# Business Development Services (A)<sup>1</sup>

# Cape Town, South Africa

### CASE A. DIVERSITY ISSUES IN THE NEW SOUTH

### On the Road to Visit the Provinces

t was seven o'clock in the evening, and the team had been on the road since six that morning. They were all tired after having traveled approximately 800 kilometers across the semi-arid land of South Africa. Along the way, they had stopped to conduct three site visits at organizations that had applied to become Local Business Service Centers (LBSC), small business development centers sponsored by the government to spur entrepreneurship among the nonwhite populations of South Africa.

The five travelers were a diverse bunch. Nicole, a white consultant hired by the Ministry of Trade and Industry of South Africa, was brought from the United States to assist with the startup of the first LBSCs in South Africa. Joe was a Cape colored (a South African classification for people of mixed race, either black and white or Indian) from the Western Cape and manager of the LBSC program. Rumi, a Sotho from the Free State Province, was recommended for the group by the Provincial Ministry of Economic Affairs. Mbulelo, a Xhosa from the Eastern Cape, ran his own consulting business in Port Elizabeth. And John, a Cape colored man from the Western Cape, was a politician in the small town of Ceres. Between them they spoke six different languages fluently and were from three different racial backgrounds (Caucasian, South Asian and Negro). Nicole was the only female of the group and the only white member.

Together they made up one of the two national accreditation teams whose job was to evaluate and assess the



Mbulelo, Rumi, John, Nicole, and Joe outside of the Virginia Gold Mine, Virginia, Free State Province



for travel to a site visit in Welkom, Free State Province

John waiting in the minivan



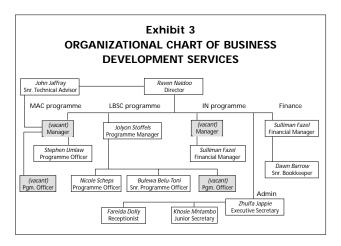




applicants for Local Business Service Centers and make decisions as to which applicants qualified to be LBSCs.

As they zipped through the beautiful countryside of the North-West and Free State Provinces in their minivan, Nicole was reminded of the Western part of the United States. It was dry and deserted for the most part and her mind was far from the task assigned. The horizon ran as far as the eye could see, and the sun was setting. It was one of the most beautiful sights Nicole had ever seen. Every once in a while, Nicole glanced at John driving, Mbulelo sleeping next to him, Rumi paging through the novel that Nicole had just finished and Joe talking to his wife on his cellular phone. In the short time Nicole had known these men, she had developed an enormous amount of respect for them and the task they were sent to do. She reflected on all the blood and the tears that had been shed on this land and the intense political pressures both domestic and interna-





tional that ultimately led her to be there on this glorious evening in November 1995.

Finally they reached the small mining town of Welkom in the Afrikaner region of the country. They were all relieved and eager to escape to their hotel rooms. Rumi got out to check them into the hotel. When he returned to the van, he told them the hotel apparently did not have their reservation. A collective groan could be heard from inside the minivan. The others asked Nicole to go see what happened. She followed Rumi into the lobby and walked up to the two smiling white hotel receptionists, and—sure enough—they found their reservation. The mixup could have been a simple mistake. But in South Africa, race issues were at the forefront of everyone's mind, and Joe lashed out in response to this treatment. That moment was their first—but certainly not their last—tense racial encounter.

Nicole realized that the accreditation of the country's LBSCs was not going to be an easy task. It posed significant challenges to both the accrediting team and Business Development Services, the nonprofit organization set up to oversee the centers.

# **Developing Small Business in South Africa**

The Department of Trade and Industry (DTI) of South Africa had recently embarked on a program whose goal was to integrate Small, Micro and Medium-sized Enterprises (SMMEs) into the heart of economic activity in South Africa. Through a White Paper on the development of a National Strategy for the Development and Promotion of Small Business in South Africa, and the subsequent President's Conference on Small Business held in Durban in April 1995, the country crafted a strategy for promoting small business throughout South Africa through the creation of an enabling and supportive network of advisory services. In particular, both the White Paper and the Presidential SMME conference stressed the urgent need for "all would-be and

existing entrepreneurs to have easy access to high quality business support services." Such mechanisms, they emphasized, had to support the following two SMME market segments in particular:

- Viable micro and small enterprises, based on assumptions of sustainability and potential growth, and
- Small (often disadvantaged) manufacturing enterprises that had aspirations and potential for growth but lacked technological and manufacturing expertise.

To meet this need, Business Development Services (BuDS) was created as a nonprofit organization in April 1995, on the understanding that providing access to high quality business support was a key requirement in South Africa's program of economic development.

In meeting its mission, BuDS, through its Cape Town office, launched three programs:

- (1) Establishing a network of accredited Local Business Service Centers (LBSCs) whose aim was to respond to the needs of local viable micro and small businesses. Accredited LBSCs would provide the first tier of generic services to SMMEs. Such services included business planning, business information, management advice and counseling, aftercare and networking to other business support services. In addition, the accredited LBSCs were expected to develop other projects and services in response to local needs. In this sense, they were to launch local enterprise partnerships combining the power of local and provincial government with the efforts of business, professional and community organizations, all in support of SMMEs.
- (2) Developing a complementary network of Manufacturing Advisory Centers (MACs) to service the needs of small manufacturing enterprises. These centers were to offer sectorspecific assistance to small manufacturing firms and enable creation of manufacturing firms in disadvantaged communities.
- (3) Building the personnel, institutional and electronic networks through the Information and Networking Programme to link LBSCs and MACs together, sharing their data and information and providing support and networking environment to serve other organizations helping SMMEs.

The role of BuDS was to coordinate activities for this national network of LBSCs and MACs. Their managers and program officers were to keep communications

flowing between centers and to sponsor conferences, workshops and information sharing sessions for the accredited LBSCs and MACs.

