MANUFACTURING — GENERAL

1990

JANUARY — APRIL

Monitoring new style treasuries

(180)

CHARLOTTE MATHEWS

STRINGENT monitoring is necessary for companies transforming treasury operations from cost to profit centres to maximise investment returns, Price Waterhouse partner Sam O'Leary recommended in a Press statement last week.

He said some "old school" executives were not comfortable with corporate treasuries becoming profit rather than cost centres because they had operated in an environment before modern financial instruments like futures and options were devised.

He emphasised the importance of companies making the most efficient use of their treasury functions in a high interest rate climate, but added that thorough procedures must be in place so that senior management is fully informed of financial exposure. B1Day 4/1/90

Parameters

"Specialists are being employed to manage debt and enhance returns. This is extremely important when money is so expensive.

"However, it is crucial that they operate within certain parameters and that senior management is not kept in the dark."

Companies with their own treasury operations should establish limits on positions to be taken in foreign exchange and domestic money and capital markets. They should also devote time at board meetings to determine their exposure and hedging levels.

Industrial shares (180)

Star 4/1/90

By SYD VIANELLO
Industrial analyst,
Ed Hern, Rudolph Inc

OUTLOOK 90

A year ago I forecast that for a variety of reasons — including higher interest rates and slower growth in company profitability — the industrial share market would have difficulty in maintaining its momentum in 1989.

My prediction, it turns out, was wrong in absolute terms, but right to the extent that the reasons on which it was based, although valid, have taken longer to manifest.

In this year I expect increasing pressure on company profitability to become evident because of the following factors:

- The impact of higher interest rates has not yet fully worked its way through company income statements and many more shocks are expected.
- The deterioration in economic activity expected at least six months ago, has only recently begun and will have an impact on company financial results only in the new year.
- The rand has recently firmed slightly and shows clear signs of further strength, particularly if gold remains strong. This will result in a reversal of the huge profit gains of 1988 and 1989 due to currency-related factors and could even result in profit declines.
- International commodity prices in certain categories — such as chrome, vana dium and steel — have declined considerably in recent months, thus paving the way for lower earning for the related industrial stocks.

Furthermore, the government seems determined to meet its budgeted expenditure for the year. Given the figures to date, this implies a drastic decline in spending in the three months to March.

That in turn could be exacerbated by further drastic action in the planning of the forthcoming budget.

While the long term nature of these plans must be applauded, the short term impact on the economy (particulaly those companies heavily exposed to state expenditure) can only be disastrous for turnover and profits.

Another feature to be considered is the likely impact (probably only later in 1990) on disclosed company tax rates, and hence on profits, of the new ruling on capital depreciation allowances.

A large number of companies have now adopted the so-called "partial" deferred tax policy, which has temporarily boosted their profits. This holiday is now essentially over, with the new ruling likely to cause somewhat higher tax liabilities and hence lower profits.

The same sentiments apply to the government's new export incentive proposals in certain instances, although here there will be some groups which will benefit handsomely.

The likely movement of the financial rand could also affect some rand hedge stocks this year. Assuming the discount remains relatively static, the possible strengthening of the commercial rand could cause a similar strengthening of the financial rand and have a negative impact on the share prices of many of the rand hedge stocks.

Wall Street must also not be forgotten. If a recession does occur in the United States and the Dow Jones declines in sympathy, then I expect a similar rection in our markets — although maybe not to the same extent. No matter how isolated we are internationally, our markets do move in line with Wall Street, if only to a certain degree.

I notice that virtually all of the rise in the industrial index in the past year can be attributed to company profit increases because the earnings yield of the index has not moved that much.

The changes in accounting policies adopted by most of the leading index stocks tell another story, but investors have probably conveniently forgotten this anomaly in making their investment decisions.

In a best-scenario forecast, I would expect the earnings yield of the index to remain constant once again and, given the individual prospects of the leading 20 companies in the index (80 percent of its weighted composition), there still appears a reasonable likelihood of a 10 to 15 percent gain in the index this year.

In a somewhat poorer scenario, interest rates could be held at current levels for most of the year, which could cause an upward revision of the index's earnings yield — which indeed is the normal reaction when interest rates rise, but which has not been the case for the past two years.

This in turn could result in the index hardly moving at all during this year, or even declining.

In all, I do not believe 1990 will be a particularly good year for industrial stocks and expect the index may well reflect only a five percent maximum increase over current levels by the end of the year.

B/Day 5/1/90.

Industrialists actively involved in peace bid

(180)

Own Correspondent

MARITZBURG — Industrialists have been actively involved in trying to bring about an end to the violence in trouble-torn areas of Natal.

Natal Chamber of Industries executive director John Pohl said there was undoubtedly concern on the part of industry about the continuing unrest situation.

The ability of average employees bereft of loved ones and of sleep to contribute effectively in the work environment had been affected.

Concerned industrialists in Hammarsdale, Pinetown, New Germany and Port Natal were engaged in talks with shop stewards and other black community members to try to negotiate a truce between factions.

"This has been done outside the ambit of the chamber on an informal basis but seems to have worked," he said.

Maritzburg North DP MP Mike Tarr said three industrialists who bought property in the Hammarsdale area wanted to pull out because of the unrest there. He did not name the consortium.

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☐ The bodies of three men were found at Inanda soccer stadium on Wednesday, yesterday's police unrest report said. All bore bullet wounds and burns.

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CORPORATE PROFITS

Still holding up

The pace continues to slow, but profits remain surprisingly buoyant

Not unexpectedly, the *FM*'s latest corporate profit round-up reflects — for the third successive half-year — a further slow-down in the growth rate of the JSE's major industrial companies. Nor can there be much doubt that this pattern is likely to continue for at least the next 12 months.

But what may come as a surprise — and a pleasant one — is the limited extent of the deterioration. Put simply, an average turnover increase of 31,5%, a 40% improvement in operating profits and a 28% EPS gain do not add up to hard times — even if they are down on the respective rates of improvement in the last round-up published in June.

The table comprises a sample of results reported over the past six months. As in the past, the selection of companies is somewhat arbitrary but the main criteria for inclusion — based on size (as determined by turnover) and comparability of results — have not changed. The final list of 168 companies is, consequently, much the same as in previous round-ups. Growth rates are calculated using simple, unweighted averages.

The results, a mixture of interims and prelims, are split almost evenly between reporting periods to end-June or to August-September. Either way they reflect, for the first time, virtually the full effects of government's restrictive package introduced in August 1988, as well as a fair measure of the interest rate hikes. Prime, for instance, has risen only three percentage points over the past 12 months to its current level of 21%, whereas in 1988 it leapt from 12,5% to 18%, which continued to affect corporate results well into 1989.

Under the circumstances, the fact that the JSE's larger industrial companies are still able to churn out average earnings growth of 28% must be considered satisfactory. In the June 1989 round-up, the earnings growth rate average was 35% on a similar gain in turnover, while a year ago the growth rate in EPS was 41%. The best average growth rate achieved since the upturn began about three-and-a-half years ago was a mammoth 63% recorded in June 1988.

Viewed this way, the slow-down over the past 18 months has been considerable. But it should be seen in perspective. Firstly, in the initial stages of the upturn, earnings improvements were being measured off a very low base after the recession of the early Eighties, and represented not growth as such, but re-establishment of normal profitability as excessive surplus capacity started to be absorbed. This, as the *FM* has pointed out, was supplemented later by substantially reduced interest rates and the unwinding of foreign debt exposures which had cost many companies dearly.

These circumstances, while welcome, did not lend themselves to the maintenance of large profit increases indefinitely — sooner or later they would work their way out of the system. Since 1977, industrial share prices have been in a basic uptrend which not even debacles like the October 1987 Crash upset The broad channel in which the market has moved over the period has an upward slope of slightly more than 20% a year. From this it could be argued that there is an underlying perception that industrial profits should be able to keep pace with this.

On paper, a nominal growth target of this order is not unreasonable. Most of it is accounted for by inflation at its present level. Add a percentage point or two for real growth in the economy and the residual gap can be accounted for by the premise that, being comprised of the better performers within the economy, the JSE industrial companies (and especially the larger ones as listed here) should be able to better the growth averages of the economy.

On a more practical level, however, complications arise from the boom-or-bust nature of the SA economic cycle which, apart from exernal factors, has too often been bedevilled by a succession of overstimulation/overkill policies. And it is only fair to add that the average earnings growth achieved under these conditions since 1977 does not seem to have come close to the 20% target — hence the inexorable rise in p:e ratios from under four in 1977 to more than 14 before the October 1987 Crash.

Underlying buoyancy

The substantial improvements in profits over the past couple of years have improved matters but, even at its present level of 9,6, the p:e of the composite industrial index indicates the market to be more than twice as expensive as when the uptrend began.

With average sales of the companies in the table rising by more than 31% (against 35% six months ago), it is clear that steps taken to cool the economy have been only partially successful. A further indication of underlying buoyancy is the fact that most have continued to improve margins, with the average moving up from about 10% to 10,6% annually. This ability to improve margins largely offset a very substantial 157% increase in finance charges, with the result that the indicated pre-tax margin on sales showed little change at 9,2%. Thus, the slower earnings growth (relative to turnover) reflected a further uptick in tax charges as assessed losses became fully utilised.

The leap in finance rates is owed to two factors. Obviously, the most important one is the increase in interest rates and the comparisons could, where companies are reporting for the 12 months to June, stretch back to July 1987. But the acceleration in the rate of increase in finance charges, from 111% six months ago, is also indicative of a build-up in debt, which has become necessary to finance the additional working capital requirements associated with a still-high level of turnover growth. But there are signs of improved asset management.

Wild cards

While there is reason to argue that corporate performance to date has been satisfactory, we are little closer to answering the even more important question as to whether, with the economy in a downward phase, the landing will be soft or hard. The negatives — foreign debt repayments, consumption curbs and inflation — are well known by now. If forecasts were to be made on the basis of these alone, the balance of probability would almost certainly tilt towards "hard."

Since the last profit round-up, however, a number of wild cards have come into play and the picture is less clear cut. In no particular order of importance, the political mood in SA has changed to an extent that is seldom matched by complete changes of government in other countries; gold bullion has shown signs of coming out of hibernation; and, finally, there is the political upheaval in eastern Europe. Assessment is difficult.

If in fact the improved sentiment on bullion in the closing months of 1989 turns out to be more than a flash in the pan, the impact will be considerable over a broad front. The foreign debt situation will become more manageable, greater liquidity in the economy will reduce upward pressure on interest rates and — who knows? — we might get a little closer to an easing of the present stifling tax burden.

Although more vague at this stage, the two political factors (domestic and eastern Europe) have equally interesting implication. Conventional debate usually runs along the lines of capital inflows/outflows and the conclusion, invariably, is that things have not improved to the point where a reversal of the present outflow can be seen as likely. But imagine the impact on the economy if perceptions of foreign lenders became sufficiently relaxed for them to decide to leave their money where it was.

It is too soon to tell whether the recent renewed foreign interest in both the JSE and

Continued on page 20

FM 5/1/90 (180) ([illegible])

Continued from page 16

local gilt market means much — though one interesting point is an apparent perception that the rand is likely to remain stable, which in turn suggests a related perception that some of the factors responsible for its slide in recent years have been reduced.

As indicated, there is not much doubt that corporate profit growth will continue to slow over the next 12 months. With a bit of luck, however, the degree of deterioration may turn out less than seemed probable even a few months ago. An optimistic view would be that the next profit round-up in June will reflect average EPS growth of around 21%-22%, while the January 1991 average could drop to around 14%-15%.

Being averages, it is implicit that some companies will beat these figures, which means that it should still be possible to achieve good returns out of selective share investment.

The key word is selective.

Brian Thompson

BDay 5/1/90

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(180)

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raise capital through a rights issue for at least a couple of years, which gives plenty of time to raise the return on assets further. The share's rerating is well advanced, and deservedly so.

Jim Jones

MALBAK FIM 5/1/90 (180)

Organic diet ahead

The dramatic expansion of Malbak in the past five years prompts questions about its future growth and direction, particularly after the Quality Tyres affair showed that even Malbak can make embarrassing mistakes. In the past five years turnover has grown ninefold, from R827m to R7,3bn, and EPS fivefold, from 25,9c to 136,1c.

Often criticised for acquisitive growth, Malbak began a phase of consolidation last year. Of the 36% attributable earnings growth, 15% was from acquisitions and 21% from organic sources, according to chairman Grant Thomas. This year acquisitions will be rare.

Financial director Peter Beningfield says

FIM 5/1/90 (180)

Activities: *Conglomerate with interests in packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies, development; also has limited international interests.*

Control: *Gencor has ultimate control.*

Executive chairman: *G S Thomas.*

Capital structure: *184,5m ords of NPV. Market capitalisation: R1,49bn.*

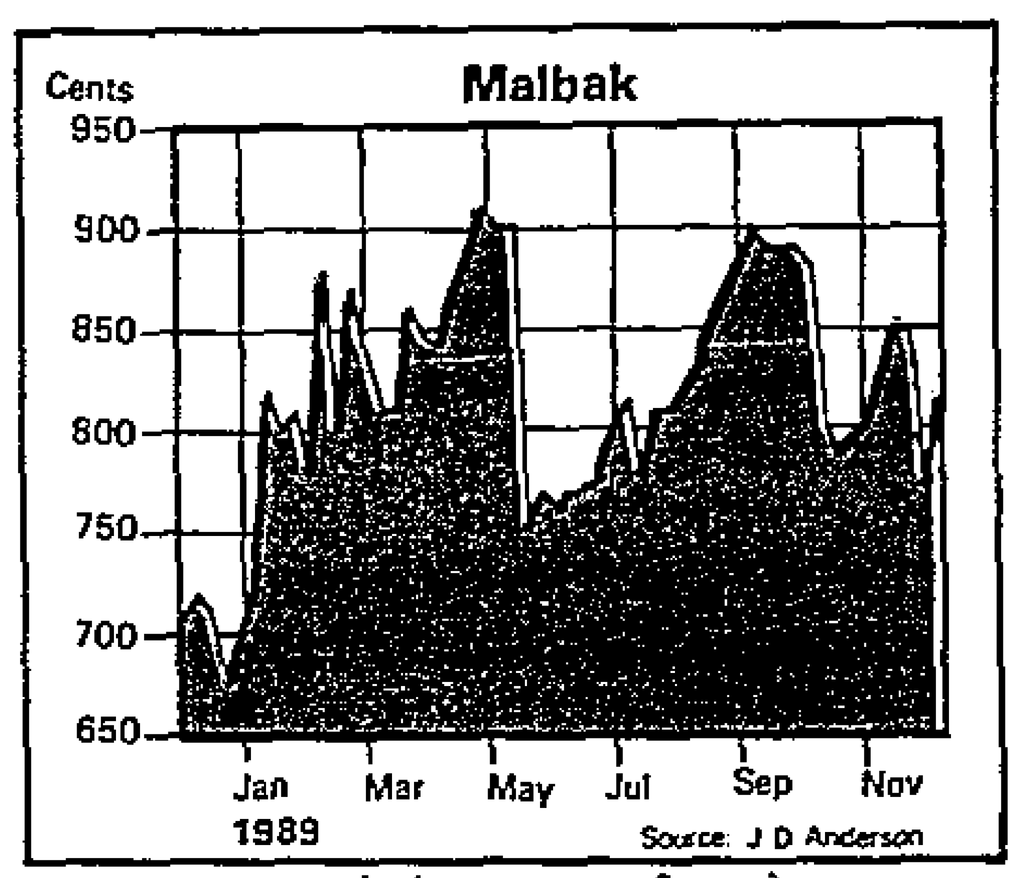
Share market: *Price: 810c. Yields: 3,8% on dividend; 16,8% on earnings; PE ratio, 5,7; cover, 4,4. 12-month high, 925c; low, 650c. Trading volume last quarter, 737 000 shares.*

Financial: *Year to August 31.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	26,0	135,4	281	539
Long-term (Rm) ...	32,4	166,5	186	216
Debt:equity ratio	0,42	0,18	0,23	0,41
Shareholders' interest	0,43	0,63	0,65	0,65
Int & leasing cover .	2,40	5,5	6,0	4,0
Debt cover	0,77	0,36	0,77	0,63

Performance:

	'86	'87	'88	'89
Return on cap (%) ..	17,3	8,0	23,7	25,8
Turnover (Rm)	996	1 962	5 234	7 329
Pre-int profit (Rm) ...	78	153	500	683
Pre-int margin (%) ..	7,8	7,8	9,1	8,7
Taxed profit (Rm)	30	80	275	358
Earnings (c)	479	65	107	136
Dividends (c)	15	20	25	30,5
Net worth (c)	211	1 033	574	691



FIM 5/1/90 (180)

almost all the acquisitions last year were to fill out existing activities and sharpen focus. For instance, Kohler acquired Intratax, which includes Braby's directories, and Kanhym acquired the remaining 50% of Hanni, the specialist tanner. On the other hand, 10 companies were sold.

Consolidation of the engineering division under Standard Engineering, and the packaging and paper division under Holdains, which will soon be listed, has streamlined major parts of Malbak. Consolidations in the consumer products and developments divisions do not yet appear appropriate.

The medical and pharmaceuticals sector (part of Malbak's development division) was an exception to the organic focus — demonstrated by the acquisition of MPS Laboratories, Schwartzkopf, Lagamed and, since year-end, 80% of Wyeth-Ayerst. Beningfield says this sector offers consistent returns but, for the moment, he does not expect further disinvestment, the prime source of potential acquisitions.

The development division's contribution to Malbak's total attributable earnings plunged to 0,8% (15%) due to the transfer of Kanhym to the food division and losses in Protea Technology and the Bearden group. The Protea problem has been addressed, says Beningfield.

Branded consumer goods contributed 25,5% (21,4%) of profit, followed by engineering and mining supplies with 23,1% (24,6%). Packaging and paper was little-changed at 21,3% (21,9%) and construction supplies rose to 14,4% (12,6%). Though UK packaging manufacturer MY Holdings Plc disappointed with a R4,9m loss, international interests increased their contribution to 5,1% (1,8%). This was due to undisclosed international investments.

Beningfield says MY's relocation has been completed and its management strengthened. It will increase its operating profit this year and, depending on interest rates, may provide some attributable earnings. He believes MY's gearing to be cut from year-end 0,72 to 0,30. This should dramatically improve Malbak's gearing, which almost doubled last year because of high gearing in MY and the amounts raised for its acquisition. Group margins declined because of MY but would have been higher without it.

Beningfield says MY is fundamentally sound and should benefit from technology transfers from Kohler. With only a few major players, SA packaging companies have had enough dominance to be innovative; the British and European markets are more fragmented. FIM 5/1/90 (180)

The group is broadly dependent on consumer markets and Beningfield says the slowdown in SA has had varying effects. Tedelex has been negatively affected but Ellerine and the motor division remain buoyant. Malbak's goal is 5% annual real growth over five years. In his review Thomas forecasts only earnings of "a similar order." Yet recovery in vital divisions must help and no increase in the tax rate is expected. The Quality Tyres debacle, in which Malbak did not have management control, will hardly affect attributable earnings.

The share is still rated well below other industrial conglomerates and has performed disappointingly this year. Notwithstanding Thomas's forecast, Malbak is likely to grow this year, so it must offer medium-term opportunity.

Teigue Payne

Call on govt to reconsider plant taxes

CAPE TIMES 8/1/90 (180)

Own Correspondent

JOHANNESBURG. — The cost of imported plant and machinery makes it 214% more expensive for an SA industrialist to start business than his Japanese counterpart.

This figure, from a Federated Chamber of Industries (FCI) study, is set to rise if changes to tax depreciation rules proposed by government are promulgated.

Comparative premiums over the US, Britain and West Germany are 118%, 139%, and 159% respectively.

The figures are based on tax depreciation rules that were changed in favour of the fiscus in December. An effect of the changes will be to increase the premiums quoted even further.

The study, in response to government's call for comment on an investigation into depreciation policy, is now being used by the FCI to encourage government to reconsider its decision.

Government's proposal, from the Department of Finance, is to change the tax write-off of plant and machinery from 50%:30%:20% over three years to 20% a year over five years. If promulgated as proposed, the effect will be retroactive.

FCI Fiscal Policy Working Group chairman Bob Cole says: "The impact of the higher costs on fixed costs will make it all but impossible for SA manufacturers to become internationally competitive. Fixed costs represent upfront costs, which are impossible to change, and apply for the duration of the asset's useful life.

"Government's only option is to change fixed costs to make them internationally competitive. Up to now, the chosen policy option has been a continual depreciation of the currency to boost nominal returns.

"This is one of the reasons we need a weak rand — government could never afford to subsidise to that extent."

The FCI's econometric model, which uses 18 variables, shows that a piece of plant and machinery costing a Japanese businessman R1m costs R2,1m by the time it is ready for commissioning in SA.

The difference comprises, among other things, the import surcharge, import duties, GST and RSC levies.

The largest single addition is R408 000 — the premium on the purchasing-power parity between the rand and the yen. This represents the discount on the purchasing-power ability of SA's currency occasioned by high inflation, political factors and a weak BoP situation.

When finance costs over 10 years are added to the equation, the cost is R4,4m, representing a 214% premium on the cost to a Japanese businessman.

The FCI model, which estimates averages for changing rates over the 10-year period, shows 16,3% and 4,8% prime and 14% and 1,5% inflation for SA and Japan respectively.

Another reason for the 214% premium is that Japanese tax law allows a 10-year tax write-off of the cost of plant and machinery. The FCI model is currently being updated to reflect the proposed SA changeover from 50%:30%:20% over three years to 20% a year over five years.

The result will be a premium to the SA businessman even higher than 214%. The FCI says this will make it practically impossible for SA industry to become a major contender in the international manufacturing arena.

Sho-craft disclosure adequate — Schwarz

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B \Day 8/1/90

SYLVIA DU PLESSIS

SHO-CRAFT'S financial disclosure in its annual reports met all legal requirements and was quite adequate, chairman and DP finance spokesman Harry Schwarz said at the weekend.

He was responding to the results of the Financial Mail's latest Annual Accounts Award, in terms of which his DCM-listed manufacturer and supplier of shop-fittings and packaging was placed ahead of the giant Rembrandt Group — ranked lowest — but still ninth from the bottom.

Rules for the award, which considers disclosure of relevant financial and other information directly useful for investor analysis, are formulated by the Financial Mail and the University of Pretoria's Bureau of Financial Analysis (BFA).

BFA professor and judging supervisor Aad Zevenbergen said Sho-craft's rating revealed that the quality of its reporting to shareholders was "obviously not very good".

Out of a possible 150 points, Sho-craft scored only 35 — or 23,3% — against the winning SAB's 148, with its scoresheet registering 30 zeros in a total of 44 categories.

It was, for example, awarded zeros for analysis of transactions, detailed changes in working capital and long-term corporate planning. Lack of a value-added statement and details of dividend policy also contributed to the judges' poor opinion of the company's disclosure.

The annual report also scored zero for date of publication; showing promotion of products or services; leasing of fixed assets; group structure; social reporting; pension costs and money exchanges with government.

Schwarz said the company did not disclose information which would assist its competitors.

"I have no problem with the disclosure in our report. Why we've been placed so near the bottom I don't know. We disclose whatever is necessary in terms of the Companies Act and JSE requirements. There is enough information to allow investors to judge whether to be buyers or sellers.

"We are not looking for awards; we are looking to make money for our shareholders," he said.

"I do not agree that the criteria laid down for judgment can possibly be the same for a large company like SAB and for a small company like Sho-craft."

Sho-craft posted a 38,3% rise in taxed income to R549 000 and earnings of 4,22c (3,05c) a share in the year to end-February 1989 after lifting turnover by 40% to R5,3m.

BER manufacturing survey shows . . .

Firms focus on exports

CAPE TIMES 9/1/90 (180)

By AUDREY D'ANGELO
Financial Editor

SA manufacturers are preparing to export more while reducing their dependence on imports, according to the latest survey of the manufacturing industries by the Stellenbosch Bureau for Economic Research (BER).

Most of them are trying to increase productivity by making fuller use of existing capacity rather than buying new machinery.

And many are already working off backlog orders, with production capacity to spare, as demand slackens.

The report, by G M Pellissier, points out that "The challenges facing the manufacturing sector in SA in the 90s are likely to be the most significant in the socio-political evolution of SA.

"The manufacturing sector per se will be under renewed pressure to live up to expectations as the sector which should be the main engine of economic growth and social welfare, and second to none in importance, while the diminishing primary sector is on the decline.

"The evaluation of manufacturers' reaction to business opportunities rests on the prime indicator of their intention to invest in production factors.

"According to the results of this survey, 7% of manufacturers intend to increase their real investment in machinery and equipment over the next 12 months. This is slightly less than the 11% net in the previous survey."

But, the report continues, a previous survey showed that investments in new production techniques and ways to reduce costs were significant considerations, while investments to increase production capacity and to create new products were not significant.

"It seems that local manufacturers intend to comply with higher foreign demands by better utilization of existing production facilities.

"To invest, the businessman must have confidence in the course of the economy. The manufacturing sector is still experiencing buoyant business conditions. Confidence prevails marginally, with 51% of manufacturing respondents expressing satisfaction with present business conditions.

"General business conditions over the next 12 months are, however, expected to be at somewhat lower levels than at present.

"Sales volumes of manufactured goods in the fourth quarter of 1989 were, according to our respondents, still greater than in the same period a year ago. Substantially lower sales are forecast for the first quarter of 1990 with a drop, in index terms, from 119 to 95.

"The volume of new orders received remains on a downward trend and is expected to cross the 100 neutrality level in the forecast quarter.

"To comply with a more sluggish demand in the quarter, production volumes are expected to be reduced relative to the same period a year ago.

"Unfilled orders in relation to sales remain on a negative basis — that is, below the 100 neutrality level, indicating that manufacturers are working off their backlog orders with available spare production capacity.

"This is underscored by the decline of four percentage points in the number of respondents experiencing full production capacity utilization, together with an overall shortening in delivery periods and the accumulation of stocks of raw materials and finished goods."

Discussing the labour situation, the survey says fewer factory workers were employed in the last quarter of 1989 than in the same period a year ago. The average hours worked by each factory worker were expected to decrease in the coming quarter.

"The significance manufacturers place on fixed investments to reduce costs points towards investments in automation equipment and capital goods, signalling future curtailment of labour."

The report says that "due to the recent lifting of socio/;political restrictions by the government, the general political policy as a perceived constraint hampering current manufacturing business activities decreased substantially on index from 34 to 29 points.

"Expectations of manufacturers about price increases remain at high levels."

B/Day 9/1/90

Optimism of producers is down — BER

180

EDWARD WEST

THE manufacturing sector was still buoyant in the fourth quarter of 1989, but expectations for the first quarter of 1990 are less optimistic, says the latest Trade and Commerce survey by the Bureau for Economic Research (BER).

Sales and production were expected to be at lower levels in the first quarter compared with the same period a year ago, and manufacturers' expectations of price increases remained high.

The survey of 873 manufacturers said the manufacturing sector still experienced buoyant conditions with 51% of the respondents expressing their satisfaction with present business conditions.

The results showed 7% of manufacturers planned to increase real investment in machinery and equipment over the next 12 months. This was less than the 11% net polled in the previous survey.

A separate survey conducted by the BER found that local manufacturers intended to comply with higher foreign demand in 1990 by better utilisation of existing production capacity.

Volumes

In reaction to a question on fixed investment during 1990, manufacturers considered investment to reduce costs and in new production techniques to be significant considerations.

However, the cost of credit for the development of overseas markets and investment to increase production capacity for new product creation was not considered significant, the report said.

Sales volumes during the fourth quarter of 1989 were still higher compared with the same period a year ago, but substantially lower sales were forecast during the first quarter of 1990 with a drop in index terms from 119 to 95.

Volumes of new orders received remained on a downward trend and were expected to cross the 100 index neutrality level during the first quarter of 1990. Production volumes were expected to be reduced because of lower demand.

Fewer factory workers were employed in the last quarter of 1989 compared with a year ago. The number of respondents who expected to reduce their workforce during the first quarter decreased in index terms from 92 to 83.

Average hours worked by a factory worker, it was forecast, would decrease. The significance manufacturers placed on reducing costs pointed to investment in automation and capital goods, signalling further curtailment of labour.

The latest lifting of socio/political restrictions by the government impacted positively on manufacturers, BER said.

GuardBank sounds note of caution for equities

B/Day 11/1/90. 180

LIZ ROUSE

GOLD boosted both GuardBank Growth Fund and GuardBank Resources Fund in the December quarter, but the unit trust group's portfolio managers predicted the market could turn "extremely volatile".

Despite positive factors — a more favourable political outlook, signs that the bear market in gold ended at the $356 level, and prospects for further rises — they sounded a note of caution on the future behaviour of equities.

The 57,7% rise in the all-gold index in 1989 was fuelled to a significant extent by overseas buying on a scale not seen for many years.

Gold shares were discounting a significant increase in the price of bullion and, should the anticipated price rise not take place, the current international enthusiasm for gold shares may wane, GuardBank portfolio managers said.

Investors must appreciate that, in 1990, the equity market in gold mining shares is likely to be extremely volatile and this high level of volatility could well extend to all sectors of the market.

They said although the gold price rose by no less that 9,6% over the December quarter, its performance in 1989 overall was disappointing, being a marginal decrease of 2,2%.

GuardBank Growth Fund had another satisfactory quarter as a result of its concentration on prime blue chip counters in the mining financial, financial and industrial sectors.

The equity content of the fund was increased slightly to 83,8% at the end of the quarter from 82,06% at the beginning, primarily as a result of the addition of a new holding of 7,5-million Iscor shares. In addition, the rights issues by Rand Mines and GFSA were followed by the fund.

Declined

During the quarter the remaining holding of 300 000 AECI was sold and reductions made to the holding of Gencor and Sappi.

Advantage was taken of the sharp downward movement in capital market rates which took place during the quarter to dispose of the holding of R14m RSA 14% 1993 stock.

The Growth Fund's top 10 holdings at the end of December were, Richemont, De Beers, Gencor, Libhold, Wooltru A, Barlows, SA Brews and Remgro. Total assets grew to R848,8m (R796,5m) while liquidity declined to R137,5m (16,2%) from R142,8m (17,94%).

The clean repurchase price increased by 39,83% over the year. An income distribution of 42,31c a unit has been declared, bringing total distribution to 77,78c a unit. Overall return including both income distribution and captital appreciation, was 46,5% over the year.

GuardBank Resources Fund had an extemely satisfactory quarter.

In anticipation of the impact on the market of the more promising outlook for gold, the equity content of the fund was increased from 74,38% at the beginning of the quarter to 86,7%.

Equities accounted for R48,4m while cash resources and liquid assets were down at R7,4m.

Resources Fund acquired two new counters, Anglovaal and Iscor.

Major additions were made to holdings of Amgold, Lindum, Marlin, Vansa, Lonrho and Sasol.

Top 10 holdings were Anamint, De Beers, Lindum, Anglos, Rand Mines, East Dagga, Lonrho, Amgold, Rusplat and JCI.

IMPORT COSTS F/M 12/1/90

Business handicap

Companies knew the cost of doing business here was much higher than in any of our major trading partners.

Now an FCI study released this week tells them exactly how much more expensive. Under government's new five-year, 20%-a-year depreciation schedule, costs will zoom even higher.

Depreciating an advantage 180

According to FCI figures, the revised depreciation allowance will increase the real fixed cost of imported capital equipment by about 30%.

Under the three-year, 50:30:20 write-off formula, introduced early last year, the real cost of imported capital equipment is at least 42% more than in our four top trading partners. FCI calculates that if the depreciation schedule is extended to five years, at 20% a year, the cost disadvantage will increase to at least 56%. (see graph).

The planned depreciation period is still relatively short; high inflation calls for a shorter depreciation period. The US, West Germany and Japan generally have straight-line, 10-year write-off periods.

So by changing the formula, government is reducing one of the few advantages of SA business.

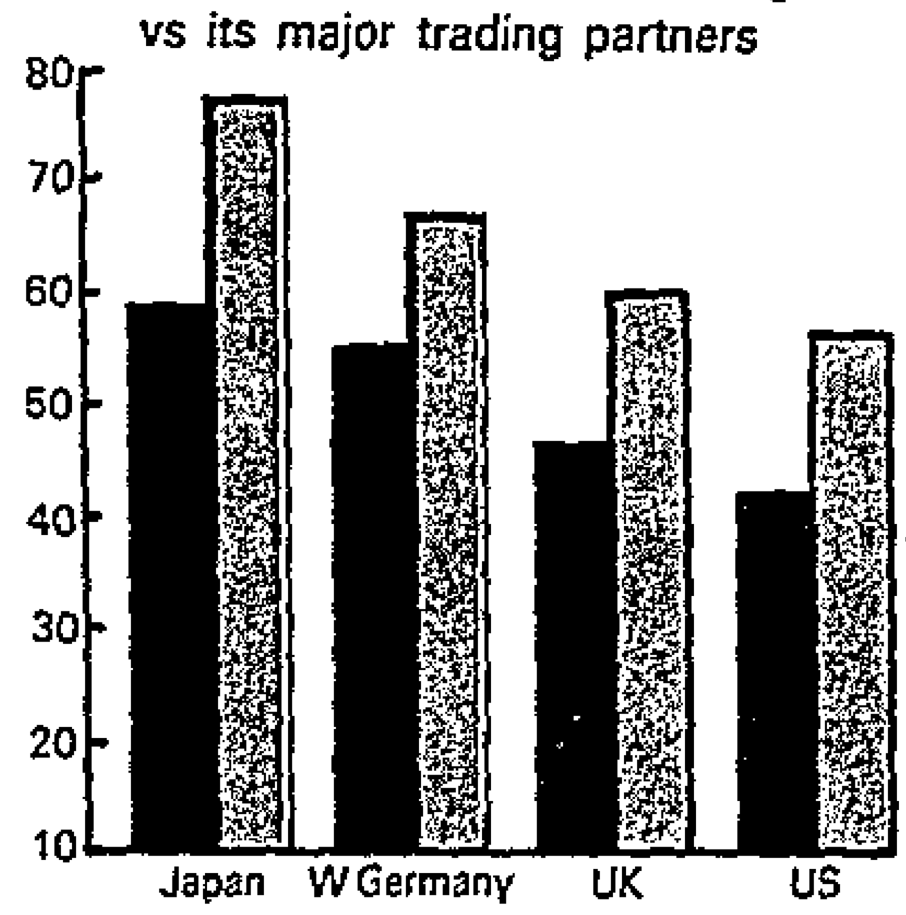
Depreciation formulas are a symptom, not a cause, of uncompetitiveness. Import surcharges, import duties and regional service council levies account for the bulk of higher costs.

Political and economic difficulties aggravate the situation by depreciating the rand against major currencies. This adds a tremendous amount to the cost of imported capital equipment.

F/M 12/1/90 180

Losing out

% SA's business-cost disadvantage vs its major trading partners



The first percentage for each country shows how much more expensive capital equipment is in SA than in other countries.

The second percentage is the cost disadvantage under the new depreciation rules

Source: Federated Chamber of Industries

The cost disadvantage suffered by local industry is further increased because SA imports a higher proportion of its capital equipment than its main trading partners.

Government's proposal caught businesses off guard. The 50:30:20 depreciation rate was introduced after the Margo Commission recommended a shorter write-off period because of high inflation. ■

Outrage at mooted tax plan

BIDay 12/1/90

(1820)

180

BARRY SERGEANT

GOVERNMENT's proposal to change tax depreciation rules in its favour has raised howls of outrage from most quarters. The mooted change, from 50%:30%:20% of the cost of plant and machinery to 20% a year over five years, substantially increases the net present-value cost of plant and machinery.

Announced on December 15, and effective to that day when legislation is passed by Parliament, the proposal affects long-term corporate plans. The high cost of plant and machinery necessarily means such items form an integral part of such plans.

Earlier this week, the Federated Chamber of Industry (FCI) released a study based on computer modelling of the 50%:30%:20% tax depreciation system. One result was that an SA industrialist pays 214% more in *nominal* terms for plant and machinery, including finance costs over 10 years, than his Japanese counterpart.

The controversial purchasing power parity (PPP) equation was part of the model. This assumes that equal units of purchasing power in two countries do not trade at 1:1 in international currency markets. The difference in PPP between, say, Japan and SA is explained particularly by the outlook for inflation, political factors and balance of payments situations.

But the esoterics of international comparisons seem to have detracted from the basis, and rationale, for tax depreciation. In SA, capital (which includes plant and machinery) is ignored for tax purposes. Capital gains, say on the gains realised in the sale of a residential house owned for 40 years, are not taxed.

Encourage

Losses of a capital nature are also ignored by tax authorities, as are investments in capital assets, such as shares held with a (legally acceptable) investment intention in mind. But plant and machinery has long occupied a special place in the legislature's heart.

First, the initial costs are often near-prohibitive, and time-honoured policy has it that SA needs to encourage exports, particularly of manufactures. So over the years, plant and machinery has qualified for special tax allowances.

To ensure that investment in plant and machinery is not made purely to exploit the tax system, tax allowances are only realisable against taxable profits. The incentive to invest in plant and machinery is no more alluring than the incentive to produce profits.

As recently as mid-1985, 130% of the up-front cost of plant and machinery could be written off against income, over periods from five to 10 years. The figures were big enough to attract top brains in corporate finance, accounting and law.

The allowances, created to boost flagging private fixed investment, did not present onerous challenges to the creative talents of taxation spivs, people paid to spot unproductive tax opportunities. There was massive abuse of the allowances, the pinnacle of which was the creation of notorious mechanisms dubbed "lessor trusts."

The then Finance Minister Owen Horwood responded by clamping down, passing the first significant retroactive tax law in SA history.

In subsequent years, plant and machinery tax allowances were tinkered with, in common with other fundamental sectors of the tax system. There were some serious discussions about plant and machinery tax depreciation; theory and practice.

The Margo Commission on tax was appointed in November 1984, culminating in government's White Paper released in 1988. The 50%:30%:20% tax depreciation was given the blessing of the legislature. Corporate planners in charge of billions of rands of capital investment proceeded accordingly, and as reasonably as the circumstances allowed.

Double sold

On May 26 1989, government called for comments on depreciation policy. For those who responded, the body evidently in charge was the Department of Trade and Industry. On December 15, a completely unexpected announcement came from the Department of Finance announcing a five-year straight-line depreciation in equal parts.

Private sector experts are convinced that the announcement was a response to an abuse of the provisions. Aiken & Peat partner Ron Rankine said because the legislation lacked a definition of "connected person" (to be inserted), some plant and machinery was being "double sold" among essentially the same parties.

The second sale would be at a much higher price, defended on inflation and import surcharge grounds, and the tax abuser would have an ear-to-ear smile. But, as in 1985, the abuses could have been dealt with by rectifying badly drafted law.

Known cases could have been attacked in the courts, moreover, by the authorities under Section 103 of the Income Tax Act. In the meanwhile, the howls of outrage continue over the proposed changes.

If promulgated, the amendments will apply retroactively to capital goods bought into use by manufacturers, agricultural co-operatives and hoteliers from December 15. Mining (qualifying for a 100% write off of capex) is unaffected, and farmers can still apply the 50%:30%:20% except for livestock.

In financial 1990, multinational Barlows plans to spend R1,9bn on capital projects. While much of this is allocated for its mining interests, how much planned capex was based on the 50%:30%:20% formula?

What hurts about the new impost is its suddenness; it violates one of the most sacred principles of taxation, certainty.

Perhaps this should now be the over-riding concern of the legislature.

Institutions power up industrial index

Star 12/1/90 180

By Jabulani Sikhakhane

Demand for blue-chip industrial shares by institutional investors has been the driving force behind the 14,9 percent surge in the industrial index since December.

Analysts say volumes and price movements show that the rally on the industrial board has been driven by institutional demand for quality stocks.

Smaller companies have been left behind. The situation has been compounded by the fact that even smaller investors returning to the market have been attracted by mining stocks.

A sample of blue-chip shares indicates that they have mostly out-performed the industrial index, while second-rate stocks have not fared so well, with some showing losses over the period December 1 to January 10.

South African Breweries topped the list, appreciating by an overall 26,5 percent, followed by Iscor with 20,9 percent, Sasol 18,3 percent, Safren 17,1 percent and Barlows 16,5 percent.

Only Richemont, CG Smith and Sappi showed increases below the index.

They appreciated 11,04 percent, 12,3 percent and 9,1 percent respectively over the same period.

However, in a sample of 15 non-blue-chip stocks, only Homemakers outperformed the index, increasing 29,7 percent since December 1, followed by Sunpak 22,2 percent, Hiscore 18,6 percent and FSI 16,6 percent.

Others had a poor showing against the index, with Unihold increasing 12,5 percent, Pep Stores 10,3 percent, Publico 10 percent, Lion Match 8,9 percent, Saficon 8 percent, Conshu 7,1 percent, Boumat 5,2 percent and CMI 0,3 percent.

Seardel declined 1,85 percent, Fedfood 1,06 percent and Cullinan 0,6 percent over the period.

David Shapiro of stockbrokers Max Pollak & Freemantle says smaller companies have lagged behind the index because most institutional investors are scared to put their money into companies with less than a 10-year history of good profits.

"When gold shares have been exhausted, the smaller investors may look at second-liner industrial stocks.

"But for a long time most of the interest will still be on mining stocks and blue-chip industrials," he says.

Southern's unit trusts excel

Southern unit trusts' long-term outlook on gold shares has paid handsome dividends after the strong performance of gold on the JSE.

Liquidity levels were reduced in both Southern Equity Fund and Southern Mining Fund in the three months to December.

Portfolio manager Carel de Ridder said yesterday gold sentiment turned positive when the dollar gold price recovered late in the quarter and gold share prices rose significantly.

"The performance of both portfolios supported Southern's belief that gold shares offered relative value. However, while sentiment about gold has improved, the fundamentals remain weak and gold needs to move above R1 200 an ounce for this situation to improve."

Investors in Southern Mining Fund received a return of 49,9 percent for the 12 months to end-December.

Southern Equity Fund posted returns of 42,6 percent.

By handsomely outperforming inflation, unit trusts remained one of the few opportunities for real growth in asset values, said Mr de Ridder.

Industrial shares followed the lead of gold and as a result of selective share purchases, liquidity levels in both funds were reduced significantly.

Liquid assets were reduced from 21,1 to 13,3 percent in Southern Mining Fund and from 15,3 to 11,6 percent in Southern Equity Fund.

Mr de Ridder said the rapidly changing political environment both locally and in Europe had led to improved business sentiment and economic activity in general.

"The strength of the financial rand towards the end of the year was indicative of the change in sentiment towards SA.

"While this may depress certain shares in the short term, these events will be positive for the economy.

"Strong share prices can be expected in the year ahead, although it will be necessary for fund managers to be more selective," he said.

Mining-related counters in Southern Equity Fund increased from 46,6 percent to 51,9 percent of the portfolio in the quarter, while financial and industrial stock was reduced to 36,5 percent.

Holdings in Driefontein, Elandsrand, Western Deep, Amgold and Genbel were increased and Apex Property Trust and Iscor added to the portfolio.

Amgold, AVI and D&H were sold out of the portfolio and Plate Glass holdings reduced further.

Holdings in Amcoal, Freddev and Randex were sold out of the portfolio.

The market value of the assets in the funds rose by R4,5 million to reach R39,6 million at December 31. — Sapa.

SA PARTNERS OPEN OFFICE IN BUDAPEST

ROBERT GENTLE

THE first SA-Hungary trade operation has been launched with the opening of an office in Budapest by a Stellenbosch trade and finance company and a former Hungarian businessman. B/Day 17/1/90

A statement issued yesterday by Headquarters International of Stellenbosch and Ido Sorger said the office would deal in a range of products including maize, steel, machinery, textiles, leather goods and pharmaceutical raw materials.

Headquarters, founded in 1986, already has an established group of companies in Europe which will make bridging finance and other services available to would-be importers and exporters.

Sorger has been operating as an agent and broker for 18 months, importing various products from Hungary through his Cape-based company Middle Line.

The joint venture, called Middle Line Budapest, is controlled by a holding company, Sogecom, which is 50% owned by Headquarters and 50% by Sorger.

Headquarters marketing director Pieter van der Valt said: "It is difficult at this stage to gauge the exact level of business, but it will be substantial."

He said foreign exchange would no doubt be a problem, and a lot of the business would probably be done on a barter basis.

Sorger said a variety of top-quality products such as textiles, china, crockery, leather goods and pharmaceutical raw materials could be imported from Hungary. 180

Syndicate for futures market gets go-ahead

180

ROBERT GENTLE

AN advertisement in last week's Financial Mail inviting prospective speculators to form a syndicate to play the futures markets has been given the all-clear by the authorities — but with a health warning attached.

Safia (SA Futures Industry Association) and the office of the Registrar of Unit Trusts, which examined the advertisement, said members of the public should make all necessary inquiries before committing themselves to the plan.

Bsday 19/1/90

If they felt they had not been fairly dealt with, their only recourse at the moment would be the courts.

This was because the Financial Markets Control Act, designed with a degree of consumer protection, had not yet been fully promulgated.

Only once the formal futures market in the form of Safex (SA Futures Exchange) starts operating later this year will the Act have the necessary teeth to rule on such advertisements.

"The public should be aware that in the present informal futures market, neither Safia nor Safex has jurisdiction over futures and options syndicates," Safia MD Brenda Greyling said.

BDay 19/1/90

DCM sector a channel for development

(180) LIZ ROUSE

DESPITE some poor performances, the Development Capital Market (DCM) sector is still the springboard for development and expansion for well-managed companies and the ultimate transfer to the main board.

Davis Borkum Hare analyst Louise Castle points out that 41 companies have been transferred successfully since the DCM's introduction.

Although the DCM represents high risk opportunities, careful long-term selection could be rewarding for the patient investor, despite the stigma attached to the sector, says Castle.

A review of the DCM sector's performance shows that in January 1988 95 companies were quoted in the sector, declining to 63 and 48 in December 1988 and 1989, respectively. Only 20% of the companies listed during 1986 and 1987 met their profit forecasts.

The majority of companies have recently reported poor results and some results have been delayed.

Castle says rights issues by highly rated companies are the best way of raising funds. Not so for the lower-rated companies on the DCM board. Their cost of raising capital can be relatively expensive.

