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Sectoral collective bargaining, productivity and competitiveness in South Africa's clothing value chain: manufacturers between a rock and a hard place

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1. Introduction

In 2014 the International Labour Organisation (ILO) commissioned research to examine productivity and wage trends in a number of countries. The project was motivated by data that showed that over the last two decades real wage growth had lagged the increase in value-added per worker in most advanced industrialised countries. One reason proposed for this lag was shrinking trade union membership and declining union bargaining power. Another reason was the erosion of institutional frameworks for collective bargaining. The ILO research project was carried out in developed and developing countries and included some multi-country comparative studies. The South African research was different in that it focused on a single sector, i.e. the clothing sector, and examined the relationship between sector-level bargaining over wages and enterprise-level initiatives regarding productivity. The study was concerned to locate this examination within the context of extensive restructuring in the South African clothing industry over the last two decades.

South Africa is an interesting case to study because it is a country with the characteristics of both developed and less developed countries. This mix produces complex outcomes in the labour market: of the economically active population, just over half is employed in the formal (developed) economy, about a fifth in the informal (underdeveloped) economy, and about a quarter are unemployed (excluding discouraged job seekers).[1] Informal employment is therefore much lower and unemployment generally higher than in many less developed countries. Furthermore, unlike most developing countries, South Africa has a strong trade union movement and well-established collective bargaining institutions, although they are in practice largely restricted to the formal economy. The legislative framework for labour market regulation was also overhauled in the wake of the 1994 democratic elections, considerably improving workers' rights.

These developments would suggest a rising share for labour in any productivity gains over the last two decades. But the reforms to labour market regulation ran parallel to the introduction of a neo-liberal macroeconomic policy and industrial policy measures that were initially aimed at developing an export-oriented, knowledge economy rather than assisting low-tech, labour intensive manufacturing. The intention was that there would be rapid economic growth that would put the country onto a high productivity, high skill and high wage growth path. Strong labour market institutions, including a new training dispensation, would ensure that the benefits of economic growth would be more equitably distributed. The virtuous cycle of growth and redistribution would make inroads into unemployment, inequality and poverty. Unfortunately, this has not been the case. Instead, economic growth has averaged less than 3% per annum, unemployment has remained very high and inequality has worsened. Furthermore, over the period 1982 to 2014 real wages have more or less remained level with productivity increases, albeit with fluctuations (Burger, 2016: 4-5).

The most visible consequence of inadequate growth and redistribution has been rising social unrest,[2] including industrial action and worker protests, with increasing levels of violence. The failure of a democratically-elected government to deliver significant improvements in the lives of many South Africans has meant that collective bargaining has once again become a key site for redistributive struggles. Further, workplace relations have become as adversarial as they were during the height of the struggle against apartheid. At the same time, an ideological and legal assault has been launched against the rights established by the new labour legislation on the grounds that they are restricting economic growth and job creation, and that real wages increases are outstripping rises in productivity. The allegations of 'rigidity' and demands for 'flexibility' are not unique to South Africa, but the persistently high levels of unemployment and poverty have sharpened the attacks on labour market regulation. One of the main targets of these attacks has been the system of centralised, sector-level bargaining supported by the Labour Relations Act, in particular the extension of agreements reached by bargaining councils.

[1] Own calculations using the Labour Market Dynamics Survey 2014.
[2] The other major form of social unrest has been so-called service delivery protests in many townships across South Africa, usually directed at local government.

The steep lowering of import tariffs after 1994 has compelled South African firms to restructure to remain or become internationally competitive in the context of adversarial labour relations. Productivity is usually the measure used to establish whether a country's firms are improving competitiveness; but productivity is a problematic measure. Economists and production managers use productivity in quite different ways. Economists generally use productivity as an economy-wide, *ex post fact*o measure, i.e. it is the aggregation of value-added in the economy over a prior period. They are not usually interested in what has contributed to a rise or decline in value-added but rather what the implications of shifts are for economic growth. Economists also compare trends in productivity with other measures, e.g. earnings, to understand the nature of the growth path of a country. Industrial engineers or production managers, on the other hand, are more concerned with productivity as an *ex ante,* enterprise-level indicator, i.e. rising productivity is a goal that they aim for at a firm. Their real interest is in what changes they need to make to technology, labour and the production process to improve productivity.

The latter quest by enterprise managers brings productivity back into the sphere of labour relations, because productivity lies at the heart of the daily effort-bargain between workers and managers as well as being at the core of formal negotiations over wages. Collective bargaining is after all essentially about how value-added will be distributed between wages, profits and re-investment,[3] with the latter having implications for job creation or job shedding.[4] From a labour relations perspective productivity is therefore much more than a measure: it is a highly contested issue that is rooted in the balance of power between workers and managers.

Increasingly, however, enterprises are part of value chains. Value chain analysis highlights the role of power between firms in the distribution of value along the chain. The power exerted by certain firms in value chains results in value being distributed disproportionately along chains, with the entities with the most power generally obtaining the most value (or earning economic rents). This complicates the traditional approach to power in relation to productivity, which depicts the main protagonists as labour and management. In fact, in the context of a value chain, an increase in productivity at an enterprise can be wiped out by the purchasing firm next up in the chain forcing down unit prices. The enterprise therefore improves productivity but obtains no material benefit, which means that there is no gain that can potentially be distributed to labour. If wages were to increase in this situation it would probably be at the expense of jobs.

A similar problem arises if the value chain is global. In the absence of tariff protection, lower labour costs at competitor firms in other countries can outweigh the higher productivity of a domestic firm. In such a case, unless the wages of the domestic firm decline or it increases its productivity further, or both, there will be job shedding. Shifts in the value of currency can also eliminate any competitive advantage that an enterprise might have obtained because of a productivity improvement, either because imported primary or intermediary inputs have become much more expensive or because the end product has become much more expensive (although in some cases the impact of a currency shift on import prices and export prices could offset one another).

Productivity therefore does not tell one much about of international competitiveness. It is arguably most appropriate to firms in a Fordist mode of production that are operating in a protectionist global trade regime. It is a good measure of performance if you are producing huge quantities of standard products for the domestic market, but few manufacturers are currently competing only on economies of scale and unit prices in protected markets. Many modern manufacturers, particularly consumer goods manufacturers, are subordinates in value chains that are dominated by huge retailers. They are therefore competing on, amongst other things, quality, lead time, on-time delivery, lower inventory levels, and

[3] Leaving aside tax.

[4] If the enterprise obtains a greater market share as a result of a productivity improvement and lower unit labour costs, it might employ more labour despite a rise in wages. But if it does not expand market share, retrenchments might follow an increase in productivity and wages. If so, it means rising wages for some but unemployment for others.

smaller batch sizes, any one of which, depending on the nature of the product and market, can have a much bigger impact on a firm's competitiveness than a productivity increase.

The paper that follows deals primarily with collective bargaining over wages and initiatives regarding productivity improvement in the South African clothing sector, but an argument is made that given the nature of the value chain the sectoral focus of collective bargaining is an anachronism and that the emphasis on productivity in largely misplaced. The section that follows provides a brief history of wage setting in the country and outlines the current institutional framework for collective bargaining and wage setting. The section that follows focuses on the clothing sector, dealing in turn with the impact of trade and industrial policy on the sector, how production has been restructured in the sector, the sectoral bargaining arrangement, and the issue of productivity in the sector from the perspective of, first, the economist and, second, the production manager. The fourth section presents data obtained in empirical research. It examines the initiatives taken by the sectoral bargaining council in relation to productivity and then discusses five case studies of enterprise strategies to improve competitiveness. The concluding section raises a question about the continued appropriateness of sectoral collective bargaining when manufacturers are in value chains dominated by retailers. The section proposes that alternative approaches to collective bargaining should be sought in order to bring those with economic power into the wage and productivity/competitiveness equation.

2. Wage setting institutions: continuities and changes

In 1924 the first national legislation to regulate collective bargaining was introduced in South Africa.[5] It provided a framework for the voluntary establishment and registration of centralized bargaining structures called industrial councils. The statute was followed a year later by legislation to set wages and other employment conditions administratively in sectors where there was little or no trade union organization or collective bargaining.[6] This took the form of wage determinations set through recommendations of a Wage Board. In these respects South Africa more or less followed a 'model' being disseminated in the Commonwealth early in the 20th century, although the country was exceptional in that the statutory collective bargaining system excluded African workers.(Godfrey et al, 2010: 18[fn. 63], 33 and 43)).

The labour relations system that was introduced into South Africa was arguably geared to regulate wages and working conditions for the emerging Fordist mode of production, i.e. it was envisaged that industrial councils would be established at sector and national levels by industrial trade unions representing mainly semi-skilled workers. At that time, however, craft unions were still relatively powerful in South Africa and the exclusion of African workers from the system reduced the number of semi-skilled and low-skilled employees it covered. The industrial councils that emerged were therefore dominated by craft unions representing skilled white workers. One consequence was the development of an extremely wide gap between the wages of skilled (predominantly white) workers, on the one hand, and semi-skilled and low-skilled (predominantly Africa) workers on the other hand. Another consequence was that the goal of a system of national sector-wide industrial councils was not achieved (Godfrey et al, 2010: 46-50).

By the early 1970s there were about a hundred industrial councils and 75 wage determinations. Most industrial councils were established along local or regional lines, covering sectors or only parts of sectors.(Godfrey et al, 2010: 53) Similarly, wage determinations issued by the Department of Labour covered sectors or sub-sectors in a number of districts or provinces, with only a few covering the entire country. There were, furthermore, large sectors and regions that were not covered by either an industrial council or a wage determination.[7] The result was a patchwork system of wage regulation comprising centralised collective bargaining structures at various levels and wage determinations issued administratively.

In 1979 and the early 1980s significant reforms were made to the labour statutes, including the partial de-racialisation of the system.[8] African workers could form trade unions that could represent them in industrial council negotiations and existing trade unions could admit African workers as members. Furthermore, a statute setting basic conditions of employment – excluding a minimum wage - for employees not covered by industrial councils was introduced in 1983. It operated in tandem with the Wage Act, which continued to set sectoral wages administratively via wage determinations. The wage-setting system therefore remained somewhat fragmented. After the Congress of South African Trade Unions (COSATU) was established in 1985 it put its weight behind a demand for a much more coherent system of national industrial councils, to be achieved by legislation if necessary.[9] However, despite its affiliates becoming the dominant trade union parties on many industrial councils, COSATU was able to effect only limited changes to the patchwork system of councils that had developed (Du Toit et al, 2015: 10-21).

[5] Industrial Conciliation Act, 11 of 1924.
[6] Wage Act, 27 of 1925.
[7] Importantly, the public sector was excluded from the system, as were the farming and domestic worker (private household) sectors, both of which had large numbers of employees who were paid very low wages.
[8] Trade unions could remain registered or could register for particular racial groups. The labour side of most industrial councils therefore continued to be divided along racial lines.
[9] COSATU is currently the largest trade union federation in South Africa and has considerable political power because it is in an alliance with the ruling African National Congress (ANC). Recently, however, a major trade union broke away from COSATU and it could be followed by other unions with a view to setting up a rival federation.

In 1994 the new democratically-elected government moved quickly to revamp the legislative framework for labour market regulation. New labour statutes were introduced over a period of about four years under the rubric of ‘regulated flexibility’, a term that sought to capture the balancing act that the legislation aimed to achieve between, on the one hand, redress and redistribution through improved and expanded workers’ rights, and on the other hand, the promotion of efficiency, international competitiveness and economic growth. The new statutes included the Labour Relations Act, 66 of 1995; the Basic Conditions of Employment Act, 75 of 1997; the Employment Equity Act, 55 of 1998; and the Skills Development Act, 97 of 1998.

Although there were extensive reforms to the labour relations system as a whole, there was significant continuity with regard to the collective bargaining system and the administrative determination of minimum standards. COSATU’s demand for legislative compulsion to reconstruct the industrial council system had been rejected and the new Labour Relations Act (LRA) provided an enabling framework for voluntary centralised bargaining. Industrial councils were renamed bargaining councils and almost all the existing industrial councils were registered as bargaining councils under the new Act.[10] The Minister of Labour continued to have some discretion to extend collective agreements reached at bargaining councils, although the new statute limited that discretion somewhat and sought to make the exemption systems of councils more transparent.[11]

The Basic Conditions of Employment Act (BCEA), which repealed the 1983 Act and the 1957 Wage Act, provides a floor of minimum standards, albeit with the addition of some new standards and the improvement of others, while also greatly expanding the number of workers under its protection.[12] Some changes were made to the process for setting wages, but the system of sectoral minimum wages in the form of administrative determinations (the Act changed the name from wage determinations to sectoral determinations) continued. Transitional arrangements saw the old wage determinations remain in effect until they were converted into sectoral determinations by an amendment to the Act in 2002[13](Du Toit et al, 2006: 34-36).

South Africa was therefore reintegrated into the global economy with a set of wage-setting mechanisms that were arguably designed for an import substituting industrialization strategy and mass manufacturing for the domestic market, i.e. a Fordist mode of production. It was a time when these types of wage-setting institutions were being undermined by restructuring in most advanced industrialised countries, while many developing countries were pursuing export-oriented industrialization, usually on the basis of a comparative labour cost advantage. In the study of the clothing sector we explore the question of the appropriateness of the wage-setting mechanisms in more detail.

[10] At that point there were 81 industrial councils (Standing *et al*, 1996: 151).

[11] Each bargaining council is obliged to have a procedure whereby employers may apply for exemption from some or all provisions of a bargaining council agreement.

[12] It includes the farming and domestic worker sectors.