An LBSC was an accredited organization delivering nonfinancial business support to small and micro enterprises. The target market of the LBSC was viable and potentially viable micro and small enterprises. It was to be a community-based organization serving the local community. An LBSC was accountable to a board of directors, which ideally was comprised of relevant officers and stakeholders from the local business community. Any organization satisfying the accreditation criteria could apply to become an LBSC. The ten criteria for accreditation follows:

# Exhibit 4 ACCREDITATION CRITERIA

# 1) Strategy, Statement of Purpose and Business Plan

- All accredited LBSCs will be expected to formulate an appropriate strategy supported by a statement of purpose (mission statement) which reflects and responds to local, sectoral, or targeted group needs.
- The statement of purpose will be supported by a 2 year business plan, highlighting the proposed LBSC's objectives, aims and activities. Attention should be given in the business plan to evaluating local needs; identifying and meeting shortfalls in providing service; marketing and evaluating services.
- Although LBSCs may be built on existing or proposed local arrangements, they are intended to be essentially new ways of delivering services to targeted clients. As such the business plan should clearly identify the specific clients of the LBSC, for example by geography, sector, or specifically targeted group.

#### 2) Core Services

All accredited LBSCs will offer the nationally agreed menu of core services but may also provide additional support. The core services of accredited LBSCs will be:

#### 2.1 Counselling

This should preferably take the form of one-on-one contact, and should include a system of client tracking. The method to be used should be shown in the application.

#### 2.2 Basic business management training

Programmes should be responsive to local needs and should state clearly the products offered and the target market, (for example people who have little or no business experience).

Training programmes may include:

- · self-employment workshops;
- the introduction of new ideas and opportunities to business-minded people; especially in disadvantaged communities;
- · how to prepare a business plan;
- · basic bookkeeping;
- · marketing
- · basic conditions of employment
- commercial and labour law application for SMMEs;

# Exhibit 4 ACCREDITATION CRITERIA (continued)

- · general business management;
- · computers and information systems

#### 2.3 Signposting and referral

The LBSC will also have to demonstrate that it is an active and credible player within the wider SMME environment. LBSCs must also take advantage of the LBSC badge to gain access to the wider LBSC network.

Signposting methods may include:

- a database on new and existing business opportunities;
- information on subcontracting opportunities through business linkages;
- regulatory or statutory issues concerning SMMEs;
- providing or facilitating additional non-core services (see below).

#### 2.4 Experience exchange

Existing or aspirant SMMEs should be put in contact with matching business for the purpose of peer group support and interaction.

This can be done by:

- newsletters (submit copies of previous issues, if any);
- seminars and workshops;
- the formation of clubs, associations and member based organisations.

#### 2.5 Recommended additional services

In line with the overall objective of responding to local needs, the LBSC will probable supplement these core services with a range of additional services

These include:

- · vocational skills training
- · large company/small company linkages and networking;
- · market opportunity registers;
- · bulk purchasing opportunities;
- · book keeping and financial management support;
- business opportunity database/information.

#### 3) Code of Ethics

 To ensure the highest professional standard of service to South Africa's existing and aspirant entrepreneurs, all accredited LBSCs will be expected to subscribe to a professional code of ethics.

#### ■ Supplementary notes

In consultation with all those attending the workshops, BuDS has produced a recommended code of ethics (in the accreditation guidelines) to which all applicants must subscribe.

#### 4) Legal Status

- All accredited LBSACs will be structured to ensure financial and operational transparency, and accountability to local stakeholders.
- Applications for accredited LBSC status will be invited from local organisations that have stakeholder representation in a specific business community. For example, private or public sectors, service providers, women's groups, and youth groups.
- The specific legal structure adopted will reflect local and organisational factors, such as, existing service provision, local partnerships or arrangements, etc..
- All accredited LBSCs will be non-profit organisation.



#### 5) Statutory Obligations

- As professional service providers, accredited LBSCs will strive towards compliance with all relevant statutory obligations.
- All accredited LBSCs will aspire to good employment practices, and as such, be role models for SMMEs.

#### 6) Charging for Services and Fee Policy

- There is an urgent need for LBSCs to reflect a professional image to ensure a businesslike approach. Accordingly, all accredited LBSCs will be expected to maximise opportunities for cost recovery and move towards sustainability. To this end, LBSCs will need to develop an innovative range of income sources.
- LBSC charging policy must reflect the local conditions and the ability to the target audience to pay whilst maintaining an open door policy.
- LBSC charging policy must be communicated simply and in a fashion which does not alienate potential clients. However, it should also clearly indicate the true cost of the services provided, particularly it the provision is subsidise day external support.

#### 7) Financial Solvency

- All accredited LBSCs will be required to demonstrate financial solvency for a period of at least 12 months following approval.
- Written assurances relating to solvency will be required before LBSC accreditation is granted.

# 8) Development and Allocation of Staff and Orientation for LBSC Board Members

 LBSCs will be required to demonstrate a commitment to the continuing professional development of all members of staff.

# Exhibit 4 ACCREDITATION CRITERIA (continued)

- LBSCs will be expected to provide appropriate induction and on-going assistance to those to whom they are accountable, (e.g. board members), to enable them to contribute effectively to strategy formulation and review.
- LBSCs will required to demonstrate that staff are allocated to clients in such a way which reflects real needs and the deployment of appropriate skills.
- LBSCs will ensure that staff development is a primary organisational concern, and install internal mechanisms to monitor and appraise performance, assess training needs and facilitate staff development.

#### 9) Establishing Targets and evaluation

- All accredited LBSCs will be required to formulate both quantitative targets. Specific targets will be related to the LBSC's strategy and objectives.
- Clear evaluation mechanisms must be developed, implemented, and maintained.
- Evidence should be presented of clear intent to use monitoring and evaluation outputs to respond dynamic ally to client needs.

# 10) Dissemination of best practice and mentorship

 All accredited LBSCs will be required to demonstrate commitment to the national

After submitting a short, written application, the applicant had to provide BuDS with a two-year business plan, a one-year cash flow and a mission statement. These documents had to show proof that the organization met the ten criteria listed above. BuDS then evaluated the written applications and, where appropriate, initiated site visits.

Accreditation as an LBSC indicated that the organization satisfied minimum quality standards. This recognition aided organizations in attracting both clients and donors. The accreditation was widely recognized by local, provincial and national government departments and LBSCs were able (wherever appropriate) to administer certain government programs. The LBSC status was like a badge that signified a level of quality, like a South African Board of Standards (SABS) stamp. Furthermore, organizational funding available to BuDS could only be disbursed to accredited LBSCs.

