

In this context, employers have chosen to increase levels of atypical employment. However this has not always been with satisfactory results. Both employers and trade union representatives made arguments that using sub-contracting employment generated sub-optimal outcomes for both parties. For instance employers in the machinery and equipment sector, which has seen large increases in atypical employment, complained that atypical employment has resulted in:

- ❑ A loss of control over production;
- ❑ Increased expenses incurred, for instance setters can be more expensive if employed through labour brokers as opposed to being permanently employed
- ❑ A loss of loyalty to the company (companies cannot develop long-term relationships and cannot use typical worker motivation programmes to improve productivity)
- ❑ Inability to train (because the workers are not permanent it becomes difficult to invest training in them as returns will not be felt by the company) and therefore a decrease in skills continuity

This strategy has also come with costs for workers that include:

- ❑ Wage rates considerably below bargaining council rates;
- ❑ Less training that results in a higher incidence of health and safety incidents that in some instances are not reported; and
- ❑ Loss of medical aid and provident fund benefits.

Accordingly we have attempted to make recommendations that will enable both labour and employers to increase their returns by a more active and flexible management of sub-contracting. We believe that addressing the growth of atypical employment leaves one with three possible solutions:

- ❑ Revise the existing labour legislation;
- ❑ Ban all forms of atypical employment;
- ❑ Proactively manage atypical employment.

We do not believe that either of the first two suggestions is feasible as they tend to favour either the employer or employee side of the employment relationship and we believe that there exists room for the development of an innovative agreement that could improve the benefits currently received by both parties. Further:

- The introduction of new labour legislation was an essential part of the democratisation of South Africa, granting rights to the majority of citizens in arenas in which they had historically had none. Aside from the symbolic significance of this, its implications for the strengthening of democracy and the attendant indirect macro-economic benefits, for example better ratings from international lenders, the legislation has also seen a dramatic drop in workdays lost due to industrial action. Furthermore, the legislation is all of seven years in existence (in some cases less) and cannot be held wholly responsible for labour market trends that derive from the multitude of pressures discussed in each of the sector reports;
- Atypical employment is growing both in the global and domestic arena. Simultaneously forcing employers to carry employment costs during periods in which their sales do not justify those employment numbers would, in the long term, jeopardise the sustainability and job creating potential of the sector.

Accordingly we recommend that the stakeholders – government, labour and business – institute a series of mechanisms to proactively manage the atypical segment of the labour market. These mechanisms could well be the outcome of the upcoming sector jobs summit. We suggest that either a ‘stick’ or a ‘carrot’ option may be pursued in managing increases in atypical employment:

- The ‘stick’ option in which employers, trade unions and government jointly undertake to monitor MEIBC and labour legislation with greater rigour. This may be an option as some employers argued that they were at a disadvantage to companies that did not ‘play by the rules’ and that the failure of enforcement was in fact creating conditions under which ‘good’ companies were penalised for adherence.
- This ‘stick’ option could be combined with a ‘carrot’ option in terms of which labour intensive employers are granted exemptions in situations in which they can clearly demonstrate an inability to pay MEIBC wage rates in particular categories. In these instances they may qualify for a three-year exemption provided that there is:
  - A clear benefit for workers, for example in the form of wage rates higher than those currently paid by labour brokers even though not equal to MEIBC rates; and
  - An undertaking to progressively reduce levels of atypical employment in the company over the three-year exemption period.

We further propose that the dti extend competitiveness improvement exercises to these firms to assist them in improving their financial sustainability and ability to employ people on a more permanent basis.

In sectors where sub-contractors are used because of the 'lumpiness' of production, for instance in metal fabrication where people are employed on a project basis, we further propose that people who have been employed on such contracts be given a training voucher that is redeemable at vendors approved by the Merseta. This has a number of potential benefits:

- ❑ The Merseta may be able to designate courses against which the vouchers are redeemable, thereby ensuring that people with work experience are building skills that are of strategic importance to the long-term development of the sector;
- ❑ Employees are given access to skills that may enable them to move into permanent employment or alternatively to develop businesses of their own;
- ❑ Building the credibility of the Merseta; and
- ❑ Improving the long-term employment generating potential of the sector.

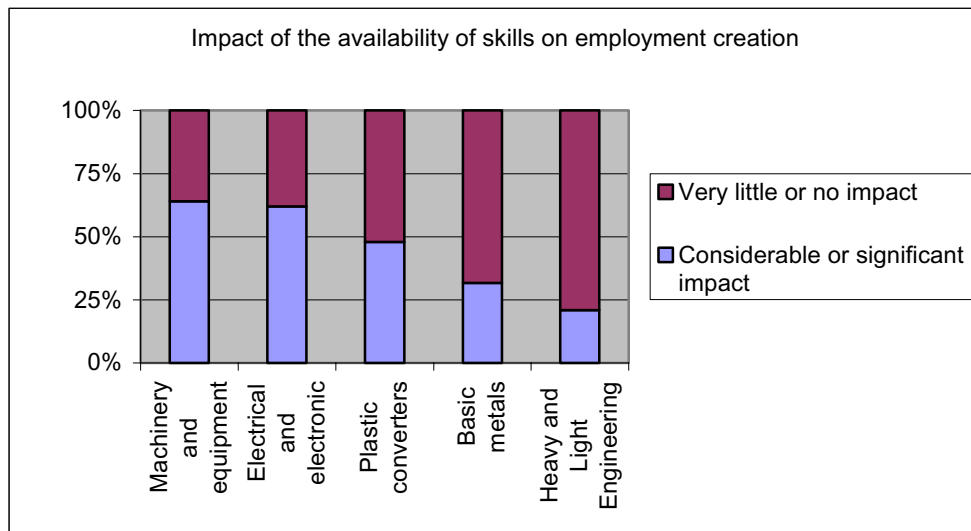
Such a system has been implemented by the Umsobomvu Fund and is targeted at young entrepreneurs. However, it is likely that the systems and experiences that have been developed in this project could usefully be applied to the development of such a voucher system in the metals and engineering industry.

