

Research Findings & Potential Policy Implications:

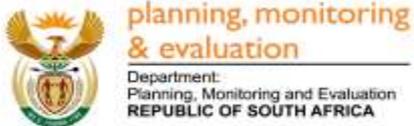
Analysis of 2014 firm survey data, from the greater Durban area, in order to contribute evidence to local, provincial and national policy for manufacturing firms to contribute to inclusive growth

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PSPPD II Research Conference for CfP1 Grantees

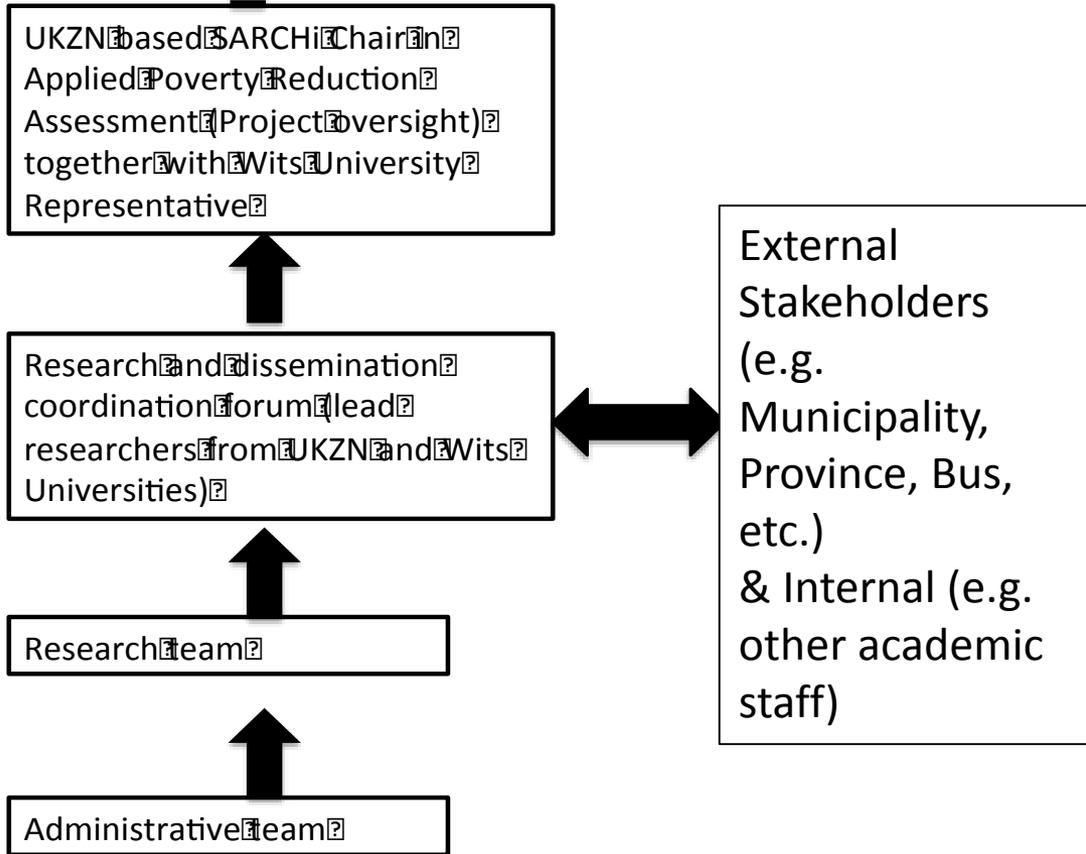
14 – 15 March

Sheraton Hotel, Pretoria



Research team

- UKZN (School of Built Environment & Development Studies but also School of Accounting, Economics & Finance) in collaboration with WITS (Economics & institutions under)



- Project Team leader (Senior Professor, Prof Sarah Bracking) - NRF South African Research Chair (SARCHI)*
- Research team – collaborative partnership with WITS*
 - Experts (Senior Professor (1), Co-PI (2))*
 - Researchers (4 UKZN, incl. 3 young researchers + 2 WITS)*
- Other [administrators, specialists (e.g. editors) & external reviewer NB, metro interns (2, now permanent staff)]*

Overview of the research

- Significance of study: generated data in context of limited firm-level info, incl on *medium & large* manuf firms noting growing importance of cities to the national economy: (i) till recently in RSA & (ii) in eThekweni (still missing). Inform local policy interventions for sustainable growth through retention/expansion of manuf base; evidence-based approach & importance thereof.
- Research objectives: To provide a base of evidence for public & private collaboration around an action plan for enhancing the greater Durban manufacturing sector's contribution to inclusive economic growth in the eThekweni Municipality, KwaZulu-Natal Province and South Africa as a whole.
- Research Question: **What key elements drive the performance of medium & large manufacturing firms in the Greater Durban area (eThekweni MM)**

4 Themes under scrutiny in our PSPPD project research as seen as significant for inclusive growth

Employment → what are the determinants of emp. Growth?; **BBBEE/PDI – economic empowerment** → How does it interact with other performance elements?; **Constraint to Growth** → What influences the expansion of firms?; **Skills** → what is the situation with regards to skills & implications thereof?

