

The implications of lead firm sourcing strategies and value chain governance on suppliers and sector development: The case of the South African textile and apparel industry.

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Abstract

This dissertation investigates the sourcing strategies and value chain governance of South African apparel retailers and their impact on the local textile and apparel manufacturing sector. Over the past three decades, value chain research has highlighted the crucial role of lead firms in coordinating production networks and shaping supplier relationships. However, little research has focused on the strategies of lead firms from the Global South, particularly in Africa's apparel industry.

Through an integrated analysis of value chain governance, trade, and industrial policies, supplemented by case studies, this research examines the evolving sourcing strategies of South African retailers. Findings indicate that these strategies are influenced by strategic priorities, public value chain governance, global trends towards resilient supply chains, and supplier capabilities. Over the past 10-15 years, South African retailers have shifted from offshoring to nearshoring and reshoring, transitioning from transactional and captive governance to hierarchical and network-based models.

The study demonstrates that hierarchical governance, marked by vertical integration, and network-based governance, characterized by partnerships, have distinct implications for supplier development and sectoral restructuring. This research contributes to the literature by providing insights into the sourcing strategies and value chain governance of lead firms in the Global South, highlighting the interaction between private sector practices and public policy in fostering industrial development.

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Plagiarism declaration

I, Vuyiswa Mkhabela, hereby declare that this dissertation is my own work, both in concept and execution, and that apart from the normal guidance from my supervisor, I have received no assistance. Further, I declare that neither the substance nor any part of the above dissertation has been submitted in the past, nor is being, or is to be submitted for a degree at this University or at any other University.

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Abbreviations

AGOA	Africa Growth and Opportunity Act
ATC	Agreement on Textile and Clothing
BBBEE	Broad-Based Black Economic Empowerment
CMT	Cut Make Trim
CTCIP	Clothing and Textile Competitiveness Improvement Program
DCCS	Duty Credit Certificate Scheme
DTI	Department of Trade and Industry
Dtic	Department of Trade, Industry and Competition
EOI	Export Oriented Industrialization
GATT	General Agreement on Trade and Tariffs
GBJ	Good Business Journey
GVC	Global Value Chains
GPNs	Global Production Networks
H&M	Hennes & Mauritz
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
ISCP	Integrated Supply Chain Programme
ISI	Import Substitution Industrialization
KZN	KwaZulu Natal
KZNCTC	KwaZulu-Natal Clothing and Textile Cluster
LDC	Least Developed Country
M&S	Marks & Spencer
MFA	Multi Fiber Agreement
NBC	National Bargaining Council for the Clothing Manufacturing Industry
NGOs	Non-governmental organisations
NIPF	National Industrial Policy Framework
QR	Quick Response
R-CTFL	Retail Clothing Footwear Leather
SA	South Africa/n
SACTWU	South African Clothing and Textile Workers Union
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Program
SMME	Small and Medium-Sized Enterprises
SWOT	Strength, Weakness, Opportunity, and Threats
TFG	The Foschini Group
TFGA	The Foschini Group Apparel Supply Company
TIPS	Trade and Industrial Policy Strategy

U.S	United States
WC	Western Cape
WCM	World Class Manufacturing
WTO	World Trade Organisation
WHL	Woolworths Holdings Limited
WSA FBH	Woolworths South Africa Fashion, Beauty, and Home
WTO	World Trade Organisation

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1. Introduction and research motivation

1.1 Introduction

Retailers play a central role in buyer-driven value chains. They manage and coordinate a range of fragmented activities and firm-to-firm relationships across the value chain via sourcing and production strategies (Söderbaum, 2015; Qiang et al., 2021). Studies of global retailers' sourcing decisions indicate that these decisions have an impact on the development of textile and apparel manufacturing capabilities. The development of textile and apparel value chains continues to gain policy prominence at national, regional, and continental levels. This highlights the importance of understanding how lead firms in the apparel value chain coordinate production networks, fragmented activities, and firm-to-firm relationships across the value chain and support the development of manufacturing capabilities.

The South African apparel retail industry is well established and dominated by a small number of large publicly listed apparel retailer groups. Similarly, the South African textile and apparel manufacturing industry was well-established by the second half of the twentieth century but entirely oriented to the domestic market. The industry developed under the isolation of apartheid sanctions and import substitution policies that created protective tariffs. After the end of apartheid in 1994, the new government embarked on trade liberalisation. In the context of reduced tariffs and the elimination of quotas, South African textile and apparel manufacturing firms struggled to compete with imports from Asian countries with more competitive industries. Furthermore, South African firms were less efficient because they were far behind technologically due to a lack of re-investments and a solely domestic focus. In addition to trade policy, industrial policy from 1995 to 2009 was unsuccessful in developing a competitive textile and apparel sector and encouraging domestically orientated firms to become export-oriented or competitively service domestic retailers' (Barnes & Morris, 2014).

The industry's decline in production in the mid-1990s, and stagnation from the mid-2000s to the end of the 2010s was, however, not only due to trade liberalization and industrial policy adopted by the government. South African apparel retailers' response to trade and industrial policy and their sourcing and business strategies had a significant impact on the decline of the South African textile and apparel manufacturing sector. South African apparel retailers responded to trade policy by improving their importing capacity and shifting their sourcing significantly from local suppliers to overseas and regional suppliers. Between the late 1990s to 2010s, South African retailers were content to import cheaper clothing and fabric from Asian countries and neighbouring Southern African countries. The shift from local sourcing to increased offshoring production contributed to the restructuring and further decline of the South African textile and apparel manufacturing sector. This period of restructuring resulted in vertically disintegrated manufacturing, factory closures, emergence of informal apparel manufacturing firms, and the establishment of assembly firms in Lesotho and Eswatini, where production costs were lower.

Retailers' sourcing strategies from mid-2010 started to shift once again, but this time to increasing orders from local textile and apparel suppliers, thus reshoring production. Several factors contributed to this shift; the two most significant being the higher competition faced by local retailers in the domestic market from international retailers, and the second being the development of a government sector-specific industrial policy, mainly, the South Africa Retail-Clothing, Textile, Footwear and Leather (R-CTFL) Master Plan to 2030, signed in 2019. These factors pushed retailers to pursue competitive advantage based on quick response, which required greater localisation of production, including textile production. Retailers also moved their sourcing away from China by nearshoring and consolidating their local supply base. This shift resulted in another restructuring of the sector. This time, retailers were incentivized to support suppliers through various supplier development interventions and building partnerships with suppliers. However, this new move to source locally via quick response business models highlighted bottlenecks in the local supply chain, including not enough yarn, a narrow range of domestically produced fabrics, not enough dyeing capacity, and an inefficient and uncompetitive textile and apparel manufacturing base. This reshoring shift led to recent investments by retailers to address bottlenecks identified in their supply chains and the local textile and apparel manufacturing sector.

The shift towards reshoring indicates a change in retailers' sourcing strategies, value chain governance and configuration. Governance defines how lead firms coordinate linkages between inputs, production, distribution, and retail to the final consumer. The actors in the chain with the most influence are lead firms, whereas first, second or third-tier suppliers tend to have less power and influence, respectively (Moyer-Lee and Prowse, 2015). Additionally, governance in value chain analysis refers to the power a firm has to force other parties to pursue specific actions (Pasquali & Alford, 2021). The lead firm governs the value chain determining the parameters for participation in the value chain and, in turn, facilitating market access and fast-tracking the acquisition of capabilities and the distribution of gains (Humphrey & Schmitz, 2002).

The determinants of retailers' sourcing strategies, value chain governance and configurations have become increasingly complex. Retailers' governance structures comprise a spectrum from low (market governance structure) to high hierarchical governance levels of explicit coordination and power asymmetry between buyers and suppliers. How South African apparel retailers organise and govern their value chains will have a significant impact on suppliers' participation in the value chain, the development of local suppliers capabilities and the textile and apparel manufacturing sector. There is therefore a need to better understand how retailers' sourcing strategies, value chain governance and configurations and supplier relationships have evolved, in order to assess retailers' choices as lead firms in buyer-driven value chains impact the development of value chains, suppliers and the textile and apparel sector.

1.2 Research problem

Studies on international apparel retailers operating in developed markets have highlighted how retailers govern their value chains, the determinants of retailers' sourcing strategies, and the role retailers play in developing local or regional textile and apparel manufacturing capabilities and sectors (Gereffi, 1994; Gereffi et al., 2005; Ponte & Sturgeon, 2014; Horner 2016; Horner & Nadvi, 2018). The determinants of links between apparel lead firms based in the Global South and their suppliers are poorly understood; specifically, the determinants of retailers' sourcing strategies, retailer-supplier relationships, value chain governance and configurations. Despite South African apparel retailers dominating the local market and impacting the development of the South African textile and apparel manufacturing sector, studies focused on how South African apparel retailers govern and coordinate their value chains and contribute to the development of the sector are limited.

1.3 Research questions and objectives

This dissertation aims to examine the factors driving South African apparel retailers' sourcing strategies, value chain governance, and their impact on the manufacturing sector by answering:

1. What sourcing strategies have South African apparel retailers undertaken, and what factors drive these strategies and supplier relationships?
2. What type of value chains do South African textile and apparel manufacturers operate in, and what factors drive retailers' value chain governance?
3. How have South African retailers' sourcing strategies and governance shaped the development of the apparel manufacturing sector, and how might they do so in the future?

These research questions will be answered through the exploration of retailers' value chain governance structure, sourcing strategies and supplier relationships.

1.4 Dissertation and research roadmap

Chapter Two reviews critical concepts related to lead firm governance, supplier selection, and upgrading, outlining a value chain governance framework. Chapter Three details the qualitative research methodology. Chapter Four assesses factors influencing retailers' sourcing and supplier relationships. Chapter Five presents case studies of two South African retailers, analysing their value chain governance. Chapter Six concludes with the developmental implications of retailers' strategies, highlighting research limitations and future research directions.

2. Literature Review

2.1 Introduction

A value chain describes the full range of activities needed for a product or service to transit across various stages, from conception of the product or service to its delivery to consumers and, where appropriate, final disposal once it has been used (Kaplinsky & Morris, 2001). The stages include conception and design; production of the good or service; transportation of the good; its consumption and handling; and final recycling. The number of links in a value chain varies substantially, depending on the industry. As the product moves from one player to another, it is assumed to gain value (Porter (1985), Dubey et al., (2020)). Value chain analysis maps the links that transform raw materials into final products and services across geographically fragmented production locations. The analysis also determines who coordinates the linkages between inputs, production, distribution, and retail to the final consumer, and how that coordination is managed and enforced. Value chain linkages operate at different geographic scales; global, regional, national, and local, and continue to evolve. Distinctive features of value chain analysis include the value chain typology, governance, value chain upgrading, and end markets. Understanding these distinctive features of the value chain will facilitate the discussion of lead firms' governance over buyer-driven chains, and the relationship lead firms have with their suppliers.

The literature presented in this chapter is organized into three main parts. The first part outlines critical concepts related to lead firm governance, supplier selection and sourcing criteria, lead firms' supplier relationships and supplier upgrading. The second part reviews the literature on the role of lead firms in buyer-driven value chains and their relationships with suppliers. Building on critical theoretical concepts and empirical literature related to lead firm governance, sourcing, supplier selection and supplier upgrading, the last section will outline the value chain governance framework, associated degree of determinants and factors determining retailers' sourcing strategy and supplier relationships.

2.2 Value Chain Analysis

Since 1985, there has been extensive literature on the value chain framework, which provides a conceptual framework and analysis approach (Porter, 1985, Dubey et al., 2020). Value chain studies have predominantly focused on understanding different configurations of firms' activities globally (Hernández & Pedersen, 2017). This has resulted in the emergence of research investigating different features of the Global Value Chains (GVCs) configuration, including governance types (Gereffi et al., 2005), geographic scope (Los et al., 2015; Mudambi & Puck, 2016), and the upgrading processes of firms (Humphrey & Schmitz, 2002). A central unit of analysis in GVC studies is how lead firms manage increasingly disaggregated and geographically dispersed value chains (Kaplinsky & Morris, 2001; Gereffi, Humphrey, & Sturgeon, 2002; Fernandez-Stark & Gereffi, 2019). According to Keane (2015), the emergence of mainstream literature on GVCs acknowledges the increased importance of intra-firm trade in global trade.

Building on Porter's basic value chain model, Fredrick (2014) shows that a value chain is made up of an ecosystem comprised of four core parts: value adding activities, end-use markets, supply chain and the business supporting environment. These four core parts are considered below.

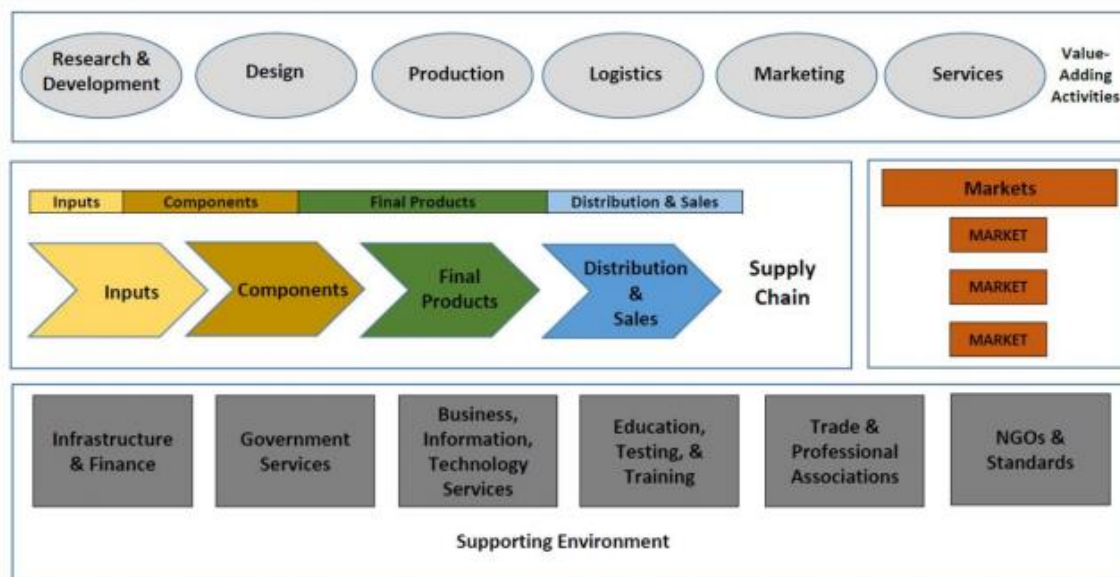
Value-adding steps are required to bring a product or service from concept to end-users. These activities include research and development, design, production, logistics, marketing, services, and are controlled by lead firms directly or indirectly through outsourcing. Buckley et al. (2022) demonstrate how some value-adding activities can be referred to as intangible assets and are embedded in organisational systems. According to Buckley et al. (2022), intangible assets can be categorized into three groups: (a) computerized information (such as databases and software); (b) innovative property (such as designs, R&D, patents, trademarks, and copyrights); and (c) economic competencies (such as brand equity, organisational capital, firm-specific human capital, networks, and aspects of marketing and advertising). Tangible and intangible assets have the potential to generate future economic benefits for their owners.

Strange (2022) argues that lead firms maintain control over the GVCs by possessing scarce and valuable intangible assets¹. The effective management and deployment of such intangible assets are essential to the firms' ability to create and maintain sustainable competitive advantage in global markets. Buckley et al. (2022) argue that to understand the workings of GVCs fully, there is a need for detailed information on the governance of a firm's GVC activities concerning value-adding intangible assets. Future research might consider how lead firms use control over intangible assets to capture disproportionate shares of rents earned within the GVCs at the expense of their GVC partners (Benito et al., 2019).

¹ Intangible assets possess five key attributes that differentiate them from physical and financial assets. First, intangible assets may be viewed as firm-specific, producing services that need to be combined with other goods and services to create value in GVCs. Second, intangible assets are difficult to value using traditional accounting methods. Third, intangible assets are typically not location-bound, creating arbitrage opportunities. Fourth, intangible assets are non-rivalrous in consumption and are scalable with low marginal costs of exploitation once created or acquired, unlike physical capital. Fifth, intangible assets are typically difficult for rivals or partners to imitate and hence, owners can capture significant rents from their deployment.

Fredrick (2014) notes three broad types of end markets; consumer retail, public use, and industrial. Consumer retail markets are products and services purchased via brick-and-mortar retail outlets or the Internet. Industrial markets are for products that are purchased by firms that are used to run or operate a business. Public use markets are for products purchased for public use by public institutions. Kaplinsky's (2014) distinction of end markets differs slightly from Fredrick's (2014). Kaplinsky (2014) notes that there are different types of chains within sectors and end markets, including domestic, regional, global, and high- and low-income markets. Similarly, Horner & Nadvi (2018) note these distinctions and, in addition, assess the shifting dynamics of global trade and the greater prominence of Southern actors for the conceptualization of GVCs and global production networks (GPNs). Horner & Nadvi (2018) argue that there is a need to refine the understanding of governance dynamics, i.e. lead firm strategies and standards requirements, and upgrading prospects due to these shifting dynamics.

Figure 1: Value-chain reference model (VCRM) diagram



Source: Fredrick (2014:25).

Fredrick (2014) defines supply chains as production-related input-output links, which form part of the value chain ecosystem, as illustrated in Figure 1. The supply chain is linked to value-adding activities in that it refers to the flow of tangible assets and embodies the steps it takes to get the product or service from its original state to the customer (Dubey et al. 2020). Dubey et al. (2020) observe that, in most cases, the supply chain is juxtaposed with the value chain. However, supply chain refers to the interconnection of all the functions; from manufacturing raw materials into finished products and ends when products reach the final customer.

On the other hand, a value chain is a set of activities focused on creating or adding value to the product. Furthermore, Dubey et al. (2020) describe a supply chain as a business tool that reduces costs and increases customer satisfaction by providing the right product at the right time, place, and price. Supply Chain Management is practised in many organisations as a tool to leverage their overall performance. The authors note that the concept of supply chain originated from operations management, whereas value chain is derived from business management.

Supporting business environments include both local and global entities that support and influence internal stakeholders. Stakeholders can be divided into six broad categories: infrastructure and finance; government services; business, information, and technology services; education, testing, and training; trade and professional associations; non-governmental organisations (NGOs) and standards. According to Fredrick (2014), these broad categories provide the basic structure for all economic activities and can facilitate or hinder the movement of products along the value chain. The value chain framework provides an approach to explore the role played by lead firms in advancing suppliers development through the governance of production networks and supply chain interventions. Also important is the state's role in creating and enabling an environment for private sector/lead firms to invest in value chain productive capabilities.

The value chain framework allows for analysis of complex patterns of governance and power over production, trade, and industrial development (Davis et al., 2017). The rise of GVCs has fundamentally challenged notions of how and where economic development occurs, and who holds power in directing economic activity and development. Kaplinsky & Morris (2001) argue that the value chain construct had been chiefly applied as a heuristic device, but it has also generated some utility as an analytical structure. Kaplinsky & Morris (2001) suggest that value chains can explain how multinational corporations/lead firms govern fragmented production networks across regions.

2.3 Value chain conceptualisation

This sub-section aims to develop the value chain concepts discussed above, focusing on developments in GVC literature in relation to value chain governance.

2.3.1 Type of value chains

This dissertation will focus on buyer-driven value chains. Buyer-driven chains are common in labour-intensive consumer goods industries where large retailers are central in establishing production networks, usually in

developing countries². Buyer-driven chains are typical in garments, footwear, and consumer electronics (Dubey et al., 2020). One of the earlier proponents of GVC analysis, Gereffi (2009), notes that a significant distinction between producer-driven and buyer-driven global commodity chains is the role of commercial capital in the globalisation process. Linked to this is Gereffi's (1994) earlier assessment of buyer-driven value chains and recognition of the increasing influence of retailers relative to manufacturers in coordinating and influencing production. The impact of retailers as buyers has been identified in various value chain analysis studies, (Tyler, 2006, Gereffi, 2009; Camargo 2020; Yip & Huang, 2016). Buyer-driven studies have assessed lead firms in various ways; firstly, they demonstrate the different positions lead firms take in value chains, their capabilities, and what this implies for other agents' activities in the chain, particularly their suppliers. Secondly, studies identify different types of buyers, their participation in and out of the chain, and the implications for structuring value chains (Humphrey, 2005). Implications exist for influencing the distribution of risks and rewards along the chain, choosing suppliers, and monitoring their performance (Humphrey, 2005; Morris & Barnes 2014; Morris et al., 2016).

The importance of value chain analysis lies in how it maps the linkages that transform raw materials into final products and services, illustrating how firms create and capture value at each distinct point of the transaction along the chain (Gereffi et al., 2005).

2.3.2 Value chain governance

Gibbon et al. (2008) observe that the concept of governance has received the most theoretical and empirical attention to date compared to other dimensions of GVCs. Governance structures define how lead firms coordinate linkages between inputs, production, distribution, and retail to the final consumer. Therefore, governance in value chain analysis refers to the power a firm has to force other parties to pursue specific actions. In the economic geography and GVC literature, the concept of 'private governance' has been used to indicate how lead firms manage and organise production flows within GVCs (Pasquali & Alford, 2021). Additionally, the lead firm governs the value chain, determining parameters for participation in the value chain and, in turn, facilitating market access and fast-tracking acquisition of capabilities and the distribution of gains (Humphrey & Schmitz, 2002).