We believe that these proposals provide a basis for managing the relationship between permanent employment, wage rates and flexibility in a dynamic way, balancing the needs of employers and employees in an ongoing manner.

### **3.3.2 Skills**

The limited availability of skills is often cited in industry studies as a constraint to growth and employment creation and this study is no different. However, what is clear from the below table is that only some of the sectors experience the availability of skills as a constraint on their ability to grow.

Figure 12: Impact of the availability of skills on employment creation in the Metals and Engineering industries, 2002



The sectors in which the majority of surveyed respondents experience the availability of skills as a constraint are also those that are more 'design intensive'. The 'design intensive' sectors are those sectors in which South Africa potentially has an advantage, as our engineering costs are internationally competitive (see the electrical and electronic engineering and plastics conversion sector chapters for a fuller elaboration of this point). This added to the fact that our engineering firms are not tied into having to do huge runs of fairly standardised products by virtue of their capital equipment means that we are able to compete competitively in lower run, customised products. Indeed within the machinery and equipment sector, notwithstanding the overall decline, it was knowledge intensive firms that were most likely to have grown employment.

However this advantage is built largely on the human resource endowment of the sector. The survey results, summarised above, coupled with the feedback from the focus groups and interviews indicate that it is precisely these sectors that experience the shortage of skills as a constraint. In the course of the focus groups and interviews, a number of suggestions were made to improve the functioning and delivery of the overall skills system. While the plastics conversion and electronic and electrical engineering sectors are not key priority sectors with respect to job creation, the apparent lesser need in basic metals and heavy and light engineering may create the space for targeted training interventions in these sectors. While these sectors are currently not leaders of the employment creating pack, targeted training interventions that strengthen the capacity of the sectors in areas where employment creation is occurring may serve to strengthen their status.

#### *Improving the process of skills development*

### **Improving school level Maths and Science**

Relatively low numbers of school leavers with Maths and Science skills that are at levels appropriate for further education and training in engineering and associated disciplines is serving to constraint the development of a human resource base strong enough to contribute to the expansion of the industry.

We propose that industry associations, together with individual companies and the Merseta seek to strengthen maths and science education. This could take a variety of forms including:

- ❑ Sponsoring of students to attend extra Maths and Science lessons through organisations like Star Schools;
- ❑ Active engagement with particular secondary schools in towns that are characterised by high concentrations of metal and engineering companies to improve standards of maths and science education; and
- ❑ The creation of bridging programmes for students who although they may not currently have requisite maths and science ability to successfully complete a tertiary qualification in an engineering related discipline demonstrate the academic competence and interest to succeed in these industries.

### **Targeted skills development interventions**

This study has identified sectors in which employment creation is the most likely over the medium term. We propose that the Merseta should endeavour to ensure that these sectors are prioritised in terms of:

- ❑ The registration of new learnerships;
- ❑ The allocation of discretionary funds; and
- ❑ The creation of special projects under the auspices of the National Skills Fund.

The Merseta should further collaborate with the industry associations in the design intensive sectors to identify:

- ❑ Scarce skills; and
- ❑ Skill that will contribute to the employment creating potential of the sector. This element has two components:

- Skills that will result in the creation of further employment opportunities. For example engineering design skills that lead to the creation of a new product and ultimately new employment;
- Skills that enable companies to pursue opportunities and production orders currently beyond their scope. For example specialist artisan skills that would allow for increased flexibility in the production process.

The Merseta's current plan to commission a more extensive study into the scarce skills within the sector is an appropriate action and one which should be undertaken annually just prior to the finalisation of the Sector Skills Plan (SSP) for the following year. In this way, the SSP can be based on accurate and representative industry information. By carrying out the survey annually, the Merseta will be able to draw up a baseline and track their progress with respect to scarce skills, a measurement which could be utilised as an overall Key Performance Indicator (KPI) system. The survey should incorporate a future outlook, which although it may have limited accuracy, would go some way toward informing the Merseta of likely future skills shortages and would create a sense of urgency regarding training, which could be used to motivate for increased funding from the Department of Labour if necessary.

#### **Increase efficiency of Skills Levy processing**

The current route taken by Skills Levy funds<sup>8</sup> is lengthy; increasing the likelihood of mistakes and delays occurring, which sometimes results in delays for companies wishing to access their grant. Small companies have reported that:

- The current levy system is too burdensome to worry about applying for what is ultimately a small return so they treat the levy as a form of additional tax; and
- In instances where it is more significant the fact that the levy is paid 'upfront' introduces cash flow constraints for companies that only get levy returns on a quarterly basis and currently repayments are often longer than that due to administrative constraints.