Methodology

Outline of methodology adopted

- Detailed firm-level data collected from a representative sample of medium & large manufacturing firms in eThekweni:
 - in 2013/14 revisit of firms approached in 2002/03;
 - 2013/14 – visit to firms not previously approached

⇒ update/new information on firms – in particular constraints to (e.g. wrt size) & change (e.g. trade)

⇒ New information (more intra-firm / strategic focus)

 - Database
 - Data analysed → Thematic ‘reports’ & 2 policy briefs (busy with some other outputs)
 - Capacity Building (incl. numerous presentation rounds of key results!)
- Tap into ongoing dialogue in eThekweni between a variety of stakeholders on its economic strategy and more especially its approach to manufacturing
 - Linked in with the work of the KZN Provincial Government as well as the Department of Trade and Industry and with national efforts to mobilise the potential of regions through the National Treasury supported Economies of Regions Learning Network.

Methodology – Limitations of research

- Production/supply-side (note absence of benchmark for evaluation):
 - Information ↔ uptake of survey: Data gap – few financial data obtained which affects what can be done (e.g. productivity); few panel firms so some tentative results (vs demand by policy-makers for definitive results!); high weight for some sub-sectors (pb of uptake);
 - Many themes (large dataset) which dilutes a few key messages (many key messages emerging instead)
 - Sectors might not be the right sectors (aggregation/disaggregation)
 - Not sub-regionally representative
- Demand-side (e.g. policymakers & even by academia):
 - Expectations:
 - Geographical scope/issue that national still not seen as sum of what is happening at the local level; also, institutional gap (not the type of data looked at in many circles); metro vs province issues
 - Request for BIG positive news
 - Ability to work with findings (→ selective requests) & regular request for special sectoral results
 - Statistical approach: seen as too basic or too complicated!
- Others:
 - Geographical scope (which also makes it hard for journal publications)



Key research findings

- Many bits of findings are “sound” findings (quality of answers)
- Sign of key changes over time
 1. Generally in economic activities & in performance of manuf sub-sectors in the study area

2. Firm changes (panel), e.g.:

- Trade status of firms

Note: Sample n=68

		2013/2014			Total
		Export & import	Export or import	Neither export nor import	
2003	Export & import				
	Export or import				
	Neither export nor import				
	Total				

- Employment in size-class terms (FTEs)

		2013/2014				Total
		50-99 Emp	100-199 Emp	200+ emp	Less than 50 emp	
2003	50-99 emp	46.1%	20.2%	2%	31.7%	100%
	100-199 emp	26.7%	22.7%	36.2%	14.5%	100%
	200+ emp	2.9%	24.1%	72.9%	0%	100%

Key research findings – Constraints (1)

- NB changes over time in main constraints & firms do not fully conform to what has been established for RSA as a whole in the 2 ICA surveys over the 2000s → firms in different parts of SA face distinct constraints?
 - Worsening as top constraints: (i) impact of currency volatility & depreciation; (ii) the cost of energy as well as (iii) **notably insufficient skills in the workforce**.
 - Crime & theft remains a NB constraint between 2002/03 & 2013/14.
- A difficult operating environment - the strongest constraints (from a list of 29 options):
 - Cost of energy & depreciation of the Rand/US\$ exchange rate – major or moderate constraint by 86% of firms;
 - Low rate of economic growth (national & international level) & cost of transport – major or moderate problem area for 84% of establishments;
 - Crime & theft & availability of technical/vocational skills (effectively insufficiently supply) or skills for around 78% of firms in both cases.
 - Some key constraints are as expected but compared to 10 years ago, the main constraints appear to feature equally strongly.
- But find recovery in data in terms of expansion plans, particularly of Labour-intensive firms
- Some strong local problem elements identified (local property rates & support to firms in queries) & sub-local issues (sectoral effects?) including around **infrastructure maintenance!**