Several analytical frameworks have been developed to conceptualise lead firm governance. They investigate how governance can be exerted through various mechanisms, such as setting standards and codes of conduct, product specifications, cost, performance requirements, lead firm sourcing strategies, corporate social responsibility, relationship-specific investments, and contractual relationships and building trust (Gereffi, 1994; Altenburg, 2007; Nadvi, 2008; Pietrobellia & Staritz, 2017; Pasquali et al., 2021; Pasquali & Alford, 2021). According to Altenburg

² The traditional value chain typology distinguishes between buyer- and producer-driven value chains (Gereffi 1994). Kaplinsky (2014) notes recent classification of value chains comprising of vertically specialised and additive' value chains (Kaplinsky & Morris, 2015).

(2006), power structures within GVCs are complex, as different degrees of power are found along chains. Extensive country case study GVC research (Gereffi, 1994; Gereffi et al., 2005; Ponte & Sturgeon, 2014; Keane, 2015; Pasquali & Alford, 2021) has been undertaken, focusing on governance structures developed by global lead firms (i.e., private, or internal governance).

According to Keane (2008), the governance concept can also indicate linkages between actors in the value chain and external institutions such as governments, NGOs, unions, and civil society (i.e., external governance). Internal governance has extensively informed the GVC literature. The research on Global Production Networks has concentrated on external governance emphasising how institutions and regulations external to the production process shape actors' participation and upgrading dynamics (Coe et al., 2008; Nadvi & Pasquali, 2020).

Gereffi (2009) argues that the governance structures in GVCs need to be understood from a historical perspective. Technological, institutional, and organisational innovations, as well as changes in regulatory environments, transform the structures of industries and the power of the leading firms within them. Governance structures in GVCs evolve along with the forces that shape industry structures. Thus, in any period or within a given industry, new governance structures co-exist and interact with earlier forms of governance. Similarly, Davis et al. (2018) find that the pattern of governance is contextual, varying by sector, geographical space, and over time.

Gereffi (2009) finds that the evolution of organisational capabilities by leading firms in the global economy drives value-chain governance. They emphasise that the organisational perspective is quite distinct from neo-classical economics' emphasis on pure markets as the critical determinant of economic progress, and political science's emphasis on the state's role in shaping national competitive advantage. Gereffi (2009) acknowledges that competitive markets and effective states are essential for the development of economies. Despite this, the GVC perspective highlights a different dimension frequently ignored by other approaches: namely, the shifting bases of power exercised by lead firms in global industries and how the governance structure of these industries shapes the creation of markets as well as national development outcomes.

The upcoming chapters in this study explore the concept of lead firms' internal governance through various mechanisms.

Lead firms' internal governance

Internal governance relates to the relationship between buyers and suppliers in ensuring specific product and process characteristics. Kaplinsky & Morris (2001) argue that the share of chain buying power can serve to indicate lead firms' governance over a value chain. Several theories of governance in GVCs have been put forth; however, it is beyond the scope of this study to provide a comprehensive account. The determinants of private or internal

governance undertaken by lead firms will be outlined drawing primarily on the works of Williamson (1979, 1981, 2002), Gereffi et al. (2005), Humphrey & Schmitz (2002), Altenburg (2006) and Ponte & Sturgeon (2014).

Governance type and determinants of chain governance

Gereffi et al. (2005, p.86) identify five types of value chain governance patterns derived from country case-study analyses. This governance typology provides an operational theory of governance. The authors observe that three main factors determine governance patterns. Firstly, the complexity of information or transaction costs that the manufacture incurs (design and process), and secondly the ability to codify or systematise the transfer of knowledge to suppliers. Lastly, the capabilities of existing suppliers to produce products efficiently and reliably. These factors link the elements of coordination and risk together to determine governance relations. These three variables generate five governance patterns experienced in GVCs: market, modular, relational, captive, and hierarchical governance. These five governance patterns are discussed below.

Market governance is typical where transactions are relatively simple, information on product specifications is easily transmitted, and suppliers can make products with minimal input from buyers. Trade takes place through arms-length exchanges with little or no formal cooperation, for example, carried out in auction houses or other spot markets, or other over-the-counter transactions.

Modular governance occurs when complex transactions are relatively easy to codify. Suppliers in modular chains make products to a customer's specifications. Information technology and standards for exchanging information are both key to the functioning of modular governance, which means greater control over transactions relative to market-based governance.

Relational governance occurs when buyers and sellers rely on complex information that is not easily transmitted or learned. This results in frequent interactions and knowledge sharing. Lead firms stipulate requirements and exert some level of control over suppliers, but relational linkages take time to build, so the costs and difficulties required to switch to new partners tend to be high. This type of governance is typically associated with contract manufacturing, but offshore contractors may source inputs.

Captive governance is a feature of chains where small suppliers are dependent on one or a few buyers that often wield a great deal of power. Such networks feature a high degree of monitoring and control by the lead firm. The power asymmetry in captive networks forces suppliers to link to their buyers under conditions set by, and often specific to, that particular buyer. Some cases of contract farming or types of commodity trade can exhibit this type of governance, given low supplier competence and complex transactions.

Hierarchical governance usually occurs when product specifications cannot be codified, products are complex, or highly competent suppliers cannot be found. This type of governance is typically associated with industries where all stages of production are carried out 'in house' as production is offshored rather than outsourced.

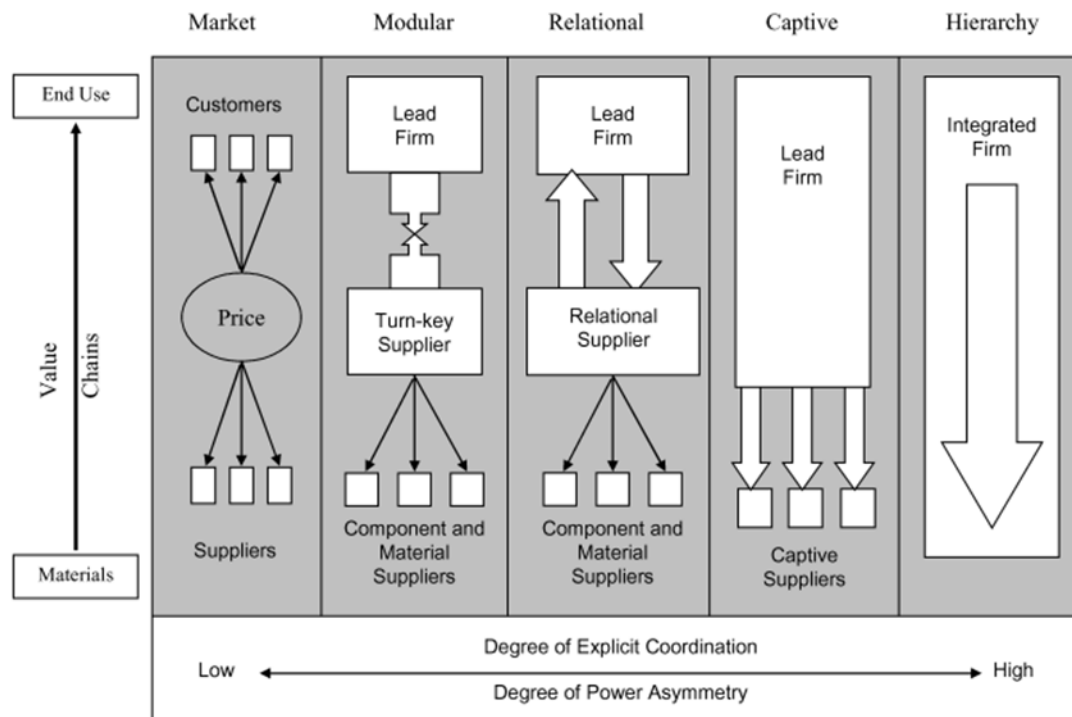
Source: Adapted from Gereffi et al. (2005, p 86)

As illustrated in Figure 2 below, these governance structures comprise a spectrum from low to high levels of explicit coordination and power asymmetry between buyers and suppliers. According to Gereffi et al. (2005), the small line

arrows represent exchange based on price, while the larger block arrows represent thicker flows of information and control, regulated through explicit coordination. This includes lead firms providing instructions to a less powerful supplier, as in GVCs. Similarly, in the hierarchical value chain, there are high levels of explicit coordination and power asymmetry between buyers and suppliers, implying vertical integration and managerial control within the lead firm. According to Porter (1980), vertical integration describes an organisation's ownership and control of more than one of the functions in the value chain, and thus, impacts make or buy decisions. Porter (1980) also defined the more specific concepts of forward and backward integration. By forward integration, Porter (1980) means integrating vertically downstream toward the market to be served. Conversely, by backward integration, Porter (1980) means integrating vertically upstream toward the supporting businesses such as suppliers.

Gibbon et al., (2008) argue that vertical integration within a firm is less common in buyer-driven chains. This occurs where lead firms integrate suppliers into their organisational structures through managerial control, flowing from lead firms to subordinates or products developed and in-house production. Usually, lead firms use independent contractors who perform production functions, while they undertake product development, branding, design, and marketing rather than manufacturing. In the case of relational GVCs, lead firms and suppliers are somewhat equal, and instructions are regulated through social sanctions. In the case of modular GVCs, thick information flows are narrowed, whereby each lead firm manages tacit information within its firm boundaries. Similarly, there are low levels of explicit coordination and power asymmetry between buyers and suppliers in market value chains. These structures provide a helpful typology for distinguishing forms of value chain governance. Gereffi et al. (2005) argue that these structures are dynamic and can change as the industry develops and vary from one chain stage to another.

Figure 2: Five GVC Governance patterns



Source: Gereffi et al. (2005, p.89)

Gereffi et al's., (2005) governance typology aligns with Humphrey & Schmitz (2002). They identify lead firms' governance based on suppliers' characteristics in terms of their concentration and dependence on buyers across four types of governance. Humphrey and Schmitz (2002, p.3, p. 9-10) define governance as "any coordination of economic activities through non-market relationships" and identify four types of coordination of activities, namely: (1) arm's length market relations, (2) network, (3) quasi-hierarchy, and (4) hierarchy. Expanding on the distinctions used by transaction costs economics (Williamson, 1981), they distinguish two distinct forms of network organisations, defining "network" as relationships between more or less equal partners and "quasi-hierarchy" as a relationship between firms in which one is subordinated to the other, as in the case of subcontracting networks.

Similarly, to Gereffi et al. (2005) and Humphrey & Schmitz (2002), Ponte & Sturgeon (2014) have also focused on transactions costs to highlight three aspects of GVC governance that indicate how lead firms exercise their power over value chain linkages. These aspects of GVC governance include driving, coordinating, and normalising. Additionally, according to Ponte and Sturgeon (2014), domestic conventions shaped along with concepts of quality evaluation and trust underpin the governance structures undertaken by the lead firm and their relationships with their suppliers. According to Ponte & Sturgeon (2014), the rules that govern economic transactions in a specific value

chain are not pre-determined but emerge through interactions between various actors across the chain. Conventions to define quality become necessary when price alone is not informative (market coordination). In this respect, actors can resort to (i) domestic coordination by solving uncertainty through trust and repetition; and (ii) industrial coordination by testing and inspection using formalised standards and third-party conventions. While market coordination is characteristic of arms-length non-relational market relations, industrial conventions underpin network types of governance, and domestic conventions emerge within more captive and hierarchical linkages (Ponte & Sturgeon 2013).

Altenburg (2006) notes that the question of when firms select one or another pattern of value chain governance and how these patterns impact on development in terms of jobs, incomes, technological learning and risk mitigation remains largely unanswered. He argues that Gereffi et al. 2005 provide a useful typology in identifying critical determinants of different forms of value chain governance. However, it omits several other essential factors influencing outsourcing and the degree of explicit value chain governance. Similarly, to Altenburg (2006), Tsang et al (2020) observe that despite significant scholarly attention to the issue of value chain governance, the question of how lead firms should coordinate, create, capture and distribute value is yet unresolved. The authors argue that further research is required in mapping inter-firm relationships in GVC, by specifying relationships among all critical elements of structural and strategic governance of the GVC.

Altenburg (2006, p. 503-506) outlines eleven factors which he argues provide a broader view of the determinants of value chain governance. These factors are; core competencies and complementary production, supplier capabilities, relationship-specific investments, market transparency, search costs, uncertainty about market development, market structure, institutional framework conditions, capital intensity, and consumer demand. Altenburg's (2006) eleven factors overlap and build on the value chain determinants already outlined by Gereffi et al. (2005). Despite the overlap, Altenburg's (2006) factors influencing value chain governance provide much more depth to Gereffi et al's. (2005) governance typology. Altenburg's (2006) factors indicate that it is challenging to categorise patterns of value chain governance and predict how firms may react to specific changes in their incentive system. Thus, how lead firms organise their value chains and the choice of the optimal degree of ownership and process control depends on many aspects and is highly context specific. As a result, Altenburg (2006) argues that firms adopt very diverse strategies depending on characteristics of the sub-sector, geographic factors, corporate strategy, and other factors.

Governance and sourcing in buyer-driven value chains

Regarding sourcing, Tyler et al. (2006) observe that buyer-driven chains are characterised by tiered production networks involving countries that offer a combination of low labour costs, relevant skills, and production capacity.

Gereffi (2009) argues that global sourcing in buyer-driven chains is driven by intense competition among different types of developed-country retailers. These actors copy each other's moves in two ways: (a) utilising offshore sourcing networks; and (b) utilising brands as a source of market power. Gibbon et al. (2008) observe that buyer-driven value chain studies resonated among scholars who analysed network forms. The studies deal with the externalisation and the internationalisation of production in a range of light manufacturing industries. Similarly, Horner and Nadvi (2018) note that a key feature of global economic reorganisation through GVCs has been the progressive outsourcing by lead firms in developed countries of low-value, productive functions to low-cost countries and regions while maintaining control of core nodes of value creation and retention in their home countries.

The observations made by Tyler et al. (2006), Gereffi (2009), and Nadvi (2018) align with the studies conducted by Contractor et al. (2010), Davis et al. (2018), Tsang et al. (2020), Kaiser and Obermaier, (2020), which have observed that retailers choose between buying or making products therefore outsourcing or producing in-house. Gibbon et al. (2008) argue that lead firms in light manufacturing industries, such as apparel retailers focus on the design, branding, and marketing aspects of their business. During the previous quarter century, lead firms increasingly organised production through networks of independent suppliers and contractors. Vertical integration was less common in buyer-driven chains since independent contractors usually performed production functions. Lead firms concentrated on product development, branding, design, and marketing rather than manufacturing. Recent studies (López,2022; Camargo,2020) have, however, demonstrated that there has been a shift by lead firms in buyer-driven value chains towards developing vertical–integrated value chains³.

Literature has shown that lead firm sourcing, supplier selection and supply chain strategies are linked to capabilities demonstrated by the supplier base. The works of Gereffi & Frederick (2010), Staritz (2011), Morris et al. (2016) and Morris et al. (2021), demonstrate how the sourcing policies and strategies of lead firms shape production and trade patterns. Hence lead firms' sourcing practices indicate how power dynamics influence value capturing in the chain. According to these authors, lead firms' sourcing decisions are motivated by traditional criteria such as labour-cost differentials, quality, and reliability.

³ These studies have demonstrated how fast fashion retailers Zara–Inditex, and H&M have developed vertically integrated value chains to meet consumer demand. Camargo (2020) finds that Zara–Inditex and H&M are vertically integrated. However, H&M uses a strategy similar to Zara's, but instead of owning its own factories, it has products manufactured by independent suppliers. In this type of value chain, it is made explicit that power could be embodied in inter-firm relationships even without a formal hierarchy.

The authors note that other criteria are increasingly shaping sourcing decisions. Firstly, shorter lead times and supply chain flexibility, which relate to shifts towards lean retailing and quick-response production, technologically advanced logistics centres and artificial intelligence solutions (Morris and Barnes, 2014; Barnes, (2014); López, (2020). The shift towards quick response and demand data-driven sourcing is undertaken to mitigate the inventory risks associated with supplying clothing to fast-changing, volatile, and uncertain consumer markets by replenishing shelf items in very short cycles and minimising inventories. Similarly, in recent studies, Camargo (2020) observes that in fast fashion value chains, lead firms take up supplier selection, and supply chain strategies primarily focused on developing efficient, risk-hedging, and responsive agile supply chains. Camargo (2020) argues that efficient (or lean) supply chains are aimed at achieving economies of scale, and responsive supply chains focus on strategies that allow the retailers value chain to be responsive and flexible to customers' changing needs.

Secondly, Alexander (2020:288) observes that, while retailers currently do not play a prominent role in governance for sustainability across the case study presented, retailers' governance concerning sustainability is expanding. Emerging research on fast fashion (Joy et al. (2012); Ellram et al., (2013); Ashby, (2016); Pal et al., (2018); Arrigo, (2020) and White et al. (2020) illustrates how sustainable and ethical practices in apparel manufacturing through improved transparency and traceability is gaining more traction as an additional criterion for retailers' sourcing decisions. Additionally, these authors note the vital role of non-chain actors growing prominence in determining how lead firms' structure and organise the global production system, which aligns with growing research such as Pasquali et al, (2020).

Thirdly, to avoid the risk of relying on a few Chinese based suppliers, retailers are diversifying their geographical supply. Gereffi & Frederick (2010) argue that lead firms in the apparel industry have committed to significant reductions in the size and scope of their supply chains. Lead firms have opted to utilise fewer, larger, and more capable suppliers that are strategically located near major markets. This aligns with recent observations by Elia et al, (2021); Pegoraro et al. (2022); Colamatteo et al, (2022). Linked to this, Gereffi & Frederick (2010) note that suppliers must meet the requirements of several buyers resulting in buyers having less obligation (or benefit) to invest in upgrading their suppliers' factories. According to Gereffi & Frederick (2010), buyers tend to follow the "30/70" rule whereby they have 30 per cent of a factory's business but not more than 70 per cent.

In recent years literature has focused on exploring changes in retailers' sourcing patterns from global sourcing to reshoring⁴ and nearshoring⁵. Boys & Andreoni's (2020) study illustrates the growing shift from GVCs to RVCs in which they argue that the growing regionalization of trade demonstrates a change of value chain directionality that needs to be better understood. These works highlight the need to strengthen RVCs to diversify risk, reduce vulnerability, increase resilience, and foster industrial development. Additionally, retailers are increasing long-term relationships with suppliers and developing long-term strategic partnerships with their most important suppliers (Rasanjani et al., 2019; Anner, 2020a; Berg et al. (2020). Retailers are also focusing on sourcing from suppliers with non-manufacturing capabilities such as input sourcing, product development, inventory management and stockholding, logistics, and financing (Abernathy et al., 2006; Morris et al., 2016). Morris & Barnes (2014) warn that fulfilling these new minimum requirements does not necessarily lead to better contracts or higher prices for supplier firms. These requirements do, however, increase the functions demanded from suppliers.

Fourthly, according to López (2020) and Yip & Huang (2016), established fast-fashion retailers seek to consolidate their market power in the face of competition from new 'ultra-fast' pure online retailers by making substantial investments in technologically advanced logistics centres and artificial intelligence solutions for optimising transport flows, as well as by establishing new partnerships with specialised e-commerce contract logistics providers. Butollo (2021) finds that the relationship between digitalisation and the governance and geographies of GVCs has not been explored systematically. Rafsanjani et al. (2019) suggest that future research needs to discern empirically how the application of technologies, on-demand production and logistics affects location decisions.

These criteria increase entry barriers, as more capabilities and higher standards are expected from suppliers, benefiting larger and more capable suppliers to the detriment of smaller and marginal suppliers. Gereffi et al. (2005) acknowledge that new demands on suppliers by lead firms increase complexity within the value chain. To counter this, Gereffi et al. (2005) argue that lead firms also adopt strategies to reduce the complexity of these transactions. They indicate that one way of doing this is through developing technical and process standards. Similarly, according to Morris & Staritz (2019), lead firms may support supplier learning and improvements in standards, upgrading production processes and products which could lead to higher productivity and product quality.

⁴ Reshoring can be defined as the strategy firms adopt when they decide to move all or part of their production from a host country to the home country, either by closing operations abroad to open them at home or by switching from international to domestic suppliers (Pegoraro et al. 2022:113)

⁵ Near-shoring refers to the decision to move production to countries that are close to the home country (Colamatteo et al, 2022:1417).

Governance and geographical and network embeddedness

There is a growing body of literature (Morris et al., 2011; Morris & Staritz, 2014; Hernández & Pedersen, 2017; de Oliveira Cerqueira Fortes et al., 2019; Curran et al., 2019; Pasquali & Alford, 2021) which explores the critical role territoriality and spatial embeddedness plays in informing the private governance of value chains and global production networks. Pasquali & Alford (2021) argue that embeddedness can inform the private governance formation of value chains by shaping trust between buyers and suppliers. The concept of embeddedness implicitly accounts for the spatial and geographical dimension of territories in which firms operate, including official legislation, informal social norms, and the 'specificities of place' that shape actors' relationships (Hess, 2004). According to Gereffi et al. (2005), governance is present at the social level, also referred to as the "social context." Thus, embeddedness through social relations and formal and informal networks influences governance configuration and, in turn, production and economic activity.

De Oliveira Cerqueira Fortes et al. (2019) argue that embeddedness matters because it impacts the coordination of parameters (governance), and the shifts in production (upgrading). The social context (norms, geographies, technologies, cultures, governments, laws, taxes, and climate) also affects the shifts in activities (upgrading).