[13] At that point there were only 19 wage determinations (Standing *et al*, 1996: 145).

3. The clothing sector in South Africa

3.1 Trade and industrial policy

From its earliest beginnings the South African clothing sector focused on supplying the domestic market. The domestic focus was strengthened by economic sanctions against the country in the 1980s. By the early 1990s the sector sourced the majority of its fabric from local textile mills, supplied 93% of local clothing demand, and exported only a small proportion of total output (October, 1996: 6). The domestic orientation made clothing manufacturers dependent on the country's retail sector. Initially the retail sector comprised many relatively small independent firms, but it became increasingly concentrated in the latter half of the 20th century: by the end of the century five retailers accounted for over 70% of formal clothing sales in the country (Vlok, 2006: 228; Morris and Reed, 2008: 10). These retailers have come to exercise immense power in the value chain, especially since local manufacturers did not have much success in finding markets outside the country.

In 1994 a major change took place. The apartheid government made commitments as part of the Uruguay Round of GATT to reform its tariff system. The commitments marked a sudden change from the slow transition away from import substituting industrialisation that the country had embarked on. This tentative process had resulted in a policy that combined import controls and export promotion. Almost overnight, however, the country embraced tariff liberalisation and endorsed policies that aimed at an export-oriented growth path. The commitment made by the outgoing apartheid government was upheld by the newly-elected ANC government upheld.

The clothing industry had moved early in attempting to get ready for the challenges, mainly because of the efforts of the trade union, SACTWU, which saw the establishment of the Swart Commission in 1992.[14] The Commission was a multi-partite body that had a brief to plan a way forward for the clothing and textile industries. SACTWU wanted to use the Commission to create a development plan that would encompass tariffs as well as policies regarding investment, technology, productivity, employment and labour relations across both the textile and clothing sectors (Hirschsohn et al, 2000: 117-118).

There was a great deal of urgency at the time. The Swart Commission noted that the clothing sector needed "(t)echnology upgrading, skills development, improved process management systems, international specialization and dynamic marketing efforts" (1994: i). The ISI policy had meant that "(c)ompetition was restricted and levels of efficiency were almost certainly low by international standards", while "aggregate levels of specialisation within the sector was extremely low."(Gibbon, 2002: 15). The industry, furthermore, lacked "capital, technology and innovation", had "high labour and management costs in relation to output", and its domestic-market focus meant it "was never able to achieve economies of scale" (Barnes, 2005: 7). The sector needed to move fast to become internationally competitive and export oriented, and to achieve labour-absorbing growth. Clothing exports would need to target high-priced market segments and niches, while small clothing firms and "cottage industries within the informal sector" would need support to assist them to formalise (Swart Commission, 1994: iii, 7, 9). The only issue on which the Commission could not reach consensus was the schedule for tariff reductions.

The ANC government opted for a phase-down of tariffs somewhere between the two schedules proposed by different interest groups in the Commission: tariffs would reduce over eight years with an end-rate of 40% in 2002. At the same time, government rejected almost all the other recommendations made by the Swart Commission, including the supply-side measures. These had been seen as a critical counterweight to the tariff phase-down that would help the clothing industry to increase its competitiveness. The only concession to the sector was to the introduction of the Duty Credit Certificate (DCC) scheme.[15] The end

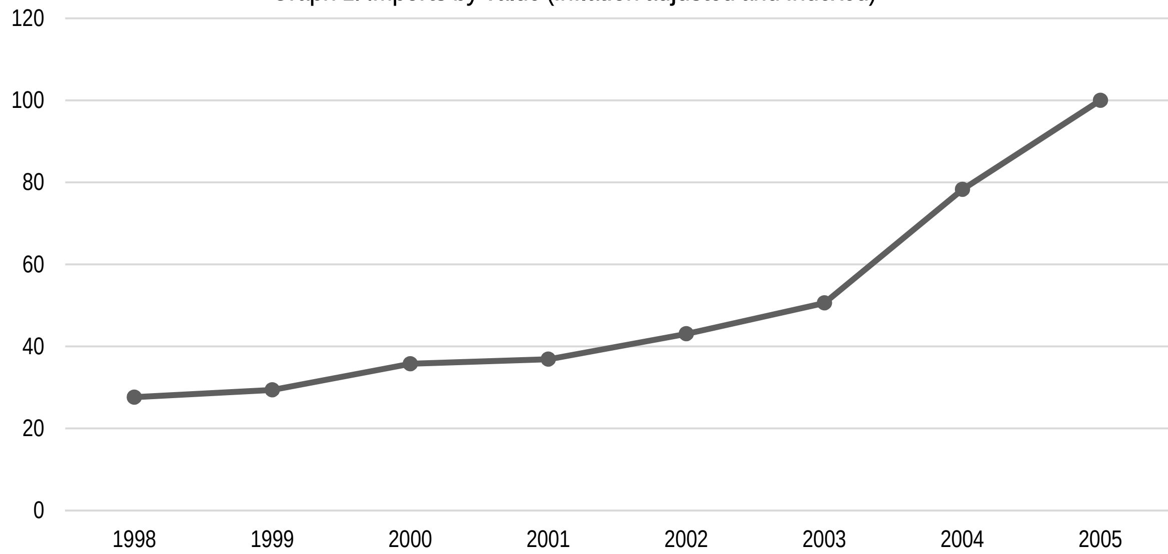
[14] The Commission was also known as the Panel and the Task Group.
[15] The DCC scheme encouraged exports by providing a rebate on duty on imports in proportion to the amount exported. The scheme initially backfired because it allowed clothing manufacturers to sell any rebates they earned,

result was an industrial policy that consisted primarily of tariff reductions and just one programme to incentivise exports (Hirschsohn et al, 2000: 118-120; Gibbon, 2002: 16).

The commitments to the WTO were part of a neo-liberal shift in policy that was expressed most explicitly in the Growth, Employment and Redistribution (GEAR) macroeconomic strategy, which was markedly at odds with the policy direction suggested by the new labour legislation being introduced at the same time. The industrial policy that followed was strongly influenced by GEAR, with its objective of "employment creating international competitiveness."(Black and Roberts, 2009: 211-212)

Neither macroeconomic policy or the various industrial policies and measures to improve competitiveness and export performance had much to offer the clothing industry. The focus was instead on knowledge-intensive activities, advanced technology, infrastructure, and broad rather than sector-specific programmes (Ibid 214-215). Restructuring in the clothing industry has therefore largely been driven by the phase-down of tariffs. This can be seen most visibly in the rapid increase in clothing imports displayed in Graph 1. Clothing from China dominated the imports (Morris and Reed, 2008: 12-13, 16-17; Vlok, 2006: 231; Staritz, 2010: 11). Exports by local manufacturers did not off-set the share of the domestic market that they had lost to imports: after a brief upsurge in the early 2000s, when the value of the Rand dropped steeply, the quantity and value of exports has declined and is now almost negligible.

Graph 1. Imports by value (inflation adjusted and indexed)



(Source: B&M Analysts, 2007)

Subsequent trade policy, which has focused on negotiating bilateral and regional trade agreements, has not helped the clothing sector. In fact, the regional agreements have encouraged the relocation of clothing manufacturers to low-wage neighbouring countries because they are able to export garments duty-free back into South Africa.[16] On the other hand, while the trade agreements entered into with the European Union, the European Free Trade Association members, and MERCOSUR do not appear to have disadvantaged the sector, they have also not had any major benefits. The African Growth and Opportunity Act (AGOA), which is a unilateral trade preference arrangement granted by the United States to qualifying African countries, held out the promise of significant benefits. But South Africa was not

without restricting to whom the rebates could be sold. Retailers bought rebates at a discounted rate and used them to import garments, thereby reducing demand for locally-produced clothing. The DCC scheme was replaced in 2005 by the Interim Development Programme (IDP), which lasted until early 2007. From the second year of its operation it provided that rebates could be sold only to other manufacturers.(Barnes, 2005: 9-10).

[16] The long-standing Southern African Customs Union (SACU) and more recent Southern African Development Community (SADC) Free Trade Protocol.

classified as a 'less developed' country, which excluded it from a special rules of origin dispensation for the clothing sector. The result has been that South African clothing manufacturers have obtained no benefit from AGOA.

Even the extreme step of triggering WTO safeguard measures in agreement with China did little to protect the local clothing sector. The measures were allowed for only two years and had the perverse effect of stimulating the major South African retailers to diversify their sourcing to other East Asian countries besides China. As soon as the quotas ended – China refused an extension - imports of Chinese clothing rapidly increased to their previous levels. Most importantly, there is no evidence that the quotas helped stimulate local output or stopped job-shedding in the industry. A few years later that tariff rate of 40% was increased to the bound rate of 45%, but this is likely to have had a limited effect.

In the wake of the rejection of most of the Swart Commission recommendations, it took about ten years before new attempts were made to introduce measures to assist the clothing sector. In 2004 the Department of Trade and Industry (DTI) launched a process to craft a Customised Sector Programme (CSP). It provided for 26 Key Action Programmes (KAPs) that were aimed at stabilising the sector in the short-term. The objective was to help manufacturers recapture the domestic market (mainly by cracking down on illegal imports and under-invoicing as well as improving the monitoring of the DCC scheme); get into export markets (by replacing the DCC scheme); and increase investment and capital upgrading (by, for example, preferential lending rates). Firm-level competitiveness would be enhanced by giving support to regional cluster initiatives as well as benchmarking exercises that would assist local manufacturers to reach global standards. More effort would also be put into better coordination of domestic value chains by setting up a Textile and Clothing Development Council and forming value chain working groups that would target niche markets. Finally, there was a hint in the CSP of a push for increased labour market flexibility, but it did not spell out what this might entail[17] (Barnes, 2005: 13-14).

The CSP process however collapsed when SACTWU made application to the DTI for the introduction of the safeguard measures against China. The issue sharply divided the parties and retailers withdrew from the process, which had the effect of side-lining the CSP.(Financial Mail, 2009: 33-35) But the CSP was followed quickly by the announcement of the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plan (IPAP 1). The latter was followed in 2010 by the so-called IPAP 2. The NIPF was the latest stage of an evolving industrial policy that saw an increasing focus on specific sectors. IPAP1 identified the clothing, textiles, footwear and leather sectors for support and it took up many of the proposals made in the CSP. It proposed to redesign the DCC scheme so as to assist manufacturers to recapture domestic market share. It also recommended a review of input costs into the sector that would entail an investigation of the downward adjustment of import duties on selected textiles and fibre, full implementation of country of origin labelling regulations, and support for productivity upgrading and skills development.(DTI, 2007: 22-23) The extension (or second phase) of this policy in IPAP2 saw the scaling up and broadening of support for the clothing industry, including the introduction of the Production Incentive and Competitiveness Improvement Programme, an illegal import programme, and an innovation and technology programme (DTI, 2010: 35, 65-68).

Importantly, the various assistance measures are available only to firms that are in compliance with the bargaining council agreements, other labour legislation and tax laws (Financial Mail, 2009: 33).

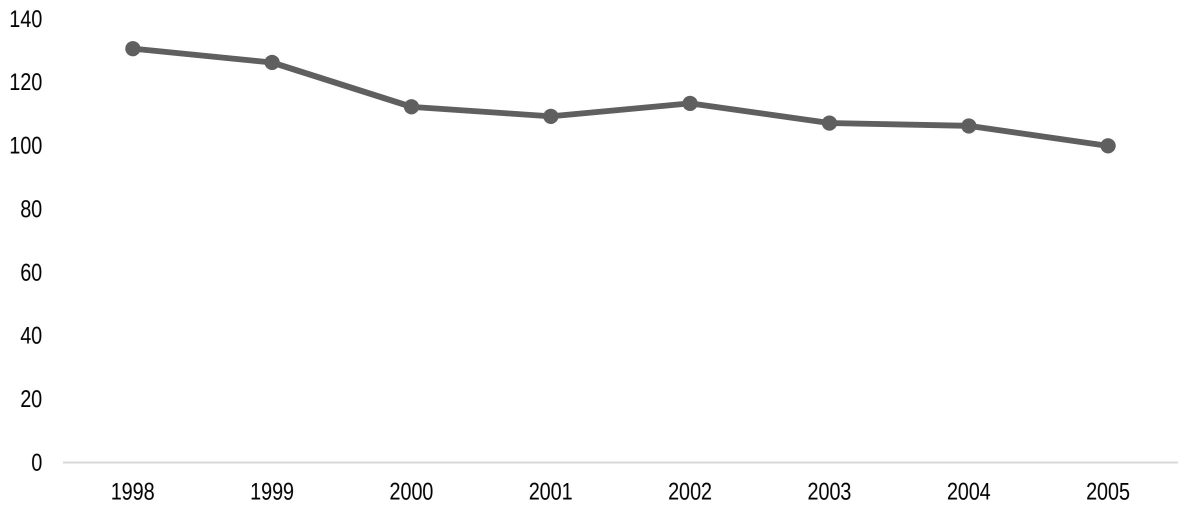
3.2 Restructuring and the challenge of competitiveness

Reduced import tariffs meant an influx of cheap clothing and gave local clothing retailers a wide range of options as to where they sourced garments. This shrunk the market share of local manufacturers and put huge pressure on them to improve their competitiveness (see Graph 2 below). According to key

[17] One of the KAP's refers to the need to increase "the flexibility of the SA labour market so as to shorten amortisation periods" (Barnes, 2005: 13). It is probable that this refers to the introduction of shift work, which SACTWU had opposed for a number of years.

informants, productivity improvement is just a small part of the range of measures being adopted to improve competitiveness.

