

**THE ROLE OF BUSINESS LINKAGES IN
RESTRUCTURING THE FOOTWEAR INDUSTRY
IN THE GREATER PIETERMARITZBURG
METROPOLITAN AREA**

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FOREWORD

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The six studies on Small, Medium and Micro Enterprise (SMME) Development: **1.** Enhancing Economic Development by Fostering Business Linkages between Pharmaceutical Companies and the Traditional Medicines Sector by E.C. Bbenkele, **2.** Promoting the Growth of Micro and Micro and Small Enterprises through Business Linkages in the Northern Province by C.L. Machete and F.D.K. Anim, **3.** Business Linkages Involving SMMEs with Umgeni Water and Hulett Aluminium in KwaZulu-Natal by T. McEwan, D.C. Mead and N.M. Ndlovu, **4.** Linkage Promotion in South Africa: Insights from Research Conducted in Durban and Richards Bay: An Exploratory Study by F.O. Skae, **5.** The Role of Business Linkages in Restructuring the Footwear Industry in the Greater Pietermaritzburg Metropolitan Area by B. Strydom, and **6.** Small Enterprise Growth through Business Linkages in South Africa by D.C. Mead were carried out between September 1997 and March 1998. Five of the studies were carried out in KwaZulu-Natal Province under an agreement between the University of Natal, Pietermaritzburg, the United States Agency for International Development, and Harvard University, through a sub-agreement with Michigan State University. The final study was arranged between the same American principals and the University of the North, Sovenga, Northern Province, in South Africa.

The choice of where to carry out these studies on SMME developments was not entirely accidental. The Northern Province, for example, was found to be the poorest of South Africa's nine provinces in the 1996 census with an average income of R17,900 (approximately US\$3,000) and 46 percent of its 4.9 million population unemployed, which is the second highest after Eastern Cape (49 percent) in South Africa.

Third in terms of high unemployment (with 39 percent), was KwaZulu-Natal Province, which has the largest population (8.4 million) of South Africa's 40.8 million population. The average income is barely R24,300 (approximately US\$4,200), despite the large contribution made by the Durban Greater Metropolitan Area to the South African and Provincial economies. Because the principal source of investment in the past has come from South Africa's white population, large disparities still exist which distort average income calculations, according to the 1996 census. Among unemployed Africans, for example, the average income for women is R12,000 and R16,000 for men. This compares with an annual income for men of R30,000 and R20,000 for women across the whole working population in South Africa.

There are also daunting development backlogs in both provinces. For example, nearly one million people in KwaZulu-Natal have received no formal education, and a further 700,000 are classified as functionally illiterate. A further half a million households live in traditional housing with no direct access to electricity or potable water supplies. (The Sunday Times Report, 25 October 1998, p.5). The Income Distribution for the province (Gini Coefficient) is 0.7 which indicates the same skewness as for the rest of South Africa, compared with an ideal coefficient zero. However, the Human Development Index for the province, which measures life expectancy,

income and literacy rate, etc., was 0.59 when data was last collected in 1991, compared with 0.69 for the rest of South Africa and an ideal index of 1. (Source: Industrial Development Report on the Pietermaritzburg Spatial Development Initiative, 1997).

Northern Province is the least urbanized province in South Africa and 90 percent of its population still live in traditional housing or shacks in the rural areas on the outskirts of towns. It also has the highest proportion of women (54 percent of the population) compared with 52 percent across South Africa. The highest population of uneducated or functionally illiterate people live in this province, and over 60 percent of households still use wood for cooking and heating purposes.

As if high unemployment, illiteracy and restricted rural development are not burdens enough for any province to have to carry in the New South Africa, KwaZulu-Natal and Northern Province have also still to come to terms with the added problems of HIV/AIDS and, in the case of KwaZulu-Natal, politically-motivated crime and violence.

Accurate data on HIV/AIDS infection is hard to come by, notwithstanding the commendable efforts of specialists and other experts in the field, because the full extent of the problem only attracted full media attention in South Africa earlier this year when the Deputy-President, Thabo Mbeki, made an eloquent plea for more sympathetic understanding of those infected, and also called for rapid action plans to contain the spread of this pandemic. If forecasts are accepted, they make chilling reading as 53 percent of the beds in the University of Natal's Medical School hospital are already occupied by HIV/AIDS patients. Over one in four people in KwaZulu-Natal is probably HIV/AIDS positive and, nationally, South Africa is already planning to cope with an estimated two million orphans, or abandoned children, as well as one-third of all women attending ante-natal clinic being infected with HIV/AIDS, over the next 10-15 years.

It would be out of place to comment much further here about a subject of which we possess no expertise. Two things which are relevant to the SMME studies need to be stated. Firstly, a major consequence of South Africa's economic and political history up to 1994 was the gradual decline of the *lobola* system, whereby families were started before the African version of Western marriage took place. Women remained in rural areas with their families to raise new off-spring, whereas the men left to find work in urban/industrial areas so that they could raise the money to pay off the *lobola* dowry to the woman's parents and support their families. Since then, the 1996 Census reveals that the migration of men to rural areas has become a permanent feature of the South African economy. For example, 63 percent of African males under the age of 20 live in rural areas but this figure declines to only 40 percent by the age of 30. This trend begins to reverse itself after the age of 55, with almost 70 percent of males returning to their rural homelands by the age of 70 years.

Secondly, in view of this cycle of male migration, the prominence given to SMME development in the South African economy is easily justifiable since, although African women are also becoming more urbanized, this occurs at the lower rate. For example, 63 percent of African women are born in rural areas yet almost three-quarters remain at home throughout the most economically active period of their working lives. Raising the living standards of African women and their children through SMME development is an obvious way of combating HIV/AIDS in rural and urban communities since less migration and greater discrimination against African women, in terms of equal pay and job opportunities, means that over 50 percent are unemployed, compared with a national average of less than 30 percent. Starting up SMMEs is even less common and, in the six studies performed we experienced great difficulty in finding more than a few SMMEs in KwaZulu-Natal which were owned and run by women.

Politically-motivated crime and violence have also retarded economic development in South Africa and nowhere more so than in KwaZulu-Natal. Recent statistics indicate that more people have been killed in KwaZulu-Natal since 1994 than in the whole of the former Yugoslavia (SABC News Report, 3 November, 1998). Again, the reasons are far too complicated for detailed discussion in this report. However, that the Zulu nation is the largest ethnic group in South Africa, yet has failed to secure what might be regarded as an equitable share of political and

economic power, because of divided support for the two largest political parties, provides part of the explanation why political-motivated crime and violence has brought economic development (eg. tourism) almost to a halt in some regions of KwaZulu-Natal. It also reinforces the argument for learning more about SMME development in the expectation that, if ever political differences can be reconciled, then the expansion of appropriate economic activity among African people in particular should proceed far more rapidly in KwaZulu-Natal.