A growing body of GVC literature (Coe et al., 2008; Alford 2016 and Morris et al. 2016) shows how societal embeddedness, which refers to the genetic code of both firm and non-firm actors, is shaped by the social and cultural contexts from which actors originate. Territorial embeddedness, which refers to the process of firms anchoring in different places and institutional frameworks, from national to local levels, critically impacts the architecture of GVCs, including decisions on where and whom to source or buy from. The economic geography literature also argues that physical proximity and a shared cultural background facilitate business interactions, reducing the risk of misunderstanding and opportunism (Gertler, 2003; Nilsson, 2019). Similarly, the works of Staritz & Morris 2013; Staritz, 2014; Keane 2015 and Morris & Staritz, 2017 demonstrate how social embeddedness, investors' motivations and end markets matter, and influence upgrading trajectories.

Governance as a tool for upgrading and supply chain management.

Gereffi (1999) introduced the concept of upgrading in organisational learning to improve the position of firms and nations in international trade networks. Upgrading refers to the structural shift within the chain, characterized by

the nature and mix of activities, both within each link in the chain and the distribution of intra-chain activities⁶. Upgrading, therefore, relates to the achievement of new product and process development and in the functional reconfiguration of who does what in the chain (Gereffi et al., 2005; Kaplinsky & Morris, 2001; Humphrey & Schmitz, 2002). Humphrey & Schmitz (2002) argue that governance is a tool used by lead firms to determine the upgrading opportunities of local producers. Similarly, Morris & Barnes (2014) note that upgrading processes are shaped by the type of value chain in which suppliers are inserted, particularly by the governance structure determined by lead firms. According to Hernández & Pedersen (2017), both lead firms and suppliers can upgrade their capabilities as consequence of a GVC governance configuration. Additionally, the studies by de Oliveira Cerqueira Fortes et al., (2019); Boys & Andreoni, (2020); Pasquali et al., (2021) demonstrate that governance as a determinant of upgrading varies across end market.

Morris & Staritz (2019) argue that upgrading is shaped by supplier firm capabilities and the policy and institutional context in supplier countries. Building capabilities at the supplier firm-level is a costly and risky process with uncertain outcomes requiring investment and effort from lead firms. However, in particular product and end-market niches, lead firms may be more willing to develop closer relationships with suppliers and support them in learning and upgrading (Morris & Staritz, 2019).

Similarly, in an earlier study, Kaplinsky & Morris (2001) argue that supply chain management techniques assist the upgrading of systemic competitiveness across value chains. Supply chain management techniques are often linked to the durability of relationships between buyers and suppliers, which is linked to the number of suppliers with whom buyers cooperate. Upgrading may occur by developing long-term and high-trust relationships between the buyer and a small number of suppliers. In other instances, where supplier capability may be inadequate, buyers may provide inputs to assist their suppliers to upgrade their efficiency. Supplier development and knowledge transfer programmes which align with lead firm, local supplier and public interests may be undertaken. Supplier development is undertaken to create greater sourcing efficiency and ensure local spillovers resulting in employment generation, improved competitiveness, and technological capabilities in supplier firms and countries (Morris & Staritz, 2019). Informing buyer-supplier relationships, buyers will often have strategic judgements about specific sources of supply. They may favour particular regions, particular ethnic groups or feel at ease with particular languages, for example.

⁶ According to Kaplinsky & Morris (2001), firms can adopt four upgrading trajectories, namely process, product, functional and chain upgrading. The central assumption is that the content of value-added increases gradually across each upgrading stage (Kaplinsky et al. 2002; Humphrey 2005; Altenburg et al. 2008). Lead firms can both enable and constrain firm upgrading prospects as lead firm strategies shape upgrading. Lead firms have strong incentives to protect the functional areas that are at the core of their competencies. Therefore, lead firms are more likely to support process and product upgrading than functional upgrading if it is aligned with lead firms' strategies and does not infringe on lead firms core competencies.

Kaplinsky & Morris (2001) argue that identifying buyers' preferences is essential for value chain analysis. Morris & Barnes (2014) argue that from the perspective of apparel manufacturers, the need to work with lead firms is vital. The power of lead firms is crucial in shaping apparel manufacturers access and upgrading opportunities within these chains. Similarly, Keane (2015) argues that domestic firms must collaborate with multinational lead firms to access and export to global markets.

2.3.3 The interaction between public and private governance

Davis et al. (2018) observe that historically the nation-state played a major role in the governance of production, exchange and rent appropriation. However, in the current era of GVC-led globalisation, this hegemonic geographically located governance power has been undermined. A more complex pattern of governance has emerged involving an interplay between private and public, and between national and international stakeholders. As indicated previously, the core focus of this study is private or internal lead firm governance in relation to its sourcing and lead firm-supplier relationships. However, in the researcher's view, the interplay between private and public is crucial in understanding how lead firms govern their value chains. Despite being external to the lead firm chains, Davis et al. (2018) argue that nation-states' actions influence the capacity of the internal chain governors to generate and appropriate chain rents. There has been an increase in the literature investigating public governance's influence over private or internal governance.

According to Pasquali et al. (2020) and Pasquali & Alford (2021), more recent literature has begun to explore the role of public and civil governance, which focuses on the role that states and civil society actors play in regulating GVC. Public governance refers to the public policy and regulations undertaken by the public sector related to investment, trade, and labour regimes and how these shape the interactions between lead firms and suppliers. Civil governance refers to how civil society shapes product and labour standards among suppliers (Pasquali et al., 2020). Davis et al. (2018) and Pasquali et al., (2020) argue that GVC literature has been lead firm centric in its focus. They note that the firm-centric focus has been criticised for being relatively weak in its ability to incorporate the role and impact of broader institutional relations of public power, such as the nation-state. Davis et al. (2018) note that in contrast to lead firms, which are forced to govern their chains at a global level, nation-states are focused on the national control of the global operations of GVCs.

Industrial policy and building supplier capabilities.

A significant consideration for this dissertation is how industrial policy influences suppliers' capabilities and, in turn, lead firms' sourcing location and supplier and production networks. Davis et al. (2018) argue that one important way in which the nation-state can govern and foster rent generation and appropriation in the domestic economy is with respect to industrial policy. Literature by Gereffi (2009), Davis et al. (2018), and Tsang et al. 2020) observes that

industrial policy stretching back to the early nineteenth century was pursued within national borders. Domestic producers were protected against international competition. Governments supported their productive capabilities with various policies, including preferential purchasing and other instruments designed to foster domestically owned and located production.

After WW2, with the advance of trade-related specialisation, industrial policy emphasised meeting demand in external rather than domestic markets. Gereffi (2009) argues that two fundamental changes in the international arena have profoundly shaped contemporary perspectives on GVCs. First, there has been a widespread shift in national development strategies from import-substituting industrialisation (ISI) to export-oriented industrialisation (EOI) throughout the developing world. The authors note an affinity between the transition from ISI to EOI development strategies and the shift from producer-driven to a buyer-driven GVCs. A more recent study by Kano et al. (2020) has demonstrated the relevance of renewed protectionism in industrial policy. Kano et al. (2020) argue that while renewed protectionism certainly impacts GVC configurations and governance, the nature and extent of this impact is not yet clear.

Industrial policy driven by nation-states can significantly influence suppliers' productive capabilities and competitiveness and investments related to building supplier capabilities. Whitfield et al., (2021) note that building supplier capabilities is a costly and uncertain process that industrial policy has historically facilitated. A growing body of work (UNCTAD, 2013; Whitfield et al., 2021) has provided varying empirical perspectives on the importance of industrial policy in attracting FDI, promoting, and building supplier capabilities through learning by doing and the role industrial policy plays in promoting manufacturing-led development. Morris & Staritz (2019) argue that governments must link industrial policy with lead firms as they are the gatekeepers, technology, and standard setters in GVCs. However, such linkages would occur under asymmetric power relations, a distinctive feature of the value chain.

The authors, therefore, stress the importance of understanding lead firms' business strategies and potential conflicts of interest between lead and supplier firms and governments. It therefore becomes important for governments to develop industrial policy which is balanced in supporting lead firms in their efforts to upgrade local suppliers, while also pursuing broader upgrading strategies of supplier firms and sectoral and national development objectives that may deviate from lead firm interests. Morris & Staritz (2019) suggest that policies should be developed which support industrialisation beyond integration in GVCs through the development of local lead firms which service domestic markets and grow to export to regional markets. Morris & Staritz (2019) argue that to achieve this, it is essential to develop and use national sources of knowledge where firms' efforts and interactions at the industry level have a central role.

2.3.4 A value chain governance framework

A value chain governance framework has been developed following a review of theoretical concepts presented in sections 2.2-2.3. This framework outlines the factors influencing lead firms' supplier selection, supplier relationship and, in turn, lead firms' governance structures and supply chain configuration. Table 1 outlines a graphic representation of the value chain governance framework. The framework provides a comprehensive account of which key factors determine lead firms' choice of governance structures. The distinctive features of value chain analysis outlined in this chapter will be utilised throughout this dissertation. The framework will be utilised in Chapter Four to determine and analyse the changing value chain governance structures and supply chain configuration of two South African apparel retail

Table 1: Value chain governance type and the key factors determining retailer governance, sourcing, supplier relationship, and degree of determinants.

Governance type and key factors determining retailer governance, sourcing, supplier relationship, and degree of determinants		Low	Degree of explicit coordination & power asymmetry
Governance type: Market	Governance type: Network-style (Modular Relational)		
Complexity of transition: <i>Low</i> Ability to codify transitions: <i>High</i> <i>Market transparency and search costs: Low</i> <i>Uncertainty about market development: Low -medium</i> Capabilities in supply base: <i>High</i> Buyers’ concentration: Low Suppliers’ concentration: Low Exit options: Many as cost of switching partner are low for both sides Dependence on buyers: No or little input from lead-firm on production Relationship: <i>arm’s length</i> relation in production process Relationship-specific investments and upgrading: <i>Low</i> Contracting: sporadic orders Coordination mechanism: Price Quality convention: Market	Complexity of transition: <i>High</i> Ability to codify transitions: Low – <i>High</i> <i>Market transparency and search costs: medium-high</i> <i>Uncertainty about market development: Low -medium</i> Capabilities in supply base: <i>High</i> Buyers’ concentration: Medium Suppliers’ concentration: Low Exit options: Both producer and lead-firm have few exit options Dependence on buyers: Low Relationship: <i>lead firm exercises power through coordination of production vis-a-vis suppliers without direct ownership of the firm</i> Relationship-specific investments and upgrading: <i>Low</i> Contracting: short-term contracts or sporadic orders Coordination mechanism: Codified standards and trust Quality convention: Industrial		
Governance type: Quasi- hierarchical (Captive)	Governance type: Hierarchical		
Complexity of transition: <i>High</i> Ability to codify transitions: <i>High</i> <i>Market transparency and search costs: medium-high</i> <i>Uncertainty about market development: medium -high</i> Capabilities in supply base: <i>Low</i> Buyers’ concentration: High Suppliers’ concentration: High Exit options for suppliers: Low (lock-in) Exit options for buyers: High Relationship: <i>lead firm exercises power through coordination of production vis-a-vis suppliers without direct ownership of the firm</i> Relationship-specific investments and upgrading: <i>High</i> Dependence on buyers: High	Complexity of transition: <i>High</i> Ability to codify transitions: <i>Low</i> <i>Market transparency and search costs: Low-medium</i> <i>Uncertainty about market development: Low-medium</i> Capabilities in supply base: <i>Low</i> Buyers’ concentration: high Suppliers’ concentration: High Relationship: <i>lead firm exercises power through direct ownership of production process</i> Relationship-specific investments and upgrading: <i>High</i> Exit options: Both producer and lead-firm have few exit options Dependence on buyers: High Contracting: <i>in-house manufacturing or long term and direct contracting</i>		
		High	

Contracting: long-term contracts Coordination mechanism: Provision of resources and production management Quality convention: Industrial/Domestic	Coordination mechanism: vertical integration and managerial control within a set of lead firms that develops and manufactures products in-house Quality convention: Domestic		
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Source: Author's elaboration adapted from Gereffi et al. (2005, p.84-90) & Altenburg (2006, p. 503-506)

2.4 Value Chain Governance by South African Apparel Retailers

In recent years extensive GVC analysis research (Gereffi, 1994; Gereffi et al., 2005; Ponte & Sturgeon, 2014) has been undertaken focusing on governance typology and strategies by global lead firms. The governance typology has however been criticised for its tendency to primarily focus on lead firms and the transaction costs associated with their linkages to their North-South networks. There have, nevertheless, been a few exceptions, such as (Kaplinsky and Farooki 2011; Kaplinsky et al. 2011; Gereffi et al, 2016; Horner, 2016), whose research has explored South-South governance strategies.

However, the dominant focus on North-South flows overlooks trade outside North-South linkages or that lead firms from the Global South coordinate supply chains (Horner 2016). Swoboda et al. (2010) observe that there is hardly a retailing industry that has been examined in recent years quite as often as the fashion sector in connection with the success of vertically integrated firms. Swoboda et al. (2010) note that fewer papers however deal with inter-firm relationships in the fashion industry. Additionally, determinants of links between apparel lead firms based in the Global South and their suppliers are poorly understood as literature has examined value chains linking retailers in the global north to suppliers in the global south (Horner & Nadvi, 2018).

In the apparel sector, while a large proportion of international trade remains North–South, RVCs in the South have been growing (Pickles et al, 2015; 2016). For instance, Lee & Gereffi's (2015) research utilises the GVC approach to understand the relationship between multinationals from the Global South and changing global trade patterns, investment and production, and its impact on economic and social upgrading. The literature reviewed indicates that more research is required into apparel lead firms from the global south. This study aims to fill this gap by focusing on the determinants of links between apparel lead firms and suppliers in the global south.

Cuervo-Cazurra and Pananond, (2023) assess the rise of emerging market lead firms in GVCs. The authors observe that most studies of GVCs focus on advanced economy lead firms, analysing how they coordinate activities among a global network of suppliers in emerging economies. The authors argue that the pattern of lead firm driven GVCs underlying the internationalisation of production in the 1960s and the accelerated globalisation of trade and investment from the 1990s to the late 2000s have been increasingly challenged since the 2010s. This is due to fast growth in large emerging economies, like China and India, giving rise to increasing numbers of emerging market multinational enterprises. Cuervo-Cazurra and Pananond, (2023) argue that the rise of emerging market multinational enterprises requires an assessment of how other types of firms can shape GVC governance over time, as well as the dynamic aspects of GVC formulation and transformation.

A few studies have examined on Southern African apparel retailers and supermarkets (Morris & Staritz, 2014; Morris et al., 2011; Staritz & Morris, 2012, 2014, 2017; Morris & Barnes, 2014; Sinkovics et al., 2014; Lee & Gereffi, 2015). These studies have provided insights into a central aspect of GVC analysis- governance and upgrading from the manufacturer's

perspective. However, they have been limited in investigating the governance structure applied by South African apparel retailers and how retailers exert their power and influence to build up suppliers' capabilities.

Morris et al. (2016) have observed the different ways South African retailers could assist in the development of Lesotho's apparel industry. The authors argue that South African retailers could upgrade, develop systemic competitiveness, and bolster supply chain linkages in Lesotho if financial incentives for local supply chain development programmes existed. Muhwati and Salisbury's (2017) study focuses on supply chain management challenges faced by South African apparel retailers. Pasqauli and Godfrey (2020) analyse how South African lead firms govern their interaction with Eswatini's apparel suppliers in the context of Covid-19. In terms of private governance, Pasqauli and Godfrey (2020) observe the coexistence of two governance structures applied by retailers: one characterised by direct contracts between South African retailers and large manufacturers (i.e., direct suppliers); the second operating through indirect purchasing via intermediaries from relatively smaller producers (i.e. indirect suppliers). The authors suggest that further research should be conducted on the type of structures observed and on the medium and long-term impact of the crisis.

Two bodies of work which focus on retailers' inter-firm relationships with South African suppliers have been identified as significant for this dissertation. Nabee & Swanepoel's (2021) study conducted through qualitative semi-structured in-depth interviews has provided insights into supplier–buyer relationships between SMEs and large apparel retailers in Gauteng. The authors specifically explore supply chain business bullying of small and medium-sized business suppliers by dominant apparel buyers in Gauteng. Nabee and Swanepoel (2021) find that six of the seven SMEs interviewed experienced some form of bullying by large retailers in the apparel sector, such as late payments and extended payment terms. Late payments left some SMEs vulnerable to business risks, including loss of contracts, competitiveness, and decreased profits. The findings of this study are particularly interesting for this research as it illustrates the inter-firm relationships and power dynamics between apparel buyers and their suppliers. However, Nabee & Swanepoel's (2021) sample is restricted to Gauteng, which does not represent the entire textile and apparel manufacturing industry. Nabee & Swanepoel (2021) argue that these findings indicate that supply chain relationships between apparel retailers and their suppliers should be examined in the context of dominant behaviour by one or more partners, ensuring a more balanced perspective.

Contrary to Nabee & Swanepoel (2021), a recent study by Morris et al. (2021) paints a more positive picture of South African retailers' recent interaction with suppliers. Morris et al. (2021) provides insights into how retailers and industrial policy have developed local capabilities in the South African apparel sector. Morris et al. (2021) find that historically the South African clothing and textiles industry has not received support from lead firms. Domestic retailers have typically chosen not to invest in upgrading their suppliers' capabilities. The authors argue that the lack of investment has perpetuated a cycle of diminishing capabilities, firm closures and increasing imports. This type of historical behaviour by retailers indicates that some of the findings by Nabee & Swanepoel (2021) are valid when a large geographically dispersed sample of textile and apparel suppliers is considered. However, Morris et al. (2021, p.14) observe that South African retailers have begun to develop a new lead firm-led business model with retailers investing in their local supply chains in recent years as they recognise the benefits of agile, flexible local supply chains.

Nabee & Swanepoel (2021) and Morris et al., (2021) have different views of how retailers interact with suppliers, and this warrants further research into retailers' power dynamics with suppliers and hence retailers' governance structures. This Master's dissertation aims to fill this gap by contributing to the understanding of South African apparel retailers' emerging business model, which is focused on investing in sourcing products locally and building up local supplier capabilities.

2.5 Conclusion

This chapter has provided an overview of analytical frameworks developed to conceptualise lead firm governance in buyer-driven chains and the relationship lead firms have with their suppliers⁷.

⁷ The determinants of private or internal governance undertaken by lead firms have been outlined based primarily on the works of Gereffi et al. (2005), Humphrey & Schmitz (2002), Altenburg (2006) and Ponte & Sturgeon (2014).

3. Research Methodology

This study employs a qualitative research methodology, specifically through an exploratory case study design, incorporating both primary and secondary data sources to address the research questions outlined in Chapter one.

3.1 Case study approach.

A case study approach is employed to address and mitigate the limitations of exploratory research. This methodology enables an in-depth analysis of specific retailers' sourcing decisions and supply chain management strategies. The study includes cases from Woolworths Holdings Limited, the National Clothing Retail Federation of South Africa, and the Foschini Group (TFG), providing insights into the sourcing and governance approaches of South African retailers.

Yin (2011) and Baxter and Jack (2008) argue that a case study is the most appropriate method when faced with an unclear research problem, particularly when trying to answer "how" and "why" questions. Yin (2009) further asserts that a case study is preferable for investigating contemporary events due to its unique ability to incorporate multiple sources of evidence such as documents, interviews, and observations.

Runeson and Host (2009) distinguish between three types of case studies: positivist, critical, and interpretive. This study follows an interpretive approach, aiming to understand a specific situation through interpretation. Case study research can serve four purposes: exploratory, descriptive, explanatory, and improving. The purpose of the case study methodology used in this study is exploratory.

An exploratory study seeks to understand what is happening, gain new insights, and potentially generate new ideas for future research (Runeson & Host, 2009). Given that South African retailers' sourcing and governance approaches are not widely understood, an exploratory case study was deemed appropriate to address the research objectives.

Baxter and Jack (2008) explain that case study research can involve either a single case or a multiple case approach. A single case approach analyzes one problem in a specific environment, while a multiple case approach explores differences between situations. In this instance, a multiple case approach has been applied utilizing findings from the interviews, surveys, and secondary documentation. This study does not attempt to compare the sourcing decisions of the retailers but rather highlights the specific sourcing and governance approaches undertaken by them. This can inform further, more specific research into the sourcing and governance approaches of South African retailers through descriptive and experimental research.

An interpretive exploratory study is best facilitated by qualitative methods and data (Yin, 2009; Runeson & Host, 2009). The study's time dimension is cross-sectional, providing a snapshot of a specific point in time.

3.1.1 Data Collection

An in-depth analysis of the South African retailers' sourcing decisions has been conducted by obtaining data through primary and secondary data-collection techniques.

Primary Research

Interviews A small number of large apparel retailer groups dominate South Africa's clothing industry, namely Pepkor, The Foschini Group (TFG), Woolworths Holdings Limited, Mr. Price Group, Truworths International, and Edcon Holdings, exercising a sizeable degree of value chain power (Pasquali et al., 2020). Virtual interview requests were sent out to five of these retailers. Despite a small sample size, these retailers together account for over 60% of the South African apparel market and have an increasing retail presence across the subcontinent (Pasquali et al., 2020).

This study utilized convenience sampling to select participants for interviews who possessed knowledge about the industry. Convenience sampling is a type of non-probability sampling where the sample is selected based on the ease of access and availability of participants. This method is chosen because it allows the researcher to quickly and efficiently gather data without the need for a complex sampling frame (Malhotra, 2004; Mohsin, 2014; Etikan, Musa, & Alkassim, 2016). Convenience sampling is particularly useful in exploratory studies where the objective is to gather preliminary data and insights rather than to generalize findings to a larger population.