Graph 2. Domestic clothing sales by value: 1998-2005



(Source: B&M Analysts, 2007)

Firms in the industry appear to have adopted four different strategies to survive; the strategies are not mutually exclusive. First, they can stay in the Metropolitan Areas, pay much higher wages, and compete with imports on the basis of efficiency and proximity to their customers. This is probably the best hope for the industry but there are arguably not many firms that have the management capacity and expertise to adopt the quick response, 'fast fashion' route to competitiveness.

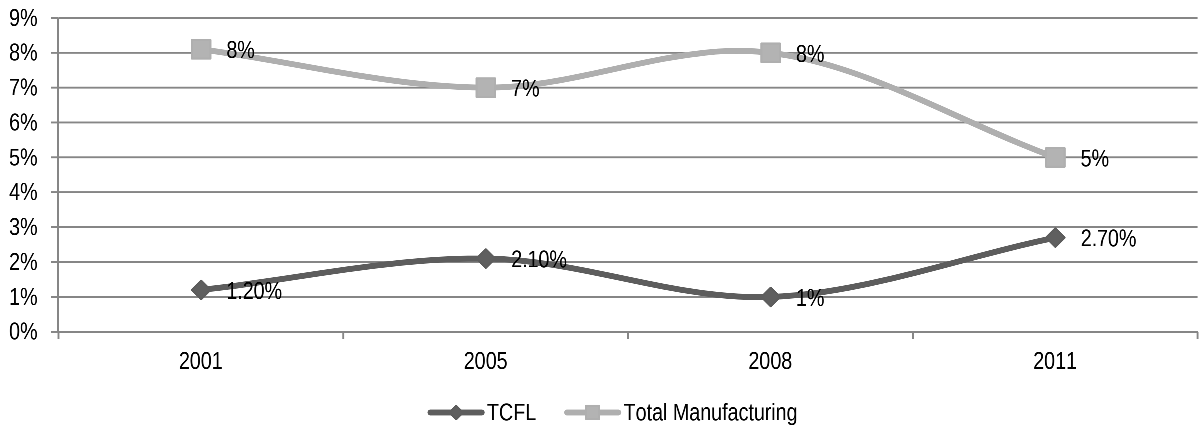
Second, they can stay in the Metropolitan Areas but divest themselves of their manufacturing operations and become a design house, thereafter sub-contracting work out to CMTs and homeworking operations, which gives them flexibility in terms of order sizes and also a low wage option if the CMTs or homeworking operations are informal (i.e. not registered with the bargaining council or compliant with its agreements).

Third, they relocate to the Non-metropolitan Areas to take advantage of lower wage rates, with the option of trying to operate 'under the radar' of the bargaining council, in which case they can unilaterally set wages and other conditions. Fourth, they relocate some or all of their operations to neighbouring countries such as Lesotho and Swaziland. .

This segmentation of the sector into formal and informal components poses problems for measuring employment and understanding wage levels and productivity in the sector. The data provided by the NBCCI on employment in the sector refers only to workers at firms registered with it, i.e. formal firms. Similarly, the wages set through the NBCCI negotiations are paid only at the firms that are registered with it <u>and</u> complying with its agreements. The number of employees in the sector that are operating outside the NBCCI can be estimated by comparing household survey data with the NBCCI data, but there is only anecdotal data on the wage levels being paid at non-compliant and informal clothing manufacturers. Needless to say there is also no data on productivity in the latter firms. The debate in the country about the future of the clothing sector and the role that sectoral minimum wages plays in destroying jobs has therefore taken place largely in the absence of data on productivity.

The 'winners' in the story of the South African clothing sector are the big domestic retailers. The country has historically had a relatively large local market that led to the growth of a sophisticated and extremely concentrated retail sector. Once trade liberalization took place and retailers found alternative sources for products outside the country, the balance of power vis-à-vis manufacturers shifted firmly in the retailers' favour. The fact that local clothing manufacturers have been unsuccessful in getting into export markets makes them entirely dependent on the domestic market and puts them under the thumb of the major retailers. Manufacturers are now price takers; there is very little room for negotiation with retailers or the design houses that act for them. In the latter case prices are pushed even lower because the design house must make its margin. The profit margin in clothing manufacture is therefore very thin, especially when compared to the profits being earned by the retailers (see further in section 5 below). The profit margin for the clothing sector is compared with manufacturing as a whole in Graph 3 below.

Graph 3. Profit margins in manufacturing and the TCFL sector: 2001 - 2011



(Statistics SA, P3002, Manufacturing Industry)

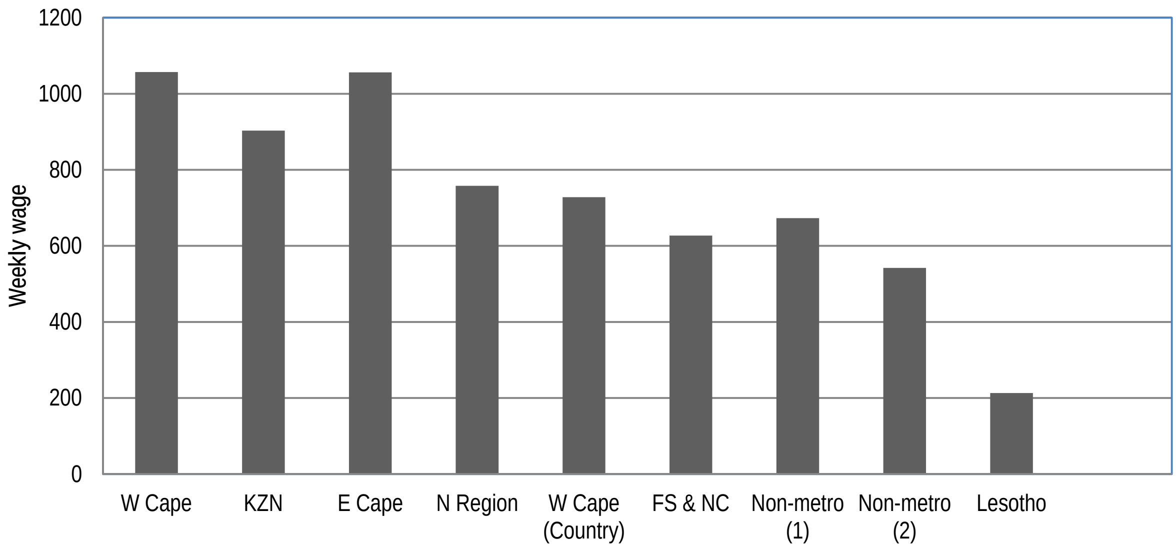
3.3 Sectoral bargaining, wages and employment

The clothing sector in South Africa differs from most other developing countries in that it is very well organised by a single trade union. Trade union organisation has a long history in the industry, as does centralised collective bargaining. Initially collective bargaining in the sector took place in regional industrial councils. The agreements of the industrial councils were generally extended to all employers and employees falling within their jurisdictions, i.e. mainly urban and peri-urban areas in the major cities. In the early 1940s a wage determination was issued that regulated clothing manufacturers in all areas of the country that fell outside the jurisdiction of the regional industrial councils. The determination, however, set significantly lower wages rates and inferior conditions to those in the industrial council agreements, which meant that there was still some advantage to manufacturers located in rural areas. A pattern was therefore created early in the development of the industry that saw wages and working conditions differing between the regional industrial councils, and between the industrial councils and the area covered by the wage determination (Barker, 1962: 99, 101, 105-106 (Table XII), 109).

The attractiveness of the lower wage areas increased significantly from the 1960s due to government programmes that sought to encourage manufacturers across all sectors to locate factories in so-called 'decentralised areas'; in all cases these were rural areas. The main motivation for these decentralisation programmes was to stop the migration of African workers from rural to urban areas by creating jobs closer to their 'homelands'. Over time the decentralisation programme was extended and incentives were increased. Besides encouraging local manufacturers to relocate, the programme also attracted a large number of Taiwanese investors. Wages were extremely low in these areas; when the subsidy for wages from the decentralised programme was applied it resulted in labour costs becoming negligible. The scheme, later renamed the Regional Industrial Development Programme (RIDP), ended only in 1996.

The clothing sector in South Africa therefore had a strong regional character. It was organised by large regional unions and collective bargaining took place in regional industrial councils. Manufacturers outside these regions had to comply with a wage determination. However, wages moved up very slowly because the regional unions became bureaucratic and toothless. Collective bargaining increasingly became an annual formality that left wage levels lagging well behind the rest of the manufacturing sector (Barker, 1962: 99, 371-374) All this changed as worker militancy rose during the 1980s, resulting in a series of mergers in the sector that saw the establishment of SACTWU.[18] The new union introduced a much more aggressive approach to collective bargaining and after a protracted struggle forced a merger in 2002 of the regional industrial councils into a national bargaining council.[19] Because the national bargaining council was able to get its agreements extended the entire country was covered by the wages it set, making the sectoral determination redundant.[20] This development assisted the union to close the wage gaps between the major regions, and between urban and rural areas, although, as Graph 4 shows, the differences are still quite significant.

Graph 4. Weekly wage rates for semi-skilled workers by region: 2013/4)



(Own calculations from NBCCI collective agreements and Lesotho wage orders)

The above graph also shows the much lower wages paid in Lesotho (it should be noted that the differential is actually greater because social benefit fund contributions make total labour costs in South Africa considerably higher, whereas there are no social benefit funds for clothing workers in Lesotho).

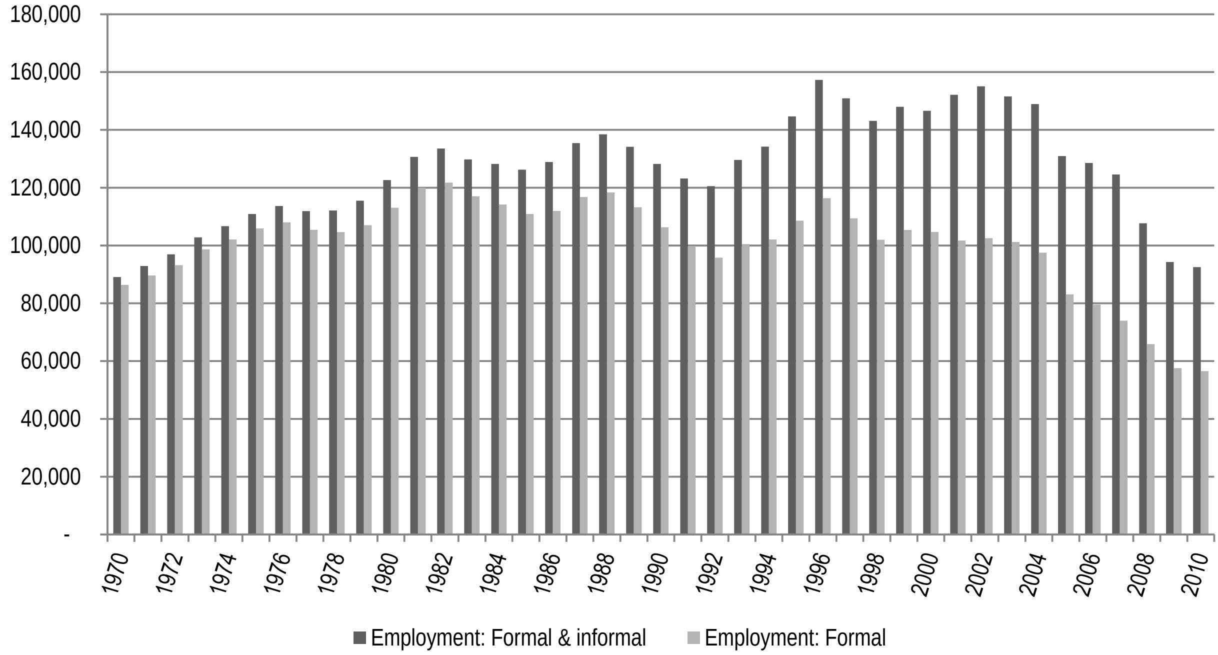
The drive to increase wages and narrow differentials came at the same time that cheap imported clothing was flooding into the South African market. The result was that the formal part of the industry shrunk in size and many jobs shifted to informal employers, many in home-based firms. The term ‘informal’, however, needs to be treated with caution. The fact that the firms are in homes or small workshops that are not registered with the bargaining council or complying with its agreements, does not mean that the firms are producing clothes for ‘informal’ outlets. In fact, through intermediaries such as design houses, many of these small informal firms are supplying the formal retail sector, even some of the major retailers.

[18] It organises workers in the clothing, textile, footwear and leather sectors.

[19] The council was registered in 2002 and a set of collective agreements now covers the clothing sector nationally: one set of agreements covers specified Metropolitan Areas (this set of agreements mostly cover the areas that had fallen within the old regional councils); one agreement covers Non-metropolitan Areas, but with wage differentiation for two sets of non-metropolitan areas (this agreement replaced the sectoral determination for the clothing industry); and one agreement covers certain ‘country’ areas in the Western Cape.

[20] A sectoral determination had replaced the wage determination that had covered the clothing industry in the areas falling outside the regional industrial council. The sectoral determination was withdrawn soon after the national bargaining council was established.