We therefore propose that the Department of Labour should consider modifying the existing system to one in which companies with relatively low wage bills (e.g. less than R1 million) would only be required to complete a workplace skills plan and pay 10% of their Skills Levy up front directly to the Merseta, while retaining 90% of the levy in the company. This would

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<sup>8</sup> Funds are currently paid to SARS, then transferred to the Department of Labour, from there on to the National Skills Fund and then finally to the Merseta.

create an incentive for smaller companies to implement the Act. At the end of the year, these companies would be allowed to keep the 90% if they submit an Activity Training Report (ATR) proving that they had in fact completed the planned training initiatives. A similar system was implemented very effectively in Ireland and proved to be very efficient in terms of encouraging companies to train and less costly with respect to administrative fees.

**Redirect 20 percent of Skills Levy from the National Skills Foundation and use it to incentivise companies to train learners**

If the above intervention cannot be achieved, consideration should be given to this intervention as an alternative. Fast-tracking the number of learners could be achieved by incentivising companies to take on learners. This is a short-term measure that would be important in addressing the issue of companies poaching relatively mobile learners away from the companies that trained them by offering higher wage rates, which in turn discourages companies from training.

**Improve the Merseta apprenticeships, learnerships and SMME projects**

This particular intervention should feed into the results of the Merseta's task force that is presently investigating the low levels of learnerships in the industry. The Merseta feels that the learnership programme is superior to the apprenticeship programme in that it enables employees to be more mobile and better able to transfer their skills to other occupations by incorporating certain "fundamental" courses which are common to all learnerships. However, the Merseta feels that there is a misconception among industry that apprenticeship programmes are about to be terminated<sup>9</sup>, which is partly responsible for the low numbers of apprentices. In addition to this, learnerships have been slower in getting started than anticipated. The result of these two factors is that there is a skills gap developing because of the low numbers of employees enrolled in each of the two programmes. Accordingly some sectors are faced with severe shortages of artisans competent to do particular sorts of work.

The Merseta needs to increase its focus on promoting learnerships. One way in which this could be achieved is to promote overflow from the SMME project. This could be done by instituting a credit system for the SMME projects offered which links to the learnerships, allowing people to carry over credits from the SMME projects into the learnership programme, which would in turn increase the number of people who go on to complete learnerships. The

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<sup>9</sup> Which is not true as the current situation is that apprenticeships will run until notified otherwise by the Department of Labour

Merseta should enlist the help of the trade unions and the industry associations in increasing workers' awareness of the training programmes on offer and the benefits of training, so that workers are more empowered.

**Strengthen the Merseta's communication with industry and collaboration with industry associations**

The Merseta needs to market its services to a broader audience within the sector by obtaining contact details of all companies who currently pay grants and distributing regular communication to them. This newsletter would serve many purposes; informing companies of the current SMME programmes on offer, information regarding the bursary schemes; anecdotes of other companies' innovative training activities, which would inspire companies to adopt more innovative training approaches. An electronic newsletter would be the cheapest way of reaching a broader audience although some companies without email access would need to receive conventional mailed newsletters. The Merseta should work closely with the industry associations to supplement their databases and achieve this.

The two parties should also collaborate in order to identify skills gaps and address them by devising additional learnerships. This approach would ensure that learnerships meet industry's needs.

**Increase the Merseta's capacity for assisting the sector, especially small and medium companies**

Small and medium companies tended to lack the ability and know-how to access the Merseta's offerings. This can best be addressed by the Merseta's existing SMME project, which the Merseta feels has been very effective. Due to the success of the SMME project and its extension until July 2004, the Merseta should temporarily increase the number of Skills Development Facilitators (SDFs) to ensure that a greater number of companies can be reached and the Merseta's offerings with respect to the SMME project as well as learnerships be explained to these companies. Increasing the number of SDFs for the next few years would enable all companies to be introduced to the Merseta and helped through the initial steps to enable them to utilize the system, after which they would not require so much help and the number of SDFs could be reduced.

The Merseta currently gives their SDFs a target of 100 companies per year. They also incentivise the SDFs and SDAs. The Merseta should consider introducing an incentivised stretch target for SDFs and SDAs for every company over 100, which completes a Workplace

Skills Plans (WSP) and an Activity Training Report (ATR) (with different amounts of money awarded to the SDF for completion of each additional WSP and ATR).

### **Promotion of engineering at a secondary education level**

The Merseta should consider adopting a similar approach to FASSET<sup>10</sup>, which, in conjunction with the Department of Education devised an innovative approach to attract learners into their industry by using a strategy to influence subject choices and careers. Industry associations should be actively involved in this initiative and should be responsible for encouraging companies to take schoolchildren for short educational tours of their business to build awareness and a more positive image of the sector in the eyes of the youth.

The Merseta should work more closely with Further Education and Training institutions to ensure that such schools focus on scarce skills that are required by the sector. This would also give the Merseta the opportunity to promote the status of artisans to young people and promote their bursary scheme, thereby ensuring a higher quality of applicant.

### **Utilise the Technology for Human Resource for Industry Programme (THRIP) extensively to facilitate knowledge transfer from Higher Education Institutions (HEIs) and Science, Engineering and Technology Institutions (SETIs) into the sector**

The industry awareness of THRIP was shown to be low. However, since industry awareness of this programme is currently very low, there needs to be an increased emphasis on the marketing of the programme to companies in the sector, HEIs and SETIs. THRIP has shown to be quite successful in bringing industry, HEIs and SETIs together to collaborate on research. As administrators of the programme, the National Research Foundation should consider instituting a forum where industry, education and SETIs can interact in order to generate ideas, explore and promote training opportunities between entities.