Interview requests were sent out to the five retailers, sector experts, and the National Clothing Retail Federation of South Africa. Two retailers were interviewed along with the National Clothing Retail Federation of South Africa, representing an interview response rate of over 50%. Semi-structured interviews were conducted with either the apparel Sourcing Director, Head of Strategic Sourcing, or Divisional Director between November 2021 and November 2022⁸.

The findings from the interviews cannot be generalized to a larger population as they are specific to the retailers interviewed. However, the interview findings obtained by the National Clothing Retail Federation of South Africa and industry expert provide generalized insights into the retailers' sourcing and governance approaches.

Secondary Research

The research method approach adopted included the collection of data, which took the form of available documents on the South African textile and apparel industry and South African retailers' sourcing decisions, including journal articles, retailers' financial statements, and newspaper articles over the past 10-15 years.

Furthermore, the study draws on country-level, regional, and sectoral import and export trade data of textile and final apparel goods collected from World Integrated Trade Solutions (WITS) over 24 years. The primary aim of collecting this data is to gain insights into the shifts in the composition of South African textile and apparel imports. The data collected from WITS is based on the Harmonized Commodity Description and Coding Systems (HS). HS codes classify clothing into two broad categories: knitted fabrics (HS 61) or woven (HS 62). Knitted-fabric-based and woven-fabric-based clothing have different production process characteristics, resulting in different forms of industrial organization. Textiles include a broader set of sub-categories with very different factor intensities than apparel. HS codes classify textiles into three broad categories – man-made filaments (HS 54), man-made staple fibers (HS 55), and knitted fabrics (HS 60).

⁸ For an in-depth overview of the participants interviewed and ethics approval refer to appendix A

As illustrated in studies by Black et al. (2020) and Staritz et al. (2016), trade data has several limitations. To begin with, the WITS database combines textile and apparel HS codes, and these sectors are approached as one sector. Additionally, it cannot easily be used to unpack how firms across countries are integrated into production networks and value chain channels. Lastly, it fails to demonstrate the different governance relationships that shape trade patterns. Despite these limitations, collecting trade data over time is vital as it shows the trajectory of change and the exporting country's position at any one point in time.

3.1.2 Data Analysis

As discussed in Chapter 2, global value chain analysis is a useful framework to assess the different configurational aspects of lead firms' activities globally (Hernández & Pedersen, 2017). This has resulted in the emergence of various qualitative research investigating different features of the global value chain configuration (Gereffi et al., 2005). A central unit of analysis in global value chain studies has focused on how MNCs lead firms' sources from geographically fragmented production networks to advance local suppliers' development through the applied governance structure.

As discussed in Chapter 2, the value chain framework allows for an analysis of a complex pattern of governance and power over production. Following the qualitative approach to global value chain analysis, this qualitative case study is an approach to research that enables the exploration of a phenomenon within its context using a range of data sources. This ensures that the issue is not investigated through one lens but instead through a range of lenses, allowing multiple aspects of the phenomenon to be shown and realized (Baxter & Jack, 2008). For this study, the data has been analyzed through thematic analysis; this analysis method identifies patterns or themes within qualitative data.

According to Kiger & Varpio (2020), a theme is a pattern that captures something significant or interesting about the data or research question. As Braun & Clarke (2006) explain, there are no hard and fast rules about what makes a theme. A theme is characterized by its significance. This study has focused on themes related to lead firms' governance over suppliers and the various factors that have shaped South African retailers' shift towards local sourcing.

3.2 Limitations

It is important to acknowledge the limitations of this research approach. Case studies findings are not representative of all South African apparel retailers' sourcing strategies and supplier relationships. Instead, they offer detailed and in-depth analysis of a select few retailers' value chain dynamics, including sourcing strategies, value chain governance, and supplier relationships, and their implications for the development of the apparel manufacturing sector. Future research could benefit from a larger and more representative sample to enhance the generalizability of the results.

4. South African apparel retailers sourcing strategies

4.1 Introduction

This chapter profiles South African apparel retailers and evaluates the factors that have and are currently influencing retailers' sourcing and supplier selection decisions. It will also evaluate how retailers' sourcing decisions have contributed towards the development of the South African and regional textile and apparel manufacturing sector.

4.2 Profile of South African apparel retailers

The South African apparel retail industry is dominated by a small number of large publicly listed apparel retailer groups, most with head offices in the Western Cape (WC) and KwaZulu Natal (KZN) provinces, exercising significant value chain power, with a direct impact on the South African textile and apparel manufacturing sector. KZN offers greater capacity and capability in terms of fabric production and finishing. The WC hosts a diverse range of firms active at every stage in the value chain, from large retailers through to small, outsourced operations (Green Cape, 2019). A consolidated overview of the main operational features and performance of some of the top Johannesburg Stock Exchange (JSE) listed SA retail groups⁹; Pepkor, The Foschini Group (TFG), Woolworths Holdings Limited (WHL), Mr Price Group Limited and Truworths International is provided in Table 4 in Appendix B and will be unpacked in this sub-section.

As indicated in Appendix B, four of the five retail groups have been in operation in SA for ninety years or more, except for Mr Price, a late entrant, which has been operating in SA for over three decades. The retailers mainly sell their own-brand products and third-party brands. The retailers' brands and stores span various market segments ranging from lower to upper-income markets, with a wide store footprint nationally, across Sub-Saharan Africa and globally in the UK and Australia¹⁰. Additionally, all groups have other operational divisions and merchandise categories outside apparel retail.

Over the years, increasing retail revenues and local demand have had a trickle-down effect on local suppliers with retailers proactively increasing orders from local suppliers¹¹. In contrast, the SA textile and clothing manufacturing industry's performance has been declining. In 2018, it was estimated that 800 clothing manufacturers operating in the country generated revenue of R19 billion. This contrasts with the retail sales value of Clothing, Textile, Footwear Leather (CTFL) of more than R175 billion (Jenkin & Hattingh, 2022, p.12). The textile and clothing industry has exhibited declining contribution to total manufacturing output, exports and employment (Barnes & Hartogh, 2018). The CTFL manufacturing subsector's contribution to manufacturing value added has declined from 7% in 1994 to around 3% in 2019 and has grown slower than the rest of the manufacturing subsectors¹² (TIPS, 2021). Between 2016-2020, capacity utilisation in the textile sector remained less than 70%, while clothing is less than 80%. Insufficient demand has been

⁹ In 2020 Edcon Holdings signed a purchase agreement to sell Edgars to Retailability. Retailability is a retail fashion holding company of retail brands including Legit, Beaver Canoe, and Style, operating in over 460 stores across South Africa, Namibia, Botswana, Lesotho, and eSwatini. Despite these changes Edcon has not been included in the big six as the Pasquali et al., (2020) outline the big six for the 2018/9 period.

¹⁰ For instance, TFG London makes up 5%, TFG Australia makes up 16%, and TFG Africa makes up 67% of TFG's retail outlets (TFG 2021 Integrated Report).

¹¹ Insights from interviews with retailers and industry actors between November 2021- November 2022

¹² Fabric accounted for around 10% of gross value added in CTFL from 2010 to 2019; textile products 27%; apparel other than knits accounted for around 35%; and knits fell from 7% to 4% over this period¹² (TIPS, 2021, p.3).

cited as the reason for the under-utilisation of production capacity, partly due to the continued increase in imports (Cotton SA, 2021).

The SA clothing and textile industry is a significant employer, particularly of women and people in poor communities with fewer employment opportunities. However, employment has exhibited a downward trend from over 120 000 estimated jobs in the early 1990s to an estimated 88 000 in 2019 (Jenkin & Hattingh, (2022, p.11-13; TIPS, 2021, p.5; House & Willaims, 2020, p.2). Despite the continued challenges faced by textile and apparel manufacturing, the sector remains a priority for the government due to its potential to absorb labour and the high employment multiplier effect within the broader economy.

4.3 Retailers sourcing and impact on SA and Regional textile and apparel sectors

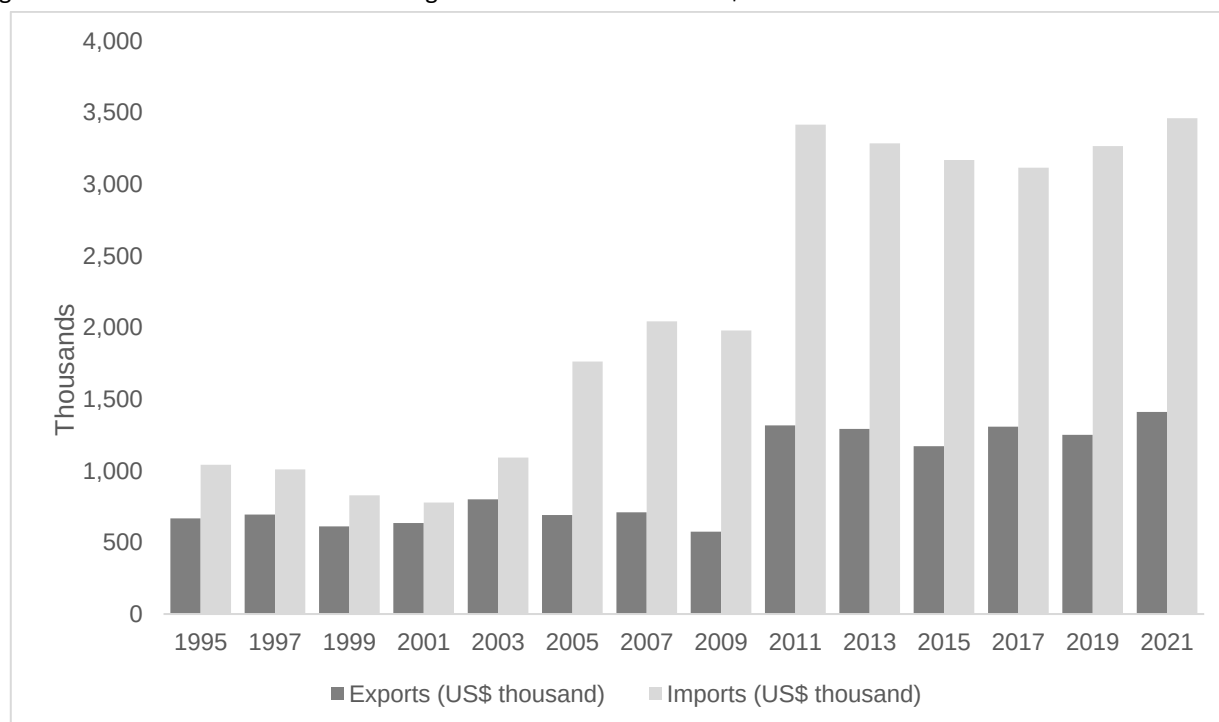
This sub-section examines the factors influencing the sourcing strategies of Pepkor, TFG, WHL, Mr Price, and Truworths International through an interpretive exploratory analysis. The analysis covers retailers' sourcing strategies, supplier development, and management approaches, with core features summarized in Appendix C. This examination is supplemented by a historical analysis of the textile and apparel manufacturing sectors, trade and industrial policy analysis, and interviews with retailers and industry stakeholders.

4.3.1 Restructuring of the domestic textile and apparel sector between 1995 and 2010.

The South African (SA) apparel and textile industry, well-established by the mid-20th century, was initially oriented entirely toward the domestic market. It developed under protection from international competition through targeted import quotas, import substitution industrial policies, and high, product-specific tariffs (Morris & Levy, 2014). Since the 1980s, the SA textile and clothing sector has faced increasing exposure to international competition, significantly accelerated after SA joined the World Trade Organisation's Textile and Clothing Agreement (ATC) in 1994 (van der Westhuizen, 2006; Morris & Barnes, 2014).

Following its accession to the ATC, the government implemented a radical reduction in garment tariffs, eliminating import quotas and significantly lowering nominal tariffs (Morris & Barnes, 2014). These tariffs were dismantled more rapidly and over a shorter period than required by the ATC, leaving the industry ill-prepared for the resulting surge in clothing imports, primarily from China. Figure 3 below illustrates that between 1995 and 2021, the South African textile and clothing industry has always run a trade deficit.

Figure 3: South Africa textiles and clothing trade with the world in US\$ Thousands



Source: authors calculations based on the World Integrated Trade Solution (WITS) database

Between 1993 and 2006, government policy shifted from import substitution to export-oriented industrialization (Gonzales-Nunes, 2010). To promote apparel exports, the South African government introduced the Duty Credit Certificate Scheme (DCCS) in 1993 as a transitional measure after discontinuing Structural Adjustment Programmes. The government also implemented an incentive program providing customs duty rebates on imported inputs for manufacturers' export production. This scheme allowed apparel firms to claim duty rebates on imported fabrics used for producing apparel exports. However, firms could sell these rebates to other importers of clothing or textiles, leading most credits to be sold to retailers, who used them to import clothing (Barnes, 2005). As a result, this industrial policy had little effect on stimulating apparel exports or assisting firms to integrate into global value chains or assisting firms become more competitive¹³.

This shift towards an export-oriented approach coincided with the Rand's drastic depreciation, from around R6 per US\$1 in 1999 to around R12 per US\$1 in 2001 (Morris & Reed, 2008). The depreciation lowered the price of SA clothing, thereby making the country an attractive destination for international buyers. Additionally, many SA clothing manufacturers saw this as an opportunity to increase exports to the U.S. through the African Growth and Opportunity Act (AGOA)¹⁴. Total apparel exports at nominal prices increased from R471 million in 1995 to R1901 million in 2001 and R2.5 billion in 2002 (Barnes & Morris, 2014, p.9). Local manufacturers did not have sufficient capacity to supply both the export and the domestic markets. Consequently, many local firms cancelled their orders to local retailers in favour of the more profitable export market.

¹³ Van der Westhuizen, (2006, p.8) and Barnes, (2005, P.9-10) observe that the scheme was a politically sensitive incentive programme as it came to be used as a cost input by uncompetitive manufacturers.

¹⁴ The African Growth and Opportunity Act (AGOA) provides duty-free treatment to goods of designated sub-Saharan African countries (SSAs). AGOA extended the U.S. Generalized System of Preferences access to qualifying African countries, and the textile and apparel industries were two critical industries that were potential beneficiaries (Barnes & Morris, 2014).

South African firms' exports were constrained by production capacity due to a shortage and limited variety of domestically produced fabrics. Small local factories could not meet the order volumes demanded by U.S. buyers, leading to reduced interest in sourcing from South Africa. Additionally, South Africa's higher cost structure made it difficult for firms to compete with low-cost producers like China, India, Indonesia, Turkey, and Pakistan (Barnes, 2005). By November 2004, the Rand/US\$ exchange rate appreciated to R5.73, undermining export competitiveness (Barnes & Morris, 2014, p.10). Further challenges included the triple transformation requirements under the AGOA rules of origin and the South African government's reluctance to extend the DCCS (Barnes, 2005; Morris & Reed, 2008; Barnes & Morris, 2014). Moreover, the benefits of AGOA were diminished by the expiration of industry protection offered by the Multi-Fibre Agreement (MFA) in 2005¹⁵ (Truett, & Truett, 2008). Apparel exports, therefore, dropped dramatically, with manufacturers defaulting on their export orders.

Most local manufacturers ceased operating or slowly reduced their footprint following diminishing product and production capabilities. This perpetuated a cycle of diminishing capabilities, firm closures, restructuring, downsizing, or firms shifting from full package producers to outsourcing locally (Morris & Einhorn, 2008). Confidence and investment in the SA textile and clothing manufacturing sector thus decreased. Additionally, Barnes (2005) argues that SA textile and apparel manufacturing firms were inefficient; lacked capital, technology, and innovation; and had high labour and management costs relative to output. Apparel imports from China increased from 16.5% of the total Rand value of clothing imports in 1995 to 74.2% in 2005 (Barnes and Morris 2014, p. 10). South African retailers restructured their value chains to sourcing large-scale from China resulting in a dependence on Chinese imports. The impacts of the growth in Chinese imports on the sector is discussed in Box 1 in appendix D.

To reduce imports of Chinese textiles and apparel, the China Restraint Agreement¹⁶ was imposed by government in 2007 (Reed, 2012). However, the quotas did little to stimulate growth and employment as intended. Instead, government's attempt to control Chinese imports also led to import divergence as apparel retailers discovered other supply sources. Morris & Barnes, (2014) note that government could not assist domestic firms in raising their systemic competitiveness by aligning with retailers as drivers of the textile and apparel value chains.

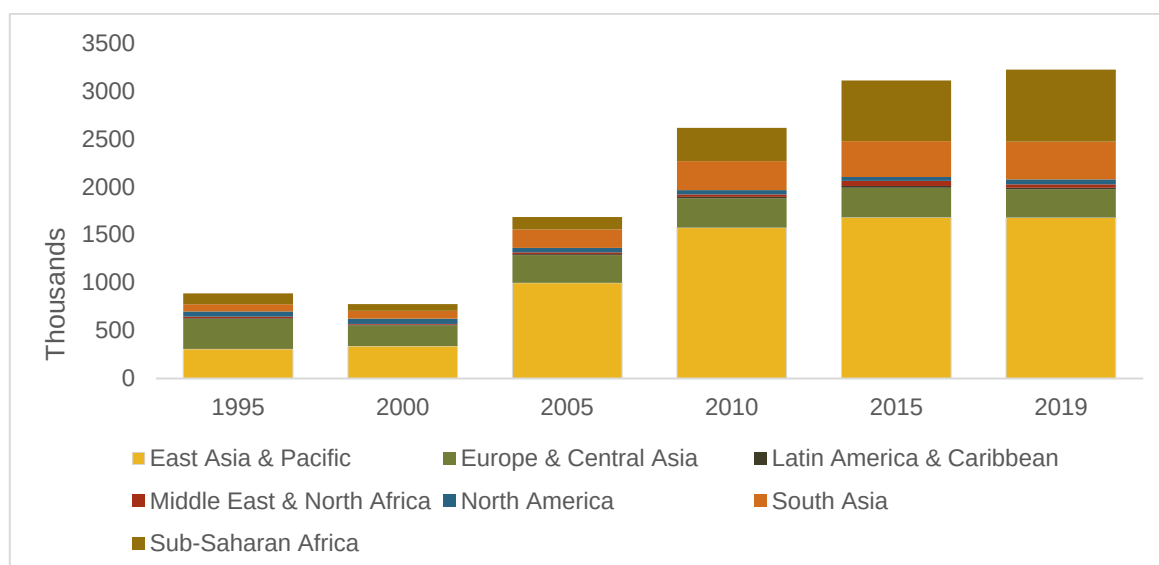
4.4 Development of regional value chains 2010-2019

Imports from East Asia and the Pacific began plateauing between 2015 to 2019 while imports from the rest of Sub-Saharan Africa, namely Lesotho, Eswatini, Mauritius and Madagascar began to rapidly grow as illustrated in Figure 4

Figure 4: South Africa Textiles and Clothing Imports by region in US\$ Thousands.

¹⁵ The MFA ended all quotas on the trade of textile and apparel between World Trade Organisation (WTO) member states. China, which joined the WTO in 2001, benefited the most, as it had the ability to produce a large range of items at international quality standards.

¹⁶ A two-year Chinese quota plan to restrict clothing and textile imports from China and mitigate challenges faced by domestic apparel manufacturers.



Source: authors calculations based on the World Integrated Trade Solution (WITS) database, 2020

A contributing factor to the shift in production to neighbouring countries has been the duty-free preferential access protocols of the Southern African Customs Union (SACU) and Southern African Development Community (SADC)¹⁷. This has given rise to the growth of regional value chains from Lesotho, Eswatini, Mauritius and Madagascar feeding into the South African end market, starting tentatively in 2006 and accelerating after 2010. Tariff-free access via SACU has been crucial in Lesotho and Eswatini, whilst Mauritius and Madagascar have used SADC protocols to enter the South African market on favourable tariff terms (Morris et al.,2021).

Imports from neighbouring Lesotho and Eswatini have been a direct result of South African manufacturers relocating entire plants to these countries. By 2017 apparel exports to South Africa from Eswatini had completely displaced those from the US. In 2016, South Africa imported over 54% of its apparel from China, followed by Mauritius (7.5%), Madagascar (6.2%) and Lesotho (6.2%). In 2019, R35.9 billion worth of clothing was imported (of which 58% was from China), while locally manufactured clothing was an estimated R25 billion (Trade and Industrial Policy Strategies, 2021:11). Retailers sourced directly from suppliers in neighbouring countries or alternatively through design houses or other manufacturers with operations in these countries.

Apart from duty-free preferential access into the South African market, regional value chains in the region have been supported by various investors. Box 2 outlines the investments supporting the development of regional value chains in Southern Africa.

¹⁷ According to Mr Michael Lawrence, Executive Director, interview by author, November 11, 2021.

Box 2: Investments supporting the development of regional value chains in Southern Africa

Morris and Staritz (2016) demonstrate how the development of textile and apparel capabilities in the region was driven by three waves of investment. Firstly, in the early 1980s, several Taiwanese-owned firms based in SA relocated to Lesotho to capitalise on the cost advantages associated with Lesotho's low-cost labour and duty-free access to Europe under the Lomé Convention. Later in the 1980s, there was a further influx of investment from Taiwanese firms looking to capitalise on Lesotho's underutilised MFA quotas and take advantage of the country's various FDI incentives. Transnational producers investing in Lesotho could draw on their global networks to link into GVCs supplying retail chains in the U.S. A third wave of investment from South African garment manufacturers followed. These firms relocated to Lesotho to benefit from lower costs in terms of both labour and overheads, greater labour market flexibility and duty-free access to SACU.