This has been a prohibitive factor for prospective newcomers and as a result there has been only one new listing in the sector since June 1989.

Castle says institutional trading on the DCM board is limited. Shares are generally tightly held by the original vendors and investments made, if any, are in small value terms and have little effect on an institution's performance.

TRADE POLICY

Who's in charge?

FM 19/1/90 (180)

Attempts by the Board of Trade & Industry to stimulate the local manufacture of computers appear to have been knocked for a six by the introduction of an ad valorem duty on computer parts and components by the Commissioner for Customs & Excise (*Business* January 12).

This is the latest in a number of blows to the board's status and image, which seems to be linked to the trade policies followed by new Department of Trade & Industry Director-General Stef Naudé.

It could also be the prelude to a major rift over policy matters between the two government divisions.

Ever since the announcement of the new General Export Incentive Scheme (GEIS), by Trade & Industry Deputy Director-General Gerrie Breyl in September, a question mark has hung over the role of the board in influencing trade policy.

The announcement of the new export aid package almost put paid to the board's elaborately researched structural adjustment programmes (SAPs) for various industries. BTI CE Lawrence McCrystal has long propagated the notion that industry should follow the route of Japan and Taiwan, with government assistance to help create an amenable climate for exports.

Board investigations are still under way in the following sectors: electric transformers; switchgear; wire and cables; chrome and stainless steel; white goods; microcomputers; machine tools; radio, audio and video recorder equipment; steel; electronic components; clothing and household textiles; computer software and tourism.

"The emphasis is on whether the industry has the potential to become a competitive player in both the local and international markets," says McCrystal.

"Because of the protective policies adopted in SA, we have a largely inward-orientated industrial sector. Our pattern of exports is heavily geared towards raw materials and first stage processing thereof. About 42% of exports are made up of raw materials, 46% constitute processed raw materials, while only 7% and 5% respectively are made up of material-intensive and final products."

But McCrystal's elaborate plans to expand the export of value-added, fabricated products seems to have been met with a cold shoulder from various top government officials.

A lot of conflict is said to exist between the board and the department though some commentators say the policy differences seem to have simmered down.

On September 2 the *FM* reported Deputy Economic Affairs & Technology Minister Theo Alant as saying: "We do not wish to impose any structural changes on industry and believe in the broad principle of a market-orientated policy."

On November 3 we reported that Trade & Industry Minister Kent Durr "threw cold water on the board's SAP programmes by saying that the focus of his department would be on macro, not micro, planning."

Naudé was also quoted as saying government does not have the money to administer the costly adjustment programmes and that he preferred "simplified" schemes to those that have to be administered by "hundreds" of additional bureaucrats.

Whatever the current situation, McCrystal is sticking to his guns. He tells the *FM* that "SA's exports are locked into products which sell into slow-growth markets with generally low levels of value added. We *must* get into the high value added, fast-growing world markets."

The argument continues to rage over which policy (GEIS or the SAPs) is the most cost-effective. McCrystal, at least, has no doubts: "Export incentives are more costly and less effective than the SAP approach."

While figures of between R600m and R850m have been mentioned as the annual cost of government's current export assistance policies (the new export incentive package will be implemented from April 1), Deputy Director-General of Trade & Industry Gerrie Breyl says it is impossible to quantify costs because the new programme is linked to exchange rates.

"The stronger the rand, the higher the costs could be," he admits. But, he adds the proposed SAPs for various industries should continue, though the export incentives for all industries would fall under the new export policy.

"Any additional support for individual industry sectors would have to form part of other measures such as customs tariffs," he says.

Naudé and McCrystal... fundamental differences on trade policy?

TRAIN FARE HIKE

Saving State's bacon

SA Transport Services' 10% commuter fare hike on February 1 will reduce the drain on the central government's funds more than it will benefit Sats.

While it will certainly increase Sats' revenue from this source, the intention is to enable it to continue subsidising rail commuter traffic for longer than is envisaged in the Legal Succession to SA Transport Services Act. In terms of the Act, central government is obliged to pick up all rail commuter losses incurred after April 1 when Sats becomes a State-owned public company. At the same time, the recently formed SA Rail Commuter Corp will take over the management of Sats' rail commuter services. FM 19/1/90

However, government is strapped for cash and will not be able to pick up the estimated R870m shortfall on commuter services this year. Consequently Sats will, as in the past, have to pick up the tab for half the losses. This means it will have to continue with its policy of cross-subsidisation — charging more than it should for the conveyance of high-tariff goods to offset the losses on its commuter service.

Wim de Villiers, who conducted an investigation into Sats' finances, and is masterminding its eventual privatisation, foresaw the State's difficulties and recommended a phasing out period before government takes full responsibility for commuter losses.

Sats will transfer its commuter assets to the corporation before April 1 but operate the service under contract, says Bart Grové, a former Sats GM appointed chairman of the commuter corporation.

It's not surprising the commuter services runs at a loss. It's not properly marketed and is thus not patronised nearly as well as it should be. Its peak-hour trains operate at full capacity but there are valley periods in between.

continue p 80.

ANGLOVAAL

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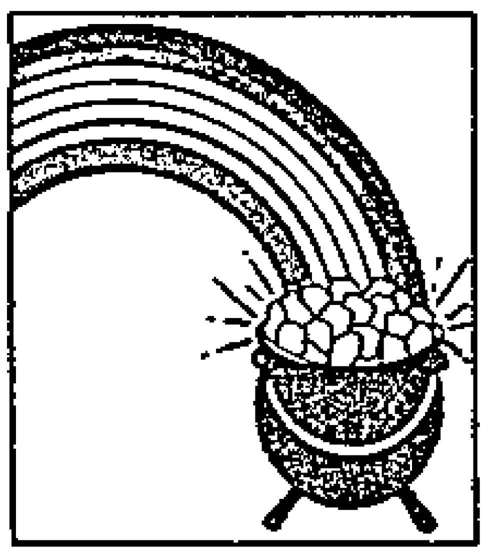
Preparing for the next leap

After a busy year, a major new gold mine is next — and funding is crucial



Anglovaal has long been the smallest of SA's major mining houses. On Diagonal Street it has been seen as a solid and efficiently managed, but conservative, organisation. Recently that image has been changing — the group has just emerged from one of its most frenetic years with large acquisitions, new areas of business entered and restructuring within.

Within weeks of the year-end came news that the R1,1bn Venetia diamond mine, in the northern Transvaal, is to be developed. Now the group stands on the verge of what could be its biggest venture ever: it is expected to announce a decision this year to go ahead with the first gold mine to exploit the Bothaville area, a new goldfield in the Free State.

But the mine will be deep and costly — and not without considerable risk. What is intriguing the stock market now is how the family-controlled Anglovaal will fund the project. There are still hurdles to be overcome but many are seeing the makings of a substantial rights issue or listing ahead.

Given the relatively small size of the group, the potential impact of both Venetia and the gold prospects on the group's profits and market capitalisation is large. These, like other recent developments, are essentially long-term strategic investments. Indeed, by the time full effects are achieved — over more than a decade — a new generation of management will almost certainly be running the group.

Hersov ... a path of strategic acquisition

It's an open question who will succeed top management but it is possible the next generation will extend the present dynasty. Chairman Basil Hersov, 63, and deputy chairman Clive Menell, 58, are sons of Anglovaal's founders; both have sons who could rise through the ranks. Hersov and Menell say they intend to maintain family control.

It's not unusual for SA mining houses to hold less than 50% of major investments. Anglo American is the best example: most of its holdings are associates, income is received mainly as dividends, and the group tax charge is low. Anglovaal, in contrast, has preferred to maintain outright control of its companies — especially on the industrial side — which are expected to be self-funding. This extends to the pyramid company, Anglovaal Holdings, which owns 50,2% of the Anglovaal ords and is in turn held 51,4% by the Hersov and Menell interests.

The group thus has full control over operational management and cash flow — the same state of affairs, incidentally, that Minorco said it was aiming to achieve with its bid for Consolidated Gold Fields. The control philosophy provides security against predators and the results have not been bad: over the past 10 years EPS have grown by 24% a year with dividends rising 19% a year.

But it's a structure that presents a quandary when there is a costly new venture that would normally require equity funding. A large rights issue, analysts believe, would not be a simple matter as the family shareholders would have to stump up funds to maintain their present stake or else risk losing control. There is, therefore, an inbuilt premium on efficiencies. It is tempting to see the pace of last year's developments against that background — any improvement in ability to generate and move cash up through the group will be particularly useful over the next few years.

Some actions do fit that thinking. The capital structure of Anglovaal itself is being simplified and, to improve marketability of the tightly held stock, the shares are being split; Hersov thinks that a further split could be justified to make them more accessible to small investors. "There is clearly a plan to prepare for a big funding exercise and the plan is going well," says an analyst.

The restructuring of 60%-held Anglovaal Industries (AVI) — involving delistings and elimination of pyramids such as South Atlantic and changes within divisions — was to improve levels of tax, cash and management efficiency; the timing was influenced by the tax moratorium. "Anomalies had appeared over the years," says Hersov, who notes, for example, that while there were cash-flush businesses within the group, the

Menell ... looking to executive continuity

cash couldn't always be used where needed.

More than R900m was spent last year on 10 significant acquisitions in the industrial, financial and mining sectors. These included: 100% of Mooi River Textiles; 100% of Goodyear; 76% of Hewlett-Packard; 25% of Q Data; 100% of M&PD Electronics; 5% of Associated Manganese; 31% of Feralloys (bought by 48%-held Assmang); 41,6% of AA Life; 100% of chrome ore producer Lavino SA; and 29,9% of North Sea & General.

It appears, on the whole that, though the timing was partly fortuitous, the acquisitions grew out of a strategic plan intended to build on strengths and seek avenues for growth. Hersov notes also that certain businesses were growing about as large as could be hoped in the SA context, without creating monopolies which carry the seeds of their own destruction.

In the industrial sector the focus is largely on areas where management expects best long-term growth: food, textiles and construction. Also important will be electronics. Hersov reckons that Anglovaal Industries now has SA's second largest electronics and components grouping. He says all last year's investments had been targeted for some time. AVI MD Jan Robbertze, 54, makes a similar point and notes that other targeted acquisitions were not pulled off. Among these was Unisys — AVI did not like the auction method of sale.

The Mooi River purchase, which provided an entry into household textiles, followed talks that had started nearly a year earlier. Goodyear offered an expansion route for AVI's large, cash-flush packaging group, Consol, and Hersov's long-standing presence on the Goodyear board meant that a rela-

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tionship was already in place.

The policy of financial conservatism proved helpful. At the 1988 year-end, AVI's gearing was about 22% and dividend cover 5,6 times. Consol, for example, could thus acquire 100% of Goodyear with borrowings and cash, and expects to wind its gearing down to 20% within two years. AVI itself would consider a rights issue only if it wanted to pursue a really major acquisition. A sector now cited for expansion is automotive components, where AVI holds 20% of Gearmax (Pty), formerly Borg-Warner SA (Pty).

Crowe

Robbertze

An offshore foray came with the purchase of 29,9% in the London-registered North Sea & General, now called Anglo Pacific Resources (APR). APR is focusing on industrial minerals in the UK and gold mining in Australia.

The major source of APR's operating revenue last year was its 35% stake in the 40 000 oz/year Australian gold producer, Kurara Gold. It recently raised to 100% its interest in Anglo European Minerals, which is developing new UK operations to extract and process industrial minerals currently imported into the UK. APR Group is cash-rich with resources totalling £16m at year-end.

Further diversification and acquisitions are evidently planned for APR. And it would not be surprising to see Anglovaal move for control eventually; Anglovaal presumably wants to nurture APR as its overseas mining arm. Industrial investments offshore are to be held separately. The initial target is to lift earnings from foreign holdings to about 5% of the group total.

A low-key but intriguing event was Anglovaal's move into financial services, when Anglovaal acquired 41,6% of AA Life. Without conceding details, Hersov says there is a broader plan behind the move. "We have always believed this is an area we should be in and AA is a well-run company," he says. "Hopefully, we'll see it growing to be an interest equivalent to any of the others."

But that work has yet to be done. In the Venetia diamond mine, Anglovaal and Mid Wits have a bonanza. Owing to a confidentiality agreement, no details of revenue or cost forecasts have been disclosed. Saturn Mining & Prospecting, held 65,6% by Mid Wits (of which Anglovaal owns 53%) and 21,9% by Anglovaal, holds the rights to precious stones on Venetia.

After recoupment of the capital cost, all of which will be provided by De Beers, the after-tax receipts from Venetia will go equally to Saturn and De Beers. Even before this, Saturn will start to receive a royalty of 12,5% of the mining revenue before lease consideration and tax. How swiftly Saturn will begin to receive a significant dividend flow from Venetia is problematic. Hersov simply says it will depend on diamond prices and market conditions; analysts think dividends should flow within five years.

Operating costs at Venetia will be relatively low as it will be a large open-cast mine, and the long-term outlook for the gem diamond market has remained bullish. A leading diamond analyst estimates total revenue (before costs) at full production would exceed R1bn/year. If the mine were listed, he reckons, it would justify a market capitalisation of about R2bn. But the beauty of Venetia is that Anglovaal and Mid Wits will receive significant cash income without themselves incurring any capital outlay.

The first of the group's potential new mines in the northern Free State is the Sun prospect, where the ore lies between 2 800 m and more than 4 km below surface. Capital and working costs will be high and recovery grades will have to be well above average. Executive director David Crowe, 59, who heads the mining division, estimates that capital requirements until the mine becomes self-funding will exceed R2bn in today's money.

As things stand, the group would not have to fund all this itself. Sun is believed to be held 36% by Anglovaal, 34% by Mid Wits and 30% by the US company, Utah International. With Utah controlled from Australia, it is a moot point whether it would participate in any funding or even maintain its stake; a sale of its interest either to Anglovaal or another local group must be a strong possibility, though it might want to wait for a higher price than available now.

Crowe reckons funding will not be a problem. A mixture of methods could be used, including gearing, gold loans — which have yet to be used by a SA company — and equity. Given the size of the venture, there need not, of course, be a single large issue; when GFSA launched Northam it said from the start the money would be raised in tranches as needed.

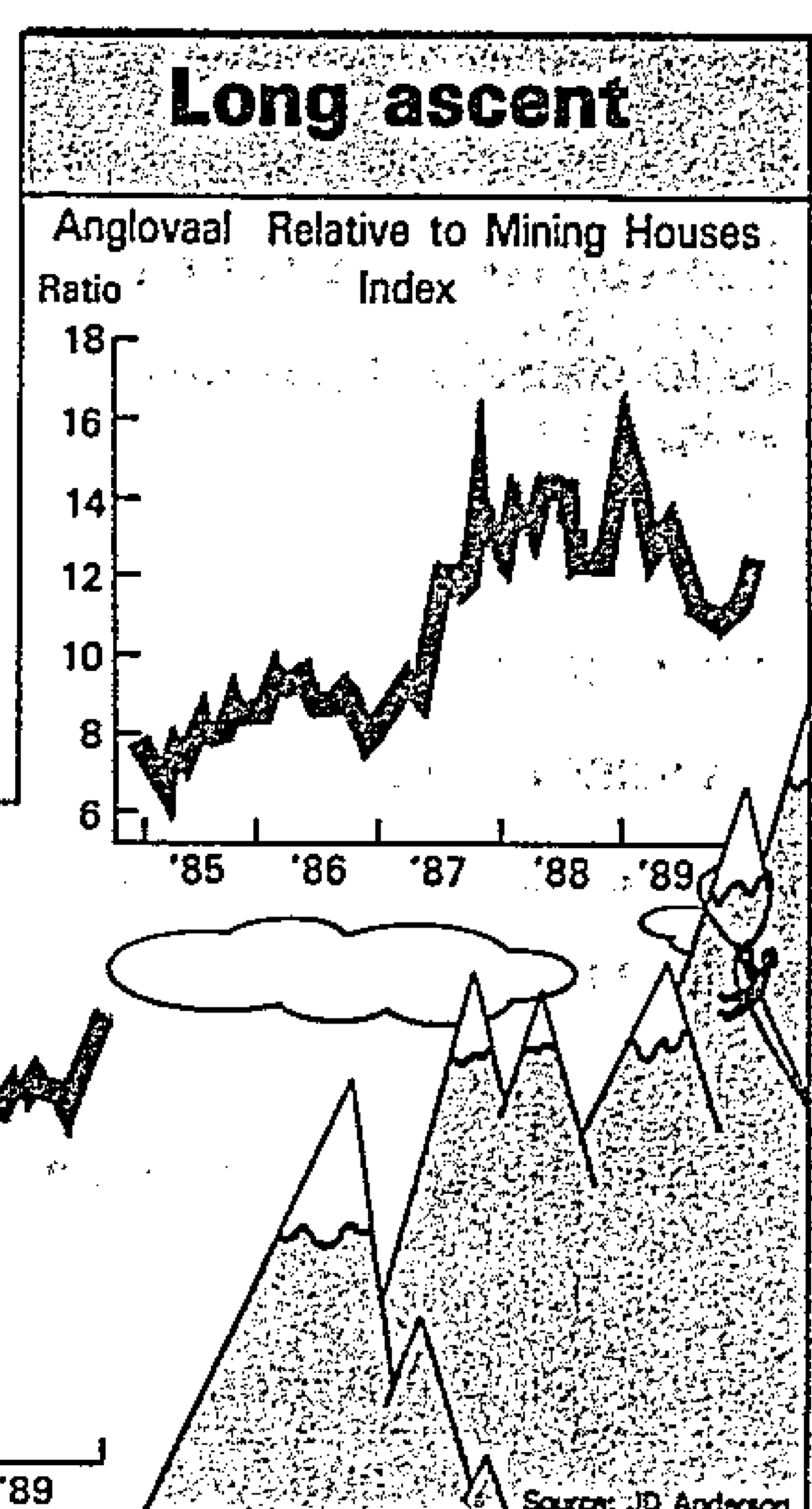
Hersov adds that there could well be a rights issue though it would be decided later whether this would take place in Anglovaal or by a listing of the mine. And he notes that with gold operations the control issue is treated differently. "I don't think it's necessary to own 50% of a gold mine as long as you have an understanding as to who manages it," he says. "We would be very willing to have two or more partners in a new mine."

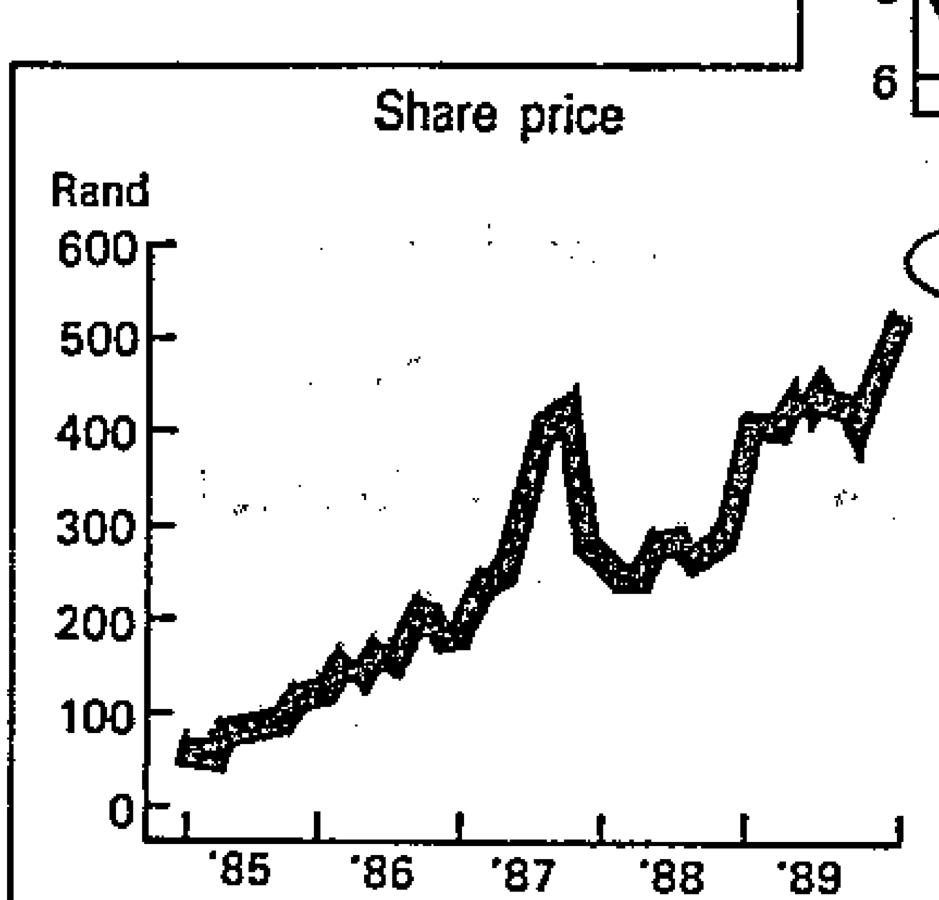
Analysts believe there will be no difficulty finding partners. Cash-flush Gencor, which owns 20% of Anglovaal Holdings, would almost certainly be interested. Another potential participant in some form might be Anglovaal's marginal gold producer Loraine, whose northern boundary is contiguous with the Sun area.

Within about six months, management expects to have results of current drilling intended to enhance confidence in the continuity of reefs. Hersov says that a decision could be taken and an announcement made by mid-year. Depending on time required to reach the reef and on values found, it will be "perhaps 10 years" before Anglovaal receives dividends from the project. Mechanisation is being planned.

New mining ventures are badly needed as the existing gold producers have limited reserves. Even Hartebeestfontein, a relatively rich producer with an estimated life of 20 years, is facing declining recovery grades.

Long ascent





And while the present board has produced strong results, it has yet to be shown that the group has the depth of management needed as it approaches the 21st century. But 1989 and 1990 are likely to be seen as two years when a giant leap forward was taken, even though the pay-off may only come towards the end of the Nineties.

The share has long been highly rated and the price rose this week to R610, a premium of some 40% to the R429 NAV based on the June 1989 balance sheet and latest market valuations of investments; the yield is only 1,3%. The market obviously has high expectations.

Andrew McNulty

Trade specialists aim to offer one-stop consultancy

180

ZILLA EFRAT

B/Day 23/11/90

PROMPTED by the growing need to maximise SA's exports and manage its imports more effectively, Price Waterhouse has formed a subsidiary which specialises in international trade.

Price Waterhouse partner Chris Frame says: "International trade is SA's lifeblood and cannot be conducted in a haphazard or ad hoc fashion when the country's prosperity is at stake."

The new company, P W International Trade Consultancy, will provide a one-stop foreign trade service, concentrating on strategic planning and implementing functional controls for companies involved in trade.

Frame says because of the urgent need for skilled management of imports and exports, the company will also conduct training programmes and seminars on various aspects of international trade for all levels of management.

He says a positive turnaround in international attitudes to SA will mean that capital flight will be replaced by capital inflow.

Capital inflow will need to to be very carefully managed, as will the increased acceptance of SA exports resulting from a change in attitudes.

Frame will concentrate on international tax and foreign exchange matters.

ED 77 too radical for 'historic' accounting

By Ann Crotty 180

Consider the following:

"Management is responsible for the preparation, integrity and objectivity of the financial statements ..."

"In our opinion, the statements fairly present the results of operations ..." (auditors).

"The financial statements are prepared on the historical cost basis ... The group recognises that financial statements prepared on an historical cost basis do not disclose true profits ..."

These statements, all of which come from the same annual report, seem to highlight the absurdity of presenting financial information — based on historical costs — to shareholders. It also suggests that the time and money invested in preparing annual reports is misspent in so far as it may produce among shareholders the misleading impression of being well informed.

In his report on the Exposure Draft 77 Mr Tucker Kleinenberg, technical manager at Price Waterhouse, notes that the user of financial statements which contain such comments as quoted above, is being told by management, "with the concurrence of the auditors, that the basis of preparation does not permit disclosure of true profit, but that nevertheless management vouches for the integrity of the statements" adding that: "This annual report differs from most only in that the inefficacy of the historical cost basis is emphasised. Most leave this unsaid."

The preparation of financial statements on the basis of historical costs reflects what has been described as a tendency for accounting to become 'an organisational comforter despite the lack of meaning in accounting figures.'

Precise fiction

Mr Kleinenberg points out that in a related context (accounting for intangibles) the Financial Times' Lex column noted: 'It is surely better to try for imprecise reality than settle for precise fiction.' As Mr Kleinenberg sees it, adherence to the historical cost basis for preparation of financial statements leads to precise fiction.

While he strongly supports the principle of current value statements he sees a number of problems arising from the radical nature of the ED 77 proposals.

"The ED is firmly based on the American 'conceptual framework'. However that framework has not yet received general acceptance from accounting practitioners who tend to be uncomfortable with financial statements that are not transaction based."

In reviewing the ED 77 proposals Mr Kleinenberg refers to its treatment of three areas which have caused much controversy in accounting circles: deferred tax; accounting for intangibles and; off-balance sheet financing.

"By accepting the concepts of comprehensive income and the present value of assets and liabilities, ED 77 'assumes' these problems out of existence.

"A balance sheet prepared in line with the ED 77 principles contains no deferred tax. Liabilities are shown at net present value (npv) discounted from the expected date of settlement. The date of settlement of the deferred tax liability is unknown, ie the period is infinite. Because a liability discounted (at any rate) for an infinite period has an npv of zero, there is no need to provide for it."

Off-balance sheet financing, which would be disclosed as part of the npv of liabilities, is similarly dispensed with.

Intangibles are shown in the ED 77 balance sheet as the sum of the present values of the annual after-tax stream of royalties saved.

Mr Kleinenberg acknowledges that ED 77 makes a convincing case for recognising comprehensive income and the fact that the value of money is not constant. But he believes that: "The suggestions in the ED, while intellectually satisfying, and valid in terms of economics, are so radically different from accepted accounting practice that there seems little possibility of their general adoption.

"In addition the elements of subjectivity and choice allowed for in the ED, are likely to produce materially differing results and asset values depending on the bases and assumptions applied. And, it is likely that widely varying discount rates will be applied by different enterprises and this will further hamper comparability between enterprises. As a result financial statement users may be unfairly influenced.

B/Day 24/1/90 (180)

IDC advances R1,1bn to industry in successful year

EDWARD WEST

THE Industrial Development Corporation (IDC) advanced nearly R1,1bn to industry during the financial year to June 1989, the corporation's 1989 annual report said.

Released yesterday, the report said IDC had a successful year marked by improved profits and growth in total assets.

Net operating income increased by 27% to R358m after providing for R86m tax. Total assets increased by 20% to R4,4bn.

Advances to industry included R345m for the Mossgas project. The balance was applied over a wide spectrum of industries.

IDC paid R600m for a 300-million-share interest in Iscor. Because of the high level of advances and the Iscor investment, cash resources were reduced considerably, in spite of R465m in new foreign loans.

IDC group cash and negotiable securities decreased from R710m in 1988 to R460m in the 1989 financial year, the report showed.

The level of commitments to industry declined to R722m which could readily be financed out of available cash resources and IDC's operating profits and its financing subsidiaries.

There was no increase in administration costs during the year because of the transfer of the decentralised housing function to the private sector.

Rate scheme

ing to key personnel in decentralised areas. Transactions totalling R10m were approved at the beginning of the financial year before final transfer took place, the report said.

Administration costs amounted to 0,67% of total assets.

Approvals for the IDC's low interest rate scheme, which was introduced in 1988 for small and medium-sized companies, amounted to R211m and the R300m allocated to the scheme was expected to be fully taken up by June 1990.

IDC undertook to contribute to share capital requirements of the Small Business Development Corporation for the

The housing division provided housnext five years. For this purpose R70m was approved and the first payment of R13m was made during March 1989.

An amount of R27m was approved for an IDC and CSIR joint venture called the Technology Finance Corporation (Technifin) to assist in the research, development and transfer to industry of commercially promising technology.

During the year IDC established credit lines with various foreign banks for use by importers of capital goods. Facilities to the tune of R179m were granted in terms of these credit lines.

IDC facillities were suitable for risk participation in the establishment of new projects and R94m was approved for six projects during the year.

Projects aimed at the manufacture of alumina, magnesia and potash from local raw materials, the beneficiation of kieselguhr deposits, the evaluation of mineral development potential of certain border areas and further refinement of heavy minerals were receiving specific attention, the report said.

In a statement, IDC GM Jan de Bruyn said growth prospects in the industrial sector remained positive for the coming financial year. The IDC planned to continue its development role to support this growth.

SOWETAN BUSINESS

180

Translating the jargon

Sowetan 25/1/90

THIS week MEL BROOKS of the Centre for Developing Business, part of the Wits Business School, discusses the importance of every company worker having a firm understanding of how money is used in a business. This involves looking at how financial decisions are made and put into action, as well as how the activities that take place in business are measured in terms of money.

FINANCE for non-financial managers: The financial management of any organisation is too important to be left entirely in the hands of accountants and financial managers.

Not only is money an important resource in a business, but the activities of a business are always expressed in financial terms. In addition, every decision made, or activity carried out, has implications which can be measured in financial terms.

· Terminology and jargon: Non-financial managers who are responsible for areas such as marketing, personnel and production are the people who actually run the business. However, they have problems understanding financial reports and concepts. One of the main reasons for this is a lack of understanding of the "lanaguage of business" that is accounting.

Problem

The main cause of the problem is the accounting people themselves. They use terminology and jargon when talking to laymen, which is often incomprehensible.

This is unnecessary as it is possible to use plain and simple English even when describing the most complex financial matters.

To complain that the accountants are to blame is, of course, not good enough. Non-financial managers must equip themselves with a knowledge of business language. This will enable them to communicate with the people who hold the purse strings.

Apart from improving communication, if non-financial people can themselves calculate the effects of any decisions they make, it will make them more effective as managers.

In addition, the planning process which has become a vital part of managing calls for all future activities of a business to be set out in terms of rand and cents.

Money

If everyone in an organisation can communicate at the same level about money, the budgeting and cash-flow forecasting can be done as a team effort.

This will be an improvement on what happens in some businesses where accountants prepare these plans with only occasional input from the rest of the organisation, who often can make little sense of what is happening anyway.

How to learn: The first thing that non-financial people need do is to start reading financial publications. This will give them a picture of business activities throughout the country. At the same time, they should attempt to gain an insight into the following aspects of their own firms:

How the activities are recorded;

How this information is classified and summarised (this is the bookkeeping process);

How the information is presented in a meaningful format (this is the accounting process); and

How to interpret the information and make decisions and plans based on that information (this is financial management).

Dealings

Secondly, in all their dealings with financial people, they should not accept the use of jargon. If something is not understood they should say "please repeat that, in English!" Financial people have a duty to educate their colleagues in business.

They must stop hiding behind the walls of their speciality.

The centre is very concerned about the need for all managers to understand how money is used in business. If you are interested in learning more about the programme available, phone Elias Maseko on (011) 643-3241.

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

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Vol. 295 PRETORIA, 26 JANUARIE / JANUARY 1990 No. 12265

PROKLAMASIE

van die
Staatspresident van die Republiek van Suid-Afrika

No. R. 11, 1990

MAATSKAPPYWYSIGINGSWET, 1989
(WET No. 78 VAN 1989)

Kragtens die bevoegdheid my verleen by artikel 7 (2) van die Maatskappywysigingswet, 1989 (Wet No. 78 van 1989), bepaal ek hierby die datum waarop hierdie Proklamasie in die *Staatskoerant* gepubliseer word, as die datum waarop die bepalings van genoemde Wet in die Bylae hiervan vermeld, in werking tree.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Scottburgh, op hede die Twintigste dag van Desember Eenduisend Negehonderd Nege-en-tagtig.

F. W. DE KLERK,

Op las van die Staatspresident-in-Kabinet:

K. D. S. DURR,

Minister van die Kabinet.

BYLAE

Artikel 4 (b) in die mate dat dit artikels 440A, 440C, 440D, 440E, 440H, 440I en 440J in die Maatskappywet, 1973 (Wet No. 61 van 1973), invoeg.

GOEWERMENTSKENNISGEWINGS

DEPARTEMENT VAN FINANSIES

No. R. 119 **26 Januarie 1990**

DOEANE- EN AKSYNSWET, 1964

WYSIGING VAN BYLAE 5 (No. 5/11)

Kragtens artikel 75 van die Doeane- en Aksynswet, 1964, word Bylae 5 by genoemde Wet hiermee gewysig in die mate in die Bylae hiervan aangetoon.

G. MARAIS,

Adjunk-minister van Finansies.

PROCLAMATION

by the
State President of the Republic of South Africa

No. R. 11, 1990

COMPANIES AMENDMENT ACT, 1989 180
(ACT No. 78 OF 1989)

By virtue of the powers vested in me by section 7 (2) of the Companies Amendment Act, 1989 (Act No. 78 of 1989), I fix the date on which this Proclamation is published in the *Government Gazette,* as the date on which the provisions of the said Act referred to in the Schedule hereto shall come into operation.

Given under my Hand and the Seal of the Republic of South Africa at Scottburgh this Twentieth day of December, One thousand Nine hundred and Eighty-nine.

F. W. DE KLERK,

By Order of the State President-in-Cabinet:

K. D. S. DURR,

Minister of the Cabinet.

SCHEDULE

Section 4 (b) to the extent that it inserts sections 440A, 440C, 440D, 440E, 440H, 440I and 440J in the Companies Act, 1973 (Act No. 61 of 1973).

GOVERNMENT NOTICES

DEPARTMENT OF FINANCE

No. R. 119 **26 January 1990**

CUSTOMS AND EXCISE ACT, 1964

AMENDMENT OF SCHEDULE 5 (No. 5/11)

Under section 75 of the Customs and Excise Act, 1964, Schedule 5 to the said Act is hereby amended to the extent set out in the Schedule hereto.

G. MARAIS,

Deputy Minister of Finance.

All about the Chamber

(180)

FM 26/1/90

Leslie Boyd, executive director of the Anglo American Corp and president of the FCI, has been appointed president of the new SA Chamber of Business.

FM: Why has there been an undue delay in appointing the chamber's new executive director-general?

Boyd: In November 1989 Assocom and the FCI decided to form the new chamber. As there was some controversy over the time taken in putting office bearers into place, I would like to respond specifically to the *FM*'s editorial "Decisions, decisions . . ." in your issue of January 19.

For many years, the business community had tried to bring Assocom and FCI together into one body. Clearly, the fact that the process took so long indicates some real difficulties in achieving success. I therefore find it disappointing that the *FM* does not show more appreciation of this reality.

Secondly, over the past months both Assocom and FCI have had regular meetings with top government officials on important issues affecting business. There has therefore been no "hiatus" in the operations of the business bodies concerned, as they have been operating as effectively as before.

Regarding the appointment of a director-general, we felt it important to allow time to give the appointment of the chamber's top executive serious thought, and to search the business community for talented candidates. We therefore don't accept that an undue time elapsed from the formation of the chamber on January 1 until the appointment of the top official on January 24.

Underlining the seriousness with which the matter has been handled is the fact that a businessman of the calibre of Barlow Rand chairman Mike Rosholt has been acting as chairman of our selection committee.

Do you agree that FCI is the smaller partner in the marriage with Assocom?

I don't want to comment on the clout of the respective bodies. I want to make it clear that the concept of the new body is to put together two organisations of equal importance to create one with greater strength.

How do you see your role and function as president?

I will lead the chamber till its first annual convention in October, when a new president will be elected. From then, I will continue to serve on the executive committee as immediate past president. Until then, my first priority is to oversee the birth of the new organisation. This includes putting the necessary structures in place, and will involve the current and newly appointed officials, as well as the chairmen of the various committees.

My first task is to see that the two organisations are welded together. I will have to act as chairman of the chamber's executive committee, which will have to ratify new appointments.

The second task is to establish relationships with the appropriate authorities, in order to communicate more effectively our views on key issues that influence business, including the economic development of SA. Fortunately, both Assocom and the FCI have already established sound relationships with the new ministers and the director-generals of various State departments, so that this task should not be too difficult.

Boyd . . . building relationships

How will the new body be constituted? And was it a difficult birth?

To answer the second question first, we anticipated more difficulties than we experienced. The joint steering committee made up of FCI and Assocom members really worked well together throughout the whole of 1989. And the joint transitional committee will only have its final meeting in February, after which we hope to finalise the constitution by March this year.

The structure of the new body will include a nine-member executive committee which will include the president as chairman, a deputy president, immediate past president, two vice-presidents (representing the two sectors), the director-general, two divisional directors and an honorary treasurer. This committee will meet on an *ad hoc* basis, if and when necessary.

The 43-member board of management will meet four times a year and will include all the executive committee members (each with one vote), 20 members from the chambers (representing 56% of the votes), two direct member representatives (large corporate members, with 15 votes), two representatives for the national or sectoral organisations (like Naamsa, the Textile & Clothing Federations, with 11 votes) and 10 co-opted members (chairmen of committees, past presidents, with 10 votes).

The annual convention will have a total of 615 votes, with 200 each to the "old" Assocom and FCI chambers. Its first meeting will be in October, possibly in Johannesburg.

How do you see the future role of the chamber?

Clearly, this decade will require a different style, which will include greater involvement, communication and consultation between business and government. The F W de Klerk government has already indicated its willingness to consult with the business sector on an ongoing basis, rather than through annual meetings, as happened before.

The relevant ministers (like Kent Durr at Trade & Industry and Barend du Plessis at Finance) operate a mutually acceptable "open door" policy. This means that the business community will have more influence on final decisions made by the authorities, especially relating to economic policy.

Would you like to see other bodies like the AHI and Nafcoc join the chamber?

We must demonstrate that we can bring together all the FCI and Assocom members into one body. Then, we can approach the other bodies with a view of joining us and strengthening the business voice in order to create the best environment for business to operate in. As in the case of Naamsa, each body could retain its own independence in its area of jurisdiction. I hope other bodies like Seifsa and Bifsa would be interested in joining forces with us later.

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BUSINESS TIMES

Freighting

180 (6)

The four 'rights' that spell success

S. Times 28/1/90

By Robyn Chalmers

COMPETITION, rising costs and a rapidly changing, sophisticated international trading market will be among the challenges facing the forwarding and clearing industry in the 1990s.

In this scenario the efficient management of the movement of goods is fast becoming the most strategic tool for importers and exporters.

It seems that the maxim to success in this decade is summed up in the four "rights": Get the right goods to the right place at the right time at the right price.

To achieve these goals requires knowledge, expertise and experience to orchestrate the movement of diverse cargoes nationally and internationally. Ideally, the clearing and forwarding agent's expertise is an extension of the client's shipping department.

Resources

The growing need for the cost-effective application of resources, especially those tied up in stock, has made importers realise the strategic advantages to be gained from door-to-door control of the transport chain.

Out of the popular Japanese management system just in time (JIT), there is growing recognition that systematic, planned deliveries eliminate the need for large stock and storage facilities.

Renfreight Fowarding SA divisional general manager Eddie Stead says that with the international Lep network of facilities and services available in Europe, America, Asia and Australasia, Renfreight has developed its own door-to-door freight management system.

"This service is tailored to satisfy the growing need for cost effectiveness, passing on the potential benefits of JIT management techniques to clients."

Uniserv deputy chairman Barry Saxton predicts that the days of the company warehouse are rapidly ending. He says demand for the courier and express parcel services has to be seen in the context of the dramatic changes in distribution that have swept the world.

"The sight of a packed warehouse, once a token of a prosperous company, is now evidence of costly and inefficient stock holding. It represents capital tied up and dormant.

Breed

"No company can afford not to alter its distribution patterns to move with JIT management requirements that call for faster stock movement. Necessity now dictates that stock levels remain flexible to respond quickly to market demand

"The way to gain that flexibility is not to store bulk in a warehouse at enormous cost, but to have faster transport methods — express delivery by courier."

Mr Saxton says SA is seeing a new breed of distributor. What was regarded as cheap transport by standards of a decade ago is now recognised as expensive because of its harmful effect on the company's investment in stock.

"Faster movement of goods is recognised as the most important way to contain costs and maintain productivity — as well as improving customer services."

Speed, as always, in the movement, clearing and delivery of goods is critical in this industry. As Mr Saxton points out, goods in transit essentially represent dormant resources, and it is here that computerisation has come into its own.

The development of the EDI systems in the 1990s will bring about great changes in the international forwarding industry. EDI is aimed at the standardisation of documentation, processable through an international computer network.

Closer

Mr Stead says the benefits of automation are simplification and speed in the entire documentation process, which will turn the clearing industry into a paperless operation.

"Ideally, information covering a particular transaction will be entered at the supplier station and electronically transferred as required around the globe.

"The real benefit of the EDI programme is the closer link it will provide with the client. Through our systems, we will be able to track and direct the movement of goods from point of supply to destination at the press of a key and with no duplication or errors in data capture."

Quality

However, the structural change and growing export sector, driven by current government policy, offer the biggest challenge of this decade.

The freight industry in SA has traditionally focused more on import clearing than export forwarding.

This came about because of the historical imbalance in numbers between importers and exporters and the diverse and complex range of tertiary import commodities compared with exports which have tended to be homogenous primary products.

Mr Stead believes the preoccupation with import clearing is set to change.

EDDIE STEAD ... closer links forged with clients

"Exporters are realising that reliability in quality and delivery are the key needs to be satisfied when competing on international markets. This is stimulating demand for professional forwarding."

Handling, storage, documentation and shipping of goods for export to sophisticated international markets demand specialist transport and warehousing logistics.

Mr Stead says the professional transport and warehousing services offered by the forwarding agent save exporters time, money and hassles, allowing them to concentrate on their primary business.

With thousands of square metres of general and specialised warehousing throughout SA ports, Renfreight is investing large sums in the development of facilities.

A total of R10-million is being spent on what will be the largest and most sophisticated warehousing facility at Richards Bay.

In Durban, specialised warehouing facilities have been developed to meet the needs of general and specific industries, including forest products, steel and chemicals.

S/Times 28/1/90

180

Key role for the fundi in logistics

LOGISTICS in the 1990s will focus on integrating various business functions and building relationships among companies, suppliers and customers.

The ultimate aim of a logistics strategy is to maximise corporate profits, while bringing together storage, production and distribution.

Writing in Transport Management, Unitrans group director Ernie Patterson says this decade's logistics manager will have a broad knowledge of the business, keeping his fingers on most aspects of operation while coming up with innovative ideas for reducing distribution costs.

His job will be to manage the acquisition, movement and storage of materials and keep tabs on the related flow of information through the organisation.

Philosophy

The concepts of distribution warehousing and third-party distribution are relatively new to SA.

Unitrans, a large transport organisation, has made a large investment in time, money and management skills to develop the expertise and resouces to become a contender in this fast-growing discipline.

Mr Patterson says that the company's philosophy of solving customer problems rather than being merely a provider of "wheels" has resulted in a natural progression to third-party distribution and warehousing.

"Together with companies we have targeted, Unitrans goes inside to investigate and establish the real logistic needs.

"To offer a total distribution package, you must be able to solve all logistic problems from getting raw materials into plants to delivering finished goods to retailers or customers."

Mr Patterson says warehousing and distribution are elements of this total package of services that customers are looking for.

In 1983, Unitrans decided to make better use of its warehouse facilities, and hooked up with Caltex, which was interested in optimitising its lubricating oil distribution and handling costs.

The company packs Caltex's lubricating oil into containers and transports them to a 12 000m² warehouse in Johannesburg for delivery.

Mr Patterson says: "A complete service allows the client to reduce inventory and lead time and focus the efforts of its people on sales — the prime purpose of its business."

Unitrans stresses the importance of bringing other aspects to existing arrangements. This was used to great effect when Unitrans linked up with the SA Sugar Distributors warehouse.

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Computers save inventory costs

1.80

By Robyn Chalmers

IN a typical manufacturing organisation, warehousing for both raw material and finished goods accounts for 6% to 8% of the total cost of an article.

In addition, up to 35% of the floor area of many companies is devoted to storage of finished goods or raw materials. With warehousing and labour costs climbing, any reduction has a direct beneficial effect on the bottom line.

Pim Goldby senior consultant Allan Wilkins believes improved computer systems in warehousing and materials handling can yield significant benefits to an organisation through better use of resources and improved quality of service.

He warns that because of the abundance of applicable technology, it is essential that any expenditure in information systems be carefully planned.

In planning information systems (IS) for a warehousing operation, there are two major applications:

● Improvements in the capture of the data.

● Making better use of the information in the system to optimise certain business functions.

"If the data needed by the system can be captured more easily and timeously, the information is available in the system sooner to allow management to react proactively.

"Use of barcodes as well as stationary and hand-held scanners for product identification allows receiving and dispatching staff to update stock positions immediately as the goods are received or dispatched."

Mr Wilkins says the time employed to take stock of actual inventory can also be reduced by using hand-held terminals and laser scanners.

The more efficient capture of data in the system not only means it is available more timeously for management decisions, but that there is also a productivity gain allowing fewer staff members to handle more work.

Integration

Backward and forward integration of IS into both supplier and customer computer systems is now possible through electronic data interchange (EDI) or the computer-to-computer exchange of standard business documents between trading partners, says Mr Wilkins.

"With the emergence of EDI standards, such as EDIFACT, communication between different computer systems nationally and internationally is possible.

"In a just-in-time environment, which ideally aims at zero inventory, the supplier is required to make more frequent, smaller deliveries of raw materials."

Mr Wilkins says EDI can strengthen the relationship between trading partners because both the supplier and manufacturer can experience paybacks through reduced costs and better inventory management.

Likewise, if the customer is able to place his order more frequently and more easily, a superior service can be provided in terms of turnaround time.

Layout

In improved use of data to manage the warehouse in a more effective manner, Mr Wilkins says there are two areas than can be affected:

● Reduction of distances travelled. An optimal warehouse layout where 80% of the demand is satisfied by 20% of the stock-keeping units requires management to know which 20% of the items account for most of the activity.

In a dynamic business environment, accurate, timeous demand information together with an effective forecasting system will assist the warehouse controller by providing him with information to allow him to plan more efficient layout.

"Before goods arrive at the warehouse, they can be allocated to an area based on the expected demand or dispatch date. This will allow the computer to produce picking lists in an order that conforms with the current physical layout of the warehouse and optimises travel in the building."