This research project attempts to explore the business interests of two very different sets of South Africans. On the one hand, there are the senior and middle managers employed by two well-known, undoubtedly successful organizations in Pietermaritzburg. Mostly, but not solely white, these represent the buyers and include well-informed managers, trained in modern business practices, who see their primary functions as raising productivity and expanding their markets in ways which will eventually benefit all of the expanding population of the Greater Pietermaritzburg Metropolitan Area. As part of how they go about achieving these aims, the managers of both companies are committed to purchasing goods and services from Small, Medium and Micro Enterprises (SMMEs) amongst the historically disadvantaged Zulu Community in particular.

On the other hand, the Asellers@ in the list of companies provided by Abuyers@ included a mixture of successful white-owned SMMEs alongside a wider range, in terms of financial performance, of entrepreneurs from the Zulu Community. In passing, it should be noted that Indian SMMEs were deliberately excluded because these were already being studied in a separate survey. The Zulu entrepreneurs could be divided into a small portion of successful medium-sized enterprises, as defined by the South African Department of Trade and Industry (DTI), which are clearly well-run and trade regularly with the largest companies in KwaZulu-Natal without need of any assistance from third parties, including government agencies.

Outside of this small apex of successful, largely self-made, black enterprises lies a large phalanx of Zulu-run SMMEs which are owned and operated by up to three, but mostly one, individual. Of the original list of over 1,200 SMMEs provided by both corporates, more than 80 were invited to participate in view of the limited time available. Of these, over one-third finally took part in the survey.

The research questions we sought to answer were based on the premise that around the world, modern, forward-looking businesses interact with other enterprises through a complex web of commercial relationships. This is because many efficient managers find it cost-effective not to try to do everything themselves *in-house*@. Instead, they purchase some of the goods and services they require for their production activities from other enterprises that specialize in particular aspects of the production process. These purchases and sales, which we refer to as business linkages, are a pervasive characteristic of efficient and productive economies.

South Africa is expanding the scope of these commercial transactions. Many large corporations are moving toward a lower degree of vertical integration; many are reaching out more beyond their traditional corporate patterns, sometimes to smaller suppliers. While there is a long tradition of support for small business in South Africa, much of the energy in the past has been devoted to the promotion of small, white-owned businesses. In recent years, there has been considerable discussion of the way in which that process can be opened up to newly-established enterprises that had been excluded under the old Apartheid regime.

A research project at the University of Natal and the University of the North, in cooperation with Michigan State University, funded by the US Agency for International Development, set to examine the nature of these business linkages, as well as the extent to which they currently provide opportunities for improvement for historically disadvantaged small enterprises, and the kinds of steps that can be taken to expand such opportunities in the future.

In the first of these studies, Professor Bbenkele set out to identify existing and potential business linkages between the traditional medicines sector and registered pharmaceutical companies in South Africa. He also investigated how these business transactions could be developed to create an estimated 1,000 jobs per year in Durban, plus a smaller number of job opportunities in Pietermaritzburg.

His findings indicate that it cannot be assumed that expansion of the traditional medicine sector is straight-forward or a foregone conclusion, as different types of business linkages in an increasingly complex chain or network first need to be explored. These linkages involve gatherers, traditional healers, local authorities, National Parks Boards, pharmaceutical companies, the South African Medical Control Council and Ministry of Health, as well as health authorities overseas. All would need to be consulted further before the potential growth in job creation can be achieved. Job creation of this magnitude is of importance not just because it would help to reduce the high unemployment in the two Metropolitan Areas, but also because many of these envisaged new jobs would be taken up by rural women as gatherers of traditional medicine ingredients in the raw material form.

In the second study, Charles Machete and Francis Anim studied business linkages between small suppliers, in mainly black-owned businesses, and large buyers, in mainly white-owned businesses, and attempted to evaluate their contributions to SMME development in The Northern Province by seeking answers to the following questions: What are the distinguishing characteristics of small suppliers with, and without, business linkages? What are the determinants of business linkages? How can knowledge of these factors promote and strengthen new and existing business linkages? What are the constraints on the establishment of business linkages. Finally, what measures need to be taken to promote successful business linkages in The Northern Province?

In the third study, two interview teams led by professors McEwan and Mead identified existing and potential business linkages by carrying out a detailed study of 29 SMMEs which supply two leading corporates in Pietermaritzburg. These corporates were selected because of their public commitment to assisting historically disadvantaged enterprises, which predates the creation of the New South Africa in 1994, but also because the policy of both corporates is directly influenced by national and regional government agencies which seek to act in a beneficial or interventionist manner.

In-depth interviews were carried out with entrepreneurs and managers using a standard survey instrument, which preceded a comprehensive study of the values, objectives, strategic behaviors and the problems encountered by both suppliers and buyers, most of whom were situated in the Natal Midlands along the Durban-Pietermaritzburg corridor of the proposed Eastern Seaboard Spatial Development Initiative project. This study is far from exhaustive and much more needs to be known about other contributing factors affecting the vital task of enabling larger numbers of historically disadvantaged people to participate in business activity in the Natal Midland and play a fuller part in expanding the South African economy.

In the fourth study, Owen Skae studied the existing and potential business linkages of 32 SMME suppliers located in the Durban and Richards Bay Metropolitan Areas and their business linkages with 15 other companies, which are large buyers in the same Eastern Seaboard corridor.

These suppliers may be regarded as representative of the wide range of SMME activity in both coastal industrial centres, since no fewer than 26 different manufacturing and service sector enterprises have been included in this survey. In-depth interviews were carried out with entrepreneurs and managers using the same standard survey instrument used in the previously-mentioned study, which resulted in a comprehensive analysis of the motivations, aims, strategies, outcomes, and difficulties experienced by both suppliers and buyers. More still needs to be known about how to enable increasing number of historically disadvantaged people to participate in business activity in this region of KwaZulu-Natal, thereby helping to expand the South African economy, but a valuable start has been made in this research project.

In the fifth study, Barry Strydom carried out a detailed analysis of existing and potential business linkages of 32 SMMEs and larger companies which make up the declining footwear industry, mostly based in the greater Pietermaritzburg Metropolitan Area. These enterprises either purchase from or supply other companies both in and outside South Africa.

The reasons for the steady decline of the South African footwear industry are complex and probably came to public attention for the first time as a result of the lifting of tariffs following South Africa's readmission to the Global Economy in 1994. However, international isolation, the failure to introduce new technology in the past, inadequate training, low productivity, coupled with a genuine concern by the industry to avoid shedding manual jobs carried out by historically disadvantaged people, have all contributed to this loss of market share. More than 4,000 jobs were lost in the Greater Pietermaritzburg Metropolitan Area alone, between 1994-1998, and the situation is likely to deteriorate further as the industry braces itself for the full impact of further cuts in tariffs under the GATT Agreement which are due in 1999. However, many local SMMEs and larger companies have shown themselves to be both adaptive and resilient in the face of unavoidable change, and this study succeeds in identifying key forward, backward and horizontal linkages which will have to be evaluated and probably implemented during the next 18 months, if the South African footwear industry is to survive intact into the 21st century.