Another contributing factor to the shift in production to neighbouring countries is South Africa's high wage cost structure¹⁸. This shift further reinforced the notion that retailers sought to reduce costs by sourcing from countries where labour was cheaper, and unions less entrenched. Natrass & Seekings, (2013) argue that clothing manufacturers' competitiveness and labour-intensive growth have been undermined by the minimum wage and levies imposed by the National Bargaining Council for the Clothing Manufacturing Industry. This has resulted in a highly regulated labour market that has impacted the industry's cost competitiveness and contributed to the relocation of production to neighbouring countries¹⁹.

4.5 Value chain localisation and building local manufacturing capabilities.

A strategic alignment between retailers and manufactures took place in the mid-2010s, with a shift in sourcing from East Asia to increased local sourcing. Retailers were seeking to minimise inventories and increase profits through repeatedly turning over stock within the year, which could be achieved by building local supply chains containing suppliers with short production cycles and customised products, based on point-of-sales information. This model is based on the successful Inditex/Zara quick response model and sourcing approach. Retailers' local sourcing agenda gained further impetus in 2018 with the development of the SA Retail-Clothing, Textile, Footwear and Leather Value Chain Master Plan (R-CTFL) which advocated for local sourcing. This agenda champions the localisation of production and increased investments in the local supply base.

An analysis of literature and interviews indicate that retailers' sourcing strategies and relationships with suppliers since the mid-2010s to date have been driven by industrial policy revision and industry wide co-operation, a focus on supplier development, the use of innovation and technology and a focus on sustainable and ethical sourcing. These drivers are discussed below.

4.5.1 Industrial policy and industry wide co-operation

The legacy of import substitution policies rather than supply-side measures accounts for the state's limited capacity to develop fully sectoral industrial policies. Between the mid-1990s to early 2000s, the then Department of Trade and Industry (DTI) was structured to implement policy rather than develop industrial

¹⁸ According to Mr Michael Lawrence, Executive Director, interview by author, November 11, 2021.

¹⁹ According to Mr Michael Lawrence, Executive Director, interview by author, November 11, 2021.

policy and operate as a policy think-tank. In 2005, the DTI stressed that the SA government could no longer afford to sustain uncompetitive industries through import substitution or protectionist measures (van der Westhuizen, 2006).

To address the government committed itself to supporting the textile and apparel manufacturing sector through a range of initiatives. An analysis of the Industrial Policy Action Plan (IPAP) 2007/8 – 2021/22, which falls under the National Industrial Policy Framework (NIPF), illustrates the type of industrial policy interventions the government implemented. An overview of the sector specific policies implemented by government between 2005-2018 are discussed in Box 3 in Appendix E.

Conflicting interests around tariff reform amongst textile and apparel manufacturers, organised labour and retailers between the early 1990s to early 2000s resulted in the industry being ineffective in engaging in industrial policy formation and implementation. In recent years, targeted dtic collaboration with retailers, manufacturers and labour has resulted in the development and implementation of the SA R-CTFL Master Plan²⁰. According to the 2018/19-2020/21 IPAP, the objective of the plan is the reduction of the textile, clothing, leather and footwear trade deficit through import substitution and providing manufacturers with the resources to integrate into domestic retail value chains and build up competitiveness. Aspects of the R-CTFL Master Plan are discussed in Box 4.

Box 4: R-CTFL Master Plan

The Masterplan was launched in 2019, with SA retailers committing to increase their local purchases to 65% and stimulate an increase in employment to almost 320 000 by 2030. Retailer signatory of the Master Plan includes but is not limited to Woolworths, Mr Price, The Foschini Group and Pepkor. Retailers have made additional commitments related to the enhancement of the value chain's cost, process, and product competitiveness, embracing new technologies, improving financial returns to boost local investment, and advancing management, technical and operator skills to achieve economic growth and local capability (the dtic, 2020a). Five local retailers provided volume commitments to local manufacturers through the Retail-Driven Integrated Supply Chain Programme (ISCP) under the IPAP 2018/9-2020/21. The ISCP is a key dtic action programme that provides an implementation mechanism through which retailers will replace imports with products manufactured through fully integrated local value chain integration. (dti, 2020).

Under the master plan, manufacturers committed to increasing investment in productive capacity, technology, management & operator skill upgrading, and building manufacturing eco-systems to advance transformation, inclusion, and worker empowerment. Organised labour committed to adaptable production arrangements to align with sales cycles to support job creation, as well as lead the buy-local campaign in communities, support local fashion shows and highlight the work of fashion designers, contribute information on customs challenges and technical support, and lead awareness campaigns around illegal imports. Government committed to ensuring an enabling environment, focusing initially on upgrading customs enforcement to stem illegal imports, clamping down on illegal manufacturing, extending competitiveness enhancement incentive programme, and maintaining appropriate CTFL tariffs & rebates, amongst others (dtic, 2020).

The R-CTFL Master Plan is still in its early stages of implementation; therefore, only time will tell if it reaches its targets. Despite this, the Master Plan's objectives, and its development through a collaborative process between government, retailers, manufacturers, and labour indicate that industry actors are focused on increasing local sourcing and improving the sector's competitiveness.

²⁰ The master plan was developed through consultations with industry actors including textile, apparel, footwear and leather manufacturers, organised labour, and government. These industry actors all made commitments aligned with achieving the objectives of the master plan.

4.5.2 Quick response, vertical integration, and de-integration

Threatened by international competition and global supply chain disruptions, South African retailers recognised that their competitive advantage lay in speed to market and understanding local market trends²¹. SA retailers are increasingly realising the benefits of geographical proximity and operational flexibility of local supply chains with a quick response manufacturing model. The result is shorter lead times and greater control over supply chains, allowing retailers to respond quicker to dynamic market trends, and diminished exposure to currency fluctuations, supply chain disruptions and entry of international retailers into the domestic market, and loss of domestic market share.

SA retailers are developing quick response manufacturing models by either integrating local supply chains into their operating models or building in-house design, product development and manufacturing capabilities. Retailers are operating in an increasingly complex and competitive environment and their multiple geographical regions expose them to an array of risks such as supply chain disruptions. Interviews with apparel retailers highlighted two observations concerning their adopting a quick response model.

Firstly, it is observed that retailers' supplier selection, and supply chain strategies primarily focus on developing efficient, risk-hedging, and responsive agile supply chains. Efficient supply chains are aimed at achieving economies of scale, allowing retailers to be responsive to customers' changing needs. Secondly, retailers are expecting suppliers to increase provision of non-manufacturing capabilities such as input sourcing, product development, inventory management and stockholding, logistics, and financing²². Retailers have organised their supply chains in different ways to implement the quick response model. Box 5 provides examples of the vertically integrated vs de-integration²³ strategies used by SA retailers.

Box 5: TFG and Truworths vertically integrated vs Mr Price and WHL de-integration strategies

TFG and Truworths have invested in vertical integration by building in-house design, product development and manufacturing capabilities, and direct sourcing. These retailers utilise backward vertical integration whereby they obtain ownership of manufacturing assets and develop in-house manufacturing capabilities. In 2021 Truworths acquired local design centre Barrie Cline and Bonwit, enhancing its ability to design and create unique ladieswear ranges, in addition to its men's and kidswear, and generate economies of scale in areas including fabric purchasing, production planning and logistics. (Truworths International, 2021, p. 22). TFG's quick response model is supported by its investment in the development of in-house manufacturing capabilities and the expansion of Prestige Clothing.

MR Price and WHL on the other hand, outsource manufacturing capabilities to some direct suppliers operating in South Africa and the region. However, an analysis of sourcing locations indicates that strategic suppliers are predominantly based in China and Asia. Retailers such as Mr Price and WHL prioritise activities in the high-value-added segments of the value chain, intangible pre and postproduction activities rather than building in-house manufacturing capabilities. In an interview Mr Price CEO Mark Blair noted that the group will not vertically integrate its business, nor will it buy into local suppliers (Mashego, 2021). The retailer has opted not to develop in-house manufacturing capabilities due to the risk of tying up capital, managing factories in good times and in periods of disruption, as well as potential labour issues and electricity outages. Additionally, Blair notes the lack of technology advances required to build local manufacturing capabilities to produce certain items currently not produced in SA. The retailer expects local suppliers to invest in production capabilities and will continue to source locally. Mr Price had invested R229 million in local manufacturers in the last five years and has on-boarded 43 new suppliers in the past year (Mashego, 2021).

²¹ According to Courtney Barnes Head, Buyer Led Value Chains interview by author, November 11, 2022.

²² According to Courtney Barnes Head, Buyer Led Value Chains interview by author, November 11, 2022.

²³ Kilduff, (2000), defines de-integration as a new strategy and organisational form involving a focus on core competencies and the separation of the physical processing functions from the creative 'brain functions' within the supply chain. In some ways, representing a return to the pre-industrial system of manufacture where physical production was in the hands of commission manufacturers, while the creative design and marketing functions were performed by merchants.

4.5.3 Supply chain diversification, consolidation, and development

Retailers are diversifying their sourcing away from China while also strategically consolidating their supply base. The consolidation of the supply chain towards fewer, larger and more capable suppliers is a trend that is observed in the apparel GVC even before the 2007/2008 crisis and intensified during the COVID-19 pandemic (Castañeda-Navarrete et al, 2021). Woolworths South Africa (WSA) Fashion, Home Beauty (FHB) consolidated its supply base and sources 80% of its products from its top 50 suppliers²⁴.

Supplier diversification and local sourcing by South African retailers is linked to retailers implementing a quick response model aimed at developing more flexible supply chains while mitigating against the risk of relying on a few Chinese suppliers, such as supply disruptions and longer lead time due to global economic shocks²⁵. Truworths, for instance, has reduced its dependency on China and diversified its sourcing locations to include Bangladesh, Pakistan, India, Mauritius, and Madagascar (Truworths International, 2021), while WSA FHB is planning to grow local sourcing from 30% to 40% and total regional sourcing to 65% over the next 5 years²⁶. Table 2 illustrates retailers 2021/22 local sourcing and supply chain features.

Table 2: SA retailers 2021/2 local sourcing profiles

Retail group	Sourcing locations and supply chain features
Truworths	45% of apparel is manufactured locally. - Vertically integrated supply chain, in-house design capabilities and direct sourcing from local suppliers
Mr Price	- Local procurement represents 36% of total apparel units. - Retailer has over 500 suppliers across the group's divisions. - Developing direct sourcing capabilities
TFG	35% of TFG Africa clothing is sourced locally, an improvement given that five-years ago as little as 20% of its apparel items were locally sourced. - Vertically integrated supply chain, in-house manufacturing capabilities and direct sourcing from local suppliers - TFG's factories in Maitland and Caledon in the Western Cape
WHL	- WSA Fashion, Home Beauty (FHB) has 228 suppliers. - Approximately 30% of WSA FBH and home private label products are locally sourced. 21% WSA FBH and home private label products are sourced from SADC. 49% WSA FBH and home private label products are sourced from Asia and other regions.
Pepkor	23% locally sourced products by Clothing, Footwear, and Homeware (CFH) brands in 2021 - Has four South African based PepClo factory divisions manufacturing basic school clothing, knitted underwear and flip flops

Source: Author, compiled from retailers FY21/22 reports

Despite localisation commitments, retailers are aware of diminished local fabric capability and variety, especially in woven fabrics, winter outdoor jackets and denim, and local suppliers' inability to produce at scale or meet quality

²⁴ According to Mr Michael Lawrence, Executive Director, interview by author, November 11, 2021.

²⁵ According to Mr Michael Lawrence, Executive Director, interview by author, November 11, 2021, and According to Courtney Barnes Head, Buyer Led Value Chains interview by author, November 11, 2022.

²⁶ According to Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021.

standards. They acknowledge the importance of importing fabrics and apparel products that cannot be competitively sourced locally. Interviews with retailers further indicate that local sourcing is challenged by inconsistent production cycle flows due to high summer volumes and low winter demand²⁷. This results in insufficient capacity to generate optimal volumes in the peak summer season, and excess capacity in the winter period. To support local sourcing, SA retailers have undertaken supplier development strategies. These strategies differ across retailers but entail building competitive, flexible and responsive supply chains. WHL, TFG's, Pepkor, Mr Price, and Truworths in their integrated 2018-2021 financial reporting have emphasised that their supplier relationships are managed beyond short-term contractual obligations and retailers are beginning to focus on long-term partnerships and collaboration.

4.5.4 Digitalisation, omnichannel platforms and technological innovation

SA retailers are increasingly focused on creating a seamless shopping experience through omnichannel retailing and via e-commerce and mobile channels²⁸. For instance, myTFGworld, TFG's online marketplace, consolidates seventeen TFG Africa brands on one online platform (TFG, 2021). Additionally, innovation and technology assist to forecast turnover levels, plan stock purchases, and provide accuracy to compliance and supplier management. Digitalising thus provides retailers with greater oversight over production and supply chain management. For instance, Mr Price's Retail Intelligence team uses robotic process automation, aiding quick decision-making through machine learning and artificial intelligence (Mr Price Group Limited, 2022). Furthermore, digitalisation assists risk management and monitoring to enhance supplier traceability across multi-tiered sourcing networks.

4.5.5 Sustainability, ethical sourcing, and traceability

Retailers are embracing sustainability as a critical factor in assessing sourcing locations due to suppliers' hidden environmental and sustainability costs²⁹. SA retailers have begun to transition towards local sustainable sourcing by; switching to organic cotton, increasing recycled content; and reducing hazardous chemical use in textiles. SA retailers are at various stages in implementing ethical and sustainable sourcing. For instance, Pepkor acknowledges that much needs to be done to integrate sustainability and gain greater visibility and transparency of their supplier base and formalise the supplier review process. Meanwhile WSA FHB in 2022 scored above the overall average in the global Fashion Transparency Index³⁰ and was also the highest-scoring South African retailer. More broadly, retailers have indicated plans to monitor, guide and instil responsible trade practices at different stages of their value chains and formalise processes of evaluating suppliers based on ethical and environmentally responsible behaviour³¹.

²⁷ According to Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021, and According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

²⁸ A review of all retailers' strategies indicate that retailers will rapidly increase investments into omnichannel platforms. This strategic response has been further driven by the store trade downtime that impacted retailers due to lockdowns and trading restrictions. For instance, Mr Price has allocated 16.5% of capital expenditure to technology and continued investment in IT infrastructure, supply chain & e-commerce to support growth ambitions for their 2023 FY.

²⁹ According to Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021

³⁰ FTI ranks 250 brands according to how much information they disclose about suppliers, supply chain policies, and practices, as well as their social and environmental impacts.

³¹ Increasingly a shift towards sourcing raw inputs such as cotton and viscose sustainably is occurring, however, it is not clear if SA retailers have the technological innovation to develop and process sustainable fibre. SA retailers' investments have indicated that retailers plan to have greater control over trend planning, forecasting and visibility of their supply chains and customer experience.

4.6 Conclusion

Historically the SA clothing and textiles manufacturing industry has not received significant support from SA retailers. Retailers have typically chosen not to source locally or invest in upgrading their suppliers' capabilities. A SWOT analysis was developed based on insights gathered from the discussion in this chapter (see Appendix F). The weaknesses and threats highlight some of the reasons SA retailers have chosen not to source locally or invest in upgrading their suppliers' capabilities. Given the opportunities and strengths presented in the textile and apparel manufacturing sector, SA retailers in recent years have developed a new lead firm-led business model where retailers invest in their local supply chains. While the shift in retailers' sourcing strategies may not completely reverse the decline of the clothing and textiles industry, local sourcing does, however, hold considerable potential for rebuilding at least a part of the domestic value chain.

5. Case studies of SA apparel retailers' sourcing strategies and governance structures

5.1 Introduction

South African apparel retailers' sourcing strategies and supply chain configurations vary according to their business models, offering different paths for local textile and apparel suppliers to upgrade and build competitiveness. Chapter three's assessment reveals that WHL's Fashion, Home, and Beauty division is pursuing a de-verticalization strategy, while TFG is implementing a vertically integrated strategy. This chapter presents case studies of TFG and WHL's sourcing strategies, value chain governance, and supply chain configurations to gain insights into their sourcing models and their implications for the local textile and apparel manufacturing sector. This analysis aligns with the evaluation of WHL and TFG's business models based on the value chain governance typology discussed in chapter two.

5.2 Core drivers of WHL SA (FHB) sourcing strategy and supplier selection

Through 2010-2021, WHL SA (FHB) has concentrated on optimising sourcing, providing world-class operational efficiency, and promoting innovation. Underpinning the retailer's core sourcing strategy drivers is its Good Business Journey (GBJ) strategy. The impetus of the GBJ strategy is to keep the retailer at the forefront of sustainability leadership, encourage innovation, collaboration, and localisation. WHL SA's core sourcing drivers are unpacked below.

5.2.1 Building sustainable supply chains.

Ethical sourcing

WHL's ethical sourcing requires that the retailer and its suppliers operate in a way that respects worker rights, maintains safe working conditions, and protects the environment. To achieve this, WHL's approach to ethical sourcing includes internal processes and systems to document suppliers' operations, application of supplier code of business principles with four key priorities: accelerating transformation, driving social development, enhancing environmental focus, and addressing climate change, to which all suppliers are expected to adhere³²(WHL, 2016, 2021). Mr Pillay, WHL Global Head of Sourcing, Quality and Innovation, notes that the retailer's approach to ethical sourcing includes WHL's monitoring of suppliers (including their factories) through regular social and ethical compliance audits³³. Partnering with organisations and certification schemes such as SEDEX (a web-based platform for sharing responsible sourcing data to tackle complex and systemic issues) and lastly, building awareness capacity internally and with suppliers are other approaches used. In 2020, 195 WSA FBH suppliers' sites were audited and 92% of those sites met social and ethical compliance requirements (WHL, 2020).

Mr Pillay notes that business-critical³⁴ findings that arise from the audits are escalated to senior management within the Group, and suppliers are requested to correct them immediately. In rare and extreme cases if corrective actions are

³² It is noted that suppliers are expected to perform periodic assessments of their facilities and operations, and those of their subcontractors and/or other supply chain partners that provide goods or services to WHL to ensure compliance with these Principles (WHL, 2020)

³³ Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021.

³⁴ In relation to labour practices, critical findings would include payment below minimum wage or the presence of forced or child labour and modern slavery practices.

not taken the retailer suspends or discontinues the trading relationship. For other non- critical findings, the buying teams work with suppliers to assist in aligning with the requirements within a stipulated time frame and conduct follow-ups to ensure adherence³⁵. To improve on remedial action and provide suppliers with further assistance, WHL conducts root-cause analysis to identify trends to share with their suppliers for improvement and learning purposes (WHL, 2021). Additionally, to promote ethical sourcing and ensure workers are fairly compensated, Mr Pillay notes that all WHL's local suppliers are required to be Bargaining Council compliant. This means suppliers pay at least the minimum wage and comply with minimum labour conditions mandated by employment and labour law.

Supply chain transparency

The retailer's commitment to ethical sourcing encompasses a commitment to transparent and traceable supply chains. The retailer scored the highest in SA in the 2021 Fashion Transparency Index but performed poorly against global fashion retailers. To ensure supply chain transparency WHL became the first major South African retailer to publish online a complete list of its Fashion, Beauty, and Home (FBH) suppliers in 2021 (WHL, 2022). According to Mr Pillay, this will provide supply chain visibility to customers and stakeholders so that the retailer will be held accountable for maintaining a transparent supply chain.

Consolidating supply base

As a result of historically limited capabilities and inefficiencies in the SA supply chain, in 2010 WHL shifted part of its sourcing from local to global suppliers, primarily from Asia (WHL, 2011, Kuhn, 2014). This resulted in a supply chain transformation as between 80% to 90% of goods from local suppliers (many of which WHL had dealt with for decades) were shifted to offshore suppliers (Zager,2010). In 2011, WHL rationalised the number of its suppliers with the top 30 suppliers of apparel and general merchandise accounting for over 70% of the retailer's business.

Additionally, to source more directly the retailer set up offices in Shanghai in 2010 (WHL, 2011). In 2019 the retailer reported over 500 FBH direct suppliers (WHL,2019). A review of the 2021 supplier list³⁶ indicates that the supply base is still largely located in Asia. A few other WSA FBH suppliers are also found in South Africa, India, Bangladesh, Mauritius, Pakistan, Eswatini and Madagascar, among other countries. A review of WHL's financial reports and media statements suggests that only a few South African textile and apparel suppliers can deliver the retailer with the quality and speed to market it requires.

WHL has leveraged its buyer power³⁷ and the concentration of its supplier base to govern its local supply base through several mechanisms, including its GBJ strategy. The GBJ strategy requires suppliers to improve quality, align, and comply with social and sustainability standards. Additionally, the retailer governs its value chain by developing a network of

³⁵ This could include ensuring that policies and procedures are updated, investment is made in proper equipment, or adequate training of employees and factory management takes place.