Depending on the number and nature of the criteria an applicant satisfied, the application was either rejected or received a "provisional accreditation." The category "provisional accreditation" was used to assist organizations developing their capabilities to satisfy the criteria. Newly established organizations had to present con-

(LBSC) network. This includes the open exchange of experience and best practices with other LBSCs, and mentorship and support for proposed and new LBSCs, particularly in the rural areas.

# EXCERPTS FROM BUDS APPLICATION AND SITE VISIT SCHEDULE



•LBSC's will recognize the support of BuDS by including in all publications the following acknowledgement: "This work was carried out with the support of Business Development Services."

■Supplementary notes

Studies throughout South Africa revealed that there are some existing service

crete plans to satisfy all accreditation criteria.

BuDS assisted existing and potential LBSCs

develop their capabilities to deliver high quality services. This was done mainly through training and development of LBSC management, staff and board members. In addition, BuDS also helped facilitate information flow between LBSCs. Finally, BuDS administered government funding for the program and monitored and evaluated LBSCs to ensure that high quality services were actually provided.

The key to the success of the Local Business Service Center Programme was the commitment of the Department of Trade and Industry to support these (approximately \$25,000) each year, and a center with provisional accreditation would receive up to 50,000 rand per year for three years. It was clear from the beginning that this financial support would not be nearly enough to support the centers. They stressed the need for the centers to have income generating services and/or find additional funding from other donors. As they had seen from the cash flow projections and the past financial statements of applicants, more than 90%

of the centers operated with funding support; among them, 90% of their income came from funding. This was not a very encouraging sign in the move towards self-sufficiency and sustainability. A major objective for the LBSC program was to get the small businessmen and entrepreneurs to break their attitude of dependency on institutional support, and instill in them the idea that "you get what you pay for" when it comes to the quality of services provided by LBSCs.

Most of the organization's funds came from international donors and the South African government, sources likely to dry up in the near future. The South African government was on the verge of bankruptcy, and international aid agencies were cutting their budgets and downsizing. Success of this program depended in part, therefore, on generating income by charging fees for services and tapping other sources of funding, such as attracting grants from the prosperous private sector of South Africa and donors from other parts of the world.

Given the country's racially strained history, many large corporations and conglomerates run by formerly proapartheid, pro-national party people were now looking for ways to make amends, to give back to their communities. A number of them were setting up their own development centers. Other firms gave financial and skills support and provided entree into various development organizations. For instance, Ernst & Young and Coopers & Lybrand both had training programs for small businessmen and entrepreneurs. DeBeers and Anglo American, two very large private sector corporations, were interested in starting their own centers and intended to fully fund them. Richards Bay Minerals was currently running an LBSC in the province of KwaZulu Natal and had been doing so for the past ten years. Big business in South Africa was highly profitable and many believed it was imperative that they join with the LBSC program and others like it. The private sector had the money to support small business programs for previously disadvantaged groups. With their assistance, these groups had the potential to become a valuable part of the South African economy.

## Site Visits to Local Business Service Centers

So here they were in Welkom, face to face with racism. Joe was very angry at the hotel staff and had a few blunt words with them. Nicole had never seen him so upset. Rumi and Nicole disappeared into the background. The unpleasant scene was not what they needed after a long day on the road. They all went to sleep early that evening, with bad images of recent South African history etched in their minds.

The next morning they visited the applicants from Welkom and over the next few days the rest of the Free

State Province. When they arrived at the Thaba Nchu site, Nicole knew right away she was going to be challenged as a professional. There were 20 men at the site who had assembled to meet with the team to discuss their proposal. As tradition goes, there was an older man from the community who spoke on behalf of the people of the region. He would not even look at Nicole. When it came time for her to greet him, Nicole extended her hand for a handshake but he just walked away. Nicole was embarrassed and angry. As the only female in the room, she wanted to shout, "Don't ignore me!" They would need more coffee and tea for the meeting and Nicole was told by the older man that she should go and assist the women in the kitchen. Nicole thought about causing a scene, but she decided to wait until after the team left the site to raise the issue with Joe and her other team members. When she complained that the older gentleman had ignored and insulted her, they said they had not noticed, they laughed off his behavior as the "traditional way" and never discussed it again.

After the Free State Province, they flew to KwaZulu Natal Province for another three days of site visits. By this time, the group had really come together as a team. They entered each subsequent site visit with increased confidence. Apart from the gender problem that they encountered in Thaba Nchu about which Nicole was still angry, each felt part of a cohesive unit, each person playing a specific role and working toward a common goal.

Their last site visit dramatized the challenges of teaching professional management in the provinces. The applicant, Mr. Singh from Masibumbane Foundation, had called Nicole at the office in Cape Town so many times she had lost count. His application was a mess. It came late, half faxed, half mailed and was incomplete, yet she agreed to visit his center to appease his pleading. They had been receiving literature from his organization since early June and she sent him not one, but two applications after he told her that the first never was delivered. Then he did not receive the second, making him quite distraught and upset, so she faxed him the application form, an act against policy. She was thus quite familiar with Masibumbane and Mr. Singh even before they met in person in late November.

Durban was the major metropolis of the KwaZulu Natal Province. It was home to Buthelezi and the Inkhata Freedom Party, the opposition party of the African National Congress. It was a city where bloodshed was a part of life and death all too common. It was also situated on the coast of the Indian Ocean and had some of the most beautiful beaches in the country, along with the best surf. Masibumbane Foundation was located in one of the many ghettos in Durban, and Nicole's first

#### Exhibit 5

#### PROPOSED CENTER'S CASH FLOW STATEMENT

Cash Flow for the 12 months ended 31 December 1996						
Month 5 Month 12 Cash Flow		Month 7	Month 1 Month 8	Month 2 Month 9	Month 3 Month 10	Month 4 Month 11
Balance B/I	D		25,000	25,000	25000	25,000
-	-	-	_	-	_	-
-	100,000					
BuDS			14,237	27,224	27,711	34,948
15,183	272,922	255,667	274,376	277,833	310,270	298,007
Donors:						
	Internat	tional	_	-	_	-
_	5	0,000	_	50,000	_	50,000
_		_	150,000			
	Corp	orate	10,000	10,000	_	_
_	17!	5,.000	_	_	_	_
_		_	195,000			
		Local	5,000	_	_	_
Fees:						
	Couns	elling	_	_	500	500
		ining	_	_	2,000	2,000
	Work	0	_	_	,	3,000
		errals	_	_	_	-
Total Cash Inflow			40,000	35,000	275,000	30,500