Special thanks are due to Professor Donald C. Mead, Michigan State University, for helping negotiate these last-minute arrangements; and also for sharing some of the interview load undertaken by Barry Strydom, with further assistance by Professor Tom McEwan. It should be noted that the six papers are a part of an ongoing study, and some analysis has been excluded because it forms part of a Masters dissertation, which has still to be assessed. Since completing this study, however, members of USAID/EAGER team have been invited to carry out an evaluation of the government-backed Workplace Challenge initiative, which will explore ways of improving collective bargaining and introducing new technology into the local footwear industry. A further report on this research is planned for 1999.

In the final study, Professor Mead undertook the task of drawing the disparate research findings together into a coherent whole which will hopefully be useful to all stakeholders with an interest in the successful expansion of the SMME sector in South Africa. Attention should be drawn to the following synopsis of his findings which would seem to have a wider range of application in South Africa outside the provinces of KwaZulu-Natal and the Northern Province.

The research shows that buyers establish business linkages with three principal motivations in mind; namely, either because it is good business to do so; or out of a sense of community service, or because they wish to shift to a production pattern that enables them to escape payment of taxes, or evade the impact of rules and regulations, usually imposed by Government agencies. While the last of these motivations was clearly true in many cases, a number of other suppliers paid all relevant taxes and fees while employing workers who were members of unions and were covered by the standard labor benefits. These enterprises were generally the most efficient of the small suppliers, and the ones that were growing the most rapidly.

Some linkage contracts were much more helpful than others to historically disadvantaged small suppliers. The key determining factors of these arrangements were the characteristics of the contract (size, period covered, stability), and the degree to which the contract provided a channel for the supplier to learn how to do things better. Where the motivation for the contract was based on community service, these factors were much less likely to be present. In such cases, linkages generally resulted in frustrations for the buyer and little development impact for the supplier. In contrast, where the motivation was commercial, the buyer had an incentive to serve as mentor to suppliers, for example by helping them improve their efficiency and productivity. Unfortunately, our interviews uncovered relatively few cases where the buyers played a significant role in mentoring their suppliers in either KwaZulu-Natal or the Northern Province.

Since there is considerable interest on the part of both buyers and suppliers in expanding the involvement of historically disadvantaged small enterprises in business linkages, with several initiatives currently under way and others just starting, it is clear from our research that to be most effective, institutional support for the promotion of business linkages needs to be based on a number of clear principles:

Firstly, the driving force must be economic, not a paternalistic goal of community service. All linkage promotion activities must have an orientation that starts from markets and works back to suppliers, thereby helping them take advantage of these identified market opportunities.

Secondly, the institutional structure must be cost-effective, taking account of the limited resources available to support this type of activity. Specialization and focus among promotion agencies can be important in helping achieve this objective. Buyer mentoring, a key factor in many successful linkages, also contributes in important ways to the goal of cost-effectiveness.

Thirdly, there are three specific building blocks which support the promotion of linkages; namely, information, capacity-building, and capital. While each may be needed to bring a particular contract to successful fruition, in general, one organization should not attempt to supply all three because the risk of inefficiency increases.

Fourthly, issues of imbalance between buyers and sellers are important and must be addressed in establishing equitable policies or programmes for linkage promotion, and some of these approaches are discussed in the papers.

Fifthly, much has already been achieved in the expansion of business linkages involving historically disadvantaged small enterprises in South Africa, thanks to the efforts of Ntsike Enterprise Promotion, the Centre for Small Business Promotion and the National Small Business Council. The interviews we carried out make clear that there is a strong will on all sides to do more. With stronger institutional support, there is much more that can be done.

It would be impossible to express thanks to the large number of people who either assisted or participated in this project, but special mention must be made of the contribution of Professor David Maughan Brown, Senior Deputy Vice Chancellor at the University of Natal, who supported the research programme from the start and made it much easier to implement. Mr. Hollie Clarkson and Mrs. Cheryl Pratt from the University Finance Department have to be thanked for their professional monitoring of expenditure which ensured that compliance with rigorous US funding regulations was achieved.

Charmagne Howe, Kathy Acutt, Joy Gauche and Debbie Bowen, from the Department of Business Administration, must also be thanked for their administrative support, without which many interviews would never have been arranged and the two large workshops in Pietermaritzburg would certainly never have run so smoothly. Special mention must also be made of Nhlanhla Moses Ndlovu, who proved to be an outstanding research assistant, and provided invaluable support in @breaking the ice@ during interviews with Zulu-speaking respondent, and who stored and analyzed data in an accurate way which augurs well for his own future research into SMME developments. We must also express our gratitude to Professor Anthony Lumby, Dean of the Faculty of Economics and Management at the University of Natal Durban Campus, for supporting Owen Skae's study of emerging SMME activity in the Durban-Richards Bay region of KwaZulu-Natal province; and additional thanks are due to Mel Clarke, KwaZulu-Natal Regional Economic Forum, for @opening doors@ which resulted in us gaining quick access to the key players in the local footwear industry. Finally, the patience, helpful advice and insights of Alwyn Pollock, Commercial Manager at Umgeni Water, and his assistant Jill McEwen and Dennis Ndlovu, were much appreciated, along with those of Mervyn Webb, Senior Purchasing Manager at Hulett Aluminium, as was the interest shown by Andrew Layman, Director of the Pietermaritzburg Chamber of Commerce and Industry, and the coverage provided by Johan Beukes, Business Editor of the Natal Witness, South Africa's oldest daily newspaper.

Special thanks must also be expressed to the various English- and Zulu-speaking entrepreneurs who took part in the various surveys. They ranged from the obviously successful to those who run their fragile businesses on tightly-stretched shoe stings in back gardens, on in houses converted into make-shift workshops, with small children at play in the room next door. Here, in the townships or on run-down industrial estates, we interviewed mostly male respondents, many of whom possessed little knowledge of basic business skills and practices, which are essential in order to survive.

Their dire situation raises fundamental questions about the nature of the *Transformation* process in the New South African civic society. Simply put, in our view, if whatever has been inherited by the more fortunate, as either wealth, health, education, or even as better career opportunities, was at the expense of the near-defeated in society, then natural justice insists that better ways must be found of helping these brave, anxious, inadequately-trained *Survivalist* entrepreneurs to place their tiny businesses on a sounder economic footing in the future. Otherwise, for them, *Transformation* and *Redistribution* will become two long, meaningless words in South African newspapers and dictionaries, which some are unable to read and most are unable to purchase.

Ever optimistic, some of these respondents asked if they could see our final reports, and it is with this commitment in mind that most of the following studies have been compiled with the minimum number of tables, diagrams and calculations which, for reasons outside their control, most said they might not be able to understand. We hope that better ways of assisting these people to run their small enterprises more effectively occur as a result of the publication of our reports which indicate that their business aims are simple enough and, not surprisingly, very similar. They wish to raise their living standards more rapidly by dint of their own efforts, enjoy better health, educate their children beyond the basic standards they achieved, and take their rightful place in a civic society of which they and all other South Africans can feel justifiably proud.