● Make better use of round trips. Most forklift travel in a warehouse involves carrying a payload in a single direction. The forklift is therefore travelling empty for nearly half of the time.

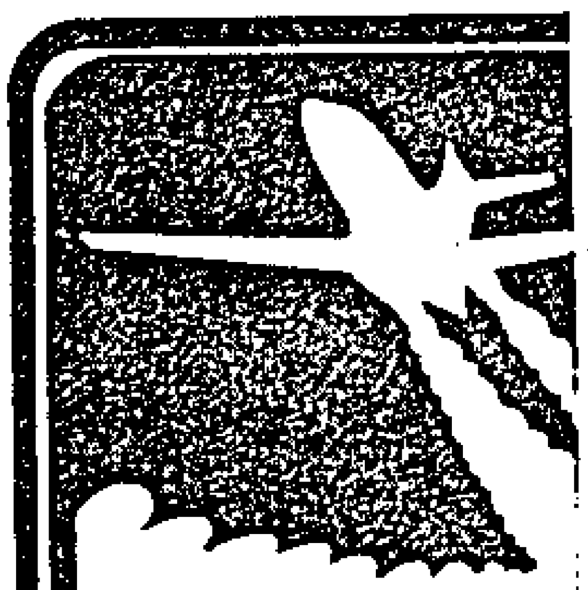
Mr Wilkins says the technology exists for a facility that is equipped with computer-controlled stacker cranes with a memory unity. It helps to optimise the crane's round-trip travel.

"While the crane is stacking an inbound load in a predetermined optimal location, the computer identifies that an item located nearby is needed for an outbound order. It instructs the crane to retrieve it on completion of the stacking of the inbound order.

"The opportunities for reducing one-way travel are not limited to sophisticated computer-controlled crane systems.

"Provided the basic information is available and a good communication network exists in the warehouse, great savings can be achieved through optimising round-trip travel among forklift trucks."

ALLAN WILKINS ... making better use of resources



Businessmen confused over ANC stance

180 ALAN FINE

BUSINESS has responded to Nelson Mandela's reaffirmation of his and the ANC's commitment to the nationalisation of mines, banks and monopoly industry with discomfort and confusion.

SA Chamber of Business president Leslie Boyd said the statement would have an extremely negative impact on the perceptions of skilled and professional people in SA.

"If such policies are implemented in a future SA it would lead to a massive brain drain the likes of which have never before been seen," he said.

He said many in SA were prepared to accept the total removal of racial discrimination and "heavy" black involvement in government, provided the economy was run on a free enterprise basis.

"If the statement is authentic I am very disappointed. It would appear Nelson Mandela and the ANC are out of touch with reality and totally ignore the very significant events that have taken place in Eastern Europe in recent months," said Boyd.

Another prominent businessman, who had met ANC representatives more than once, said it was impossible to have a sensible debate until the political process had been freed up.

Declining to be named, he said nationalisation was a vague term and a rhetorical device.

"It is possible to speculate that the ANC wishes to firm up its apparently softening policy so it has an appropriate opening position at the bargaining table. It also has to reassure its restless troops on the ground who believe it is going soft," he said.

He noted that the ANC, like most political organisations, had many agendas directed at a wide range of constituencies. Without open debate it was difficult to assess what various statements meant.

Chamber of Mines president Ken Maxwell said at the weekend Mandela's reported statement was a contradiction of the process required for black economic empowerment.

It also appeared to contradict some of the reassuring noises made by ANC leaders recently, Maxwell said.

Maxwell said these discussions had led to expectations that the ANC had begun to adopt a more realistic approach, more in keeping with developments elsewhere in the world where nationalisation was being abandoned "at every turn".

B/Day 29/1/90

Handbook shows rise of Rembrandt

Business Day Reporter 180

THE 10th edition of Robin McGregor's annual Who Owns Whom investors' handbook has just been released.

According to McGregor, it reveals two highly significant developments on the SA economic scene — the increasing dominance of Rembrandt and the sudden rise of the FS Group.

While Anglo American continues to dominate control of JSE-listed companies in terms of market capitalisation, the Rembrandt Group has risen rapidly over the past few years, and in 1989 captured second place.

SA Mutual and Sanlam have traditionally jostled for second and third place behind Anglo American.

Rembrandt's move to second position was due to a number of factors.

These included the rise in the share prices of companies falling under the Rembrandt umbrella, the takeover of Rainbow Chickens, and Rembrandt's significant involvement in Gold Fields of SA.

Who Owns Whom reveals that Anglo American controlled 45,3% of JSE capitalisation as of October 1989, which was down from 49,5% in September 1988. BDay 29/1/90

Control by Rembrandt jumped to 16,1% from a mere 7,6% during the same period.

The controlling stakes of Sanlam and SA Mutual have stagnated in the 9% to 10% range during the past four years.

McGregor points out that the FS Group now controls 1,1% of JSE capitalisation, while the Venter Group's control slipped to 0,6% from 1,1% in the past year.

He predicts that the FS Group will continue to gain strength during the next 12 months due to its proven ability to manage a diversified empire efficiently.

Overall, McGregor notes that 80,7% of JSE market capitalisation is controlled by four major groups, while 86,3% is dominated by six groups.

Star 31/1/90 (180)

Business confidence still buoyant

By Jabulani Sikhakhane

Business confidence is still relatively buoyant although the real economy is showing signs of slowing down.

The Business Confidence Index of the South African Chamber of Business — formed recently after the merger of Assocom and FCI — has increased 0,3 points from 95,6 in November.

SACB says developments in the financial markets, positive political developments and the higher gold price have had a favourable impact on business confidence.

Other contributing factors were a real increase "to an extent" in seasonally adjusted retail sales during December and early January; a decline in the number of unemployed and higher exports.

Negative developments included a decline in merchandise imports, increased individual insolvencies and a decline in the number of registrations of new companies. Both the volume of manufacturing production and of building plans also declined.

SACB warns that an economic downturn is under way. Preliminary figures for retail sales for November/December 1989 show a decline of 2,5 percent in volumes on those of the corresponding period for 1988. There has also been a sharp decline in motor vehicle sales.

The fact that the real economy is in a downward phase may well impact adversely on business confidence in the coming months.

Businessmen are viewing the downturn as a normal business cycle without the trauma of political upheaval, debt standstills and soaring interest rates which characterised the severe economic downturn of 1985-86.

Summarising, SACB says the business mood has remained surprisingly resilient in the face of the downturn, due mainly to the expectation of a "soft landing" for the economy and more positive political factors.

Future business confidence will also depend upon sound economic management and external factors such as the gold price, it says.

B/Day 30/1/90 180

SA will become acceptable to investors

SA will again become an acceptable place to invest in, says PETER KRAFFT in the Daily Telegraph.

AFTER a while, nations become weary of war, poverty and ideology, and turn with relish to making money. The thought of this happening in Eastern Europe has brought foreign investors piling into German shares, but they should not forget SA.

The country has been a Berlin amid hostile neighbours for years. The political changes now taking place and the imminent release of Nelson Mandela mean SA will again become an acceptable place to invest in, but the implications run much deeper.

The country is undergoing an economic overhaul equivalent to those of Thatcher and Gorbachev rolled into one.

President F W de Klerk has handed monetary power back to the Finance Ministry and the Central Bank.

No longer can the profligacy of an overblown police state determine money supply. Interest rates have risen to 20% to squeeze out 15% inflation.

A major privatisation programme is taking place: even the State garages are up for sale. Tax rates will fall from their very high levels.

Refugees

These supply side improvements come as the dismantling of apartheid brings promise of a trade upsurge with SA's black neighbours.

Behind the rhetoric, they have been expanding trade steadily and improvements in the political climate could turn SA into their Hong Kong: a technological and trading shopfront for the world.

As the Berlin Wall fell, the shares to buy were those of construction companies standing to benefit from building homes for refugees as well as reconstructing the East.

There will be no quick jump in profitability for SA companies. The new economic discipline implies a tough immediate future, followed by soundly based expansion.

What shares can be bought to benefit from the long-term improvement in the economy?

In many ways, the country resembles Australia, with its labyrinthine cross-holdings. But the balance sheets are very different, often being stashed full of cash. Shares are also cheap.

A company like OK Bazaars, quoted in London and one of the country's biggest retailers, yields almost 10%, but offers little direct exposure to the improved industrial prospects.

Two companies which stand out are Barlow Rand and Malbak.

Barlow Rand, quoted in London, has a rock-solid balance sheet, with no net borrowings.

It is a well-managed conglomerate with interests ranging from cement to telecoms manufacture, and trades on a historic earnings multiple of under seven.

Smaller, and not quoted in London, is Malbak, although with a £250m market capitalisation it is no flyweight. Its earnings per share have risen at a compound rate of 35% annually for the last few years.

Squeeze

Making industrial products it will be a direct beneficiary of improved trading links.

Although the economic squeeze will slow Malbak's growth this year, it will still manage about 15%, bringing the earnings multiple down to six.

Such value cannot easily be had in London.

FM 2/2/90 (180)

TAKING CONTROL FM 2/2/90

Ruperts' rise (180)

It has long been accepted that the control of shares listed on the JSE is highly concentrated. The problem is how to measure where control exists and how to relate the holdings of the big investors to the market as a whole.

Robin McGregor, publisher of the tenth edition of *Who Owns Whom*, has for a number of years listed the groups or interests which he believes control more than 1% of the market capitalisation of the JSE (see table).

The use of market capitalisation is not without problems, the obvious one being that capitalisation is determined by share prices as well as by the quantum of shares held. In some cases, too, critics may balk at the judgments made as to where control is held. But McGregor does offer a consistent approach which allows useful comparisons.

Prices may, of course, move for any number of reasons, such as levels of international commodity prices and currencies. As became clear during the past decade, depreciation of the rand — generally seen to be a result of local inflation and foreign political perceptions — tends to boost prices and market capitalisations of the "rand-hedge" stocks.

Those groups with large holdings of such counters or sectors may thus appear to have gained a greater or lesser "control" of the JSE. Anglo American Corp is a case in point. It not only has large holdings of mining stocks, but has large stakes in currency-sensitive stocks such as De Beers, Minorco, JCI, Amic and Amcoal.

Interestingly, according to McGregor's figures, the level of Anglo's control of JSE capitalisation has dropped from the peak of 60,1% in March 1987 to 45,3% last October — the lowest since 1983. One reason may be the generally dour performance of gold and the weakened profit margins in the industry. Anglo has holdings in gold stocks with large capitalisations such as Amgold, Vaal Reefs, Freegold, Western Deep Levels, Southvaal and Elandsrand. What will also have affected Anglo's relative position is that 44 Main Street has not pulled off many really large acquisitions in recent years.

In contrast, the JSE-listed interests considered to be controlled by the Rupert family — McGregor lumps together Remgro and Richemont — have doubled over the past two years to 16,1% of the total.

The stake of 20%-odd which Remgro built up in GFSA is assumed by McGregor to represent control (a view with which the GFSA directors may not agree) and this acquisition is seen as a major reason for the rise of the Rupert interests to second place. The other important reason was the creation of the separate company, Luxembourg-based Richemont, to hold the international interests, whose valuation by the market benefited from the improved disclosure as well as the weak rand; a consistently good performance from Remgro also helped.

Old Mutual and Sanlam have not been particularly active on the acquisition front in recent years and Mutual is considered to have held its 9,8% control of JSE capitalisation, while that of Sanlam slipped from 10,8% in 1988 to 9,5%. After continued divestments, the foreign-controlled holdings have been shrinking, dropping to 3,6% from 6,1% in 1986.

An instance where acquisitions have been decisive is the FS Group, now stated to control 1,1% of JSE capitalisation after absorbing the Waicor/W&A group. But the downward rerating of the electronics sector, as well as some unpleasant shocks that followed acquisitions and listings during the 1987 bull market, has seen the control credited to the Ventron Group drop from 1,2% two years ago to 0,6%.

McGregor again concludes, disturbingly, that no less than 80,7% of the JSE's total capitalisation remains under the control of the four blocs at the top of the table.

That compares with 77,7% in 1988 and 64,6% in 1983. Of course, if one drops the capitalisation measure — which emphasises size — then ~~the~~ number of JSE companies not controlled by the giants will be much larger. ■

180

Economic steps welcomed

Star 3/2/90.

Right moves, says Assocom chief

OWN CORRESPONDENT

DURBAN — The president of Assocom, Mr Brian Kurz, said in Maritzburg yesterday that in response to the need for a major economic overhaul of the country, recent actions taken by State President Mr F W de Klerk had been positive.

After holding discussions with Mr de Klerk and other members of the Cabinet, he said that Mr de Klerk had created a strong Cabinet structure and that sound business principles were now being used. Mr Kurz was addressing the Rotary Club of Maritzburg.

Sophisticated systems

Dr Wim de Villers, the new Minister of Administration and Privatisation, had impressed Mr Kurz with his steps to analyse State expenditure.

Dr de Villiers is promoting the introduction of more sophisticated and performance-oriented financial management systems in Government departments.

In the past, the Government provided services regardless of the cost and this had led to unnecessarily high capital investment. For instance, telephones were installed in the country to the extent that 50 percent were only used for an average of two calls a day.

A "real effort" was being made to consolidate Government expenditure into one budget, said Mr Kurz.

"The resolve of the Governor of the Reserve Bank, Dr Chris Stals, to contain inflation will ensure the perpetuation of an era of positive real interest rates and he has convinced the markets that he means business. He is determined to hit hard at inflation with policies of positive real interest rates," he said.

"All these facts are positive indicators and have had a positive effect on Assocom's business confidence index ... over the last two months."

Mr Kurz said there had been serious misdirections in the past, and "while First World people in South Africa had charged down the dynamic path of progress, they had left many Third World people behind".

"In Maritzburg and elsewhere we have sophisticated business operating in the city centre and a high standard of living in many upper crust suburbs, yet only a kilometre or two away many people do not even have a tap for clean water," said Mr Kurz.

"Probably more than half of our populaion has no strong sense of patriotism or sincere national pride," he said.

"Organised business's vision for South Africa is to promote a common destiny for all of South Africa's people and an upliftment of standards for all through a vibrant free market economy and political and constitutional reform," said Mr Kurz.

by JULIE WALKER

Double-counting mars McGregor

S/Times 4/2/90 (180)

NOT quite the investor's bible it portrays itself to be, McGregor's Who Owns Whom nevertheless contains useful information.

The major criticism of McGregor's is its inability to eliminate the effects of double-counting in determining how much of the equity market is owned by whom. The percentage of market capitalisation controlled is the yardstick used.

The 10th edition, published this week, shows that at October 1989 Anglo American retains pole position, controlling 45,3% of the market capitalisation of the JSE.

At its peak in December 1987 it held 56,1%, although McGregor's notes that fluctuations in the gold price affect its position because of its preponderence in gold.

Rembrandt controlled a mere 2% in 1983, but now fills No 2 two slot with 16,1% of the JSE. SA Mutual controls 9,8%, and Sanlam 9,5%. The top four control more than 80% of SA's listed equity.

FS-Group makes its entry into the greater than 1% at 1,1%. But the Venter Centre slid off the scale to 0,6%.

Directors of companies control almost 5% of the market. Foreign control has more than 3,6% — 6,1% at its March 1986 peak.

ORGANIC

The Liberty stable has the say over 3,4% of the JSE, and Anglovaal equals the State at 2,2%.

McGregor's attributes Rembrandt's rapid climb to the rises in group share prices, the performance of Richemont, the takeover of Rainbow Chickens, and most importantly, last year's deal with Gold Fields of SA.

"I am working on the assumption that Rembrandt now calls the shots in the GFSA group and while I am aware that this is not certain, I feel its influence is adequate to justify the claim," says Robin McGregor of Who Owns Whom.

He says that the stagnation of Sanlam and Mutual around 9% in the past four years is a reflection of their relative inactivity in takeovers.

Mr McGregor says that because State policy prevents institutional control of privatised companies, the only possibility of further growth on the JSE by Sanlam and Mutual is if they themselves go public — "a remote possibility with the perpetual board control which exists" — or from further disinvestment, and from the listing and takeover of the few remaining large unquoted companies.

"Organic growth will only, at best, keep them where they are."

His tip for the next 12 months is the further ascent of the FS-Group.

Mr McGregor says that with control of 86,3% of the JSE held by only six groups, SA still needs further State intervention to control cartels.

"With all the best will in the world, present legislation (with the manpower allocated to apply it) cannot prevent price or market fixing and consequential rising inflation."

No doubt several parties will take Mr McGregor to task on that statement.

The book purports to be the 1990 edition, but I notice several entries where a change of control which occurred in the last few months of 1989 have not been recorded.

...r Tempest

housed in 100% subsidiary of Interboard known as Audiocor (Pty) Ltd, which was previously Supersonic Radio Manufacturing.

I referred to the corporate announcement by Interboard announcing Supersonic's acquisition of the Tempest Group, signed by E I Dutton on November 28, 1988.

It does not disclose the identity of the seller, but says the Interboard share price of 271c has been underwritten by international majority shareholder Interboard Holdings BV for presentation to it at the seller's option 24 months from 1 December 1988.

Mr Sussman says that as far as he knows, Tempest went into Supersonic.

That sounds authoritative since the announcement says Mr Sussman was appointed to the Supersonic board, and would assume full executive directorship of the enlarged division.

The official corporate announcement makes no mention of Swiss ownership, but accompanying newspaper comment mentions the Swiss connection. Such comment went unchallenged by Mr Sussman at the time.

Interboard shares have rallied from a low of 20c two weeks ago to 33c. The market capitalisation is R53-million.

Cape Town's not just a dump by the sea

WMail 9/2–15/2/90

An upbeat conference presentation argues that the future lies behind Table Mountain. ALAN HIRSCH reports

AFTER years of pessimism about the socio-economic future of Cape Town, some economists are now painting the future in glowing colours.

In the 1980s Cape Town experienced a population explosion that had its economists and planners scurrying for cover. After 50 years of economic decline relative to the rest of the country, it looked as if the city could never find jobs for the hundreds of thousands of new residents who had scaled the walls of influx control.

Still more people poured in after the pass laws were scrapped, in the depths of the post-Rubicon depression. Many feared that Khayelitsha would be nothing but a huge, untapped, explosive reservoir of labour. Worse still, in spite of the existence of Khayelitsha, informal settlements continued to grow from Fish Hoek to Brackenfell.

Yet local economists talking to a conference this week on "Development in the Western Cape", were remarkably optimistic about the economic future of the region.

If one looks at the central business district and the inner suburbs — the view visitors often get — Cape Town still appears a comfortable, smallish city. An aerial view of the Cape Flats, however, tells a different story; that of a sprawling metropolis.

Wolfgang Thomas, regional general manager of the Small Business Development Corporation, estimates that in 1990 the population of metropolitan Cape Town is about three million. In 1995 it will be about half a million larger, and by the year 2000 more than four million people will fall within the city's functional boundaries.

Projections like these led a Cape Town City Council investigation into regional economic trends to conclude that the region could not absorb the growing population and that unemployment would rocket. By 2000 two thirds of a million Capetonians would be looking for jobs, guessed the 1987 study.

Thomas, in a dizzily upbeat presentation to the conference organised by the Regional Development Association, argued that the City Council projection was totally wrong.

The problem was that the model contained static assumptions about the economy and took no account of the informal sector.

Though Thomas projects an even higher population figure, he suggests that of the half a million people out of formal work, only about 200 000 people would be "genuinely" unemployed.

Aside from making a (rather large) allowance for the informal sector, Thomas argues that the growth prospects for Cape Town are good, particularly when compared with the rest of the country.

When Cape Town slipped from being the economic centre of the country early this century, the reason was the massive production of precious metals in the Transvaal. Now, as South Africa's gold production slips, and as the world market in raw and semi-processed minerals slumps, Cape Town goes steaming on while the heart of the country bleeds.

In a related presentation to the conference, Wesgro executive director, David Bridgman, noted that according to the most recent figures available, while South Africa had an annual growth rate of 0,01 percent between 1981 and 1984, Cape Town scored a steady 2,8 percent.

Cape Town's appeal for business is obvious. It is attractive to tourists and middle-class professionals. It has a strong educational base, a relatively large, relatively skilled, and low-paid manufacturing labour force, a growing number of unskilled workers and an adequate physical infrastructure.

Growth can be expected in construction, in the tourism industry, and in manufacturing, particularly those sectors where value added is a major component of the product (high-tech, high-fashion products).

These are all expected to be growth sectors in South Africa in the 1990s.

Though there is nothing wrong with a little boosterism, Wolfgang Thomas' figures seem inordinately optimistic. There is little evidence in past trends to suggest a 25 percent increase in manufacturing, construction and tourism employment by 1995, and the factor by which he reduces unemployment through accounting for the informal sector seems much too large. Planners and social workers point to the terrible poverty in many townships and on the fringes of the metropolitan region. And Cape Town's black education system is in a complete shambles.

Yet it does seem as if Cape Town's position as the economic laggard among South Africa's major centres might already be a thing of the past. Whether this indicates the city's strength, or the weakness of the rest of the country, is less clear.

SA CHAMBER OF BUSINESS (180)

FM 9/2/90

More merging to do

There may be a single national business chamber but it doesn't yet have a common philosophy. And, though businesses in all regions welcome the merger, there is little movement towards unity at the local level.

The new SA Chamber of Business, the

FINANCIAL MAIL FEBRUARY 9 1990

FM 9/2/90 (180)

result of Assocom's merger with the Federated Chamber of Industries (FCI), will have the services of both the former Assocom CEO, Raymond Parsons, who has been appointed director-general, and former FCI boss Ron Haywood. Haywood has agreed to serve under Parsons, something many observers predicted wouldn't happen.

"The chamber is very much bigger than either of us," Haywood says.

The national chamber may have common premises but a common philosophy will take longer to develop. The appointments of the heads of the new chamber's committees reflects an uneasy blend of protectionists, who favour government-sponsored export drives, and free-marketeers, who insist such intervention is counterproductive.

There are 12 chairmen: six from Assocom and six from FCI. The vice-chairmanships, where appropriate, will go to representatives of the other camp.

Among the free-marketeers, Johannesburg Consolidated Industries economist Ronnie Bethlehem will chair the general economic affairs committee and Anglo economist Aubrey Dickman will handle energy and water affairs.

Two well-known supporters of government intervention, though, will also hold key positions. Paul Hatty of Barlow Rand, who is responsible for forming a national policy for stainless steel, is in charge of the industrial affairs committee. Stanley Shlagman, the outgoing executive director of the Textile Federation, will chair the committee on the board of trade and customs affairs.

The next moves should be at the local level. Most local chambers are still separate and the mergers promise to be tortuous. So far Johannesburg is the only region with a single chamber. The southern Transvaal branch of FCI has merged with the Witwatersrand Chamber of Commerce & Industry, to form the Johannesburg Chamber of Commerce & Industry.

It won't be so easy elsewhere. From a practical point of view, it's difficult to merge more than 200 chambers of commerce with just eight chambers of industry.

Natal Chamber of Industries president Brian Wallett says there are still 90-odd chambers of commerce in Natal with no combined body at provincial level. "They will have to form at least a co-ordinating body before they can talk to us. Our local branches are working with chambers of commerce where they can."

Wallett says his Natal chamber will adopt a wait-and-see approach. Reflecting the sentiments of many chambers in both camps, he says "it's very difficult to give up autonomy after 70 years."

The Northern Transvaal Chamber of Industries in Pretoria jealously guards its autonomy, perhaps more than most. It didn't even contribute to the FCI manufacturing survey. Says chamber president Reuben Rutowitz: "We will maintain our autonomy and we're not bound by any decisions at national level. We will continue to represent industrial interests, though we'll work with chambers of commerce on matters of common interest."

At the other end of the scale, the Midland Chamber of Industry in Port Elizabeth and the city's chamber of commerce have already informally discussed a merger. Two years ago the Midland chamber considered leaving FCI and joining Assocom. Midland chamber president Brian Rayner says there is a considerable common membership between the two chambers and, at the very least, co-operation will be formalised. ■

Rembrandt's rising as Anglo wanes

180

W Mail 9/2–15/2/90

The latest edition of *Who Owns Whom* reveals changes in the structure of corporate power

CONTROLLING BODY	DEC 1987	SEPT 1988	OCT 1989
ANGLO AMERICAN GROUP	56,1	49,5	45,3
REMBRANDT GROUP	4,9	7,6	16,1
SA MUTUAL	8,9	9,8	9,8
SANLAM	9,7	10,8	9,5

McGregor's table shows Rembrandt's rapid rise to second place

A RESHUFFLE among South Africa's corporate powers has seen Rembrandt increase its control of Johannesburg Stock Exchange companies while Anglo American's has declined.

The latest edition of Robin McGregor's *Who Owns Whom* shows the Rembrandt Group controlled 16,1 percent of the JSE by October last year, more than double its 7,6 percent in 1988. But Anglo's stake has declined from almost 50 to 45 percent, mainly as a result of fluctuations in the gold price.

Behind the big two groups come SA Mutual, with 9,8 percent (the same as in 1988) and Sanlam, with 9,5 percent (down from 10,8 percent in 1988). These two groups used to vie for second and third place among the top four but have now been overtaken by Rembrandt.

Between them, the four big groups controlled 80,7 percent of the JSE by the end of last year, compared to 77,7 percent in 1988 and 83 percent in 1987.

Last year McGregor pointed to the rise of director-controlled companies, which he saw as a positive sign, reflecting the rise of successful family or entrepreneurial companies. Director-controlled companies have fallen from 6,9 to 4,9 percent of the JSE, but remain the fifth largest group on McGregor's new list.

He estimates the top six groups on the JSE now control over 83 percent of the shares.

McGregor's list is not based on how many shares each group owns but on how many it controls. To arrive at each group's ranking he totals the market capitalisation (share price times shares in issue) of all the companies he deems it controls.

So for example, Rembrandt's total is based on the assumption that it now controls Gold Fields of South Africa. McGregor acknowledges this is not certain but believes "their influence is adequate to justify the claim". Rembrandt's rapid rise in the ratings was also a result of the rise in its share price, the performance of foreign subsidiary Richemont and the takeover of Rainbow Chickens.

With the JSE so tightly held by the big groups, McGregor argues "South Africa still needs further state intervention to control cartels, as, with the best will in the world, present legislation cannot prevent price or market fixing and consequential rising inflation".

A recent Bank of Lisbon *Economic Focus* pointed out there was no longer any agreement among economists about whether concentration of ownership was good or bad.

"The impact of (economic) concentration on prices, competition, abuse of market power, innovation, etc, is disputed," Bank of Lisbon said.

Economies of scale might mean concentration was desirable: "The South African economy is of a relatively small size, and this means that if firms are to exist in those industries where large scale economies of production can be reaped, the existence of large companies may be unavoidable," the bank said.

But concentration of ownership in the South African economy was still a matter of concern, because it was not clear that this was necessarily the result of a need to benefit from economies of scale.

"Concentration in South African industry is continuing apace for reasons divorced from scale economies and there are understandable fears that this process is already blunting competitive forces in the market place, and thereby impairing allocative efficiencies," the bank noted.

Business confidence index takes a turn for the better

STAR 12/2/90 (180)

The South African Chamber of Business (SACB) and Seifsa say the volume of orders expected in January will exceed those recorded in December.

The latest survey of confidence levels in the manufacturing sector show that that the index rose from 98 in November to 118 last month.

The organisations say that 100 is the base line and that figures below that level reflect decreasing confidence.

Those above reflect increasing confidence.

However, the two organisations say: "It should be noted that because of the lower level of activity in December, there will be a fairly strong seasonal impact in January, so the latest figures cannot yet be interpreted as representing a change in the trend of the level of general activity, which has been declining since February 1979."

The survey says the index of expected sales volumes for the next 12 months rose to 128 in the January survey, compared with 118 in November.

It says: "The reasons for the increase can be chiefly ascribed to political developments, which have been interpreted favourably by industrialists, since there has been little change in the economic fundamentals to support the higher level of optimism.

"There are nevertheless clear signs that the manufacturing sector expects to show positive real growth in 1990, despite the economic slowdown that is clearly under way."

The survey says that the outlook in Pietermaritzburg and East London is marginally better than in the Durban, Cape Town and Port Elizbath regions.

It says the reason for Pietermaritzburg's attitude is governed by the favourable outlook of the engineering industries in the region.

This suggests that the prospects for fixed investment this year could be better than expected. —Sapa.

(180) (98)

Business confidence on the up

ZILLA EFRAT

THE favourable interpretation of political developments by industrialists has led to a rise in SA business confidence.

The SA Chamber of Business's (SACB) index of expected sales for the next 12 months has increased from 118 in November to 128 in January.

The organisation attributes the rise to positive perceptions of political events as there has been little change in economic fundamentals.

It says there are clear signs that the manufacturing sector expects to show positive real growth during 1990.

All regions are optimistic that both sales and production will be higher in 1990, but the Maritzburg and East London regions are relatively more optimistic than the Transvaal, Durban and Port Elizabeth regions.

Maritzburg's confidence stems from a favourable outlook from engineering companies, while East London's can be ascribed to good export performance by the canning industry in particular, spin-offs from industrial expansion in the Ciskei and strong demand for textiles.

Confidence levels in the Maritzburg and Durban regions remain sensitive to developments in the power struggle between Inkatha and the UDF/Cosatu.

The Index of Manufacturing Activity, which reflects expected orders, rose from 98 in November to 118 in January, passing the 100 neutral border between optimism and pessimism.

However, lower level of activity in December results in a fairly strong seasonal impact in January, so these figures cannot be interpreted as a change in trend, says the SACB.

Clewlow expects strong economy

B/Day 4/12/90 GERALD REILLY (180)

PRETORIA — The key issue facing SA was international competitiveness, because without it the country could fall behind and become an "also-ran", Barlow Rand's CE Warren Clewlow warned here yesterday.

Speaking at the Agricultural Outlook Conference (Agricon), Clewlow said measures taken by goverment, the Reserve bank and industry would result in an economy stronger than at any time in the past ten years.

Although in a downturn at present, the economy was in good shape. Productivity had increased slowly in the past few years under competitive pressures.

SA would emerge from its present difficulties, strenghtened and renewed. Agriculture was a basic building block.

A consequence of deregulation in the industry would be an aggravation of the great urbanisation problem. There was no easy way out of the dilemma.

Already urbanisation levels were high and those forced off the land would have to be accommodated in urban or semi-urban situations. This placed an increasing responsibility on secondary industry, the manufacturing industry and the agricultural processing industry to provide jobs.

He also warned the industry would have to move away from the present comprehensive marketing control to a system incorporating a greater degree of deregulation. Market mechanisms would have to be allowed to determine prices.

B/Day 14/2/90

Concern over correct 'mix' of labour, capital

180

SA's economic policy makers have been concerned with the "correct" mix of capital and labour to produce SA's GDP for some time now, which partly reflects worry about unemployment. They are keen to remove distortions in the relative prices of the two factors of production.

The preoccupation with the use of capital relative to labour was recently highlighted in the tightening of the tax write-offs against depreciation of capital assets. Deputy Finance Minister Org Marais said capital was too cheap in relation to labour — and a stricter depreciation allowance was a move to a "more correct" price.

Manpower

Reserve Bank senior Deputy Governor Jan Lombard often said capital, the scarce production factor relative to labour, had been priced too cheaply because interest rates had been negative in real terms. Arguing this had resulted in a wasteful application of domestic savings, he said it had "seriously distorted the capital-labour ratios in the production processes. The outcome was lower employment, albeit at higher rates of output per worker, and a serious drop in capital's productivity."

Because capital was priced too cheaply, investment had been aimed at replacing manpower rather than increasing production and was aggravated by an overvalued rand.

"For an economy like SA, with its rapidly growing urban labour force and the heavy demands on its domestic savings, this trend is obviously heading in the wrong direction."

GRETA STEYN

Concern about the "correct" mix of capital and labour in production was echoed by Bank Governor Chris Stals in his speech at the Financial Mail investment conference. It was used as an argument for positive real interest rates. However, some economists, including finance special adviser Japie Jacobs, argue that care must be taken not to understate the cost of labour when looking at relative prices of labour and capital to explain the mix. The argument is that the cost of industrial action such as strikes and stayaways should be added to wages to determine the cost.

Nedcor's Edward Osborn said it was unlikely too-low real interest rates had resulted in distorted capital-labour ratios — inflation relating to capital equipment had been so high that the interest rate factor could not have had this influence.

"It is more likely that the increasing cost of labour and the problems of dealing with unions have contributed to the trend. Otherwise the driving consideration with regard to the capital/labour mix is that of technology and efficiency."

Marais notes pay rises exceeding productivity increases can lead to labour being replaced by capital.

"The imbalance between wages and productivity has the negative effect of capital deepening replacing semi-skilled workers and increasing the demand for professional labour."

The mix of production capital and labour was probably the result of a number of factors — interest rates, wage rates, labour productivity, inflation and the exchange rate.

In the early '80s, SA was replacing labour with capital at a breathtaking pace. According to National Productivity Institute figures, the index for the capital-labour ratio (base 1985) in the manufacturing sector jumped from 86,5 in 1982 to 95,3 in 1983 and 100 in 1985.

There has subsequently been a sharp turnaround — ascribed largely to higher interest rates in 1985, a lower rand and a stagnant fixed capital stock. In 1986 the capital-labour index for the manufacturing sector declined to 97,6 and continued down to 91,1 in 1988. In this period, labour inputs remained relatively constant while capital inputs dropped.

Additional

In the manufacturing sector, fixed capital stock has declined in real terms every year between 1985 and 1988. Spending on fixed investment during the past upswing was largely to replace obsolete capital stock.

The ratio of capital-to-labour improved; but there was no meaningful increase in the employment of labour. The improvement lay in a more productive employment of capital.

Nedcor's Osborn predicts additional production in the mining and manufacturing sectors will not result in proportionate increases in employment. The additional production is likely to flow in the main from capital investment because of technological and efficiency considerations.

The current focus on the capital-labour mix serves to highlight that the formal sector does not provide nearly enough jobs to absorb the growing number of job seekers. This is likely to be the case even if distortions in relative prices are removed.

Poor management leads to failures in business

IN RESPONSE to numerous complaints, *Sowetan Business* today publishes this article to give people more information about the Small Business Development Corporation.

Faithfull to its mission, the SBDC has since its inception in 1981 been a major developer of reasonably priced and suitable located business premises in black and other underdeveloped areas and today is visibly the largest developer of business infrastructure in these areas.

This has been in stark contrast with the wary attitude adopted by other institutions primarily because of the high risks and low returns associated with these developments.

In pursuing its development objective the SBDC assists its tenants with rental rates which are below prevailing market levels.

A survey of rentals in comparable adjoining areas will prove this point.

It is also essential to avoid falling into the trap of expressing rentals in absolute terms, as is the case with the complainants in your article, since an objective assessment of rentals can only be made once the square metres occupied are taken into account.

Once this procedure is followed with the tenants quoted in your article it becomes apparent that they occupy comparatively large premises at a reasonable rental per square metre.

The complainants in the article unfortunately blame "high" rentals and the SBDC for the poor perfomance of their businesses whilst statistics clearly reveal that the vast majority of small business failures are due to poor management.

The ugly face of reality in the small business environment worldwide is one of high risk and a resultant high casualty rate.

In South Africa, in particular, statistics indicate that 55 percent of all new small businesses fail within the first five years following establishment. Among SBDC clients, however, this figure has proved to be exaggerated.

In a free market situation natural economic forces will cause some businesses to fail, whilst others will succeed.

This is a basic characteristic of a free market economy and healthy process which encourages the most efficient use of resources.

The SBDC views the improvement of the success rate amongst small businesses as a priority and has introduced a number of programmes to achieve this goal.

These include a national "Improve Your Business" competition, a tenant development programme, marketing assistance to tenants, information and advisory services and training courses.

However, it should be stated in no uncertain terms that ultimately the degree of success or failure of a small business is primarily dependant upon the entrepreneur and his skill in achieving the optimum combination of capital, labour and natural resources to produce a profit.

The performance of a business is therefore a mirror image of the abilities and imputs of the entrepreneur.

The SBDC reiterates its commitment and dedication to the pursuance of the development of entrepreneurship amongst all communities, irrespective of race colour or creed in accourdance with sound business principles rather than social criteria.

BEING a public company liable for tax, with private shareholders, the SBDC is run in strict accordance with sound business principles.

This businesslike approach extends to the evaluation of applicants' projects and the setting of interest rates and rentals which the SBDC believes should be as close to prevailing market levels as possible.

To survive in the high-risk small business environment the SBDC has to find a fine balance between the profit and development objectives.

The serious business of matching big and small, black and white

W\Mail 16/2 - 22/2/90

180

Working ... Mozambican craftsman Edward Makuna

The MatchMakers project is no charity — it suits the interests of both small and large business. HILARY ANDERSSON reports

AS April approaches black businessmen, white businessmen and members of the American consulate's commerce department prepare for the week of handshakes at Nasrec known as MatchMakers.

This year the tone of the project, which began in 1986 as an attempt to channel the social conscience of large white companies to help small black businesses get off the ground, is undergoing a subtle change.

The days of kindly MatchMaker seeking out and guiding new black businesses to charitable white patrons are fading. The new approach holds that no one really appreciates handouts, but that a leg-up at the right time can be invaluable.

Sellers exhibit their products, while the keen-eyed buyers from companies such as Anglo-American, Gencor and Rand Mines scrutinise potential investments.

This change serves as a mark of success for a project which from the beginning refused to see itself as a charitable enterprise, insisting from the start on payment of a substantial fee for each stall.

An 18-year-old Mozambican, Edward Makuna, who walked from Maputo to Johannesburg without a cent to his name, but with a striking talent for crafting hardwood furniture, is going to display his wares at MatchMakers this year.

He complains of the difficulty of getting business to come into Soweto — "people are too afraid". Getting out of the township to do business, he believes, is likely to serve him well.

The exposure that MatchMakers can offer a young company has proved invaluable for many, such as Lucia Mothiba of Ludo Curtains, Alexandra. She describes MatchMakers as "a window for my business". As a result of her exhibition at MatchMakers '88 shops such as Biggie Best and Barristers Interiors in Sandton and Rosebank now sell her wares.

White companies are making leaps, too. Instead of gratifying aching consciences, as the cynical might expect, they speak of their pleasure in doing business with the people who often make up 90 percent of their market.

Perhaps more importantly trying out new and untested businesses has proven to be an even greater advantage for them.

Anglo-American sees MatchMakers as a reservoir of talent and an opportunity to build up a directory of business contacts. For that reason it will participate again this year.

Anglo also takes the long-term view that if it is in the interests of the country's future to support a project that exposes the talent of small black businesses, it is in their interests, too.

The success of MatchMakers is borne out by similar projects in Cape Town and Pietermaritzburg, organised in both cities by progressive-minded chambers of commerce, although Johannesburg's chamber of commerce was not interested.

USAid will give MatchMakers $50 000 (R130 000) this year, helping the project to expand with the recently formed MatchMaker Services, a non-profit company formed to provide all-round services for both buyers and sellers, and to build on the co-operation between big businesses and emerging entrepreneurs.

Among other things, the new company will offer, for a fee, both a marketing service, and training in basic marketing principles.

The acceptable face of nationalisation?

W\Mail 16/2 - 22/2/90.

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planned expansion in the state-owned energy industry, and on public enterprises operating in steel and other metal industries, and the Korean government set unusually strict conditions on foreign investment. In recent decades, the Indian economy has achieved steady growth on a diet of widespread state intervention.

Perhaps the ANC will nationalise some enterprises when they come to power, perhaps they won't.

Perhaps the government of a new South Africa will find more subtle and efficient ways of guiding economic growth and the redistribution of wealth.

Undoubtedly, the ANC needs to think carefully about economic policy — much more carefully than when the prospects of power were faint. In the meantime, why shouldn't Nelson Mandela reassert the desire of his supporters, as expressed in the Freedom Charter, for decisive intervention in the economy on their behalf?

F/M 16/2/90

INDUSTRIAL OUTLOOK BRIGHTENING

(180)

There was little improvement in economic fundamentals last month but there was considerably higher optimism in the manufacturing sector anyway, according to the SA Chamber of Business (formerly FCI) survey.

The index rose from 118 in the last survey, conducted in November, to 128 in January. The border between optimism and pessimism is 100.

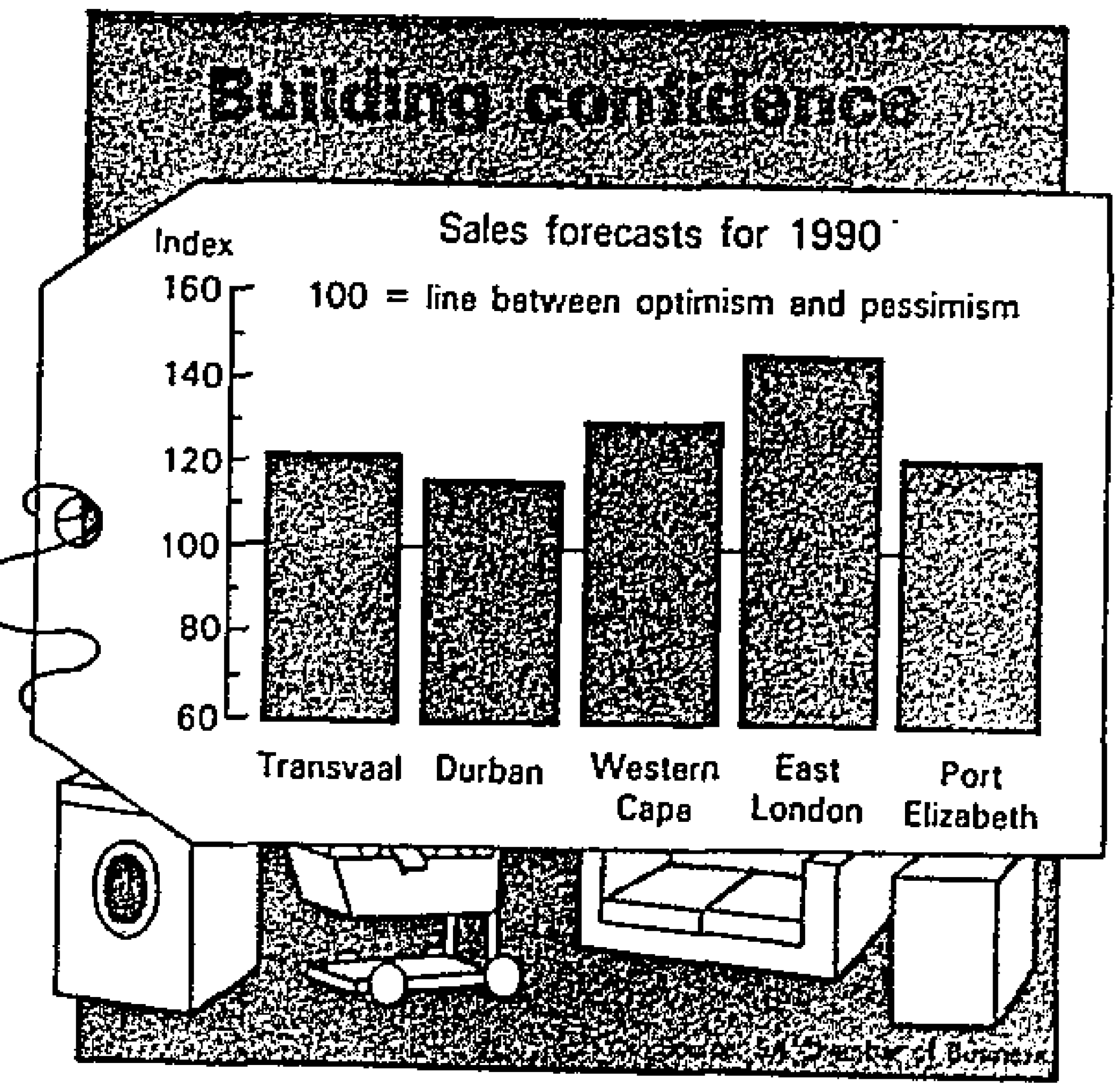
Chamber economic consultant Gad Ariovich says the current economic downturn should be minimised by rising stock prices, a higher gold price and recent political developments.

As usual, the survey found considerable regional variations. Maritzburg at 180, and East London at 150 are the most optimistic.

The Maritzburg region's confidence stems from a particularly favourable outlook in engineering, which Ariovich says could mean prospects for fixed investment this year will be more favourable than expected.

Optimism in East London is the result of a good export performance by the canning industry and spin-offs from industrial expansion in Ciskei.

The survey says confidence in Maritzburg and Durban continue to be affected by the clashes between Inkatha and the UDF and Cosatu.



'No big changes without talks'

180

Mandela in move to allay business fears

BDay 21/2/90

CHARLENE SMITH

NELSON Mandela proffered an olive branch to the business community yesterday when he said the ANC would make no drastic changes to any sector of the economy without full discussions with the private sector.

Referring to the issue of the restructuring of the economy, he said: "We are very keen not to do anything without proper discussion with those interested and involved."

Last week financial markets reacted sharply to comments by Mandela indicating he was in favour of the nationalisation of banks and mines.

Mandela at yesterday's interview. Picture: ROBERT BOTHA.

In an exclusive interview with Business Day, Mandela disclosed he would be meeting one of the "most important businessmen in the country", probably before leaving for Lusaka on Monday. He declined to name the businessman.

Anglo American spokesman James Duncan said although company chairman Gavin Relly had expressed an interest in meeting Mandela, no meeting had been arranged. He knew of no plans for any meeting between Mandela and Harry Oppenheimer.

Mandela said: "We would welcome a debate among the business community on the issue of nationalisation.

"This is an extremely important matter, and in any democratic situation a free expression of opinions is absolutely vital. I also expect compromises from both sides."

However, Mandela made it clear sanctions must remain in place.

"What we set out to achieve, we are far from achieving and there is nothing that has happened that has required us to review this decision," he said.

He had not telephoned British Prime Minister Margaret Thatcher to discuss the sanctions issue, as he was waiting for permission from Lusaka to do so.

However, if Lusaka gave him the go-ahead he would intervene and ask Thatch-

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Business fears

er and other world leaders to maintain sanctions. BDay 21/2/90

He indicated that he anticipated a breakthrough in the negotiation process which would lead to "some agreement about meeting the preconditions to create an atmosphere conducive to peace".