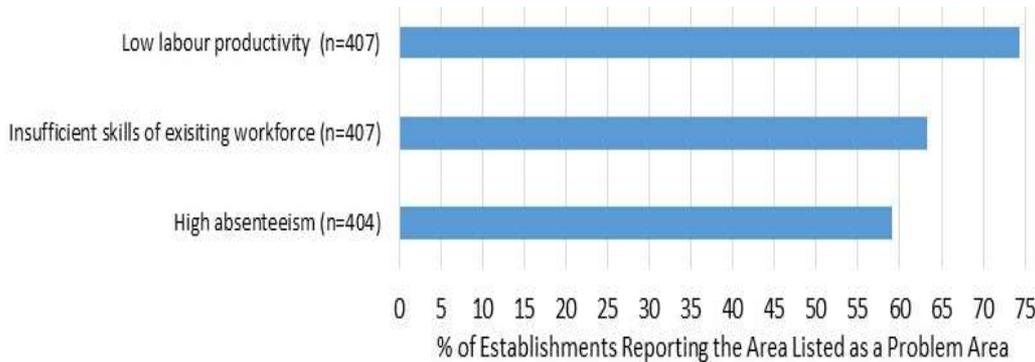
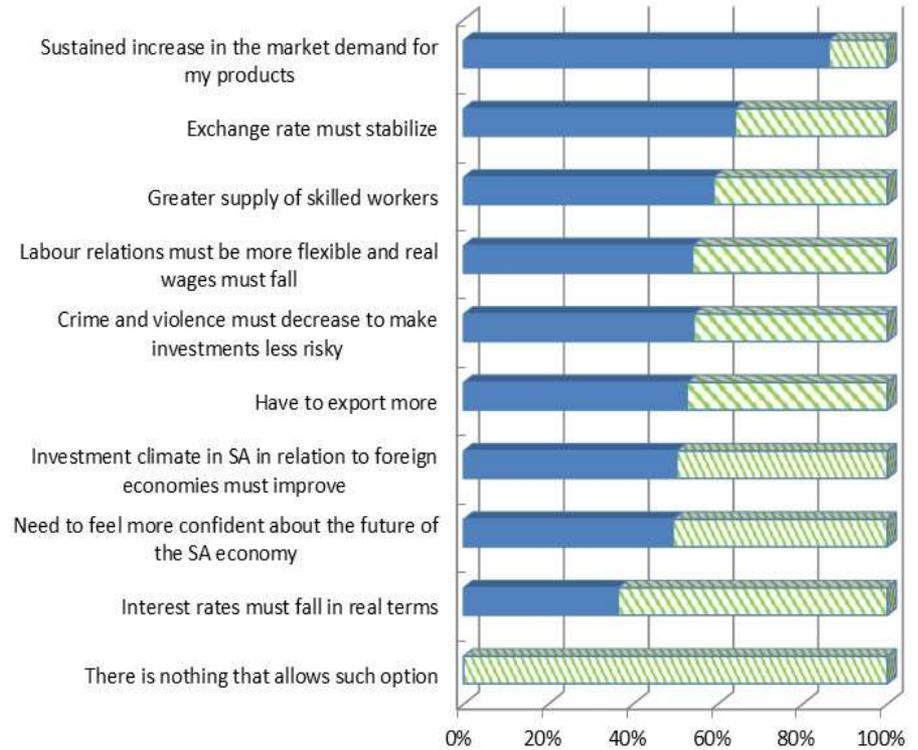
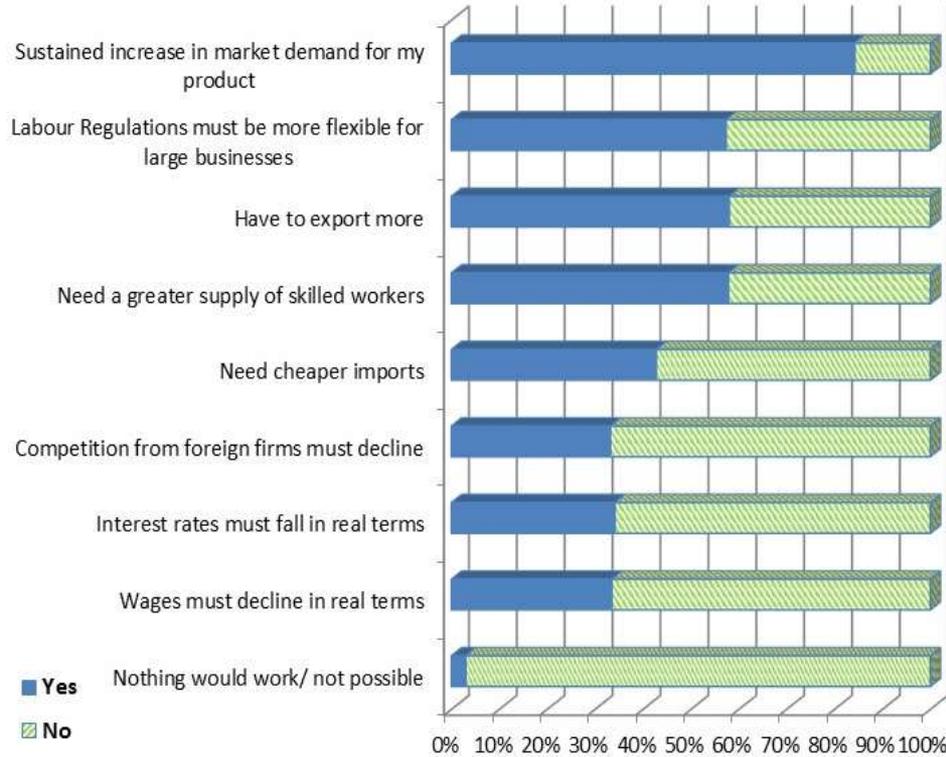
Key research findings – Constraints (2)