TABLE OF CONTENTS

	<i>Page</i>
1. INTRODUCTION.....	1
2. PATTERNS OF LINKAGES	2
2.1 Horizontal Linkages.....	2
2.1.1 Lacing.....	2
2.1.2 Closing of Uppers.....	3
2.2 Backward Linkages.....	5
2.2.1. Leather.....	5
2.2.2. Components	6
2.2.3. In-soles	7
2.3 Forward Linkages	7
3. THE MOTIVATION FOR BUSINESS LINKAGES.....	8
3.1 Improved Efficiency	8
3.2 Avoidance of Regulations	10
4. DIFFICULTIES OF INCREASED LINKAGE ACTIVITY.....	11
5. CONCLUSION AND RECOMMENDATIONS.....	12
5.1. Manufacturers.....	12
5.2. The Bargaining Council	13
5.3. Tariffs.....	14
5.4. Conclusion.....	14
OTHER EAGER PUBLICATIONS.....	15

1. INTRODUCTION

A simple review of production and employment levels indicates very clearly that the footwear industry in South Africa is in decline. Conventional wisdom is that this is because of cheap imports, primarily from the Far East flooding the local market. Produced in countries such as India and China, where wage rates are a fraction of those encountered in South Africa, these shoes are substantially cheaper than locally produced shoes.

The large difference in labour costs between South Africa and China, and the related flood of cheap imports, is an undoubted factor in the footwear industry's difficulties, but it is simplistic to believe that this is the only reason. It is indisputable that wage rates in these countries are a fraction of those facing South African manufacturers but labour costs, on average, represent only about 15% of the cost of producing a shoe. The maximum proportion of total costs contributed by labour for any producer was 20 percent whilst raw materials, on the other hand, contribute between 40 and 50 percent of production costs. Consequently it is unrealistic to blame high labour costs exclusively for the high costs of producing shoes in this country. Other factors such as taxes, tariffs, productivity and raw material costs must also be considered as contributing factors in this price discrepancy.

With the changes taking place in South Africa since the 1994 elections, consumer spending patterns have changed. Increasing numbers of black South Africans are having to spend more and more money on expenses such as schools fees, rates, taxes and utility bills. As a result, their disposable income has decreased, forcing them to become more price conscious when buying articles such as shoes. This has affected the shoe industry in Pietermaritzburg, which specialises in high quality leather shoes, in two ways. Firstly, with customers' increased price awareness, there has been a shift in demand from more expensive leather shoes to cheaper synthetics. This has resulted in a decrease in demand for shoes produced in Pietermaritzburg, resulting in manufacturers having to decrease production with resultant job losses. Secondly, shoe manufacturers have seen their profit margins come under pressure, with buyers requiring the producers to maintain or even reduce the prices of their shoes. This has produced a move towards cost reduction in the footwear production process, with manufacturers seeking ways to minimise overheads and other production costs.

Faced with a declining market share, increased competition and the need to reduce production costs, many manufacturers are seeking to respond to these challenges by changing the way in which they do business. As a whole, the industry is experiencing a period of change as many long standing businesses fail and the remaining firms seek to re-structure the industry. An important part of this restructuring process is the question of business linkages, as firms re-examine their relationships with each other and how their production process is structured.

In the course of this study, a total of thirty-three individuals, in both Pietermaritzburg and Durban, were interviewed to explore the question of business linkages in the footwear industry. Eighteen of the persons interviewed were manufacturers, five were specialists in doing lacing or closing work for manufacturers, seven were suppliers of components and raw materials and three interviews were conducted with representatives of the Bargaining Council, the South African

Clothing and Textile Worker's Union and the KZN Regional Economic Forum, respectively. The firms interviewed employ some 6 000 workers in total of which about 5 400 are employed directly in the manufacture of footwear. The seventeen manufacturing firms examined produce approximately 50 000 pairs of shoes per day. About 2 500 of the manufacturing workers mentioned above, producing some 30 000 pairs of shoes per day, are located in Lesotho, while the rest are all located in KwaZulu-Natal predominately in the Pietermaritzburg area.

2. PATTERNS OF LINKAGES

A study of the footwear industry in Pietermaritzburg reveals a wide diversity of linkage activities taking place. These activities range from the most basic forms of co-operation and out-sourcing to fully integrated production processes. Some of these patterns of linkages are well established in the industry, having been employed for many years, but recently manufacturers, as a response to their changing environment, have begun to employ new forms of linkages in an effort to improve productivity and reduce costs. To simplify the discussion, linkages will be classified as either horizontal or vertical in nature. Horizontal linkages involve relationships between firms performing part of the production process, whilst vertical linkages describe relationships between footwear manufacturers and suppliers of their raw materials and purchasers of their finished product.

2.1 Horizontal Linkages

The traditional model of shoe manufacture is for the complete production process to be performed in a single process under one roof. Whilst this conventional model of shoe manufacture allows for full control of all steps in the production process, economic and structural factors have contributed to a number of manufacturers employing a variety of horizontal linkages with external parties performing some part of the production process for them

2.1.1 Lacing

It is standing operating practice in the industry to have the hand-lacing of shoes completed outside of the factory. This is an extremely labour intensive activity which can be performed almost anywhere by relatively unskilled individuals. Rather than employ full-time employees to complete this task, with the associated increase in overheads, manufacturers have the lacing done on a 'casual', piece rate basis. All the manufacturers interviewed have their lacing done in one of the following two ways.

- a) Manufacturers employ the services of an agent or contractor to handle the lacing for them. The contractor collects the day's work from the factory and distributes the work amongst a number of lacers who work from home or at a central location provided by the contractor. The bulk of the lacing work on shoes produced in Pietermaritzburg is handled in this manner.

- b) Manufacturers employ individual racers who report to the factory each day to return completed work and collect new work for the next day. Less common, this approach is used by smaller manufacturers producing smaller quantities of shoes.

2.1.2 Closing of Uppers

The 'closing' of uppers involves the machine stitching of the leather prior to it's being attached to the sole. Depending on the type of shoe being produced, the amount of work involved in closing can vary considerably. Regardless of the complexity of the individual shoe, however, closing is probably the most difficult and time-consuming element of the production process, requiring the greatest skill levels from the workers. A wide variety of practices are employed by local manufacturers with regard to the closing of uppers, ranging from doing it completely in-house to having it done entirely through out-sourcing. This diversity of approaches makes the closing process particularly interesting in terms of business linkages.

- a) The most widespread practice is for manufacturers to perform the closing function themselves. Closing and finishing are a core part of the process of making a shoe; the quality of the finished product is largely determined by the quality of the closing. As a result, many shoe manufacturers like to have control of the closing process, to be able to personally monitor quality and have direct control of production. Security is an additional reason for manufacturers to perform the closing function themselves. The possibility of competitors copying one's designs is a major concern to producers, so they prefer to keep production in-house, to limit the chance of competitors gaining access to their shoes.