25,763

133,000

12,500

12,463

6,500

500

800

22,013

2,500

2,500

7,050

6,250

12,463

6,500

500

800

27,013

7,500

2,500

2,500

2,500

7,050

6,250

12,463

6,500

500

800

23,263

10,000

2,500

2,500

2,500

2,500

800

800

12,463

6,500

500



500 2,000

1,000 3,500

23,263

10,000

2,500

2,500

2,500

2,500

800

800

12,463

6,500

500

-	50,000	-	-	_	_	_	-	155,000
)	1,000	1,000	1,000	700	700	1,000	1,000	7,900
)	2,000	5,000	5,000	5,000	5,000	5,000	5,000	38,000
	3,000	· –	5,000	· -	· –	5,000	· -	160,000
)	-	-	1,000	1,000	-	-	1,000	4,000
)	281,000	6,000	620,000	6,100	55,100	11,000	7,000	565,700
}	23,263	23,263	23,263	23,263	23,263	23,263	23,263	284,156
)	10,000	10,000	10,000	10,000	10.000	10,000	10,000	100,000
)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	275,000
)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	250,000
)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	250,000
)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	22,500
)	800	800	800	800	800	800	800	34,600
)	800	800	800	800	800	800	800	9,600
	_	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	25,000
;	12,463	12,463	12,463	12,463	12,463	12,463	12,463	149,556
-	-	-	-	-	-	-	-	-
)	6,500	6,500	6,500	6,500	6,500	6,500	6,500	780,000
)	500	500	500	500	500	500	500	6,000

Cash Outflow

Programme:

Capital:

Operational:

Core Service A

Core Service B

Core Service C

Core Service D

Vehicles

Furniture Equipment

> Software Salaries

Transport

impression was that it was strange. There were no signs, no advertisements, and they had to ask for directions from four different people before they found the center. Not even the center's next-door neighbors knew where it was. Mr. Singh was noticeably nervous for their visit, with good reason as far as Nicole was concerned. He had a weak cash flow statement, thrown together haphazardly (see Exhibit 5). His business plan was sketchy at best. It was obvious that Masibumbane needed more work before they could properly evaluate his application.

Mr. Singh took them on a tour of the facilities. He proudly showed them portable push carts for car washing and selling vegetables. These were to be sold to the entrepreneur at a small profit for the center and then the entrepreneur would own and operate his/her own small business. This was not new; they must have seen this scheme at three or four other centers. No doubt someone ran a workshop in the area pushing this concept. None of the group members was too impressed with his setup, and they left in a hurry, telling Mr. Singh that he would have to submit a proper cash flow statement and business plan, outlining how his organization would meet the ten criteria and, most importantly, how he planned to implement the four core services, before they could properly evaluate Masibumbane.

With the last visit over, they in short order had to inform the applicants of their decisions. In accreditation committee meetings, Joe said he did not want to give accreditation to centers that had typical South African "white men" running the show. Rather than generating a heated racial discussion here in Cape Town, this remark met with nods of agreement. Given the history of the area (see **Background on South Africa**), Joe's comments were not surprising. Was not the goal of this program to assist the disadvantaged people, not further enrich the white minority? In the end, it was decided that if the center served a largely black and colored community, and if the manager was respected in his community, they would consider accreditation.

The Department of Trade and Industry set the date of December 1 as the target date for notifications. On December 7, Nicole created three form letters for their decisions: (a) full accreditation, (b) provisional accreditation, or (c) rejection. The letters were faxed, and everyone working on the program gave out a huge sigh of relief. They did it—they met the impossible deadline!

The results were as follows: 27 accredited centers, 15 with full and 12 with provisional accreditation. Forty four percent of the accredited centers were considered rural, and 20% of the urban centers were in the townships on the outskirts of metropolitan areas where disadvantaged groups from the apartheid era were forced to inhabit.

Joe and Nicole congratulated each other on their hard work and accomplishments. They were both looking forward to handing over the promised financial assistance and holding a formal public launch for the program.

### **Questions for Discussion**

- (1) Gender issues: How would you have handled your-self at the meeting at Thaba Nchu if you had been ignored by the town elder? Would you have reacted differently? Discuss the implications of the alternative actions you might have taken during this meeting and in subsequent discussions with the team.
- (2) Racial issues: Discuss now racial issues might have affected the committee's decisions. Describe how you would have felt and dealt with the racially charged situation of the "misplaced" hotel reservation in Welkom.
- (3) Economic disparities: In order to evaluate the applicants fairly, how would you compensate for the technology gap between cities and rural areas? Explain how you would factor in differences in the economy, infrastructure and educational background in making decisions for each area.

#### **Appendix**

#### **Background on South Africa**

**Source:** USAID Country Profile 1991-1993

Official Name: Republic of South Africa

Geography

Area: 1.2 million sq. km.

Capitals: Administrative — Pretoria

Legislative — Cape Town Judicial — Bloemfontein

Other cities: Johannesburg, Soweto, Durban

**Population**: 42.7 million

Ethnic Groups: African (black) 29.1 million

white 5.5 million colored (mixed race) 3.3 million

Asian (Indian) 1 million

**Languages**: Afrikaans, English, Ndebele, North Sotho, South Sotho, Swati, Tsonga, Tswana, Venda, Xhosa and Zulu (all official languages).

**Religions:** Predominantly Christian; traditional African, Hindu, Muslim, Jewish.

**Education:** Seven years compulsory for all children but not currently enforced. An estimated two million school-age children do not attend school.

Independence: The Union of South Africa was created on May 31, 1910. It became a sovereign state within the British Empire in 1934, became a republic on May 31, 1961, and left the British Commonwealth in October 1968. Nonracial, democratic constitution came into effect April 27, 1994.

South Africa is located in the southernmost portion of Africa, and is surrounded on three sides by the Atlantic and Indian oceans. On the north and northeast, the country borders Namibia, Botswana, Zimbabwe, Mozambique and surrounds Swaziland. South Africa's 471,455 square miles makes it about three times the size of Texas. The population is 41 million with an annual growth rate of 2.3 percent. The climate is cool and dry. Per capita income was \$2,880 in 1993, a figure masking large disparities in income between whites, whose per capita income is \$13,155, Indians with a per capita income of \$4,450 and blacks with a per capita income of \$1,950. (These figures are rough estimates.)