He believed the ANC and government were on the verge of meeting such preconditions.

Preconditions in terms of the Harare Declaration that government still had to meet included the lifting of the state of emergency; the release of all political prisoners and detainees; the removal of troops from townships; and the removal of security legislation that inhibited free political activity, for instance the Internal Security Act.

"Once that stage is completed we will start on the more important questions of addressing the basic demands of the ANC and other sections of the liberation movement. And the basic demand is that of one-person-one-vote in a unitary state."

Mandela said this demand would, in terms of the Harare Declaration, lead to a constituent assembly to discuss a new constitution.

He said the ANC had called for the total dismantling of apartheid in all its forms.

"In this we include the question of the proper distribution of the land. We have demanded that the land be returned to those who work it. We don't say the land must be returned to its owners; we say the land must be returned to those who work it. That can be subject to different interpretations.

"We are concerned with the principle of an equitable distribution of the land, and what will be done with specific farmers is a question to be determined at the time by the people themselves."

He said the land issue was a top priority.

The ANC leader met a string of visitors throughout the day.

Among them were traditional Tembu leaders from Transkei and Bishop Barnabas Lekhanyane of the Zionist Christian Church, as well as Swedish and US diplomats and journalists.

Today he meets Chief Tidimane Pilane from the Rustenburg area, and five other chiefs. Meetings with veterans of Umkhonto we Sizwe and then member chiefs of the Congress of Traditional Leaders of SA (Contralesa) will follow.

The ANC regards the role of traditional chiefs, and in particular of Contralesa, as being of central importance to any negotiation process and to a future dispensation for SA.

Relly and Bloom to meet Mandela

W/Mail 23/2 - 1/3/90

180

By SHAUN JOHNSON

NELSON MANDELA is to meet Anglo-American Corporation chief Gavin Relly and former Premier Group chairman Tony Bloom at the African National Congress leader's Soweto home on Monday.

Mandela is scheduled to receive Relly on Monday morning, and Bloom — who arrives in South Africa from London this weekend — is expected in Orlando West later in the day.

It will be the first face-to-face meeting between the recently-released ANC stalwart and representatives of big business, and comes after a week in which Mandela and the ANC have made a point of stressing the need for consultation with South Africa's jittery business community.

Mandela told the *Weekly Mail* he was to have seen Relly at Victor Verster Prison earlier this month, "but the same day I was told he was to come down, I was released.

"I therefore felt that I should contact him and indicate that if he still wanted to take it up, I was ready to receive him." This led to Monday's scheduled meeting.

Anglo-American chief communications officer James Duncan said yesterday that Relly "would not like to pre-empt what might be raised in the discussions with Mr Mandela". However, he added, Relly "has been looking forward for some time to the meeting, and was very pleased to accept Mr Mandela's invitation."

Interviewed by telephone at his London home, Bloom said he was "excited and delighted" at the prospect of meeting Mandela.

"I have been watching the process unfold from here, on television," he said. "Now my meeting will make the whole thing come alive."

Bloom said he had been "overwhelmingly impressed" by Mandela's actions since his release.

"He has been absolutely remarkable. I believe he hasn't put a foot wrong. It has been a magnificent performance."

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Why ANC talks may let FW off the hit-squad hook
PAGE 13

Bloom, Relly to meet Mandela

180

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Bloom said the discussions would be open-ended, and discounted speculation that he might be considering a return to South Africa. "I said at the time of my departure for London (in 1988) that there were several personal reasons for leaving, besides politics. That hasn't changed," he said.

However he retained a strong interest in developments within South Africa, and did not rule out the possibility that if he were approached to "help" in some advisory capacity, he would consider it.

In the interview with the *Weekly Mail* this week, Mandela came out strongly in favour of dialogue with businessmen and bankers.

Asked if he thought such discussions could be useful, particularly with regard to conditions for future investment, he said: "Why not? It is a natural thing to have discussions with businessmen ... And our struggle has been supported by (some) businessmen from all over the world. There is nothing so logical as meeting them, exchanging views and trying to allay their fears." W/Mail 23/2 - 1/3/90

Sanctions and disinvestment were specific political tactics, he said, but "once this situation is settled, investment in the country is the normal development — which we will want."

180

HALL ... SA's manufacturing sector has been sadly neglected because of over-protection. Picture: ROBERT BOTHA

Business must be more competitive says Barlow's Hall

ADELE BALETA

BUSINESS in SA needed to become competitive if it was to rise to the challenge and the opportunity that a future free-market, non-racial SA held, Barlow Rand Limited executive director John Hall said in Johannesburg yesterday.

Hall was speaking on his perceptions of general management in the 90's, particularly with regard to human resources and industrial relations, at a business luncheon organised by the SA Britain Trade Association.

SA would have to become internationally competitive if it hoped to participate in the global market, Hall said.

He said SA's manufacturing sector had been sadly neglected because of over protection and the import incentives.

It was not necessarily SA who would take advantage of SA's export market. Europe, Taiwan and China were more likely to take advantage of SA's developed infrastructure, its mineral riches and its millions of people capable of being trained.

To be able to compete internationally, balanced businesses were required. This could only be achieved by gathering information, setting goals and acquiring the intellectual capabilities to achieve goals and finance.

Hall said information regarding technical changes, environmental pressures and competitors was crucial to any business.

Businesses had to assess the ability to match human resources, sound industrial relation practices and finance to their goals. In this way investors would become interested and society would be supportive.

Hall pointed out the lack of technical training in SA inhibited attainment of goals.

He said that in SA less than one person in 10 000 was a technical graduate compared with European countries where the number was between 15 and 20.

Human resources management would have to be integrated into companies' top level strategic planning. Communication with the workforce was vital.

Equity was "necessary to build a strong balanced economy "For too long big business has had a large market share which has inhibited small business development," Hall said.

BARRY SERGEANT

ANC asks Nafcoc for nationalisation study

NAFCOC has been asked by the ANC to investigate the nationalisation of business in SA. B/Day 28/2/90.

This follows a recent meeting in Lusaka between a top-level, 21-member Nafcoc delegation and members of the ANC's executive committee.

The meeting, chaired by Nafcoc president Sam Motsuenyane, discussed the ANC's stated aim on nationalising mines, financial institutions and large corporations.

Nafcoc is to invite major SA businesses to a conference to give their views.

Nafcoc public affairs director Gabriel Mokgoko says the Lusaka meeting established that "any (ANC) policy of nationalisation would be carefully applied only after taking account all the facts".

Nafcoc has been asked by the ANC to help compile those facts.

"The meeting decided to set up a Joint Economic Commission (JEC), one of whose tasks will be to examine issues of mutual concern in the economy. It will report back to the ANC and Nafcoc national executive committees." (180)

Motsuenyane says Nafcoc's stance is that "while nationalisation will not necessarily solve all our socio-economic and political issues, it can serve as a vehicle to provide an answer to some of them."

He says alternative methods of redistributing wealth have to be examined, including persuading companies "to hive off

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Nafcoc B/Day 28/2/90.

☐ From Page 1

portions of their productive assets and pass these over to the disadvantaged black majority to hasten economic participation and empowerment."

Motsuenyane sees one viable alternative as being concerted action programmes by government and the private sector to facilitate black economic participation, primarily by creating a favourable business climate and appropriate structures for funding, and providing legal advice and development assistance.

"The creation of trusts that will allow blacks to acquire a meaningful stake in the SA economy through projects such as privatised companies and capital-generating structures such as the JSE, is another alternative."

"Nafcoc and the ANC share the concept of a mixed economy in SA...

"We at Nafcoc envisage the economy being based on public, private, small business and co-operative sectors, and with government operating some state enterprises along the same lines as Western countries."

(180)

● See Page 3

Restructured AVI pushes turnover past R3bn mark

BDay 1/3/90

180

REFLECTING improved results from all sectors, restructured industrial holding group Anglovaal Industries (AVI) has pushed six-month turnover above the R3bn mark for the first time.

The acquisitive industrial arm of Anglovaal raised bottom-line earnings by 23% to R98m (R79,9m), translating into earnings — after accounting for more shares issued during group rationalisation last June — that were up a scant 8% at 346c (321c) a share. No dividend was declared.

On a 37% hike in sales to R3,1bn (R2,2bn) AVI increased operating profit by the same margin to R308m (R226,1m). An additional R21,7m (R17,8m) in investment income left pre-tax profit 35% up at R329,7m (R243,9m).

However, interest charges, up a hefty 175% because of a leap in borrowings to R539,7m (R282,7m), took R47,6m (R17,3m) and, with taxes chopping out R129,3m (R103m), after-tax profit was left a still credible 24% up at R152,8m (R123,6m).

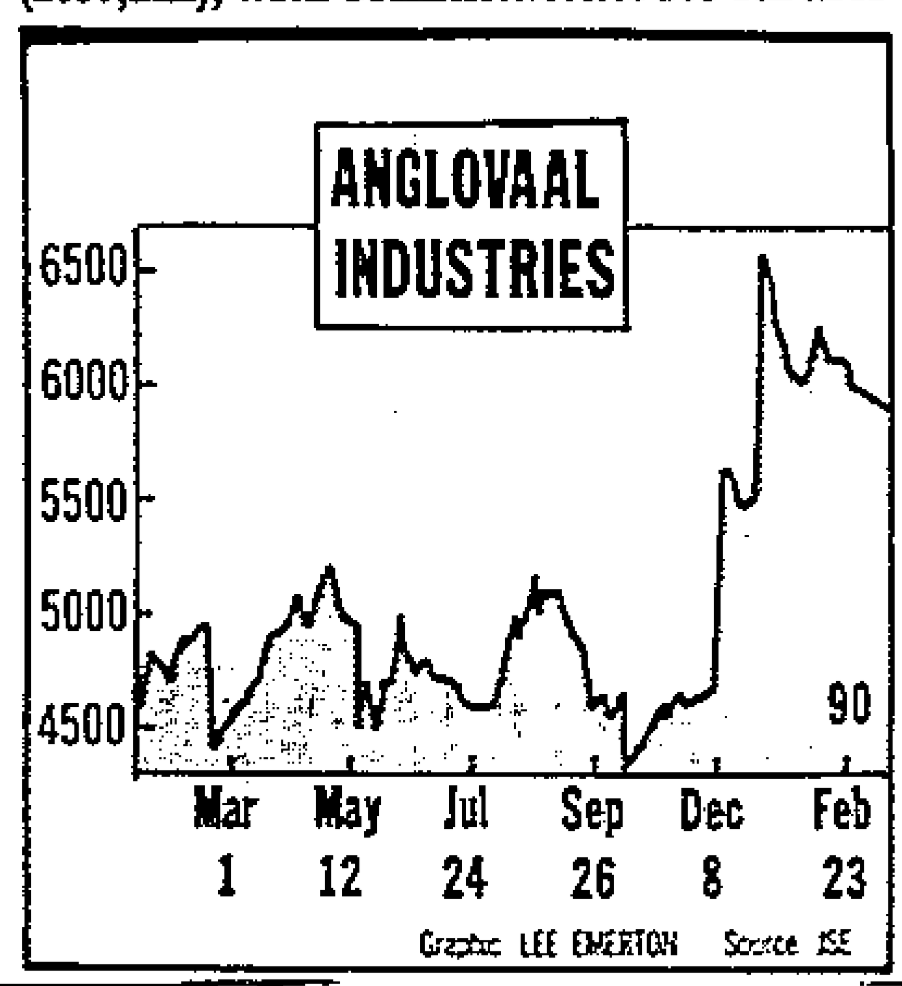
Share of associated companies earnings declined to R1,9m (R4,7m), while minority interests absorbed R56,6m (R48,3m).

BRENT MELVILLE

Directors attribute the drop to depressed selling prices, reduced margins and lower consumer demand in the concerned markets.

On the balance sheet the jump in borrowings increased gearing to 31% (23%), though there was a drop in the current ratio to 1,6:1 (1,9:1). Directors say the level of gearing is well within their defined parameters.

Capex amounted to R119,9m (R67,2m), with commitments for further expenditure standing at R98,8m (R62,5m). In addition, commitments in terms of finance leases amounted to R16,7m (R25,5m) with contingent liabilities at R14,2m.



During the period under review, subsidiary Grinaker disposed of its controlling interest in Grinaker Electronics Holdings to recently listed Grintek, resulting in the acquisition of an effective 67,7% holding in Grintek, and the increase of its 41,6% interest in Grinaker to 46,2%.

In addition M & PD Electronics became a wholly owned subsidiary of Grinaker subsidiary Siltek, with Pakco becoming a wholly owned subsidiary of National Brands. Consol also acquired the entire issued share capital of Tycon (formerly Goodyear), which suffered an 11-week strike that "substantially" affected its contribution to profits, say directors.

Consol has also concluded negotiations for the disposal of its industrial flexible plastics division, effective from today.

Directors are confident that earnings over the second half of the year will exceed those of the first six months.

BCI FM 2/3/90 180

In focus

Euphoria over President F W de Klerk's decisive moves to break the political logjam, and concern over ANC veteran Nelson Mandela's references to nationalisation, apparently cancelled each other out in February.

The SA Chamber of Business index of confidence registered 95,9 — the same as December-January. It points out "the debate over the future economic system has already got under way and is gaining some prominence. It serves to stress the overriding importance of a sound economy for the future welfare of all."

Positive inputs in the month came from the London dollar price of gold, the rand/dollar exchange rate, a real increase in merchandise imports, the recovery in the JSE overall index and a fractional increase in real retail sales.

Negative influences were the small CPI increase and rise in the BA rate, the decline in the number of new cars sold, a fall in building plans passed (seasonally adjusted) and a decrease in value of exports.

With business confidence relatively stable, despite clear indications of a slowdown in many sectors of the economy, the outlook is promising. "Positive political factors and a relatively favourable Budget" could see confidence take off. ■

New weapon to beat the greed disease

S Times 4/3/90 (180)

By Charmain Naidoo

THE battle against insider trading, the greed disease that plagues stock markets around the world, will be stepped up in SA.

New legal parameters have been set and JSE president Tony Norton believes they will help bring offenders to justice.

Past efforts to combat insider trading were stultified by bad law and the problem of finding evidence to support suspicions.

An amendment to the Companies Act — it has been passed but is not yet in effect — classifies insider trading in the broad fraud category. The revised definition will help to trap insiders, says Mr Norton.

A Government-approved panel will be empowered by law to collect evidence on fraudulent securities transactions.

"My estimate is that insider trading goes on weekly, with the serious stuff probably once a month. It varies from company to company. The state of the market also plays an important role.

"When the market is high and strong, it is a good opportunity for insider trading. But when it's a seller market, the conditions are not as conducive because even good information can have a negative effect."

Mr Norton says policing share trading is difficult.

"You may have suspicions. You may even come, as we have done recently, tantalisingly close to proving irregularities. But the law has not been effective enough for any follow-through."

Under the amended law, people who use insider knowledge to defraud those without information will be able to be prosecuted.

The securities regulation panel has Mr Justice Cecil Margo as its chairman, and 15 nominated representatives from the securities industry.

Mr Norton says insider trading is "bloodless but not victimless".

A recent example is a man who, having reached retirement age, sold the firm he had built up to a listed company.

"He was offered shares in the vendor company instead of cash. The vendors knew their company was not in good shape. The seller was left with worthless paper."

Mr Norton says most irregularities are committed by directors who often have more knowledge about their company than anyone else.

"But advisers and people in the printing works have been known to engage in insider trading. Anyone who is in possession of undisclosed material and who uses that knowledge is in the wrong."

Landmark decision resolves tax debate

BIDay 5/3/90

(180)

GRETA STEYN

A LANDMARK tax decision has been handed down in the Appellate Division which could save companies with debtors millions of rand in tax and which has resolved a decades-old legal controversy.

Last week's decision ends a legal battle between the Receiver of Revenue and Edgars Group company People's Stores.

According to Kessel Feinstein partner Ernest Mazansky, the decision resolves the debate over the meaning of the word "accrued". It affects any company that grants credit terms. These companies will now recover some ground lost when the debtor's allowance for tax purposes was changed to affect only cases where suspensive sales contracts exceeded one year.

He explains: "Take a clothes store that treats six months as cash. At the company's year end, it used to pay tax on the full amount that was due in six months' time. In terms of this latest decision, the company will pay tax on the present value of the future instalments."

In other words, companies can now apply a discount rate to the amounts receivable in some months' time, instead of paying tax on the full amount as if they had already received it.

"This means the tax bill is effectively reduced for the current year," Mazansky said. He added a discount could be applied only in cases where the amounts were payable after the company's year-end and it could not be applied to overdue amounts.

Earnings growth falters

180

BDay 5/3/90

Top company results signal JSE downturn

MERVYN HARRIS

THE first batch of results from major companies for the period to end-December show faltering earnings growth and indicate the difficulties ahead as the economic downturn bites deeper into profitability.

Inroads into company profits are putting leading industrial and several non-gold mining shares under pressure on the JSE and could put a lid on the continual uptrend in prices of the past couple of years.

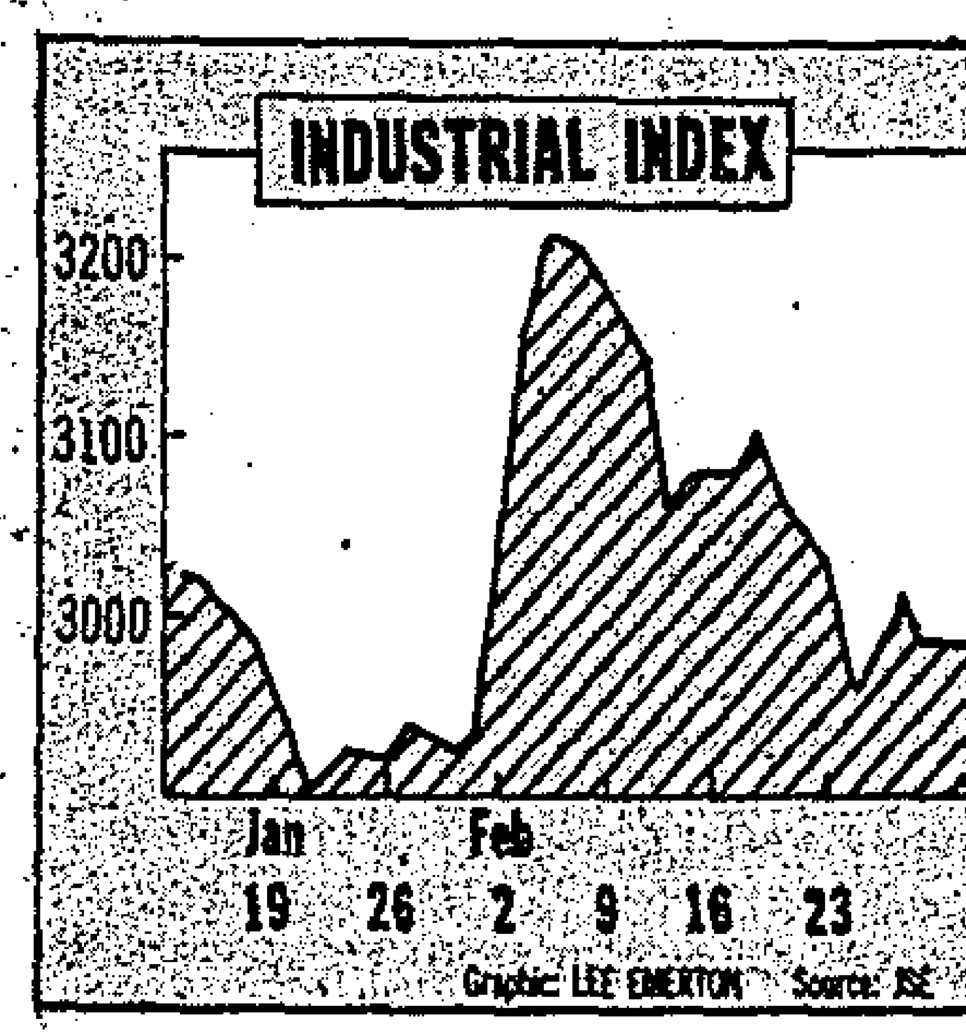
Even those companies which reported earnings growth above the inflation rate have signalled slower growth in the wake of tighter conditions here and abroad.

John Liackman, partner in stockbrokers Max Pollak & Freemantle, said: "We must expect leading industrial companies to show lower earnings growth than we have seen over the past few years.

"Euphoria over Christmas spending tends to hide the situation for a while but we are now starting to see the impact of the downturn on share prices.

"Things are unlikely to get better until interest rates begin to ease," he said.

Mike Brown, of stockbrokers Frankel Kruger Vinderine, said: "The economy is now in the mature phase of the downturn but I am not too concerned about the fall in profits, particularly of industrial companies, as the level of earnings growth has been very good in recent years."



He pointed out that earnings growth of industrial companies on the JSE was 19% in 1986, 30% in 1987, 36% in 1988 and 34% in 1989. Brown projects 13% growth this year, recovering to 30% in 1991.

Offloading of Iscor shares has been a vivid example of the market's swift reaction to faltering earnings growth. After meeting interim earnings target, serious doubts whether it would fulfil earnings increase of 20% for the full year to June sent the shares plummeting.

In the two days after the release of the interim results, the shares fell from 270c to touch a low of 225c before closing at 235c, a fall of 17,5% from its January peak of 285c.

☐ To Page 2

JSE downturn

BDay 5/3/90

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☐ From Page 1

Keener international competition and lower world dollar steel prices have hit Barlows shares as the major component of its earnings growth over the last few years has come from Middelburg Steel.

Barlows shares came off their lows on Friday to close at R42,85, a decline of almost 22% from the month-ago peak of R54,75. The plunge has helped push the JSE industrial index down 7,5% to 2 974 from its February 7 peak of 3 218.

The decline in world commodity prices and the relatively strong rand has taken the edge off other rand hedge stocks. Highveld Steel & Vanadium shares have slumped from an August high of R22,30 to R16,35 on Friday but off recent lows.

Softening international prices of pulp and paper are expected to have an impact on Sappi results for the period to February.

Dismal results from Bankorp and earnings growth of only 8% from highly rated Anglovaal Industries have not helped to quell market nervousness.

But the impact of the economic downturn will be reflected more accurately when companies in the major industrial groups, SA Breweries and Barlows, report results for the period to March.

No rush to embrace futures

B/D ay 6/3/90

180

ROBERT GENTLE

NOW that JSE stockbrokers have finally been allowed to trade equity futures on behalf of clients, the brokers seem more likely to tread cautiously than embrace the new business with enthusiasm.

The reason? Futures is a whole new ball game, and is infinitely more dangerous than equities.

Futures traders contend that stockbrokers have been operating for too long in the relatively secure equity market where it is sufficient to keep one's head down, buy low, sell high, and generally ride out market swings.

Administration is relatively simple, lead times are longer, and as long as the market is rising, virtually everyone benefits.

Futures, on the other hand, move rapidly, necessitating a totally different set of reflexes.

On the administration side, daily chores like margin maintenance, account monitoring and client contact are vital. Because of the high risk exposure — margins are only about 10% of total contract value — mistakes can put a company deep in the red in a matter of hours.

"There is a hell of a lot of stuff to be monitored," says a trader from Fergusson Brothers, one of the futures market's more active stockbroking firms.

Most importantly, futures are a zero sum game in which profits and losses are equally balanced. For every winner, there is a loser.

So while stockbrokers have large five-figure client bases that are the envy of futures brokers, it does not necessarily follow that these clients will be thrown headlong into futures from day one.

"We are not terribly optimistic about trading for clients," concedes a spokesman from Davis Borkum Hare, adding that some stockbrokers would probably not even consider it because of the inherent danger.

"We'll get our toes wet," says Ed Hern of Ed Hern Inc. "We'll wait . . . let others make the mistakes first."

"We have been making gentle preparations," says a spokesman from Ivor Jones, speaking of the new JSE floor. "If it grows, we'll grow with it."

A director from a well-known futures trading firm says this cautious approach is shared by most stockbrokers, many of whom do not even have the necessary systems in place to adequately monitor futures risk.

Futures traders say privately there will be a lot of casualties among the stockbrokers as they get to grips with the realities of the fast-moving futures market. "They are going to get creamed," says one.

At least one futures broking firm is targeting the first batch of disgruntled losers as possible clients.

The reasoning is that half of a stockbroker's futures clients will get so badly burned they will quit altogether, while the other half will still be courageous enough to come back — but this time via a more experienced futures trading house.

Safia (SA Futures Industry Association) MD Brenda Greyling, implicitly acknowledging this possibility, says: "Stockbrokers should take cognisance of the differences between stockbroking and futures broking vis-à-vis risk and the education of private clients."

David Bullard, MD of the options trading firm Johannesburg Options Market, puts it more bluntly. "A lot of good, long-standing friendships ought to be broken once stockbrokers start trading for clients," he says.

So while the presence of JSE stockbrokers in the market has been unanimously welcomed and will eventually boost market liquidity, the jury is still out as to how long it will take.

UPDATE...

'Develop skills to increase wealth'

By MOKGADI PELA

IT is only through the free enterprise mechanism that there is some guarantee of the welfare of the majority of people in the country, a paper delivered at a labour conference stated yesterday.

Mr Theo Pegel ~~of the~~ Institute of Personnel Management said to achieve this, the impetus to privatisation and deregulation had to be maintained.

He said this would ensure that wealth creation and the redistribution thereof become a national priority.

Pegel stressed, however, that the best environment for the redistribution of wealth would be an expanding economy in which possibilities existed for new opportunities for everyone. Sowetan 8/3/90

To this effect, Pegel said, the development of skills was crucial.

He said IPM had an important role to play in providing knowledge and skills to their members.

SA entrepreneurs way behind

LINDA ENSOR

SA ENTREPRENEURS, accustomed to stunting their vision and scope of operations, are going to have to run fast to catch up with the rest of the world.

The nature of the issues they need to confront are highlighted in lengthy interviews with four Harvard Business School professors by Tony Manning in this month's Leadership magazine.

The views of professors Michael Porter, Daniel Quinn Mills, John Kotter and Ted Levitt were sought on such issues as competitive strategy, human resources, leadership and marketing. B\Day 8|3|90

Satisfaction

180

'SA managers face a host of new challenges both here and abroad," Manning writes. "Domestic political change is likely to open doors. Suddenly vast export markets are becoming real targets of opportunity. But all will not be plain sailing.

"Even if political events unfold in the best possible way, and even if negotiations at home resolve core issues to everyone's satisfaction, SA business will not have an easy time of it in foreign markets.."

Overseas, Manning says, companies have poured billions into research and development, automation, training and marketing and have streamlined operations.

The only way SA companies will survive in this environment will be if they become world class competitors.

Porter says the winning nations of the past 50 years have been those with few natural resources — they just had to create something else. The trap for SA, he adds, will be its abundance of natural resources.

"Unless companies put in place the capacity to compete through more sophisticated advantages, then not only will your advantages be less sustainable, but you won't lay the foundation to diversify."

Mills emphasises the importance of dismantling apartheid in "the right way".

"There's an enormous reservoir of goodwill for SA in many countries. They've been kind of embarrassed into silence in the last few years. But now you're giving them the opportunity to exercise that goodwill.

"But you've got to overtly say, 'Look what we've done'. You've got to take it and market it — export it."

Mills believes SA has a chance in an integrated Europe because of its "extraordinarily competitive" people and its good connections. Its role could be to use the rest of Africa as a source base for Europe.

In a separate interview, Levitt stressed the importance of developing knowledge, and learning to convert it into utility for which good capital markets, education and an open society were essential.

Levitt said freedom was necessary to do great things.

"Your big taxi industry or the peddlers on the streets — that's what happens. You don't plan or programme it. Some of those peddlers will become something."

He emphasised that the key to SA's international competitiveness lay in the building of alliances and offering raw materials, location and disciplined people.

Kotter gave his views on the task of leadership and the role of education in meeting the need for executives.

SA firms advised to look before leaping to Europe

180

ZILLA EFRAT

SA COMPANIES wanting to take advantage of the many opportunities presented by rapid changes in Eastern Europe are advised to do their homework before rushing into this market.

Safto international division manager David Graham, who has just returned from a trip to the region, believes it offers interesting opportunites for SA companies whether importers, exporters or future investors.

Potential markets include Czechoslovakia, Hungary, Poland, the Soviet Union and Romania.

But he says some uncertainty still exists in these countries. For example, some will be holding elections within the next four months which could alter the situation.

In spite of recent diplomatic initiatives, it may take time before liberalised trade links are established between some of these countries and SA.

Graham says trade in these countries is handled by Foreign Trade Corporations (FTCs). This makes them easy markets to serve, as only one party has to be dealt with.

However, the movement away from the trade monopolies held by FTCs is fast widening the client base and making it important for exporters to clearly identify, and if possible, meet users of their products in these countries.

He expects many companies with defined business interests to appoint agents or even to open up their own representative offices to service individual countries.

The trend is also away from Comecon countries trading with each other and this could create opportunities for SA in minerals, metals and commodities, says Graham.

Eastern bloc countries have been looking at attracting foreign investment to modernise their industries and this may in turn provide opportunities for SA exporters. Trade links have been opened with Israel, Taiwan and South Korea in recent years.

Bus Day 12/3/90

TARIFF POLICY F/M 9/3/90 (180)

High noon for Board of Trade

Trade & Industry Minister Kent Durr's announcement last week of "two urgent investigations" into tariff policy is a shot across the bow of the Board of Trade & Industry (BTI).

It could ultimately mean the end of the road for the BTI. The twin investigations will look at the current tariff policy, administered by the board and the board's "mission and functions."

A number of commentators, including the *FM*, have questioned the efficacy of the board and have called for it to be abandoned. More recently, the board has been involved in a public row on trade policy with Durr's Department of Trade & Industry (*Business* March 2).

In view of the policy differences between the two bodies, the announcement could be interpreted as a ministerial slapdown for board chairman Lawrence McCrystal's independent policy stance.

This week McCrystal was not available for comment. However, Stef Naude, the department's director-general, was adamant McCrystal's policy difference is not with him, but with "the Cabinet."

McCrystal believes that industrial growth, exports, job creation and beneficiation of SA's raw minerals can best be achieved by a series of structural adjustment programmes for selected industries. But Naude insists government must move away from interfering with industry, adding that the adjustment programmes would require "hundreds" of bureaucrats to administer.

By launching the twin investigations, Durr is freezing McCrystal's adjustment programmes. This follows the announcement last September of the General Export Incentive Scheme, which took away the export incentive component of the programmes. The tariff investigation will put the programmes' tariff proposals on ice, thus undermining its implementation.

Does this mean the end of McCrystal's tariff policy, and, by extension, the BTI?

Superficially, this may seem so, but the debate has many hidden elements. Durr's statement has a footnote: "Other initiatives that are equally aimed at the restructuring of basic aspects of economic policy can be expected."

Barlow Rand director John Hall says, historically, SA's tariff policy has been aimed at promoting import substitution. This has led to severe distortions.

"The system of protective tariffs forced taxpayers to subsidise certain non-competitive industries on an ongoing basis," he says. "And, when these industries became even less efficient, the protection was merely increased."

The question is: should the focus of tariff policy change?

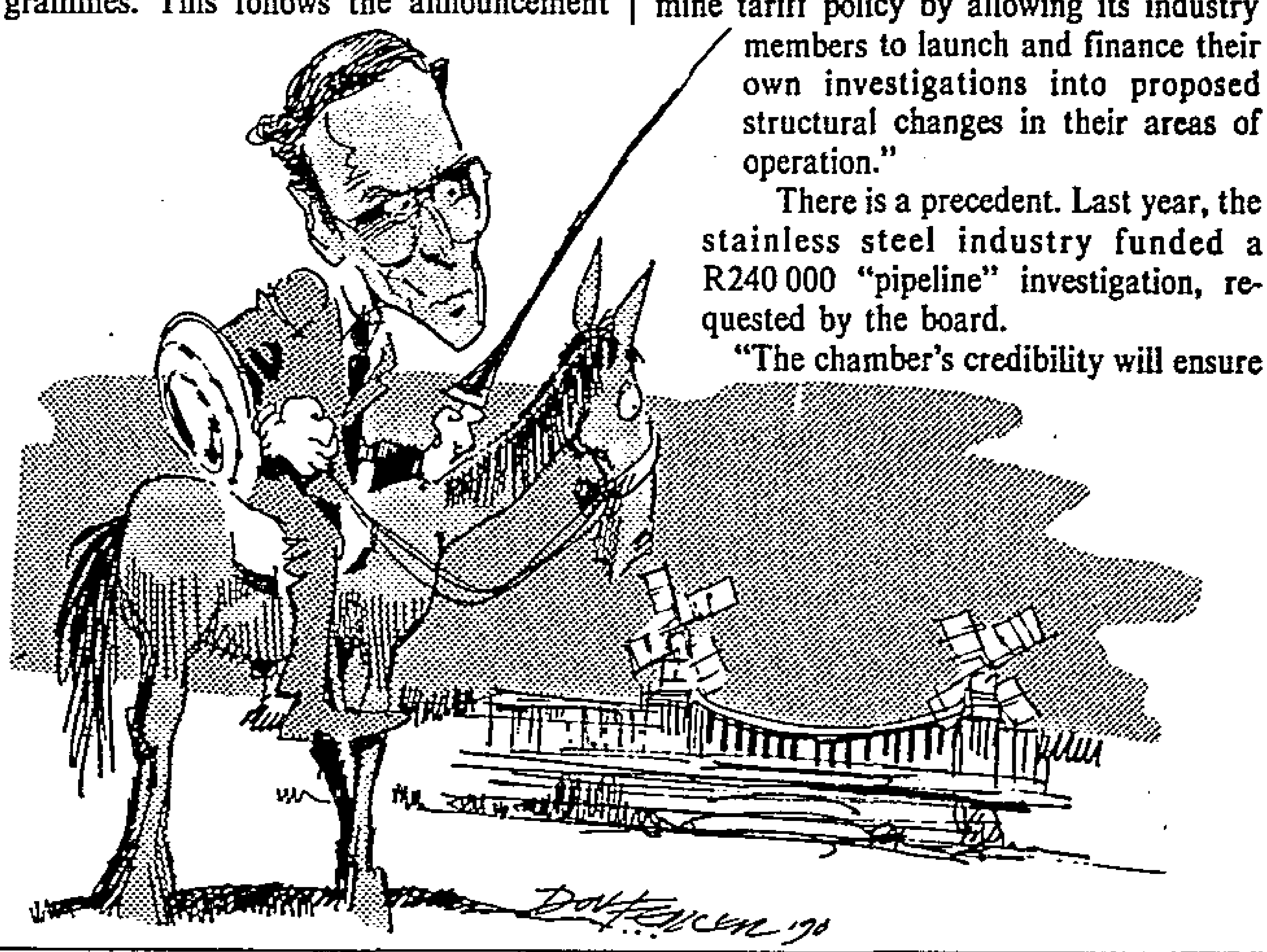
"What one should now look at," Hall says, "is a combination of 'limited period' establishment tariffs (allowing industry to establish itself and become globally competitive) and anti-dumping formula tariffs, which should be capable of rapid introduction."

He proposes that the SA Chamber of Business should play a larger role in tariff policy. "The board now adds its own interpretation to policy changes suggested by the private sector. This could lead to distortions and delays. The chamber could help determine tariff policy by allowing its industry members to launch and finance their own investigations into proposed structural changes in their areas of operation."

There is a precedent. Last year, the stainless steel industry funded a R240 000 "pipeline" investigation, requested by the board.

"The chamber's credibility will ensure that special pleadings by vested interest groups will not distort national policy, while the board and the department could retain their supervisory roles," Hall says.

Ron Haywood, the chamber's deputy executive director, says tariff policy should be reviewed continually. "The Uruguay round of Gatt talks, Europe 1992 and the changes in eastern Europe are a few of the issues that necessitate a relook at SA's tariff policy. The chamber is prepared to assist with the investigations." *Arnold van Huyssteen*



SAA F|M 9|3|90

The longest night

When 250 passengers boarded SA Airway's late night flight on February 28 in Johannesburg, they thought they were headed for Cape Town. Instead, they entered the twilight zone.

Thirteen hours and thousands of air miles later, they finally landed in Cape Town, after side trips to Port Elizabeth and back to Johannesburg.

The flight, plagued by bad weather and inadequate landing facilities, was enough of a nightmare all round to prompt SAA into cancelling its late night flights in and out of D F Malan Airport until further notice. People with late night bookings will be accommodated on other flights.

The bizarre ordeal highlights the take-it-or-leave-it attitude so common to monopolies — government has not allowed other airlines to compete with SAA on the Cape Town-Johannesburg service.

According to accounts from two passengers aboard the flight, there was no cabin service because it was a cut-rate flight, so passengers went for hours without refreshments. There were a number of young children on board and one mother ran out of nappies for her baby. When a passenger with the flu asked for a blanket, she was told there were none left and was offered a tablet instead. The blankets were only for mothers with children, a flight attendant said. Desperate smokers, cooped up for six hours in one stretch, resorted to smoking in the toilets. The cabin crew reprimanded them.

The airline says the "problem" was aggravated by the closure of D F Malan's main runway for repairs. A second runway, not equipped with an instrument landing system, couldn't be used because of the bad weather.

"As the weather is too unpredictable at this time of year, it has been decided to cancel all late night flights to avoid a repetition of the problem," SAA says.

SAFREN FM 9/3/90 180

Steady course

Safren must be one of the most cash-rich industrial groups on the JSE. At June 30, the accounts showed cash holdings of R465m with net current assets of R2m. At December 31, net current assets stood at R50m and cash, though not disclosed, probably exceeded R500m.

Though not immediately apparent from the interim results, the group looks on target for another good year. With the local economic squeeze taking effect, the earnings advance is unlikely to be as high as last year but real growth should be achieved.

The unlisted subsidiaries, Safmarine and Rennies, have been adversely effected by the firmer rand and slower imports. Even so, group turnover for the first six months rose 23% to R2,05bn. Margins remained unchanged at 20,9%.

Interest earned on cash balances almost offset total financing costs on long-term borrowings and net interest payable fell from R12,4m to R2,1m.

However, a higher tax rate of 37% (34%), with a rise in deductions applicable to outside shareholders in subsidiaries and to preference shareholders, curbed attributable income, which rose 19%.

Chairman and CE Alistair Macmillan maintains that the divisions all performed well. Safmarine, in particular, is a cyclical operation that traditionally does better in the second half of the year. Macmillan reckons this will again be the case as fruit exports pick up.

The contribution from overseas subsidiaries and associate interests remains undisclosed. The 1989 report indicated "other" investments (including non-disclosed) in associated companies registered in countries other than SA had increased from R199m in 1988 to R323m. Clearly, a larger contribution of hard currency earnings can be expected from this source. An international shipping base was recently set up in Switzerland; Macmillan says earnings from this source have been small in the first half but will be more significant in the second.

There is no reason to doubt Kersaf will maintain quality earnings in the second half. A question mark can be placed behind earnings prospects for Rennies, given the weaker economy; any relaxation in import duties could boost prospects.

Macmillan notes that "satisfactory profits should be earned during the next six months." Tougher economic conditions are likely to have some negative impact on local earnings, so overall growth in EPS will probably fall short of the annual compound rate of 33% achieved over the past five years; but it could end up being quite close.

Gerald Hirshon

TBVC states' reincorporation good for business

PRETORIA — National African Federated Chamber of Commerce (Nafcoc) president S M Motsuenyane says the reincorporation of the TBVC states into SA would mean greater opportunities for businessmen of all population groups. (180)

Motsuenyane said yesterday this could result in the creation of a climate in which business would operate more succesfully without the usual constraints that presently exist in TBVC (Transkei, Bophuthatswana, Venda and Ciskei) states.

He said from the economic point of view, those states had never been independent because there was one economic system in the whole area.

He said a united SA should remain a key objective of all peace-loving leaders.

He said government needed to do everything in its power to hasten the process of black participation in the economy to a meaningful degree.

Blacks were on the outer fringes of business and the main objective of the future was to bring them in the main stream. BDay 9/3/90

Motsuenyane said business should not be identified with a particular race group, but must be seen as an activity in which all people could participate fully and freely.

Asked whether the business community should align itself with political organisations, he said it would be difficult for businessmen to divorce themselves completely from politics as politics affected business community activities.

□ Organisations operating underground in Venda should be legalised, the Venda Chamber of Commence and Industries decided yesterday.

Radio Thohoyandou reported the chamber would recommend to the Venda government the organisations be legalised "to enable them to vent their ideas since this underground operation has already caused the economy of the country a considerable harm".

The chamber further resolved the government should investigate the possibilities of adopting the same general sales tax as applied in SA which would exempt foodstuffs from being taxed.

Venda's government should also participate in the future negotiated SA, the businessmen decided. — Sapa.

SA interests as well as a direct 9,5% in the Centenary group. ■

ANGLOVAAL FM 9/3/90

Justifying faith

(180)

The expected strong interim results materialised, with a 34% EPS increase at Anglovaal itself and 8% at Anglovaal Industries (AVI). Anglovaal benefited particularly from its base metal associates. AVI, 59% held by Anglovaal, was hit by the 11-week strike at

ASSOCIATES SCORE

Six months to	Dec 31 '88	Jun 30 '89	Dec 31 '89
Turnover (Rm)	2 343	2 459	3 184
Pre-tax profit (Rm)	256	285	288
Attributable (Rm) ..	80	106	108
Earnings (c)	184	243	247
Dividends (c)	25	51	30

FM 9/3/90 (180)

Consol subsidiary Tycon.

In the second half, lower base metal prices may bring less growth from that quarter, but Anglovaal's corporate finance & planning manager Dave Barber believes AVI will be the major contributor to growth.

Anglovaal's pre-equity accounted earnings rose only 9%. AA Life, listed in February, was included for the first time. Income from gold mines was little changed. AVI's contribution was diluted by the reduction in the stake from 66% after the issue of shares in June's restructuring.

Assmang was the main contributor to the 246% increase in income from associates, which lifted their contribution to taxed earnings to 27% (1988: 10%). A maiden return from Lavino chrome mine and Prieska's annual dividend also helped.

Anglovaal said last year it would report "in the new year" on its drilling programme in the Bothaville Gap in the Northern Free State. Barber says drilling hit harder rock than expected and caused a slight delay.

AVI executive director Bill Keen says margins remain under pressure because of the economic slowdown. Short-term, no relief is in sight, barring a relaxation in the Budget. AVI's total borrowings almost doubled, largely due to capex and about R50m raised in prefs for the Tycon acquisition. Gearing increased again to 31% (23%), but Keen expects it to decline by year-end.

He says restructuring brought many operational benefits, which will continue to flow in the second half. While Anglovaal expects 12-month earnings to grow more slowly than in the first half, AVI expects the opposite — perhaps around the 17% of last year.

Anglovaal and AVI have risen steeply since October, though they have lost ground recently with general sentiment. Continued positive investor expectations are reflected in low yields — 1,3% for Anglovaal and 2% for AVI. These seem justified. *Teigue Payne*

De Beers route

Foreign holdings give many companies potential to go

ROBERT GENTLE

6/pg 9/3/90

MANY SA companies, whose cumulative foreign holdings run into billions of rand, have the potential to go the De Beers staple route by hiving off these holdings into distinct, foreign-based corporate entitities.

They include companies on all sectors of the JSE board. Their interests span four continents, from Canada to Brazil, Belgium to Denmark, Hong Kong to Australia.

SA industrial conglomerate Barlows, for example, holds 86% of UK-listed industrial and agricultural group J Bibby, which in 1989 brought in R93m (9,3%) of Barlow's R1bn attributable profit.

Information technology giant Altron holds a controlling interest in UK-listed computer group Telemetrix, which in turn holds interests in related companies.

Anglovaal holds a 29,9% interest (acquired early last year for £16,5m) in UK-listed mineral resources company North Sea & General, since renamed Anglo Pacific Resources to reflect the dominance of its key shareholder and the main area of its operations (Australia).

Johannesburg Consolidated Investments, in its latest annual report, says the market value of its holding in De Beers (since De Beers-Centenary), with holdings in various unlisted and listed diamond trading companies, amounts to R969m.

A Simpson McKie mining analyst estimates the market value to be twice as high.

It is Anglo American that emerges as the most widely-spread SA company. Its latest annual report shows it has 39,1% of Luxembourg-based Minorco, whose own interests were enhanced only last month with the $705m acquisition of US gold mining company Freeport-McMoran.

Anglo also holds a 40% stake in Anglo American South America, a mining company with interests in Brazil, Chile and Argentina. Its net 1988 income was $130m.

Gencor holds what it calls a "significant interest" in Sao Bento Gold mine in Brazil.

The list is seemingly endless: Malbak has a stake in UK-listed MY Holdings; FSI has cash-flush UK offshore vehicle AAF Investments currently on the acquisition trail; Liberty Life's 48%-owned UK investment vehicle TransAtlantic holds 75% of UK property company Capital & Counties and 29,9% of Sun Life Assurance.