- Noting a range of labour issues (low L productivity/ absenteeism), SA's labour laws & regulations: markedly now more of an issue than 10 years ago ... And still having some adverse impacts on emp: 1/ pushing firms towards machinery rather than more labour (for 42% of firms); 2/ Causing firms to hire fewer employees or to shift to temp rather than to permanent employees (reported by 34% & 30% of firms respectively).
 - Have had a markedly emp reducing effect on 45-99 FTEs firms (\approx 50% of firms in that size-class reported this specific effect of the labour laws/regulations), similar to what has been found by other researchers on the theme in SA.
 - Versus: have helped improve labour relations + labour productivity. NB for smaller firms. Labour relations & labour productivity improvements reported as specific effects of SA labour laws and legislations by 56% and 48% of medium & large manuf firms.
- Context \Rightarrow What would help grow workforce / K investment?
 - Product demand NB but not a new result; Strong: expand **exports (new markets)**
 - Particularly NB for \uparrow workforce *and* capital investment: **expanded supply of skilled workers**. This is reported as a growth factor by 58% of all establishments.
 - Low wages not sought & import competition is something firms live with

Key research findings – Constraints (2)

Workforce ↑ by a potential 10%

K Invt ↑ by a potential 10%



Key research findings – Detailed Emp

Paper focuses on 1) subcontracting, 2) exporting & 3) vertical integration and product upgrading;

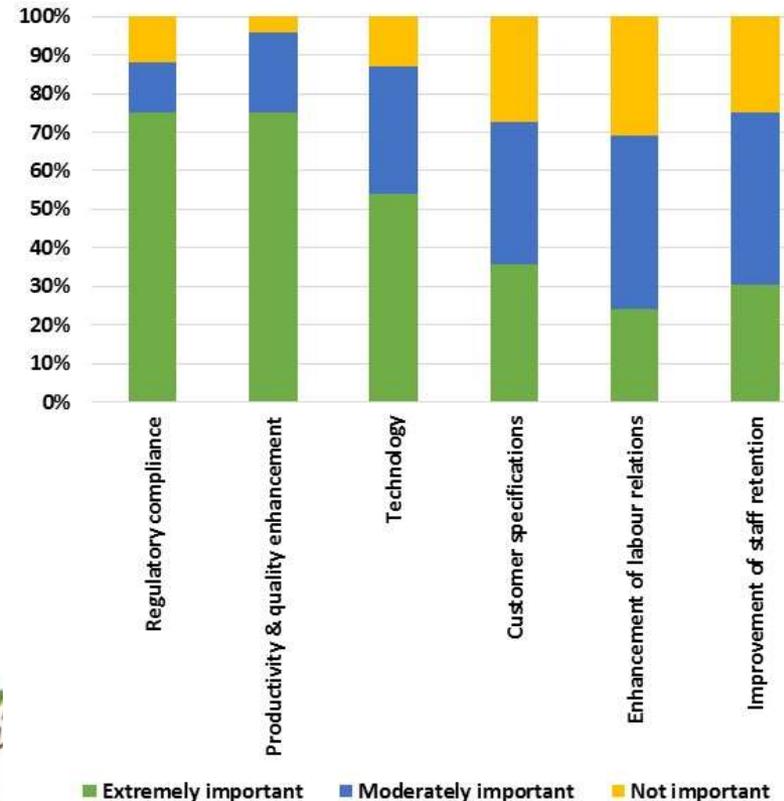
Descriptive piece that probes further research on some mechanism at play around some of the findings