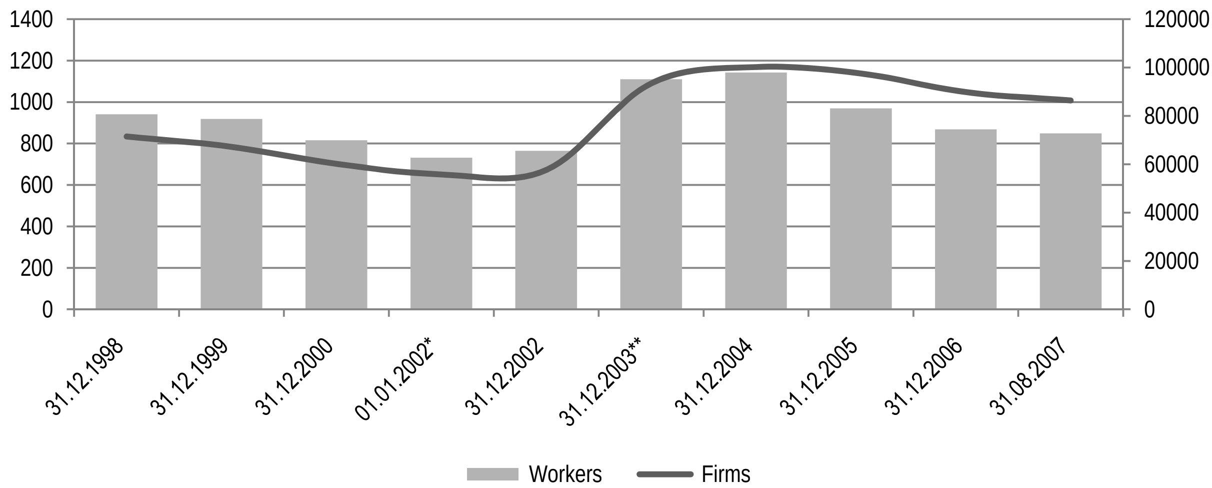
Graph 5. Formal and informal employment: Wearing apparel: 1970-2010



(Source: Productivity SA/Quantec)

Graph 5 shows that formal employment in the clothing sector peaked in 1982. At that point informal employment was relatively low. However, in the period through to 1996 formal employment fluctuated, while informal employment grew. From 1996 to 2004 formal employment declines fairly steadily, while informal employment stays consistently high. From 2004 formal employment drops off sharply, as does total employment, while informal employment remains substantial (but no longer off-sets the decline in formal employment).

Graph 6. Number of firms and workers in the clothing industry: 1998-2007



(Department of Labour; Human Sciences Research Council, 2008; NBCCI)

Graph 6 shows the decline in formal firms (i.e. registered with the NBCCI) and formal employment. The increase in the number of firms after 2002 but declining employment reflects the downsizing of many of the larger firms and the increasing number of small CMTs in the sector.

Restructuring by firms has also seen manufacturing operations move to low wage areas in the country (i.e. Non-Metropolitan Areas) and/or to neighbouring countries like Lesotho and Swaziland. Or, as indicated above, firms have transformed themselves into design houses that take orders from retailers but sub-contract out the manufacturing to small CMT operations in urban areas (some of which are informal), or in the Non-Metropolitan Areas, or to the factories in Lesotho and Swaziland. The result is that retailers can deny knowledge of where their clothing is being manufactured, merely stating that they work with 'suppliers' that are free to place the orders where they see fit, which is generally where they get the lowest prices.

In recent years a variation on these processes has emerged, particularly in the KwaZulu-Natal (KZN) province. The clothing sector in KZN had historically been quite dispersed, with a large number of manufacturers having moved to rural areas outside the jurisdiction of the industrial council, where they were also able to access 'decentralisation' benefits. However, once the NBCCI was formed in 2002 it had its agreements extended to cover the entire country. Many of these manufacturers therefore saw the decentralisation benefits disappear in 1996, followed by the repeal of the sectoral determination (previously the wage determination) a few years later. They were now compelled to comply with higher, centrally negotiated wages, without the benefit of a wage subsidy. The response by many was to not comply with the NBCCI Non-Metro Areas agreement. So, a category of firm emerged that was registered with the bargaining council but was refusing to comply with the council's agreement. The size of this new category of non-compliant employers is significant: in September 2004, 71% firms and 52% of employees were in this category, while in August 2009, the figures were respectively 53% and 26%.[21] The issue of non-compliance in the clothing sector exploded into the limelight towards the end of 2010. This is discussed in more detail in the case study on Newcastle manufacturers below.

[21] The data is taken from documentation for the Seventh Annual General Meeting of the National Bargaining Council for the Clothing Industry (15 October 2009). It should be noted that the data on non-compliance excludes unknown, unregistered firms and their employees, mainly because such firms are operating illegally and nobody knows how many of them there are or how many workers they employ. If these figures were known and were added to those of the registered but openly non-compliant firms then they would likely significantly increase the level of non-compliance, if one goes on the estimates of key informants in the industry (e.g. the Executive Director of AMSA estimates that unregistered firms are probably producing about 20% to 25% of all clothing made in South Africa, and employ about the same proportion of all workers in the clothing sector nationally).

4. Measuring productivity and linking wages to productivity

4.1 Measuring productivity: the economist's perspective

We noted above that over the period 1982 to 2014 productivity was roughly in a one-to-one relationship with real wages at the economy level, i.e. on average across the period productivity increases had equalled real wage increases (Burger, 2016: 4). In the clothing sector, however, the declining domestic market share and failure to get into export markets has gone along with rising productivity, in particular labour productivity. This mirrors the steep decline in formal employment in the sector (see Graph 5 above). It is important to emphasise that in the graphs that follow productivity is being measured using <u>formal employment</u> in the clothing sector.

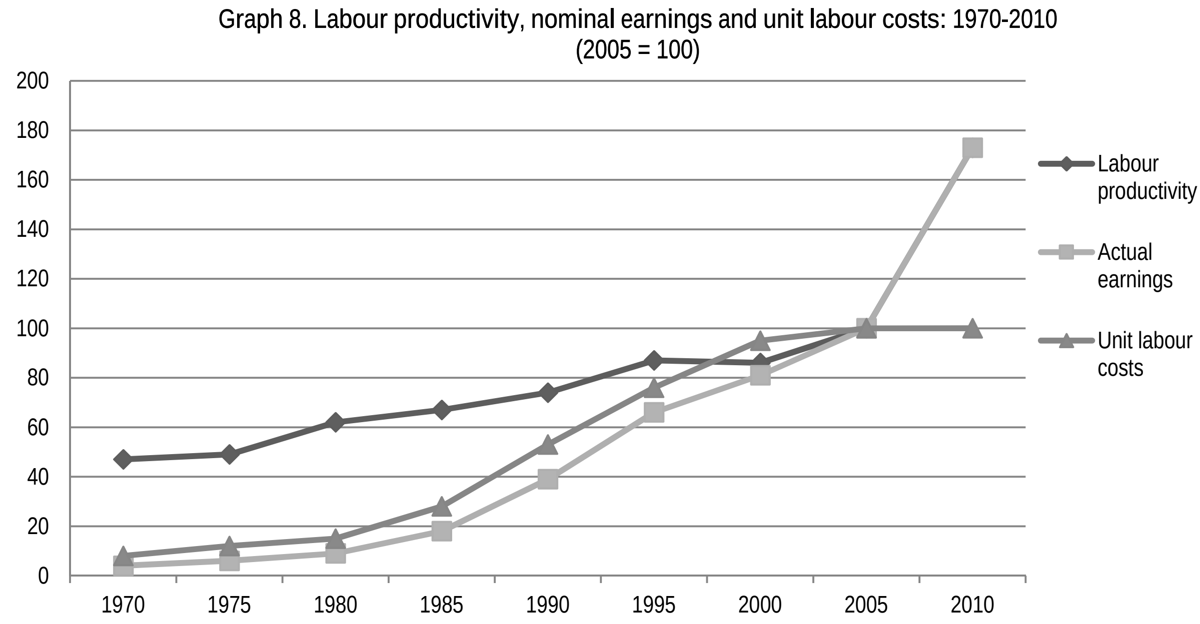
Graph 7. Capital, labour and multifactor productivity: Clothing sector: 1970-2010 (2005 = 100)

(Productivity SA, Productivity Statistics 2010, 74)

Graph 7 (above) shows that labour productivity increases steadily from 1970 to 1995, flattens from 1995 to 2000, and then increases steeply from 2005. This is consistent with slow efficiency gains while the sector was under tariff protection through to aboout 2000, followed by rapid job shedding as tariffs come down and imports penetrate the domestic market. The result is a steep increase in labour productivity from 2005 to 2010.

Graph 8 compares labour productivity, real earnings and unit labour costs. As Graph 7 (above) also shows, labour productivity increases steadily from 1970 to 2005, and then rises very sharply between 2005 and 2010. Real earnings show a similar trend, although rising more slowly in the 1970 to 2005 period. In both cases the very sharp increase is linked to the steep decline in employment, with real earnings for workers that remain in formal employment rising fast for the first time. The unit labour cost, which shows the share of labour cost in the value added per unit, rises from 1970 to 2005, which is indicative of real wages remaining above labour productivity. In 2005, however, labour productivity rises above real earnings, with the result that the line for unit labour costs turns downward. It appears that from 2005 labour, despite rising real earnings, is getting a decling share of value added.

Graph 8 below compares labour productivity, nominal earnings (i.e. actual wages) and unit labour costs. The graph emphasises the very low nominal wages earned by formal clothing workers from 1970 through to 1985, which are well below labour productivity. In 1985 the series of union mergers began that ultimately saw the formation of SACTWU in 1989. This development impacted significantly on collective bargaining, with the result that the rise in nominal earnings steepens to 2005, narrowing the gap with labour productivity. Unit labour costs closely track the increase in nominal wages. But from 2005, when formal jobs are shed rapidly, labour productivity and nominal wages inccrease at the same rate, with the result that unit labour costs flatten.



(Productivity SA, Productivity Statistics 2010, with own calculations)

Taken together the graphs illustrate a formal industry that has shrunk considerably, but which is achieving a rapid increase in labour productivity and equivalent nominal wage increases. Competition from cheap imports, more effective collective bargaining, job shedding, and what seems to be better management to improve competitiveness, explain the trends. What is important to emphasise is that labour productivity increases steeply (along with wages) after the formation of SACTWU and the establishment of the national bargaining council. The result is that unit labour costs remain static. Labour productivity therefore rises steeply in the context of sectoral bargaining in the national bargaining council, albeit with the loss of many formal jobs.

The trends displayed in the graphs are also consistent with the picture of a clothing sector that has become sharply segmented into a formal sector that is achieving greater competitiveness by working more closely with domestic retailers, and a large informal sector. While we have a rough idea of the number of employees in the informal part of the sector, there is no data on the output and productivity of informal firms, and only anecdotal accounts of wages paid in informal firms. The sector is still smaller than the formal sector, and research suggests that competition is largely on price, productivity is probably low due to smaller orders and weak management systems, and wages are lower (with some variation) than those paid by formal firms. The case studies below give a view at the workplace level of wages, productivity and competitiveness in the two sectors.

4.2 Measuring productivity: the production manager's perspective

The manufacture of clothing is labour intensive and labour productivity has always been closely monitored. The standard minute value (SMV) for assembling a garment is the basis for measuring the performance of production lines in all clothing factories, as well as for production scheduling and for setting productivity incentive targets. It was also the basis for a manufacturer costing a garment when quoting a price to a buyer, although this is less so the case today, given that retailers or intermediaries generally dictate the prices for orders. The standard minute value entails breaking the manufacture of the garment down and assigning a time for every operation. Adding these times together gives the SMV for the garment.[22] There are some universal minute values for operations that are provided by various agencies, or the factory can itself do a test runs and time operations, although managers can often estimate these values with some accuracy based on similar garments made in the past.

When costing a garment a manufacturer would in the past use the standard minute value to arrive at a costing, and would then add in an amount for the fabric and accessories, overheads and profit margin. Then there would be some negotiation with the buyer. However, as noted above, manufacturers are now generally given a price for an order on a 'take it or leave it' basis, although there might be some negotiation about the type of fabric and trims in an effort to make the garment a bit cheaper and create some profit for the manufacturer. In a sense a manufacturer is often forced to work backwards from the price quoted by a design house or retailer, working out what their total daily operating cost is and calculating how long they will take to complete the order at their prevailing efficiency level. If this produces a figure that is lower than the price or at a break-even level they will take the order. If they are going through a slack period they will take the order even if it means making a loss, just to keep their factory operating (Godfrey, 2013: 123).

It is important to emphasise that although the clothing industry is labour intensive the labour cost component of garment prices is usually about 20% for a full package manufacturer. The labour cost component is much higher for a CMT because a CMT is effectively just selling labour, i.e. assembly; most other major costs, such as fabric and accessories, are borne by the retailer or intermediary. However, shifts in the prices of fabric as well as other costs such as factory rent, rates and taxes, electricity, transport of inputs and outputs, and import and export charges can significantly outweigh any competitive advantage a manufacturer is able to gain by improving the efficiency of direct labour. Furthermore, competition between CMTs is being exploited by powerful retailers to put constant downward pressure on prices, so that manufacturers' margins are being continually squeezed. Retailers are also reducing lead times and the size of orders, and often change aspects of the style in mid-order. All of these factors reduce the ability of manufacturers to improve their competitiveness.

It is for this reason that manufacturers will talk about the challenge to the sector as being to improve 'competitiveness' rather than 'efficiency' or labour productivity. The survival of the local clothing industry, including many semi-skilled jobs filled mainly by women, depends on clothing manufacturers achieving improved competitiveness. Improved labour productivity is only one part of their attempts to increase their competitiveness. Lean manufacturing techniques, for example, can improve competitiveness by reducing the stock of work in progress and raw material inventory levels without affecting productivity. Or competitiveness might be sought by shifting to more complex products (more fashion-oriented garments) and offering retailers much shorter lead times and quicker stock replenishment (so-called 'fast fashion'). Such a strategy might even lower labour productivity while improving the competitiveness of the firm.

