

Industrial development: An Assessment of firm performance and competitiveness

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Starting point...

- Limited understanding and knowledge of economic activity across industrial nodes
 - Available information of node profiles was outdated
 - No dedicated survey of manufacturing firms at a local level since 1995
 - Local data skewed by head-office effect
- Poor understanding of the challenges faced by firms, and therefore difficult to tailor interventions

Starting point...

- Therefore, City commissioned CCRED to:
 - Undertake census of establishment in industrial nodes
 - Survey manufacturing and manufacturing-related service firms
 - In-depth interviews in 7 nodes
- In order to unpack:
 - What types of industrial activity is taking place?
 - What challenges do firms face?
 - What interventions could help to promote growth, investment and employment creation?

Approach and methodology

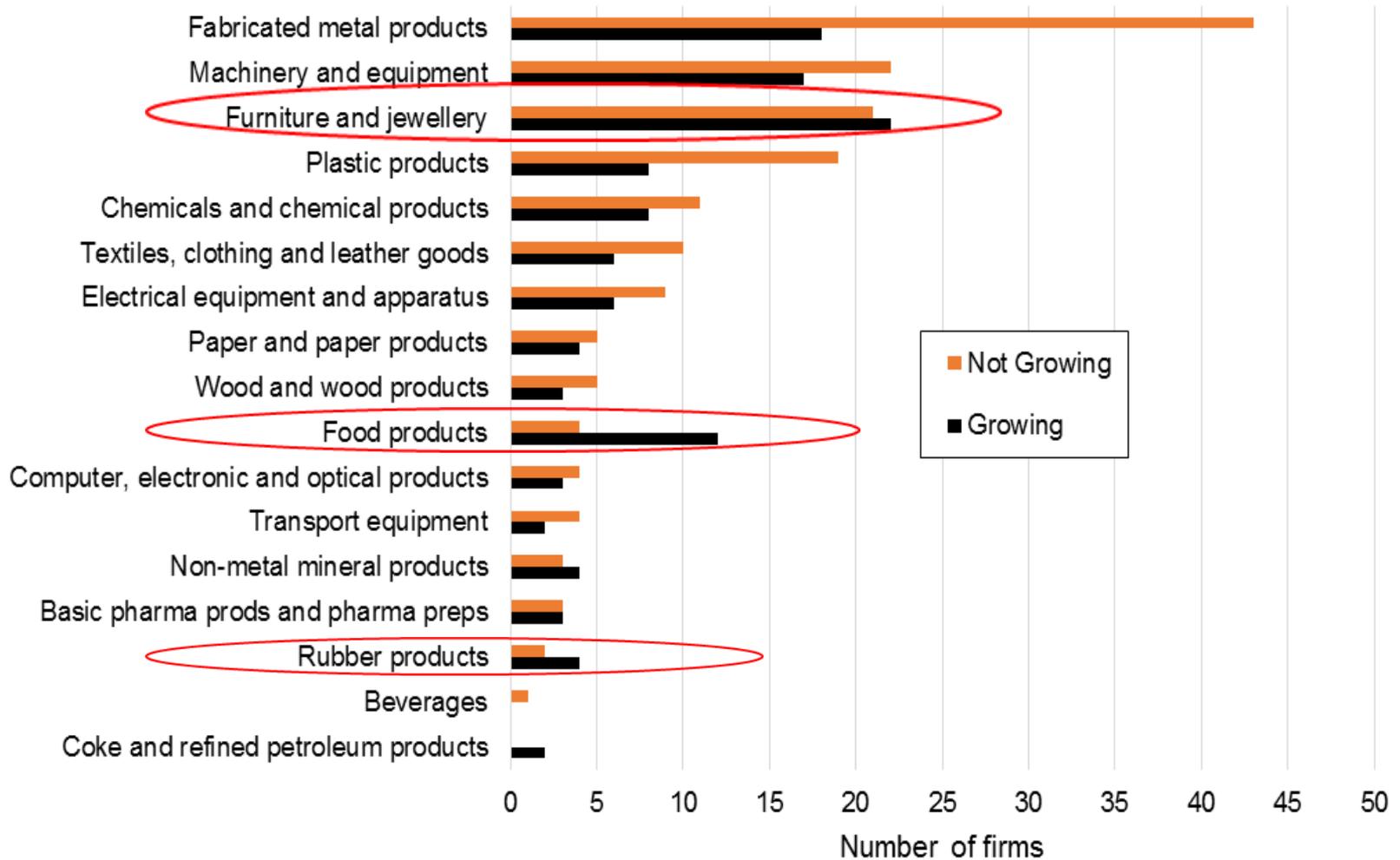
1) Census of establishments:

- Street-by-street field investigation of business activity of 26 nodes (2 pilot nodes excluded) in 2015
- 5 345 establishments recorded (name, contact details, economic activity and GPS coordinates)

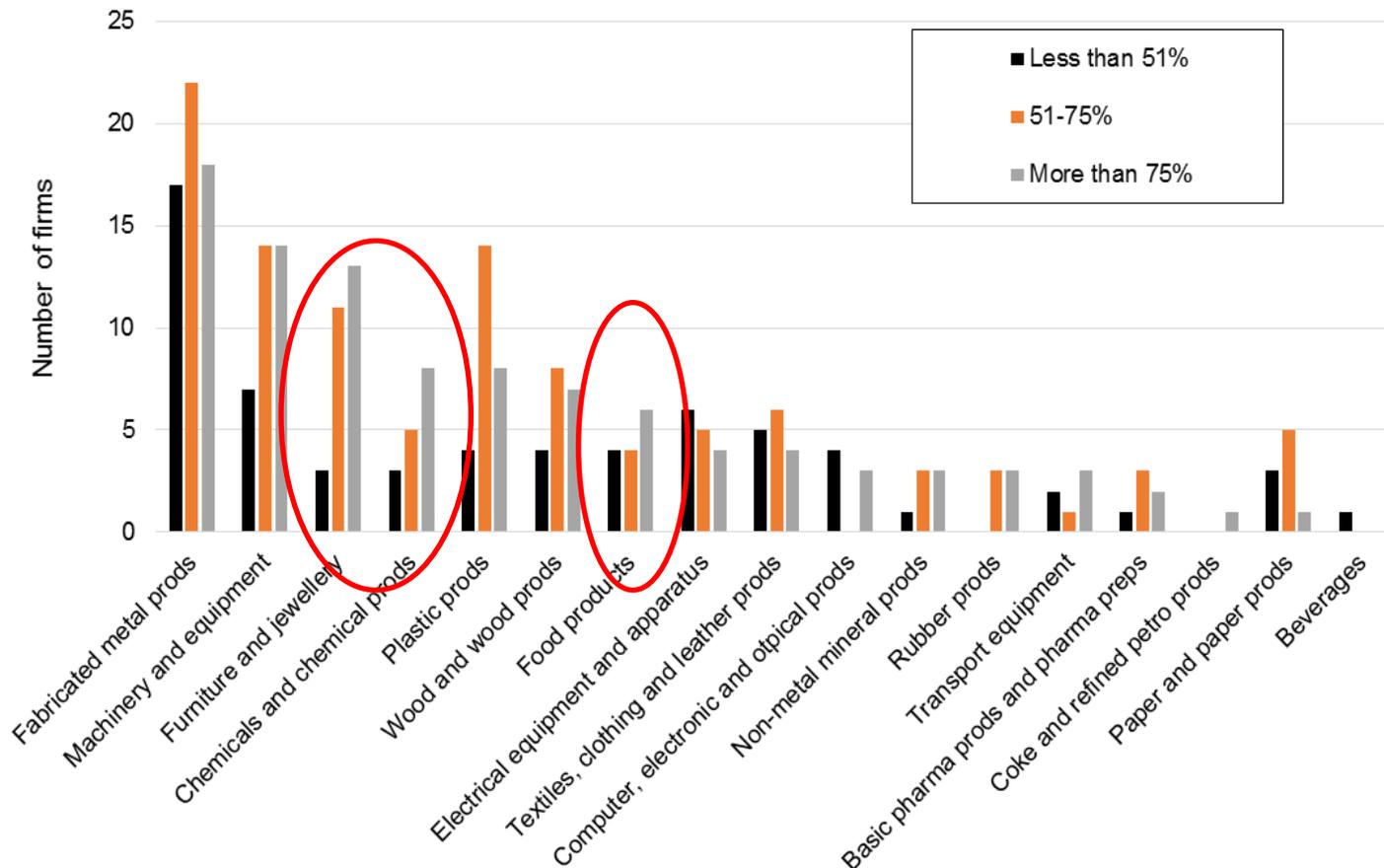
2) Electronic survey:

- 2 174 self-identified as manufacturing and manufacturing-related services
- 1 532 were surveyed, 23rd October and closed 21 January 2016
- 34% response rate (521 firms)
- Covered background, performance, competitiveness and challenges

Sector performance: very poor in fabricated metals, plastics, machinery & equipment, textiles & clothing



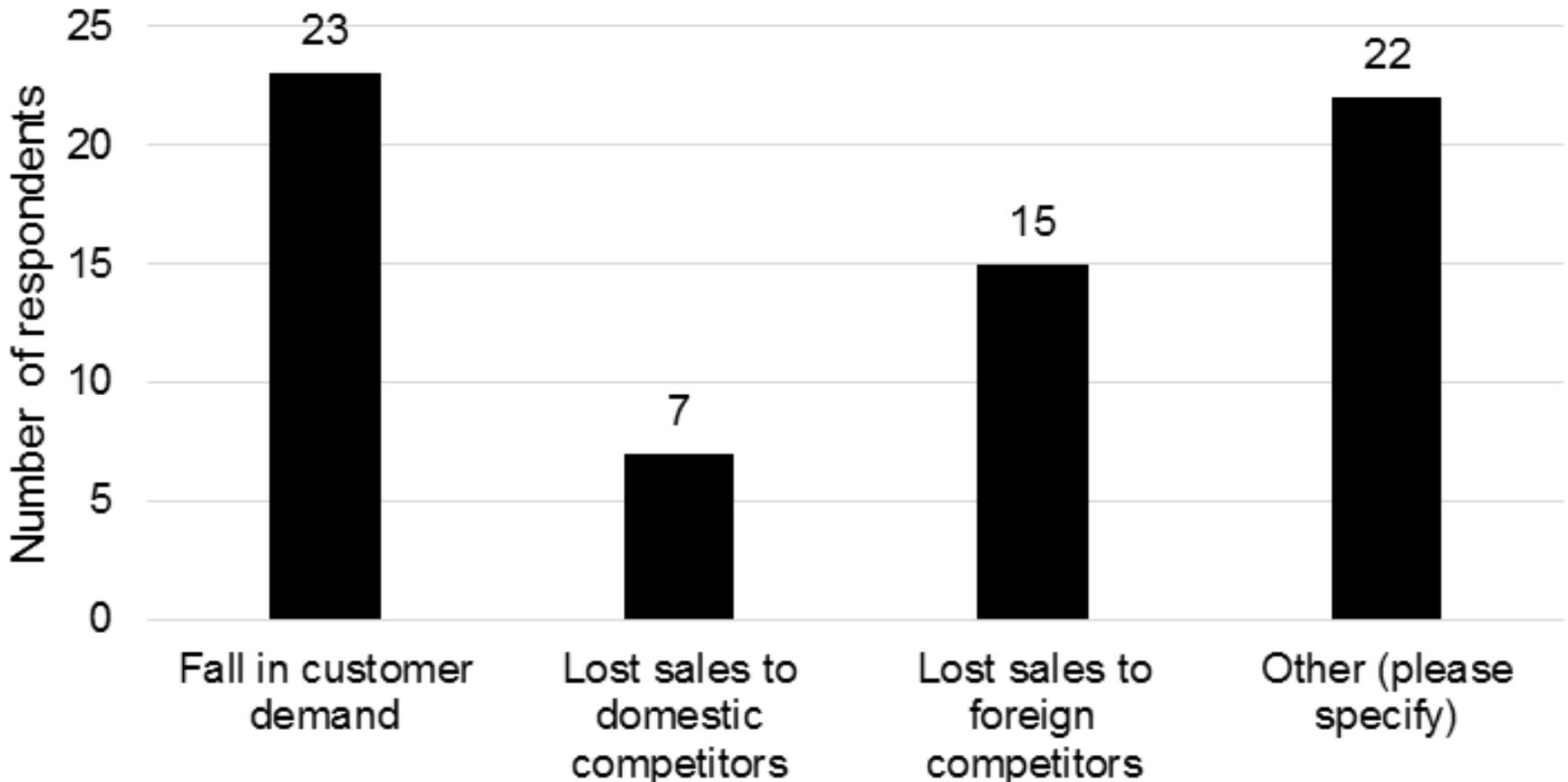
Capacity utilisation: poor in fabricated metals, plastics, machinery & equipment, textiles & clothing