All of the manufacturers interviewed do at least some of their own closing and eight of the seventeen manufacturers do all their closing themselves, unless exceptional circumstance dictate otherwise.

- b) Although these manufacturers prefer to carry out the production process themselves, situations frequently arise where their production capabilities are not sufficient. Situations arise where a manufacturer can not meet the demand for his shoes if a particularly large order has been placed, a rush order is required, or less frequently, in the event of a machine break down. When producers find themselves unable to meet a temporarily large demand for their shoes, it is common practice for them to employ a specialist CMT (cut-make-trim) operator or even another manufacturer, with excess production capacity, to handle the overflow work.
- c) Five of the seventeen manufacturers interviewed employ CMT operators on a regular basis as a normal and integral part of their production process. As opposed to the scenario described above, where the CMT operator is only used to meet short-term production needs, here the CMT operator is used continuously to produce a regular number of pairs of shoes per day instead of the manufacturer producing them himself. The total number of shoes produced in this way is two to three thousand pairs per day out of a total combined output for the five producers of approximately 45 000 pairs per day. This figure is misleading, however, if taken at face value, as one of these companies, producing 30 000

shoes per day, is the largest manufacturer interviewed and almost all of its production actually takes place in Lesotho. If one considers only shoes produced completely in Pietermaritzburg, then out of a combined output of between 12 000 and 13 000 pairs per day, approximately 1 500 pairs are produced using CMT operators on a regular basis for the closing operations.

The advantage of this process to the manufacturer is that it allows him to limit the size of his work force. Secondly, because the CMT operator specialises in closing, as opposed to managing the entire production process, he is able to keep a closer eye on the quality of production. Thirdly, the manufacturer is able to pay the CMT operator per shoe, thereby fixing his per unit cost. Consequently, the manufacturer does not have to concern himself with worker productivity, as it is the CMT operator's problem if his machine operators are under performing. Finally, the manufacturer's overheads are decreased as he can use smaller premises and has to own and maintain less machinery. Some of these manufacturers will regularly employ CMT operators for their more complicated shoes as the CMT operators' workers tend to be more skilled due to their greater specialization.

- d) Certain manufacturers have extended the use of CMT operators to establish independent, small operators to do closing work for them. One of the manufacturers interviewed, producing 1 100 pairs of shoes per day, utilises two CMT operators of this type to do the closing work on at least 450 pairs per day.

These operators, normally past or present employees of the manufacturer, acquire their own machinery and employ their own workers to carry out the closing. The manufacturer then provides them with regular work, usually on a daily basis. Typically, these operators, although independent in that they own the equipment, work exclusively for one manufacturer. The same benefits exist for the manufacturer as those described above, but in addition, because of the special relationship which exists between them and the operator, they effectively have full control of the operator's production and because the operator works only for them, they feel that their designs are more secure.

- e) A further refinement of this idea is the idea of a 'cottage industry' approach. This technique is being successfully employed by one producer in Pietermaritzburg who has a number of ex-employees who do closing work for him. This manufacturer produces between 1500 to 2 000 pairs per day and almost every shoe goes out to these 'contractors' for some work. The difference between this approach and the previous one is that the company provides the 'contractors' with the machinery necessary to do the closing work for them. The machinery remains the property of the footwear producer, who also services and repairs the equipment. The company does very little closing work itself but instead makes daily deliveries to its 'contractors' who complete the bulk of the closing for the company.
- f) A more extreme policy is not to be involved in closing at all but simply to buy completed uppers from overseas, particularly from Indian producers. Currently this option is only being investigated by a few local manufacturers. Two of the manufacturers interviewed,

producing about 1, 200 pairs per day between them, indicated that this was an option they were exploring. However, if the local costs of production were to increase or the Rand was to depreciate further, this would become an increasingly attractive, cost-effective alternative.

By importing completed uppers, local manufacturers could slash their workforce and potentially produce completed shoes at a lower price. The logical follow on, then, would be to import completed shoes and eliminate local production entirely. As the differentials between production costs in South Africa and the Far East increase, this will become a more common occurrence. Already a major manufacturer in the Western Cape has stopped producing shoes itself and now only imports finished shoes; at least one producer in Pietermaritzburg indicated that this was an alternative which he was keeping in mind.

In summary, of the firms interviewed producing 50, 000 pairs of shoes per day, practically all of the lacing is out-sourced whilst approximately 10% of the closing work is out-sourced. However, when the two firms interviewed which produce the majority of their shoes in Lesotho are excluded, the percentage of closing work out-sourced rises to almost 23% of total production.

2.2 Backward Linkages

Footwear manufacturer's relationships with their suppliers can be discussed within three broad categories, namely leather, components and in-soles.

2.2.1. Leather

Leather is obviously an extremely important input for the footwear industry in Pietermaritzburg, with its emphasis on medium to high quality leather shoes. Ironically, the majority of the leather used in footwear production is imported, predominately from India. Whilst the manufacturers are generally happy with their overseas suppliers, there are some difficulties. The most obvious problem is the large lead time required when importing as the leather is shipped into this country. Manufacturers generally have to allow six to eight weeks for Indian leather to arrive. A further problem with importing leather is that, if there is a problem with the quality of the shipment, it is extremely difficult to rectify it quickly. In addition, the Indian suppliers insist on substantial letters of credit from purchasers, which many smaller manufacturers have difficulty obtaining. This problem is mitigated by leather agents who bring the leather into the country and then sell it to local manufacturers. One leather agent actually holds leather in stock in its warehouse for smaller producers who can then draw on the agents' stocks as and when they require the leather. The agent purchases the leather based on the anticipated needs of the manufacturers but manufacturers need only pay for the leather when they take delivery of it. A similar arrangement exists with regard to the supply of inner-sole boards, as discussed below.

While the supply of leather to the industry seems to be satisfactory, it is apparent that the relationship between manufacturers and local leather suppliers is open to improvement. Currently, a local monopoly exists in South Africa, with the few major tanneries all being owned by the same company. Given the depreciation of the Rand, local leather production is geared to

foreign buyers, making South African hides prohibitively expensive for local footwear producers. The best hides produced locally are also sold at a premium to the motor industry, to be used in upholstery work on luxury cars. As a result, there is a shortage of good quality local hides available for the footwear industry. This situation is exacerbated by the fact that none of the local tanneries are located in KwaZulu-Natal.

2.2.2. Components

The term components is used to describe a wide range of soles, heels and trim which are mostly made from a PVC compound. The local footwear industry purchases most of its soles from a number of component producers located in Pietermaritzburg and Durban, although soles are also imported from overseas. Generally, shoe manufacturers are quite happy with the relationship which exists between themselves and their component suppliers. Due to the close proximity of the component manufacturers to the footwear manufacturers, delivery times are good and suppliers are able to be flexible in meeting manufacturers' needs for special deliveries.

