbent & exiting firms then \uparrow in productivity in industries though one also need to disentangle impact of new technologies & adaptation by incumbents (including labour response)
 - Matters for overall manufacturing growth & productivity changes but also impacts on net employment with starting firms documented to be smaller in size than incumbent firms; less documented is size of exiting firms however.
- Recent research for SA by Kerr, Wittenberg & Arrow (2013) identified that:
 - firm exit (death) contributed to 27% of job destruction in 2005-2011 – comparatively high compared to some developed countries (firm entry accounted for 11% of job creation);
 - Firm death has an important impact on overall job destruction in smaller firms; larger firms (500 employees onward) play an important contribution to net job creation when compared to other types of firms;
 - Job destruction generally taking place in manufacturing except in food & beverages and, marginally, in electrical machinery;

Survival – some preliminary comments

- Preliminary data analysis (basic probit model analysis) looked at 2002/03 characteristics of establishments on survival a decade later and found:
 - Some age effect: More recent establishments more prone to exit than very old establishments but old turning point (70 years of age); i.e. accumulation of managerial capabilities, etc. not effective after a very long period of time – puzzling & worrying finding but supports view that post-1994 establishments are more vulnerable than pre-1994 establishments;
 - Issues to consider in this regard would include established market share, established brands, service networks, relationships with suppliers and customers, paid off many assets already and perhaps competition matters.
 - No impact from early export status and a number of other variables which are attributed to survival;
 - Sales per emp: key in influencing survival.

Population of Establishments: Changes*

	2013/14	2002/03	% decline/increase in number
Being Allocated sectorally [verification]	40		
Food processing & beverages	50	61	-18.0%
T&C	110	152	-27.6%
Paper and furniture (incl. wood products)	68	85	-20.0%
Chemical products	86	123	-30.1%
<i>Iron and steel</i>	<i>17</i>	<i>8</i>	<i>112.5%</i>
Metal products	31	49	-36.7%
Electrical & electronic machinery	21	31	-32.3%
Vehicles and automotive components	29	41	-29.3%
Leather & footwear	15	26	<i>-42.3%</i>
Non-metallic mineral products	30	24	25.0%
<i>Total</i>	<i>497</i>	<i>600</i>	<i>-17.2%</i>

* Conservative estimates, irrespective of FTEs; includes firms that have merged, duplicates, etc. as separate establishments

On Products & Markets

- *45% of establishments report developing new/more remote markets as a major change in the establishment since 2008;*
- *Around 1 in 3 establishments have focused on a new or more complex product since 2008; around 70% of establishments have not pursued a strategy of focusing on less complex/more basic product since 2008;*
- *Almost 80% of establishments have considered expansion recently (since 2012) & expansion typically undertaken already (in 85% of cases), including through a mix of exports to Africa & elsewhere as well as through new operations*
but “Harder to export as other large high-quality players are now exporting in those markets as well”
“Need to push the establishment to have some international leading products / new product due to international competition”
- *Around 40% of establishments now provide services to other firms/customers*

On Products & Markets

- Firms have engaged in expansion (projects/strategies)
- Not obvious expansion of product range - instead, specialisation & product niche thinking;
 - Originates from understanding /better knowledge of products & capabilities in Asian markets, namely China (in terms of suppliers and competitor products);
 - Better knowledge of product prospects on African markets;
 - Cost pressures – which also considered around industry structure when there are dominant players & uneven “level playing field” between urban/rural producers for more labour intensive sectors; comments on dumping/illegal imports (with “Mauritius situation” for T&C);
 - More technologically focused approach – room for further lowering of costs associated with machinery & equipment which is linked to low labour productivity or to issues with productivity of the workforce (and management?);
 - Emphasis is on product quality, but not obviously on being known (few cases of marketing budget expansions or marketing changes reported);

Almost 45% of est have not engaged in invst in marketing as part of their strategy since 2008 (19% have done that as a major focus area)

On Products & Markets

- VC pressures – including around getting customers/expanding into some national area markets - considered
 - Actions taken to support cost competitiveness and flexibility in an environment driven by rising costs and inflexibility;
 - Quality of suppliers → shifts in foreign suppliers seem to have happened & using of suppliers, including large ones, when supply quality inconsistent; even cases of downward integration to protect supply;
 - Pressure from parent companies abroad more prevalent than a decade ago;
 - Various costs taken into consideration yielding more complex business models than a decade ago;
 - Although less than half, 43.8% of est, have engaged in internal re-organisation processes since 2008*
 - Versus use of intermediaries to place products mean that some firms are unclear about the final market for their products – know that their goods are exported by intermediaries but do not much else;
 - Still chance orders for foreign African markets yielding new opportunities;
 - Locational advantages: in relation to the customers' base;