- Strong relationship between capacity utilisation and growth.
- Higher capacity utilisation → lower costs → increased competitiveness

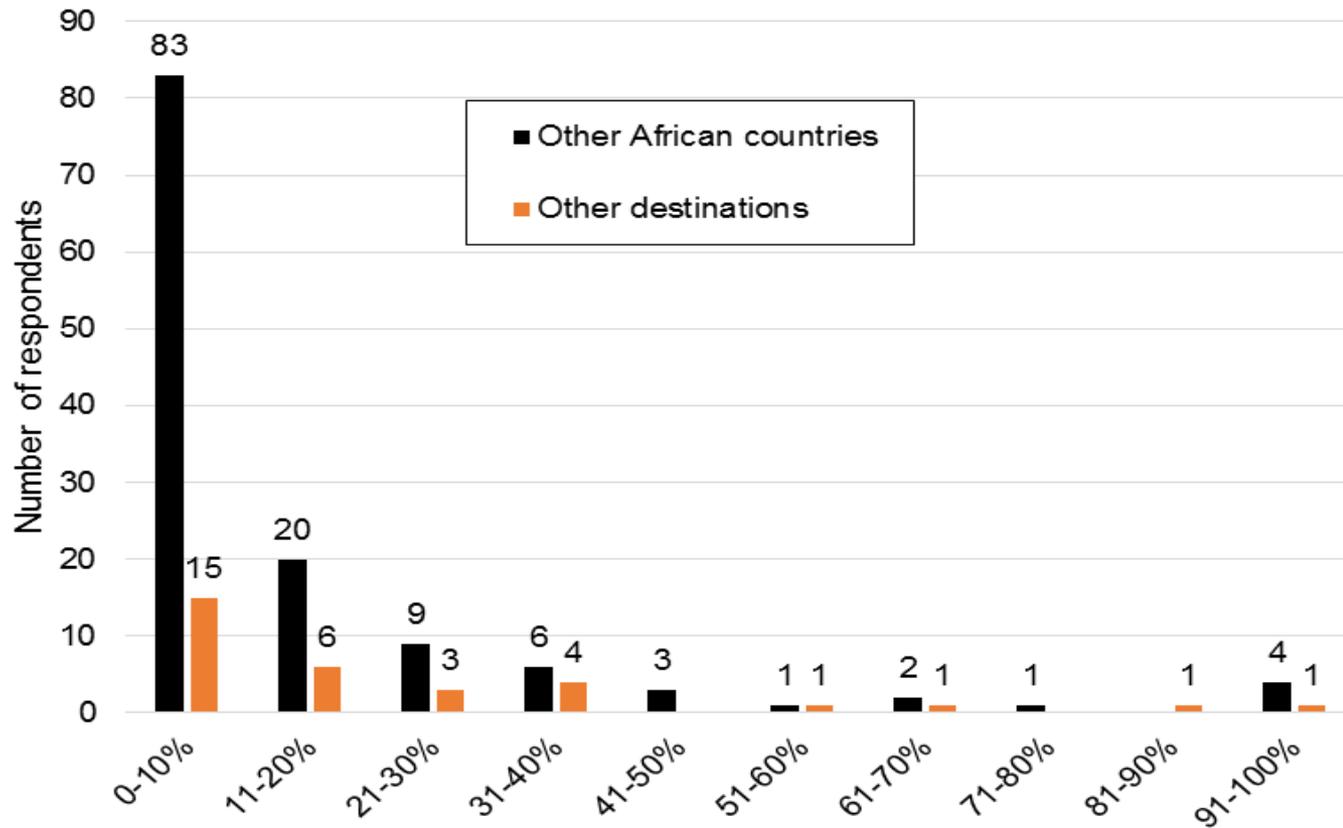
Reasons for manufacturing firm's contraction 2014-2015, n=67

