The Capacity to Manage Index

Report 3: The Australian Automotive Industry

IPA WORK REFORM UNIT

INTRODUCTION

The Institute of Public Affairs launched its Capacity to Manage Index in December 2002. The first two industries studied were commercial construction and food manufacturing and this, the third study, looks at the Australian car manufacturing industry.

The Capacity to Manage Index undertakes an analysis of Australian enterprise agreements and looks at them from the perspective of their impact on the capacity of managers to manage their businesses. The assessment process involves studying each clause in an enterprise agreement to see if the clause reduces, enhances or is neutral in relation management capacity. Appropriate industry award standards are taken as the 'zero' mark, and clauses receive a negative, positive or neutral rating.

[Full details of methodology, the assessment 'grid' we have developed and all assessments undertaken are available from the IPA on a subscription basis. Contact the IPA for details and go to www.ipa.org.au 'work reform unit' for more information.]

THE AUSTRALIAN CAR MANUFACTURING INDUSTRY

The Australian car manufacturing industry has gone through substantial change over the last few decades—precipitated by reductions in the levels of protection. Despite the many claims about its imminent demise, it remains a large, viable industry, with turnover of around $17 billion a year and a workforce of 54,000 people.

The industry has survived through a process of reform designed to integrate it into the world auto industry. Although this integration has been achieved, it now faces the very real challenge of remaining viable.

The Australian industry is structured very much on global lines. At its apex are four global car firms: Holden, Ford, Mitsubishi and Toyota. Below these firms are around 200 parts manufacturers specializing in particular products that they supply to one or several of the big four. Some parts manufacturers are relatively small privately owned companies. Others are subsidiaries of large multinationals, for example, the German giant, Bosch, which manufacturers the anti-lock breaking systems (ABS) for Australian-manufactured cars. Many of the supply chain manufacturers also export product and are not totally dependent on the big four as customers.

Domestic assembly, like all car manufacturers worldwide, operates on tight 'just in time' delivery schedules, where product is manufactured and delivered almost immediately. The process results in low tolerance of error, inventories are minimal, margins are extremely tight and delays can quickly cascade into industry-wide shutdowns.

The Australian industry has specialized in the manufacture of a single type of vehicle—the large fleet car—and competes with offshore operations manufacturing often identical vehicles. Thus, the local industry is benchmarked directly against offshore operations. Adding to this demanding commercial environment is the growing excess capacity in the industry. Worldwide excess capacity is estimated to be around 25 per cent and new factories currently under construction in China, USA and elsewhere are adding to this. Ford has responded by closing five plants in Europe and is seeking to close five plants in the USA. In this environment, no sentiment is shown to those who don't achieve constant improvement. Indeed, Ford international is reportedly on the verge of bankruptcy because of its failure to remain competitive. Nissan, once a Japanese powerhouse, was recently bailed out and brought back from the brink of collapse by Renault.

The local industry is also facing a much more hostile exchange-rate environment. The Australian dollar has risen over 30 per cent against the US dollar over the last 18 months. Many pundits are forecasting further appreciation of the Aussie dollar, which would further undermine the industry's international competitiveness.

Although the industry has come a long way in terms of labour productivity and industrial relations, a recent review undertaken by the Productivity Commission[1] concluded that: 'Recent progress notwithstanding, there remains considerable scope for improvement in workplace arrangements in general and industrial relations in particular'. It went on to cite on-going problems such as: workplace inflexibilities, demarcation disputes,

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Overall Ratings, Automobile Industry

Company Name	Party to agreement Union/other	Year applies	Rating
ACL Bearing Company	AMWU, CEPU, AWU, ASU	01-03	-17
ACL Gasket Company	AMWU, NUW	01-03	-10
Afco Automotive Foam	NUW	01-04	-11
Air International Interiors SA	AMWU	01-04	-13
Air International Pty Ltd –Vic	NUW AWU	02-04	-11
Ajax Fasteners	AWU	00-03	-1
Aunde Australia	No Union	01-03	-3
Australian Auto Air	AMWU	01-03	-11
Australian Arrow	NUW	02-04	-12
Australian Timken Pty Ltd	AMWU	00-03	-22
Autoliv Australia Pty Ltd	NUW AMWU	00-03	-4
Bendix Mintex Pty Ltd	AMWU, CEPU	00-03	-10
Berklee	No union	02-05	-1
Bosch Hydraulic	AMWU	00-03	-8
Bridgestone Tg Aust Pty Ltd	ALHMWU, AMWU, CEPU, NUW	01-03	-14
BTR Auto Drivetrain Systems	AMWU	01-04	-14
Castalloy	AWU	01-04	-11
DENSO International Australia P/L	AMWU	00-03	-12
Exide Technologies Automotive	AWU	02-04	-26
Flexdrive Cables Australia Ltd	AMWU, CEPU	00-03	-14
Ford Motor company	CEPU, AMWU, ASU	00-03	-11
GUD	AMWU	00-03	-7
Hayman Reese Pty Ltd	AMWU	00-03	-5
Hella Australia Pty Ltd	AMWU, AWU, TWU, ASU, NUW	00-03	-13
Hendersons Industries	AMWU	00-03	-1
Holden Aust Ltd	AMWU, CEPU, AWU, CFMEU, NUW, ASU, APESA	01-04	-21
Howe & Co Pty Ltd	ALHMWU	01-03	-3
Kenworth Trucks	AMWU	01-03	0
Mark IV Automotive	AMWU	01-03	-2
Mett Die Casting Pty Ltd	No union	02-05	-3
Mitsubishi	AMWU, CEPU, ASU, AWU	01-04	-11
Monroe Australia Pty Ltd	AMWU	02-05	-9
MTM Pty Ltd	NUW	02-05	2
Nissan	AMWU, ASU	02-05	-17
NORMA PACIFIC Pty Ltd	AMWU	01-03	-21
Nylex	NUW	02-04	-11
PBR Australia Pty Ltd	AMWU, CEPU, NUW	00-03	-6
Plexicor	NUW	00-03	-8
Preslite	AMWU	00-03	-15
QTB Automotive	No union	02-04	1
Siemans VDO AUSTRALIA PTY.LTD.	AWU	02-03	-17
Spicer Axle Australia	AWU, NUW, CFMEU, CEPU, ASU	01-04	-4
Suspension Components Pty Ltd	AMWU	01-02	-9
Toyo Tyres	NUW	02-04	-6
Toyota main	AMWU	02-05	-28
Trico Products PTY LTD	AMWU	00-03	-7
Viscount Plastics Pty Ltd	NUW	02-04	0
Average score			**-9.7**