[22] If the factory has 100 direct workers, a 10-hour day (600 minutes), and times all the operations to assemble a garment at 8.9 minutes from cutting, to sewing, to finishing and through to packing, it can work out that operating at 100% efficiency, it should produce 6 741 garments in a day. If one included the wage rate (or overall labour cost of a worker) for each operation one would get a minute value for the garment and a unit labour cost for the order. However, this would not take account of the fact that generally employees cannot work at 100% for any length of time. So, the equation generally takes into account a certain proportion of time for workers 'relaxing' as well as time for interruptions due to workers needing to go to the toilet or because of delays in getting fabric or accessories onto the sewing lines. The efficiency rate is therefore usually adjusted downwards to order to arrive at an optimum efficiency for the particular factory (e.g. the aim would to produce 5 055 garments per day; a 75% efficiency rate). This would be the rate that is used as the target for one or more sewing lines working on a particular style and if there is a productivity incentive scheme it will be the threshold above which the incentive bonus kicks in. Over time managers learn what the efficiency rate of their factory is, i.e. it might average at an efficiency rate of 65% rather than regularly achieving the 75% optimum, or some lines are more efficient than others.

Two initiatives, the KwaZulu-Natal (KZN) Clothing Cluster and the Cape Town Clothing Cluster, have been launched to assist manufacturers and retailers to introduce world class manufacturing techniques and quick response mechanisms in order to achieve competitiveness.[23] In some cases the results have been impressive (see case studies below). However, what is important about these initiatives is that employee efficiency or labour productivity is only one facet of a range of measures to improve competitiveness.

The initiatives are being driven by a consultancy, BM Analysts, which provides detailed reports on performance measures to participating firms, comparing their performance over a number of years with the underwear sub-sector, South African CMT firms, and international data. In the case of one firm the measure of employee efficiency, using 2004 as a base (i.e. 100), showed a sharp increase of 37% in 2005, a very slight decline to 2006, and then a further increase of 5% in 2007. This performance was significantly better than the rising trends shown for the underwear sub-sector, South African CMT firms, and the international data. However, the increase has to be viewed in the context of improvements in turnover and a rise in the number of employees, as well as declines in raw material stock, total inventory, work in progress inventory, rejects, internal scrap, the supplier return rate, the average throughput time, production time lost to style changeovers, production time lost to machine breakdowns, and so on. It is unclear whether these performance improvements have resulted in increased wages, but it is evident that existing jobs have been saved and some new jobs have been created.

4.3 Linking productivity and wages in sector-level collective bargaining

Collective bargaining over any matter that will have an impact on labour costs must take place at the NBCCI. A collective agreement negotiated at this forum may be extended by the Minister of Labour to all clothing firms and employees. Given the crisis in the sector, the employer parties at the NBCCI have sought to negotiate provisions that allow for ‘flexibility’ in the agreement. They have also introduced mechanisms to improve productivity. Some of the measures have only an indirect link to wages (e.g. reducing absenteeism or introducing a ‘twilight shift’), while others have sought to establish a direct link between wages and productivity. The main challenge to making this link is that wages are negotiated at a sectoral bargaining forum, i.e. the NBCCI, whereas the details of productivity schemes can only be worked out at the enterprise level. Negotiations at the NBCCI have therefore focused on the design of a framework for productivity schemes, with agreement on the details delegated to managers and shop stewards at individual enterprises.

The main steps taken to date that will have an indirect impact on productivity are:

- A memorandum of understanding on absenteeism that sought to promote a Code of Best Practice toolkit to address high absenteeism;
- Provision for a twilight shift (i.e. a shift between 16.30 and 23.00);
- The establishment of a new training and productivity body for the sector.

The measures that have sought to directly link productivity to wages or a component of wages, are as follows:

- In 2008 a framework for productivity incentive schemes was introduced which provided that employers must pay 0.5% of the weekly wage into a dedicated bank account, to be opened by the employer with a SACTWU shop steward as a co-signatory. This would constitute the pool of money for the incentive scheme. Employers and workers were given a limited period within which to agree on the design of a productivity incentive scheme, including the incentives to be paid. If no agreement was reached in the prescribed period the money in the bank account had to be paid out to workers as wages. Productivity schemes had to include all workers and could not

[23] The union is not involved in these initiatives.

have any provisions that would lead to a downward variation of working conditions. The agreements in respect of the schemes had to be registered with the NBCCI.

Agreements regarding productivity schemes were reached at only a few enterprises and only two firms still had schemes in terms of this provision at the time research was conducted.

- In 2011/12 a scheme was introduced to pay new employees (or those re-entering the industry after a significant absence) a lower wage until their productivity improved. New employees of firms in the Metro Areas would receive 70% of the minimum wage rate and those at enterprises in the Non-Metro Areas would receive 80% of the minimum wage.[24] The continuation of the scheme past March 2014 was contingent upon employment at compliant employers in the industry increasing by at least 15%. Progress towards this increase was benchmarked bi-annually.

The scheme barely got off the ground before it was superseded by the scheme below, reportedly because it had created resentment amongst new entrants who had increased their efficiency level to that of experienced workers but remained at the lower wage rate.

- A productivity scheme for new workers that stipulated a wage of 80% of the prescribed minimum for that job with the possibility of earning more based on achieving productivity targets. It therefore sought to address the resentment caused by the prior scheme, because new employees could earn the full wage if they met the performance standards prescribed in the enterprise's scheme.

An obvious challenge is that it is difficult to design the scheme in a way that applies only to the new employees on the production floor and excludes other workers. It is also puzzling why the scheme targeted only new employees and did not apply to existing employees. Employers sought to deal with these anomalies in subsequent negotiations at the NBCCI. They proposed that a new minimum wage for all jobs should be set at 80% of the existing minimum wage, with the proviso that any existing employees paid above the new minimum wage would not have their wage reduced. All workers would be able to participate in the incentive scheme to earn above the minimum wage (or the wage they are earning), but there would be no obligation to participate in the scheme. As with the earlier agreement, management and shop stewards would have six months from the signing of the national framework agreement to agree to the details of a scheme at the enterprise level.

The sticking point in the negotiations came with regard to the question of what would happen if agreement could not be reached at the enterprise level, i.e. the minimum wage would fall by 20% without there being any way workers could make it up. Employers were proposing that if agreement could not be reached then the option of an incentive scheme would fall away, i.e. the new 80% minimum wage would stay in place. It is understood that the union was pushing for the wage to revert to 100% if no agreement could be reached on an incentive scheme within six months. Given that the original proposal made the introduction of incentive schemes at enterprises contingent on a national framework agreement being reached that would set the incentive portion of the wage, failure to reach agreement at the NBCCI effectively sunk the plan.

There seems to be consensus that the attempt to marry sector-level wage negotiations with enterprise-level productivity agreements has not been a success. According to employers this is mainly because shop stewards at the enterprise level either refuse to agree to such schemes or make unrealistic demands regarding the incentives. The above measures introduced by the NBCCI do not however preclude firms from attempting to introduce their own schemes. It is clear, however, that any proposed incentive scheme would need to be approved by shop stewards at an enterprise if it was to have any chance of success.

[24] 'New employees' were defined as those with no previous working experience in the clothing sector or those who had not been employed in the sector for at least three years.

4.4 Linking productivity and wages at enterprise level: five case studies

(a) Case study 1

ABC Clothing Manufacturers is a large firm in Cape Town that produces basic clothing for the lower end of the market. It introduced the first incentive scheme initiated by the NBCCI (see above). The union pushed for the incentive to be targeted at absenteeism, i.e. improved attendance would attract an additional payment from the incentive account. Management, however, was skeptical about the scheme because it was believed that 0.5% of the total wage bill would not create a big enough incentive to persuade workers to change their behavior. Furthermore, as more and more employees qualified for the payout due to improved attendance, the amount each received would decrease, further reducing the incentive. The scheme was nevertheless implemented, but according to management had no impact on absenteeism.

At about the same time management decided to introduce its own incentive scheme (not linked to any provision in the bargaining council agreement). They brought in a consultancy with expertise in incentives to assist them with the design and implementation of the scheme. They decided on a 'reward and recognition' scheme that was aimed at bringing dignity into the workplace. It focused on the performance of the production team or line rather than the individual and targeted productivity and quality, with some flexibility to allow management to shift the emphasis to one or the other as required. ABC advanced a relatively small amount of money to fund the scheme.

The consultant started by meeting with shop stewards, emphasizing to them that although the introduction of a scheme had been initiated by management it would be implemented and administered by the consulting firm independently of management. The shop stewards stated they would not oppose or promote the scheme but argued that workers should have a choice as to whether to participate in it or not. The scheme was therefore made voluntary.

The consultant then met with workers. He stated that workers believed they had no hope of promotion, of learning new skills or of earning more through working harder and they did not trust management. They had, he said, a "desolate world view". They believed that only by standing together could they make any gains. Nevertheless, about 85% of workers agreed to participate in the scheme.

The key aspect of the scheme was that it would reward productivity <u>improvement</u>, rather than focusing on the achievement of targets, which are usually reached only by the top performers. The latter employees, it was argued, would generally perform well with or without an incentive scheme. The idea was therefore to focus the scheme on raising the performance of the 'losers' rather than the 'winners', i.e. it had to give 'losers' the chance of being 'winners'. By focusing on improvement across all workers it was envisaged that about a third of the workforce would be incentivized, i.e. recognized and rewarded.

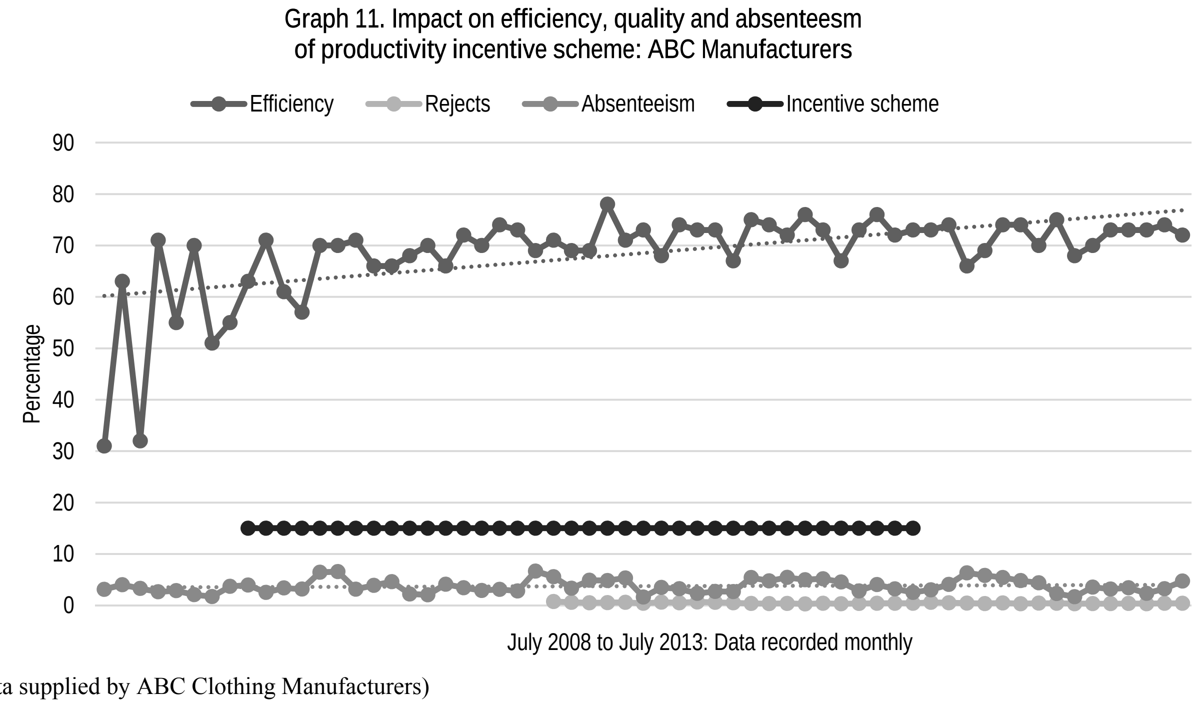
Given that there was not a large pool of money, much of the initial thrust of the scheme was on "symbolic recognition". The scheme was launched at a ceremony at which each participating worker made a pledge to improve productivity. The consultant then introduced pink and blue flags – pink for the top performers and blue for the top improvers – that were awarded to the relevant teams monthly in a short ceremony. This meant that about one-third of the factory would have a flag for about a month. The teams or lines in possession of the flags were called the Dream Teams and their performance was further highlighted through posters and various other notices. Furthermore, if a worker in a Dream Team had their birthday in the month that her team or line held a flag, she would be given a scratch card, which would range from ZAR20 airtime to a ZAR500 voucher for a meal at a popular restaurant.

After the first year the results were sufficiently impressive for ABC to continue the scheme and double the original budget. This allowed for a redesign of the scheme. The scheme was re-launched and all workers had the opportunity to sign up to it or withdraw. The next step was to provide all workers in the Dream Teams with scratch cards (not just those who were having a birthday). In the course of the year further 'soft' recognition measures were introduced, e.g. all the women got an SMS message on Mother's Day.

Then the issue of the existing bargaining council incentive scheme came up, i.e. the one that provided 0.5% of the wage to be put into an incentive account (see above). In light of the fact the scheme was not working management proposed to shop stewards that the pool of money that had accumulated be added to the budget for the Dream Team scheme. The shop stewards agreed and the incentive scheme continued into its third year – having continued to improve performance - with an even bigger budget.