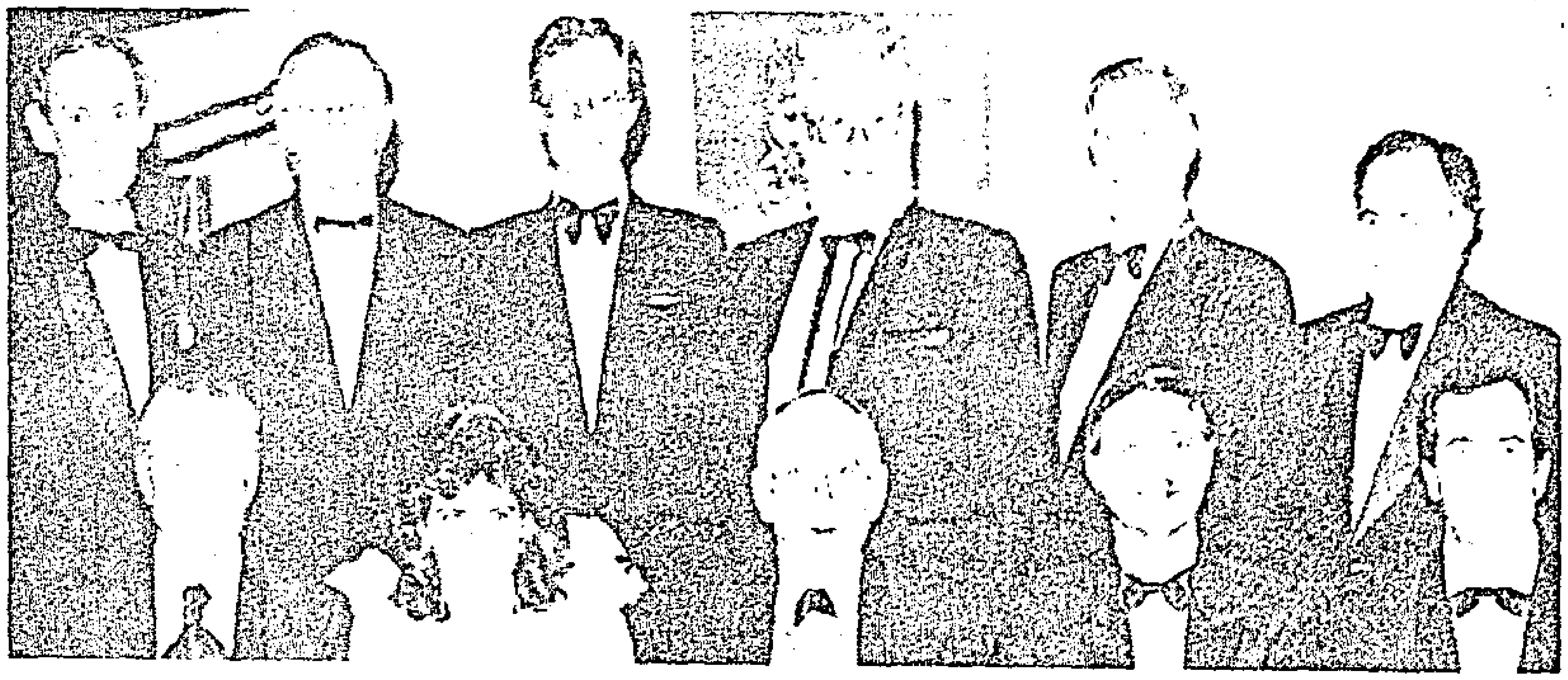
Analysts have little doubt that SA companies so inclined could park off-shore interests under the wing of a neatly created foreign vehicle.

180

The resulting separation, which would merely formalise the existing difference between foreign and local interests, could be reflected in a stapled unit of indeterminate longevity.

The chances of an SA company admitting to plans of this sort are clearly nil, if the example of the PG Group (whose extensive international glass and wood interests traditionally account for 50% of net earnings) is anything to go by.

Asked if PG would contemplate doing a De Beers to avoid nationalisation, financial director Michael Read said: "Any restructuring would be for economic reasons, not political."



THE top 10 financial reporters in SA, as found by judges of the CA-Business Times award (back, from left): Mark Bower (financial director, Amrel), Neil Wilmot (financial director, Afcol), Ian Somerville (group financial controller, SA Breweries), Solly Tucker (chairman, Yorkcor), Evert Groeneweg (financial director, Barlow Rand), Peter Beningfield (financial director, Malbak).
Front: Aaron Searll (chairman, Seardel), Sally-Ann Pinks (group accountant CG Smith Foods), Paul Dreyer (president SA Institute of Chartered Accountants), Trevor Wagner (financial director, Anglo-Alpha), Wally Holmes (financial director of an operating company in the Adcock Ingram group).

Six out of 10 for A-Alpha

S Times 11|3|90 (180)

Business Times Reporter

ANGLO-ALPHA has won the CA-Business Times award for financial reporting for the sixth time in 10 years.

The cement-maker is in a class of its own in reporting to shareholders. No other company has won the award more than once and there is great mobility into and out of the top 10 financial reporters.

The award, designed to improve reporting to shareholders by companies, is organised by the SA Institute of Chartered Accountants and judged by practising chartered accountants.

Banquet

Anglo-Alpha financial director Trevor Wagner received the award from Paul Dreyer, president of the SAICA, at a banquet in Johannesburg this week. The banquet was sponsored by Investec Bank.

Second came SA Breweries, third Amrel, fourth Seardel and fifth Adcock Ingram.

Completing the top 10 reporters in alphabetical order were Afcol, Barlow Rand, CG Smith Foods, Malbak Group and York Timbers.

Seardel has been in the top 10 nine times, SA Breweries and Malbak seven and Barlow Rand six.

Newcomers to the top 10 are Amrel and CG Smith Foods. The judges singled out Lebowa Bakery, a newly listed black-controlled company, for the quality of its reporting.

The only previous winners of the award in the top 10 this year are Malbak and Seardel.

The judging panel excluded mines and financial institutions because they lack standard accounting procedures. The only bank included in the first round of judging was First National, which was commended for its disclosure, which goes further than any other banking group.

Screening

Only 80 industrial companies were selected for the first round after initial screening. Only 39 made it into the second round.

Special recognition was given for companies adjusting their figures for inflation.

The judges say: "Inflation continues to distort company results, particularly in capital-intensive industries. An ironical position has been reached in that even one of the companies in the top 10, Barlow Rand, admits . . . that financial statements prepared on the historical cost basis do not disclose true profits . . . However Barlow Rand has not attempted to measure the impact of inflation on results.

"There are still fewer than 15 companies listed on the JSE that give any consideration to the needs of users as regards reporting about the effects of inflation."

Apart from the 15 companies which do account for inflation, about 24 mention its effects but make no adjustments.

The judges say cash-flow information gives users the only real measure of the quality of earnings. Three indicators should be provided: cash generated by operations, cash retained to expand operations and residual cash after expansion.

All top 10 companies gave value-added statements. But only two gave a meaningful explanation of the statement and only one showed trends.

The adjudicators say that if not properly applied, equity accounting can give misleading impressions. They call for a clear distinction between dividends received and the company's share of its income.

"Where an associate constitutes a significant portion of the net assets or income of the investor, separate disclosure should be made of the associate's material fixed assets, long term liabilities, current assets and liabilities. . . . Not one company was awarded full marks for this item."

The judges believe segmental reporting could be improved. Attributable earnings a sector were not always identified. Few companies presented a trend of segment information. Barlow Rand scored highest in this area.

Deferred

Several companies have switched to the partial method of providing for deferred tax.

Some, paying no or little tax, provide a notional deferred tax charge or tax equalisation reserve. The judges say assessed losses brought forward confer real benefits and criticise tax equalisation reserves as cosmetic. One culprit using the method is Premier.

They say the tax equalisation reserve is used to smooth the income statement, negating economic reality. SA Brews is an example.

Come to a ... ...

Culture shocks face the world village

(180)

S/Times 11/3/90 ·

CORPORATE culture is gaining renewed prominence in organisations across the globe.

The removal of international trade barriers, the arrival of foreign competitors and the growing globalisation of markets have forced businesses into new strategic positions.

The University of SA's Martin Nasser, currently a visiting professor at the Wharton School of the University of Philadelphia, says a key question for both US and SA businessmen has become how to get, keep and gain market share.

The answer, he says, is to become more competitive and this often means completely overhauling the organisation in order to move towards optimisation. At the core of this renewal is the issue of corporate culture.

"The starting point of culture is the mission — the direction determiner for the business. A clearly formulated mission and vision not only ensures that management knows where it is headed, but, if well articulated, also acts as a rallying point for the total organisation.

"Ironically, the mission statement despite its vital contribution often becomes no more than a paper document. Its inability to come alive is often the result of inappropriate structures, such as job descriptions, hierarchy and protocol, all of which describe how people must behave in a company."

In this regard, Professor Nasser says delayering an organisation by removing excess managers or workers means the remaining individuals' jobs are enriched and expanded.

One result of such delayering could be the unleashing of entrepreneurial thinking and creativity.

Professor Nasser says that the degree of lateral thinking that has emerged and the benefits that have been recorded have caused a storm of enthusiasm for the entrepreneurial concept in business in America.

In addition, the culture of a company must stress recognition and reward patterns as the standard annual salary increase or a bonus are no longer relevant.

"Changing the culture is not a simple process. But since it has proved to be the key to some of the most successful national and international turnarounds, it rightly demands the chief executive's prime attention.

"The combination of elements in shifting culture — mission, structure, delayering, entrepreneurship, recognition and rewards — will, if harnessed correctly, ensure a substantial competitive edge."

Sisulu hard line shocks business

By Robyn Chalmers

WALTER Sisulu shook the JSE on Friday by telling a Wits Business School breakfast that the ANC would not budge on its nationalisation policy.

The veteran ANC leader delivered a hard-hitting speech about post-apartheid SA to more than 550 businessmen and bankers, including Reserve Bank Governor Chris Stals, Anglo American outgoing chairman Gavin Relly and JSE president Tony Norton.

Mr Sisulu reiterated ANC policy of nationalising "monopoly banks, mining houses and financial institutions".

Businessmen were disappointed that their warnings had gone unheard by the ANC.

S/Times 11/3/90

WALTER SISULU ... we stick to nationalisation

Central

Mr Sisulu said "creative nationalisation" was central to the ANC's economic policy.

Asked whether the ANC had considered any options to nationalisation in the face of foreign investor jitters, Mr Sisulu said it had not. The main objective of ANC policy was to uplift the economy while righting injustice. Nationalisation was the best method to do so.

"But we will not adopt a mechanical approach to nationalisation, rather we will be creative within given circumstances. The aim is to rid SA of present inequalities in terms of wealth.

"Sometimes one must go to war to secure peace. We realise that in the short term nationalisation may discourage foreign investment, but believe that in the long term it is the only solution."

A democratic SA would have to pursue an activist economic programme. Business would have to play a major role in funding the State's requirements for the redistribution of income.

Mr Sisulu listed some ways to achieve a mixed economy:

- Curbs on monopoly power through legislation and dismemberment of some key conglomerates to bring industry and its development closer to the workforce.
- Greater diffusion of power in industry through the spread of ownership by share ownership schemes.
- Renationalisation of privatised concerns, not only to maintain the industrial and service infrastructure, but to facilitate wealth redistribution.

Mr Sisulu said the ANC had not yet seen anything approaching a fundamental recasting of policies either by business or the Government.

"This explains why our people suspect that the main concern of both Government and business is not the dismantling of the key structures of apartheid, but rather the winning of international acceptability through the removal of anti-apartheid sanctions and boycotts."

He stressed that the business community had to recognise that old ways of resolving crises could not work.

Mr Sisulu called on businessmen to put aside their fears and work with the ANC.

"Together, we can forge a vibrant, prosperous new SA."

CAPE TIMES 12/3/90

SA Bias buys Kirton

(180)

Own Correspondent

JOHANNESBURG. — SA Bias Industries, manufacturer and distributor of clothing, footwear and allied industries, has bought the Kirton Group for R11m.

The Kirton Group manufactures, markets and distributes curtain tapes, drapery hardware and accessories, louvre windows, folding doors, sliding doors and moveable dry-wall partitions.

It operates countrywide through all major cities and is a major supplier of products to the construction industry as well as to the DIY and interior decorating sectors.

SA Bias Industries says the Kirton acquisition is a natural development as its own Narrotex division is already involved in the curtain suspension industry.

Rate of takeovers and mergers rises

BDay 12/3/90 180

SYLVIA DU PLESSIS

THE rate of mergers and takeovers has accelerated since January as the economic downturn begins to take bigger bites out of company profits — and it is the smaller listed companies which are most vulnerable, corporate financiers say.

Colfin MD Jeff Wiggill said on Friday many of the company's clients had begun to show evidence of a marked economic slowdown and were now in a "precarious" financial position.

Colfin had assessed the impact of this and expected significant mergers and acquisitions activity in the short-term ahead.

"We are dealing with about six smaller to medium-sized companies right now that are having to dispose of a lot of their assets to put cash into the system and get their core business in shape. And there is always a buyer for a business.

"They tend to be highly geared, and turnovers and volumes have dropped because spending is depressed. Since they have to cover their interest, they generally make a loss or at best a very small profit."

It was difficult to find an investor willing to put cash into these companies.

"They can't contemplate rights issues because they are more vulnerable to economic downturns and there are no takers for their equity. Returns appear attractive but are also often too reliant on one or two products and lack marketability."

By contrast, large companies were in a position to raise funding because their parent was often one of the Big Five institutions and "at the end of the day they have a big daddy to put in money".

Wiggill said there was activity on the merger and takeover front this time last year, but for a different reason: smaller companies which had raised money through listings in 1987 used these funds to expand by acquisition.

"Those same companies are now in trouble and are themselves targets for takeovers," he said.

Senbank corporate finance consultant Pierre Wolmarans said smaller companies with high gearing were "definitely" under pressure and were looking at consolidating or curtailing their expansion programmes, or even disposing of under-utilised assets to keep their cash flow positive.

The deterioration in balance sheets of highly geared companies was a trend which had developed since late 1989 as the

□ To Page 2

Takeovers rising

180 □ From Page 1

BDay 12/3/90

economy slowed down. These factors contributed to difficulty in finding institutional underwriters in equity rights issues.

SA Chamber of Business economist Keith Lockwood said he had no figures on mergers and takeovers, but liquidations were on the increase.

"It's quite possible some smaller companies have fairly high gearing so their interest burden is higher. Riskier businesses often pay about 5-6 points higher than prime."

Indications were that company profitability would improve from the beginning of 1991, with some sectors later than others.

Wiggill's message to businessmen is to hold tight as things will get better.

BDay 12/3/90 (180)

Marais defends rationale behind export incentives

CHARLOTTE MATHEWS

EXPORT subsidies reassigned income from the taxpayer, who might be running his business profitably but not exporting, to the exporter to increase his profits, Deputy Finance Minister Org Marais said.

"I am not against export subsidies but I think this is a point to consider," he said.

Marais said government and companies were living in a changing environment. Policies were also shaped by the "games played" by large companies to cut their tax bill.

Marais was speaking in an interview after Trade and Industries Minister Kent Durr on Friday announced a new system of export incentives, effective from April 1.

Our Political Staff reports from Cape Town that in terms of the new incentives, the categories of input costs assistance and value added assistance — Schemes A and B — are to be replaced by a general export incentive scheme.

One of the categories for marketing costs assistance — Scheme C — is to be adjusted, while the other — Scheme D — will be discontinued on March 31 1992.

Marais was responding to Amic chairman Graham Boustred's comment in the annual statement that government had issued a large number of inexpedient and ad hoc decisions in relation to the import surcharge, depreciation allowances and export incentives.

"Government must be able to handle the changing situation just as companies do," Marais said.

"When the exchange rate is going down, companies are exporting and want subsidies, and when it goes up, they don't want more than 5% tax."

Strategy

He said if big companies were trying to shift around their assets to evade tax, they could not expect government to allow the tax base to be eroded without taking action.

"I have nothing against people trying to evade tax, but they cannot expect us to sit back.

"We have a long-term strategy but companies play around and expect us to live in a stable environment. They are the players and we have to adjust to their techniques and games.

"In August 1988 we only had four to five weeks of forex reserves and a rising trend of imports. We could not allow the country to become insolvent."

But when government had increased interest rates by under 2% and did not curb imports, it was accused of destroying business.

Marais said the biggest incentive to export was undoubtedly the low value of the rand rather than the export subsidy.

If a company could not compete at this time, it would never compete.

Durr, replying in the House of Assembly to several questions from the floor, did not provide additional details of the new system of export incentives.

He did, however, confirm that tyre manufacturers qualified for assistance in terms of the four schemes; his department had provided R4,3m in direct subsidies during the past 18 months with regard to all types of tyres and tubes.

His department had not provided any other specified concessions to tyre manufacturers in respect of this scheme.

Durr declined to name tyre manufacturers to whom subsidies had been paid.

"It is unreasonable to furnish particulars relating to invididual firms," Durr said.

● Comment: Page 6

Business defies downturn

PRETORIA — An analysis of liquidations and sequestrations last year indicated the expected decline in economic activity did not result in an increase in bankruptcies, Information Trust Corporation (ITC) CE Paul Edwards said at the weekend.

Edwards said 1 564 companies and close corporations were liquidated last year. That was the smallest number since 1980.

When it was taken into account that close corporations were not included in the 1980 calculations, businesses performed far better than the figures indicated. BDay 12/3/90

Edwards said individual sequestrations were only marginally up in 1989 over the previous year.

"While last year was kinder to businesses and individuals, bankruptcies are likely to increase this year," he warned.

Some sectors of the economy had noted a much slower start to the year and

GERALD REILLY

retailers were beginning to notice a rise in the number of accounts moving into arrears, Edwards said.

180

The current climate of unrestwould exacerbate this trend.

Repossession of homes had also increased over the past six months.

Most business failures last year — about 40% of the total — occurred in finance, insurance, real estate and business services.

In view of the large number of small businesses established in this category, it was not surprising the fallout was high.

Second-largest number of failures was in the wholesale, retail, catering and accommodation services — 30%.

Construction, often an indicator of the state of the economy, had a marginal increase in failures from 159 in 1988 to 166 last year.

COMPANIES

BDay 13/3/90

Reichmans declares total dividend of 21c

CHARLOTTE MATHEWS

INTERNATIONAL trade finance group Reichmans has boosted annualised pre-tax income by 21% to R18,4m for the 10 months to December from R15,2m in the previous year because of relatively buoyant trade in this period, according to results released today.

Reichmans has changed its year-end to December to coincide with that of the FSI group after a partnership was entered into between the two companies in July last year. Results shown are therefore for a 10-month period, making it difficult to compare results with the year to February 1989.

After deductions, attributable income was R12,9m, annualised to R15,5m, from R12,8m. This translated into earnings of 36c (35,7c) a share, annualised to 43,2c, and a total dividend for the year of 21c (15c) was declared.

Reichmans also has a 20% investment in a specialist steel merchandising group, Van Reenen and Nicholls (VRN), whose contribution to Reichmans' profits fell to R271 000 from R1,5m in the previous year.

"The decline in contribution is largely attributable to the significant non-recurring expenditure VRN incurred in the development of its international operations," financial director Lewis Freidus said in a statement.

An extraordinary loss of R643 000 represented a restraint of trade payment and goodwill written off, he said.

"Economic conditions are looking somewhat flat for the next six months and the political environment is currently uncertain," Freidus said.

CE Clive Cohen said yesterday the impact of the last hike in interest rates and HP restrictions on market confidence would only appear in Reichmans results for the first half of the current year.

(180)

He said that on the export side, there was still a reluctance overseas to accept manufactured goods from SA.

Raw materials, however, sold successfully.

Cape Times 14/3/90 (180)

Finrand plunges

Own Correspondent

JOHANNESBURG. — The financial rand plunged almost 5% to R4,06/08 to the dollar yesterday from Monday's close of R3,88/90 reflecting increasing foreign uncertainty about SA's political future.

However, the plunge in the finrand protected the JSE against the effects of falls in precious metal prices following a surge in the US dollar.

The collapse of the finrand was attributed to a foreign scramble to get out of the SA currency, created previously through large dealings in high-yielding Eskom stock, said Max Pollak & Freemantle's Archie Shapiro, doyen of arbitrage dealing on the JSE.

Hunts earnings up 25%

By ARI JACOBSON

HUNTS, a key industrial and distribution group in the FSI stable, achieved a 25% rise in attributable earnings to R60,6m for the year end-December aided by strong organic growth.

This translated into growth in earnings a share up 25% at 187c.

Total dividends of 64c have been declared on ordinary shares — an interim of 26c and a 38c final — and 84c on preferred ordinary shares — making a dividend cover of 2,5 times.

Turnover rose by 23% to R1,6bn with operating profit supported by improved margins up 28% at R188,2m.

FSI chairman Jeff Liebesman says strong organic growth increased earnings by about 95% with the only acquisition by the group in the year, involved the expansion of Vektra's interests in the distribution of automotive replacement parts.

- Teamcor, a diversified manufacturing and distribution subsidiary increased earnings a share by 21%.
- Gentyre Industries, manufacturers of tyres and industrial rubber products, increased earnings a share by 40%.
- Hunts manufacturing holding company for Burhose (hosiery) and Hygienia — toys and inflatables — produced record operating profit.

"The results were achieved in spite of a general tightening of trading conditions in the second half of the year and bad debts arising from the liquidation of Quality Tyre, a major customer of Gentyre," says Liebesman.

He said earnings a share are disclosed before and after the conversion of convertible preference shares in Teamcor — the conversion is expected to take place in 1990.

"On conversion, Hunts' holding in Teamcor will fall from 74% to 63%." On a fully diluted basis, says Liebesman, allowing for the conversion of the existing convertible debentures in Teamcor, Vektra and Hunts, earnings a share of Hunts for the year end-December would have been 149c.

"However, such a conversion is not anticipated in the next three years."

On prospects for the year Liebesman says, given stable operating conditions, earnings a share for the current 12 months should show satisfactory growth.

Difficult year ahead, says Amic's chairman

Sowetan 15/3/90

(180)

By JOSHUA RABOROKO

AS matters now stand 1990 will be a difficult year, the chairman of Anglo American Industrial Corporation (Amic), Mr Graham Boustred, has said in his annual review.

It is clear, he says, that Government is determined in its efforts to bring the domestic economy under control and to reduce inflation. While in the longer term this will be to the benefit of the country as a whole, the short term effects will continue to restrain business activity.

However, says Boustred, sustained modest growth in the major industrial nations should enable some sectors to increase export volumes provided a further market appreaciation of the rand does not occur.

Volatile

As a result of the uncertainties emanating directly from the political arena, industrialists in South Africa have had to contend with considerable volatility in the application of economic policies, he adds.

However, he says, in order to foster and encourage new investment, it is the government's responsibility to provide as reasonable a degree of stability in its industrial policies as possible.

He says recent announcements and actions by both the monetary and fiscal authorities provide evidence of a recognition of past inadequacies and the need to establish a more stable environment to encourage investment and job creation.

The initiatives undertaken by the State President, Mr FW de Klerk, and the political process which is now underway will hopefully result in the normalisation of South Africa's relationships with its overseas trading partners.

Prospects

While it is not possible to forecast when sanctions will be lifted, he says, once Amic's exporting companies are able to trade freely throughout the world, particularly in North America and Europe, the group should benefit significantly.

In the review, Boustred says Amic has declared a final dividend of 240 cents a share following a 26 percent increase in its attributable earnings to R653 million (1988: R517 million) for the year ended December 31, 1989.

Total dividends for the year amount to 350 cents a share, a 21 percent increase over the 290 cents a share paid last year.

Earnings per share increased from 963 cents to 1 211 cents and dividend cover increased from 3,3 to 3,5 times.

Sweeping tax changes mean more work for companies

BDay 15/3/90 180

SWEEPING changes for company tax which may take weeks to evaluate for individual companies have been announced in the Budget.

Arthur Andersen's Des Seaton said that except for the abolition of Undistributed Profits Tax (UPT), the changes were contrary to companies' interests.

The Budget hit training allowances, stock valuation, and LIFO ("Last-in-first-out") reserves.

Seaton said the abolition of UPT and tax on dividends in the hands of individuals effectively meant that for tax purposes, conversion to a close corporation was now unattractive.

Finance Minister Barend du Plessis said there was the possibililty of the implementation of a self-assessment system for companies. Arthur Andersen's Pierre du Toit said: "Major administrative changes are necessary before such a system can be implemented.

"First, all Inland Revenue discretions would have to be removed. Second, a substantially codified system would need to be implemented. Such a system may well benefit taxpayers in that discretions are removed, enabling taxpayers to plan more effectively. On the other hand, increased tax certainty generally requires more complicated and detailed rules to deal effectively with all situations which may arise.

"The move to a self-assessment system will continue the trend of shifting administrative burdens on companies, as evidenced in the areas of GST, RSC levies and SITE."

BARRY SERGEANT

Du Plessis said the Commissioner for Inland Revenue had launched an investigation into the introduction of an income tax self-assessment system.

As a first step, companies had been identified for this purpose, and this sphere of investigation had already reached an advanced stage.

"The indications are that such a system could be successfully implemented

BUDGET 1990

in SA. Inland Revenue's proposals will shortly be discussed with interested parties," he said.

The 1990 income tax return for companies had been adapted to provide information necessary for a conversion to a self-assessment tax system.

Du Plessis also announced the elimination of three tax concessions, as recommended by Margo. The training allowance in terms of the Income Tax Act would be abolished and replaced by a selective subsidy designed to stimulate certain types of training.

Said Trevor McGlashan of Deloitte, Haskins & Sells: "A specific payment instead of the tax concessions is in line with Margo and is generally good policy. However, care should be taken to reduce opportunities for corruption."

The second concession lost was valuation of trading stock. Du Plessis said the value of consumable stores and spares and work in progress (for construction companies) was not currently considered to be trading stock for tax purposes. "From now on, however, these three items, where relevant, would be included in the value of closing stock." However, the new measures would be phased in over five years.

Third was the LIFO reserve which had existed since the withdrawal of the LIFO method of stock valuation in April 1984. However, the reserve would be phased out at a rate of 10% a year over the next 10 years.

Comments Seaton: "The change in the valuation of closing stock and in LIFO reserves will have an effect on those companies which have adopted the partial deferred method of accounting for deferred tax, and which regard these differences as being of a permanent nature.

"In these circumstances, the impact will not only be on cash flow but also on company results."

Du Plessis said the introduction of a minimum tax on both companies and individuals was already being considered by the Tax Advisory Committee (TAC) and this investigation would continue during the year.

FINANCE

(180) B|Day 15/3/90

Fewer mergers expected

SYLVIA DU PLESSIS

THE year ahead will be another active one in terms of SA mergers and acquisitions, but some of the major conglomerates may choose to curtail their level of activity, says Ernst & Young Corporate Advisory Services.

The firm says in its latest monthly newsletter several major corporations are now suffering "indigestion" following their acquisition sprees of the past few years and will be less active in the acquisition market.

They will concentrate on consolidating their positions and integrating and controlling their acquisitions.

Ernst & Young says it remains difficult to raise capital for minority stakes in medium-sized unlisted companies, which typically have run short of working capital and no longer measure up to commercial banking criteria.

"The vast majority of corporate acquisitors require control, effectively precluding them from such transactions, whilst the majority of merchant banks likewise avoid this category of transaction.

"We would like to see a loosening of this in the year ahead."

Venture capital remains "shrouded in suspicion" and is likely to be for some time. "Irregularities and other problems uncovered in certain venture capital and DCM companies have exacerbated the situation, and most institutional investors will require some water to flow under the bridge before they are again persuaded to invest in less sophisticated companies."

The firm says entrepreneurs who listed their operations during the "heady" days of 1987 are evaluating what listing has achieved for them, and in many cases, actual experience has fallen short of expectations.

The present two-tier stock market — resulting from institutions shunning investment in many smaller companies — and the resultant lack of marketability of such shares, has caused the movement of share prices of many newly-listed companies to lag the market.

As a result, acquisition through scrip issues has not been feasible for these companies and has led them to consider the delisting alternative.

But those contemplating this should bear in mind it could be perceived as an admission of failure and make it extremely difficult to re-list the same assets, the firm warns.

Leaner times force NEI into a cost-cutting exercise

ANDREW GILL

THE limited growth rate in the economy of 2% in 1989 and recent political developments have curtailed real growth in the engineering sector, Northern Engineering Industries Africa Limited (NEI) directors said in their annual report.

Citing the lack of major capital investment projects and SA's inability to attract significant foreign capital, the report said economic growth would continue to be limited in the forseeable future.

NEI's operating companies have embarked on cost-cutting programmes to eliminate unprofitable activities and improve working capital utilisation. B|Day 15/3/90

Import surcharges and the rand's depreciation adversely affected working capital ratios where imported parts and components constitute a large portion of capital.

Exports, however, had better prospects. "The improved political climate, together with export incentives, has given SA manufacturers a competitive edge in the export of manufactured goods, especially into southern African countries," the report said.

The group's interest in Mossgas now involved R115m.

180

Trade must be on equal terms — Magomola

WILSON ZWANE

ECONOMIC freedom for all meant the ability for everyone to trade on equal levels without restrictions, Gaby Magomola of the Foundation for African Business and Consumer Services (Fabcos) said yesterday.

The "new economy debate" started when ANC deputy president Nelson Mandela stunned local big business and potential overseas investors by stating — shortly after his release from prison — that the ANC's policy was to nationalise SA's key sectors, such as mines, as a means of restructuring the economy.

Magomola said that to achieve economic freedom for all, obstacles like laws restricting black businessmen and inferior education for blacks should now go. B/Day 15/3/90

He said: "Such obstacles prevent black businessmen from competing on an equal footing."

However, he conceded it would take time before real economic freedom was achieved.

African Council of Hawkers and Informal Businesses president Lawrence Mavundla has said previously that the informal sector has reaffirmed its economic stance by saying it rejects nationalisation and that it is in favour of an economic system that favours free trade.

He said he was totally against any system that stifled freedom to trade.

"We have fought the laws that impeded us as the informal sector, and we don't want an economic system that will push us back to where we come from.

"We want freedom to trade and people should not be forced by government to work.

"They must want to work themselves. That bolsters competency," Mavundla said.

ZILLA EFRAT

INVESTMENT FM 16/3/90

Bright side (180)

JSE president Tony Norton told the Italian-SA Chamber of Trade & Industries that growth could average 4%-5% a year for the first half of the Nineties and 7%-9% for the second.

He believes this is attainable "considering

FM 16/3/90 (180)

we can still grow at 2% a year, despite being at the nadir of our economy and starved of capital, skills and management."

He adds that, far from teetering on the edge of an abyss, SA is a stable society. "We have just seen a minority handing over power voluntarily for the first time in history. The sanities are returning. When Nelson Mandela came out of jail his every utterance took 2% off the JSE board, but he is talking rationally now and gives the impression he's a man of goodwill, peace and sense."

Norton says sanctions and mismanagement of the economy are ending. Instead of industrial relations blowing the lid off society they are teaching South Africans to negotiate and settle their differences.

Socialism, communism and capitalism haven't worked in Africa "but since the Fifties, an endless stream of balanced people have predicted our end. They've all been proved wrong. We're still here and we're a society looking for a solution.

"No one here wants to see the destruction of wealth. Everyone wants to see it created and distributed better." ■

FM 16/3/90 (180)

MANUFACTURING OUTLOOK

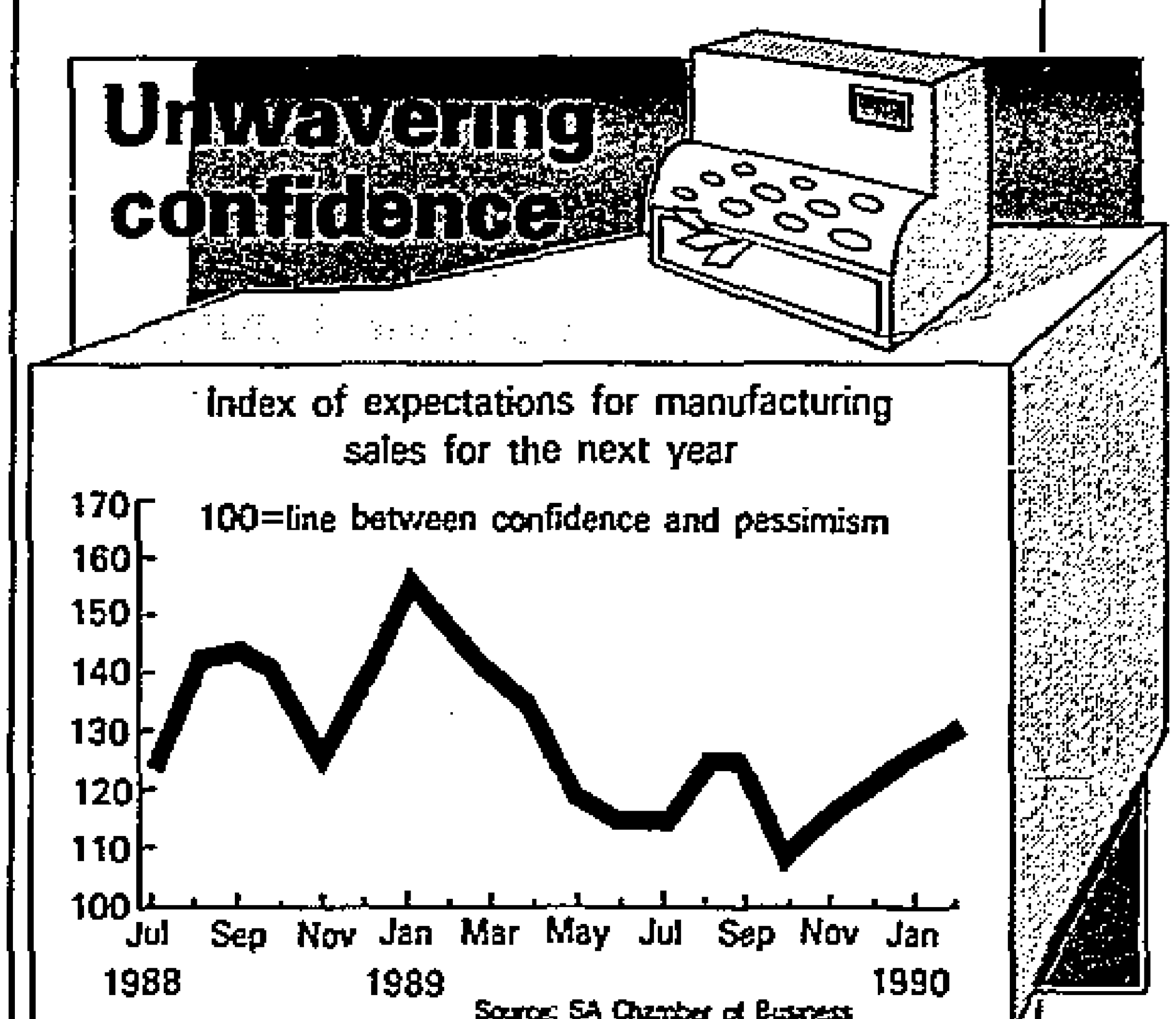
Rising expectations

After a month that saw President F W de Klerk's landmark speech and Nelson Mandela's history-making release, manufacturing confidence rose slightly in February, according to the SA Chamber of Business's Industrial Confidence Index.

The index, which measures the expectations of sales volumes for the next year, increased from 128 in January to 132 in February. As usual, there were pronounced regional differences.

Every region was above 100, the line between optimism and pessimism, but in the three main industrial regions — Transvaal, Durban and western Cape — the outlook for production in the short term (the month ahead) was more optimistic than for the long term, the next 12 months.

Chamber economist Keith Lockwood says the economy is still slowing down and he



expects it to touch bottom in the fourth quarter. A further concern for industrialists looking longer term is the deteriorating political situation which could affect confidence levels in the coming months.

Ironically, the Maritzburg region continues to be the most optimistic part of the country; confidence for the year ahead hit 182 on the index. Much of this optimism, though, is the result of industry taking advantage of incentives to move to the region, mostly from Durban, which was the least optimistic region for the year ahead.

The Port Elizabeth and East London regions were the second and third most optimistic. The survey was conducted before the Ciskei coup and recent upsurge in violence. ■

180

US to get SA futures course

ROBERT GENTLE

AN SA company specialising in financial educational packages is to market its recently released Futures & Options course in the US.

Progressive Systems, known for its Compushare share market training programme, will market the product from its Chicago office. B/Day 16/3/90

The decision to launch the Futures & Options course comes in response to repeated calls by existing US clients for such a package.

The SA version, endorsed by the SA Futures Industry Association, is currently being tailored to meet specific US conditions.

S/Times 18/3/90

W&A's turnover hits R2-bn

180

By David Carte

W&A Investment Corporation has kept up its astonishing growth in Jeff Liebesman's FSI Group, pushing turnover above R2-billion and operating profits over R250-million.

The conglomerate, which holds 76% of Hunts and 49% of Homemakers, reports turnover up 44% to R2,1-billion, operating profit up 51% to R266,6-million and taxed attributable profit up 60% to R86,1-million.

Earnings a share rose 20% to 1147c in spite of a 33% increase in the number of shares.

Mr Liebesman exulted: "Since FSI took control in 1987, turnover has multiplied 2,5 times and operating profit has gone up 2,8 times. This rapid growth has been achieved in a disciplined, planned manner.

"Tight control of the balance sheet has held gearing at about half of our self-imposed ceiling of 60% while total assets expanded from R529-million to R1,46-billion."

W&A managed to fatten operating margins substantially over the past five years from 8,2% in 1984 to 12,8% this year. But interest costs rocketed by 125% last year to R73,4-million, leaving interest cover a trifle slim at 3,6 (5,4).

Earnings in the five years from 1985-1990 have risen thus: 102c, 357c, 609c, 953c, 1147c.

Mr Liebesman said the results reflect solid organic growth in all operating companies, the benefits of group re-organisation and rationalisation of the furniture interests into Homemakers, expansion into auto parts through Vektra, manufacture of shoes via Edworks and entry into pharmaceuticals via Noristan.

He is looking for "satisfactory growth" in the year ahead, in spite of cloudy economic conditions.

Hunts, holding company of Teamcor and thus of Natbolt, Gentire and other companies, lifted earnings a share by 25%, Homemakers, by 20%, AAF, based in the UK by 26% and Noristan, in which a 20% stake was recently acquired, by 24%.

Dividends

W&A shows an extraordinary below-the-line profit of R11,9-million, being its share of the capital profit on the reconstruction of associate, Elcentre.

Waicor, the controlling pyramid of W&A pushed up earnings 24% to 479c. The dividend has been raised 14% to 168c.

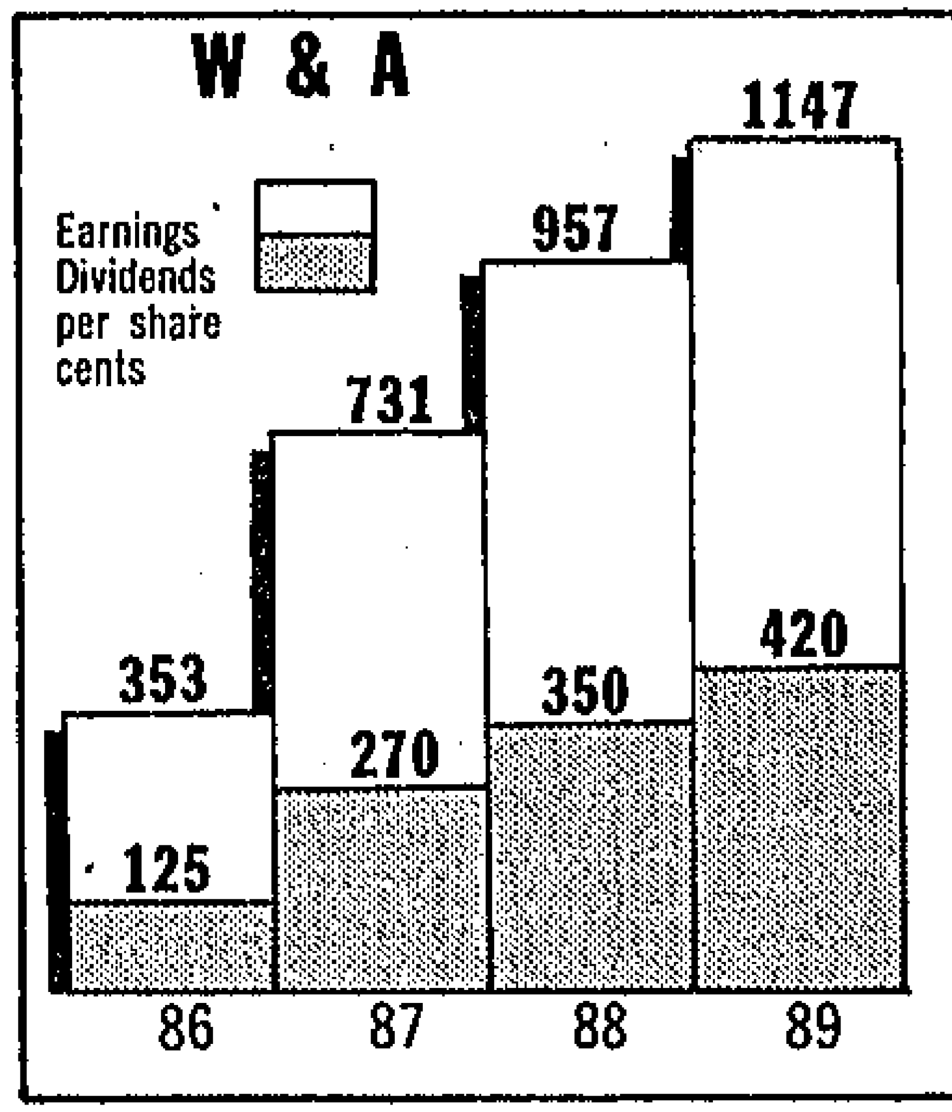
The dividends on the ordinary shares of both W&A and Waicor are now equal to those on the preferred ordinaries, which will consequently be converted into ordinary shares.

AT 7900c, W&A is 6,9 times earnings and yields 5,3%. It stands at a 49% premium to net asset value. Waicor at 3700c is 7,7 times earnings and yields 4,5%.

Those are good ratings for conglomerates but the spectacular track record tends to justify them.

W & A proposes share split in bid for extra marketability

BDay 19/3/90 (180)



Graphic: LEE EMERTON Source: W & A

SYLVIA DU PLESSIS

JEFF Liebesman, chairman of Waicor-held W & A Investment Corporation, is proposing to split the conglomerate's shares on a 10-for-1 basis to improve their marketability.

The news, anticipated on the market where the shares rose R3 to R82 on Friday, coincided with the release of first-rate results for the year to December. These reflect 20% growth in earnings to 1 147c (957c) a share in spite of a 33% increase in the weighted average number of shares.

Ordinary dividends rose at the same rate to 420c a share (350c), covered 2,7 (2,6) times. Liebesman said in a statement this equated dividends on the ordinary and preferred ordinary shares and "triggered" the automatic conversion of the preferred ordinaries into ordinaries. This meant there were 7,5-million ordinary shares in issue with effect from January 1.

The group — in the FSI stable — topped the R2bn turnover mark during the period under review, with turnover up 44% from R1,45bn. Operating margins rose to 12,8% (12,2%), lifting operating profit by 51% to R266,6m.

Directly-held investments include Hunts (76%), Homemakers (49%), London-listed AAF (58%), MacPhail (56%), John Craig (100%) and Noristan (20%).

Finance charges rose 125% to R73,4m, but pre-tax profits still grew 34% to R193,2m. After tax of R50,8m (R42m), attributable profits were 60% up at R86m.

Liebesman said W & A had turned in an "excellent" performance in a tough year, largely due to solid organic growth.

Also reflected in the results was expansion into automotive replacement parts distribution, shoe manufacture and distribution and pharmaceuticals manufacture and distribution, he said. Given stable operating conditions, earnings for the current year would show "satisfactory" growth.

□ Holding company Waicor, 90%-held by FSI, posted a 24% improvement in earnings to 479c a share. Its ordinary dividend was raised by 14% to 168c to equate it to the dividend on the preferred ordinary shares.

COMPANY RESULTS WRAP-UP

Businessmen, MDM plan joint ventures

CHARLENE SMITH

A GROUP of leading businessmen and mass democratic movement (MDM) regional leaders met at Broederstroom at the weekend to discuss ways of working toward "the complete elimination of apartheid" and the equitable distribution of wealth in SA. They said afterwards they had decided on certain joint ventures.

The conference was held under the auspices of the Consultative Business Movement (CBM), which tries to stimulate discussion between business and community leaders toward finding economic solutions for SA. BDay 19/3/90

It has held similar meetings in Natal and the Cape, and two weeks ago a business group met the ANC in Harare.

The 22 businessmen at the discussions this weekend included JCI economist Ronnie Bethlehem, Tiger Oats MD Johnny Frankel and the Urban Foundation director Jeff McCarthy.

The 23 MDM delegates included top members of the UDF and Cosatu, among them UDF officials Jackson Methembu and Jeff Molapo and SA Youth Congress southern Transvaal vice-president Nathaniel Kekana.

CBM spokesman Theuns Eloff said certain joint ventures had been decided on, but would not say what they were as both sides needed final approval from their constituencies.

The 18 hours of intensive discussion included debate on the need for development and the right climate to attract capital investment, said a CBM statement.

The delegates discussed the problem of homelessness and its implications for employment and productivity. They debated "the critical issue of education and the need to introduce a more equitable and career orientated system to match the country's economic and employment opportunities", Eloff said. They also explored the causes of the recent violence.

180

Hansard 20/3/90

*21. Mr K M Andrew—Planning and Provincial Affairs. [Question standing over.]

Regent Road, Sea Point: satellite police station

*22. Mr C W EGLIN asked the Minister of Law and Order: Hansard 20/3/90

(1) Whether the South African Police is considering closing down the satellite police station in Regent Road, Sea Point; if so, why; 251

(2) whether he will give an assurance that the station will not be closed down until adequate and effective alternative crime prevention and policing facilities exist in that part of Sea Point

B518E

†The MINISTER OF LAW AND ORDER:

(1) and (2).

This matter is at present receiving attention. As soon as a final decision has been taken I will inform the hon member accordingly.

*23. Mr E W Trent—Defence. [Withdrawn.]

Strand, factory: retrenchments

*24. Mr R R HULLEY asked the Minister of Defence:

Whether any workers have been retrenched at a certain factory in the Strand, the name of which has been furnished to the South African Defence Force for the purpose of the Minister's reply; if so, (a) how many, (b) on whose orders, (c) for what reasons and (d)(i) when and (ii) by whom were these workers advised that they were to be retrenched?

Hansard 20/3/90. B520E

†The DEPUTY MINISTER OF DEFENCE:

Yes.

(a) 252.

(b) The Board of Directors of the company.

(c) The decision was taken as a result of cuts on the workload of the company which followed cuts in the 1990/91 SA Defence Force budget.

(d) (i) On 27 and 28 February 1990.

(ii) The Management of the company.

*Mr P G SOAL—Planning and Provincial [Question standing over.]

Orange Farm settlement camp: schools

*26. Mr P G SOAL asked the Minister of Education: Hansard 20/3/90

(a) How many schools are there at the Orange Farm settlement camp, (b) what is the name of each such school and (c) how many pupils can they accommodate?