In April 1994, South Africa's first ever multiracial elections resulted in the election of a new president and the creation of a Government of National Unity composed of ministers from the major political parties: ANC, National Party, Inkhata Freedom Party, Pan African Congress and Democratic Party. Shortly thereafter, President Mandela announced the ambitious Reconstruction and Development Program. The program identified four broad areas of emphasis: meeting basic human needs, developing human resources, building the economy and democratizing the state and society. The new government has an enormous task ahead of it, including reforming the ministries and the civil service, establishing a constitutional court, reorganizing the country from a system of four provinces and ten "homelands" into nine provinces, transforming the health and education systems and integrating millions of formerly disenfranchised citizens into the economic and social fabric of the nation. A well functioning democracy and dramatic and sustained economic growth are key to meeting many of these challenges.

Although South Africa has the largest economy in the region, it was just emerging from a recession and the effects of a prolonged struggle against apartheid. GDP growth was around two to three percent in 1995, but could reach higher levels in future years if political stability is maintained and renewed foreign investment is forthcoming. South Africa has a dual economy; its financial, industrial, and agricultural sectors exhibit many of the characteristics of developed economies, while much of the economy and most of the population exist in conditions similar to those in most developing countries. Growth, investment and economic assistance are needed to reduce the alarming poverty in South Africa. At present, approximately 40% of households

lack adequate housing, 49% lack safe water and 25% lack adequate sanitation. More than one-third of the adult work force is jobless, and more than 50% is functionally illiterate. If South Africa is to serve as a model for successful conflict resolution and reconciliation in the region, as well as an engine for rapid economic growth, these conditions must be improved.

South Africa has the most developed and diversified economy in Africa, and it possesses the continent's most modern and efficient road, rail and telecommunications networks. Its 1993 GDP of \$117 billion was more than four times larger than the combined GDP of the rest of the southern Africa region. South Africa is the United States' largest trading partner in Africa, with bilateral trade of \$4 billion in 1993. U.S. private sector investment in the country exceeds \$1 billion.

Business success hinges on the extent to which a favorable business climate can be created. Black businesses have been historically discriminated against on five counts: regulations prohibited or hindered the development of nonwhite businesses, the educational system provided inferior education for blacks, lack of proper skills limited access to and appreciation of new technologies, the formal banking system ignored the majority population and the concept of capitalism was equated with apartheid. All of these factors must be addressed to effect long lasting, economic empowerment of the disadvantaged majority in South Africa.

At the time of this case study, the cities of South Africa were definitely first-world cities in terms of infrastructure and technology, while the rural areas seemed like they could be in any developing country, with poor infrastructure, lack of education and other problems. Apartheid successfully divided this country in terms of race, and in doing so, created gross inequities in education and living conditions. The technology gap between urban centers and rural areas was enormous. Many townships and rural areas were just now getting electricity and running water, while the urban areas were filled with computers, Internet connections and other such amenities. The rural areas couldn't be compared to the urban centers, but it went further than that because of the inner-city townships that were created by apartheid and that still exist today.

The disparities in access to economic resources in South Africa were numbing. Average white incomes were six times those of blacks, three times those of coloreds and almost twice those of Indians. More than half of the majority population lived below the official poverty line. It would be impossible to establish and sustain a stable, democratic, post-apartheid South Africa if the majority population had so little a stake in the country's economy.

#### **PEOPLE**

Until 1991, South African law divided the population into four major racial categories: Africans (blacks), whites, coloreds and Asians. Although this law has been abolished, many South Africans still view themselves and each other as belonging to one of these categories. Africans comprise about 75% of the population and are divided into a number of different ethnic groups. Whites comprise about 14% of the population. They are primarily descendants of Dutch, French, English and German settlers who began arriving at the Cape in the late 17th century.

Coloreds are mixed-race people, primarily descending from the earliest settlers and the indigenous peoples. They comprise about nine percent of the total population. Asians descend from Indian workers brought to South Africa in the mid-19th century to work on the sugar estates in Natal. They constitute about two percent of the population and are concentrated in the KwaZulu Natal Province. Education is in a state of flux. Under the apartheid system, schools were segregated and the quantity and quality of education varied significantly across racial groups. Although the laws governing this segregation have been abolished, the long and arduous process of restructuring the country's educational system is just beginning. The challenge is to create a single nondiscriminatory, nonracial system which offers the same standards of education to all people.

#### **HISTORY**

The British gained control of the Cape of Good Hope at the end of the 18th century. Subsequent British settlement and rule marked the beginning of a long conflict between the Afrikaners and the English. Beginning in 1836, partly to escape British rule and cultural hegemony and partly out of resentment at the recent abolition of slavery, many Afrikaner farmers (Boers) undertook a northern migration which became known as the Great Trek. This movement brought them into contact and conflict with African groups in the area, the most formidable of which were the Zulus. Under their powerful leader, Shaka (1787-1828), the Zulus conquered most of the territory between the Drakensburg Mountains and the sea (now KwaZulu Natal). In 1828, Shaka was assassinated and replaced by his half brother Dingane. In 1838, Dingane was defeated and deported by the Voortrekkers (people of the Great Trek) at the battle of Blood River. The Zulus nonetheless remained a potent force, defeating the British in the historic battle of Isandhlwana before being conquered themselves in 1879.

In 1852 and 1854, the independent Boer Republics of the Transvaal and Orange Free State were created. Relations between the republics and the British government were strained. The discovery of large gold deposits in the Witwatersrand region of the Transvaal in 1886 caused an influx of European (mainly British) immigration and investment. Many blacks also moved into the area to work in the mines. The construction by mine owners of hostels to house and control their workers set patterns that later extended throughout the region. Boer reactions to this influx and British political intrigues led to the Anglo-Boer Wars of 1880-81 and 1899-1902. British forces prevailed in the conflict and the republics were incorporated into the British Empire. In May 1910 the two republics and the British colonies of the Cape and Natal formed the Union of South Africa, a self-governing dominion of the British Empire. The Union's constitution kept all political power in the hands of the whites.