In the course of the third year, however, the scheme came to an abrupt halt. During that year the wage negotiations at the NBCCI ran into difficulties, which resulted in a much more adversarial climate developing at factories. In this context the shop stewards at ABC demanded that the scheme be stopped and that the money that was funding the scheme be paid out as a wage increment. Management stopped the scheme and has not tried to replace it with anything new.

ABC Manufacturing supplied data that spans the period during which the incentive scheme was in operation (i.e. March 2009 to April 2012). The data records efficiency based on finished and checked garments, and absenteeism, from nine months before the introduction of the incentive scheme through to 15 months after the scheme ended. In addition, the percentage of rejects and seconds is recorded from about half-way through the scheme until 15 months after the scheme ended. The data is presented in Graph 11 below.



(Data supplied by ABC Clothing Manufacturers)

The period when the productivity incentive scheme was in operation is represented by the straight line set at 15%. Before the introduction of the scheme efficiency was fluctuating wildly but had begun to stabilize and improve when the scheme started. After the scheme was implemented the trend line indicates steadily rising efficiency (from about 63% to over 75%), with significantly reduced fluctuations. Efficiency dropped when the scheme ended and then fluctuated at around 70%.

Graph 11 also shows that the productivity incentive scheme had a negligible impact on quality, measured by rejects and seconds. The proportion of rejects and seconds remained very low throughout the scheme as well as after the scheme ended. Similarly, there was little or no impact on absenteeism. The trend line is straight at about 3.5% absenteeism with moderate fluctuation in the data around this level (related mainly to the seasons, with high points in the middle of winter and lower absenteeism during the summer months).

Importantly, however, numerous other changes took place over the entire period reflected in the graph: production lines changed over to different clothing styles, a new production method was introduced, equipment broke down, and strikes took place. The changes all impacted on production and therefore on efficiency, which emphasises that the productivity incentive scheme was not the only variable influencing the indicators measured in Graph 11.

(b) Case study 2

XYZ Clothing Manufacturers started with six machinists about 25 years ago and currently employs over 500 workers. It increased employment in just about every year since its establishment, during a period in which the rest of the clothing industry had shed thousands of jobs. It has a very close relationship with one of the major retailers, which has clearly benefitted the firm. It was a foundation member of the Cape Town Clothing Cluster and is well advanced in introducing world class manufacturing techniques and offering a quick-response option for retailers. As part of this process it measures a wide range of performance indicators. It has however not introduced a productivity incentive scheme. Productivity (or efficiency) is only one of the many areas of performance it is seeking to improve. Some of the key indicators are listed in Table 1 below.

Before commenting on the trends it is important to reflect on the range of indicators that the world class manufacturing methodology uses to measure performance.[25] The indicators mirror a competitive strategy that is based on a quick-response model of manufacturing for fast-fashion oriented retailers rather than a strategy based on large volumes of low-priced standard products. While efficiency is the key indicator for the latter, efficiency is just one of a number of critical areas that have been targeted (and is possibly less important than many others) in the quick response strategy.

[25] It should be noted that there are many more indicators than those listed in the table.

Table 1. XYZ Manufacturers performance indicators (2004-2008)

	2004	2005	2006	2007	2008
Cost control					
Total inventory holding levels (operating days)	18	20	7.4	7.5	3.5
Raw material inventory holding levels (operating days)	14	15	5	5	2
Work in progress inventory holding Levels (operating days)	3	4	1.2	1.5	0.5
Quality					
Internal reject rate average (rejects as % of output)	4	1	0.5	0.12	0.21
Internal rework rate average (reworks as % of output)	3	5	4	3.4	4
Average supplier return rate (returns as % of units delivered)	5	7	2.5	2.5	1.6
Value chain flexibility					
Average throughput time (hours from start to end of production)	-	45	32	28	21
Average batch runs (number of units)	-	1500	1500	1200	1200
Production time lost due to style changeovers (% of total production time)	-	5.5	3	2.5	2
Employee efficiency					
Real output per employee (index based on 2005 figures)	-	100	98.2	95.5	91.1
Output per employee (ZAR 000's)	39.5	56.3	57.8	59.9	57.1
Human resource development					
Training investment (% of total remuneration bill)	5	8	10.7	4.9	2.2
Absenteeism rate (% of total staff)	3.73	2.8	2.8	3.4	4.2
Labour turnover rate (% of staff replaced per annum)	10	6	18.4	19.3	22.8

(Source: B&M Analysts, 2007)

Table 1 shows that between 2004 and 2008 XYZ significantly improved its performance with regard to the cost control and value chain flexibility indicators, and made major gains in respect of the quality and employee efficiency indicators. By contrast, investment in training declined by more than half, labour turnover more than doubled, and the absenteeism rate declined but then rose (although it is still fairly low by industry standards). Therefore, while world class manufacturing methods had significant impacts on a range of performance measures, there appears to have been a negative impact on workers.

(c) Case study 3

PQR Clothing Manufacturers also has a very close relationship with a retailer and is a founding member of the Cape Town Clothing Cluster. The firm began introducing incentive schemes about ten years ago with the intention of improving the earnings of employees at the same time that productivity increased. The general manager (GM) summed up the firm's approach to productivity as follows:

> We see productivity as being a management responsibility. We decide what they are going to make, what they are going to make it with, we decide the materials they are going to use, we go out and get the orders and bring them into the business, [and we decide] the machines they are going to work on. And we as management do the planning that is necessary to ensure that everything arrives on time and people don't get held up and lose time. So, none of the productivity KPIs or KPAs that are required is the responsibility of the worker directly. The only thing they are responsible for, when they have been trained, is to get on with doing their work, and they will do that gladly most of the time. If they have got the right machine and have had the right training they will generally give you as much as they can possibly give. We measure that down to the n'th degree in the factory, there are targets set, etc. But if someone has to sit and wait for work, nobody [i.e. no worker] can do anything about that. And unfortunately one of the historic mantras of

> management is that 'these people are lazy, they don't want to work and productivity is low'. But it is nothing to do with that; it is all about management. We have set that down in our business, that if things go wrong it's a management problem. That is the starting point. So on that basis how can we make sure when we are being very productive and getting everything out and doing well, how do we make sure that the workers earning the lowest level of income can also benefit.

Most workers at the firm are paid the minimum wage rate prescribed by the NBCCI, wages the GM acknowledges "are not enough, nobody can survive on them." Increasing workers' wages, however, has to go along with raising productivity because the firm is competing "with the rest of the world" for its survival. The latter is not just a throw-away line. Every order the firm receives from the retailer for which it works has been first sent to the East (i.e. China) to be "competitively quoted". The firm is allowed to quote up to 10% more than the competitive quote to take into account the cost of importing the garment (i.e. transport costs and import duty). In fact, a 40% premium would be more realistic, but the retailer allows the local manufacturer only a 10% increase on the price. Furthermore, even if PQR quotes a price within the 10% limit it is not guaranteed it will get the order. The buyers of the retailer will take into account other factors, such as how soon the order can be made by PQR compared to competitors, before it contracts with PQR for the order. So, despite the close relationship PQR has with the retailer, there are almost always negotiations with the buyer on the quoted price and other performance requirements related to the order.

PQR has responded to the challenge of international competition by significantly improving its efficiency over the last ten years and growing its market share: it has gone from supplying 25% of the retailer's range (43 000 units) in 2004 to 70% (480 000 units) in 2013, which is more than a 1000% increase in annual output.[26] Over the same period employment at PQR increased by only 25%.

In order to achieve the above improvements the firm has introduced a number of incentive schemes, all of which it developed itself. Probably the most important is the time-off incentive scheme. In terms of the scheme each team gets a weekly production target. To achieve the target they have to work at over 80% efficiency. If the line reaches that target for the week, it is allowed off at 12.30 pm on Friday instead of 3.00 pm. Everybody on the line will get off except workers who have been absent or late for more than two hours in the week, or any workers who are facing disciplinary action. There is no limit to how many lines can go off early or how many times a line may go off early; but on average at least two of the eight lines are rewarded with time off on a Friday.

The GM of PQR Clothing Manufacturers states that the introduction of the scheme almost immediately resulted in the efficiency rate rising from 60% to 85%. Thereafter it continued to rise to 120%, directly as a result of the scheme. To put this into perspective, in 2004 the firm was taking about 16 minutes to make a garment that it should have made in 10 minutes. It is now making that same garment in eight minutes.

Overtime is also used as an incentive to improve performance and simultaneously give workers more money. The firm works on the basis that some overtime is the norm, because their weekly production planning aims at an output that exceeds their capacity. Overtime is voluntary but most workers want to work a few hours overtime in a week to get extra money. But overtime is linked to efficiency because a line can work overtime only if it is performing at 80% efficiency or higher. If the lines are not performing at 80% efficiency and he needs extra capacity he will contract out the work to CMTs. Workers cannot therefore create a need to work overtime by working slowly; instead, overtime is a reward for performing well.

Another incentive scheme sees workers earning points over the year according to various criteria such as absenteeism, disciplinary action, late coming, and so on. The GM has a formula he applies to the accumulated points and uses it to identify the top 25 employees. Each year the firm buys 25 kitchen

[26] At the same time the retailer has significantly expanded its footprint in the country.

appliances in the price range from ZAR 250 to about ZAR 500, and the employee with the most points is given first choice of an appliance, followed by the person who is second, and on down the list until all the appliances have been taken.

PQR also benefits from the performance of the retailer with which it has a close relationship. The retailer's buying teams are given a bonus every quarter based on sales. In a particular quarter this might be a bonus of 25% of salary. The percentage (e.g. 25%) is fed back to the GM who translates it into a bonus for the entire factory, in which every employee shares in proportion to their wage. Although it usually ends up not being a very big amount for each worker, it can be significant when measured against a low weekly wage.

Underpinning the incentive schemes is rigorous management of absenteeism. Any person that takes off from work has to fill in a detailed form regarding their absence, even if they have a medical certificate. It is a process that the GM says is geared to make employees think twice before they stay out of work. The result is an absenteeism rate that is under 3%, as against an industry average that is reportedly over 5%.

The key to the success of the incentive schemes is probably to be found in the environment within the firm, which the GM refers to as the firm's "culture". He explained that:

> Culture is more important than anything. The role of culture in your business: giving people recognition, appreciating them, making their work environment as comfortable as possible, and absolute fairness in treatment across the board. Everybody gets treated the same. Everybody gets an opportunity to have a say. Development and training [are happening] all the time. Everybody in this business has been through some form of training in the last six months, in a class room, not just learning on the job. Going through some form of lean awareness, teaching them about what it is to save on waste, making them part of the problem- solving. We have a 'lean team' in the factory made up of workers and they will go to all the different departments – they will come into my office and say "why is it in such a mess… you've got a lot of waste lying around here", and I have to go and answer why. But it is really good and people feel really appreciated.

He went on to indicate the critical role that training and better communication had with regard to productivity:

> And the whole idea of training people and giving people more knowledge is an absolute no-brainer, we just get better and better and better. As people get more and more trained and more clever, and giving them input, they become more productive because they start understanding. The more you talk to them.

In concluding the GM reiterated his view that it is the performance of management that is the key to productivity:

> But it is not just one thing, all these initiatives work together in making an impact. But if I was asked what are the key things I would say: No. 1 management are responsible. Workers are not responsible, it is not their fault that anything goes wrong, it's management's fault. Any manager who can accept that responsibility is the first one who starts making things better. The ones who say "they are lazy, they don't want to listen and so on", they are not going to get anywhere. You need to manage a problem. If you have a problem, manage it and it will get better. Put things in place, that is what management is about….. If you see the workers sitting on the lines and talking, you have got to find out why. And it is because they are waiting on work because some manager didn't plan something or didn't plan better. It always gets back to a manager.

The Cape Town Clothing Cluster has also been an important factor. The GM states:

> I think that without the Cluster we would have been down and gone, and probably most of the rest of the industry. So the Cluster has made a massive difference in our lives and I know many other companies they all say if we hadn't gone this route we would be down the tubes. So that has been a big shot in the arm.

The approach at PQR makes a stark contrast to what was found at factories in Newcastle.

(d) Case studies of firms in Newcastle

Newcastle is a town in the KwaZulu-Natal midlands. It provides a microcosm of South Africa's industrial development path, skewed to capital intensive industry but relying on labour intensive industry to create jobs for many low-skilled African workers that had been the victims of apartheid policies. In the 1960s and 1970s African workers were displaced from farm land around Newcastle through forced removals. A huge steel plant that was located just outside the town in the 1970s did not create the number of jobs needed to soak up surplus labour.[27] The Newcastle municipality responded by seeking to attract Taiwanese manufacturers to the area (Seekings and Nattrass, 2013: 13-14; Hart, 2002: 2-4).

The strategy was launched at about the time that Taiwan was incentivising manufactures to move offshore. This impetus, plus the very generous 'decentralisation' subsidies that the apartheid government then provided to investors in rural areas (see above) and the low wages in the region (covered by a wage determination), led to a number of Taiwanese manufacturers locating to Newcastle.(Hart, 2002: 2-4) The benefits on offer to the original wave of Taiwanese manufacturers however dried up with the ending of the decentralisation subsidy in 1996 and the replacing of the wage determination with a collective agreement. These changes hit the existing manufacturers hard but were particularly onerous for those Taiwanese managers that had more recently set up their own firms as well as the second wave of manufacturers that had started arriving from mainland China after 1994.[28] It seems that one of the main survival strategies adopted by many of these manufacturers was to ignore the wages and other conditions prescribed in the NBCCI's Non-Metro collective agreement.