On Products & Markets

- On tender opportunities;
 - Few gvt contracts applied for and awarded - hard to access information on local and provincial tenders & sense that there is too short a time between the time when a tender is advertised and the tender closing date;
 - Loss of government contracts are at times not understood / sense of corruption – clarity on tender outcome? Communication on tender outcome?
 - Lack of clarity on what is being done in support of local and provincial procurement – seen as missed opportunities;
- On BBBEE changes:
 - Changes to change BBBEE level engaged by a number of firms for main buyers but with no systematic financial returns experienced from the change – costly;
 - Changes constrained by absence of (quality) local supplier;
 - In some establishments BBBEE level change considerations have led to the promotion of staff that would not have been promotion otherwise and staff turnover – labour market effects;
 - Also, “Generated a competition (with others) that is purely on providing BBBEE certificate”

On Labour & Skills

- Demand prospects important for firm decisions – growth in demand critical for labour expansion & firms affected by limited domestic and global growth prospects;
- **69.4% of est reported have engaged in equipment investment as a major strategic change since 2008**
Lack of employment growth with many firms not anticipating employment growth – considered against low labour productivity & skills deficiencies;
- On Skills & Skills development system:
 - **50% of est reported availability of tech & voc skills a “major problem”;**
 - Poor education systems, language issues, etc. → favours K investments;
 - Artisan-type training/vocational training lacking;
 - On SETAs: delays in re-imburement on contributions and lack of interactions on the ground but positive views on reimbursement and activities;
 - When statutory reporting requirements noted a problem area (infrequently), WSP reporting figures prominently as a problem area;
 - With the exception of T&C: premium to be paid for those that are skilled (not scarcity per se);
 - Also look for productivity improvements in skills development and thus need for intensive in-house training in K-intensive sectors/establishments with new or specific technologies;
 - System does not enable enough meeting of firm specific needs

38.8% of est have accelerated skills & training devt as part as of their strategy since 2008 BUT 32.7% of est have not engage such devt or reduced such devt since 2008 (as parallel to staff reductions?)

On Labour & Skills

- Limited reports of problems around labour but labour legislation specifically on order fluctuations → favours K investments;
And around 50% of establishment that outsource, outsource (some) prod activities (around 43% of est report outsourcing production)
- Labour relations not a problem area per se but bargaining arrangement deals seen as shaped by the interest of the larger players;
- Many firms subject to Ministerial orders to extend bargaining council agreements (structured largely between large unions and large employers) to all firms without firms having the resources or administrative capacity to absorb time and cost implications.
- Bargaining Council agreements can run to 300-500 pages long covering in detail issues such as some of the following examples:
 - Process to put some staff on short time (3-5 weeks) if orders fall through/not secured;
 - 2-3 week process to negotiate work on public holidays or make one-off/temporary adjustment to shift arrangements;
 - Growing list of bargaining council specified benefits add significantly to hourly wage (20-30%).

On gvt support & opportunities

- Support programmes/incentives still not known by a number of establishments although not central to strategy (finance staff or consultants employed to assist with evaluation and applications);
- IDC loans and interventions generally NB for capital investments/even survival but only in selected industries

- Representation “We do not have a way of speaking with a common voice” & remoteness from Pretoria;
- Generally absent interactions with policy makers – takes place through representative bodies and this is the main (only) role of these;

- Majority of firms in sub-sectors where there is no meaningful support programme (selective vs generalised industrial policy an issue);
- Middle-of-the-road firms consider themselves to be outside priority sectors;
- Adequacy - some requirements & sequencing of activities of some government instruments not in line with business priorities or the nature of some of the instruments themselves;
 - Impact: Beneficiation? Value chain strengthening? Transformation?

On gvt support & opportunities

- Performance of the public sector causing uncertainty and lack of competitiveness
 - Lack of efficiency
 - No dedicated specialist support for firms in delivery departments
 - A tale of two cities – some areas heavily invested, while many others very neglected
 - Schemes and programmes focus on very narrow band of firms
 - “We get told all these things are done in your interest – such as a dig out port – but no one will sort out the things that count today such as a tariff issue or the pot hole.”
 - Role of provincial government: not directly perceptible to the establishments apart from infrastructure maintenance and development;