³⁶ See WSA FHB Supplier List https://www.woolworths.co.za/images/elasticera/New_Site/Food/ACTIVE%20FACTORY%20LIST_01122021.pdf

³⁷ Kuhn, (2014:25) notes that the acquisition of Australian clothing retail groups (David Jones and Country Road) added to WHL's purchasing power in the global arena

suppliers that are encouraged to work and source from each other. Mr Pillay explains that WHL suppliers can only source from WHL-approved and preferred suppliers. WHL fashion suppliers are mainly CMTs and work closely with WHL buyers. WHL provides suppliers with designs and approves second and third-tier suppliers of inputs such as fabric. Suppliers, therefore, source inputs themselves according to the buyer's specifications. Suppliers thus depend on WHL in complying with design specifications and ensuring that services and inputs are sourced from WHL-approved suppliers.

Building long term relationships and trust

Since 2010, WHL's sourcing strategy has focused on consolidating its supply chain, developing long-term relationships with its local suppliers, and providing suppliers with medium- to long-term contracts or orders (WHL, 2011, 2019). Taking a long-term buyer-supplier relationship view has allowed the retailer to assist South African and SSA suppliers with specific investments and upgrading. The retailer has used several coordination mechanisms to build relationships with suppliers, codify standards, trust, and provide suppliers with resources and production management. These coordination and trust-building mechanisms include supplier roadshows, conferences, and audits that create a broad understanding amongst suppliers of the retailer's sourcing strategy, product innovation plans and trends, and business requirements and growth plans (WHL, 2013, 2019, 2020). WHL's sourcing strategy is based on identifying capable suppliers aligned with its GBJ values, namely social and sustainable manufacturing practices, and standards.

According to Mr Pillay, WHL has structures and roadmaps to assist its buyers to source ethically. The living wage for all workers is an example of such a roadmap. Despite being behind on achieving a living wage for all workers across its supply chain, the retailer has developed a responsible purchasing practices framework for the Group, and training is being conducted internally on ethical sourcing programmes.

5.2.2 Local and Near Sourcing

Despite consolidating a significant percentage of its apparel sourcing offshore, WHL has maintained the local supply base and increased its local sourcing over the past five years. In 2012 WHL sourced 20% of apparel from South Africa and according to Mr Pillay, in 2020, the retailer sourced 50% of apparel from Southern Africa (30% from South Africa, and 20% from Eswatini, Botswana, Lesotho, Mauritius, and Madagascar). The remaining 50% was sourced from Asia (32% from China and 18% from Bangladesh and India). WHL apparel sourcing policy prioritises products made in South Africa, then within the Southern African Development Community (SADC) region, and finally outside of the region. The WHL 2021 supplier list and consolidation of Asian suppliers indicates that this prioritisation of sourcing locally is a medium to long term goal.

WSA's FHB supplier base includes strategic suppliers (long-term strategic), preferred suppliers (operational suppliers) or approved suppliers (transactional suppliers). According to Mr Pillay WSA FHB has exclusive, strategic relationships with seven SA suppliers based in KwaZulu-Natal, Cape Town, and Gqeberha. Many WSA FHB exclusive suppliers started as small-scale CMT suppliers and over time became the retailers largest and most reliable suppliers. WHL's longest relationship with one exclusive supplier goes as far back as 70 years. WHL's small business development division mentors existing and new suppliers to reach WHL quality and compliance standards.

The retailer sources abroad where local or regional suppliers cannot provide the ideal quality, value, and innovation. In recent years, supply chain disruptions and South Africa's industrial policy interventions have led to local and nearshoring taking prominence in WSA FHB's apparel sourcing strategy. According to Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021, WHL has set a 2025 target to increase locally sourced apparel to 40% and from 2025 to 2030, the retailer aims to increase local sourcing up to 65% in line with the South African R-CTL - Master Plan target. The retailer will divert sourcing from Asia and Madagascar to South Africa and the SADC to achieve this. Furthermore, to achieve these targets, the retailer has undertaken several interventions outlined in Box 6.

Box 6: WHL interventions to support local sourcing.

To achieve greater apparel localization, WHL implemented an import replacement programme aligned with the SA Retail-CTFL Master Plan objectives. According to Lawrence Pillay, Global Head of Sourcing, Quality & Innovation (interview by author, November 5, 2021), WHL identified apparel products that should be produced locally and the necessary capabilities and inputs for manufacturing these products in South Africa. WHL collaborates with suppliers to build capabilities, increase capacity, and facilitate the transition of orders from global to local suppliers.

Through this programme, WHL now sources baby apparel and children's cotton underwear from Juan're Clothing Manufacturers in Port Shepstone, instead of a vertically integrated Indian manufacturer. This shift demonstrates product upgrading by improving quality, price performance, and speed to market. The increased localization and demand led to the expansion of Juan're Clothing factory, including the construction of a state-of-the-art green facility with eco-friendly processes to reduce greenhouse gas emissions, environmental pollution, and energy consumption. This aligns with WHL's GBJ strategy and green factories programme, which supports suppliers in managing environmental and social metrics. The factory expansion created 200 additional jobs. Additionally, WHL assisted black woman-owned Davis Clothing in manufacturing baby apparel and shifted the sourcing of formal bottoms and woven shirts from Bangladesh to South Africa.

Supplier-to-Supplier Mentorship Programme

To develop local capabilities and capacity, WHL implemented a supplier-to-supplier mentorship programme. In this program, WHL suppliers from China and Mauritius, operating in world-class factories, mentor smaller South African suppliers. The mentorship aims to transfer knowledge to help South African suppliers become more competitive and reach export levels. Mentor suppliers receive incentives based on the performance of their South African mentees.

Network of WHL Preferred and Approved Suppliers

WHL suppliers can only source intermediary inputs and services such as fabrics, zips, dyeing, printing, and finishing from WHL's preferred and approved global and local suppliers. For instance, to ensure Juan're Clothing Manufacturers produce baby apparel and children's cotton underwear at the expected quality, WHL facilitated an agreement with the previous Indian manufacturer to supply fabric to Juan're. Additionally, WHL provided capital support to Juan're Clothing Manufacturers for purchasing the fabric.

5.3 WHL Supplier relationship and supplier development

To sustain long-term partnerships with suppliers, WHL has created mechanisms to assist suppliers to become more competitive, align to and achieve social and sustainable manufacturing practices and standards. Although it is difficult to quantify as this study did not interview WHL suppliers, some have, over the years, upgraded their products and specialised in manufacturing complex clothing with higher fashion content (including women's athletics wear). This translates into comparatively higher unit values and mark-ups. An overview of WHL's supplier relationship and development interventions is provided below.

Box 7 provides an example of some of the components of WHL Enterprise and Supplier Development (ESD) programme.

Box 7: Enterprise and Supplier Development (ESD) programme

According to Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation, interview by author, November 5, 2021, WHL undertakes the following supplier development interventions to develop and monitor its South African and Southern African textile and apparel suppliers:

- Providing supplier development funds, programs, investments focused on firm upgrading.
- Assisting suppliers to develop full-package capabilities (additional services related to product development, design, logistics, and quality control).
- Supplier score card or grading tool to measure supplier value chain performance and reliability.
- Knowledge sharing tools to support communication between suppliers and sourcing departments.
- Creation of synergies amongst suppliers to promote backward linkages (raw materials and inputs).

WHL's enterprise development and supplier support interventions aim to develop and sustain quality, long-term relationships with black-owned and black women-owned suppliers such as Davis Clothing. The assistance provided to Davis Clothing through the retailer's enterprise development and supplier support is discussed in Box 8.

Box 8: Enterprise development and supplier support: Davis Clothing

Davis Clothing, established in 2007, initially operated under the carport of the founder's house on the Cape Flats before moving to a unit in Ravensmead Business Park. In 2012, Myrtle Davis, the founder, was succeeded by daughter Carmy Davis, who participated in the WHL Enterprise and Supplier Development (ESD) programme. A key objective was to assist Davis Clothing in overcoming the financial and non-financial barriers that prevented the small, black-owned business from becoming a WHL supplier. Inclusion in the ESD programme provided Davis Clothing with the following:

- Mentorship and product development via a dedicated project manager to ensure growth and success.
- Access to business loan option with low interest
- Preferred payment terms; 7 days from the date of invoice and an advance on the first four orders
- Long-term supplier commitment from WHL; 3–5yr business planning and projection
- Participation in WHL's localisation programme, including assistance with raw material sourcing.

Through the ESD programme and its network, WHL assisted Davis Clothing to secure new premises at Suzi Products, which had once outsourced some of its work to Myrtle's Davis Clothing. WHL has also assisted Davis Clothing with the following:

- Business mentoring
- Factory space and access to all its on-site facilities, such as the canteen and lockers
- Machinery, including the metal detector essential for supplying WHL' babywear.
- Mechanical back-up
- Patternmaking and cutting services.
- Ordering of raw materials
- Administrative support
- Building a credit reference

With a small production line within Suzi Products' factory, the business manufactures a premium babywear range of 100% cotton bibs and beanies ranging from prematurely to 12 – 18 months. Davis Clothing baby products have been sold in Woolworth stores since November 2019. Davis Clothing is working on developing new product ranges and transitioning into its own premises in 2022.

WHL's partnership with Davis Clothing demonstrates WHL's contracting approach, which has evolved beyond contractual and competence trust and obligations, by inculcating goodwill trust with its suppliers. Goodwill trust is the shared understanding that both parties commit to always operate for mutual benefit and refrain from taking unfair advantage. During the Covid-19 pandemic, WHL demonstrated goodwill by honouring its contractual agreements with

suppliers and, in a few cases, providing them with direct support. This implies that trust is process-based and rests on cooperative interaction between buyers and suppliers and strengthened through repeat transactions. The long-term partnerships between WHL and local firms are built through trust and have become more complex and relational.

5.4 WHL governance structure: captive to relational governance structure

The review of WHL value chain governance shows that the retailer has moved from a quasi-hierarchical (captive) chain to a network-style (rational) governance structure. The retailer exercises power (to varying degrees) by coordinating production without direct ownership of suppliers. This aligns with the broader assessment in Chapter 3 that WHL operates a de-verticalization value chain business models. As discussed in Chapter 2, retailers' governance types are determined by several factors. Table 7 in Appendix G, provides an overview of the determinants of WHL value chain governance, associated degree of determinants, and key factors influencing the retailers' sourcing strategy and supplier relationship with respect to WHL's shift from a captive to a relational value chain governance structure.

5.4.1 Key features of WHL governance structure

According to Gereffi et al. (2005), a captive relationship occurs when small suppliers are transactional-dependent on larger buyers. Potentially, large buyers can opportunistically squeeze their suppliers to the point where relentless downward cost pressure leads suppliers to make suboptimal, environmentally, and socially detrimental choices. WHL's governance structure resembles a captive one as there is a high degree of monitoring and control by the retailer, and the retailer specifies what it needs and controls the highest-valued activity in the chain, thus exerting more control over its suppliers. Additionally, WHL sets specific conditions that lock suppliers in, making it difficult, time-consuming, and costly for suppliers to switch between and establish relationships with new customers. Furthermore, WHL's interactions with local suppliers are characterized by information transfer, provision of monetary and non-monetary resources and assistance, and market access which lock suppliers into the retailers' value chain and make it unattractive to exit.

According to Dietz (2011), in captive governance structures, lead firms are most likely to invest in their suppliers' product and process upgrading. Upgrading is only undertaken when it does not encroach on the lead firm's core competency but instead benefits it by increasing the efficiency of its supply chain. WHL has demonstrated this type of investment. Despite some captive governance features displayed in WHL's case, this governance type is only partially applicable. Instead, WHL's governance ranges from captive to relational as its opportunistic behaviour is diminished due to complex relationships with suppliers. WHL's supplier relationships are built on mutual dependence regulated through GBJ, which is managed through reputation, long-term partnerships based on dense interactions and knowledge sharing, trust, quality conventions, and the retailer's embeddedness. WHL's long-term supplier partnerships demonstrate that relational linkages take time to build, thus increasing costs and difficulties involved with switching to new suppliers.

Despite a predominantly relational structure, the retailer still governs its supply chain through coordinating production without direct ownership of supplier firms, which is a characteristic of both captive and relational governance. WHL has direct relationships with global and local suppliers, which allows the retailer to govern its supply chain through exclusive orders. However, unlike captive networks, in which lead firms take responsibility for supplying all the parts used by local suppliers, WHL's relational governance structure allows suppliers to provide full package production services and the capability to interpret designs, make samples, source required inputs, monitor product quality, meet the retailers' price,

and guarantee timely delivery. This aligns with Gereffi et al.'s (2005) typology that supplier capabilities increase when moving from a captive to a relational governance structure. Supply chain disruptions, uncertainties, and increasing competition from global retailers require WHL to maintain an ecosystem of suppliers which contributes to the survival and success of the retailer in turbulent times.

The ecosystem has important implications for long-term relationships in which the retailer and suppliers strategise and collaborate. This requires joint planning, problem solving and collaborative communication, which are important elements of relational governance and indicate a shift from captive to a relational governance structure.

WHL's relationships and contractual obligations with suppliers are based on trust and goodwill rather than traditional supplier selection criteria such as price³⁸. Conventions to define quality become necessary when price alone is not informative. In this respect, it can be inferred that WHL is applying domestic coordination to solve uncertainty through trust and repetition, and industrial coordination, by testing and inspection using formalised standards. The domestic and industrial coordination approach and institutional framework conditions set and undertaken by WHL are governed by WHL GBJ principles.

Furthermore, the shift from a captive to relational value chain with local suppliers has been facilitated by the retailer's embeddedness. WHL's GBJ strategy is shaped by the social and cultural contexts from which the retailer originates (societal embeddedness), and decisions on where and from whom to source are driven by national institutional frameworks (geographical/territorial embeddedness). WHL's societal, geographical, and territorial embeddedness directly inform its overall business and sourcing strategy.

5.5 Core drivers of TFG sourcing strategy and supplier selection

TFG's business strategy is underpinned by four pillars that have remained broadly unchanged since 2015 (TFG, 2021). These pillars are localisation and job creation, people and communities, environmental efficiency and product stewardship, and supply chain efficiency. An interview with Mr Sean Kirby, Head of Manufacturing and Prestige Clothing (Merchandise Supply Chain) at TFG³⁹, and a review of TFG's integrated annual reports from 2005 to 2021 indicate that over the past ten years, TFG's apparel sourcing strategy and supplier relationships has been shaped by the retailer's focus on building a vertically integrated supply chain with quick response capabilities⁴⁰. The retailer's apparel sourcing strategy drivers over the past 10-15 years are discussed below.

5.5.1 Supply chain agility: quick response, localisation and TFG Design and Manufacturing

TFG's strategic sourcing objectives include optimising its supply chain capabilities to offer its customers a more comprehensive range of in-demand products. For this reason, TFG has invested in localisation efforts as well as developing competitive advantages by implementing a quick response model, developing, and supporting local

³⁸ According to Ponte & Sturgeon (2014, p 11-13), trust is related to forming quality conventions as it solves uncertainty through domestic coordination by reducing transaction costs for buyers and suppliers

³⁹ Interviewed by author, December 7, 2021.

⁴⁰ According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

suppliers, and building in-house design and manufacturing capabilities to enhance quality, flexibility, and speed of delivery. Over the last decade, the retailer has implemented several strategic initiatives, including assisting (financially and otherwise) local apparel and fabric suppliers and CMTs⁴¹.

In response to the success of Inditex's Zara chain, TFG's initiated quick response model that improves fashion intelligence by reducing lead times, which requires a greater focus on on-shore or near-shore procurement. TFG has invested in quick-response local manufacturing capacity for the last nine years (Theunissen, 2020). This has enabled the retailer to reduce its average garment production lead time to 42 days, whereas international supply chains typically average between 150 and 180 days. In 2018, quick response units manufactured by TFG Merchandise Supply Chain had grown by 1,4 million units' year-on-year and financial assistance of approximately R100 million, together with preferential payment terms, was provided to local suppliers. TFG's gross profit margin year-end 2022 rose from 45.5% to 48.5%; the retailer attributes this to a higher proportion of full-priced sales and lower stock markdowns resulting from TFG Africa's quick response manufacturing capability at Prestige Clothing, and increased purchasing activity as the sector recovers from the impact of the pandemic (Theunissen, 2020).

5.5.2 TFG vertical integration model

TFG 's vertical integration model is driven by local and near sourcing, and the development of in-house design and manufacturing capabilities. TFG's vertical integration journey is discussed below.

Localising supplier base and developing world-class capabilities.

To mitigate against supply chain disruptions and ensure that suppliers operate ethically and sustainably, and work towards its R-CTFL Master Plan localisation targets, TFG aims to increase local sourcing by owning apparel manufacturing firms and working with strategic regional suppliers⁴². TFG's localisation sourcing strategy since 2015 involves investing strategically in creating a flexible, diversified local supply chain in partnership with the South African government and the Department of Trade, Industry and Competition. TFG's localisation commitment is based on achieving margin advantages due to lower markdowns and better trend relevance because the retailer can make fashion calls closer to the season, as opposed to long lead times from offshore manufacturers (TFG, 2021). Additionally, to support the development and upgrading of textile mills, TFG has supported removal of import duties through rebates on woven fabrics, knitted fabrics and yarns⁴³. Currently the duties have been removed on woven fabrics through off-take agreements with South African mills, which is envisioned to incentivise production at domestic mills (TFG, 2021, Child, 2021). TFG has undertaken additional initiatives focused on developing world-class capabilities needed to drive South Africa's localisation strategy (see Box 9)

⁴¹ According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

⁴² According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

⁴³ The South African government has published Notice 93 of 2021 on the guidelines, rules, and conditions for 100% rebates on a range of imported textiles and yarns. See https://www.gov.za/sites/default/files/gcis_document/202103/44229gen93.pdf

Box 9: Additional initiatives focused on developing world-class capabilities.

TFG has sponsored a Future Manufacturing post at the Toyota Wessels Institute for Manufacturing Studies (TWIMS) aimed at supporting the exploration of new manufacturing business models and the development of the manufacturing sector in South Africa related to rapidly emerging digital technology (TFG, 2021). Additionally, to transform its supply chain, which had few black production managers, TFG in February 2021 launched its Manufacturing's Black Production Management Development Academy and a two-year Quick Response focused curriculum. The Academy took on 12 African Black graduates from various disciplines including industrial engineering, quality, and clothing management. TFG aims build a talent pipeline to cater to its local manufacturing expansion plans as well as benefiting the wider manufacturing industry by increasing the pool of management skills. (TFG,2021)

Developing in-house manufacturing capabilities

TFG has increased local manufacturing capacity and further vertical integration through acquisitions and integration of several local manufacturing assets, some in financial distress. These assets have been purchased to develop and expand TFG's wholly owned Prestige Clothing Proprietary Limited, which has become SA's largest apparel manufacturer (Wilson, 2021; TFG, 2022). Prestige Clothing Proprietary Limited falls under TFG's local supply chain division, which comprises TFG Design and TFG Manufacturing, thus is highly dependent on the TFG design house⁴⁴. Table 3 provides an overview of TFG's local and regional supplier base.

Table 3: TFG's local and regional supplier base.

Suppliers	Location	TFG ownership	Products	No. of Employees
Prestige Clothing	Johannesburg	100%, acquired in 2021	T-Shirts	92
Prestige Clothing	Caledon, Western Cape	100%, acquired in 2014	T-Shirts Knits	652
Prestige Clothing	Maitland, Western Cape	100%, acquired in 2014	Ladieswear Women's fashion	1042
Prestige Clothing	Epping, Western Cape	100%, acquired in 2021	Structured ladies and men	968
Prestige Clothing	Durban, Kwa-Zulu Natal	100%, acquired in 2021	Ladieswear Sleepwear Activewear Lingerie	476
Five independent CMTs	Kwa-Zulu Natal	Strategic partnership	Sleepwear Activewear Lingerie Kids Bottoms Shirts	1206
One CMT	Eswatini	Strategic partnership	All value apparel products	650

Source: Adapted from TFG, (2021)

⁴⁴ According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

The development of TFG's in-house manufacturing capabilities and the expansion of Prestige Clothing is discussed in Box 10.

Box 10: Building in-house manufacturing capabilities through acquisitions.

In 2014, TFG acquired Prestige Clothing Maitland and Prestige Clothing Caledon, investing R75 million to expand and refurbish the factory in 2017 (Global Africa Network, 2021). According to Graham Choice, Managing Director of TFG Merchandise Supply Chain, it took four years of trial and error to integrate and align the retail and manufacturing businesses, leading to significant success by 2018 (Planting, 2022).

Since 2018, TFG has enhanced its manufacturing assets and local production capabilities by partnering with and acquiring local manufacturers, introducing lean manufacturing practices, and integrating them into its supply chain. In 2020, TFG expanded its manufacturing capabilities further by acquiring assets from ex-Seardel companies Monviso, Bibette, and Bonwit to create Prestige Epping. The same year, TFG acquired House of Monatic, saving it from closure and integrating its 200 employees into Prestige Epping, which produces formalwear for TFG (Adams, 2021). In May 2021, TFG launched Prestige Durban after acquiring TCI Mobeni from the SA Clothing and Textile Workers' Union, making it the hub for intimate wear and active sportswear manufacturing.

TFG opened its fifth Prestige Clothing factory in Johannesburg, specifically designed for a hearing-impaired workforce. Partnering with the Fibre Processing and Manufacturing SETA and the Thandeka Vocational Education Trust, TFG trained school leavers from St Vincent School, with the first group of 23 learners completing a manufacturing learnership in October 2021, and an additional 24 learners expected to complete theirs in 2022 (Smith, 2022). This investment includes developing a Prestige learnership programme to enhance manufacturing competencies (Planting, 2022).