In 1912, the South African Native National Congress was formed in Bloemfontein and eventually became known as the African National Congress (ANC). Its goals were the elimination of restrictions based on color and enfranchisement of and parliamentary representation for blacks. Despite these efforts, the government continued to pass laws limiting the rights and freedoms of blacks. In 1948, the National Party (NP) won the all-white elections and began passing legislation codifying and enforcing an even stricter policy of white domination and racial separation know as "apartheid" (separateness).

In the early 1960s, following a protest in Sharpville in which 69 protesters were killed by police and 180 injured, the ANC and Pan-African Congress (PAC) were banned. Nelson Mandela and many other antiapartheid leaders were convicted and imprisoned on charges of treason. The ANC and PAC were forced underground and fought apartheid through guerrilla warfare and sabotage. In May 1961 South Africa relinquished its dominion status and declared itself a republic. Later that year, it withdrew from the Commonwealth, in part because of international protests against apartheid.

In 1984, a new constitution came into effect in which whites allowed coloreds and Asians a limited role in the national government and control over their own affairs in certain areas. Ultimately, however, all power remained in white hands. Blacks remained effectively disenfranchised. Popular uprisings in black and colored townships in 1976 and 1985 helped to convince some NP members of the need for change. Secret discussions between those members and Nelson Mandela began in 1986. In February 1990 State President F.W. de Klerk-who had come to power in September 1989—announced the un-banning of the ANC, the PAC and all other anti-apartheid groups. Two weeks later, Nelson Mandela was released from prison. In 1991, the Groups Areas Act, Land Acts and the Population Registration Act—the last of the so-called

"pillars of apartheid"—were abolished. A long series of negotiations followed, resulting in a new constitution made into law in December 1993. The country's first nonracial elections were held on April 26-29, 1994, resulting in the installation of Nelson Mandela as President on May 10, 1994.

#### **ECONOMY**

South Africa has a broad-based, industrialized economy that paradoxically exhibits most of the characteristics associated with developing economies: a division of labor between formal and informal sectors, uneven distribution of wealth and income, a dependency on commodity exports and a legacy of government intervention.

The formal sector, based on mining and manufacturing, is well developed. A smaller but important agricultural and service sector exists. Despite a strong private sector, there has been substantial government intervention in the economy. There also are a number of large government-owned corporations.

Economic policy has concentrated on the formal sector, but since the mid-1980s, the policy has sought to develop the informal sector, focusing on education and training, job creation and small business assistance. The transition to a democratic, nonracial government, begun in early 1990, stimulated a debate on future economic policies to achieve sustained economic growth, redress the socio-economic disparities created by apartheid and improve the standard of living for the majority of the population.

The government is pursuing market-based policies, with the private sector the generator of wealth and the government the force addressing inequities in health, education, housing and social services. It embarked on a five year, \$10.5 billion Reconstruction and Development Program to implement programs to reduce unemployment, provide free medical care to pregnant mothers and children under age six, electrify many homes in townships and build a million new homes. To accomplish these goals without undermining business confidence, the government's first year budget called for continued fiscal discipline and strict monetary controls. South Africa aims to establish and maintain a pro-business environment and encourage both foreign and domestic investment.

A total of 9.4 million people are employed in the formal and informal sectors of the South African economy. Employment in the nonagricultural sectors remained virtually constant between 1980 and 1992. The unemployment rate is now in excess of 40%, and approximately 350,000 new people enter the labor market each year. The high and increasing unemployment rate is therefore one of the single most important problems facing the South African government, and only steady

economic growth over an extended number of years can create the job opportunities necessary to overcome this problem.

Whereas the average unemployment rate is over 40%, in several areas in the black and colored communities it is substantially higher. South Africa has one of the most unbalanced distributions of income and wealth. The richest 10% of the households earn about 51% of the total income, while the poorest 40% of the population earn only about four percent of total income.

There is a strong correlation between race and socioe-conomic situation. Within the poorest 20% of house-holds, only 5% are whites, while the whites constitute 76% of the richest 20% of all households. Almost 41% of all South African households live in poverty, but within the racial groups the percentage of households living in poverty is 6.7 for whites, 18 for Asians, 38 for coloreds and 76 for blacks.

It will take political will and determination and cooperation from all groups of the South African society to change the existing situation. But most of all, it will require the creation of economic growth, because only through economic growth will it be possible to create the necessary jobs and the wealth needed to pay for affirmative action programs. As an illustration of the magnitude of the problem, it has been estimated that eliminating poverty in South Africa would require growing the economy five percent per year for 24 consecutive years.

# **Employment and Labor**

#### **EMPLOYMENT**

A weak economy caused employers to slash their work forces in 1991. The mining and manufacturing industries eliminated some 65,000 jobs, and similar cuts were anticipated for 1992. The South African Chamber of Business estimated that 40% of the potential economically active population—or more than five million workers-were unemployed. With employment opportunities in the formal sector shrinking, South Africans are increasingly turning to jobs in the informal sector, such as vending, small repairs and carpentry. In 1980, 22% of South Africa's economically active population was employed in the informal sector. That number has now jumped to 29%. Ironically, while there is massive unemployment among unskilled workers, jobs for skilled technical and managerial workers often went begging due to inadequate skills and vocational training.

#### WAGES

Average wage increases of about 16.1% during 1991 were down from the previous year's average of 17.5%, but still remained slightly above the inflation rate. Wage gains by black workers were relatively better

Exhibit A-1
KEY ECONOMIC INDICATORS
(In billions of U.S. dollars unless noted)