One producer, who produces between 1, 500 to 2, 000 pairs of shoes per day, has, however, decided to invest in his own injection moulding equipment, which allows him to make his own bottoms, heels and soles. The motivation for this approach is that it eliminates the component supplier's profit margin, thereby reducing costs, and it allows the shoe manufacturer to produce the exact quantities as and when they are required thereby eliminating lead times. However, very few manufacturers are producing sufficient volumes to make this a viable option.

Although not strictly components, moulds and knives are an important input to the production process which are provided by component suppliers. PVC soles and heels are produced by means of injection moulding. The soles of shoes include substantial design elements and are an important factor in determining the success or failure of a particular shoe. The process of laying down moulds is an extremely expensive process, however, costing in the region of R60 000 per set of moulds. A manufacturer has to be extremely confident in a particular style of sole to invest this sort of money in his own moulds. Consequently, many small manufacturers rely heavily on their component suppliers to produce 'open' moulds, which allow them to buy soles without having to invest large sums of money in their own moulds.

The steel knives used to cut the leather and in-soles are a crucial element in the production of shoes, and these knives have to be precisely manufactured to meet design specifications. There are a number of firms which produce knives for the footwear industry and there is a great deal of competition between knife manufacturers. One specialist knife manufacturer in Pietermaritzburg does a large amount of business with one large footwear manufacturer. As part of this close relationship, the knife manufacturer, who uses a computer programme to do his costings, has made his costing programme available to the footwear producer who has installed it on one of his own computers. This allows the footwear manufacturer to factor in the knife costing directly into his design process, thereby allowing him to make better production decisions.

2.2.3. In-soles

In-soles are cut locally from pre-formed boards imported from countries such as Belgium and Germany. Traditionally, in-soles were always produced in-house by manufacturers as part of their standard production process. This practice has, however, gradually fallen away, with the great majority of in-soles being prepared by specialist suppliers. Some of this work is done by component companies, who also supply footwear manufacturers with soles and knives, but a lot of it is done by a company specialising purely in the cutting of in-soles. Approximately 50 percent of the in-soles used in Pietermaritzburg are supplied by a single enterprise specialized in the production of in-soles.

Local manufacturers have followed this route because it is more cost effective. By specialising in only in-soles, the supplier is able to pay closer attention to costs, with the result that better quality in-soles can be produced at the same or even lower cost. In addition, the supplier, because he is doing work for a number of different factories, is able to enjoy economies of scale which individual manufacturers could not achieve. For example, certain equipment used in the production process has an optimal production run of at least 1 000 shoes. Finally, by out-sourcing this work, the shoe manufacturer does not have to invest in the associated machinery, labour and factory floor space.

The supply of in-soles exhibits some of the closest co-operative behaviour to be found in the footwear industry. While most manufacturers place bulk orders with a roughly two week lead-time, some factories, which have special requirements for items such as welled in-soles, have closely incorporated the supplier into their production process. These manufacturers send the supplier actual work tickets on a daily basis, with delivery taking place within four to five days.

The boards used in the cutting process are imported into South Africa by an agent. Orders are placed with this agent six months at a time, but the manufacturers do not have to take the whole order at one time. Rather, the agent imports the boards as and when necessary and holds them in storage in his warehouse in Durban. Manufacturers then simply draw on these supplies as and when their production process requires them.

2.3 Forward Linkages

The shoe manufacturers interviewed generally indicated that they enjoy good relationships with the wholesalers and retail chains who purchase the bulk of the shoes they produce, although certain problem areas were identified. Particularly, manufacturers producing for the large retail chains such as Edgars and Truworths experienced some difficulties. It was felt that a lack of communication led to undesirable situations where retailers made unrealistic demands on the producers in terms of price or delivery times. A few of the larger manufacturers, however, are closely connected to their buyers by means of a computer interface which allows them to monitor the retailer's sales of different styles and sizes of shoes and to prepare their production accordingly. The objective of this closer collaboration is to allow manufacturers to move towards replenishment production rather than retailers placing large, infrequent orders, which often lead to wastages when less shoes are sold than anticipated.

Smaller manufacturers interviewed, expressed general satisfaction with their relationships with the wholesalers and retailers who buy from them, many of whom they have been dealing with for many years. In a couple of cases, an exceptional form of business linkage was observed between manufacturers and these buyers. In particular, one small manufacturer, who produces for a large wholesaler, has established a closely integrated relationship with its client in that the wholesaler pays the factory's lease, purchases the necessary raw materials, knives, lasts, etc. and provides some of the necessary machinery. Operating solely as a production facility allows the factory to make shoes at an extremely competitive price because it has minimal overheads.

3. THE MOTIVATION FOR BUSINESS LINKAGES

A major question which this research sought to address was that of the driving forces behind linkages. A large number of footwear manufacturers interviewed are engaged in some form of horizontal linkage activity. In other industries studied, it could be argued that the development of business linkages can be seen as an expression of social responsibility on the part of large corporations who see linkages as a means of developing and empowering small black businessmen. In the case of the footwear industry this is clearly not the case. Given the difficulties currently being experienced by the footwear industry, shoe manufacturers are in no position to engage in linkages as a form of community service. Any linkage activity which manufacturers are engaged in must be producing economic benefits to make it worth their while. The real question then is to what extent these economic benefits are as a result of greater efficiency and to what extent they arise as manufacturers use linkages as a means to avoid regulations such as prescribed minimum wage rates and taxes.

3.1 Improved Efficiency

The manufacture of shoes is an extremely labour intensive process. Employers indicate that constant supervision of the manufacturing process is required, if quality and production levels are to be maintained. By specialising in one specific component of this process, for example closing, managers are able to exercise greater control over costs. In addition, with specialisation, businesses (both workers and managers) are able to develop special skills and competencies. Certain types of shoes require more complex work; manufacturers will often use specialist firms to do this work for them as their employees have superior skill levels.

Although, as indicated above, the shoe manufacturing process is labour intensive, this is not because no scope exists for technological enhancement. A number of machines are available which offer alternatives to labour based production techniques or which could improve the productivity of workers. For example, a computerised clicking machine, used to cut the leather, is available which could do the work of a number of workers in a fraction of the time. The cost of such equipment, however, is prohibitive, approximately a million Rand. As a result, this is an option available to only the largest manufacturers. Linkage activity, however, provides scope for such advancements as it may be practical for a single operator, specialising in clicking, to service a large number of different manufacturers. If the clicking work for a number of factories were

performed by a single operator, the purchase of such machinery could be viable and economies of scale could be achieved, benefiting a number of producers.

Such benefits are already to be found in the production of in-soles and closing. As described earlier, a specialist supplier of in-soles is able to achieve efficiencies because he is using more effective machinery requiring larger run sizes. Similarly, one specialist CMT operator, who focuses on closing work, attributes his success to investment in technologically advanced sewing machines which make his workers more productive and allow them to perform more difficult tasks.