### **Introduce new ideas, skills and expertise by facilitating international scholarships**

Companies operating in specialised areas of the industry experienced acute skills shortages and claimed that local courses did not adequately equip artisans and engineers for work in

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<sup>10</sup> The Sector Education and Training Authorities (SETA) for Finance, Accounting, Management Consulting and other Financial Services

their specialised niches, necessitating companies sending employees overseas for additional training. The Merseta should consider making a scholarship fund available to companies wishing to send employees on overseas training that will enhance the overall level of specialised skill and innovation within the company as this will assist companies in developing competitive advantages in specialised niches, which will in turn stimulate growth within the sector.

### **Development of an engineering learnership**

We note the Merseta's bursary programme to promote the entry of people, and historically disadvantaged people in particular, into engineering professions. However our research indicates that engineering graduates are finding it increasingly difficult to find placements within companies once graduating. This is in turn leading an increasing immigration of engineering graduates as they attempt to find work in other countries. Accordingly we recommend:

- ❑ That the Merseta ensure that all bursary recipients have placements during their vacations at various engineering firms as this will enable them to develop some level of work experience whilst studying;
- ❑ The IDC offers all bursary recipients short entrepreneurship courses during the course of their degree to foster an entrepreneurial culture amongst graduates; and
- ❑ That an engineering learnership be developed to incentivise companies to employ engineering graduates;

### **Develop a holistic and measurable Key Performance Indicator (KPI) system for the Merseta**

Developing such a system is necessary in order to allow the Merseta to measure whether or not they are achieving their goals and to institute early remedial action where necessary. For such a system to work effectively, the Merseta need to agree on a set of surveys that will be carried out at regular intervals which would feed into the KPI system along with key organisational measurements such as the number of learners under 30 years of age etc.

With respect to the standardisation and accreditation of skills, it is important to take cognisance of the current Engineering Council of South Africa (ECSA) initiative that is aimed at ensuring that all engineers, technicians and the like obtain professional registration in terms

of the Engineers Act. This is undertaken in the interests of public health, safety and interests by ensuring that engineers comply with a code of professional conduct. ECSA is also setting up a whole host of standards writing bodies/committees for this task. While the intent of this initiative is sound, it is imperative that it does not result in additional bureaucracy and redundancy, which may negatively impact skill formation in the country.

### **3.4 Manufacturing processes**

#### **3.4.1 Support the entire innovation cycle**

Many of the companies in the metals and engineering industry, particularly those in the design intensive sectors – electrical and electronic engineering; machinery and equipment and plastics conversion - are dependent on their ability to create innovative products in order to be able to grow sales and create new markets. Unfortunately, companies and individuals often struggle to take products from the research and development stage to commercially viable products. Overcoming these constraints is critical to ensuring the longer term sustainability of the sector.

#### **Facilitate strategic foreign direct investment**

The research identified that international partnerships as well as investments by multinational companies into the South African economy has served to both strengthen innovation as well as the export potential of the metals and engineering industries. We propose that TISA, together with industry associations, continue to identify international companies that may contribute to improving levels of innovation within employment creating sectors and actively attempt to attract those companies to invest in South Africa or to build relations with South African companies. We recommend that this process is strengthened.

#### **Create awareness within industry of incentive programmes related to innovation**

This study found there is limited knowledge and awareness of incentive programmes related to innovation. The first action therefore required is to initiate an extensive awareness campaign on relevant programmes such as THRIPP, The Innovation Fund and SPII. However we are also aware that these funds, particularly THRIPP and SPII, have successfully been increasing utilisation levels over the course of the last 3 years. Accordingly, a strategy to promote these funds more broadly may mean that they are unable to meet demand. In such a case, and in the light of the relatively low value of the funds, consideration should be given to increasing

creating expectations that cannot be met, it will however heighten the competition for public funds, thereby ensuring that they have the maximum effect.

### **Increase incentives for the commercialisation of research**

This relates to the design of additional incentives and support to facilitate the translation (commercialisation) of new ideas and research into technologies and products, and cover activities such as prototyping, tooling, testing, etc. Most incentives currently focus strongly on the research component of the innovation cycle, and evidence was found that many innovations do not reach market stage due to cost barriers during the commercialisation phase.

### **Strengthen THRIP, SPII and the Innovation Fund through increased funding and streamlining**

Although uptake of THRIPP, SPII and the Innovation Fund is low, various other studies have found that in general they are working well in stimulating industry demand for research. Some criticism is levied at the fact that approvals mechanisms are slow and unwieldy. The model of these funds does however appear to be sound and suggestions are that a process of streamlining with an increase of funding would have a direct impact on stimulating industry demand for research.

### **3.4.2 Flexibility**

The ability of companies to respond flexibly to changing market demands has been an important feature of South African companies' ability to respond to increased market penetration by foreign competitors. Through developing flexibility in their manufacturing processes they have been able to offer shorter runs, quicker turnarounds or other 'customer' friendly solutions that have helped them to maintain market share.

The implementation of the Workplace Challenge, particularly the first phase 'Best Practice' or 'kaizen-blitz' workshop has empowered companies to both:

- ❑ Understand the flexibility options available to them; and
- ❑ Increase output considerably simply on the basis of improved processes.