- The main reasons for poor performance has been weak customer demand and lost sales to foreign and domestic competitors
- 34% of firms indicated that a **'fall in customer demand'** was the major reason behind declines in sales



Other markets

- Firms that do export, **export mostly to the rest of Africa**
- Sectors with export competitiveness (more than 61% of production) are fabricated metal products, plastics, food products, furniture, electrical equipment, and machinery and equipment

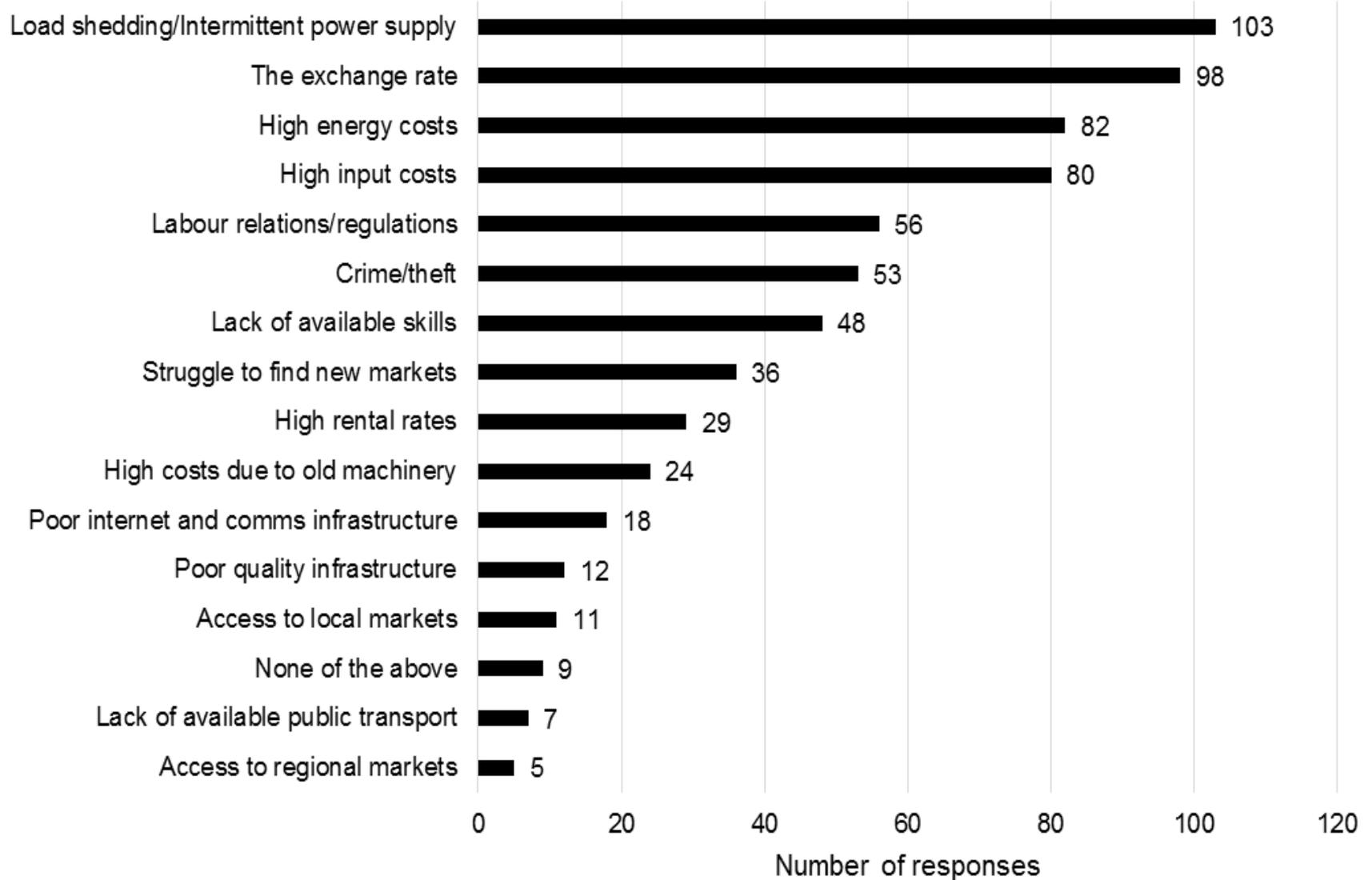


Explanations for different performance

- Weak demand, especially from mining and construction having knock-on effect.
- **Weak investment** in SA economy impacting machinery
- Consumer demand, *including* from regional neighbours, underpinning growth in food products and furniture.