Out-sourcing can also provide substantial savings to manufacturers in terms of labour costs. The question of labour is particularly relevant to the local footwear industry as it contributes, on average, between 15 to 20 percent of the cost of producing a shoe. All footwear manufacturers are bound by the terms of the Bargaining Council agreement, which lays down minimum rates of pay for different categories of workers together with other levies and contributions per employee. A major complaint of manufacturers is that the rigid pay structure does not encourage greater productivity from workers, as they will receive the same remuneration regardless of their output. In addition, absenteeism is cited as a major problem experienced by employers. By out-sourcing work, manufacturers are effectively relieving themselves of these issues, as they pay the supplier per unit. Effectively, then, out-sourcing allows manufacturers to fix their production costs, leaving problems of work stoppages through equipment failure, absenteeism or inventory shortages to the supplier.

In addition to potential benefits achieved through altering the remuneration structure, out-sourcing also offers manufacturers savings in terms of reduced overheads. If the work were done in-house, it would require increased investment in equipment, with its associated expenses in terms of maintenance and down time, factory space. A substantial proportion of the out-sourcing is carried out by operators working from home. By utilising these operators, footwear manufacturers can achieve real savings in their production costs. If the work were carried out in-house, the producer would require larger premises to house the necessary machinery. The use of home based operators, therefore, allows producers to utilise their existing factory space more efficiently and also produces savings in terms of rates and taxes.

A number of manufacturers have also argued that the 'cottage industry' approach of out sourcing with a number of self employed people working from home has a positive social dimension. Much of this work is performed by women who, because they are working from home, are able to spend time with their children whilst still generating income to the household. If this work was done exclusively on the factory floor, these women would be forced to choose between losing this income or leaving their children in someone else's care while they go to work. It is also suggested that this method of production provides work for more people than if it was done formally in the factory, as the work is often shared between family members.

3.2 Avoidance of Regulations

A second potential driving force behind the move to greater linkage activities is the desire or ability of manufacturers to escape certain regulations through out-sourcing. A commonly quoted benefit of out-sourcing work, as opposed to doing it oneself is that by out-sourcing, manufacturers do not have to employ the necessary workers, with all the related Bargaining Council restrictions which govern the employment contract. Many of the small suppliers doing lacing and closing work for the shoe companies are not registered with the Bargaining Council which means that they do not have to pay Council wages or other levies such as the contribution to the Council's Technology Fund. By structuring their production in this manner, then, manufacturers are effectively able to reduce their labour costs. A few of the larger lacing and CMT factories are situated in areas such as Losskop near Estcourt, where the Bargaining Council agreement is not in force. By having closing work done by a CMT operator working from Estcourt, then, the production costs can once again be reduced, not necessarily because the CMT operator is more efficient but simply because his wage levels are lower than those of the manufacturer in Pietermaritzburg.

It is also alleged that many of the small closing and lacing operators do not pay taxes. In addition, there is a savings in terms of rates and utilities, as most of these small operators work from home. It is suggestive that one producer who makes extensive use of the 'cottage industry' for his closing work indicated that if Bargaining Council regulations were relaxed, he would probably prefer to have the work done in his factory, as this would allow him greater control of his production process. The question which is then posed is, to what extent manufacturers are making use of business linkages because they represent cost savings through more efficient production or because they represent cost savings through avoidance of wage and tax regulations.

One way to answer this question is to examine how many CMT operators and lacing agents are registered with the Bargaining Council. Currently all lacing operators are exempt from Bargaining Council regulations. CMT operators are, however, governed by the Bargaining Council and have to pay prescribed wages. Of the four CMT operators interviewed, three are registered with the Bargaining Council and pay the regulated wages. This would suggest fairly strongly that avoidance is not the only factor supporting the use of out-sourcing. If there is scope for CMT operators paying prescribed wages to operate successfully, then they must be producing real efficiencies. Many of the smaller operators doing closing work from home are, however, not registered with the Bargaining Council and are paying lower wages than those laid down by the Council. It is probably true to say, then, that both elements, improved efficiency and avoidance of regulations, are present and are driving the move towards linkage activities.

It is also important to note that avoidance of regulations and improved efficiency are not necessarily mutually exclusive. Where the rules governing production lead to inefficiencies, then avoiding these regulations could result in greater efficiency. A major complaint of footwear manufacturers is that because wage levels are fixed at a set weekly rate, there is little or no incentive for workers to increase their output. The use of out-sourcing, in order to avoid these fixed weekly rates can be viewed as an attempt to achieve greater efficiency as it effectively results in workers being paid on a piece rate system, which rewards them for increased production. Such a practice does not necessarily mean that workers will receive lower wages; in fact, there is evidence to show that workers can actually increase their take home pay. But this

arrangement means that workers have a financial incentive to work faster with fewer mistakes, so that their productivity is increased.

4. DIFFICULTIES OF INCREASED LINKAGE ACTIVITY

The footwear industry in South Africa is extremely competitive. When a manufacturer finds a style or design which proves popular in the marketplace, he will sell a lot of shoes and make a lot of money. However, competitors are very quick to copy successful designs. As a result of this practice of copying, manufacturers guard their designs extremely jealously. This concern regarding the security of one's designs creates an environment of distrust which seriously hampers the development of successful linkages.

Lack of trust presents obstacles on two levels. Firstly, there is the obvious issue of security. By out-sourcing part of their production, manufacturers fear that they would be making themselves vulnerable, as their contractor may also be doing work for a competitor. Whilst competitors can always copy design concepts or new styles from shoes purchased in the marketplace, the competitor's late entry into the market will place him at a disadvantage, as the original producer would have already secured orders with the major buyers. This advantage is largely negated, however, if competitors can gain early access to new designs. Manufacturers fear that by sending their shoes to a third party, competitors might, either deliberately or inadvertently, be given access to the company's shoes or designs, allowing the competitor to copy the manufacturer's styles. As a result, manufacturers prefer to produce their shoes themselves in order to protect their designs. A number of the CMT operators and lacing agents indicated that manufacturers gave them work on the strict understanding that they would not work for any competing manufacturer.

Secondly, this lack of trust can prove a substantial obstacle to CMT operators in that they rely on manufacturers for work and unless a strong relationship has been developed where the CMT operator knows that he can rely on the shoe manufacturer for work, the life of a CMT operator becomes extremely difficult, never knowing where the work will come from. Many of the shoe manufacturers interviewed indicated that they would not consider doing CMT work as it is too uncertain if one is only being used by producers to handle their overflow production. In the cases of successful CMT operators, it was noticeable that they had all established a special relationship with at least one manufacturer who provided them with a steady supply of work.

