

# **Outsourced but in reach: Cost savings and labour standards in the South African automotive industry**

Pauline Dibben, University of Sheffield, UK

and

Geoffrey Wood, University of Essex, UK



# Overview of presentation

- Introduction: rationale for the paper
- Outsourcing and labour standards
- The automotive industry in the South African context
- Methods used
- Findings: key challenges, supplier relationships, outsourcing, and monitoring of suppliers' HR practices
- Discussion and conclusions

## Introduction: rationale for the paper (1)

- Literature on outsourcing has tended to concentrate on instances where outsourced production takes place at another, often geographically remote, locale or where support functions are outsourced on site.
- With there is on site outsourced core production, the core firm can retain control of work relations, with responsibility given to the outsourcing provider.
- As existing literature on global commodity chains (alternatively referred to as global value chains) shows, there are often complex power relationships between the buyer and supplier (Gereffi and Korzeniewicz, 1994; Gereffi et al, 2005).
- In the automotive industry, the dominant players have traditionally been seen as the major car manufacturers. However, the development of global networks has impacted on their relationships with their first-tier and second tier suppliers (Humphrey, 2003; Naude and Badenhorst-Weiss, 2011).
- Does this lead to high road or low road HR practices?

# Introduction: rationale for the paper (2)

- The South African motor industry emerged through protectionism and active industrial policy, but then had to contend with liberalisation in the 1990s and 2000s. The South African motor industry has survived, and, albeit in a somewhat fragile manner, actually prospered.
- This survival reflects a more sensitive and incremental approach to the liberalisation of tariffs, and is also due to the South African industry being able to reinvent itself, from one characterised by great inefficiencies and poor quality, to a high quality and efficient one. This reinvention reflects not only better industrial and work relations, but also a capacity to innovate, often through improvisation.

# Outsourcing and labour standards (1)

There are three inherent tensions in outsourcing strategies:

- 1) choices between arms length and close relationships with suppliers (Humphrey and Memdovic, 2003; Cox, 2004)
- 2) the choice between high value added, flexible and specialised production (Quinn, 1999; Arias Aranda et al., 2011), versus cost-cutting approaches (Embleton and Wright, 1999), referred to as 'subcontracted capitalism' (Wills, 2009:442).
- 3) spatial decisions

## Relational configurations between core automotive firms and their suppliers

|   | Foreign suppliers  | Local suppliers  |
|---|--|--|
| <b>High value added and specialised production with high labour standards</b> | Purchasing from specialist foreign firms, within the same region, or from company HQ                               | Suppliers located within the same country or inside the factory in order to ensure high quality products and high labour standards |
| <b>Low value added, cost cutting and low labour standards</b>                 | Purchasing from suppliers that are not from the home country, and have lower labour costs (e.g through offshoring) | Outsourcing to suppliers located within the same factory in order to cut costs; use of labour brokers                              |

## Outsourcing and labour standards (2)

In South Africa, these tensions are heightened by:

- the challenges to the competitiveness of global production;
- development of legislation relating to localisation (local suppliers and therefore local jobs) and equity (counteracting past workplace inequities); and
- the role and behaviour of the labour movement in countering these inequities.



## Automotive industry in South Africa: protectionism, localisation and worker rights (1)

- 1920s- protective tariffs and small domestic market; completed knock down kits (CKDs)
- 1970s and 80s- sanctions led to selling out or quitting South Africa; increase in local content requirements and ingenuity in addressing this, but low quality; industrial relations problems
- By 1987 only 7 major car players



## Automotive industry in South Africa: protectionism, localisation and worker rights (2)

- 1995 Motor Industry Development Programme- phased liberalisation
- Long term partnerships with trade unions and better working conditions (Buhlungu et al., 2008)
- 2013 Automotive Production and Development Programme (APDP), but limited protection for automotive components industry (Bronkhorst et al 2014; Steyn, 2013)
- Worker rights: Basic Employment Conditions Act 1997; 1998 Employment Equity Act 1998; Broad-Based Black Economic Empowerment Act 2003

# Methods used

- These findings are part of a larger project on 'Supply Chain Accounting and Employment Practices' funded by the ESRC (Grant ref. ES/K006452/1).

Further details of the overall project and the project team are available at:

<https://scaemp.group.shef.ac.uk/>



- The findings reported here are from case study research within three foreign owned automotive subsidiaries, including interviews with accountants, HR managers, supply chain managers, and production managers
- Analysis of qualitative data was undertaken using NVivo. A hierarchical coding frame was developed through reference to the literature. Following input of fully transcribed data, coding took place. In addition to coding data at existing nodes, new nodes captured emergent themes.

# Findings

- Key challenges facing the automotive industry
- Supplier base and relationships with suppliers
- What had been outsourced, and why?
- Outsourcing within the buyer's own factory
- Insourcing
- Monitoring of supplier HR practices

# Key challenges facing the automotive industry

- Job cuts due to increased productivity and challenges of competitiveness. SAAutocase1 had cut its workforce by half since 2008
- APDP programme - reduced incentives for exporting
- Low cost imports from China
- Volatile exchange rate; electricity load shedding
- Complying with employment legislation (leadership); problems with supply base
- Labour relations: 'hardening attitudes from unions and increased militancy' (SAautocase1\_scm1)

# Supplier base and relationships with suppliers

- Supplies from a range of countries – Europe, Asia, South America; supplies in kit form
- Foreign suppliers: ‘...if we have a supplier, and actually accidents or unfortunate events happen time and time again, a supplier might not stick to the advice you give...’ (SAautocase3\_scm1)
- Problems in dealing with HQ of own company (SAautocase3\_scm1)

# What had been outsourced, and why?

- In the past, security, canteen etc, and more recently ‘those kind of just less than direct parts of the manufacturing process’ (SAautocase1\_HR1)
- Reasons: cutting wage costs; managing employment relations

# Outsourcing within the buyer's own factory

- Motivations:
  - Cutting costs; different unions; good trust relationships (SAautocase1\_scm4)
  - Cost-driven; localisation; BBBEE ratings (SAautocase3\_scm1)





# Insourcing

- Mainly technology, marketing and advertising
- ‘...when you outsource one of the things that happens is you lose a degree of control’  
(SAautocase1\_HR1)



# Monitoring of supplier HR practices

- Training of onsite suppliers on manufacturing processes and HR (SAautocase1)
- ‘...we don’t as a rule get involved in our supplier HR policies’ (SAautocase1\_scm1)
- ‘HR for our supplier- this is nothing we are actually interested in...So we do not audit them for HR’ (SAautocase3\_scm1)

# Discussion and conclusions (1)

- A crisis of competitiveness?
- Dominance of car majors in relation to suppliers
- A patchwork of relations with suppliers – some arms' length, and some local
- Generally good HR practices within company
- A lack of monitoring of the HR of suppliers
  - Some tier one suppliers were multinational companies and conformed to labour standards
  - Relations seemed to be more arms length further down the supply chain

## Discussion and conclusions (2)

- More cooperative employment and work relations since the end of apartheid, but remaining perceptions of unfairness
- Job insecurity due to competition from low-wage exporting countries
- Improvised solutions for structural challenges

## Discussion and conclusions (3)

- The study highlights the limitations and potential of GVC theory
- Within GVCs there is a tendency for car majors to dominate
- But there are imbalances due to historical legacies and limitations in technology, capital and skills
- There is a basic lack of knowledge of second tier suppliers and beyond
- While automotive majors may reap short term benefits from cheap labour in Far East, it is accompanied by a loss of intimate knowledge and the risk of hidden long term quality issues