- **Firms exporting are more likely to be growing.**
- Exports are predominantly to regional markets
- In sectors under stress from weak local demand, e.g. machinery & equipment, those supplying regional market performing better.
- Implications:
 - strong knock-on effects from weak demand, due to macro factors
 - competitiveness against imports and in export markets can be addressed



Main challenges faced by manufacturing firms



Understanding competitiveness

- Macro factors and power shortages are the context within which firms have to operate

What can firms do to improve competitiveness?

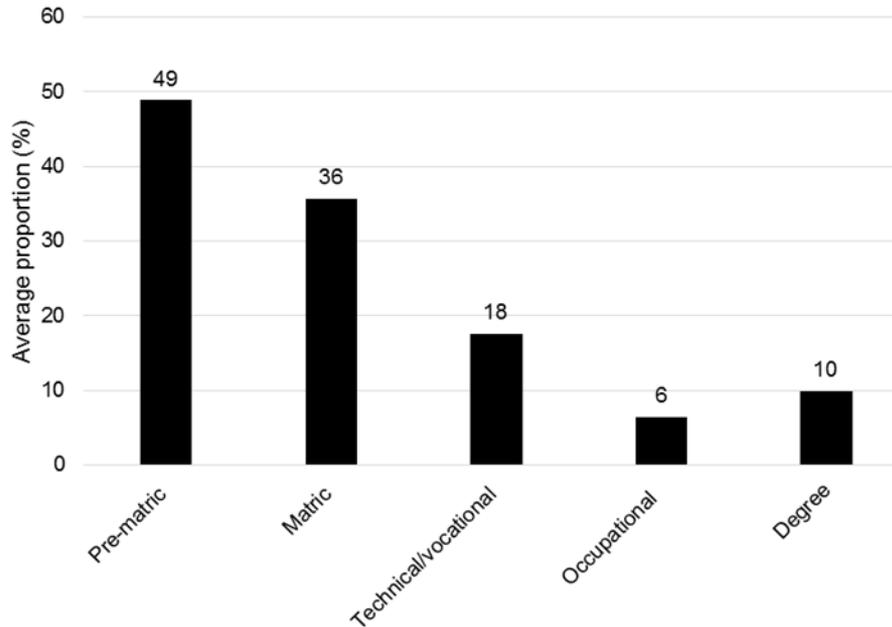
- Investment in upgrading capital
- Technology
- Skills
- Infrastructure