TFG's strategy focuses on acquiring manufacturing assets and retail outlets to drive demand for locally produced apparel. In 2020, TFG acquired Jet, secured new leases for 425 Jet stores, and committed to sourcing from Jet's 318 existing local suppliers, preserving employment for over 5,600 employees across Africa.

In 2022, TFG announced a R2.1-billion investment to develop ten more manufacturing units, with an additional ten planned annually for the next two years (TFG, 2022; Planting, 2022). This investment aims to double employment in TFG's factories and strategic non-owned CMTs from 5,200 in FY22 to 11,200 by FY26. The R2.1bn Capex commitment for FY23 is part of TFG's strategy to strengthen its business model and mitigate global supply chain disruptions. These plants will be located in high-unemployment areas, including rural regions and near safe houses for domestic abuse and violence victims.

5.6 TFG -supplier relationship and supplier development

TFG is developing its in-house manufacturing capabilities and build strategic supplier partnerships through its supplier development strategy and supply chain management discussed below.

5.6.1 Supplier development strategy

An analysis of TFG's annual reports from 2013 to 2021 indicates that TFG's supplier development strategy is to develop an agile and flexible supply chain operating on world class manufacturing principles and quick response capabilities. TFG has invested in various supplier development initiatives including the TFG's Fast Fashion Cluster (FFC) in 2013. The cluster was formed in partnership with Cape Clothing and Textile Cluster (CCTC) with the support of the DTI and IDC Clothing and Textiles Competitiveness Programme (CTCP) programme. TFG received R25 million in funding through the CTCP and contributed a further R8 million for development of its strategic local supply chain⁴⁵ (TFG 2013, p. 19-20, 2015, p.12-14)

⁴⁵Supplier development intervention focus areas included visualised performance within despatch areas, 5S to prevent incorrect packing mistakes, clear counting procedures and implementation of acceptable quality level practices, QR delivery capabilities

TFG has increased local procurement, including spending over R1,6 billion in 2021 on Black-owned and Black women-owned suppliers. In 2021, TFG provided more than R36 million of support to supplier development beneficiaries through loans and advances, donations of machinery and fabrics, preferential payment terms and human resources capacity (TFG, 2021, p.52-55). Furthermore, TFG has collaborated on several supplier development initiatives, including engaging with the government to support a cut in yarn import duties to advance SA apparel manufacturing. Additionally, in 2018, TFG invested over R5 million into the KZN network of CMT partners to create capacity and developed a new SMME cluster in partnership with the KwaZulu-Natal government, which will assist 15 new companies and supports TFG's fabric conversion, printing, and assembly capacity requirements (TFG, 2021). Furthermore, TFG's CMT suppliers are assisted financially when needed and obtain assistance from TFG's in-house quality assurance, human resources, and production planning teams (TFG, 2021).

5.6.2 Supply chain management and quality assurance

TFG manages relationships with its suppliers through formalised processes overseen by the TFG Merchandise Supply Chain division, which is responsible for the management and quality assurance of TFG Africa's procurement practices. The interaction between TFG and its design and manufacturing division consists of information transfer regulated through formal procedures, such as supplier audits, visits and assessments, product order discussions, service requests, purchase order discussions, and account management discussions to ensure compliance with the TFG code of business principles⁴⁶.

Additionally, all suppliers must comply with the United Nations Global Compact (UNGC) and principles as part of the supplier onboarding process (TFG, 2021, 2022). Suppliers agree to terms and conditions that include compliance with all applicable legislation concerning the manufacture and distribution of the goods⁴⁷. The TFG supplier code of conduct was reviewed and rolled out in August 2020, with 84% of local suppliers signing the code (TFG, 2021). Performance standards are continually reviewed to ensure products are of a world-class standard. There is close cooperation with the group's suppliers to assist in the adoption of world-class manufacturing practices.

5.7 TFG governance structure: captive to hierarchical governance structures

An overview of the key features of TFG's value chain governance is provided in Table 8 in Appendix G to illustrate the factors influencing TFG's shift from captive (quasi-hierarchical) to hierarchical governance structures. The factors influencing this shift have similarities but also stark differences to the factors influencing WHL's shift in governance structures. These are highlighted in the discussion below.

5.7.1 Key features of TFG's governance structure

Similarly, to WHL, TFG's governance structure, especially before 2014, demonstrated a captive value chain whereby TFG kept transactional relationships with a small number of local suppliers. The acquisition of manufacturing firms since 2014 and the development of in-house manufacturing capabilities demonstrates TFG's shift to a domestically vertically

⁴⁶ According to Mr Sean Kirby, Senior Business Development Manager, interview by author, December 7, 2021.

⁴⁷ This includes all applicable environmental legislation, labour and workplace legislation, and international laws, principles or recommendations governing human rights, the environment, labour, and corruption.

integrated value chain. This has resulted in TFG focusing not only on upstream and downstream value-adding in intangible activities such as product definition, product design, and end-user sales, but also managing tangible activities, such as manufacturing through the acquisition of manufacturing assets. Investments in manufacturing assets have increased TFG's dependency on a local supply base.

Gereffi et al. (2005) conclude that the lower the supplier capabilities, the greater the level of control the lead firm exercises, primarily through hierarchical governance via direct investment or captive contract manufacturing arrangements. Historically, low supplier capabilities do not lead to internalisation of suppliers into value chains in captive or hierarchical governance, but instead to greater distancing from the supply base, implying that suppliers with fewer valuable capabilities are used solely or primarily for their production capacity and have less strategic value. As a result, retailers' distance themselves from weaker suppliers and engage with suppliers through third-party firms that connect suppliers' capabilities with buyer requirements. However, similarly to WHL, direct supplier sourcing and TFG's ownership of manufacturing assets and production process indicate how South African retailers have formed direct sourcing relationships or internalised local suppliers, even with those operationally struggling and close to complete closure.

Gereffi et al.'s (2005) typology proposes that the expansion and growth of supplier capabilities permitted governance structure to move from hierarchical and captive to a more complex relational value chain. TFG's investment in quick-response local manufacturing capacity for the last nine years has enabled the retailer to reduce its average lead time to produce a garment to just 42 days. In contrast, international supply chains typically average between 150 and 180 days. This illustrates an improvement in TFG's local supplier capabilities. Furthermore, it has been noted that Prestige Clothing has become SA's largest apparel manufacturer. Thus, contrary to Gereffi et al.'s (2005) proposition, TFG's hierarchical value chain is not characterised by low supplier capabilities. Rather, TFG integrated suppliers into their value chains not because they are incapable but because they are capable and strategic to retailers' overall business strategy⁴⁸.

Furthermore, the retailer has coordinated its production networks through monetary and non-monetary investments. These investments represent an increase in transaction costs due to the requirement for greater coordination of non-standard inputs and resources, which are time sensitive with complex information transfers. The high levels of explicit coordination by TFG further demonstrate the case of a hierarchical governance structure, which implies vertical integration and managerial control within the lead firm. TFG's governance approach has been driven by the need to develop and exchange tacit knowledge amongst its supply base, to manage inputs and outputs effectively and to control resources through a quick response approach. TFG's case study demonstrates that there is no single best way to organise value chains as outlined by Gereffi et al. (2005).

⁴⁸ TFG's strategic priority is to operate under a quick response model and meet the R-CTLF master plan localisation and employment targets, which requires the retailer to have greater oversight and coordination over production, hence the development of in-house manufacturing capabilities.

5.8 Overview of global vs South African apparel retailers sourcing models

Table 9 in Appendix H summarises the key factors determining global and SA retailers sourcing and business models. While in recent years some South African and global retailers have shifted to partnership or vertically integrated models, there is substantial evidence⁴⁹ that global retailers have typically applied transactional sourcing and supplier relationship strategies. The selection of suppliers is based on suppliers' fast fashion capabilities. Price, quality, flexibility, and lead times are central to the transactional sourcing and supplier relationship model. This model is characterized by a hyper competitive global supply chain structure where retailers exercise dominance over suppliers by driving down prices and imposing burdensome payment schedules which have contributed to supply chain power asymmetries, lowering wages, imposing health and safety concerns, and violating rights of freedom of association (Anner, 2018; Adams et al., 2018; Just Style, 2020). Additionally, this model is characterized by retailers' demanding suppliers with advanced and full house capabilities. However, despite these demands retailers have limited longer-term investment commitments to supplier upgrading.

5.9 Conclusion

The TFG and WHL case studies indicate that these retailers' have built trust, transparency, and commitment into relationships with their local suppliers, thus, reducing rather than increasing power asymmetry and creating mutual dependency. Thus, the governance determinants outlined by Humphrey & Schmitz, (2002); Ponte & Sturgeon, (2014); Sako, (1998) and Altenburg, (2006), contradict the perspective of power asymmetry suggested by Gereffi et al.'s (2005) typology, which argues that power asymmetry increases as one moves through supply chain governance types from market to hierarchy (as transaction complexity increases while supplier capability decreases).

Despite being quasi-hierarchical and hierarchical in nature, the relationship between South African retailers and their suppliers demonstrates that the retailers are not focused on squeezing their suppliers and driving down costs. However, exclusive relationships with suppliers have been established to build local capabilities, support job creation and sectoral industrial policy objectives, focused on rebuilding the sector and increasing localisation. Both WHL's and TFG's models provide the retailers with an opportunity to increase local sourcing, have greater oversight over their supply chain and increase margins. Additionally, these models have implications for the development of the textile and apparel manufacturing sector.

6. Conclusion and developmental implications

An exploration of South African apparel retailers' value chain governance, sourcing strategies, and supplier relationships was conducted to understand their impact on restructuring the South African apparel manufacturing sector. This study involved two main approaches:

⁴⁹ Recent empirical studies (Anner, 2020a; Anner, 2020b; Martinez-Pardo, 2020; Berg et al. 2020 and Msingi, 2020); Sarma, 2021) focusing on the impact of COVID -19 on the apparel manufacturing sector in developing countries illustrate the transactional relationship that retailers continue to have with suppliers have been made worse by the pandemic.

1. Analyzing the performance of South African textile and apparel manufacturing from 1995 to 2021 using secondary data, along with a broad assessment of South African retailers' profiles, sourcing strategies, and value chain configurations.
2. Conducting a qualitative case study of two retailers to examine their value chain governance, sourcing strategies, and configurations.

The broad assessment and case studies revealed that retailers' business models and governance structures are dynamic, evolving with industry, trade, and industrial policy developments. These strategies suggest the emergence of a new business model with the potential to increase reshoring, rebuild parts of the domestic textiles and apparel value chain, and develop more integrated regional value chains through nearshoring.

6.1 Developmental implications of retailers' value chain governance and configurations

The differences in retailers' sourcing strategies, value chain governance and configurations are vital for local textile and apparel suppliers and the sector's development. It is difficult to attribute certain developments to specific forms of value chain governance and configurations. However, some inferences on the developmental implications of retailers' sourcing strategies, value chain governance and configurations can be drawn from the case studies and the broader discussion. These are discussed below.

6.1.1 Supplier development and building competitiveness.

Localisation commitments encourage retailers to seek stronger relations with trusted and strategic local suppliers. This has implications for suppliers, such as improved contractual terms, longer-term volume commitments, closer collaboration on strategy and product development, greater knowledge transfer, and support programmes in skills development. Furthermore, this trend could improve relationships between buyers and suppliers and enable a better distribution of value and responsibilities. In addition, a shift towards greater transparency and accountability should enhance cooperation and more balanced relations. Additionally, one of the vital effects of localisation, regardless of the business model used, is the potential for new income opportunities for local suppliers, increased productivity and, consequently, profits and wages. However, the case studies suggest that vertical integration and value chain governance with strong lead firm interference may result in lead firms capturing more upstream and downstream profits.

Retailers' sourcing strategies and the type of buyer-supplier relationships identified in the case studies indicate that retailers are demanding greater product quality, efficient product flows, ethical labour and environmental practices, and other standards. Lead firms' pressure on suppliers to comply with standards and requirements allows local firms to learn how to provide full package production services, and the capability to interpret designs, make samples, source the needed inputs, monitor product quality, meet the retailers' price, and guarantee on-time delivery (as in the case of WHL suppliers). Additionally, retailers' increasing requirements have the potential to facilitate knowledge transfer, secure commitments, enhance

innovation, and improve overall value chain efficiency⁵⁰. In the partnership governance model, retailers often do not have superior competencies in their supplier's business; therefore, the type of support or knowledge transfer could be generic or related to aspects in which the retailer has greater competence.

Additionally, retailers may lack the technical skills to train or advise suppliers on new production techniques, designs, and more cost-effective operations. Lead firms may also lack an understanding of the benefits, risks, economic feasibility, and long-term advantages of investing in their suppliers. Partnership models require retailers to source directly from suppliers and manage suppliers through internal or third-party quality conventions. These are based on various measures beyond production, including health and safety and labour and environmental standards. Firms must meet the audit's requirements, which means suppliers are more likely to undergo social, environmental, and process upgrading. Social upgrading can be crucial to the livelihood strategies of the vulnerable. However, prioritising social considerations over industry competitiveness represents a potential trade-off between economic and social upgrading.

Many textile and apparel manufacturers have not invested in new equipment and production processes due to the limited growth of the sector and the inability to secure orders. Retailers, through partnership models, provide suppliers with longer term contracts which could incentivise suppliers to invest in upgrading production processes, product development and productivity-enhancing processes. Additionally, suppliers under rational value chains/ partnership models can produce a wide range of more specialised and complex clothing with higher fashion content. This translates into comparatively higher unit values and mark-ups for suppliers. Furthermore, retailers sourcing from SMEs have incentives to upgrade suppliers to obtain quality products⁵¹. A vertically integrated model allows suppliers to access cutting-edge technologies as lead firms typically invest in suppliers' product and process upgrading.

6.1.2 Investments and risk allocation

Some SA retailers have undertaken vertical integration through mergers and acquisitions, representing considerable domestic investment. Additionally, some SA retailers have invested in developing in-house design and manufacturing capabilities and have aligned production with demand through investments in digital technologies. These in-house capabilities and technological innovations allow the retailer to more efficiently allocate and monitor productive capacity utilisation in line with demand, thus avoiding undersupply or oversupply of products. However, outdated capital and equipment, unstable energy sources, and a lack of adequate managerial expertise and skills characterising the SA textile and apparel manufacturing sector makes owning manufacturing assets risky for retailers and requires further investment in technological innovations and skills development.

In partnership models, the risks for the lead firm result from the possibility of suppliers not aligning with retailers' quality, ethical sourcing, and environmental requirements. Retailers in this model spread the risk by sourcing from a diverse range of suppliers in terms of geographical spread and capabilities. In both models, retailers exercise a

⁵⁰ As indicated by the various supplier development interventions undertaken by WHL and TFG.

⁵¹ WHL demonstrated this by investing in small to medium-sized firms' product and process upgrading.

considerable degree of bargaining power which could result in risks passing to suppliers, particularly in a partnership model. Industrial policy and supplier development interventions can play a crucial role in ensuring that risk allocation in the value chain is balanced. This could be achieved through supplier and industry development programmes that increase complementary linkages across the value chain. Furthermore, government policies need to prioritise structural factors that encourage local sourcing and investment, such as the business environment, regulation, infrastructure, logistics and labour costs.

The limited availability of fabrics in the region⁵² and the underdeveloped textile industry are a significant constraint to the development of the sector and local sourcing. Historically, innovation in the textile sector drove industrialisation in East Asia due to fast technological changes in textile production. With the growing importance of more varied products, retailers' sales and performance will become more dependent on the speed of innovation and the development of a dynamic textile base. This is not only about identifying and meeting local needs but also about adapting R&D and design to fluctuating conditions. In this regard there is need for policy supporting and encouraging investment in innovation and R&D across the segments of the value chain and more importantly in textile production⁵³.

6.1.3 Expanding into African markets and the development of regional value chains.

South African retailers' localisation commitments, inward-focused industrial policies, and the protectionist stance of the R-CTFL Master Plan undermine the development of textile and apparel manufacturing in the region and the potential benefits from the AfCFTA; if such a policy is focused on increasing local sourcing by diverting sourcing from the region to sourcing domestically. Additionally, there is a growing understanding that South African retailers can not only view African markets as consumers of their products but also as suppliers, who may require support to develop certain capabilities. In this regard coordination is required amongst governments and industry actors to drive regional value chain development in Southern Africa. This requires coordination to develop textile capabilities and regional production networks (including clusters and industrial parks) to encourage regional sourcing.

6.2 Research contribution

This dissertation has contributed analytically and empirically to literature focused on the changing pattern of value chain governance in buyer-driven value chains. From an analytical context, this research has utilised a governance framework built primarily on the works of Gereffi et al. (2005) and Altenburg (2006) to analyse WHL and TFG's changing governance patterns. The analysis of WHL and TFG governance indicates that three core factors determine lead firms' governance

⁵² South Africa, Mauritius and Madagascar have developed various industrial capabilities in textiles and apparel, while Lesotho and Eswatini have limited textile production capabilities and rely heavily on imported fabrics from Asian countries.

⁵³ Whitfield & Triki, (2023) find that raw material for clothing will become manufactured fibres with a high technology content that requires licensing technology and rely on advancements in chemical technologies and bio-fabrication. These technologies will have spillover effects on other manufacturing sectors, resulting in something similar to the technological advances that led to the polymer revolution (creating a world of plastics). The authors argue that African countries should not miss this next technological shift linked to alternative fibre and textile technologies.

structures. Firstly, transaction costs including complexity of transition, ability to codify transitions, market transparency and search costs and uncertainty about market development. Secondly, buyers' and suppliers' concentration, including suppliers' dependence on buyers. Thirdly, the buyer-supplier relationship including relationship-specific investments, upgrading, and quality convention and coordination mechanisms, including institutional framework conditions.

The case study findings expand existing empirical knowledge as they indicate that, as per Morris et al.'s (2021) observation, South African retailers are undertaking a new lead firm-led business model. The case studies find that these business models can take varying forms depending on the retailer's overall business strategy, sourcing strategy, value chain governance, supplier relationship and supplier development interventions. The models can either take the form of a partnership model, as in the case of WHL or take on a vertically integrated business model as in the case of TFG⁵⁴. Each model provides different ways in which local textile and apparel manufacturers can be integrated into retailers' value chains.

Furthermore, this dissertation has evaluated how public governance, specifically trade and industrial policy implemented by the South African government from 1995-2019, has impacted South African retailers' sourcing strategies and the structure and development of the South African textile and apparel manufacturing sector. A finding of this research is that private governance and sourcing strategies cannot be isolated from public governance, particularly trade and industrial policy. The R-CTFL Master Plan indicates the importance of strategic industrial policy that considers the significance of lead firms as firstly, drivers of buyer-driven value chains especially in the context of SA where the textile and apparel manufacturing sector is predominantly domestically focused. Secondly, the Master Plan indicates the importance of industrial policy that creates an enabling environment for retailers to channel investments that can help build firm level capabilities across the value chain. Industrial policy and complementary supporting policies are still required that can better enable retailers to develop and link tangible (e.g., infrastructure) and intangible (e.g., innovation, design capabilities, long-term supplier partnerships) aspects of the value chain.

Unlike previous waves of thought about industrial policy, in the GVC framework, state policies are only one determinant of industrialisation. Lead firms' business and sourcing strategies in buyer-driven value chains should be seen as key drivers of the industrial policy measures required to develop value chains and the suppliers that operate in these value chains.

6.3 Study limitations and future research

Value chain governance considers the inter-firm relationships in value chains. By focusing on lead firms, this dissertation highlighted retailers' relationships with suppliers and has fallen short in investigating suppliers' relationships with retailers. Despite not being a central focus of this dissertation, supplier upgrading trajectories are an important aspect of value chain governance and are influenced by the retailer-supplier relationship. It is acknowledged that the one-sided

⁵⁴ WHL partnership model represents a network-style (rational) governance structure. WHL exercises power (to varying degrees) by coordinating production without direct suppliers' ownership. TFG's vertically integrated business model represents hierarchical governance structures and has resulted from TFG acquiring in-house design and manufacturing capabilities.

accounts of lead firms' strategies and the possible impacts on suppliers and the development of the textile and apparel sector lacks analytical power to explain fully the possible development and upgrading trajectories⁵⁵ suppliers can take due to participation in retailers value chain and supplier development initiatives.

Despite not directly engaging with suppliers, this limitation has been moderately addressed through triangulation. Multiple sources have been utilised, including interviews with representatives from industry associations and organisations that work with suppliers, as well as reviewing literature and studies dealing with suppliers' reactions to retailers' sourcing strategies and the relationship South African manufacturers have with retailers. Furthermore, annual financial reports, which demonstrate investments made in building local manufacturing capabilities have been reviewed.

Based on this limitation and other considerations, the following four areas warrant further investigation.

- **Supplier perspectives:** Future research should focus on suppliers' experiences and adaptations to retailer pressures, such as quality and environmental standards.
- **Impact of retailer models:** Comparative evaluations of different retailer business models and their contributions to supplier competitiveness and upgrading.
- **Long-term effects of the R-CTFL Master Plan:** Assessing the impact of the R-CTFL Master Plan on local production and reshoring trends over time.
- **Regional value chain development:** Exploring how retailers and policymakers navigate tensions between national industrial policies and regional integration, particularly under the AfCFTA.
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These future research areas will deepen the understanding of value chain dynamics and support the development of robust, competitive textile and apparel sectors in South Africa and the broader region.

⁵⁵ Choksy et al., (2022) notes there are diverse trajectories of upgrading paths observed, such as downgrading, backsliding, treadmilling and leapfrogging.