B522E

†The MINISTER OF EDUCATION:

(a) 5

(b)

Names of schools		(c) Number of pupils that can be accommodated
Orange Farm Public Primary School		920
Qoquisiswe Primary School	(Private)	Particulars not available
Mpanza Primary School	(Private)	Particulars not available
Tsakane Sizwe Primary School	(Private)	Particulars not available
Black Forest Secondary School	(Private)	Particulars not available

Inward industrialisation

*27. Mr H H SCHWARZ asked the Minister of Trade and Industry and Tourism:

Whether any steps are contemplated to implement, encourage and further the policy of inward industrialisation; if not, why not; if so, what steps?

Hansard 20/3/90 180 B523E

The MINISTER OF TRADE AND INDUSTRY AND TOURISM:

Inward industrialisation is not so much a strategy as a process; the government is not in a position to "implement" it by fiat, but should rather be seen as removing obstacles to what is actually a perfectly "natural" process in *any* industrialising country.

The essence of inward industrialisation, in the South African case, is a growing mass demand for basic goods and services with high labour-intensity but a low import coefficient: in particular, housing. Inward industrialisation is the flipside of urbanisation; and, to the extent that government is promoting or encouraging urbanisation, it is advancing inward industrialisation. Hansard 20/3/90

Indeed, the provision of physical and social infrastructure on the periphery of the metropolitan areas is itself part of the initiating impulse of inward industrialisation. This opens up the whole vista of government's *housing* and *education* policies; or, at a wider remove, of its social spending as a whole.

Inward industrialisation naturally rests also on a broad base of small-scale economic activity in both the formal ("small business") and informal sectors. The former is being promoted through various bodies, notably the Small Business Development Corporation, an institution that has been and is receiving substantial financial support from government (including R60 million in the Budget of 14 March 1990). The informal sector is growing appreciably, and is being promoted by means of deregulation and training programmes. 180

A *macro element* in inward industrialisation is the raising of labour-intensity in production. As was stated in the Budget speech, government is seeking to bring about a situation *where the relative prices* of labour and capital better reflect their relative scarcity. The pursuit of positive real interest rates (accepted as a guiding principle by government) will contribute to this.

Inward industrialisation can also be said to rest on a redistribution of income towards those with a high propensity to consume. The latest *Budget involves just such a shift.*

The government's dramatic R3 billion upliftment and development fund is bound to accelerate the whole process of inward industrialisation.

Prison labourers: tariff paid by employers

*28. Mr D J DALLING asked the Minister of Justice:

With reference to his reply to Question No 17 on 20 February 1990, what is the current daily tariff paid to the Government by private employers of prison labourers?

Hansard 20/3/90 B525E

The MINISTER OF JUSTICE:

(Reply laid upon the Table with leave of House)

TARIFF SCALE A (URBAN AREAS, DEVELOPING TOWNS AND INDUSTRIAL COMPLEXES) Hansard 20/3/90

Weekdays : Prisons Service guard		: Salary of special guard per day plus R1,40 per prisoner per day to a maximum of five (5) prisoners per guard.
	: Hirer's guard	: R1,40 per prisoner per day.
Saturdays : Prisons Service guard		: Half of the salary of special guard per day plus R1,10 per prisoner per day, to a maximum of five (5) prisoners per guard.
	: Hirer's guard	: R1,10 per prisoner per day.

TARIFF SCALE B (RURAL AREAS)

Weekdays : Prisons Service guard		: Salary of special guard per day plus R1,15 per prisoner per day to a maximum of five (5) prisoners per guard.
	: Hirer's guard	: R1,15 per prisoner per day.
Saturdays : Prisons Service guard		: Half of the salary of special guard per day plus R0,75 per prisoner per day, to a *maximum of five* (5) prisoners per guard.
	: Hirer's guard	: R0,75 per prisoner per day.

The above-mentioned tariffs are revised from time to time on the basis of inter alia the following factors:

— the hirer's expenses involving the wage of his guard;

— transportation cost;

— limited number of hours which a prisoner can work and the relative lower productivity; and

— the current minimum scale of wages.

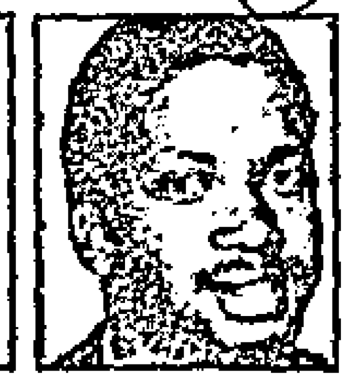
CG Smith looking better than parent

Star 22/3/90

180

Diagonal Street

JABULANI SIKHAKHANE



The shares of food group CG Smith have soared by 30,5 percent since the beginning of the year, far in excess of the industrial index which has risen by only 9 percent over the period.

Analysts attribute this performance to expectations by investors that CG Smith will show steady growth for the year to September, despite the downturn.

They say investors could be switching from parent company Barlows into CG Smith because they expect the former to be hurt by its steel interests and higher interest rates.

Earlier this year, Barlows CE Warren Clewlow warned that Middelburg Steel might contribute less than it did last year to bottom-line earnings because of falling steel consumption locally and abroad.

Middelburg Steel was the star performer for the Barlow group last year, contributing R215,7 million, or 21,6 percent, to bottom-line earnings.

Also analysts expect 1990 to be a tougher year for Barlows, particularly with continued high interest rates on borrowings, which are set to rise further, along with the take-up of the group's Rand Mines rights offer allocation.

Barlows' share price has remained virtually unchanged at R44,50 after reaching a peak of R48,50 in mid-January.

CG Smith appears currently to have a higher rating. At a price of R88,75 it is trading on an historic P/E ratio of 11,8 times, while Barlows is on one of 8,9 times.

While Barlows might show lower earnings than last year, CG Smith is looking only at a slower rate of growth.

Mr Clewlow told shareholders in January that while first-quarter earnings for the period to December 1989 were similar to corresponding first-quarter figures last year, gains in Barlows' divisions could be offset by Middelburg's decline.

However, in CG Smith the effects of the economic downturn could be offset by increased moves towards value-added products and exports.

Exports rose sharply in financial 1989 to over R1,4 billion, or 12 percent of turnover.

A large proportion of these exports are higher value-added products, rather than agricultural products.

Patrick Ho, analyst at Max, Pollack & Freemantle says the major contributors to CG Smith earnings are CG Smith Food and Nampak.

Mr Clewlow says in his forecast for 1990 that the food and packaging sectors are less prone to volatile cyclical swings in consumption and demand.

Consequently, CG Smith expects a year of steady growth, although the growth in earnings is likely to be at a lower rate than that of 1989.

Mr Ho says CGS Food has shown remarkable strength lately, having gone up 40,7 percent since the beginning of January to the current price of R38.

With CGS Food being the largest contributor to CG Smith's attributable profits, any increased strength will impact positively on CG Smith.

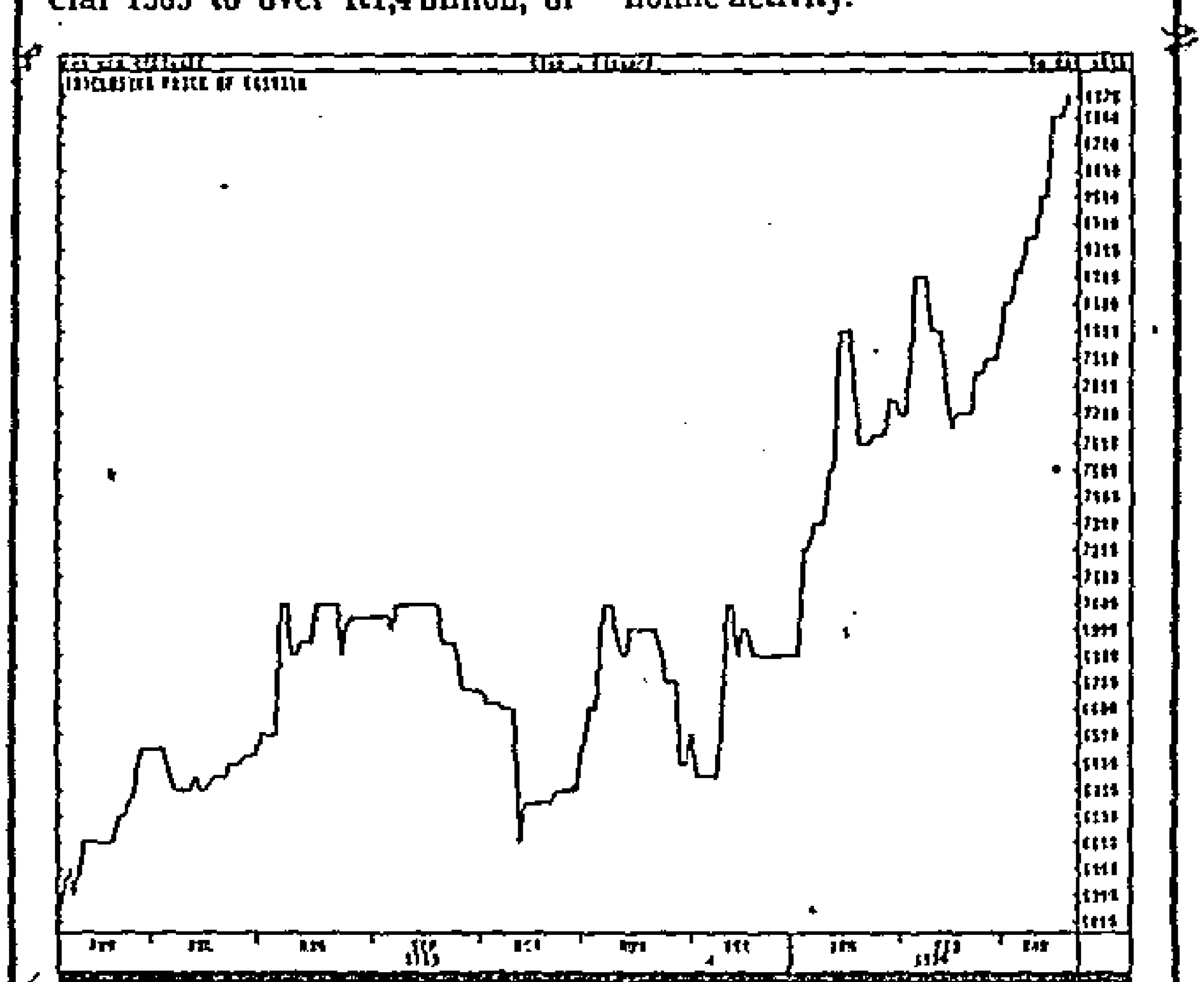
For financial 1989, CGS Food contributed R180,8 million, or 30 percent, to CG Smith's attributable profits, followed by Nampak with R137,6 million and Romatex with R30,8 million.

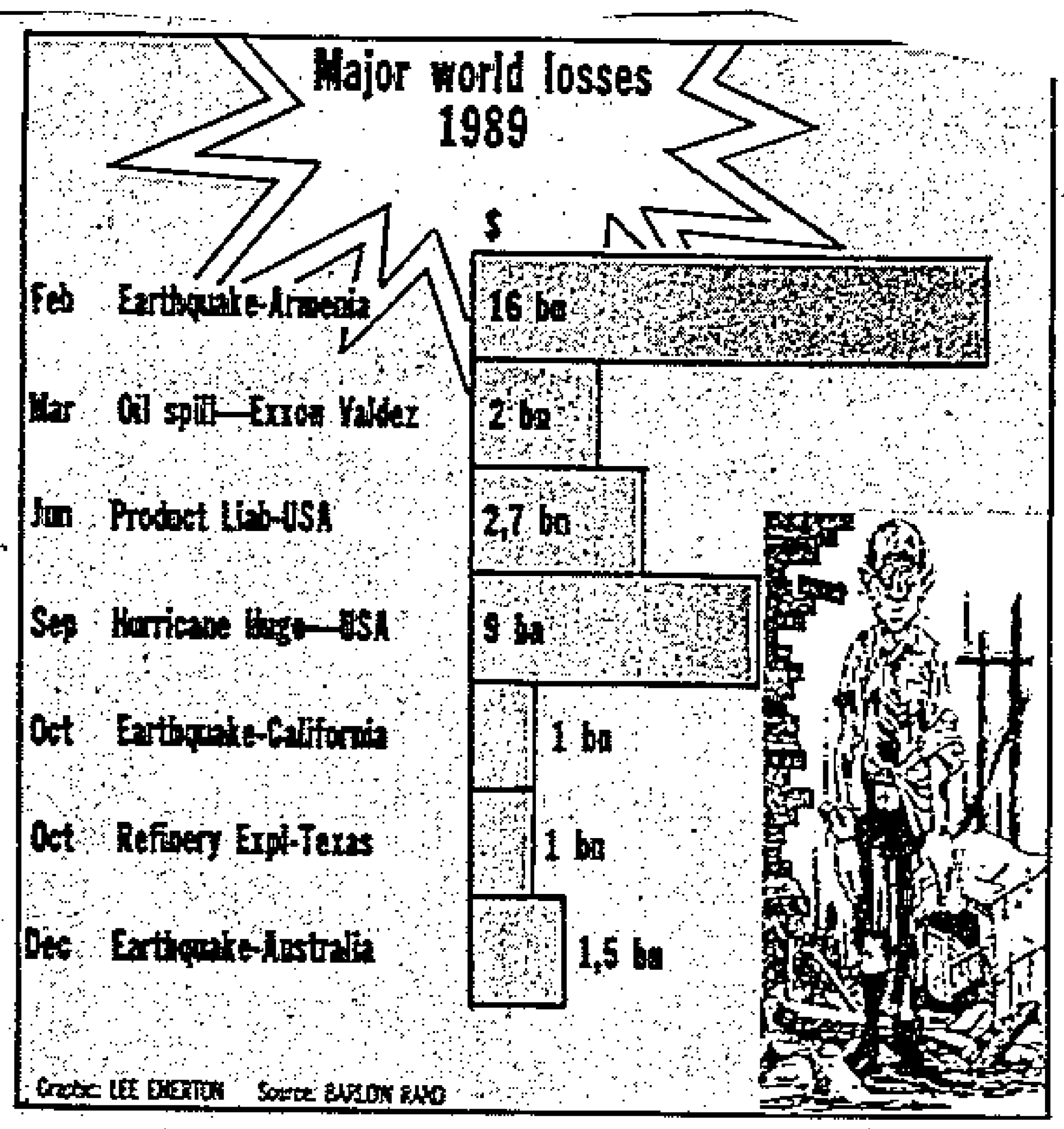
Mr Ho attributes the strength in CGS Food to the expected good performances by two of its major subsidiaries, Tiger Oats and CGS Sugar, in the wake of the rising international sugar price.

CG Smith's packaging interests, held through Nampak, should also show real growth this year.

In their forecasts, directors said in the 1989 annual report that the packaging industry was less sensitive to economic trends than other sectors thanks to its strong links with the food and beverage industries.

Mr Ho says that while the packaging sector may be the first to be hurt by a downturn, it is also the first to indicate an upturn in economic activity.





Indemnity period: finding out when enough is enough

S/Day 22/3/90 (180)

THERE is a fine line between an indemnity period that is too short or too long for cover in the case of business interruption.

PFV Rand director David Nabarro says: "Consequential loss or business interruption insurance is an essential component of risk management.

"It is a lifesaver for a company when an event or accident halts production.

"But the right indemnity period built into the contract is a complex decision and has to be tailored to suit the specific activities of a business.

"If the indemnity period is longer than necessary, the insured pays a higher premium. If too short, the claim settlement might be unsatisfactory."

Seasonal

Nabarro says seasonal businesses such as farming or the clothing trade need to be particularly careful in setting the right indemnity period.

"Buyers should seek expert advice in selecting cover to meet the exposure potential. Production interruption can mean instantaneous loss. It is possible the company could struggle to regain customers."

Barlow ~~Group~~ risk and insurance manager Des Vernon notes that in most cases companies tend not to insure for loss of market.

He notes the case of an electronics company which encountered this difficulty following a major fire.

"When the products are not being supplied, customers switch to other products and you can't get them back. It can be the end of a business altogether."

Serious

The swing by many manufacturers to just-in-time management principles and the consequent demand for shorter lead times for machinery and spare parts is another factor which makes even a short halt to a production line serious, says Nabarro.

"Unless detailed contingency plans are made and consequential loss or business interruption policies tailored to suit the specific needs and environment of a business, losses could be devastating."

Products to deal with residual value pitfalls

B Day 22/3/90 (180)

THE cost of replacing capital equipment has escalated enormously in the past 18 months due to high interest rates, the weak rand and inflation.

But choosing popular new financing methods such as residual value calculations over a lease or staggered repayments could have insurance complications.

BCE underwriting management company MD David Taylor says: "The problem has arisen due to the high interest rates incurred, particularly when a residual value financing structure is used which 'balloons' interest later in the contract.

"Normal insurance does not cover such additional charges, but only the actual value of plant. With this method of financing, if the owner loses the equipment during the repayment period he actually owes more than it's worth and can incur a substantial shortfall."

BCE is tackling this problem by offering an insurance policy which bridges the gap and for a minimal excess of perhaps 5% will insure the full amount owing to a creditor for plant and equipment.

"There is a definite need for creative financing and it has become increasingly popular. That's why we need to look at an insurance product like this. Take for example an open-cast mine which might require R10m in plant but wishes to minimise repayments until income starts to flow once the mine is running.

"It can use its full financing facility and insure the full amount."

FSI FM 23/3/90

Nothing sour

180

Real growth in earnings reported by all FSI group companies accord with the forecasts of chairman Jeff Liebesman a year ago. Both FSI and W&A lifted their share earnings by 20% and Hunts raised its by 25%. This was despite the full effect of additional ordinary shares and preferred ordinaries, issued in 1988, and higher interest charges.

Still, Hunts' R60,6m attributable profit fell short of the interim forecast of R65m, which Liebesman ascribes to a large write-off by Gentyre in the Quality Tyres liquidation. Gentyre did well with a 40% EPS increase.

Among W&A's other investments: Homemakers weathered industrial action and lower demand for consumer durables to produce a 20% earnings increase; MacPhail raised EPS 57%; Edworks was profitable after interest charges on its purchase price; London-listed AAF Investments added 26% in sterling terms. AAF has recently acquired interests in modular building in Britain and the US and Liebesman is confident of strong

FM 23/3/90 180

growth from it this year.

Analysts point out that deconsolidation of W&A's listed components leaves about R34m unaccounted for in the group's operating profit. Liebesman says this R34m comprises the contributions from wholly owned men's outfitter John Craig, property deals and developments and profits from W&A's internal banking arm. This indicates R20m-odd was earned on property deals, which may be hard to repeat.

Gaps like that and lack of information on contributions from the components make analysts feel FSI is difficult to conceptualise. Pro forma comparisons in the results of JD Group, Homemakers and Hunts, below-the-line write-offs in Edworks and Homemakers and the paucity of information about the overseas businesses compound the perception.

FORECAST FULFILLED

Year to December 31	1989	1988
Turnover (Rm)	2 509	1 888
Pre-tax profit (Rm)	230,7	177,8
Attributable (Rm)	64,3	46,6
Earnings (c)	132	110
Dividends (c)	35	30

The contribution from FSI's overseas subsidiaries on "five continents" fell 3,5% in rand terms. The decline must have been larger in the countries concerned, though the fall of the rand against the dollar was modest last year at 7%. Liebesman says the decline was due to cooling of overseas economies and competition from the Far East in "one region" where retaining market share was costly. In SA, Form-Scaff produced record operating profit for the eighth consecutive year and Liebesman says its prospects are bright, especially because of Mossgas and the Lesotho water scheme.

Whatever the remaining criticisms of FSI, Liebesman can be commended on the fact that none of his schemes, sometimes criticised as high-flown, has turned sour. Return on managed assets has increased from 16% in 1987 to 20% on last year's R2,5bn asset base.

Liebesman said 1988 was the year of structural adjustment for the FSI group and 1989 the year of improving operating efficiencies and organic growth. 1990, he now says, is likely to be a combination of further management tightening, with some acquisitions, both opportunistic and synergistic. This year's growth, he reckons, will be satisfactory.

Teigue Payne

FM 23/3/90 (180) (93)

GROWING POPULARITY

The organisers of this year's Rand Show patted themselves on the back when they let all the available space by November. But they were sorely disappointed when they were later forced to turn down requests for space from four East Bloc countries.

The four — Czechoslovakia, Hungary, Rumania and Poland — view SA as a likely market. And they see the Rand Show, to be held at Nasrec from April 6-22, as the best place to exhibit the goods they want to sell.

Last year, the estimated 1 000 exhibitors, who took up 100 000 m² of exhibition space, turned over more than R1bn. A caravan manufacturer sold over 100 units for more than R2,5m. The show drew nearly 1m visitors; the organisers are not making a projection for this year.

The request from the four countries indicates that the Rand Show is beginning to regain the international acceptance it enjoyed more than a decade ago, when it had official West German, Austrian and British pavilions. Today, no designated international stands are in evidence at Nasrec, though international exhibitors do occasionally hire some general floor space. West Germany, Italy, Greece, Switzerland, Argentina, Bolivia, Taiwan, Peru and Madeira still exhibit on a smaller scale.

The Sydney showgrounds in Australia are being modernised, apparently using Nasrec as a model. In addition, some US and Australian breeders will send cattle to compete in this year's show.

Locally too, Nasrec is gaining increased acceptance. The SA Tourist Board has asked the show promoters, the Witwatersrand Agricultural Society, to alleviate the shortage of large conference facilities by building a conference centre to accommodate 1 500 delegates. If built, it will be the largest conference facility on the Rand.

PUBLIC FINANCE 180 FM 23/3/90

Barend's hidden bonanza

Finance Minister Barend du Plessis appears to have kept several aces up his sleeve in estimating 1990-1991 revenue. Tax on non-mining companies and revenue from GST in particular seem to be underestimated.

In his speech, he did not mention the important change to depreciation for plant and machinery, as from December 15. The previous concession, which allowed expenditure to be written off on a 50:30:20 basis, has been replaced by a straight-line 20% provision.

The latest Reserve Bank *Quarterly Bulletin* reports gross domestic fixed investment on machinery and other equipment of R18,8bn (annualised) for the third quarter of 1989. Assume only one-third of this was spent by non-mining companies in the private sector and that this was previously all eligible for a 50% write-off in the first year.

The additional (annualised) income that quarter — through a reduction to a 20% write-off in the first year of purchase — would have been 30% of R6bn, which is R1,8bn. The additional tax would be half of this, or R900m. This is obviously not a precise calculation, but a back-of-the-envelope figure intended to show the possible degree of underestimation.

Then take the Budget's major changes to the company tax structure — affecting Lifo reserves, consumable stores and spares and work in progress for construction companies (each budgeted to yield a modest additional R50m in 1990-1991).

Pim Goldby partner Peter Backwell knows of a number of companies, each with Lifo reserves around R100m. Another source confirms that Lifo reserves are extremely large and — certainly under the partial method of dealing with deferred tax — don't even appear on the balance sheet.

Backwell also draws attention to a Revenue practice note, in May 1987, that consumable stores and maintenance spares would be phased *out* of trading stock valuations, retroactively, over a three-year period starting in September 1985. This has now been reversed by the Budget, which records value of consumable stores and maintenance spares will be phased *in*, as an addition to stock values over five years.

Backwell says that, in most cases, excluding consumables and spares resulted in a timing difference that rolled over from year to year, usually increasing in magnitude. This timing difference would effectively have been permanent so long as stock levels were maintained. He believes the Budget substantially underestimates the increase in revenue from this change.

As for work in progress by construction companies, the most recent published accounts of six listed construction companies alone reflect work in progress of R912m. These concerns will pay an additional R91m tax per year for the next five years — provided they don't run tax losses. Backwell says the construction industry is looking for more, not less, activity.

Collections from these three changes could be three times the budgeted R150m. Combined, budgeted tax amendments plus December's depreciation change could plausibly bring in R1,5bn more than projected.

Another approach is as follows: the first print estimate of company tax for 1990-1991 is R12,95bn. The second print estimate (which takes account of budgeted amendments to the tax system) is R13,18bn. The revised estimate for 1989-1990 is R11bn.

This implies company tax (presumably allowing something for the change in depreciation) was expected to grow by R2bn (17,7%) before the Budget changes. This is only some 4% above possible 14% inflation this year, without allowing anything for the cut in depreciation allowance. Any substantial allowance for the depreciation change would make these figures look even more conservative.

Next consider GST, for which an increase of 12,5% is projected, over the revised estimate of R16,5bn for 1989-1990. If inflation averages 14% this presupposes a 1,5% decline in real expenditure on goods subject to GST, which seems remarkably pessimistic. If GST increases not by 12,5% but by 15,0%, it would bring in an extra R400m or so.

So we are looking at a prospective extra R2bn revenue in company tax and GST alone, or around half the money given away in concessions in other areas.

If these speculative figures turn out too low, the supposed net sacrifice of R4bn revenue could be only R1bn, perhaps even nothing at all.

There is always, of course, a tendency to underestimate revenue. This is easily demonstrated by Budget figures for 1989-1990, which were 11,5% under actual collections.

The Budget estimates revenue for 1990-1991 at just short of R65bn. Just 10% underbudget would bring in an extra R6,5bn, which makes the illustrative figures for companies and GST at least plausible.

All in all, the Budget could be far more deflationary than Du Plessis said it was.

Robin Friedland

SUNDAY TIMES, Business Times, March 25, 1990 / 11

180

FSI learns a lesson and deserves kudos

By Julie Walker

WELL ensconced in a lot of padding about FSI at a JSE presentation this week was a warning.

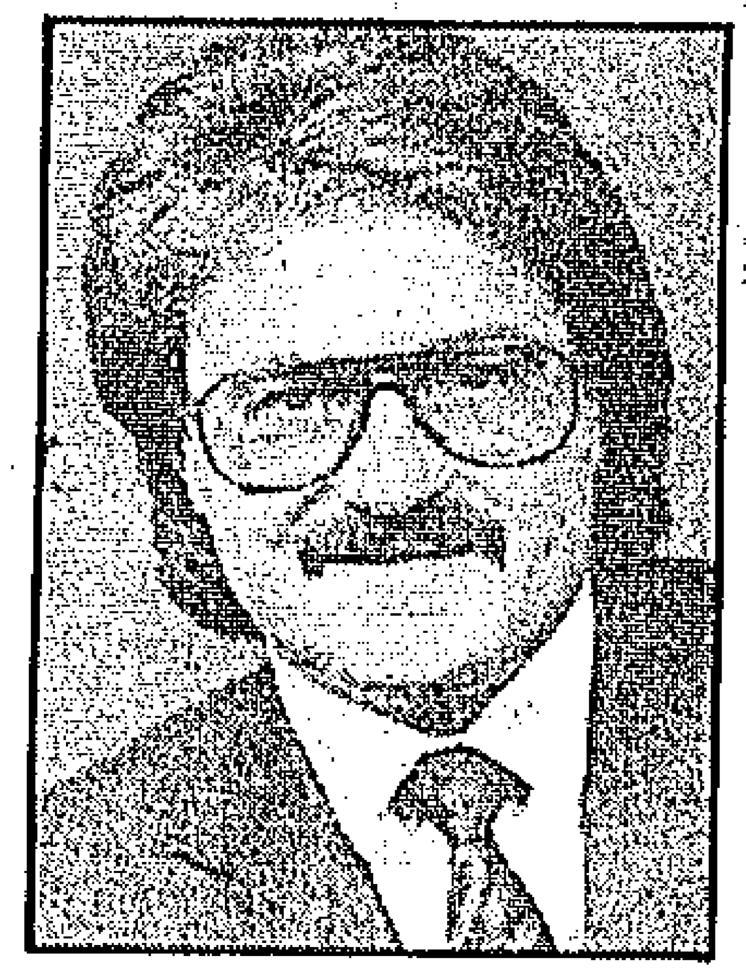
Chairman Jeff Liebesman forecasts that SA's readmittance to the world's economy will take the complacent by storm.

Mr Liebesman told a conference this week that FSI's earnings from international operations fell by 3,5% in rand terms in the year to December 1989 (not including AAF's contribution). FSI is established in five continents, and its operations fared well in all but one country.

Mr Liebesman says that when a Far Eastern competitor decides to go for your market share, it will get it at any price. Short-term sacrifices mean nothing when future markets are won.

"It hurt us," he says. FSI has taken corrective but costly action which should bear fruit in the long run. "We'll just have to get used to it."

The point is plain — FSI has learned a lesson that should stand it in better stead than SA companies with no international experience. Foreign competition is something we can expect in southern Africa during the 1990s.



JEFF LIEBESMAN
Warns on complacency

FSI is not the first SA company to come short in a foreign place. Malbak's Abercom, Barlows' Bibbys and Klipton's UK efforts have battled — or failed — to name but a few. FSI's lost battle in one land is no disgrace.

Mr Liebesman seems to want a pat on the back for what really has been a fine performance. Today's FSI group did not even exist in 1983. In 1981 the orginal scaffold hire business Form-Scaff turned over R12-million and made R800 000.

Figures reported this week show turnover of R2,5-billion (add 20% to include the worldwide operations), and profit of R345-million. There are 32 factories, 850 distribution points and more than 30 000 employees.

Pinpointing the corporate structure is difficult — it seems to be an ever-moving target. In brief, FS-Group owns 65% of FSI Corporation (FSI). FSI owns Form-Scaff, has two financial services interests and an effective 55% of W&A, in addition to its international business.

The last item accounts for 14% of FSI's investments, but contributes a lower percentage to income. Mr Liebesman says this is because FSI bought foreign companies which made no money at all, rationalised and made them profitable.

W&A owns stakes in MacPhail, Homemakers, Hunts, Noristan and foreign-based AAF.

Homemakers' JD Group learned the hard way about industrial strife when it dismantled the World chain. There was a very trying strike, according to Mr Liebesman, resulting in a R15-million writeoff.

Hunts in turn owns chunks of Gentyre, Teamcor and Burhose/Hygenia. Gentyre took a smack from the demise of Quality Tyres.

FSI's tax rate should remain below 30% because of its exposure to manufacturing and exporting, which provide for permanent tax breaks. Income earned abroad is taxed at a lower level than SA's corporate norm of 50%.

The debt-equity ratio or gearing is 57%, within FSI's self-imposed ceiling of 60%. The quality of debt is satisfactory.

Mr Liebesman is big on ROAM — return on assets managed. It differs from the return on shareholders' funds because the gearing is taken into account.

FSI's target is to achieve a 35% return. Over the last three years it has been 16%, 18% and 20%, underlining FSI's boast that it adds value to companies.

FSI's shares, at 975c, are on 7,3 times historic earnings and a dividend yield of 3,6%. Will SA's conservative institutional investors give FSI's management the desired recognition? I think so.

Duros rights offer to raise R90bn

CMT TIMES 26/3/90 (180)

Johan Claasen

By AUDREY D'ANGELO
Financial Editor

THE Cape Town-based Duros group, with interests ranging from public transport to food, plans to raise R90 bn in rights offers to reduce borrowings and strengthen its balance sheet.

Former controlling shareholder and chairman Johan Claasen announced yesterday that most of this would come from the new controlling consortium of which he is a member. The other members are Mervyn Key and two international businessmen based in Britain — Julian Askin and Hugo Biermann.

Claasen pointed out that this would mean a massive injection of foreign exchange from Askin and Biermann, who have bought into the business through companies controlled by their family trusts.

A statement issued by Finansbank said that these companies and Mervyn Key and Lawrie Mackintosh, former financial director of Duros, had bought 54,3% of the controlling shareholding of Claasens for R6,50 a share. The consortium has also bought the shareholding of former Tollgate Holdings CE Hennie Diedericks, who has resigned from all his directorships in the group.

A similar offer to buy minority shareholdings will be made in due course, in accordance with the requirements of the JSE.

Admitting that Askin and Biermann had been able to buy into the group comparatively cheaply because its results had been "disappointing" Mervyn Key, who will become joint executive chairman of Duros with Julian Askin, said:"Due to high interest rates, Tollgate Holdings' earnings for the past year have been much lower than forecast."

Claasen, who retains a large shareholding and will become CE of operations in SA, said that although this was an apparent drop in status from being chairman "in fact I shall be doing what I enjoy most. I like to take an active part in operations, and status does not worry me."

Pointing out that the group had made acquisitions including food company Gants Holdings and hosiery company Arwa, Key said that any development phase normally involved high borrowings. The rise in interest rates had affected earnings.

The current year would have been one of consolidation for the group, which was planning no more acquisitions in SA at present.

But Askin and Biermann had decided that, politically, the time was right to invest in SA. They considered the group had a great potential for growth.

Key said the consortium intended to make use of Tollgate Holdings' listing on the London Stock Exchange to expand into Europe. The group would grow into an international one.

He said there was already less resistance in Britain to being seen to do business with SA.

Britons pump millions into city firm

CT/AT 26/3/90

180

By AUDREY D'ANGELO
Financial Editor

FORMER SA businessman Mr Hugo Biermann and his partner Mr Julian Askin — both based in Britain but with international interests — are making a multi-million rand investment in the Cape Town-based Duros group.

Companies controlled by their family trusts have formed a new consortium to control Duros together with Mr Johan Claasen and Mr Mervyn Key, the two entrepreneurs who built Duros up from a small hosiery company with a market capitalisation of only R6 million in March 1987 into an industrial holding company with a market capitalisation of R150m.

Results published today show that Duros has been hit heavily by high interest rates and by poor performances by food company Gants and hosiery company Arwa in the past six months.

Its earnings for the 18 months to December 31 have fallen to 7,6c a share compared with 60,5c in the year to June 30, 1988.

Last night it announced two rights offers by Duros and by Tollgate Holdings, holding company of the operating companies, to raise R45m each.

Mr Claasen said that the new controlling consortium would be following its rights, which would mean an injection of R45m in foreign exchange from Mr Askin and Mr Biermann.

He and Mr Key said that Mr Askin and Mr Biermann — who is the son of Admiral H Biermann, former chief of the Defence Force — both knew South Africa well.

"They know that Duros, catering for basic consumer needs, is poised to do well as the purchasing power of black people increases.

"They see South Africa as a better place to invest in than Eastern Europe, where economies are in ruins as a result of the way they have been run."

Tollgate Holdings has a listing on the London Stock Exchange and Mr Key said the consortium intended to make use of this to expand in Europe.

Mr Askin and Mr Biermann will look after that part of the business and Mr Claasen, who will replace Mr Hennie Diedericks as chief executive of Tollgate Holdings, will run the South African operations.

Mr Diedericks has resigned from all his directorships in the group.

● Duros rights offer — Page 12

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● Duros rights offer — Page 12

Budget could have 'significant' effects

(180)

CAPE TOWN — The budgetary proposals and consequent economic developments could have a significant effect on certain suppliers and manufacturers, Sanlam economist Johan Louw reports in his latest Economic Survey.

While most industrial and commercial companies are relatively unscathed by the budget proposals, a deterioration in their profits is expected during the course of the year as the rate of economic activity slows down and it becomes more difficult to pass increased costs on to the consumer.

Similarly, the tax concessions to mining companies are not expected to have an immediate effect on profits, although they should promote new projects in the longer term.

But the effect of certain proposals and economic trends is likely to be more imminent for companies in certain fields, says Louw.

For example, the benefits of lower personal tax to suppliers of durable consumer goods like motor vehicles, furniture and household appliances will be strongly countered by sustained high financing costs and wage and salary increases that are lower than inflation.

Suppliers of electronic equipment and manufacturers of defence equipment will feel the effect of the reduced defence budget, while there will be less work for com-

LESLEY LAMBERT

panies involved in the development of the country's economic infrastructure, particularly road and bridge building, as spending on the social infrastructure takes priority.

In addition, Louw says that while some suppliers will have to compete more strongly with imported goods as a result of the reduction of the import surcharge, producers which use imported goods in their production processes will benefit.

He says that reliance on a strict monetary policy will delay the chances of a reduction in short-term interest rates, and forecasts a prime rate of 18% to 19% for the end of 1990.

B Day 28/3/90

Upturn

On the positive side, Louw expects the inflation rate to gradually reduce to about 13% by the end of the year. Wage and salary increases will have a significant effect on the inflation rate, but if price increases are unchecked in a restrained wage and salary environment, the fight against inflation will be severely hampered.

Generally, Louw expects the implementation of the budget proposals to help put the economy on a sounder footing for the next upturn, which should begin around mid-1991.

Frontline's Denis Beckett, right, won the feature and fiction writing prize in yesterday's inaugural Mondi-Magazine Publishers' Association Awards for Excellence competition. Mondi executive chairman Tony Trahar presented the nine awards, billed as the "Oscars" of magazine journalism. The overall trophy and R13 000 prize was won by Style's Marilyn Hattingh. Picture: ROBERT BOTHA

Rights issue boost of R30m for SBDC

THE Small Business Development Corporation (SBDC) announced at a board meeting yesterday a R30m vote of confidence from the private sector, mobilised by means of a 40% rights issue involving about 100 shareholders.

MD Ben Vosloo said the SBDC believed the response reflected big business recognition of the essential role that small business had to fulfil "as an effective creator and distributor of wealth, in a new, post-apartheid SA.

"We also view the support as a concrete endorsement from the private sector of the SBDC's efficiency and cost-effectiveness in developing the small business sector," he added.

Together with state support, the money raised from the private sector would enable the SBDC to sustain its planned growth of 20% a year as set out in the five-year plan announced last year. B/Day 28/3/90

"A portion of the proceeds of the 40% rights issue, suplemented by the additional funding from the state, has been specifically earmarked for property development," said Vosloo. "However, more investment is needed in this area of development and we are confident that the property brochure will facilitate efforts to recruit additional investment," he said. — Sapa. (180)

(180)

'Askin Factor' stirs up speculation on the JSE

B\Day 28/3/90

BARRY SERGEANT

YESTERDAY Duros and its 65% subsidiary Tollgate Holdings (TGH) were marked up substantially on the JSE in reaction to the news that Julian Askin was to be executive chairman of TGH in London, mainly to mount acquisitions.

The news that each company was to make a R45m rights issue was turned from the normal share price discount into a premium. That Duros's and TGH's operating companies reported negative dividend covers — rare as hen's teeth — in Monday's results seemed irrelevant.

A stockbroker who watched the rise of Askin in London said: "Askin and Hugo Biermann (a new director of Duros and TGH) are highly respected as business partners in the City of London, among institutions, stockbrokers and investors. Their main motives have been to achieve greater long-term security, build up transferable assets and to escape SA's relatively restricted corporate enviroment."

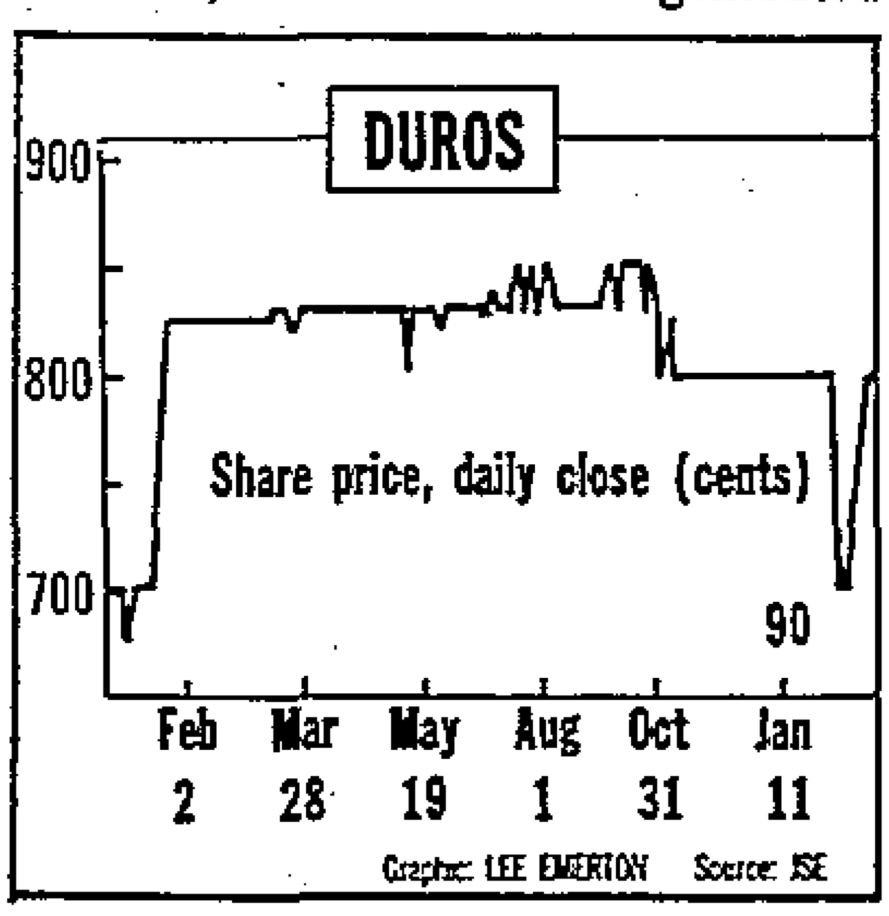
The stockbroker siad one of the key factors in the Askin/Biermann success was nuturing relationships with institutional backers. "Askin and Biermann have often acted as intermediaries between SA entrepreneurs who want to launch operations abroad, and prospective City supporters. They have successfully launched a number of SA-based businesses in London.

"In most cases, the method used has been a classical shell operation. The common starting point is a run-down company with low market capitalisation and deadwood management. Askin and Biermann have each put in about R15m into buying shares in Duros; they must be convinced that TGH's performance can be substantially improved."

In 1988-89 Askin and Biermann were conservatively valued at £15m each. Suffolk-born Askin, 40, and Biermann, 42, developed computer and reinsurance business in Johannesburg, and then moved to London in 1983.

Their first target was via cash shell Peek Holdings, but after six months the attempt failed. Along the way they had acquired contacts via stockbrokers Rowe & Pitman, Hambros Bank, and other City supporters such as Bankers Trust, Charterhouse, Sun Alliance, Robert Fleming and Coast Investments.

The second target for Askin and Biermann was the Falkirk-based Thomson T-Line, which started life before the First World War manufacturing circus caravans, but which had degenerated



through poor management into a timber merchant supplying the caravan business. It had suffered losses for years and its owners had tried hawking it everywhere.

In the City, nobody bothered about a company in remote Falkirk — except Askin and Biermann. They purchased 61,5% of the company for £500 000, and a £2,57m February 1986 rights issue completed the takeover, killing the company's overdraft with Clydesdale Bank.

Then Askin and Biermann set about their stated strategy, now a trademark: "To grow internally and expand the asset and trading base as suitable opportunities occur." The rest is history: acquisitions of — among others — Longton Industrial Holdings, Taddale Investments, and the £90m payment to racing tycoon Robert Sangster for Vernons Pool.

At this stage the Askin/Biermann mini-empire spanned interests ranging from electronics assembly to chemical manufacture and flexographic printing. They then turned an eye to industrial group Suter.

By then, substantial acquisitions had reduced their stake in Thomson to about 20%. Ladbroke, attracted mainly by Vernons, mounted a very hostile takeover bid, and won, leaving Askin and Biermann out of the picture but each with about £12m in hard cash.

In little over two years, they had taken the market capitalisation of Thomson from £809 000 to about £120m. Judging on how Duros and TGH have been marked up on the JSE, despite all the downside factors, the market believes that Askin and Biermann can do much the same with TGH.

TGH has interests in textiles, wholesaling and agricultural machinery, passenger transport, and others. The overlaps with Thomson's interests are clear — practically all areas are industrial. Moreover, the group directors reckon that Duros and TGH assets, stated at book value of R800m, are worth between R1,5bn and R2bn. The combined market capitalisation of the listed companies is about R420m, suggesting that the group is vastly undervalued.

The stockbroker concluded: "TGH, to put it cynically, can be seen as an anti-nationalisation-threat stock. The new consortium's committment is shown in its statement that it will personally underwrite the R45m Duros rights issue. But the strongest blessing for the new move is that Duros will cede most of its rights in the TGH rights offer to London institutions, which will take up the shares."

B Day 29/3/90 (180)

COMPANIES

Amic subsidiaries face a bleak 1990

BRENT MELVILLE

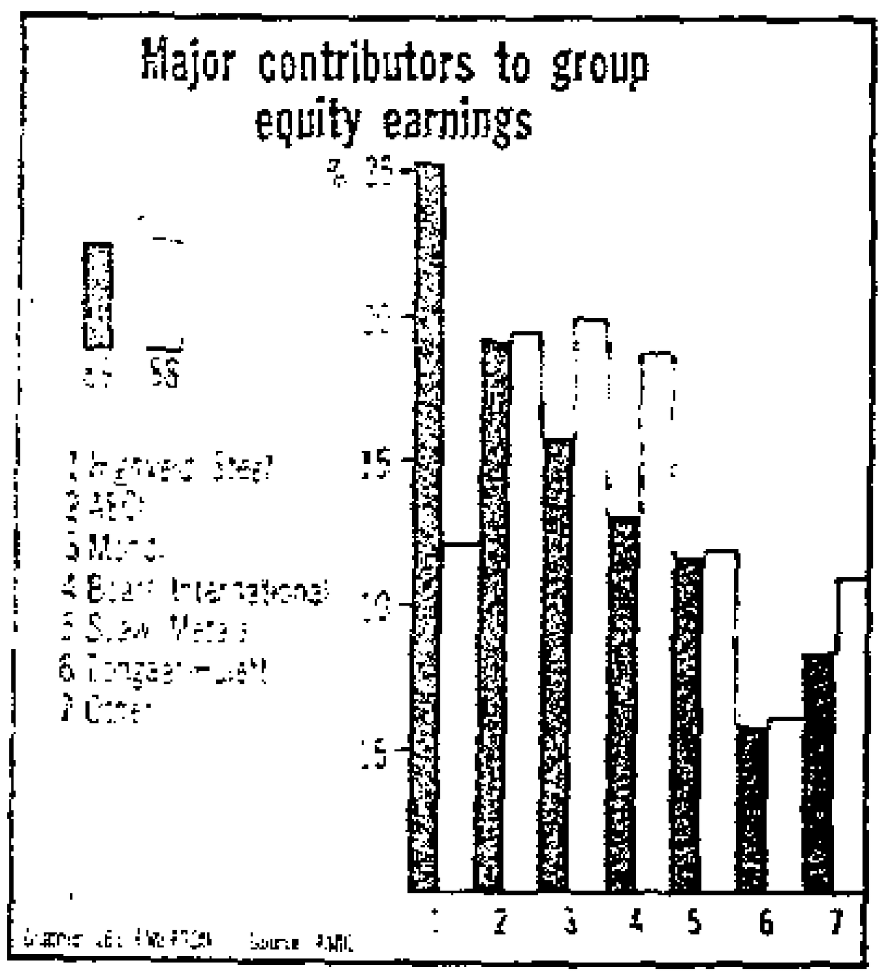
ECHOING a warning that SA was facing seriously deteriorating business conditions, sounded by Anglo American Industrial Corporation (Amic) chairman Graham Boustred earlier this month, directors of Amic's major subsidiaries are forecasting a bleak 1990.