We recommend that:

- ❑ The dti consider making the 'kaizen-blitz' workshop available at highly subsidised rates to companies in the industry; and
- ❑ Skills Development Facilitators participate in these workshops in the firms that they service so that they develop a better understanding of the operational challenges faced by firms. Such an understanding would no doubt strengthen their ability to effectively service the training needs of the firms.
- ❑ Workshops on improving supply chain competitiveness. Dti ran pilot workshops in 2001 which demonstrated low levels of awareness of the need for basic improvements in supply chain linkages in firms. These were deemed to be highly successful and similar programmes should be offered to companies.

### **3.5 Demand conditions**

#### **3.5.1 Domestic demand**

Perhaps one the most compelling findings of this study were:

- ❑ The extent to which the domestic market continues to be a key component of sales within the metals and engineering industry;
- ❑ The extent to which unpredictability in domestic demand have contributed to increasing atypical employment; and
- ❑ The large number of companies for whom exports constitute less than 10% of their turnover.

While each of the sector reports deals with the issue in greater depth, our study has found that domestic demand continues to be an important and in some cases the dominant driver of employment within the metals and engineering industry.

This is particularly true of the metal fabrication sector as well as of the electrical engineering sector. Given the likelihood that metal fabrication may be a major source of employment creation over the short to medium term, the protection and stimulation of domestic demand is of critical importance to maximising employment creation.

### **Protecting and stimulating domestic demand**

Protecting and stimulating domestic demand is made up of a number of interventions that range in scope from being primarily informational to those requiring an active intervention by government.

#### *Import penetration*

Import penetration has served to displace much domestic manufacture in product lines where South Africa has been unable to compete. Yet, simultaneously the focus group discussions revealed that:

- ❑ Some companies have been unable to convert from one product type in which they are unable to be globally competitive to another that allows them to survive and maintain employment. The machinery and equipment sector is instructive in this regard, where some companies have turned to offering customised turnkey solutions to clients when they were no longer able to compete in the manufacture of particular products while others simply disappeared;
- ❑ Simultaneously, the Board of Trade and Tariffs has received very few applications from companies requesting for an increase, temporary or otherwise, in tariff levels or for the implementation of other safeguard measures to provide some relief from competition.
- ❑ In addition, the dti must make industry aware of its willingness to introduce temporary protection where this is warranted. The capacity within government to create this awareness and process applications needs to be strengthened.

Accordingly we recommend the development of an 'early warning system' that links the Department of Trade and Industry, industry associations and ultimately individual companies.

The early warning system would be composed of the following elements:

- ❑ The Department of Trade and Industry should release quarterly reports analysing import penetration as well as export trends by product line to all manufacturing associations<sup>11</sup>. These trends should be benchmarked against:
  - Average import penetration and export for the sector concerned; and

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<sup>11</sup> Please note the analysis in the sector reports showing the priority that respondents gave to having domestic and export market intelligence.

- Historical import, export and balance of trade trends for the product concerned.

An executive summary of the report would identify product line in which import penetration and export is growing rapidly. This would lay the basis for industry associations and companies to:

- Lodge applications with the International Trade Administration Commission for temporary and / or permanent increases in tariffs (formerly the Board of Trade and Tariffs); and
- Develop strategies to migrate out of sectors in which the long-term trend shows a declining balance of trade and into sectors in which South African companies are succeeding internationally.

This process of continual data analysis and distribution would also provide TISA sector heads with information necessary to adjust strategy and operations on an ongoing basis.

We further recommend that:

- The results of this study be presented on a quarterly basis to all the Merseta Skills Development Facilitators and Skills Development Advisors as they are in regular contact with companies and could therefore act as an informal distribution channel for this information;
- Industry associations develop the internal competence to assist companies in bringing application to the International Trade Administration Commission;
- That the International Trade Administration Commission be subject to a process improvement exercise to improve the International Trade Administration Commission's ability to respond to applications brought by industry.

Given the priorities outlined in Section 2 above, we recommend that a pilot exercise to develop this system be undertaken in:

- The machinery and equipment sector which is critical to employment retention and is experiencing high levels of import penetration; and
- The electrical engineering sector which depends considerably on domestic sales in order to able to retain employment.

It is our understanding that the dti has already developed a Global Economic Strategy System (GESS) that as yet has not been implemented. Based on our interviews with stakeholders it would appear that this system could easily provide the backbone of an early warning system and therefore suggest that the implementation of this system be prioritised.

*Bolstering and smoothing domestic demand*

Given that domestic demand continues to be such a critical component of metals and engineering sales as well as employment creation, it is accordingly imperative that mechanisms be found to promote the sourcing of South African products as well as ensuring that manufacturers are assured that demand is predictable. We accordingly recommend that the following mechanisms be adopted:

- ❑ Parastatal, national, provincial and local government procurement from local manufacturers be mandatory and that in instances that they chose to source from local distributors of foreign manufactured goods or from international suppliers that the procurement manager be required to prove that no local capacity exists to meet the order;
- ❑ All Government Departments be compelled in terms of the PFMA or other appropriate legislation to report on:
  - The breakdown of their expenditure between South African and international suppliers; and
  - The percentage of their external expenditure that was met by Proudly South African (PSA) members. This stipulation will assist in ensuring that local suppliers are in adding value and aren't merely distributors for imported products.
- ❑ The Trade and Industry Chamber of NEDLAC receive an annual report from the Auditor General detailing instances where government contracts of more than an agreed amount are awarded to foreign suppliers,
- ❑ That procurement advantages be extended to South African companies that are PSA members in employment creating priority sectors. For example, a metal fabrication firm that belonged to PSA would obtain extra points in a government tender as the sector has been identified as a priority for employment creation.
- ❑ TISA and industry associations proactively work with government, parastatal and other private sector investors that are planning large-scale investments over the next

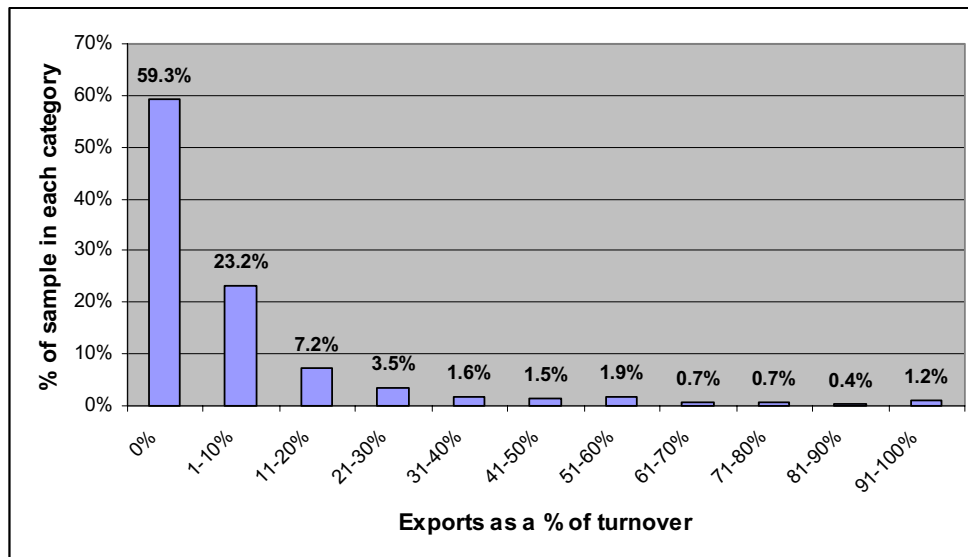
5-year period to both maximise the opportunities for South African companies and to plan the procurement of goods and services so that South African enterprises are able to meet the demand. An example of this, is the role that SASSDA has adopted in Sasol’s Project Turbo recapitalisation to try and maximise the benefits for South African fabricators. Current initiatives by TISA to develop databases of manufacturing capacity, skills etc. in sectors such as steel construction, and to be used to map capacity against requirements of major capital projects is supported and it is recommended that these efforts be other sectors.

With the projected increases both in public and private infrastructure spending it is becoming increasingly critical that mechanisms such as those proposed are adopted to ensure that this expenditure has the maximum impact on South African companies and employment creation.

### 3.5.2 Export demand

Exports have become an increasingly important part of total sales growth over the course of the last decade. Furthermore, most of the companies surveyed predicted export revenue to grow over the next 3-year period. However, as illustrated by Figure 13, only 18.7% of companies in the metals and engineering industries gain more than 10% of their revenue from exports.

Figure 13. Exports as a % of turnover among companies in the Metals and Engineering industries, 2002



In other words, much of the export growth that has been generated over the course of the last decade appears to have been driven by relatively few companies rather than across export growth being widespread across the sector.

In the electrical and electronic engineering, plastics conversion and machinery and equipment sectors, the majority (>50%) of respondents indicated that SADC and the rest of Africa were their primary export destinations followed by Central and Eastern Europe. This trend is reversed in the heavy and light engineering sector (no doubt due to the influence of automotive component firms in the sector) and the basic metals sector.

The significance of Africa as an export market was viewed ambivalently in the sectors. On the one hand it was seen as the development of a new market in which South African firms were able to compete successfully due to their knowledge of local markets – this is particularly true of the SADC market where domestic companies also enjoy a geographic advantage. On the other hand, companies noted that margins were lower in African markets and risks were higher. Despite these negatives, it is clear the Africa has become an important source of revenue for South African metal and engineering firms.

Despite the relatively low levels of exports across the metals and engineering industry we believe that exports are likely to continue increasing their importance to South African companies. However given the fact that exports are currently being driven by relatively few companies, we recommend that:

- ❑ The Department of Trade and Industry (Directorate: Export Sector Promotion) and the Customs Commissioners Office together with industry association undertake a proactive drive to register companies as exporters and to target these companies with export readiness programmes. A potential vehicle for this would be to train the Merseta Skills Development Facilitators on registering companies as exporters;
- ❑ That the GESS database (discussed above) be activated to supply domestic manufacturers with regular information on significant export markets; and
- ❑ TISA in conjunction with industry associations continues and strengthens its roll-out of its exporter education programmes (especially amongst SMMEs), thereby building the capacity of South African companies to increase sales through export.
- ❑ That export credit guarantee systems be strengthened to lower the risk for companies wishing to move into the export market.

Undertaking these steps will lay the foundations for:

- ❑ The creation of Export Councils in sectors where they currently do not exist;

- ❑ The development of collaborative export projects; and
- ❑ Companies to be able to take advantage of the export information generated by the dti in the quarterly reviews of trade data proposed above.