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8. Appendix

Appendix A: Interview details

Participants interviewed.

Organisation	Date of Interview	Name and designation
WHL Holdings Limited	05 November 2021	Mr Lawrence Pillay, Global Head of Sourcing, Quality & Innovation
National Clothing Retail Federation of South Africa	11 November 2021	Mr Michael Lawrence, Executive Director
The Foschini Group (TFG)	07 December 2021	Mr Sean Kirby, Senior Business Development Manager
B&M Analysts	01 November 2022	Courtney Barnes Head, Buyer Led Value Chains

Interview questions (semi-structured)

The interview is divided into two main sections: examining the retailer's value chain and supplier selection/footprint, and supply chain management. The following questions will guide the interview and discussion.

Value Chain and Sourcing Strategy

1. Can you provide an overview of your organization's textile and apparel sourcing strategy, highlighting the core drivers behind it?
2. Over the past 5-10 years, has your sourcing strategy focused on localizing sourcing, such as through a buy-local campaign or increasing the local/regional supplier base?
3. What factors have constrained or challenged your ability to source from South Africa? Do you foresee these constraints changing in the next 5-10 years, and what factors would drive that change?
4. What internal or external factors have positively contributed to your ability to source from South Africa?
5. How have national industrial and trade policies positively or negatively impacted your buying and sourcing strategy?
6. Have you established any joint ventures with textile or other input suppliers and apparel manufacturers? If so, why, and how has this impacted your sourcing strategy?
7. Do you believe your organization and other South African retailers are well-suited to fostering and contributing to the development of the South African textile and apparel manufacturing sector? If so, in what ways, and if not, why?

Supplier Footprint and Supply Chain Management

1. Does your retailer operate a centralized or decentralized sourcing/procurement/purchasing system?
2. Which aspects of the sourcing/procurement functions are outsourced, and why?
3. If sourcing/procurement functions are outsourced, does your retailer have visibility or relationships with second- and third-tier suppliers? If so, how is this visibility and relationship achieved, and why is it important?
4. How does your retailer identify, develop, and retain suppliers based in South Africa?
5. In your opinion, what firm-level, national, and regional private/public sector interventions are needed to establish and support the development of South African textile and apparel manufacturers?

Appendix B: South Africa retailers' profiles

Table 4: South Africa retailers' profiles

Retail group	Main Features and performance
Pepkor Holdings Limited	• Headquarters: Cape Town, operational for 106 years in South Africa.

Retail group	Main Features and performance
	- Segments: Clothing, footwear, and homeware (CFH) brands including Pep, Pep Africa, Ackermans, Refinery, Dunns, John Craig, S.P.C.C, CODE. - Market: Lower- to middle-income. - Stores: 5,500 in South Africa and Sub-Saharan Africa. - FY 2022 Revenue: R81.4 billion, with CFH contributing most of the revenue and profit.
The Foschini Group (TFG)	- Headquarters: Cape Town, operational for 98 years in South Africa. - Segments: TFG Africa, TFG London, TFG Australia. TFG Africa includes Exact, The FIX, Foschini, Jet, Markham, Sport divisions. - Market: Mid-to-upper income. - Stores: 4,085 outlets in 32 African countries, plus online. - FY 2022 Revenue: R43.4 billion, with TFG Africa contributing most of the revenue and profit
WHL Holdings Limited (WHL)	- Headquarters: Cape Town, operational for 91 years in South Africa. - Ownership: WHL SA, David Jones, Country Road Group. - Stores: 1,386 globally. - Market: Mid-to-upper income. - Employees: 32,019 under WHL SA Fashion, Beauty, and Home (FBH). - FY 2022 Revenue: R87 billion, with WHL SA FBH contributing 15.6% to group turnover.
Mr Price Group Limited	- Headquarters: Durban, operational for 37 years in South Africa. - Segments: Mr Price, Mr Price Sports, Milady's, Power Fashion, Studio 88. - Market: Lower- to middle-income. - Stores: 1,175 in South Africa and Sub-Saharan Africa, plus online. - FY 2022 Revenue: R28.1 billion.
Truworths International	- Headquarters: Cape Town, operational for 105 years in South Africa. - Ownership: Truworths Ltd (South Africa), Office Holdings Ltd (UK). - Market: Middle to upper income. - Stores: 728 in South Africa, 49 in the rest of Africa. - Brands: Daniel Hechter, Ginger Mary, Glamour, LTD, Earthaddict, Uzzi, Identity, YDE. - FY 2022 Revenue: R14 billion.

Source: author, compiled from retailers 2021/22 annual financial statements and retailers' websites

Appendix C: Retailers sourcing strategies and strategic priority areas

Table 5: Retailers sourcing strategies and strategic priority areas

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
Pepkor Holdings Limited	Localisation and Sourcing: Signatory to the R-CTFL Master Plan, investing R1.9 billion to support local sourcing. Focuses on responsible sourcing and supply chain management to align with corporate sustainability strategies. Supplier Relationships: Developed a central supplier portal for policy and contract management. Aligns supplier development programs with B-BBEE requirements, focusing on employment, manufacturing, and logistics. Sustainability: Classified in the low-exposure category for climate change by the FTSE/JSE Responsible Investment Index. Plans to enhance environmental impact measurement and management.
The Foschini Group (TFG)	Commitment to localisation: Signatory to the R-CTFL Master Plan, planning to build 10 manufacturing units in 2022. Focus on quick response models and replenishment based on trading patterns. Supplier Development, compliance, and development of vertical integrated value chain: Expanding quick response manufacturing and vertical integration. Requires suppliers to comply with UNGC standards and ethical codes of conduct. Investment in digitalization: Investing in digital channels and omnichannel retailing. Developed myTFGworld, an online marketplace consolidating TFG Africa brands. Sustainability: Supports UN Sustainable Development Goals 8 and 12. Focuses on developing a sustainability-driven business model and enhancing its reputation through partnerships.

Retail group	Strategic responses in relation to trends impacting apparel sourcing & supply chain management
WHL Holdings Limited (WHL)	• Sustainability and Traceability: Aims for a fully transparent and ethical supply chain by 2025. Scored above average in the 2022 Fashion Transparency Index. • Localisation and ethical sourcing: Signatory to the R-CTFL Master Plan, developing a plan for increased local production. Focuses on ethical sourcing through supplier codes of conduct. • Supplier Development: Created 393 new jobs through supplier development programs and contributed R5.9 billion to black-owned suppliers' revenues. • Sustainability and traceability: Aims for net zero carbon emissions by 2040 and a 50% reduction by 2030. Implementing a detox strategy to eliminate harmful chemicals from manufacturing.
Mr Price Group Limited	• Localisation and Sourcing: Signatory to the R-CTFL Master Plan, developing an action plan for increased local production. Monitors suppliers' alignment with responsible sourcing frameworks. • Supplier Relationships: Maintains strong buying power through high volumes and strategic partnerships. Implements a strict supplier onboarding process. • Digitalization and Innovation: Invests in robotic process automation and AI to enhance decision-making. Allocated 16.5% of CAPEX to technology and IT infrastructure. • Sustainability: Committed to the UNGC Principles and uses various sustainability frameworks for disclosure. Increased investment in natural capital and sustainable cotton initiatives.
Truworths International	• Localisation and Sourcing: Signatory to the R-CTFL Master Plan, focusing on local production. Reviews international supplier base and enhances local production capacity. • Supplier Development: Acquired Barrie Cline and Bonwit to enhance design capabilities. Established a Supplier Development Fund with R35 million for black-empowered businesses. • Digitalization: Enhances omnichannel capabilities and online platforms for a better digital experience. • Sustainability: Aligns ESG practices with UN Sustainable Development Goals. Partners with organizations for recycling and reusing materials. Implements a restricted substance list for chemical content in products.

Source: author. Compiled from retailers' websites and 2021/22 annual financial reports – include ref for annual financials.

Appendix D: Impact of increased Chinese imports on the SA textile and apparel manufacturing sectors

Box 1: Impact of increased Chinese imports on the SA textile and apparel manufacturing sectors

Historically, textile firms were vertically integrated, handling spinning, weaving, dyeing, and finishing. In response to global competition, many firms adjusted operations in two primary ways: closing spinning or weaving operations to focus on one part of the chain (Roberts and Thoburn, 2001) or reducing capacity. From July 2007 to June 2010, 183 factories closed or were liquidated, with the highest number in KwaZulu-Natal (SACTWU, 2011). Job losses were significant: 45% in KwaZulu-Natal, 29% in the Western Cape, 9% in the Free State, and 8% in the Eastern Cape.

This de-verticalization led to fewer product varieties and job losses. Larger apparel manufacturers outsourced the labor-intensive manufacturing function, pivoting to order fulfillment, logistics, and delivery coordination for domestic retailers (van der Westhuizen, 2006). Design houses outsourced to small Cut, Make, and Trim (CMT) factories, which, due to under-capitalization, engaged in price wars and lacked the investment needed for long-term competitiveness. Some large manufacturers continued domestic production, supplemented with imports from Asia (van der Westhuizen, 2006). Firms that invested in new machinery focused on niche products, competing on quality, design, and delivery rather than price.

These adjustments aimed to capture a larger domestic market share. However, this effort was undermined by the restructuring of the domestic retail value chain, with South African retailers increasing their import capacity and sourcing significantly from overseas and regional producers (Morris & Barnes, 2014).

Appendix E: Industrial policy revision and co-operation

Box 3: Industrial policy revision and co-operation

During the 2007/8 financial year, the Department of Trade and Industry (DTI) undertook key measures to support the textile and apparel sector, including a redesigned support scheme to recapture domestic market share, reviewing input costs, and promoting productivity and skills development. Under the 2010/11 – 2012/13 Industrial Policy Action Plan (IPAP), the Clothing and Textiles Competitiveness Programme (CTCP) was introduced, replacing the Duty Credit Certificate Scheme (DCCS) (Wood & Bischoff, 2018). The CTCP provided manufacturers with value-added production incentives redeemable through investments in competitiveness and upgrading activities, with approximately R7.6 billion spent and 5,699 jobs created between 2011 and 2018 (National Treasury, 2020).

The CTCP included the Competitiveness Improvement Programme (CIP) and the Production Incentive Programme (PIP). The CIP aimed to increase the competitiveness of manufacturing industries by fostering clusters of globally competitive companies (Zalk, 2014), while the PIP focused on upgrading knowledge and technical processes. A total of 2,392 PIP applications were approved, accounting for 97.2% of total CTCP applications (National Treasury, 2020). In 2021, the CTCP was replaced by the Clothing, Textiles, Footwear, and Leather Growth Programme (CTFLGP), part of the R-CTFL masterplan covering 2020 to 2030 (the dtic, 2021).

Cluster Cooperation and Business Model Changes

The CTCP established collaborative retail cluster programs, with textile and apparel manufacturers joining the Cape Town or KZN Clothing and Textile Clusters. These not-for-profit clusters, established in 2005, aim to enhance local industry competitiveness through benchmarking, world-class manufacturing, value chain alignment, skills development, competitiveness improvement, and quick response initiatives (KZNCTC, 2022; CCTC, 2022).

Retailers have participated in these clusters, providing financial and practical support. Despite criticism from some, such as a SACTWU representative in 2006, who described retailer participation as minimal and largely symbolic (Ascoly, 2006), industry actors generally view the clusters positively. Initial reluctance from firms operating in survival mode gave way to greater participation as firms and retailers committed to improving competitiveness. Professor Justin Barnes noted in 2014 that major South African retailers were adopting quick response supply chain models and collaborating with KZN CTC members to meet international standards (eThekweni Economic Development and Investment Promotion Unit, 2014).

These efforts aimed to minimize inventories and increase returns by turning over stock multiple times a year, inspired by the Inditex/Zara model of regional sourcing. Retailers' involvement in clusters has helped raise the competitiveness of local clothing manufacturers and align supply chains, leveraging government funding and coordinating sector-specific industrial policy (Morris & Barnes, 2014).

Table 6: Strength, Weakness, Opportunity, and Threats (SWOT) analysis

Strengths	Weakness
- Sophisticated retail sector with established players - Strategic R-CTFL Master Plan for industry growth - Quick response retailing - Availability of labor - Industry support through interventions and institutions like the Value Chain Alignment (VCA) programs, fostering synergies between suppliers and retailers - Strong design capabilities within the industry - Large and potentially growing local market	- Limited local supply chain capabilities and application of world-class manufacturing standards - Weak human capital and skills, including management and technical skills - Labor market issues - High fabric costs, quality concerns, and delivery issues - Prevalence of illegal second-hand clothing and counterfeit goods - Outdated production processes and low investment in modern equipment - Inefficient ports and high shipping costs - Lack of sectoral cooperation between clothing and textiles firms - Ineffective customs control - High concentration of domestic retailers with a propensity to import
Opportunity	Threats
- SA R-CTFL Master Plan and commitments undertaken by SA Strategic development through the SA R-CTFL Master Plan and retailer commitments - Improved government policies and interventions - Need for cost reduction to enhance competitiveness, achieved through efficiency improvements, quick response capability, logistics, and stronger supplier relationships - Potential for fabric duty removal or reduction - Import substitution potential due to high duties on imported fabrics and clothing - Forecasted 25% increase in household spending on clothing and footwear by 2024 - Investment opportunities in new capital, textile production, and fabric manufacturing - Application of world-class manufacturing standards and local supply chain development - Clustering of firms to reduce costs and improve efficiencies - Investments in skills development and infrastructure to reduce transport costs - Export growth through AfCFTA and integration into global value chains - Alignment of skills development with value chain requirements	- Fragmented industry and deteriorating local supply chain - High fabric costs and unavailability - Declining development capabilities in textiles and clothing - Insufficient investment in new capital equipment and processes - Inadequate response to operational weaknesses, leading to competitiveness gaps - Aging workforce, especially in management and technical roles - Inconsistent production cycles due to seasonal demand fluctuations - Production shift to neighboring countries with lower wage costs - Vulnerability of SA textile mills to Chinese imports - Ineffective customs controls allowing illegal imports - Dominance of international retailers in the SA market - Economic stagnation, pressure on disposable income, and retailer margins - Exchange rate volatility - Low funding from commercial banks for the industry - IDC as the sole funder for distressed businesses - Lack of financial skills, particularly in costing - History of inappropriate government policies and interventions

Source: composed from the evaluation of SA retailers sourcing strategies and performance of apparel manufacturing sector and additional sources⁵⁶

Appendix G: WHL and TFG Governance types

⁵⁶ Flanders Investment & Trade (2016). Meer, & Skwambane, (2018), Invest SA & DTIC, (2020), Textile and apparel industry forum discussion hosted by the Nelson Mandela School of Public Governance (2022)

Table 7: WHL Governance type: shifting from captive to relational governance pattern

WHL Determinants of chain governance	Key Factors determining WHL's supplier relationship, governance, and sourcing and degree of determinants
Transaction costs (Complexity of transition, ability to codify transitions and capabilities in supply base)	• Complexity of transition: <i>High</i> • Ability to codify transitions: <i>shifts from low- High</i> • Market transparency and search costs: <i>remain medium-high</i> • Uncertainty about market development: <i>shift from medium - high to Low -medium</i>
Buyers' and suppliers' concentration and suppliers' dependence on buyers	• Capabilities in supply base: <i>shifts from Low- High</i> • Buyers' concentration: <i>shifts high to medium (concentrated retailer buying and bargaining power)</i> • Suppliers' concentration: <i>shifts from high - Low (shift toward direct small network of local suppliers)</i>
Buyer-supplier relationship (Relationship-specific investments and upgrading)	• Relationship: <i>lead firm exercises power through coordination of production vis-a-vis suppliers without direct ownership of the firm</i> • Investment by retailer: <i>shift from medium- high (driven by retailer's societal, geographical, and territorial embeddedness & public governance (sectoral industrial policy))</i> • Exit options: <i>shift from being Low (lock-in) for suppliers and lead-firm having high exit options to both supplier and lead-firm having few exits options</i> • Contracting: <i>shift from arm's length/short order cycles to long term and direct relationship</i>
Quality convention, institutional framework conditions and coordination mechanism	• Quality convention: <i>Industrial/Domestic (manged through WHL GBJ principles, retailer's societal, geographical, and territorial embeddedness)</i> • Degree of explicit coordination & power asymmetry <i>shifts from high to low</i>

Source: Authors based on case study findings and elaboration adapted from Gereffi et al. (2005, p.84-90) which outlines the value chain typology. Altenburg (2006, p. 503-506) outlines eleven factors which he argues provide a broader view of the determinants of value chain governance.

Table 8: TFG Governance type: shift from captive (quasi-hierarchical) to hierarchical governance structures

WHL Determinants of chain governance	Key Factors determining WHL's supplier relationship, governance, and sourcing and degree of determinants
Transaction costs (Complexity of transition, ability to codify transitions and capabilities in supply base)	• Complexity of transition: <i>High</i> • Ability to codify transitions: <i>shifts from high -low</i> • Market transparency and search costs <i>shifts from medium-high to low to medium</i> • Uncertainty about market development: <i>shift from medium - high to Low -medium</i>
Buyers' and suppliers' concentration and suppliers' dependence on buyers	• Buyers' concentration: <i>high</i> • Suppliers' concentration: <i>high</i> • Capabilities in supply base <i>low- high</i>
Buyer-supplier relationship (Relationship-specific investments and upgrading)	• Relationship: <i>shifts from lead firm exercising power through coordination of production without direct ownership of supplier to lead firm exercises power through direct ownership of production process</i> • Investment by retailer: <i>shift from medium- high (driven by retailer's societal, geographical, and territorial embeddedness & public governance/sectoral industrial policy)</i> • Exit options: <i>Both lead-firm and suppliers have few exits options</i> • Contracting: <i>in-house manufacturing or long term and direct contracting</i>
Quality convention, institutional framework	• Quality convention: <i>Industrial/Domestic</i> • Degree of explicit coordination & power asymmetry: <i>High</i>

WHL Determinants of chain governance	Key Factors determining WHL's supplier relationship, governance, and sourcing and degree of determinants
conditions and coordination mechanism	

Source: Author based on case study findings and elaboration adapted from Gereffi et al. (2005, p.84-90) which outlines the value chain typology. Altenburg (2006, p. 503-506) outlines eleven factors which he argues provide a broader view of the determinants of value chain governance.

Appendix H: Comparison of global and South Africa retailers sourcing and supplier relationship strategies

Table 9: Comparison of global and South Africa retailers sourcing and supplier relationship strategies

Key factors determining retailers sourcing and supplier relationship		Typical transactional sourcing and supplier relationship (SA & global retailers)	Partnership sourcing and supplier relationship model with local supply base (WHL)	Vertically Integrated model with local supply base (TFG)
Retailer core competencies	Outsourcing or own production house	- Ranges from intangible value-adding activities to tangible production processes. - Globally larger retailers outsource production activities to its suppliers.	- Intangible value-adding activities: R&D, design, logistics and distribution, marketing, and retailing. - Outsources its production activities to its suppliers.	- Ranges from intangible value-adding activities to in-house manufacturing - Outsources and owns production activities
Retailers' Sourcing	Core sourcing and suppliers' selection strategy drivers	- Price, - Quality, - Flexibility and lead times - Suppliers' ability to provide advanced full house services	- Supplier alignment with GBJ principles - Ethical sourcing - Supply chain transparency - Consolidating supply base - Local and near sourcing	- Flexibility and quick response, - Increased localisation - In house design and manufacturing - Social and environmental sustainability - Diminishing logistics costs and lost sales.
	Sourcing practices	Ranges from arm's length sourcing via intermediaries to direct sourcing	Direct sourcing	Direct sourcing and integrating local suppliers in vertically integrated value chain
	Retailers supply chain configuration	Ranges from de-vertically to vertically integrated supply chain	De-vertically integrated supply chain	Vertically integrated supply chain
	Sourcing time horizon	Ranges from short to long term business transactions with suppliers	Longer term orders and business relationship	Longer term orders and business relationship
Retailers' supply base	Supply base locations/chain	- Globally fragmented mainly in low-cost supply markets - Larger retailers seeking supply bases closer to markets and with vertically integrated supply chain	- Global fragmented but diversifying supply base and near shoring - Consolidated ecosystem of preferred and approved local and global suppliers	- Global fragmented but diversifying supply chain through near shoring and localisation - Developing a vertically integrated supply chain
	Interaction with suppliers	Little communication beyond the contractual terms	Increased communication and	frequent communication and presence at supplier factories

Key factors determining retailers sourcing and supplier relationship		Typical transactional sourcing and supplier relationship (SA & global retailers)	Partnership sourcing and supplier relationship model with local supply base (WHL)	Vertically Integrated model with local supply base (TFG)
Retailer – supplier relationship		Limited strategic plans with suppliers	- presence at supplier factories - Joint planning and order forecasting to improve planning for suppliers	Long term joint planning and order forecasting to improve planning for suppliers
	Relationship-specific investments and upgrading	- Limited longer-term investment commitments to supplier upgrading. - If upgrade take place its focused-on product and process upgrading	- Enterprise and supplier development programme - imports replacement programme - Supplier-to-supplier mentorship programme - Social, product and process upgrading	- Supplier development strategy focused on building quick response and world class manufacturing capabilities - Supply chain management and quality assurance - Product and process upgrading
Retailers' governance		Market – modular	Captive – relational	Captive – vertically integrated

Source: Author adaptation from WHL and TFG case study and Chapter 3 discussion