In the group's annual review directors of Highveld Steel & Vanadium, Mondi, Scaw Metals and Boart International paint a pessimistic picture for the coming year.

Highveld Steel and Vanadium was last year's star of the stable. It more than doubled its contribution to group earnings to 25,4% (12,2%) on higher export prices and the upward trend in total world steel consumption. But Highveld directors are now forecasting a reversal in consumption, which will have a negative impact on US dollar prices of steel and ferro-alloys. They say that though volumes are expected to remain at "reasonable" levels, margins are expected to be narrower and earnings reduced.

After struggling with the depressed domestic market for its rolled and foundry products, 100%-owned Scaw Metals posted relatively disappointing results though earnings were supplemented by the performance of Haggie.

Scaw directors say that even after spending R67m last year on new plant and upgrading, oversupply in certain steel export markets has weakened prices.



For its part Mondi was expected to capitalise on firm international pulp prices last year. However, it struggled with softening paper and board markets. The group reported increased earnings before interest and tax of R363m (R357m), but contribution to group earnings dipped to 15,9% (19.9%).

Earnings are expected to drop significantly as a result of higher borrowings and interest rates, say directors.

Boart International suffered from the low gold price, resulting in less exploratory drilling activity and a 10% decrease in attributable profits to R87m (R97m).

However, directors say that the industrial and geo-technical business should improve further in spite of increasing competition. Building and construction group LTA, however, in which Boart has a 35,3% interest, is expected to come under pressure from a slowdown in new construction activity.

B/Day 2/4/90

(180)

Portuguese trade fair a 'gateway'

PIERRE DU PREEZ

AN INTERNATIONAL trade fair in Portugal in September should be of particular interest to SA companies wanting to enter the European market with a view to establishing links with a united Europe from 1992, Sopex Export Promotions MD José de Sousa said last week.

The FIP (Feira International do Porto) '90 will take place from September 27 to 30 at Oporto.

De Sousa said the fair could be a gateway for SA businesmen to the EC which now has a domestic market of more than 320-million people.

The fair will be attended by government officials and hundreds of international businessmen.

The SA trade exhibition will include food, clothing, wine, engineering products, furniture, building materials, agricultural products, minerals, consumer products and toys.

Interpreters will be available, as well as representatives of the Portuguese banking, legal and accounting professions.

Points to consider when opting for a 'tax haven'

M Day 24/90 (180)

SEVERAL points must be considered by individual investors and companies before taking advantage of the "tax haven" announced in the Budget on capital gains from the sale of listed shares.

Pride Consultants director Lionel Karp says Finance Minister Barend du Plessis' bold statement that JSE shares held for more than 10 years would not be subject to income tax must be looked at more deeply.

He says certain criteria must be met in order to have this "safe haven":

☐ The taxpayer must decide whether he wishes to be subject to the new proposals or continue with the existing system;

☐ Where shares bought in the course of trade and interest are claimed as a deduction, the taxpayer would have to recoup the interest claimed.

"There is one point, however, which has been made clear and that is where shares were bought as trading stock this could be converted to deemed capital."

Treatment

He says the next point to consider is the treatment of trading stock in a share-dealing company.

In an ordinary trading company, as opposed to a share-dealing company, should stock on hand fall below cost price because of damage, change of fashion and deterioration, the Receiver would allow a lower value to be used.

"However, in a share-dealing company the value of the shares held at year-end must be brought in at cost even if the shares had fallen below cost in the meantime."

His first example to illustrate the prejudicial nature of taxation is based on the individual:

If his sales during the year are R150 000 then add stock on hand at year-end, at market value of R50 000 (say original cost being R110 000). Total is R200 000, less purchases of R200 000 for the year, leaving profit subject to tax as nil.

The company example shows annual sales also at R150 000, plus stock on hand (valued at original cost) being R110 000, for a total R260 000. Less annual purchases of R200 000 and this leaves R60 000 profit which is subject to tax.

Karp says it can thus be seen that tax on R60 000 would have to be paid when in fact a *loss* was incurred.

Executives visit small businesses

CT Times 4/4/90 (180)

By AUDREY D'ANGELO
Financial Editor

THE outlook for some small business people on the Cape Flats was transformed yesterday by a visit from executives of major companies who were interested in subcontracting work to them or making use of their services.

The visit was the first of several organised by Pam Herr of the Pam Herr Organisation and Aly Khan of Athmark Communications to bring the formal and informal sectors together.

It was also aimed at showing executives the conditions under which their employees live.

After a stop in Athlone — where business deals were discussed — the executives were taken to the business and training centres in Guguletu, Crossroads and Khayelitsha.

They drove past the Motale Bus Service depot belonging to Peter Motale, once a grocery delivery boy and now a millionaire providing transport between Guguletu and the homelands.

It was pointed out to them that sphaza shops — open 24 hours a day — were thriving in tin shacks and in small low income houses, at the expense of those in a first world shopping mall.

But, although many said the visits to the black townships — where streets of First World houses stood within sight of shacks, and bright signs identified taverns — was an eye-opener to them the most rewarding part of the trip, as far as business was concerned, was a stop at the Small Business Development Corporation (SBDC) hive in Athlone.

There, clothing company executives found firms offering embroidery and screen printing at bargain rates, as well as cut, make and trim (CMT) services. One CMT firm was making dresses for a leading Cape Town designer.

Kamiel Edwards, a former tailor who already supplies three factories with covered buttons and belts, discussed doing business with others. His firm, Special Services, employs six people and he said he had the capacity to increase his present output.

Michael Herbert of M H Installations, who makes kitchen cupboards, found some prospective customers.

And Tastic executives thought they could use the services of M Hefele, who repairs refrigerators and other electrical appliances.

"We could have spent the whole morning there, not half an hour," sighed Adrienne Esterhuyse of Venus Clothing, a manufacturing company in the Seardel group, as she left the hive where small businesses rent workshops with use of services.

But in the black townships it was not a good day for doing business. A training centre was empty except for 10 dejected looking women who were being taught to sew buttonholes by hand, before progressing to cutting out and using sewing machines.

Executives from the formal sector of business got together with entrepreneurs in the informal sector when they visited the Cape Flats yesterday. *From left, front row,* Mike Smith of SA Nylon Spinners, Craig Anderson of Habitech, tour organisers Pam Herr of the Pam Herr Organisation and Aly Khan of Athmark Communications, Michael Herbert of MH Installations and Colin Waterson of Pretoria Portland Cement. From left, in the background, Colin Kalis of Ready Mixed Products and Kamiel Edwards of Special Services.

Clothing company representatives said the training was useless for getting a job in a factory. "Industrial sewing machines are quite different from these domestic machines," said Adrienne Esterhuyse.

"We try to get people to come to the Seardel training school in Woodstock. There is a desperate shortage of good machinists."

The party were told that the centre was empty and the township quiet following political troubles.

In the black craft centre at Khayelitsha, where co-operatives weave and make pottery and leatherwork, four women were handweaving pure wool curtains and scarves. Agnes Njoli, leader of the weaving co-operative, said their work was sold mainly at craft fairs.

An array of earthenware pottery was on show in another part of the building, but the potters were absent.

In the leatherwork co-operative Michael Motlhaban was alone, handsewing a leather bag which he said would retail for R200. In the summer season he sells them in the Greenmarket Square market.

But when the holiday season is over, he said, it is not worth his while to attend markets. "I can sit there all day and sell only two bags."

The walls were hung with freedom posters which his co-operative prints as a sideline. Motlhaban said this work was in demand.

His partners in the co-operative, he explained, were "out seeing customers".

BRIGHT FUTURE FOR SA — KAHN

180 **GERALD REILLY** (422P)

PRETORIA — SA had all the components of a massive economic generator, SA Breweries chairman Meyer Kahn said here last night.

At his inauguration as a professor extraordinary of Pretoria University's post-graduate management school, Kahn said it was the economic muscle of the large companies that would ensure economic survival over the next five years.

He said there was no way a healthy and growing informal sector could develop without a strong formal sector. If the one died, the other would too.

Currently, there were about 700 000 small business undertakings. In a climate of real deregulation this number could multiply dramatically and job creation could also dramatically increase.

Against this background, the task of finding 400 000 new jobs every year would no longer be an anxious nightmare, but an attainable objective, Kahn said.

Threats facing large companies included nationalisation; reaction from white right-wing radicals; an acute shortage of skills; deeply set radicalism among young blacks; serious confrontation between labour and capital; no shortcut to the lifting of sanctions, and a lack of foreign capital. BDay 4/4/90

Fortunately, Kahn said, the picture was not all dark and sombre. There were enough opportunities on which to build a bright future.

Kahn said for the first time in living memory the country had leadership in an economic-political front that wanted to go in the right directions.

He expected the new spirit in government would soon have an impact on the black consumerism. SA already had a core of middle-class blacks that had to be expanded.

Kahn said estimates were that the lower 40% of the population received less than 10% of total income. If the economy could maintain an annual growth rate of 5% or more, the income of this section could double within two or three years without a decline in incomes of other sections of the population.

Kahn also said the collapse of the East European power block presented tremendous export opportunities. However, exports should not be a gimmick to fall back on when the local market was in decline.

B|Day 4/4/90

Black entrepreneurs get R6m in Anglo deals

180

THEO RAWANA

CONTRACTS worth more than R6m had been entered into since Anglo American Corporation started sub-contracting for goods and services from black entrepreneurs in April last year, SBDC development services GM Sonny Tarr said yesterday.

Anglo had set the trend in making greater use of small business, thus starting "the most magnificent mode of the distribution of opportunity in SA" which was now being followed by other big corporations, Tarr said.

Anglo's then chairman Gavin Relly, committing Anglo to the sub-contracting concept, said last year the philosophy was "wise", but it was not one of philanthropy.

"It is based on sensible, rational decisions aimed at improving profitability and, in the process, expanding the free enterprise system and the economy of SA to the benefit of all South Africans."

Yesterday Tarr said: "With the SBDC helping in identifying entrepreneurs who could provide the products and services, contracts have been taken up with Anglo to supply mine products and clothing contracts. Services offered range from catering, transport, gardening, general cleaning and to waste recovery, particularly timber reclamation.

"It must be understood that Anglo is not a charity organisation, that this is a business relationship between the two. Standards are maintained and Anglo must get these at the right price and at the right time."

Among entrepreneurs Tarr could name yesterday were M Moetsi, who supplied canvas goods; A Makwala and E Rensburg, who provided clothing, and I Mdlalose, who supplied signs to the mines.

"The advantages to Anglo are that small business is more flexible and, with low overheads, it can produce at the right price, and savings are achieved all round," said Tarr.

Anglo was prepared to help the entrepreneur's cash flow by amending the normal terms of pay and redrafting tender documents into simpler contracts to help the small businessman, he added.

Business must be heard in the search for political solutions

B/Day 4/4/90 180

RAYMOND PARSONS

THE search for a peaceful solution to SA's problems cannot be left to the politicians. Business also has a necessary role to play at all levels and in helping to shape the debate.

There are two aspects in which business has a critical stake: the shape of any new constitution and the economic values and principles it will embody; and the kind of economic system that will emerge from the political bargaining process.

What is important in a new constitution from the business viewpoint is the focus it gives to people's rights and responsibilities in economic affairs. The concepts of private property, right of contract and personal culpability are all relevant to the constitutional debate.

In the field of public institutions there would be a need to concentrate on people's political rights — such as collective services and taxes — at all levels of government.

Thus the future of SA business will require the highest degree of sensitivity to the constitutional framework within which it will eventually function. These are key matters to which business will have to give attention. The substantial work already done by the former FCI and Assocom bodies will now have to be brought up to date by the new SA Chamber of Business (Sacob).

More immediate is the debate on what kind of economic system should result from the eventual political negotiations. There is a big gap between politics and economics which still needs to be bridged.

A task force within Sacob is examining the issues involved in the current discussion about nationalisation and the redistribution of wealth. This group is drawn from top businessmen and economists within Sacob and its research and consultations will help formulate the Sacob view.

I do not wish to pre-empt the outcome of their deliberations, but it is not difficult to visualise the parameters within which they will conduct their study. In their search for the appropriate answers I suspect the task force is likely to bear the following factors in mind:

□ There is a need to look at what legitimate concerns lie behind the preoccupations of the ANC and other black groups with nationalisation and the redistribution of wealth.

There are historical injustices to be addressed and social backlogs to be rectified. The question will be whether the methods — within the framework of the market economy — can be evolved to solve these problems. The recent Budget, through its allocation of R3bn to black socio-economic development, is a major first step in that direction.

We must not underestimate the powerful emotional feelings that underpin these needs. Business will have to see what more it can do and what it can contribute to the debate.

□ There is a need to maintain an economic system in SA which will ensure economic growth, create jobs and ultimately raise standards of living for all. Such an economic system will have to be private enterprise-orientated.

We must avoid dubious paths which will lead not to wealth-creation but to a destructive loss of the opportunities which would otherwise exist. We must avoid opting for measures or policies which do no more than threaten the wealth-creating mechanisms of the market economy.

Nationalisation is simply not acceptable to the bulk of SA businessmen. It will also destroy SA's ability to attract overseas capital in the future. Nationalisation is not an effective instrument for making new resources available to the underprivileged — whether or not compensation is paid to the nationalised sectors.

□ It will be necessary to examine the economic experience of Eastern Europe and Africa and evaluate their relevance for SA. The disenchantment with collectivism elsewhere will have to be put under the microscope. It will be especially important to study economic collapse in those comparable countries where apartheid did not exist.

□ It will be important to realise that it is apartheid, not capitalism, which is on trial in SA. What blacks have experienced as "the rules of the game" is the antithesis of a free enterprise economy.

It will be essential to clarify the debate on this level. But that does not mean that business should not be prepared to look at ways and means in which the performance of the market economy in SA can be improved or restructured. Markets facilitate restructuring if they are allowed to do so.

We need to broaden and deepen black participation in the economy. Hopefully it will be possible to shift the debate off the ideological level on to a more empirical level.

Business must be prepared to deal with the nationalisation arguments as robustly and critically as they previously dealt with interventionist government policies.

□ Although there are serious imbalances to be addressed, this does not change certain economic realities. Nor does it mean that all injustices can be corrected overnight.

Expectations must remain realistic. SA needs to survive and grow in a competitive global economy.

□ We are often told that change is inevitable and irrepressible and that we have to get on the side of the forces of change. There is merit in these propositions. The restructuring of the system of education and training is one high priority, but we must not lose sight of a crucial distinction.

Business has a vital stake in the nature of that change, and in the success of those who support peaceful change and market economy principles. We must not attempt to appease these anti-private enterprise radicals who are only driven by ideology and will not be charmed out of their hostility to us by professions of our goodwill.

□ A coherent public policy must address with equal insight the requirements of stability and of change.

Unless a framework of law and order can be preserved, business cannot thrive. Private fixed investment needs the assurance of long-run stability. It is bound up with the question of business confidence. If stability is not maintained, the process of change is jeopardised.

SA has entered an era of great hope — but also of great uncertainty. Businessmen have a vital stake in the outcome of the conflicting forces at work. It remains important that political leaders manage the process of change in ways that retain the confidence of the main players, including the business community.

Parsons is director general of the SA Chamber of Business. This is an excerpt from his address to the Tygerberg Chamber of Commerce and Industry last night.

6/4/90. F/M (180)

CONFIDENCE MERGER

Anyone worried by the non-appearance of the SA Chamber of Businesses' Business Confidence index (BCI) can take heart. It will appear this Thursday and, thereafter, on the first Thursday of each month, accompanied by the Industrial Confidence index (ICI).

Consolidation of the two indices follows the January 1 merger of Assocom and the Federated Chamber of Industries. The BCI is a quantitative statistical measure based on a number of market indicators, while the ICI is a qualitative measure based on responses of industrialists.

RATING FM 6/4/90

Paying one's dues

The British "Poll Tax" row shows just how stongly people can react if they feel they are being unjustly taxed through the municipal

(180)

F M 6/4/90

rating system. (180)

This is perhaps one of the reasons why the deliberations over a new property rating system for Cape Town are being so carefully considered.

The city's chamber of commerce has come out against the strong lobby for a change to a "site value rating" (SVR) system of determining rates. It says the existing "flat" system of taxing the value of both land and buildings suits Cape Town's needs — but it maintains the rates burden is too high.

The chamber's decision to back the existing system — even though with modifications to keep property values up to date and to do away with the need to value land and buildings separately — is a severe blow to campaigners for a radical change in the rating system. Cape Town's rating system is currently being investigated by a council-appointed committee (*Property* January 26).

In a memorandum to the committee, the chamber says dissatisfaction over rates is due primarily to them being too high rather than the system itself being inequitable. The chamber represents most large property owners in the city and its views are expected to be considered seriously.

The chamber says a serious problem in Cape Town and the province in general, is that the system of property valuation is so out-dated that the rates base doesn't accurately reflect the change in property values.

It disagrees that the SVR system accurately reflects the ability of an owner to pay. It points out, for example, that the owner of a small, old house on a large property would be required to pay more than the owner of a new, large house on a smaller property. This would be inequitable.

SVR also bears no relation to the extent to which property owners benefit from council services in that the owner of a large building with more occupants benefits more from services than the owner of a small building with fewer occupants — even though both buildings may be on the same size stand and taxed at the same rate.

The chamber also disagrees that SVR, alone, encourages the development of vacant stands and contributes to economic growth. It accepts that it has a role to play, but says it is only one of "a great number of other factors" that could contribute to growth.

The chamber says because land prices fluctuate over a wider range than total property prices, ratepayers would be faced with wider swings in rates payable under SVR. A change to SVR would also result in an "enormous variance" in tax liability for individual ratepayers.

While accepting that the flat rating system penalises property owners who improve their properties, the chamber believes this is generally a reflection of their ability to pay. And, provided valuations keep pace with market trends, this should not result in inequity.

It believes the quantum of rates rather than the system under which they are raised is the more important factor when considering the detrimental effect of rates on property development and economic growth.

It argues that if the incidence of rates can be kept down to "reasonable levels," the extent to which rates will influence property development decisions — as against the many other considerations that have to be taken into account — will diminish.

The chamber contends the existing system should be changed to a single valuation of both land and buildings, which would allow current property transactions to be used as an indicator of values and allow rates to be levied on a more up-to-date basis. ■

180

Political tensions could further erode confidence

BDay 9/4/90

SYLVIA DU PLESSIS

CONTINUED socio-political tensions can lead to a dramatic fall in business confidence, the SA Chamber of Business (Sacob) says.

While the low gold price — the main reason for declining confidence in March — has begun to recover, other factors will be the chief determinant of whether business sentiment follows suit, it says.

These include political developments, the level of unrest and the impact of these factors on the JSE.

The chamber's note of caution follows the results of its latest business and industrial confidence indices — released simultaneously for the first time at a Press conference on Thursday — which reflect waning optimism.

Its business confidence index, measured against 16 economic indicators, tumbled 1,7% to 94,2 last month — its second lowest level since mid-1987.

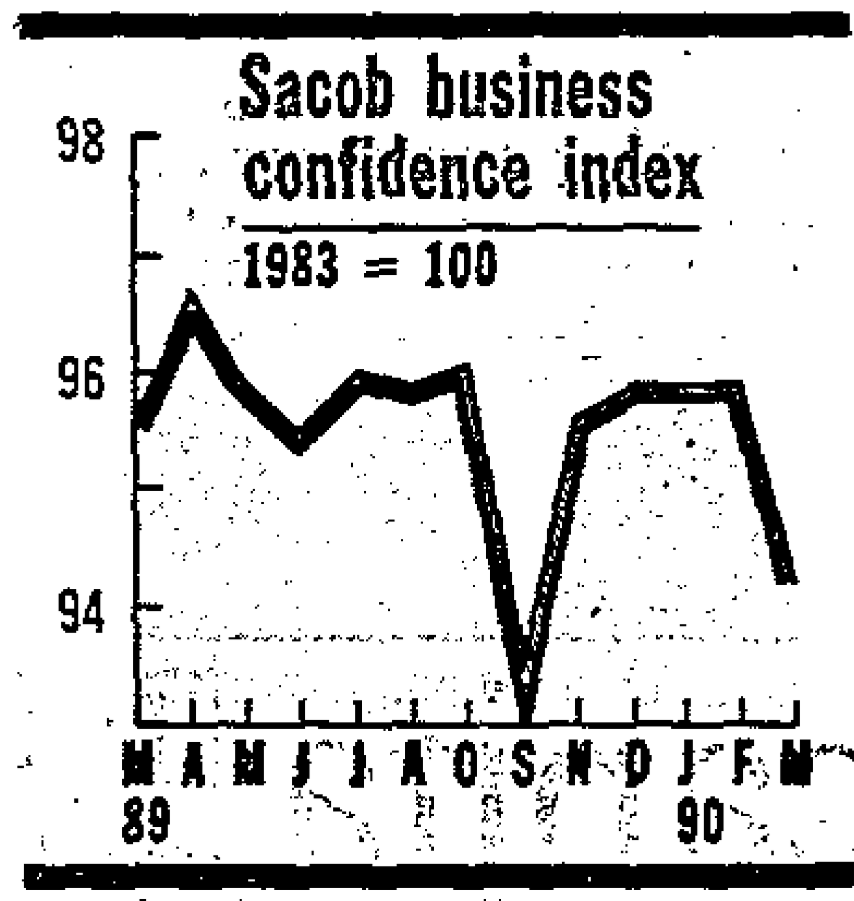
But political developments within the country also heightened nervousness on the market, Sacob says.

"In recognition of the ANC's perceived importance in a future SA, significant weight is being placed on the statements of its senior officials, and the financial markets have responded accordingly," it says.

It is important in these times of socio-political upheaval that the economy provide a stabilising influence.

However, both foreign and local investors have shown reluctance to invest in SA, either on the JSE or in new business ventures, in view of the uncertainty. If this persists, it will "undoubtedly" impact on future economic growth.

Escalating violence in some areas and ANC statements which saw share prices fluctuate sharply and created deeper uncertainty — coupled with the Budget's failure to provide much tax relief for manufacturing concerns — dampened confidence in the manufacturing sector.



Graphic: FIONA KRISCH Source: SACOB

Sacob's manufacturing activity index, after rising sharply to 132 in February, fell to 118 in March, while its chief indicator of industrial sentiment — that of expected sales — declined to 120 from 132.

Expected sales indices for the next year in Maritzburg, highest overall in February, registered the sharpest fall — 36 points to 136.

However, the chamber says it may be that confidence levels in the sector have reached more realistic levels. On the basis of current economic expectations the sector should enjoy positive growth in 1990.

Sacob economic consultant Roelof Botha, commenting on overall prospects, told the conference it was important for business to bear in mind that the death of apartheid would induce two major beneficial economic effects.

One was a "post-apartheid dividend", in the form of savings on public expenditure aimed at supporting apartheid policies and the reversal of the costs of sanctions.

The other was the release of pent-up demand for housing, education and health, leading to more economic activity in areas with low import-propensity.

Unidev's profits improve by 31%

180

B104 11/4/90

CHARLOTTE MATHEWS

THE payoff in Unidev's policy shift towards investment in mature companies with a proven track record and away from new high-risk companies is shown in its 31% improvement in attributable profits to R11,7m in the year to December from R9,9m in 1988.

In the past year Unidev's executive management acquired control of the group through listed pyramid Unicon. Unicon now holds 54% of Unidev.

At the same time a rights offer to raise R20m was held which increased the number of shares in issue.

On earnings of 55,5c a share, a total dividend for the year of 14,5c (12c) a share has been declared.

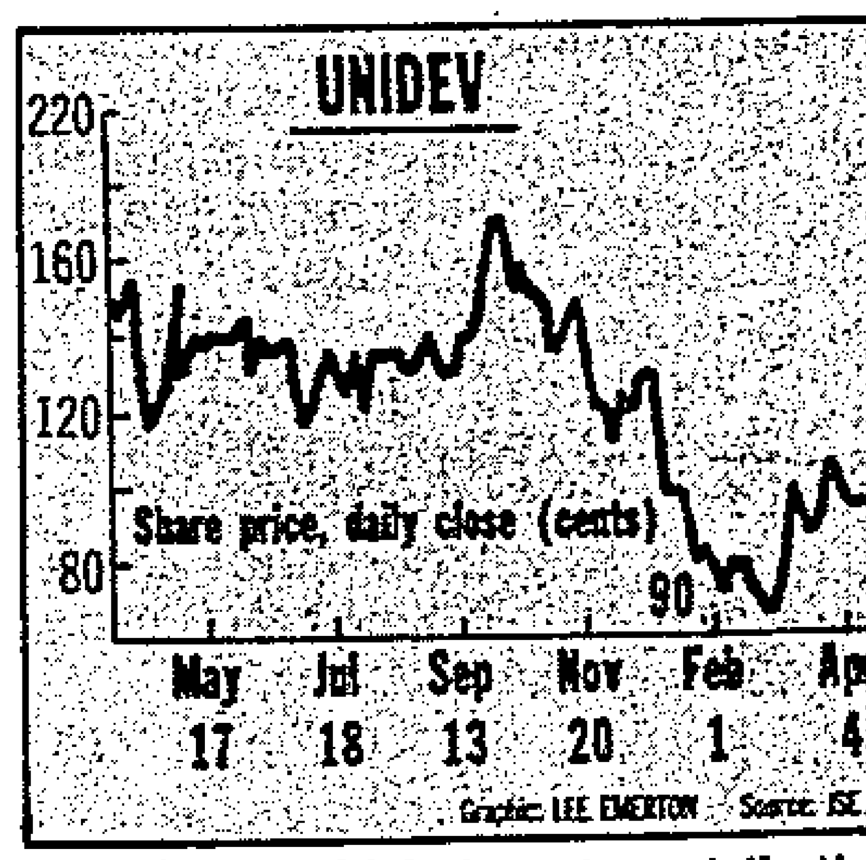
Unidev is an investment holding group with interests in industrial, retail, electronics, medical, financial services and property companies. Through its subsidiaries the group has a R1,65bn turnover 65bn and employs about 15 000 people.

In the past year, the group acquired 23% of Rusfurn which achieved a 55% increase in earnings a share in its first months of operation after a management buy-out from Tradegro.

Of the group's other investments, 81%-held Prestige improved operating profits by 20%; property group Equikor showed a profit of R3,6m after restructuring and computer group Cortech produced earnings of about R4m in its first 10 trading months.

"This is more than satisfactory, bearing in mind the volatility of the computer industry," Unidev MD Ronnie Stein said.

In its first six months of trading after restructuring, Hyperette made R1m profit compared with R4m losses in the previous accounting period.



Medicor, which is not contributing significantly to group profits because of start-up costs of new hospitals, is considered by Unidev to hold a solid asset base worth more than R80m.

Financial services group Mercantile Bank performed well in its first full year of operation after the granting of a banking licence.

Unidev shares closed unchanged at 115c yesterday, 75c below the 190c registered last October. At this level they offer a dividend yield of 10,4% and a p:e ratio of 2,4 compared with 8,2% and 3,9 respectively for the sector average.

BDay 11/4/90 (180)

Black entrepreneurship gathers steam

HAROLD FRIDJHON

BLACK entrepreneurship is a dynamic which is gathering momentum through the determination of a growing number of people to win rewards for themselves in the market place. Today their unmeasurable efforts are broadly lumped together in what is loosely defined as the informal sector but, as Sowetan business editor Thami Mazwai says, it is rapidly becoming part of the business sector without any adjectival distinctions.

And he knows.

He gets the playback from the growing readership of his weekly six-page business section, published with its own masthead, Sowetan Business. The articles range from reportage to educational, from stories about entrepreneurs who are succeeding to readable, non-jargon pieces on economics, business practices and personal finance. Publicity is given to the activities of trade associations and grassroot organisations, broadening their memberships.

Interestingly the youth in the business world appears to be a major policy objective. Twelve bursaries to universities and technikons donated by major SA companies are being offered to matric pupils at recognised black schools who will take part in what is a business game. The entries will be judged by the Association of Black Accountants and the Black Management Forum.

The Sowetan has raised funds to give R10 000 to each of 15 would-be entrepreneurs with an original business idea. The Small Business Development Corporation (SBDC) is participating in this venture. It will control the funds, monitor the businesses and pay the bills.

Fledgling businesses operating in black communities cannot afford to advertise their wares and services. To overcome this disability, Mazwai has induced white companies to subsidise the advertising expenditure of these business to enable them to extend their markets.

A well-developed philosophy motivates Mazwai.

"Ideologies must be taken out of business," he says.

"There is neither left nor right in business, just the science of understanding inputs and outputs, and controlling these elements from start to finish."

He regards his mission as encouraging developmental grassroots business people, and then helping them advance and express themselves, in trading and in industry. Last month he organised a well-attended post-Budget seminar.

"People want to know and understand," he says and he is trying to help them.

Mazwai is a self-trained, self-motivated writer on business affairs. His interest in economics was aroused while he was in detention and read smuggled copies of newspapers. Last year he was awarded a short-term scholarship to the Harvard Business School which further broadened his interest in business affairs. Occasional business articles have led to his present regular business section.

Tilt towards recession now apparent

LINDA ENSOR

THE economy's downward tilt into recession has become glaringly apparent in several key consumer-sensitive industries.

They have suffered from the low growth in real private consumption expenditure — nearly 3% in 1989 compared with 1988's real growth of 5%. The situation worsened towards the end of the year when spending on durables nosedived. (180)

The subsequent heavy drop in imports has substantially lifted the balance of payments into surplus, providing further evidence of a slowdown.

Total new vehicle sales for the first quarter of 1990 declined by 1,7% compared with the same period in 1989 and manufacturers expect difficult conditions to persist. B.Day 11/4/90

In 1989 the lack of personal disposable income also hit the SA hotel industry with top hotels experiencing a 3% decline in total real sales.

Major clothing retailers report dampened sales, while road construction companies are suffering from cutbacks in the allocation of contracts by government authorities. These fell by a year-on-year 8% for the three-month period from December 1989 to February 1990.

The home building industry, strangled by high interest rates on mortgages, is also looking towards a 20% to 50% drop in turnover in 1989 over 1988.

An indication of the state of the household appliance industry is indicated by the 139% drop in earnings by Picardi Appliances for the six months to end-December.

See Page 3

New faces, but the influx policy board lingers on

The government's latest statement on decentralisation looks more like a cost-cutting exercise than a radical policy shift. By ALAN HIRSCH

THIS week's statement from Minister of Trade, Industry and Tourism Kent Durr about the reform of the Decentralisation Board was initially greeted with optimism.

The apartheid-inspired industrial decentralisation policy, which worked hand-in-hand with influx control, seemed to be nearer extinction. But these expectations might not be justified by a closer study of the statement.

The overall structure of the board is to be maintained in terms of the statement, and it is entirely unclear what new policies are planned. Durr's statement notes that the cabinet had decided to restructure the board "from its current large membership, mostly of vested interests, to a leaner body operating along corporate lines".

The "vested interests" are held by the representatives of regions currently benefiting from Decentralisation Board incentive schemes. In response to a question from the *Weekly Mail* the minister referred specifically to "self-governing territories and regional authorities where each representative was there to look after their own region's interest".

Replacing them are "eight private sector people" and "other experts in the field of regional industrial development", whom the government would seem to expect not to have vested interests. Experts in regional policy critical of the current policy contacted by the *Weekly Mail* had not yet been approached to serve on the board.

The appointment of a new board might indicate a policy shift, but the government plans to retain the existing secretariat of the Decentralisation Board. These officials also have interests, and habits, and their retention seems to be another sign that the policy changes envisaged by the minister are not that radical.

The statement refers to an "extensive review" by the board of the programme, but not of the policy itself. Instead the board will fiddle with inconsistencies and anomalies in the implementation of the policy which have given rise to corruption and overspending.

Among the issues to be attended to are the "ill-effects of financial open-endedness" and the "subsidised cross-traffic of goods in the regions which militates against the essential utilisation of natural markets". An example of financial open-endedness was the granting of incentives proportional to, for example, wage expenditures, which have cost the government a great deal of money, often poorly spent, since the current regional development programme was introduced in 1982. The minister also referred to the arrangement in the past whereby any qualifying applicant was accepted, whether or not funds were available. This led to "serious budget overruns".

"Subsidised cross-traffic" is a bureaucratic way of referring to competition between goods from subsidised regions competing with those from the unsubsidised major centres. An example is competition between garments made in the Ciskei, or even Atlantis, and garments made in Cape Town. Manufacturers in the established areas have complained vociferously about unfair competition.

Larger policy issues are not entirely ignored. "Policy aspects" emanating from the report managed by the Development Bank, which was leaked in January, are to be subject to "investigations" conducted under the auspices of the Department of Planning and Provincial Affairs.

This is clearly a very cautious reference to the as yet unreleased report which recommended a major policy shift entirely away from the concept of industrial decentralisation. The fact that the Decentralisation Board itself will implement the "recommendations resulting from the foregoing initiatives" is another indication that the radical recommendations of the Development Bank report are to be ignored.

In all the statement seems to reflect less a policy shift than a cost-cutting exercise. As Durr commented "prevention of abuse would naturally mean that more funds were available for socially deserving projects in South Africa".

There are two possible interpretations of the minister's statement as far as longer-term policy is concerned. Dr Simon Brand, executive director of the Development Bank, who is thought to favour radical surgery as regards decentralisation policy, indicates that the new structure might represent an interim phase, and that major policy shifts, such as those recommended in the bank's report might still be under consideration. Others fear that the current initiative represents the victory of the position held in the minority report to the Development Bank, which favoured marginal adjustments but no real policy rethink.

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'Producers adapting' (180)

SA's manufacturing industry must undergo a major shake-up and concentrate on strategic issues if it is to maintain a competitive position in local and world markets. B/Dm 12/4/90

Newly formed Maclove Computer Systems associate company Maccim Systems marketing director Brian Rainier says manufacturers are recognising the need to concentrate on strategic issues.

Particular emphasis is being placed on available computer technology as part of overall solutions.

He reckons manufacturers must concentrate on two factors. "They must place more emphasis on what to produce and must then look at means of costing the items.

"Many manufacturers are unaware of which products are really profitable," he says.

Maccim Systems is providing systems for monitoring and control, he says.

Unit trust industry 'is booming'

B\Day 12\4\90

LIZ ROUSE

THE first quarter of 1990 has been a bumper period for the unit trust industry, the Association of Unit Trusts reports.

Unit sales topped the R638m mark, comfortably exceeding the previous record of R599,3m for the September 1987 quarter. However, on account of a significantly higher level of repurchases, the net inflow into the industry at R364,7m was below the record R453,8m in the September 1987 quarter.

Not only was there a significant rise in new money that flowed into the industry in the quarter, the total value of the assets managed by the industry soared by almost R1bn, from R6,643bn at the end of 1989 to R7,624bn at the end of the March quarter.

Market value of the funds climbed almost 45% from March 1989 to March 1990, an impressive increase and an indication of growing public awareness, said association chairman Roy McAlpine.

There are now over 600 000 unit trust accounts in SA, an increase of 15% over the past 12 months.

McApline said the industry experienced a strong upturn in sales in the first six weeks of 1990. The mood in the country was euphoric — the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally. In addition a couple of new unit trusts were launched.

However, this was somewhat tempered from about mid-February in response to a lower gold price, the poor performance of international markets, especially the Tokyo share market, and the ANC's public pronouncements on nationalisation. This slowed down unit sales noticeably, said McAlpine.

He cautioned that it would be unrealistic to expect unit trusts to continue to achieve returns of the magnitude posted in the past 12 months. He also believed it was unlikely that the record sales notched up in the first quarter of 1990 would be repeated in the current quarter due to a more cautious investor sentiment.

McAlpine advised the public to take advantage of any declines in the share market to build up their unit holdings.

Annual

180

Returns for investors have been impressive. The five-year compound annual average performance (capital growth plus income) of SA's seven general equity trusts, which have been in existence since 1986, ranges from 27,2% to 32,5% and averages 31,3% per annum.

Over the more recent one-year period, the annual return of the 13 general equity trusts ranges from 21% to 44,3% with an average of 35,4%.

The specialist equity trusts also performed well achieving a compound average retrun over the past five years of 25,2% and an average 30,3% over the most recent 12-month period.

ANGLOVAAL FM 13/4/90

Giving little away (180)

Anglovaal's rights issue to raise R822,1m is finely pitched. Shareholders are offered 30 N ordinary shares at R49 a piece for every 100 ords or N ords they hold and holders of loan stock are offered 21 N ords for every 100 units of loan stock held.

The N shares are thus offered at a discount of about 14% to this week's R57 mar-

FM 13/4/90 (180)

ket price for the ords, but at a 6% discount to the R52 trading price of the N shares.

The N shares carry restricted voting rights and currently trade at an 8,8% discount to the ords. Loan stockholders are offered the N shares at a price 40% above the loan stock price, which trades on a dividend yield of 2,4% compared with the yield on the N shares of 1,6%.

As the funds will only be received in May, the N ords to be issued in terms of the offer will not rank for Anglovaal's 1990 final dividend. All shares traded after April 12 will be both ex-rights and ex-dividend.

The group says its final dividend will be at least 60c (51c) a share, giving a total for the year of at least 90c (76c). On a 90c payout the prospective yield for the N ords would be 1,7% on the market price and 1,8% on the rights offer price. It would be an 18,4% increase in the annual dividend, but with such thin yields the market is unlikely to be impressed with anything less.

What Anglovaal has yet to do is offer any further details on how it plans to spend the rights issue funds. It seems that new information on the Sun gold prospect is not expected to be published until additional borehole results are available later this year.

Andrew McNulty

MONETARY POLICY FM 13/4/90

Knocking banks off balance

Reserve Bank Governor Chris Stals' big squeeze on banks could cut their bottom lines by about R160m — over 15% of the latest reported profits of the five major groups. Last week bank CEs were told they may have to move off-balance sheet repurchase agreements (repos) on-balance sheet.

Whether this is Stals' final word is not clear. He says he simply asked bankers to respond to this suggestion and is waiting to hear what its impact would be on their balance sheets. But banks are under the impression repos — any asset a bank holds off-balance sheet and finances with a repurchase agreement with another depositor — must come on-balance sheet from now on.

The consequence is that cash and liquid asset reserves banks must hold against liabilities will be significantly increased. Under the existing Banks Act, 5% of short-term and 2% of medium-term liabilities of on-balance sheet assets must be held as interest-free cash deposits, either at the Reserve Bank or in their own vaults. They must also hold 15% in liquid assets against short-term liabilities and 13% against medium-term liabilities.

As liabilities are swelled by off-balance sheet items, officially estimated at R7bn-R12bn though possibly as high as R15bn, banks will have to place cash reserves worth about R500m on repos worth a ball-park R10bn. This will be taken out of the system within two weeks and will cost banks R100m a year in interest foregone.

Liquid asset holdings can be phased in over five months. Once completed they will have to hold about R1,5bn more liquid assets, at an interest cost of about R60m.

The market surplus of liquid assets, now estimated at about R2,5bn, will fall to about R1bn. Because of this, more banks will have to borrow from the Central Bank at the 22,75% penalty rate against prescribed assets instead of 18,75% charged on liquid assets.

The move was to come under the Deposit Taking Intermediaries Act, due to come before parliament this session. It has been accelerated because of Stals' determination to reduce banks' lending activity to the 1% monthly limit (see "Under scrutiny"). "It is a longer-term action to create a sounder financial system rather than a short-term measure to curb credit extension," he says.

Bankers' reactions relate to the structure of their repo book. Hardest hit will be Standard Bank with February repos totalling R4,5bn (R3,9bn in January). Standard MD Mike Vosloo says some action had to be taken by the authorities because of past monetary policy which continues to spur M3 growth. However, banks might decide to rearrange their money market portfolios by trying to sell assets.

A spokesman for First National, on the other hand, with only R348m (R53m) repos in February says the pending changes are not a problem.

Repos entered into by other banks in February are: Bankorp R1,7bn (R1,5bn); Nedcor R1,4bn (R1,2bn); and Volkskas R173m (R472m). The official total for the five major banks is R7,6bn (R7,1bn).

Only Standard and Bankorp entered into repos at the Reserve Bank in February — R1,4bn and R271m respectively.

Money supply figures are also set to soar. Previously no off-balance sheet assets were accounted for in these. "There will have to be a statistical adjustment," Stals says. "We will have to add off-balance sheet figures of the past to past money supply figures to get the right picture." He says, when the figures are added, the rate of increase in money supply has declined since October.

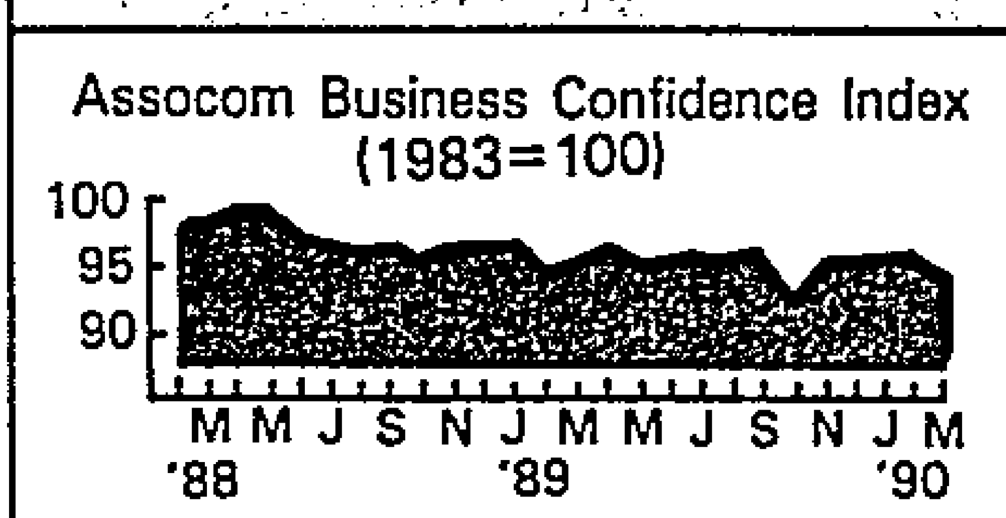
Heather Formby

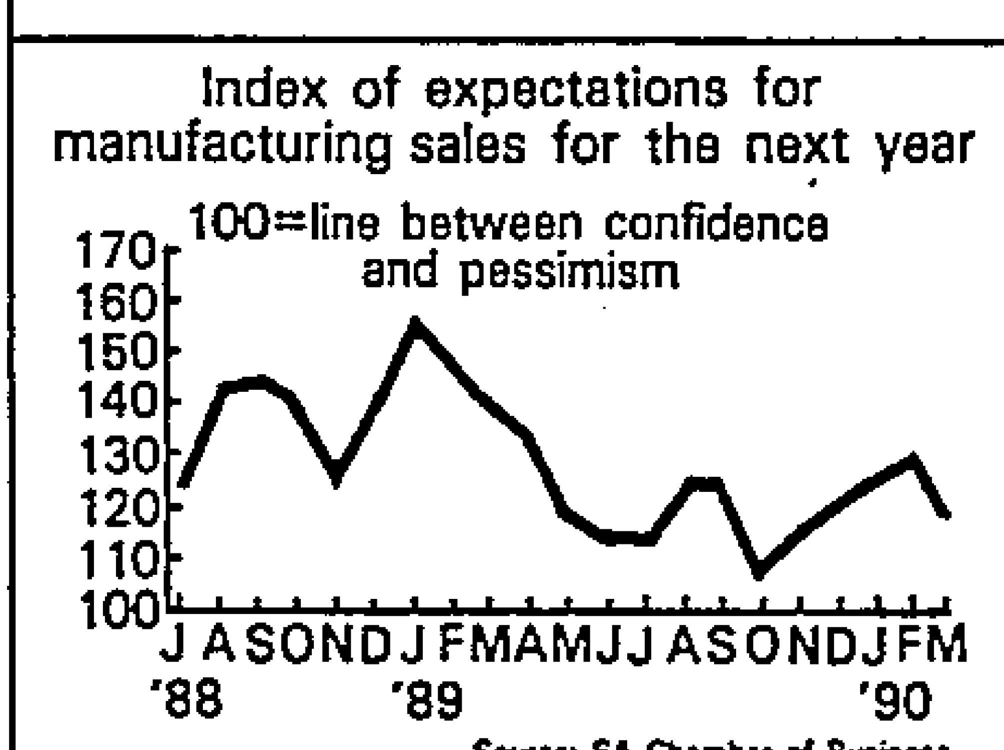
CONFIDENCE INDICES (180)

Going down

Two SA Chamber of Business confidence indices show a degree of pessimism. The old Assocom Business Confidence Index fell 1,7 points in March to 94,2, its second lowest since June 1987. (The lowest was October, when interest rates went up 1%.)

Double take





FM 13/4/90 (180)

Of 16 components, five were negative:

- A lower dollar gold price;
- Declining imports;
- A lower JSE index;
- Fewer company registrations; and
- A 1,5% fall in retail sales from February.

These were partially offset by:

- Falling inflation;
- Lower three-month BA rates;
- Slightly increased vehicle sales; and
- An upturn in exports.

Other indicators were unchanged.

The Industrial Confidence Index, inherited from the FCI, fell from 132 in February to 118 in March.

It measures industrialists' expectations of sales, production and stock volumes for the next month and following 12 months. Any figure above 100 predicts at least some growth.

The benefit to sentiment of State President F W de Klerk's positive actions was offset by ANC policy statements and an increase in violence. Unstable world markets, the possibility of higher interest rates and a lack of tax concessions for manufacturers in the March 14 Budget also affected confidence.