### **3.6 Operating environment**

A noted feature uncovered by this research is that although the language of employment creation informs much of the national policy debate and, to a lesser extent, is incorporated within the provisions of some supply-side measures it is not a “lived” feature of daily commercial and government activity. Accordingly we recommend a series of initiatives to ensure that employment creation becomes part of the daily performance of government, company and union officials.

#### **3.6.1 Supporting stakeholders**

Programmes such as the MIDP have been successful in achieving growth and development for several reasons:

- Collaboration between stakeholders
- A clear sector-specific strategy and development plan
- Dedicated structures to drive these plans
- Tailor-made incentive programmes.

We recommend that the above elements be replicated in similar programmes within the sectors in the metals and engineering industry.

Government has created a number of awards for the manufacturing sector including the export awards and innovation awards. We have further proposed an ‘employment creators’ award. These awards provide the basis for further incentivising outstanding performance in South Africa’s manufacturing sector by channelling additional incentives to those companies. The adoption of this proposal would serve a dual purpose of both making it even more desirable for companies to strive for excellence in areas that have been identified as being of national importance and it would serve to strengthen those companies so that they increase their success and ultimately their contribution to those national goals. Among the sorts of measures that could be adopted are:

- ❑ A provision in the Merseta to make funding available for two members of the executive team, of which one should be a historically disadvantaged person, in each

of the companies winning the award to attend a short course at a leading international business school. We recommend that these people be sent together to strengthen ties between South Africa's leading companies. This intervention will ensure:

- An increase in managerial competence in the sector;
  - A strengthening of efforts to transform the sector;
  - Incentivise senior management to enter and win these competitions.
- The allocation of funds from the National Skills Fund (or unutilised funds in the Merseta) to undertake a strategic skills project in line with sector and company priorities. This is a critical intervention as it ensures that the rewards of success are distributed widely within the winning companies;
- Privileged access for winning companies to supply-side measures and IDC finance to enable them to develop new areas in their business or to strengthen existing areas;
- The creation of a TISA department that would be 'the companies' champion'. This individual would be assigned a group of the winning companies on an annual basis to:
- Assist them in navigating government systems;
  - Assist companies in entering new markets;
  - Convene forums of 'winning companies' so that they can share ideas, network and develop alliances. These forums should be attended by senior officials of the dti, the Merseta and IDC so that they are able to understand the complexities of the companies worlds; and
  - Develop an understanding of their challenges and opportunities and to communicate these to decision makers within the dti.

We recommend that previous manufacturing experience be a prerequisite for employment within this department.

- Case study presentations by the companies to the dti executive team and sector directorates within TISA so that policy makers are exposed to the strategies, strengths and weaknesses of South Africa's leading companies.

### **3.6.2 Government leadership**

The implementation of the strategic recommendations in this document will require considerable co-ordination to ensure that their impact is optimal. Accordingly, we recommend that TISA create a post for the implementation of the strategic recommendations contained in this report. This post should be a temporary post of 3 years and have a performance contract where incentives are paid according to the successful implementation of these projects.

- ❑ The provision of information is critical to enable the ongoing identification of:
- ❑ Priority sectors for training;
- ❑ Sectors in which safeguard measures need to be implemented;
- ❑ Growth opportunities to be exploited in foreign territories.

As such we recommend the immediate activation of the GESS in a manner that ensures that government supplies all stakeholders with data analysis on a quarterly basis.

### **3.6.3 Government co-ordination**

Government has developed a multitude of policies, programmes and incentives to promote domestic manufacture and job creation. However it seems that they are often applied in a fairly fragmented fashion thereby limiting the overall efficacy of the government incentive system. We believe that:

- ❑ Using the awards as an organising frame will go some way to improving the co-ordination of government incentives; and
- ❑ By having a person located within TISA but who essentially works for the winning companies will assist government in understanding the weaknesses and contradictions in the current system of legislation, regulation and incentives.

The sector prioritisation adopted in the Integrated Manufacturing Strategy (IMS) and the National Growth and Development Summit Agreement are important steps in strengthening co-ordination of government policy. We would further recommend a narrowing of these prioritisations to include sector prioritisation along the lines of this strategy. Within these narrowed priorities we propose that:

- ❑ The dti work together with the Department of Labour to strengthen SETA operations in the sectors that are designated as priorities; and

- ❑ TISA together with industry associations, the ‘companies’ champion and others work to identify potential foreign investors that may serve to strengthen domestic value matrices and innovation<sup>12</sup>.

The survey also identified a relatively low awareness of government supply-side measures and we suggest that the Merseta’s Skills Development Facilitators and Advisors be trained about government supply-side measures so that they are able to inform companies about these possibilities on an ongoing basis. Note that we have made other suggestions pertaining to the Skills Development Facilitators and Advisors in this chapter. The combined implementation of these suggestions would ensure that the SDFs and SDAs are empowered to proactively assist companies across a range of issues.

### **3.6.4 Sector associations**

#### **Co-ordination**

There currently exist no credible bodies for the ongoing formulation of industrial development strategies across all the sectors. We recommend that each sector convene a small forum composed of business, labour, TISA and Merseta representatives. We suggest that these forums become the primary point of contact for a presentation of:

- ❑ The analysis from GESS; and
- ❑ Case studies of the winners of the President’s Employment Award.