- Lots of heterogeneity (within & across sectors)
- Firms that outsource aspects of production work to subcontractors
 - more likely to have grown employment (i) between 2003 & 2013 (panel firms) & (ii) between 2008 and 2013 (retrospective cross-sectional data);
 - Flexibility that subcontracting provides, in terms of responding to changes in workload, one of the key reasons that firms engage in subcontracting → shift lower-skilled work to achieve scale?
- Exporting (proxy for productive & competitive firms + mechanism through which firms can improve competitiveness): exporting firms larger & more likely to have ↑ employment than non-exporters. *But “exporting is a necessary, but not sufficient, condition for firm growth in terms of employment”.*
No effect from importing
- Vertical integration: firms *appear* to operate discretely & not be part of vertical GVC (but not fully surprising). But whilst notable product upgrading & diversification activity: this does not present a clear relationship with employment maintenance or growth.

Key research findings – Skills

- A **major constraint to growth** re-iterated by respondents in many parts of the questionnaire (2 large local employing sectors, Food and Beverages and Chemical, relatively severely skill-constrained)
 - Growing firms (in emp terms) more likely than shrinking firms to report skills constraints that are worsening / stable
 - Recruitment has become more difficult over time not only for the skilled (which includes the highly skilled) but also for the semi-skilled
 - ⇒ Affect age preference of new main prod emp (pref by 57% of firms for 25+ emp);
 - ⇒ Firms listing training emp themselves as a strategy of change but regulatory compliance NB;
 - Lots of issues around the SETA system
- Reported incl training not relevant
And firms by and large prefer private training Providers over other time

Factors influencing demand for training



Key research findings PDI and BBBEE

- PDI Ownership has increased in firms within the eThekweni region: In 2003 62% of firms surveyed indicated 0% PDI Ownership, in 2013 this number decreased to 46%.
- The percentage of firms with 95% to 100% PDI ownership remain stable at around 25%
- Firms reporting that they had benefitted from BEE were more likely to be firms that had greater PDI ownership: The majority (38.3%) of firms reporting they had benefitted from BEE were 75% to 100% PDI owned.
- In firms reporting not to have benefitted from BEE the majority (67%) were firms with 0% PDI ownership
- Examples of benefits: “Enables BEE companies to be more competitive.”, “Has assisted in gaining credibility with customers”,
- Of the businesses reporting that BEE had imposed a cost upon them 62% were firms with 0% PDI ownership
- Firms reporting that BEE had imposed a cost were associated with low levels of PDI ownership

Conclusions & Policy implications

- **Main conclusions of the study:**
 - Confirmation of a number of other findings on firms (findings that are more fragmented across sources);
 - Growing empl in manufacturing is going to be hard but ensuring that firms remain in operation also requires many factors to be right – Paying attention to what is happening in the firms NB
 - PDI ownership has a determining influence on how firms experience BBBEE legislation
- **Policy relevance of the findings:**
 - Information reveals some redirecting of the issues (e.g. pushes attention to the impact of the national SETA system issues at the local level);
 - Specific local issues drawn in project (e.g. condition of particular parts of the greater Durban Area/industrial estates; attention to infrastructure maintenance, etc);
- **Benefits and opportunities for policy thinking, planning and interventions:**
 - Role of evidence-based information & of engaging with researchers on specific themes (e.g. location of firms)
 - Paying attention to firm-size class dynamics in the below the 200 emp category
 - Importance of engaging with firms themselves more widely than in the past

Recommendations

- **Proposed necessary actions for taking recommendations forward to effect change**
 - Many recommendations already taken into account
 - Pay attention to what is happening at the local level
 - Consequences of industrial policy & of national emp strategy in terms of what we are saying at the local level needs further unpacking
- **Where possible, specify what is in need of urgent attention and what is longer term**
 1. There is a benefit to understanding different production & L market context in the country
 2. We think that there is strong & compelling evidence around the imperative for more multi-faceted approach to growth & emp impact (make all the measures/support instrument in place to work in concert noting that there competition across metros on interventions)
 3. Continue cap building of local policy (would contribute to new ideas and to help lower obsession with sectoral agenda and to worry more about the common needs of firms - e.g. around benefits of retaining employment)
 4. Agenda of research on labour demand

Acknowledgements

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