high levels of stoppages and lost time. Indeed, the Commission found that 'In 2001, working days lost in the automotive industry were almost six times higher than the all industry average'. One vehicle producer told the Commission that the 'workplace and industrial relations climate has been the major point of contentions in its recent discussions with the parent company about proposed new investments in Australia'. Geoff Polites, CEO of Ford Australia, stated that 'head office had questioned how things were going in strike-land'.

While levels of protection have declined sharply over the last few decades, the industry remains heavily supported by tariffs and subsidies to the tune of $1 billion per year, or $2,800 per car. The subsidy programme was recently reviewed and renewed—albeit at a reducing rate. Because of its concerns with the industrial relations climate in the industry, the Federal Government considered tying assistance to progress in IR reform. Although it chose not to pursue this policy, it has made it clear that it expects the industry to pick up its game in exchange for the taxpayers' huge investment. This is particularly relevant given that most Enterprise Bargain Agreements are up for renegotiation during 2003.

Enter the IPA's Capacity to Manage Index. The Index gives a detailed, operation-by-operation assessment of the workplace relations in the industry. It establishes a benchmark for assessing whether new EBAs add to or subtract from the industry's competitiveness. It also gives the Government an objective measurement of whether the industry is doing the right thing by the community and the taxpayers, and ensuring an arrangement which yields a competitive, flexible and focused workplace.

WHO IS IN THE DRIVING SEAT?

Of the 47 enterprise agreements studied (representing one quarter of the industry) only four agreements allowed for any increased management capacity. Twenty had a mild decrease in capacity (-1 to -10), seventeen had a significant decrease in capacity (-11 to -20) which included Ford and Mitsubishi, and six demonstrated a major decrease, including Holden and Toyota. With an overall ranking of -28, Toyota scored negatives on almost all relevant clauses.

Some 80 per cent of enterprise agreements significantly restricted or eliminated the capacity of firms to use other than full-time, collectively organized permanent employees. These included prohibitions on the use of casuals, labour hire, contractors or Australian Workplace Agreements.

'Consultative' committee structures advanced well beyond consultation in more than one-third of agreements, thereby removing decision-making capacity from management and placing it in the hands of a complex committee process.

Decisions over critical production processes—particularly changes to production requirements, rostering, occupational health and safety and other items—affected some one-third of companies. Some of the biggest names in the industry—Ford, Holden, Bridgestone, Mitsubishi and Toyota—were particularly affected in these areas.

Toyota warrants special study because it achieved negative ratings on a wide range of important issues which impact on what appear to be critical areas of its operation. Training, safety and job allocation are subject to consultative committee control. Casuals are allowed only in limited circumstances. Use of labour hire workers is only allowed with union approval. Contractors can only be used in trade areas and only for limited periods. Manning levels are controlled by a committee and changes require agreement from the union. Changes to production organization and the introduction of new technology require union approval.

One possible interpretation of the Toyota agreement suggests that an ossification of production process could set in, threatening the ability of the company to respond to changing circumstances. Of course, relationships with the unions and employees on the committees might compensate for this, but the Capacity to Manage Index cannot assess actual management outcomes.

Overall, the car industry would seem to have a problem with a reduced capacity to manage—particularly given the critical need of the industry to perpetually and rapidly respond to changing circumstances, an unpredictable exchange rate and the demands for constant improvement. There are some manufacturers whose reduced capacity to manage is arguably marginal and a few who have achieved improvements. Of note, however, is the fact that none of the big four fit into either of these last two categories.

This Capacity to Manage study looks at the car industry enterprise agreements that are currently undergoing renegotiation. When this round of agreements is settled some time in 2004, the IPA will revisit the agreements to see if any positive or negative shift has occurred in the capacity of the Australian car industry to manage its operation.

NOTE

1 Productivity Commission, 'Review of Automotive Assistance', Report No. 25, 30 August 2002, pages 49–55.

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