A number of manufacturers interviewed indicated that they had considered using some form of CMT work in their production process but had given up on the idea in the face of opposition from the trade unions. Out-sourcing and payment by piece rates are unpopular with the unions as they are seen as ploys by employers to reduce their work force, which is not good for union membership, and to pay employees less. If the industry is to continue moving to more extensive linkage activity, employers and union representatives need to resolve these differences of opinion which are restricting the industry's ability to respond to the challenges facing it.

5. CONCLUSION AND RECOMMENDATIONS

In reviewing the information provided by the footwear manufacturers interviewed, it is evident that while extensive linkage activity takes place within the industry, with the exception of lacing, there is not a standard mode of production. Rather, a number of different patterns of production can be identified, ranging from almost no use of linkages to manufacturers making relatively extensive use of business linkages. It is also apparent that while some linkage activity has been operating for a number of years (one CMT operator interviewed has been performing this service for 28 years), there has been a definite shift in the last few years by many manufacturers to new forms of business linkages. This increased use of out-sourcing can be viewed as a response to shifting consumer preferences and increased competition from cheap imports which have forced local manufacturers to seek cheaper and/or more efficient modes of production.

At this point in time, the attrition in the footwear industry in South Africa has been felt most keenly amongst producers of cheap, mostly synthetic shoes, who have found themselves in direct competition with the Far Eastern imports for the lower end of the market. The few large synthetic producers in Pietermaritzburg have responded to these challenges primarily by relocating their factories to Lesotho, where wage rates of approximately 25 to 30 percent of those in South Africa; these wage differences, coupled with government tax incentives, allow them to compete with the foreign producers. In Pietermaritzburg, the great majority of manufacturers produce leather shoes for the mid to upper ranges of the market. While a few exceptional businesses have established themselves in niche markets and are making good profits, the majority of producers in Pietermaritzburg have felt the pinch of a declining demand for their shoes. Footwear production in Pietermaritzburg has decreased steadily over the last few years, leading inevitably to a reduction in the number of people employed by the industry. If this trend is to be reversed then changes must occur in the industry.

5.1. Manufacturers

The development of business linkages is clearly one attempt by manufacturers to respond to these challenges by finding more efficient ways of producing their shoes. This trend should be encouraged. For the move to greater specialisation in the production process to produce significant benefits, however, it needs to be more widespread. This would require manufacturers to establish an environment of greater trust. Manufacturers need to be able to send out work without worrying about the safety of their designs. Unfortunately, in the fiercely competitive fight for survival in a doing industry, it is unlikely that such a change in attitudes would occur easily. Nevertheless, the development of production processes integrating a number of specialist manufacturers performing one part of the process remains a positive route for the industry to follow.

Technology exists to produce significant cost savings, but the cost of this technologically superior machinery is prohibitive for all but the largest manufacturers. The development of specialist operators, who by carrying out work for a number of manufacturers could achieve the volumes necessary to make such capital investment worthwhile, would make the entire industry in Pietermaritzburg more efficient. Individual manufacturers could also look to investing money in

improved equipment, but there is a certain reluctance from many manufacturers, as this would likely lead to further retrenchments of employees.

Lack of management ability on the factory floor was cited as a major problem by a number of manufacturers. If firms are to move to improved, more sophisticated patterns of production, then these factory-level management skills need to be developed in employees. More emphasis on worker development is an important ingredient in producing a more productive work force.

5.2. The Bargaining Council

Whilst moves to develop more effective business linkages would be a step in the right direction, it is extremely difficult to imagine that by themselves they could make the local footwear industry internationally competitive. Substantial structural difficulties need to be addressed if the local industry is to become more competitive. The footwear industry in South Africa is governed by the terms of its Bargaining Council agreements. Many of these regulations, formulated many years ago under a different political dispensation when the South African market was closed to foreign producers and footwear production was extremely profitable, are no longer suitable for the current circumstances facing the footwear industry. If the industry is to survive, the parties to the Bargaining Council Agreement should, as a matter of urgency, review the entire agreement from scratch and if necessary redraft it to make it more flexible and relevant to the harsh realities facing the footwear industry today.

The incongruous situation which currently exists with Bargaining Council regulations only applying to certain areas of the country and not to others is extremely unsatisfactory as it places certain manufacturers who are registered with the Bargaining Council at a disadvantage against manufacturers who are not governed by the regulations. This inequality is further exacerbated by the fact that manufacturers operating from Lesotho, for example, are not governed by the Bargaining Council and yet they are able to distribute their shoes freely in South Africa as part of the Southern Africa Development Community. The danger of this situation is that it will force footwear manufacturers to stop producing in South Africa and move their factories to Lesotho, a development which is already very evident.

One of the most important issues facing the industry is the question of productivity. Currently the Bargaining Council Agreement stipulates minimum wage rates for various job classifications. These wage rates are independent of worker output and consequently there is little incentive for workers to produce to their maximum capabilities. The modification of the Bargaining Council Agreement to allow manufacturers to remunerate workers on a piece rate system is an extremely important issue. The experience of a few businesses suggests that such a move would greatly improve productivity levels, as workers would have a financial incentive to increase their output. Indications are that such a system could in fact lead to workers increasing their take home pay by as much as 100 percent.

5.3. Tariffs

Whilst the question of tariff protection is not an easy one to resolve, it is not unreasonable to suggest that serious anomalies exist in South Africa with regard to the tariff structures on imported shoes and raw materials. While struggling to compete with foreign competitors local footwear manufacturers have to pay tariffs in the order of 26 percent on imported components such as PVC compounds and in-soles. Some of these inputs are supplied by local industries which possibly benefit from the protection afforded by these tariffs. Other inputs, however, such as in-sole boards, are not produced in South Africa and yet tariffs are still imposed on these items which only serves to increase the local costs of production, making our shoes less competitive.

5.4. Conclusion

In conclusion, it can be stated that business linkages play an important part of the local footwear industry and that the potential exists for greater productivity and efficiency in the industry through greater co-operation and division of labour between producers specialising in different parts of the footwear production process. It is, however, extremely difficult for any manufacturer to explore these alternatives in a shrinking market. Faced with decreasing demand for their products, shoe manufacturers do not have the luxury of being able to experiment. As a result, much of the development which has taken place so far has been fragmented, with individual manufacturers exploring different strategies on a small scale. If the shoe industry in Pietermaritzburg is to be saved, significant changes need to occur in the thinking of all role-players. Stakeholders, particularly employers and employees, need to change their attitudes to each other and to the ways in which shoes are produced. This would allow for greater flexibility in the industry, creating opportunities for firms to substantially change their mode of production. Such a paradigm shift is vital if the industry is to restructure itself significantly enough to achieve the improvement in efficiency necessary for the industry to be compete with its international counterparts.

Unless fundamental changes take place, the industry will continue to wither and all role players, including employers, unions and local and national government representatives need to recognise this reality. Unless these parties can agree on a common strategy for the industry, the downward trend will continue until only two or three select firms remain to service special niche markets. Expanding business linkages is one part of the answer but it can only be achieved through greater flexibility and co-operation by all relevant parties.