Investments

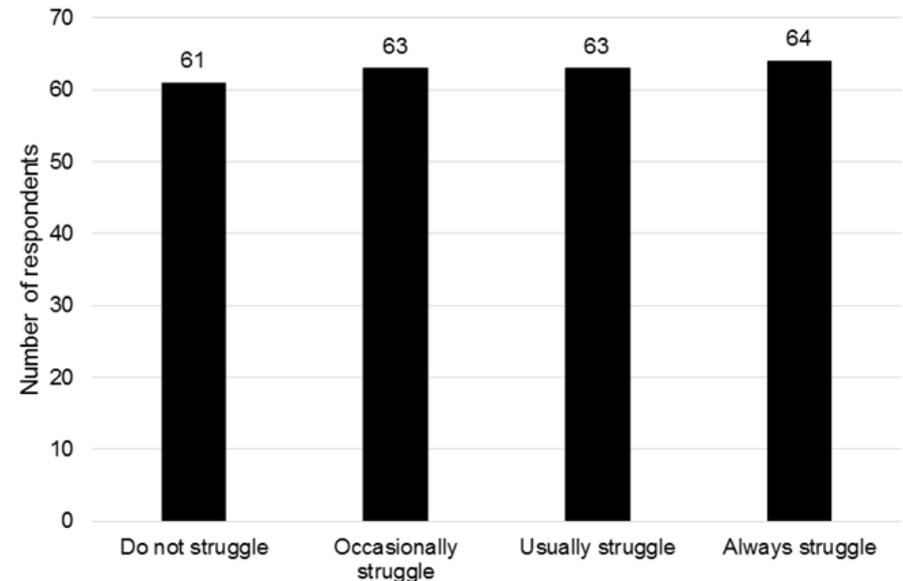
- 53% (114) made a significant investment in past 2 years
 - mainly to upgrade efficiency (78%) & expand plant (65%)
 - Mainly in computer, food and electrical prods.
- Motivations for investing in machinery & equipment:
 - Product improvement and quality
 - Produce a new product
 - Replace old machinery and equipment
 - Increase export competitiveness
- 41% of the firms are investing in R&D
- Firms generally reported being unaware of govt incentives
 - Lack of finance hindering firm investment

Educational qualifications and attracting employees

- Largest proportion of employees have a pre-matric (49%) or matric qualification (35%); only 10% of respondents' workforce have a degree and 6% have an occupational qualification
- Only 26% of respondents found it easy to hire appropriately qualified and experienced staff while the majority of firms (74%) experienced some difficulty



Average level of education per manufacturing firm, n=229



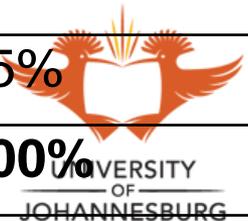
Manufacturing firm's experience of attracting employees with relevant skills and experience, n=248



Forms of training firms used by manufacturing firms

- Most firms (80%) offer **in-house training**
- Only 5% of the firms make use of vocational schools or technikons for job-specific training - this is a major gap and indicates that there is **disconnect between firms' training needs and the training offered at these institutions**

Forms of training	Number of firms	Percentage of firms
In-house training facility	196	80%
Private training schools	15	6%
Vocational/technikons	12	5%
Business partners (other firms)	9	4%
University	4	2%
Other (please specify)	12	5%
Grand Total	242	100%



Infrastructural challenges

- Almost all with power outages; do not receive warnings in advance, making them much more costly.
- Public transport is major issue
 - Most employees use minibus taxis
 - Poor transport means problems running shifts
 - Unintended consequence of people locating in informal settlements around industrial nodes
 - Improved transport would lower costs of firms and increase employment
- Basic infrastructure issues: water, waste removal etc which should be resolved by municipalities.

Conclusion

- Weak local demand and loss of market to local and foreign competitors are reasons for decline
- Despite difficult economic conditions, there is substantial proportion of firms recording growth:
 - Food products
 - Invested in upgraded plant
 - Exporting (mainly regional)
- Market failure in terms of skills – firms are investing in skills development diverting resources.
- Inadequate public transportation with almost half of the respondents citing this as a challenge
- Firms end up *diverting resources* to provide transport, buffer skills and ensure reliable supply of water & electricity

Implications & recommendations

- Stresses the importance of firm-level based surveys
- Note: improvement in power; Rand weakness mean some improvements in competitiveness
- Address the basic infrastructure challenges
 - Maintenance of substations
 - Scheduled power outages and water interruptions
- Improve public transport, especially for 3rd shift (10pm)
- Skills development
 - Understand firms' skill requirements
 - Particularly for general skills such as machine operators, welders and fork lift operators
- Trade facilitation to assist firms to enter new markets and lower costs of regional exporting
- Information dissemination of available govt incentives.