		Projected				
	1989	1990	1991	1992		
Domestic Economy						
Gross Domestic Product (1)	88.9	101.9	107.5	123.1		
Real GDP Growth Rate (%)	2.3	-0.5	-0.6	0.5		
Population Estimate (millions) (3)	37.1	38.0	38.9	39.8		
Population Growth Rate (%)	2.5	2.4	2.4	2.4		
GDP Per Capita (dollars) (1,3)	2,396	2,682	2,763	3,093		
Consumer Price Index Change (%) (2)	14.7	14.4	15.3	14.0		
Gross National Product (1)	84.9	99.0	103.9	118.5		
Production and Employment						
Labor Force, excluding homelands (millions) (3)	10.9	11.1	11.3	n/a		
Unemployment, including homelands (%) (3)	35.0	37.0	40.0	n/a		
Manufacturing Volume Index (1985=100)	109.4	108.0	105.2	n/a		
Mining Volume Index (1990=100)	101.9	100.0	98.3	n/a		
Government Deficit as % of GDP						
(Fiscal year ends March 31)	1.8	2.6	4.3	4.5		
Balance of Payments and Foreign Investmen	ıt					
Exports (FOB)	22.2	23.8	24.1	n/a		
Imports (FOB)	16.9	17.2	17.4	n/a		
Current Account Balance	1.2	2.3	2.7	1.5		
Gold and Forex Reserves						
Held by Reserve Bank (2)	2.0	2.4	3.5	n/a		
U.S. Direct Investment (2)	0.7	0.8	n/a	n/a		
External Debt (2)	19.9	19.4	n/a	n/a		
Ratio of Foreign Interest Payments to Exports (%)	7.1	7.1	n/a	n/a		
Exchange Rate (average dollars/rand)	0.38	0.39	0.36	0.35		
U.S. Exports to South Africa	1.66	1.73	2.11	n/a		
U.S. Imports from South Africa	1.52	1.70	1.73	n/a		
•						

n/a = not available

**Sources:** South African Reserve Bank, Central Statistical Services and various private forecasts.

<sup>(1)</sup> Current prices; increases in GDP at current prices are due to domestic inflation not reflected in the dollar/rand exchange rate.

<sup>(2)</sup> Year end.

<sup>(3)</sup> Statistics are subject to interpretation.

than those by whites, as companies and trade unions worked to close the gap in remuneration that has existed between the races.

#### **PRODUCTIVITY**

According to the South African Reserve Bank, labor productivity (i.e., real GDP per worker outside the agricultural sector) showed year-to-year increases of 1.7% in second quarter 1991 and 1.6% in the third quarter. The bank attributes this increase to work force numbers falling more rapidly than production volume. Meanwhile, the year-to-year increase in nominal unit labor costs was 14.2% for the first three quarters of 1991. There was virtually no increase in real unit labor costs during the first three quarters of 1991.

### **Money, Prices and Government Finance**

#### **MONFY**

Restrictive monetary policy led to a further slowdown in the growth of the broad money supply (M3) and a slight easing of credit in 1991. The increase in M3 rates fell from a peak of 27.5% in August 1988 to 10.2% in January 1991. Regulatory changes introduced in the Deposit-Taking Institutions Act on February 1 brought many additional items onto banking balance sheets, artificially boosting the money supply. Allowing seasonally adjusted and annualized growth rate in M3 from the end of February 1991 to the end of January 1992 amounted to only 9.7%, reflecting lower domestic economic activity and declining demand for money. In March 1992, the South African Reserve Bank lowered its guidelines for annual M3 growth to 7-10%, the lowest since the bank first introduced its guidelines in 1986. The bank also reduced its prime bank rate from 17% to 16% in March 1992.

#### **PRICES**

Inflation in South Africa remains much higher than that of its major trading partners. The increase in the consumer price index (CPI) rose from 14.4% in 1990 to 15.3% in 1991. Consumer prices jumped to 16.8% in the year to October 1991, following the implementation of the value-added tax and have since hovered around 16%. In spite of tight monetary policy and recessionary conditions, CPI inflation has been pushed by continuing nominal wage boosts, annual food price increases exceeding 25%, and consumer expectations. In contrast, the rate of increase in the production price index (PPI) has continued to decline, falling from 15.2% in 1989 to 12.0% in 1990 and 11.4% in 1991. Economists were hopeful that the downward PPI trend would translate into a smaller CPI increase in 1992. Estimates for inflation in 1992 ranged around 13%.

#### **GOVERNMENT FINANCE**

South Africa's economic policy-makers are determined to keep a tight rein on government spending, but increasing demands for social spending have made that goal elusive. In the 1991/92 fiscal year (April to March), spending reached R89.4 billion, a nominal increase of 16.8% from the year before-a 1% boost in real terms. Revenues for fiscal 1991/92 equaled R73.2 billion, an increase of only 9.6% from the previous year's collections. Total government income fell short of expectations by R1.7 billion because of the continuing economic recession and losses incurred from the replacement of a 13% general sales tax with a value-added tax pegged at 10%. As a result, the government's deficit before borrowing grew to 4.3% of GDP (R13.1 billion), compared with a 3.4% in the original 1991/92 budget estimate and 2.6% the year before.

## **Balance of Payments**

South Africa's balance of payments position improved considerably during 1991. The current account surplus grew from R5.8 billion in 1990 to R7.4 billion in 1991, the largest annual surplus in the country's history. The sharp increase resulted from a decline in merchandise imports due to the deepening recession, higher merchandise and net gold exports, and lower net service and transfer payments to nonresidents. Economists predicted a current account surplus of about R4 billion for 1992.

South Africa operates a two-tier foreign exchange system, the commercial rand and the financial rand, with the latter reserved for investment and capital exports of nonresidents. The discount on the financial rand narrowed significantly in early 1991 and has since traded at a discount around 16% to the commercial rand.

#### **NOTES**

1. This case was written by Nicole Scheps of Rutgers University. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

# Business Development Services (B)<sup>1</sup>

Cape Town, South Africa

### CASE B. MARKETING THE LBSC PROGRAM

### **Launching the LBSC Program**

r. Trevor Manuel, the Minister of Trade and Industry, told the BuDS office that December ▲15 would be the official launch of the program. The date came and went with nothing happening. The accreditation team was told the program would begin in late January for sure, but this, too, did not happen. It was at this point that Nicole began to have serious doubts whether the current leadership in government was still committed to the program. Meanwhile, the centers were operating and excited about their new status. BuDS held a workshop in February, the first for the newly accredited LBSCs. It was at this workshop that the centers began to question when they would receive the promised financial assistance. Let the political games begin! Finally in late February the Department decided that March 15th was the definite date for the launch and that the BuDS office should start the preparations.

They should start? What was the government talking about? The BuDS team was the facilitator of the program; they administered workshops and handled the day-to-day problems of the LBSC network. How could they also be expected to prepare the launch ceremony for this first program of the new government, the Reconstruction and Development Program (RDP)? This was the Department's launch, it was their program, their opportunity to show the people of South Africa and the world what they had done and how they were delivering on their promises of the 1994 election.