The crisis in the clothing industry discussed above had created a real challenge to the NBCCI. By 2010 it was facing mounting non-compliance by clothing firms throughout the country but especially in KwaZulu-Natal. It responded by launching a campaign to rigorously enforce its agreements. A list was compiled of 385 non-compliant firms around the country, with a large number in the interior of KZN. Legal steps were taken against the firms that culminated in the attachment of the assets of non-compliant firms. This was the highpoint of the enforcement campaign. In many cases such attachment would result in the closure of the firms, which would reportedly mean the loss of an estimated 20 000 to 25 000 jobs country-wide. Given the extremely high unemployment rate in rural areas, the enforcement campaign brought to a head the trade-off between regulated employment and job creation.

When the enforcement campaign reached Newcastle over 100 non-compliant firms locked out their employees in protest, temporarily laying off a reported 7500 workers. The action was co-ordinated by the Newcastle Chinese Chamber of Commerce (NCCC), and most of the protesting firms were Taiwanese and Chinese-owned. The stand-off was widely reported in the press and provincial and national government ministers rushed in to broker a solution. It was a slow process, during which a series of moratoriums were agreed with regard to the NBCCI's enforcement campaign. SACTWU remained adamant that working conditions would not be compromised, whereas employers used the opportunity to

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[27] The location of the steel plant to Newcastle initially led to a boom in the town, with manufacturing jobs growing from 5 023 in 1970 to 19 514 in 1982. But the steel plant did not create the number of jobs initially envisaged and later plans to expand the plant did not materialise. It was a major setback for the town, which had invested in roads, housing and other infrastructure in anticipation of the expansion in employment (Nattrass and Seekings, 2013: 13).

[28] Many of the immigrants from mainland China initially came as line or production managers and after a few years started their own clothing businesses.

push for a ‘new wage model’ for the industry. The model proposed that a portion of the weekly wage should be determined by productivity. Ultimately agreement was reached to phase in compliance over about 16 months, i.e. non-compliant firms would pay 70% of the minimum wage rate by 31 March 2011, rising to 90% of the minimum rate by 1 January 2012, and reaching full compliance (100%) from 30 April 2012. However, once the enforcement exercise began again it was found that many non-compliant firms were not meeting the thresholds.[29]

The open defiance of the NBCCI by the non-compliant Newcastle manufacturers undermined its legitimacy as well as worsening its representativity in the sector. The non-compliant firms do not belong to employers’ organisations that are party to the NBCCI.[30] The rising number of non-compliant but registered firms therefore reduces the representativity of the regional employers’ organizations. Maintaining representativity is critical for the council’s ability to have its collective agreements extended by the Minister of Labour to all clothing manufacturers and employees in the sector. In 2011 the members of the employers’ organisations on the NBCCI employed only 49% of all the workers in the sector, whereas SACTWU was comfortably representative with 84% of all employees.[31] Because employer representativity was below 50% the extension of the collective agreement reached by the bargaining council was not automatic. In such cases the Minister of Labour has a discretion to extend bargaining council agreements if she deems the employer and trade union parties to be ‘sufficiently representative’ (not defined in the Act) and that failure to extend the agreement will undermine sector-level bargaining. In this case the Minister decided to extend the agreement, but her decision was challenged in the KwaZulu-Natal High Court by five of the Newcastle clothing manufacturers and a newly-established employers’ organisation, the United Clothing and Textile Association (UCTA).[32] Ultimately the case was decided in favour of the manufacturers on a technical issue, although this was two years after the relevant agreement had been replaced by a newer agreement, so the invalidity of the extension had no real effect.[33]

Surprisingly, very little attention was paid to the role of the retailers and design houses in the above saga. A SACTWU researcher, Etienne Vlok, was a lone voice when he responded to a critique of the union and bargaining council by Nattrass and Seekings:

> … it is telling that a retailer like Mr Price (which is cited by [Nattrass and Seekings] as a company for whom Newcastle factories produce) has seen its profits before tax increase by 107% between 2010 and 2012 alone (from R864m to R1.8bn). The company's CEO, Stuart

[29] ‘A big day for wages in the clothing industry’ *Business Day* 30 September 2010; ‘Minister faces court action of clothing wages’ *Business Report* 17 June 2011; ‘High wages unravel Newcastle’s industry’ *Mail & Guardian* July 22 to 28 2011.

[30] In KZN the constitution of the employers’ organisation requires member firms to be compliant with the bargaining council agreement. A firm that becomes non-compliant automatically ceases to be a member of the employers’ organisation and at the same time becomes a non-party. This is not the case in all the regions but in practice it is unlikely that non-compliant firms will join or remain a member of a party employers’ organisation.

[31] The decision to extend an bargaining council agreement or not is based on two measures: total employees of member firms of the party employers’ organisations as a proportion of all employees in the sector and party trade union members as a proportion of all employees in the sector. If both proportions are above 50% the Minister of Labour must extend the agreement, but if one or both proportions are below 50% the Minister has a discretion to extend the agreement.

[32] United Clothing and Textile Association & others v Minister of Labour & others 2013 (5) BCLR 589 (KZP). The UCTA and the manufacturers relied on two alternative grounds: first, that the decision of the Minister to extend the agreement offended the principle of legality; and second, that section 32 of the LRA (which empowers the Minister to extend bargaining council agreements subject to certain conditions) be declared unconstitutional on various grounds.

[33] The legal challenge to the extension of the bargaining council agreement appears to be part of a wider campaign. A number of other cases have been launched to challenge the extension of bargaining council agreements, including two in the metal and engineering industry. The most important challenge, however, was initiated by the Free Market Foundation against the Minister of Labour in the North Gauteng High Court (Case No. 13762/2013). The application is for the court to find section 32(2) of the LRA unconstitutional and/or that the section should be amended to remove the existing constraints on the exercise of the Minister’s discretion to extend bargaining council agreements. The case has been heard and judgement is being awaited.

> Bird, took home R10.8m at the end of the 2012 financial year. If the authors are so concerned about the apparent paper thin margins of clothing factories in Newcastle, and about inequality, then why have they not chosen to find ways to address the core of inequality which manifests so starkly between the minimum wages of workers who make clothing and the profits and salaries of CEOs who sell clothing.[34]

SACTWU and small manufacturers therefore continue to fight over the very low margin received by the latter from retailers, or rather from the design houses that act as intermediaries for the retailers, after the design houses have taken out their own margin. However, the retailers that largely determine the margins are not at the bargaining table and neither are their proxies, the design houses. Of course, the retailers will claim that they are independent of the manufacturers and are free to agree on the terms of their contracts with manufacturers. Furthermore, the retailers will argue that they do not actually deal with any of the manufacturers, because they work through design houses (or ‘suppliers’ as they are referred to in the industry). But it is evident that they know which manufacturers are producing their clothing and often have a close working relationship with them, because they have quality controllers who visit the manufacturers regularly. They check the quality of their orders while they are being produced and also do a final check on completion of the order before it is dispatched. They will also give technical advice to manufacturers so that any quality problems can be resolved. The ‘suppliers’ also have roving quality controllers that do daily quality checks at manufacturers. So, these are not arms-length contracting relationships whatever the retailers may claim.

Manufacturers in Newcastle consistently report that the prices that they get from ‘suppliers’ have not increased in the last eight to ten years. They also state that there is seldom any room for negotiating over the prices they are quoted: they are therefore price-takers who are faced with a ‘take it or leave it’ option with regard to prices. If there is movement on the price it is usually downwards. A scenario that was mentioned a number of times was of suppliers working their way from factory to factory in Newcastle’s industrial areas, beating down the price for an order as they go. If it is in the quiet season desperate manufacturers will drop to break-even or even below-cost prices just to get the orders and keep their factories running. A frequent from manufacturers is that the prices they received from ‘suppliers’ had not increased and productivity had not improved, but wages and many other costs have gone up.

The agreement to phase in compliance by stages, i.e. 70%, 90% and 100% (see above), has created some ‘confusion’. Some manufacturers in Newcastle are still paying either 70% or 90% of the prescribed minimum wage and claim to be compliant with an agreement that expired over two years ago. In one case a manufacturer had given the Rand wage increases determined at NBCCI negotiations for the last two years but off a base of 70%. They claim it is difficult to get any clarity on this issue. A manufacturer noted that if you asked the NBCCI, SACTWU and the Apparel Manufacturers of South Africa (the main employers’ organization) what the minimum wage rate was, you would get three different answers. The reported ‘confusion’ is compounded by the apparent reluctance to enforce full compliance at 100% because of the earlier confrontation. On the other hand, it is apparent that much of the ‘confusion’ reported by manufacturers was disingenuous and self-interested.

According to one manufacturer, the main objection to the wage rates determined by the NBCCI was that the rates and the annual increases had no relationship to productivity. They therefore wanted the power to set wages for individuals according to their worth. If the faster workers are paid the same as slow workers, they argue that there is a disincentive to work fast. The NBCCI should therefore not focus on minimum wage rates but on average wages, because this would take into account the wages earned by faster workers. It was an argument made by a number of manufacturers, which strongly suggested that their failure to pay the NBCCI wage rates was based on a strongly-held principle rather than because they were confused about the correct rate.

[34] Ground Up, 14 February 2013, Wages in the clothing industry in South Africa: see http://www.groundup.org.za/content/wages-clothing-industry-south-africa

Not surprisingly, some manufacturers in Newcastle are using forms of piecework payment. Piecework is not prohibited by the NBCCI but it is subject to regulation in the Non-Metro Areas agreement. In terms of the agreement the total payment received by a worker being paid by the piece cannot be below the minimum weekly wage applicable to the worker. So piece work can only increase wages above the minimums set in the agreement.[35] SACTWU oppose the introduction of piecework at individual factories and have assisted members to compel manufacturers to revert to time-based payment. But some factories are reportedly still trying to pay by the piece and some workers have apparently gone along with the practice because they have been able to increase their earnings. It is unclear whether these manufacturers are complying with the requirements regarding piecework in the Non-Metro Areas agreement.

Another aspect of the non-compliance saga in the industry that manifests in Newcastle is the transformation of companies or close corporations into worker cooperatives in order to evade the obligation to comply with labour legislation (including the bargaining council agreement). This practice is particularly prevalent in KZN and it is reported that there are 15 clothing cooperatives in Newcastle, but it is not known how many of these cooperatives are 'genuine' or bogus.[36] In the meantime worker cooperatives are being actively promoted by a number of consultants as a way that clothing manufacturers can avoid the NBCCI agreement.

Newcastle case study 1

The owner of the firm is an immigrant from Taiwan who started it in 2004. Most of the managers under him are from mainland China. The firm is a CMT that has a total of 270 employees, including management. Ninety-five percent of the employees are women. The firm produces clothing for some of the major retailers but deals with design houses (or 'suppliers') rather than directly with the retailers. The firm is unionized and has two shop stewards.

The owner stated that he was currently paying 70% of the bargaining council wage rate as per the agreement in this regard (see above regarding the 'confusion' about the correct minimum wage). He says he hears about increases in the NBCCI wage rates from the design houses, so they are aware of the prescribed minimum wage rates, but they are not concerned about whether he is compliant. In any event, he argues that the design houses must know that the prices they are demanding could only be met by a manufacturer who is paying less than the prescribed minimum wages.

The owner emphasized that there is no negotiation of prices with design houses. They have to accept the price they are quoted or turn down the work. He stated that between 70% and 80% of the price (depending on the style) they is paid will go towards wages and salaries, including his own salary. His profit margin will vary from zero to 5%. He does not know what price the design house is getting from the retailer, because he does not know the cost of the fabric, which is supplied by the design house. He also does not know the profit margin being made by the design house. However, if he sees the final retail price of a garment in a shop he can work out rough breakdown: a children's top they had recently made for ZAR6.80 per garment was being sold for ZAR49.99, and he estimates that the design house was getting about ZAR26.00 per garment from the retailer (which includes the cost of the fabric). The manufacturer therefore got about 13% of the final selling price and the retailer's mark-up was just under 100%.

His approach to performance management is simple. He has calculated his total monthly wage bill for five full production lines as well as all other monthly expenses and overheads; it is an amount of about

[35] Neither the Metro Areas Agreement (clause 7) nor the Non-Metro Areas Agreement (clause 18) prohibits piecework but in both agreements an employee on piecework must receive at least the prescribed minimum wage.
[36] The Cooperatives Act, 14 of 2005, was amended by the Cooperatives Amendment Act, 6 of 2013, to close the loophole that has allowed worker's cooperatives to evade the main labour statutes, but the amendments are not yet in force. In terms of the current Act members of workers' cooperatives are excluded from the definition of 'employee', except for the purposes of skills development and social security legislation. The amendment effectively removes the exclusion and members of workers' cooperatives are therefore classified as 'employees' for the purposes of the LRA.

ZAR1 million. His target for each month is therefore to achieve a monthly turnover of at least ZAR1 million. He translates this figure into a monthly turnover target for each of the five production lines, which is then broken down into a daily turnover target. Given the price of the garments they are producing, the daily target can be translated into a daily unit target for each line and a target for each worker on the line. He complains, however, that workers never reach this target, achieving at best 70%. According to him, there has been no variation on this level of productivity since he started the firm.

At one point he tried to incentivize productivity. He paid each worker who achieved their target ZAR10 or ZAR20, but he found that it motivated workers only for two or three months. By the third month they would lose interest and productivity would drop back to previous levels. He claimed that changing to piecework is the only solution, but he has not introduced piecework; it is unclear whether he sees the requirements in the NBCCI agreement as an obstacle or whether he has been put off the idea because of opposition from shop stewards and workers.[37] So, he currently relies on warnings to underperforming workers and has given authority to supervisors to dismiss workers who are too slow. But, he says, supervisors live in the same community as workers and are easily intimidated, so they are too scared to dismiss workers.