This would ensure both that these bodies have access to useful information that can feed into sector policy and that there is an incentive for attendance at these meetings.

Existing sector associations play a potentially critical role in the strengthening of employment creation. In the strategy outlined above we have posited three new roles for them:

- ❑ A link between the dti and companies in the distribution of trade analysis;
- ❑ In consultation with stakeholders the dti needs to establish sufficient levels of staffing in foreign trade offices;
- ❑ Assisting companies in making application in ITAC; and

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<sup>12</sup> For a full elaboration of the ‘value matrix’ concept please see dti (2002) Accelerating Growth And Development: The Contribution of An Integrated Manufacturing Strategy. Pgs 38-40.

- Assisting the dti to register more companies as exporters.

### **Information**

Information gaps have continuously been raised constraining companies and sectors ability to respond to strategic dilemmas. We accordingly recommend that industry associations develop a more pro-active approach to assessing members' needs. One such vehicle would be subscribing to web-based surveys which association members could log onto and complete thereby giving industry associations easy and cheap access to information about their members needs.

Employment numbers constitute an ongoing source of dispute between the parties and consequently hinder the extent to which policy can be effectively made and implemented. We propose that the work by Statistics South Africa and allied institutions to enhance employment statistics be strengthened. As part of this process the industry associations should facilitate annual meetings between Stats SA and their members. At these events, Stats SA could present their findings on employment trends and it would give industry the opportunity to test these numbers against their daily experience in the sectors.

### **3.6.5 Metal and Engineering Industries Bargaining Council (MEIBC)**

The MEIBC was established during the Second World War as a means of ensuring industrial relations stability and to protect against adverse competition. As the industry actively engages with global competition, South Africa's labour market legacy and the struggle to retain and create jobs, this role remains pertinent. Beyond this role, the MEIBC may also be a vital source of information on the industry and link with the Merseta to ensure synergy between training and grading systems.

A recurrent complaint from some employers was that the exemption process under the MEIBC was cumbersome and slow. Further investigation found that the MEIBC dispute resolutions statistics are within the Key Performance Indicators of the Labour Relations Act and that the main cause of delays came from the appeals process, which by necessity involves an impartial adjudicator. It is our recommendation therefore that a mechanism to speed up the appeal process of exemptions needs to be investigated.

### **3.6.6 Transformation**

Our survey revealed that white men continue to dominate the managerial and professional layers within the metals and engineering industry. We accordingly recommend the adoption of targeted programmes to fast track the graduation of black and female engineering

graduates. It is our opinion that the proposals that we have under the above section on skills development should aid considerably in meeting this challenge.

In addition we recommend that the current data that has been obtained around the racial and gender be used as a benchmark to monitor progress in transformation.

## **4 CONCLUSION**

Our survey shows that the metals and engineering industry has experienced slight employment growth over the last 3 years. In addition, employment growth has been driven largely by increases in atypical employment with permanent employment decreasing across the industry.

The above chapter has put forward a strategy to increase the potential of the industry to increase employment. The departure point of this strategy is that employment creation is the over-riding national priority and accordingly all efforts must be made to integrate government's efforts around this priority. It is our observation that although this principle is often articulated across government departments and policy documents, it is not experienced by companies and workers in the daily operations of the economy.

Our recommendations have sought to provide mechanisms that will give greater operational expression to the priorities already defined in many instances by the stakeholders. Giving this operational expression requires institutions to work and communicate efficiently and regularly, in this context it is imperative that they are both appropriately staffed and, as critically, monitored for adherence to performance standards.

Our proposal for the creation of a post (or posts) for the creation of a 'companies champion' within TISA to represent the interests of companies that win awards in areas of designated national importance (innovation, export and employment creation) is, we believe, the basis for a model that should be strengthened; namely the ongoing engagement with achieving companies to make their lives easier. This forms the basis for closer co-operation and co-ordination between the implementing institutions of the state and the private sector. As a parallel to government's efforts to engineer 'integrated government' it is essential to strive for an integrated and cooperative relationship between the private sector and government departments, not so much in terms of policy, but in terms of the practical dynamics of productive capacity and opportunities.

Our recommendations are located within a framework that suggests that the stakeholders prioritise certain sectors, as they are more likely to yield jobs in the short-term. Yet, it is our contention that the implementation of our recommendations will have positive effects across much of manufacturing and not merely the priority sectors. For example, a strengthening of local procurement processes will positively impact on the metal products and fabrication sector in the short-term, yet it will also have significant consequences for the rest of manufacturing.

The above chapter has explored the approach that we believe the stakeholders should adopt for the metals and engineering industry. However within each sector, employment has been both lost and gained and it is to the drivers of each of these sector trends that we now turn. Each of the following sector chapters will articulate the specific nuances, within the overall framework posited above, to advance employment creation.

The strategies advanced above and in the sectoral chapters are not exhaustive, but they reflect the input, both quantitative and qualitative, from stakeholders within each sector as well as our analysis of the sectors. It is now necessary for the role players within society, government, business and labour, to promote the dedicated discussion of practical sectoral and sub-sectoral strategies to take these findings forward. The policy gaps which have opened up in the past have been as much about the absence of discussion as the lack of implementation and monitoring around practical interventions. The key is in the rapid implementation of viable interventions based on consensus around problems faced within a series of layers, from product categories, to sub-sectors, to sectors and to the entire metals and engineering industry itself.