Nicole was astonished by the lack of support and initiative from the Department. She reminded herself a hundred times since arriving in South Africa that this was not her native New Jersey and things were done differently here. If she began to question every decision or instruction given to her and the LBSC program, she would get hung up on little details and fail to develop businesses in South Africa.

It was February 22 and they had exactly three weeks to prepare the national launch for the LBSC program. One woman from the department was given the task of putting it together. No committee was formed; rather one person had absolute control. That meant one person had to issue press releases, order the caterers, invite the public and in general make the event happen. They worked 80 hours a week for this program and it was time to sell it to the general public, the private sector and the international donors who they hoped would fund these selected centers, but the Department dragged its feet. Where were the brochures, where were the media advertisements? Where, for that matter, was the marketing strategy for the program?

Nicole attended the launch as a guest. Joe and she were there, but the rest of the accreditation team was not invited. About 100 people attended the celebration. It was held at one of the rural accredited centers, under a big tent on its property. It was so rural that most of the guests got lost, including the television reporters. The print media failed to attend because it did not seem reasonable to drive that far out from the urban center to cover a story that they knew nothing about because

there were no prior press releases. The Minister attended the ceremonies and gave out the first portion of the payments, which was most important, but it was obvious that marketing and advertising did not play an important role in the South African business world. During the launch there was very little attention paid to the private sector, the wealthy sector in South Africa. Nicole thought that this was a big mistake and a costly error on their part.

Figure 6

Dr. Naidoo and Mr. Stoffels handing COM-SEC the first installment of their financial assistance at the launch of the LBSC program.



Figure 7

Mr. Stoffels and the Minister of Trade and Industry, Mr. Trevor Manuel, at the launch of the LBSC program.



Figure 8

Nicole and Mr. Stoffels at the launch of the LBSC program.



# **Marketing the LBSC Program**

It was the Monday after the launch that Nicole decided to bring up the point that very few of the LBSCs had marketing plans and now after being involved with the launch of the program, she understood that the concepts and practice of marketing and advertising were new to many businesses in South Africa. For that matter, freedom of speech was new, too! In order for the LBSCs to be successful in reaching the disadvantaged communities, they would first have to reach them through marketing and advertising.

Nicole recommended to the executive director, Dr. Raven Naidoo, that the first workshop for the managers of the LBSCs should be on marketing and each center should produce a marketing plan or strategy by the end of the workshop. As for BuDS and the LBSC program itself, Nicole brought the marketing mishap of the launch to the attention of both Raven and Joe. She suggested that it was imperative to involve the private sector in this program if it were to succeed. They were trying to sell a product, namely, the LBSC program itself. Like any other product, they had to market it, and the first thing they needed was a marketing strategy. The future of the program depended on the private sector accepting and buying into this network of nonprofit organizations. They had to accept the concept and work with the centers, giving financial and human resource support. The others agreed with her ideas and suggestions. Raven, in the typical development sector fashion ("too few people, too much to do"), told Nicole to get to work on it. She called the United Nations Development Program (UNDP) representative in South Africa and made arrangements for a marketing workshop, then began work on a proposal for the board of directors.

Understanding the marketplace was the first step. In a country like South Africa, it was imperative to take into consideration the history behind the current economic situation. Nicole needed information about the business and cultural environment. She enlisted the help of her South African colleagues. She discovered that no matter who you were or what job you held, you had a political opinion. From the cleaner all the way up to the executive director, everyone talked and was knowledgeable about politics. (See Appendix from (A) case.)

As for the business environment, South Africa was run as a monopolistic society from 1948 through 1994. They had state-run monopolies where competitive markets did not exist. Thus marketing and advertising were not a significant part of the operation of most businesses. This was the root of the problem. While South Africa had numerous mature industries, very few were familiar with the importance of marketing in all businesses.

In addition to this information on the South African cultural situation, the following were the actual items to be marketed to the private sector:

#### **Product**

The product that they were trying to sell was the LBSC program itself. The crux was the concept of a network of small business support centers throughout the country. They were working together to bring high quality support services, such as counseling, training and access to information, to everyone in the nation on an equal basis.

#### **Price**

The cost of the product would vary for each individual buyer since each sought different degrees of assistance. For instance, some companies would give only financial assistance, while other organizations might send an employee to work in the local business service center and still others might provide training or contracts for the clients of the service center. So there were a number of ways in which a company from the private sector might choose to become involved in the program, and therefore prices for services varied.

### **Promotion**

The program needs a significant amount of publicity, specifically because after ten months of work, the man on the street knows nothing about the program or Business Development Services. Nicole felt that by not advertising the programs and getting their name before the public, this had hindered their abilities to involve the private sector and was something that should be rectified immediately. Promotion can be achieved with print and media advertising and brochures. In addition, Nicole felt that since this was a quasi-government program, it should have the full backing of the South African government and therefore should offer tax breaks to companies that buy into the program.

#### **Place**

Second to promotion, Nicole felt that variations in local conditions posed by far the biggest obstacle to the LBSC program. South Africa was a unique country with contradictions and problems that make a national program very difficult. Now in 1996, the task of creating a national program to provide equal services to everyone was in fact not only difficult, but next to impossible. A strategy for overcoming differences in living conditions had to be a major part of the marketing plan.

It was now April, and Nicole had been working on her proposal for three weeks. The Board of Directors meeting was set for two days hence, and Raven came to tell her that they were very interested in her proposal. She had worked closely with Raven and Joe in developing her thinking, taking into consideration their comments and criticisms. They all felt it was a strong proposal, but they knew it might meet powerful opposition. Nicole had to be convincing in defending her position that BuDS should spend substantial money on a large marketing campaign.

It was the day of the meeting and Nicole was nervous. Raven warned her to be brief and to the point, and wished her good luck.

## **Assignment:**

- (1) Identify your own marketing strategy for the LBSC program to take to the board meeting. Be sure to include an advertising budget and reasons for all your suggestions.
- (2) Read the excerpts from the application of a specific Business Advice Center shown in the Appendix. Then complete the following:
  - a. Make your decision on the application: rejection, partial accreditation, full accreditation. Prepare an answer as if you were going to take your decision to the Accreditation Committee.
  - b. Create a marketing plan for the center to reach its target groups.

#### **NOTES**

1. This case was written by Nicole Scheps of Rutgers University. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.