His conclusion harks back to colonial times: Africans are just very lazy. If he tells them that they need to work faster because of a deadline they take no notice. Only some of the employees are good workers; this is why he wants to change to piecework, so good workers will be rewarded and slow workers will be penalized. In his view the only chance the South African clothing industry has of surviving is if they are able to introduce piecework (presumably unregulated by the NBCCI) and retailers are prepared to give CMTs higher prices.

<u>Newcastle case study 2</u>

The firm is a CMT that was started about eight years ago. It employs roughly 240 workers, down from a peak of about 500 workers. It works exclusively for a design house that supplies one of South Africa's major retailers. The firm's workers are all union members.

According to the owners there is very little room to negotiate prices with the design house. If it is a relatively big order they might be able to squeeze a small increase in the price, because not many of their competitors have the capacity to do big orders. But if the order is small they are price takers. They do not know exactly what the design house's mark-up is but they believe that the retailer will usually sell a garment for double the cost price, i.e. the design house's price.
The firm pays 80% of the bargaining council wage rates. This, the owners allege, is in terms of the agreement regarding non-compliant firms (see above). Previously they paid the minimum wage and had an incentive scheme based on an hourly target, i.e. for every hour that a worker hit the production target they would be paid a ZAR10 bonus. This meant a worker could earn an extra ZAR90 per day if they hit the target consistently. However, they have now introduced piecework, but only if the order is sufficiently large and the style relatively simple. In such a case the owner will set a "fair piece rate" and they will pay according to the quantity produced, with the proviso that nobody will be paid below the 80% minimum wage rate. The owner states that faster workers are able to earn up to ZAR900 per week. It seems that slower workers tend to get weeded out of lines by pressure from faster workers.

The preference for piecework clearly comes from the owner's origins in China. Piecework, according to him, accounts for much of China's success: piecework was started in China in 1980, "and look where China is now". He stated, with obvious approval, that in China you get paid for what you do, and if you are absent from work you do not get paid and a new worker takes your job. By comparison, the approach in South Africa perplexed him. Workers in South Africa wanted to be paid for doing nothing, seemingly with the approval of government. Again, the only solution is to pay by the piece.

[37] It is probable that when he talks of introducing piecework it is envisaged that it will be a system that does not recognize a minimum wage. So he wants a system whereby faster workers will earn more but slower workers could end up earning well below the current minimum wage.

4.5 Analysis of quantitative data and case studies

One point needs to be made about quantitative productivity data for the formal clothing industry. As Graph 8 (above) shows, labour productivity was well above nominal wages until the mid-1990s. Nominal wages then catch up with slowly rising labour productivity in 2005, after which both nominal wages and labour productivity rise steeply at the same rate. The result is that unit labour costs remain static after 2005. The sharp rise in labour productivity after 2005 (as well as nominal wages) corresponds with sectoral bargaining at the national level. National sectoral bargaining has therefore resulted in rising wages but has not constrained significant improvements in labour productivity (although this has gone along with job shedding).

A further point needs to be made about national sectoral bargaining and productivity. The schemes introduced via the NBCCI to improve labour productivity were not a success and are unlikely to have contributed to the rise in labour productivity after 2005. One of the NBCCI's schemes played a marginal role at one Cape Town firm and no role at the other two firms. Instead, schemes initiated by management were critical for productivity improvements. At two firms the schemes met little or no resistance from shop stewards and the union, but at one firm shop stewards ended the management-initiated scheme in its third year. The initial NBCCI scheme, not surprisingly, played little or no role at the Newcastle firms, although later variations of the scheme might have been utilized because they created loopholes for the payment of lower wages. However, the important point is that labour productivity rose steeply after 2005 (along with wages), which means, first, that sectoral bargaining was not an impediment to management raising productivity across the sector, and second, the failure of the NBCCI's schemes to have an impact on productivity was a problem of design rather than an inevitable corollary of sectoral bargaining. Put simply, the NBCCI has not through its agreements been able to facilitate productivity improvements at the workplace level, but its sectoral agreements also do not appear to have constrained management from achieving improvements in the workplace.

A point also needs to be made about productivity as a measure of competitiveness. The case studies illustrate the point that productivity is embedded in a complex package of competitive strategies pursued by firms. These strategies involve the internal organization of the firm as well as its external relations with suppliers, customers and institutions. On its own productivity tells one nothing about this package of strategies and whether the strategies will result in gains or losses for workers.

The case studies reveal that the firms in Cape Town adopted competitive strategies that went well beyond a focus only on labour costs and productivity. All the Cape Town firms (i.e. case studies 1, 2 and 3) are 'full package' manufacturers, have very close relations to one or other retailer, are competing on a number of factors in addition to price, and are compliant with the NBCCI wage rates. The Cape Town firms are also participants in the Cape Town Clothing Cluster and all appear to have benefitted significantly in a range of performance areas. The firms in Newcastle are CMTs, do not deal directly with a retailer, compete only on price, have a management culture that sees workers as a cost rather than a resource, and are non-compliant (either willfully or through ignorance or 'confusion'). The fact that employers are Taiwanese or Chinese and employees are African exacerbates the adversarialism in their factories and undermines their efforts to improve productivity. The Cape Town firms have a chance of surviving the challenge of cheap imports by exploiting their proximity to retailers and supplying smaller orders on a quick response basis. These strategies hold out benefits for workers, including the creation of jobs (see below). The Newcastle firms appear to be surviving only because of the high unemployment in the region and because they are able to exploit the ‘confusion’ over the minimum wage to pay at 70% or 80% of the Non-Metro Areas rate. The only benefit for workers is that they have jobs, albeit badly-paid jobs with poor working conditions.

The case studies reveal four more key points. First, the three firms in Cape Town either retained jobs or created jobs while improving performance (including productivity), although the number of jobs created is not large and the increase in jobs was much lower than the rise in performance. One must nevertheless place this finding in the context of an industry that has shed thousands of jobs over the last 10 to 15 years.

Second, successful productivity incentive schemes require management capability and capacity. The managers in Newcastle firms do not appear to have either the capability or capacity. Their approach to management appears to start from an assumption that employees will work as hard and fast as they can for the firm, and will be satisfied with being paid a wage the firm deems appropriate. When employees do not perform in line with this expectation, managers become frustrated. Their resulting attempts at incentivizing workers were crude. In fact, their view that piecework will be a panacea is founded on their inability to effectively manage their staff to achieve better efficiencies. Payment by the piece would to a large extent absolve them of responsibility for management of performance, passing this on to workers themselves.

One of the reasons why the schemes initiated by the NBCCI failed is that they arguably underestimated how complex it is, both technically and politically, to implement incentive schemes in the workplace. Part of this failure is due to the difficulty of designing a scheme that effectively bridges the divide between sectoral bargaining and the reality on the shopfloor. But an important factor is also the failure to appreciate that a successful incentive scheme requires a minimum management infrastructure and management expertise.

Third, the route to survival and job retention in the industry is to develop a quick response relationship with retailers. This requires a much wider consideration of performance than just productivity. The discussion above about the different strategies adopted by the Cape Town firms and the Newcastle firms illustrates this point.

Fourth, the retail sector, acting through intermediaries, is a key player in the Newcastle saga. They present themselves as arms-length contractors for garments but in reality are deeply implicated in the low wages and poor working conditions prevalent in Newcastle. The NBCCI, however, involves just clothing manufacturers and SACTWU in negotiations. Unless the retail sector is involved in the negotiation of wages, in which some connection can be established between manufacturing wage rates and retail prices, the situation will continue. And while the situation continues, productivity improvements are unlikely to have much benefit for clothing manufacturers or workers.

5. Conclusion: Is there a need for a new approach to collective bargaining?

It was noted above that the major South African retailers have been the main beneficiaries of trade liberalization (along with consumers) and the restructuring of the clothing value chain. While the shrinking clothing sector has become ever more beholden to the local retailers, whether in close quick-response relationships or supposedly arms-length relationships via intermediaries, it has been the major clothing retailers that have made record profits. The profits before tax made by the major South African clothing retailers are displayed below in Table 2, for the period 2002 to 2005, and Table 3, for the period 2008 to 2012.

Table 2. Clothing retailer profits before tax (r'000) 2002 – 2005

	2002	*2003*	*Change*	*2004*	*Change*	*2005*	*Change*
Edcon	R 263 000	R 565 000	115%	R 1 027 000	82%	R 1 851 000	80%
Mr Price	R 193 000	R 256 000	33%	R 296 000	16%	R 411 000	39%
Foschini	R 283 000	R 513 000	81%	R 753 000	47%	R 1 141 000	52%
Truworths	R 452 000	R 549 000	21%	R 761 000	39%	R 980 000	29%
Woolworths	R 599 000	R 778 000	30%	R 937 000	20%	R 112 000	-88%
Average	R 358 000	R 532 200	49%	R 754 800	42%	R 899 000	19%

(Source: Vlok, 2006: 240)

Table 3. Clothing retailer profits before tax (r'000) 2008 – 2012

	2008 (R'000)	*2009 (R'000)*	*Change*	*2010 (R'000)*	*Change*	*2011 (R'000)*	*Change*	*2012 (R'000)*	*Change*
Edcon	-R 2 082 000	-R 1 167 000		-R 1 424 000	22%	-R 2 204 000	55%	-R 1 995 000	-9%
Mr Price	R 769 531	R 892 203	16%	R 863 591	-3%	R 1 484 000	72%	R 1 786 000	20%
Foschini	R 1 786 300	R 1 175 700	-34%	R 1 171 100	0%	R 2 051 100	75%	R 2 501 600	22%
Truworths	R 1 880 000	R 2 114 000	12%	R 2 360 000	12%	R 2 860 000	21%	R 3 190 000	12%
Woolworths	R 1 498 000	R 1 806 000	21%	R 1 759 000	-3%	R 2 306 000	31%	R 2 870 000	24%
Rex Trueform	R 43 100	R 38 300	-11%	R 46 800	22%	R 52 900	13%	R 34 400	-35%
Average	R 649 155	R 809 867	25%	R 796 082	-2%	R 1 091 667	37%	R 1 397 833	28%

(Source: Annual Reports 2008 – 2012)

These profits can be compared with the profit margin of 2.9% currently cited for the clothing sector by Statistics South Africa.

In 2012 the average chief executive officer's (CEO) salary in the clothing retail sector was over R4 million, while that of the average executive director was over R3 million. This is a 42% (R1 262 417) increase for CEOs and a 23% salary increase on average for all executives in the period from 2008 to 2012. When bonuses and benefits are added, on average CEO took home R11.7 million in 2012, more than double their salary and a 53% increase on the R7.6 million of 2008.

The question these sorts of disparities poses is whether the focus of collective bargaining should be the traditionally conceived industrial sector, or whether the focus should shift to the value chain. The latter shift would seek to bring those with the economic power in value chains (e.g. retailers) to the bargaining table where they can be part of the negotiations with those with little or no power (e.g. manufacturers and workers). This would mean reorienting bargaining away from the distribution of profit within the sector, to focus instead on the distribution of value along the chain. There would be major challenges to such an endeavor. First, one would have to find ways of compelling retailers to come to the negotiating table. Second, there would have to be close cooperation between different trade unions in the value chain or even a merger of unions. Third, trade unions would need to put in a lot of work with members to develop solidarity regarding wage levels in the retail and clothing sectors.

Activists in the global North, where consumer pressure has been instrumental in forcing retailers and brand merchandisers to take seriously the working conditions at their suppliers, have been exploring ways in which the greater economic power of the retailers can be accessed for improving wages. A particular focus has been the global value chain for clothing. One example is provided by the NGO Actionaid. It has proposed a ‘costing model’ that can be used to ensure workers employed by the suppliers of major retailers are paid the living wage. The model has eight steps, the first of which is to establish a Standard Minute Value (SMV) for the garment (possibly from prior orders for the same style or from one of the commercial firms that offer this service). The next step is to calculate an Actual Minute Value (AMV), which is based on the efficiency of the particular factory. The third step is to establish the existing factory labour cost per unit. This is done by dividing the existing weekly wage by the number of minutes in the working week, which gives a minute value that is multiplied by the AMV to give a unit value (Action Aid, 2011).

The next step might mean consultations with unions. It requires that a local living wage is calculated. In the case of Asian countries the Asia Floor Wage is a widely accepted minimum living wage. The fifth step involves establishing the living wage rate per unit: divide the living wage by the number of minutes in a week and multiply by the AMV. The next step is to multiply the living wage unit labour cost by the number of units in the order. The contract between the buyer and manufacturer must then stipulate that the additional living wage amount will be paid as part of the total payment. But the living wage amount is ring-fenced. The manufacturer must notify workers of this amount and transfer it to workers in a way they agree to (and which is verifiable). The final step is to use this mechanism to encourage workers to organise so that they can negotiate with management as to how the living wage component is distributed (Action Aid, 2011).

Although this scheme clearly has clothing manufacture in Asian countries in mind and applies to a global value chain, the principles could easily be adapted for South Africa, with the living wage being replaced by the bargaining council minimum wage. Of course, retailers in South Africa would strongly resist such a scheme and no leverage currently exists to force them into it. It is certainly unlikely that consumers in South Africa will exert pressure on retailers in the way consumers in the global North have done. The alternative is to force retailers to the clothing industry bargaining table, which retailers would also resist. In this regard, the major union in the retail sector would not be much help because it is poorly represented at the major clothing retailers.

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