In future, the two indices will be published simultaneously. ■

LIFE ASSURERS

Tax favours

Are life assurers as badly treated by the taxman as they claim? Two weeks ago we argued life offices had a legitimate complaint when this year's Budget failed to extend tax concessions on dividend income to them and as Finance Minister Barend du Plessis again shelved his commitment to the trusteeship principle (*FM* March 30).

Life offices complain that competitive advantage has been tilted in favour of the banks and building societies. Building societies concede this but argue, in private, that the picture is incomplete and probably comprehensible only to a handful of actuaries or tax experts. FM 13/4/90

The Receiver of Revenue has developed special expertise in taxing mining and banking companies. Few, if any, tax officials understand the assurance business and, as a result, the Receiver is happy to adhere to well-tried, if well-worn, taxation principles.

Basically, life assurers have two types of business — taxed and untaxed. The former is linked to life and endowment policies and the latter to pensions or retirement annuities. The assurer pays tax on investment income

JOHN MONTGOMERY

FM 13/4/90 (180)

Dusting off tails

John Montgomery, who becomes the SA Foundation's UK director in September, is by nature an adventurer.

But his adventures have carried with them the awesome responsibility of representing SA abroad — a task which has not always been easy in the last seven years. When in Washington, he and foundation colleagues regularly found themselves arguing against SA's economic isolation to hostile audiences, while back home, violence flared and the former state president vacillated — not making the job any easier.

But looking back, Montgomery (43) regards his American tour — he went over in 1983 as the foundation's Midwest director, later becoming deputy director — as "an extraordinary experience."

Now it's on to Europe and a new adventure. "I look forward to the change in style. I've always found that the Europeans generally have a more sophisticated and deeper response to global issues."

Montgomery, however, faces a Europe undergoing significant changes. He anticipates the end of the Thatcher years and believes issues like the reunification of Germany and the collapse of eastern Europe are likely to influence the debate on southern Africa. "And one is forgetting, in the euphoria, the hazards of the Soviet Union. It is still a military power, if not an economic power, and the potential for political instability is great."

Apart from years of experience with the foundation, Montgomery will be drawing on his eloquence and ability to debate, which he polished up as a broadcast journalist.

He spent seven years with the SABC's English Service and was one of the people who midwifed *Radio Today*, resigning in 1979 as the programme's senior announcer and editor to join the SA Foundation as chief researcher.

He admits that the package played a part in his decision to leave but, clearly, the SABC's overall policy then was an inhibiting factor.

FIM 13/4/90

Montgomery ... facing new challenges

"*Radio Today* was the kind of baby that was going to get too big for its cradle and one was very mindful of that. Generally, my decision to leave had to do with politics."

Looking ahead to London, Montgomery's new base from August, he says F W de (180) Klerk's political moves are reason for optimism. "He has certainly made it easier to be received as a white South African. Previously, meeting people overseas and saying you are South African could be torture."

Born in Maritzburg and educated in Natal (Hilton College, BA University of Natal in Durban), Montgomery is married with two children.

He has a passion for the arts and enjoys gardening. He is something of a writer and dabbles in poetry. He has been known to raise a few eyebrows at functions when, in an attempt to elevate the traditional after-dinner speech, he has spoken in rhyme.

Soon he'll be looking for new words to rhyme with "London" — and possibly "political reform" as well. ■

NC Wits and PGA differ over 'gap'

(180)

S | Times 15/4/90

NEW Central Wits improved earnings by 24% from its portfolio of mining holdings and maintained dividends at 47c in the the six months to March.

Investor interest lies largely in NCW's mineral rights. The results refer to its joint venture agreement with Anglo American regarding deep-level drilling. It has been shown that the "tenor of gold mineralisation" for the Cobble Reef decreases towards the east of the property.

Failure

Several deflections of the MGM10 borehole failed to intersect the Cobble Reef because of faulting, and the best gold grade was only 2,19g/t over a width of 63cm. Caving ground is hampering the deepening of this borehole.

Phase I of the drilling of 10 boreholes has not been completed, but the results encouraged Anglo about the merits of phase II. Up to 16 holes will be drilled at a cost of R50-million in 1989 money. The tone of the comments accompanying these results is at odds with those of Potchefstroom Gold Areas, whose

By Julie Walker

annual report carries significantly more optimism.

PGA is a participant in several drilling ventures in the Potchefstroom gap — the gap referring to an unmined stretch between the West Rand and Far Western Transvaal goldfields.

NCW's shares were unchanged at R64 after its results, but PGA added 20c to 250c, offered at 260c. PGA option holders may exercise some of their holdings by the end of May at 200c. The options are 95c.

Score Food Holdings got back on track after slipping during 1989. In the year to February 1988 Score made 100c a share, but only 80c the following year, mainly because of shortcomings at Grand Supermarkets.

Remedied

This year's 99,6c was achieved through "strong remedial measures" taken at Grand, and the reduction of shrinkage to acceptable levels.

Managing director Carlos Dos Santos says Score bought market share at the expense of margins in some instances. Sales grew by 24% to R1,365c billion, and earnings growth kept pace. The dividend has been raised by 3c to 40c.

Management says Score will continue to expand on both the retail and cash-and-carry sides, but unrest-related disruptions could affect trading.

The price of Score shares jumped ahead of the results. Score was bid at 410c — 45c up on the week.

Losers

Several companies reporting this week showed losses or reduced earnings. Pichold lost 44c a share for the half-year to December after a poor showing from major subsidiary Picapli.

Pichold earned 171c a share in the year to June 1989, although a marked slowdown was reported in the second half.

Tedelex's operating income fell much faster than its turnover did. Sales of R195-million were only 4% below those of the last interim period to February. But profit before interest and tax dropped by more than a quarter to R16,2-million.

Higher interest knocked the bottom line by a third to earnings a share of 16,4c. The dividend was cut from 7c to 5c.

CARLOS DOS SANTOS ... Score buys market share at expense of margins

Management says that although hire-purchase terms have been eased, they come at a time when the economy is slowing. Tedelex's business — selling electrical goods — is particularly vulnerable to adverse economic conditions.

Earnings for the second half year should be about the same as in the first.

Another loser was tanner Silveroak. Its losses for the six months to December were not as high as management expected. Relocations and streamlining caused part of the losses.

Silveroak is to open a vegetable leather tannery and a fellmongery. It is moving towards smaller operations.

Molyslip was nailed by higher finance costs in the year to February 1990. Sales of the car-care company topped R13-million, but pretax profit was reduced to only R500 000, or 8,8c a share, compared with 11,4c.

A 3c-dividend was maintained. Molyslip's shares are 75c, a 50% premium to net asset value of 50c.

Protea Chemicals continued to wither. The six months to February brought a 63% dive in earnings to 4,3c a share and a dividend cut of 54% to 1,5c, even though sales added 8% to R191-million.

In spite of labour instability and restrictive monetary policies, Protea expects to do better in the second half, but earnings will be lower than in 1989.

IDC heads R23bn drive for industry

S Times 15/4/90 (180)

A REVITALISED Industrial Development Corporation (IDC) is spearheading an industrialisation push with a R9,5-billion investment on grassroot developments in the next five years.

By Don Robertson

The total cost of the projects with additional finance and expertise from the private sector is expected to be about R23-billion in today's money.

The IDC, which provided the impetus for the launch of major industries such as Foskor, Sasol, Saiccor and Atlantis Diesel Engines (ADE), is again putting its financial muscle behind projects to increase SA's economic independence.

Most are import-replacement-oriented and could save about R4,5-billion a year in foreign currency when completed.

Under a new management team — managing director Carel van der Merwe and chairman Koos van Rooy — the corporation is pushing ahead with renewed assurance.

Mr Van der Merwe says his move to the top at the IDC will help him to achieve his ambition of creating jobs.

"By employing one person in industry, we provide four additional jobs, which in turn support about 40 people."

Developing the export market is another priority on Mr Van der Merwe's list.

Sell

The IDC will have to sell some of its profitable investments to finance the new drive.

It raised R270-million by selling 30% of Alusaf to Gencor last August. Mr Van der Merwe says: "Alusaf will be privatised further when conditions are suitable — certainly within the next two years."

The R600-million worth of Iscor shares which the corporation bought from the State before the privatisation could also be sold. Other holdings likely to end up in private hands include Foskor, ADE and the IDC's remaining 30% interest in Sasol.

Top of the list of new developments is a R2-billion project to recover alumina, magnesia and potash from phlogopite minerals at Foskor. Another project to produce benzine, toluene and xylene from coal at a plant which could cost R5-billion is being investigated with private investors.

Export

An Iscor plant to make semi-finished steel at Saldanha Bay will cost about R3-billion.

The IDC will help finance a large exhaust catalyst plant near Port Elizabeth, several agricultural projects and others which cannot be detailed because of their strategic importance.

The corporation plans to grant R300-million in soft loans to companies prepared to operate a second shift.

Iscor's establishment of a semis plant at Saldanha Bay has been on the cards for years and it answers the call by the Department of Trade and Industry for mining companies to add value to metals and minerals before export.

Foreign partners in the project will buy most of the semi-finished product. The plant will probably use the Corex process for smelting iron ore from the Sishen mine. The process, developed by Iscor, uses low-grade coal.

One of the new projects is the production of benzine, toluene and xylene for the manufacture of chemicals. The chemicals will be recovered by direct gasification of coal at a plant near Ellisras. The project will cost about R5-billion. Gencor's new Engen division may be involved.

At Foskor, near Phalaborwa, a R2-billion plant will recover alumina, magnesia and potash.

Plans are for the production of 350 000 tons of alumina, 300 000 tons of magnesia and 150 000 tons of potash a year. This will be sufficient to meet SA requirements and allow exports. Foreign-currency savings of between R1,5-billion and R2-billion a year could be achieved.

The IDC's financial stake in the project could be about 40%. Foskor has about 1,5-million tons of the mica mineral in reserves available immediately.

Sugar

These projects will take about five years to commission once the go-ahead has been given.

The IDC is involved in farming ventures which include growing pistachio and cashew nuts, mussel farms and tea and coffee projects. Salmon and crab meat farming is to be investigated. The recovery of glycerol from sugar at a R100-million plant is also a possibility.

If all these agricultural projects are approved, capital expenditure of about R800-million will be required.

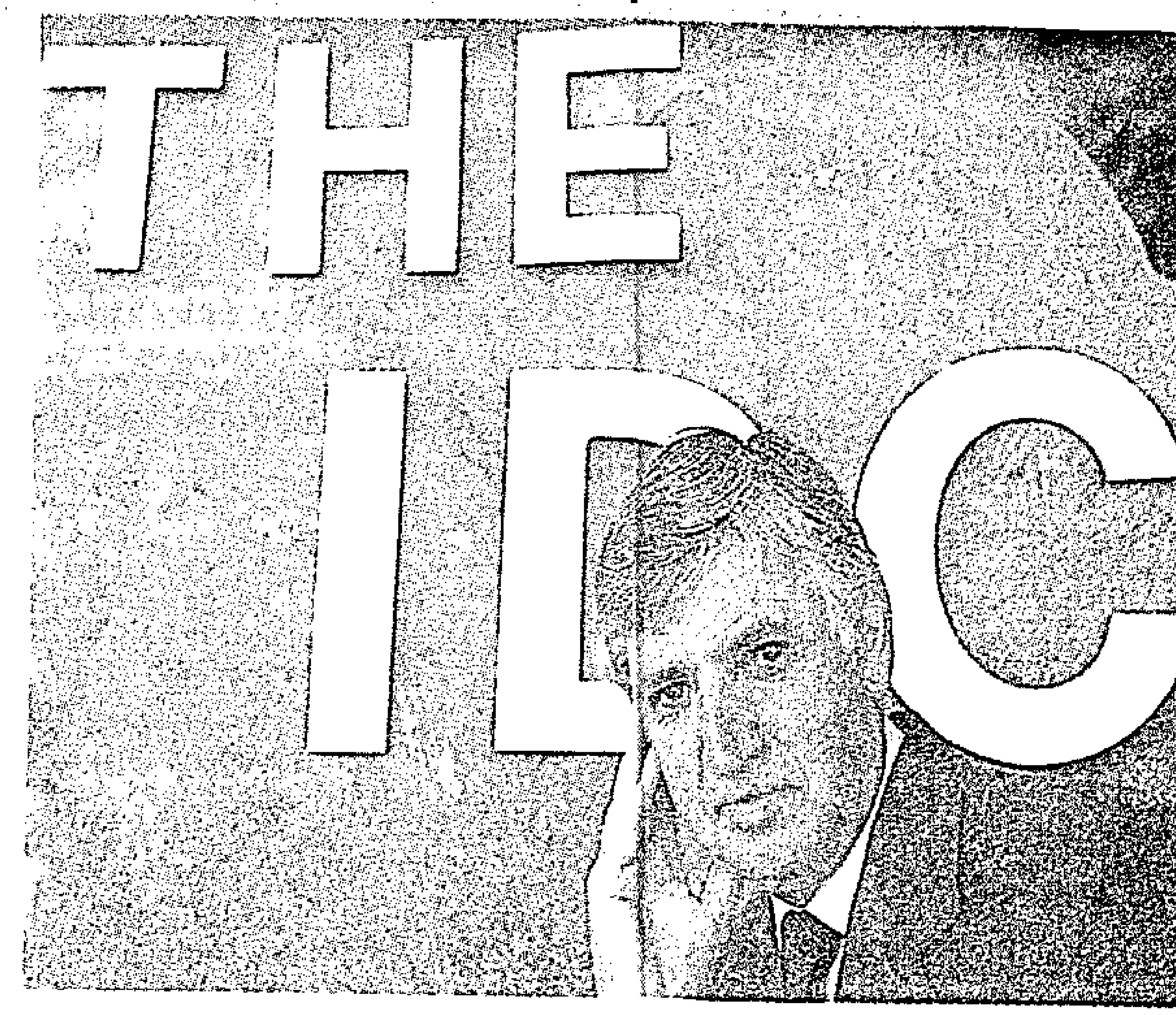
The Algorax exhaust catalyst purifier plant in Port Elizabeth will produce an initial million units a year for export. The first phase will cost about R50-million, but if pursued to its ultimate aim of 3-million units a year, the investment could be as high as R300-million.

IDC's investment in Mossgas will rise to R720-million by the end of next year, giving it a 20% share of the scheme.

Although Mossgas has been criticised, Mr Van der Merwe believes the strategic project has potential.

"There certainly are questions about it, but we are optimistic, although we do not defend it. At an oil price of $16 a barrel in 1989 money terms, Mossgas will save SA

● To Page 3



CAREL VAN DER MERWE . . . more jobs a priority Picture: Sue Kramer

Analyst predicts major earnings increase for FSI

CHARLOTTE MATHEWS

THE FSI Group is expected to show a remarkable increase in earnings across the board in the 1991 financial year, Davis Borkum Hare analyst Pierre Greyvensteyn said in a recent report on the group.

180

Greyvensteyn's forecast of the group's attributable 1990 earnings growth was slightly below inflation at 14%.

But he believed earnings in 1991 would be boosted by more buoyant economic conditions, lower interest rates and benefits emerging from management's focus on operational efficiencies.

As a result Greyvensteyn recommended the FSI share be held in portfolios, especially in view of its longer-term potential.

W & A was a share to accumulate and Hunts was considered to offer good value and should also be accumulated. BD 17/4/90

Greyvensteyn said about 20% of 1990 earnings were likely to be contributed by Gentyre.

"Gentyre is operating at full capacity. Coupled with a steady programme of capital expenditure, low tax structure, untapped export potential and interest receivable from an ungeared balance sheet, profits should grow in excess of 24% in 1990."

The group was developing the export side of its core businesses and expanding the international operations of subsidiaries Form-Scaff, Burhose and AAF.

Greyvensteyn pointed out that although the group's gearing of 57% was high in relation to other industrial groups, return on assets managed had improved to 20% in 1989 from 16% in 1987. He expected the rising trend to continue.

Reward offered for company's missing link

DIDM 17/4/90 (180)

DANIEL SIMON

ABOUT 40 firms situated in Randburg's version of "Silicon Valley" have lost about R1,8m in business over the past 18 months because of the theft of telephone cables.

The problem has reached such proportions that company MDs at the Kya Sand industrial park — an area dominated by electronics firms — are prepared to offer substantial cash rewards for information leading to a prosecution.

Instrotech MD David Howcroft said during the past three weeks thieves had made off with 50m sections of cabling on three separate occasions, resulting in the loss of three days of business.

Howcroft said the thieves would make only R130 from the copper content of each 50m stretch stolen, but the company suffered a daily loss of about R200 000 in business while telephone links were down.

Since the firm moved to the area two years ago, thieves had struck nine times.

"At first it was something of a joke, but the thefts have become so serious we are losing a substantial amount of business.

"We suspect the incidents are sabotage-related, as only small sections of cable are sawn off and stolen — at the same place each time," Howcroft said.

He said firms would be prepared to offer a substantial reward to end the problem.

Digital Process Measurements MD Peter Crouse said if the problem persisted, he would be forced to install a car phone.

Post Office spokesman Ben Roodtman said the theft of telephone cables was causing a "substantial" loss. During the 1988/89 financial year, 16 000km of cabling, worth about R1m, had been stolen.

A Randburg police spokesman said detectives were following up a "very good" lead which could lead to an arrest.

Airline flight delayed for Mandela

KIN BENTLEY

LONDON — An international airline agreed to delay its flight by about an hour to enable ANC leader Nelson Mandela to fly out of London late on Monday night, following his speech to the massive concert at Wembley.

ANC deputy London representative Billy Masetlha confirmed yesterday that a prior arrangement was made with Ethiopian Airlines that a waiver would be granted to Mandela, enabling him to book in late for the flight to Harare.

He said the flight, a normal passenger service, was delayed by about an hour.

Mandela arrived in Harare yesterday and said government had to remove all apartheid laws to ensure progess towards peace, Sapa reports. BDay 18/4/90

Mandela, here to attend Zimbabwe's 10th anniversery independence celebrations, which entered their second day yesterday, said if President F W de Klerk wanted change, he should "remove all laws which are cause for concern to black people of SA".

Addressing a Press conference, OAU secretary-general Salim Ahmed Salim said developments in SA were encouraging but a lot remained to be done.

Liquidations set to rise by 20%

180

BDay 18/4/90.

SYLVIA DU PLESSIS and ANDREW GILL

THE number of companies liquidated this year will rise by about 20% over 1989, according to Kreditinform MD Ivor Jones and operations director Jack Brownrigg.

This meant that more than 3 000 of SA's 600 000 registered companies could go under, compared with an estimated 2 700 in 1989, they said in an interview.

Brownrigg said steep interest rates, affecting highly-geared companies in particular, were the main reason for the expected sharp increase.

Even if Finance Minister Barend du Plessis's moves to level out interest rates were successful, the effect on liquidations would be felt only in about 18 months, he said. This was because of a time-lag between interest rate hikes and liquidations.

A hidden factor in interest rates was one of prime-plus. Banks were offering prime rates to low-geared companies, while debt-ridden institutions were paying 1% to 3% above prime, he said.

However, recent political developments could prove to be mitigating factors, boosting business confidence and limiting the number of liquidations.

Information Trust Corporation chairman Paul Edwards said his organisation had recently noted a rise in the number of problem accounts — an early precursor to ultimate business failure.

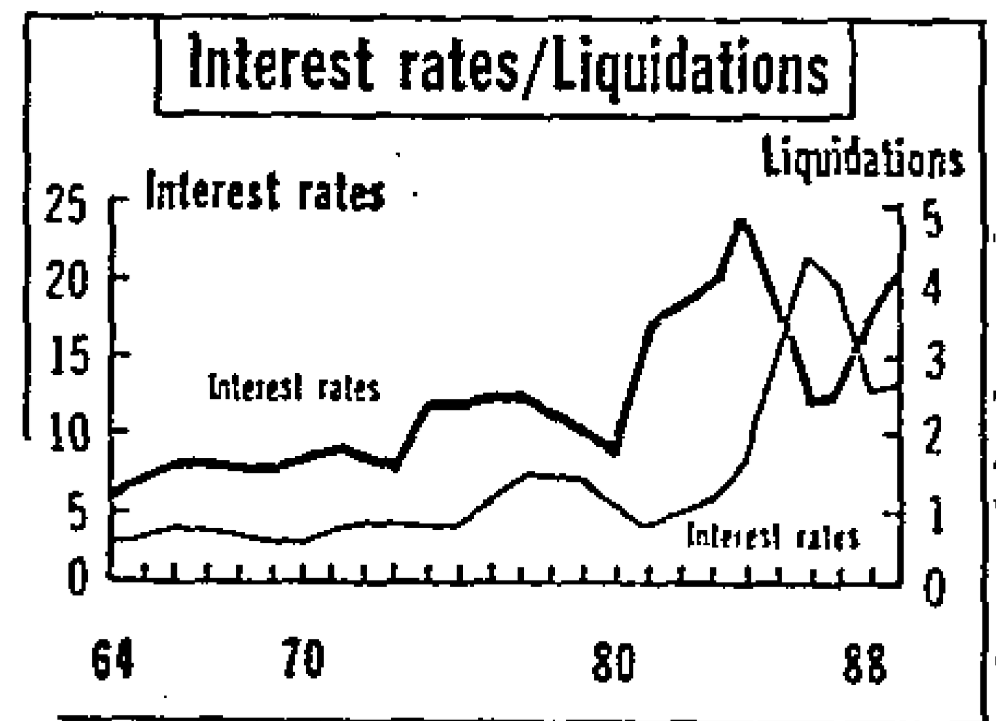
However, many businesses had learnt to adapt to tougher economic conditions.

While the number of liquidations was set to rise significantly this year — service-orientated companies traditionally constituted the largest proportion of failures — it would be off a low base, he said.

"We're only in a mild recessionary phase so I don't expect blood on the walls.

"We urge businesses to take active measures to minimise their potential losses. One such measure would be to get involved in industrial information-sharing schemes to enable them to help each other highlight problem accounts.

"This will allow them to protect themselves from going down with failed companies due to loss through bad debt."



Graphic LEE EMERTON Source KREDITINFORM

Boesak tells ANC: reject violence

BDay 18/4/90

LONDON — World Alliance of Reformed Churches president the Rev Allan Boesak has urged the ANC to take a moral lead over government by forswearing all forms of violence.

Speaking from Cape Town over Dutch radio at the weekend, he said such a move by the ANC would oblige government to follow suit. Newspapers in the Netherlands yesterday reported that Boesak said government was responsible for the culture of violence in SA, as it had always chosen to confront problems with violence.

The ANC was, however, equally responsible as it had contributed to the romanticisation of violence.

"The ANC will have to tell the people: 'We do not believe in violence any more'," Boesak said. In doing so, it would place a moral obligation on President F W de Klerk to follow suit.

"We have noticed moral matters are a priority to him," Boesak said.

He also hoped for other changes in the ANC. It would have to become aware that its liberation politics could not serve unaltered as a basis for a credible policy.

□ Our Cape Town correspondent reports that Archbishop Desmond Tutu has welcomed the ANC's admission of the torture of a group of ANC dissidents. He said at the weekend he was glad a cover-up had not been attempted, and he hoped the tortures would not recur. — Sapa.

r social programmes to fight unrest

BDay 18/4/90

CPI, office rentals gap 'widening'

THE gap between the consumer price index (CPI) and office rentals which was closing towards the end of last year, now appears to be widening.

Graphs in today's Ampros property exchange show rents have not grown this year at the same rate as in 1989. In fact, they seem to have peaked in the $R30/m^2$ to $R33/m^2$ gross range.

The cause of this levelling is a fall-off in demand.

Confidence

This is due mainly to the fact that government's economic policies are beginning to be effective, with high interest rates for a prolonged period causing a squeeze on business profits. (180)

Employment of new white-collar workers has fallen as a consequence. A further cause may be a lack of business confidence, in part resulting from the current political uncertainty and unrest.

Nevertheless, rents have risen ahead of inflation in the past two years, increasing by about 32% in 1988 and about 18% in 1989.

Rental escalations are currently from 12% to 15% a year, compounded.

Alrode South opens to Black industrial entrepreneurs

180

Sowetan 19/4/90

By JOSHUA RABOROKO

BLACK industrial entrepreneurs can now own and run factories at Alrode South in Alberton.

The area was originally zoned 'white industrial' until it was deproclaimed by the State President, Mr FW de Klerk, in March this year.

Mr Allan Goldring, managing director of Insvestron, an East Rand industrial township development company said, this " welcome reform" was largely due to persistent lobbying.

"This deproclamation heralds a new era for the black entrepreneur wanting to develop a strategically located factory or workshop. He can now enjoy the same privileges and advantages of his white counterpart.

"Alrode South, one of the major industrial growth areas on the Witwatersrand, is ideally located near many of the major townships and their vast labour pools. The black businessman is now able to buy land on a freehold basis and then erect and operate his own factory, or purchase a ready-made factory.

"Alternatively, if he prefers, he can lease a production facility." he said.

The details of the proclamation were published in the March 23, 1990 edition of the Government Gazette (volume 297, number 12364).

Goldring believes the property ownership reform will create a positive ripple effect across the country's established industrial areas, thus creating not only more opportunities for black entrepreneurs but also more employment, keener business competition and an all-round better image for South Africa.

"Traditionally, there have been too many restraints on the black entrepreneurs who have had to invest in proclaimed black industrial areas, most of which are far too remote from established markets," Goldring said.

Companies opting for fleet buyouts

180

CHARLOTTE MATHEWS

COMPANIES are selling their fleets to fleet management companies to benefit from the cash injection and off-balance sheet financing.

A further spin-off for them lies in avoiding the high cost of motor vehicle purchase and maintenance.

Fleetlease Contracts market and product development manager John Bell said he had experienced a surge of inquiries for fleet buyouts over the past year. B Day 11/4/90

A company could sell its fleet at market or book prices and lease it back under a fleet management leasing (FML) contract for a specified period.

In the case of, for example, a 40-vehicle fleet, a company could gain R1,2m to invest in product or raw materials to turn into profits.

"The takeover of a fleet which results in an immediate cash injection for a company has led to some 1 200 vehicles from 30 companies converting to FML with us in the last year," Bell said.

Avis Lease marketing director Nic Griffin said his company had seen a significant swing towards FML in the last year.

"It has become more attractive because the Receiver of Revenue interprets FML as off-balance sheet financing.

"As companies need to watch their cash reserves more carefully they see opportunities to use these resources in their businesses.

"We are now handling fleets of 12 000 to 14 000 cars."

Budget Autolease MD Sarel Rudd said FML was the solution to rising vehicle prices and the problem of putting this on the balance sheet.

"Another very important factor of course is the administration involved in running a fleet. It results in a big saving for a company to have us buy and register and maintain their vehicles."

Rudd said the top leasing companies had the purchasing power and the expertise to get the biggest advantages out of running a fleet.

BDay 19/4/90

MAJOR ROLE OF BUSINESS IN REDISTRIBUTION

LESLEY LAMBERT 180

CAPE TOWN — The private sector would have to bear the brunt of wealth redistribution in SA, Sanlam MD Pierre Steyn said in his opening address at a Round Table Conference here yesterday.

He said businessmen had to accept an increasing role in the improvement of education, training and housing if the country was to "emerge from its past history and from the present bewildering times with hope for the future".

They would have to eliminate prejudice and create an environment in which all employees, regardless of race or sex, could be assimilated.

"We must create opportunities for our employees, through training and all other available methods, to progress faster — but this will have to be based on merit and not on tokenism," he told delegates.

"If one accepts, as I do, that good sense will prevail and that the intended actions to redistribute wealth will not be via large-scale socialism but rather through the forces of a free market economy, then a great responsiblity rests on the private sector.

"It will have to bear the brunt of wealth redistribution and of general social upliftment."

But to perform this vital task, Steyn said the private sector had to be assured of an environment in which it could flourish. 19/4/90

"We have to contribute to the maintenance of a business environment in which we can continue to exist, not only for our own sake but also — and this is not always sufficiently appreciated — in the interest of our country," he said.

If the environment was hostile or unacceptable, private enterprise would have no future, he said.

Black business people jet out to Zimbabwe

By JOHNNY MASILELA

A GROUP of 142 black business people will take part in a conference in Zimbabwe next week aimed at laying the groundwork for the import/export market in a post-apartheid South Africa.

The conference starts in the Monomotapa Hotel Conference Centre in Harare onTuesday.

The mission was organised by WR Consultants of Johannesburg and will be led by Dr Nthato Motlana of the Get Ahead Foundation.

According to WR Consultants, the primary objective of the tour was to enable the local black business community to observe and learn from their counterparts who operate in a free society, and participate in its trade fairs, conferences and discussions. w Mail 20/4-26/4/90

In Bulawayo the delegates will participate in a buyer/seller summit, the first of its kind to be held with South African business people in over 10 years.

They will participate in a seminar on import/export for small businesses at the Zimbabwe International Trade Fair.

WR Consultants has confirmed that the trip has been welcomed by the African National Congress and Pan Africanist Congress and that both these organisations will be sending a delegation to meet formally with the South African business people.

The mission has been organised on the Zimbabwean side by the Confederation of Zimbabwe Industries.

Another tour of this kind was undertaken to Malawi last year, with 94 participants ranging from building contractors and taxi operators to hawkers and hairdressers.

The tours are conducted under the banner of "Black Business Observation Missions".

WR Consultants have in the pipeline a similar mission to the United States, planned for October.

South Africa's daring free trade leap of faith 180

By ALAN HIRSCH

WITH South Africa seemingly set to embark on a freer trade policy than ever since 1925, world trading conditions are becoming increasingly uncertain. South African economic policy makers must be more than a little concerned that international negotiations to establish a new General Agreement on Tariffs and Trade are facing severe obstacles.

GATT talks are scheduled to be concluded later this year, but participating countries and trading blocs seem far from agreed on many crucial issues.

Though the government has not yet publicised the details of its new trade policy, aspects of it are leaking into the public arena, probably derived from briefings with the private sector. The philosophy behind the new trade policy was summarised in an appendix to the Budget Review reported on these pages. The government believes that the inefficiency and uncompetitiveness of South African manufacturers is the product of the distortion of the prices of capital and labour. This distortion was partly caused by tariffs which favoured the importation of machinery and intermediate goods so that imported final goods could be made domestically.

One way of rectifying factor prices proposed by the government is the abolition of a range of tariffs protecting locally made manufactured goods. Among the products mentioned by economists as candidates for losing their protection are paper and pulp, pharmaceuticals, and textiles.

At the same time exports are to be promoted through the General Export Incentive Scheme, launched at the beginning of this month, which rewards firms that succesfully enter the export market. In short, the government is abandoning an import substitution policy for an export promotion policy, but through minimal intervention in markets.

Critics might fear that loss of protection could threaten employment in some manufacturing sectors, though it is intended to encourage the substitution of capital with labour in uncompetitive sectors. With the added uncertainties faced by potential exporters reflected in the GATT talks employment growth in the export sectors is less than certain.

The current "Uruguay round" of GATT talks began in 1986 and is due to be concluded early in December, 1990. The weighty questions would have to be settled by July to allow time for fine-tuning. But divisions are still so great that some commentators wonder whether the agreement will be concluded on schedule.

A major line of division indicated in reports in international business publications and GATT monthly bulletins, is that between the advanced industrialised countries and the "developing countries". The issue is not simply free-trade vs protectionism; the industrialised countries are calling for controls over the trade and exchange of certain commodities, and free-trade in others, while the developing countries hold similar views about different commodities and services. W/Mail 20/4 – 26/4/90

For example, the European Community and the United States want the more developed countries of the Third World (the newly industrialised countries — NICs) to give up their right to impose trade restrictions when faced with balance of payments problems. The EC also wants to change a key clause which allows countries facing a sudden surge of imports to take temporary blocking action. Instead of blocking imports from all countries manufacturing the relevant category they want to be able to act against individual countries. The industrialised countries also want to free the international trade in services (banking, transport, telecommunications etc) and restrict the international transfer of "intellectual property rights" (patents, computer software etc).

The developing countries, on the other hand, want to end the present restrictions on the international trade in textiles (under the Multi-Fibre Arrangement); to lift restrictions on the export of tropical products; to prevent the imposition of so-called voluntary export restraint agreements; and to have anti-dumping rules obeyed.

While Third World tariffs are the chief targets of the industrialised countries, the Multi-Fibre Arrangement (MFA) which controls world trade in clothing and textiles, beyond GATT rules and in defiance of GATT principles, symbolises for the developing countries the protectionism of the industrialised countries. The US has proposed a very gradual phasing out of the MFA which is unacceptable to the developing countries.

Another major stumbling block to the completion of the Uruguay round is the dispute over agricultural subsidies. Here the major antagonists are the US, which wants to end all farm support by 2 000, and the EC, which has agreed to a partial removal of concessions, with increases in protection on certain products such as soya beans and other cereal substitutes. The EC's position has been rejected by all other delegations.

South Africa is launching a drive to market manufactured goods internationally in an environment not altogether conducive to free trade, especially when it comes to selling manufactured goods to the industrialised countries. In the context of the stable international monetary and trade order of the 1950s and 1960s an export drive in manufactured goods might have made sense. Today it is a daring leap of faith in free trade.

BLACK BUSINESS F/M 20/4/90 (180)

Caught in the middle

Black businesses are caught in a serious dilemma by the nationalisation issue. On the one hand, they are fully aware of the economic folly of such a move; on the other, they see it as a tool to create a fairer distribution of wealth.

The *FM* could find no black business leader who would willingly come out unequivocally in favour of immediate privatisation — a move that has proved to have been universally successful. But black leaders appear to have a more realistic approach to the problem of redistribution than, say, the unions (see "Sharing SA's wealth.")

Ramoshaba

Lot Ndlovu, chairman of the Johannesburg branch of the Black Management Forum, says his organisation is against nationalisation in principle, but believes it has its uses.

"Sectors of the economy could be nationalised for an interim period until the black community has been uplifted." He concedes that such a move could regrettably lead to a further exodus of skilled managers and workers, but adds that "if these people aren't committed to the future of the country, it might be good riddance."

Magomola

Once blacks are well-off enough to play a meaningful role in the economy and, only then, would privatisation of some sectors be appropriate, he says. "The State isn't a wealth creator, so companies should be returned to the private sector once the inequities of the past have been alleviated."

Mashudu Ramano, the executive director of the Association of Black Accountants, agrees that whatever the merits of privatisation, it should be put on hold.

"Privatisation should not just be an end in itself or something that must be done because Margaret Thatcher and others have successfully denationalised certain sectors of the economy. It should be seen to be addressing the gross disparities of income and wealth distribution. If privatisation is going to bolster the current imbalance in the distribution of wealth and resources, then it has very little chance of success."

Ndlovu argues that if business had done more for black advancement in the past, there wouldn't be any talk of nationalisation. "Liberty Life has made a start with its R100m foundation, but why only now? It can't be coincidental that it's come after talk of nationalisation."

This view is backed by former African Bank CE Gaby Magomola, now the chairman of the marketing arm of the Foundation for African Business & Consumer Services. "Blacks aren't prepared to wait for wealth to trickle down through economic growth. Business will have to give serious thought to the question of getting the national income fairly distributed."

He says black businesses have been playing a gentlemen's game and they may have been too muted in their requests. "It took Mandela's nationalisation talk to scare corporations into action."

Business consultant Willie Ramoshaba says corporate SA shouldn't just bury its head in the sand. It should rather help draw up an appropriate agenda with the black community.

"The trouble with existing efforts such as the Urban Foundation is that they are white-driven and white-motivated. There was no attempt to negotiate the collective needs of the community."

He says business is very good at uniting when it's under attack, as it was against sanctions, but less so at uniting in finding solutions. "Business was as quiet as a mouse on black advancement before the sanctions threat got them talking."

Black managers do present alternatives to outright nationalisation. Ndlovu says nationalisation doesn't necessarily mean a complete takeover. Some form of partnership with private enterprise could be negotiated.

Sam Motsuenyane, president of the National African Chamber of Commerce, would not comment. But the chamber's newsletter, forwarded by the public affairs director, quotes Motsuenyane as saying that "one alternative is to persuade companies to hive off portions of their productive assets and pass these over to the disadvantaged black majority in order to hasten black economic participation and empowerment." Whether companies would be compensated, is not discussed. The chamber is teaming up with the ANC in a joint economic commission that will report to the ANC's National Executive Committee.

Ramoshaba says there needs to be negotiations on the economic future running parallel with those on the political future.

Big business is in the process of setting its own agenda.

The SA Chamber of Business has a task force to investigate redistribution issues that is intended to devise an alternative to nationalisation.

If black managers can be believed, a good selling job on alternatives to nationalisation may take nationalisation off the agenda.

Stephen Cranston

POST OFFICE FM 20/4/90

Playing and reffing

The private sector is sharply critical of the Post Office's announcement that it may compete in the fledgling, but potentially very lucrative, electronic message handling business.

At a conference on electronic trading held in Johannesburg earlier this month, the Post Office confirmed it is looking at entering the market in the long term.

Many companies believe such a move would be unfair and could severely disrupt the market for electronic message handling services. They point out that the Post Office already controls the national networks that carry these messages and is responsible for regulating the market.

The Post Office insists that network suppliers such as the UK's British Telecom & Mercury Communications, as well as suppliers in the US, also compete with their customers. It says it will adhere to the same regulations that apply to its clients.

Electronic message handling — which involves the storing and rerouting of computer generated information — is one of the fastest growing sectors of the computer industry. More than 3bn electronic messages are transmitted throughout the world each day and this is expected to rise to 100bn by th end of next year.

These messages comprise electronic mai — person to person communications — an inter-company mail known as electronic dat interchange (EDI). The market for EDI ser vices promises to be explosive as compani switch from paper to electronic transaction This is likely to be the battleground betwee are invariably misleading.

COMPANY CARS FM 20/4/90

Swap and drop 180

Senior executives who gained on the swings of the Budget tax breaks will soon be losing on its roundabouts. They no longer pay tax on dividend income, but any gain could be offset by changes to taxes on fringe benefits. From May 1, the taxable value of company cars is to rise by half and the official rate on employer-supplied loans from 16% to 19%.

The net result for affected individuals will depend on the mix of their income package.

Price Waterhouse's Peter Botha looks at a man with a non-working wife, two children, and gross salary of R100 000 in the tax year ending February 1990 and R115 000 to February 1991. He also has a Mercedes 200, worth R90 000, and an approved housing loan of R100 000 at 5%.

He is a non-contributory member of a medical aid and puts 5% of his salary into a pension fund. He also earns R4 500 dividends, of which R3 000 was taxable in 1989-1990 (see table).

His take-home pay will, in nominal terms, increase from R60 107 in 1990 to R68 635 in 1991 — just over 14%. CPI rose 14,9% in the year to February. In the year ahead, it's unlikely to do much better and could do worse. Despite the one percentage point decline in top marginal tax rate to 44%, he will lose ground to inflation, unless his dividend income rises enough to compensate.

1991*
115 000
10 476
—
11 900
137 376
5 750
2 500
129 126
47 415
2 100
200
45 115
68 635†

...terhouse

The earlier table of car values, which applied since June 1, represents only 50% of the benefit. The new proposal will raise this to about 75% of the full, real benefit.

This is to be fully taxed as soon as possible. Completion of phasing-in would reduce our executive's net income (annualised) to R65 074, which would be an increase of only 8%.

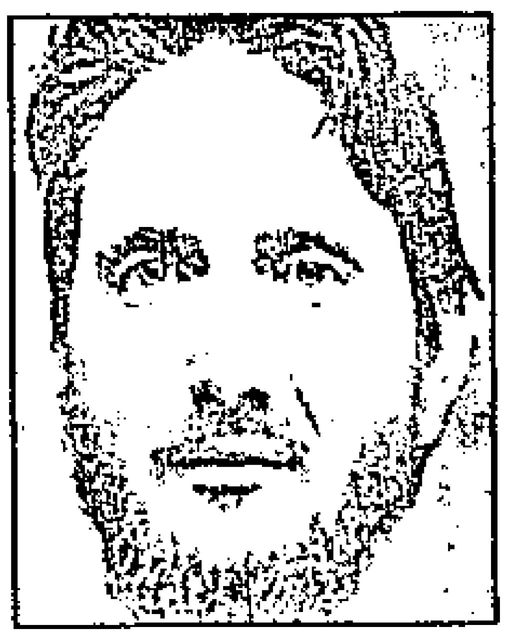
The value of company cars is calculated on cost price combined with engine capacity.

If executives are prepared to swap cars, says Deloitte Haskins & Sells' Willem Cronje, they can reduce tax payable. If a car changes hands its value falls by 15% a year. ■

ETSKO SCHUITEMA

More power, less jargon

(180) FM 20/4/90



Etsko Schuitema, formerly with the Chamber of Mines Research Organisation, is an independent management consultant and director of Industrial Leadership.

Recent events, such as the release of Nelson Mandela and the socialist posturing by the ANC, are being greeted with some trepidation by the business community. There is a real fear that the rise in black expectations is creating conditions where management is seen to be almost irrelevant.

In terms of this view, managements are trapped in this historically defined rush for socialism and there is very little they can do about it. There is correspondingly also a feeling of resignation to problems, such as job-discontent, with the associated problems of poor productivity and industrial unrest. Catastrophe, it seems, is inevitable.

Is this true?

Fundamental research on what accounts for employee trust in management was conducted at the Chamber of Mines Research Organisation. After investigating a range of variables, such as the influence of political activity, trade union activity and physical conditions, it was concluded that the only factor that would account for trust in management was management *style*.

It was also found that the manager was assessed as a person of power and that his right to exercise power (to give instructions and receive compliance) was granted in terms of the extent to which he was looking after his employees.

A most surprising finding was that if employees found the manager untrustworthy, inasmuch as not looking after his people, then the rest of the southern African establishment would also not be trusted — including the SA government and their home governments. In other words, the employees' focus for assessing the establishment is the workplace and the way in which each is treated there will define his need for an anti-establishment or socialist agenda.

This implies that the people who will fundamentally determine this country's future are not the politicans but those who are in charge of the workplace.

Management responsibility

This places an awesome responsibility on industrial leadership. Managers can no longer afford to blame unions or the State or somebody else for what is going on at shop-floor level.

It is critical that managers themselves give sympathetic attention to employees in the day-to-day work situation. It is only by addressing this that the right is earned to do that which management really is about: getting people to do things.

What is important here is that we are talking about care and concern being given by the people who make up the real authority — the line managers who exercise command. If these people don't care for their subordinates, then what is said or done by somebody else will be seen to be propagandistic. A phrase that has become common currency for this is surrogate management.

By surrogate management we mean the employment of a specialist, secondary or proxy function to deal with the human problem — so that enterprise leadership is free to pursue this very dirty business of maximising profits. In mining, the manager would say: "My job is *stof en gate*," a technical activity, while the human being becomes the concern of someone or something else.

Thus one sees burgeoning personnel departments, management communication strategies, visibility programmes, unions and a whole series of systems and procedures aimed at defusing employee discontent.

The employment of surrogates implies that the business plagued by discontent is perceived as an organisation in dysfunction (like a machine that has a broken part).

But at the end of the day, the rock is brought to the surface by courageous, disciplined men who have the will to go into dangerous places and blast it out. What produces the gold, then, are the generous and noble qualities of the human will. It is not the function of a well-designed organisation.

Yet the under-performing manager refuses to examine the conditions under which the will to produce is unleashed, and insists on employing the human resource tinkerers and witchdoctors to address the problem of his unwilling subordinates.

If I know that the person in charge of me is interested in my wellbeing, that he gives of his time to attend to my problems and concerns, then I will gladly give to that man whatever he asks of me and more.

FM 20/4/90 180 FM 20/4/90

THE LUBOWSKI AFFAIR FM 20/4/90

Removing the files

Pretoria attorney Ernst Penzhorn claims he sold the close corporation which was making payments on behalf of Military Intelligence (MI) to slain Swapo executive member Anton Lubowski. But it has emerged that he is still liable for any claims against the corporation, Global Capital Investments, because no record of such a sale has been lodged with the Registrar of Companies in Pretoria.

The *FM* first reported Penzhorn's involvement with Global Capital Investments CC after Defence Minister Magnus Malan alleged in parliament that Lubowski had been a paid MI agent (*Current Affairs* March 30). An inspection of the records of the corporation revealed that Penzhorn was a co-director of the company and the sole member after it was converted to a close corporation. Reacting to this, Penzhorn claimed he'd sold the corporation in 1986 (*Current Affairs* April 6).

The *FM* also learns from a reliable source in the Registrar's office that an order was issued earlier, prohibiting disclosure of details or documents related to Global Capital Investments CC. The order was given in terms of Section 15(a) of the Companies Act, which empowers the minister to delegate powers — in writing — to the Registrar, enabling him to prohibit any company from disclosing or stating any business it may be involved in.

In an interview with the *FM*, Registrar Mossie van Rensburg explained: "Any company may apply for exemption from disclosing publicly their documents or their business. This section is often used when companies have overseas directors or subsidiaries which they do not want to disclose."

According to our source, the order to prohibit Global Capital Investments CC from disclosing its business was given to the Registrar's office before the *FM* inspected the records. But for some reason the instruction was ignored and the records were still available when the *FM* called at the Registrar's offices.

Trade & Industry Minister Kent Durr referred all inquiries to Van Rensburg's office. This is Van Rensburg's reply: "A written instruction from the SA Defence Force was issued to me in terms of Section 118 of the Defence Act on March 2 1990, stipulating all information pertaining to company prior to conversion and to close corporation should be protected from public inspection."

Van Rensburg says the minister has "re-delegated" to him the power vested in him by the Companies Act to exempt a company from having to disclose certain information. "In terms of Section 118 of the Defence Act, I am not allowed to divulge any information regarding the converted company and the close corporation."

According to Van Rensburg, the record of a close corporation is reflected as it is registered at his offices.

"As far as the Registrar's office is concerned, any onus on the close corporation rests with the members whose names appear in our records. Any claims against a close corporation would be instituted against the member who is registered in our records."

Van Rensburg says transfer of a close corporation takes place in the Registrar's office when a CK2 form (which both parties have to sign) is handed to the Registrar. "However, I have no control over whether such a form is ever handed in," he says.

Asked whether a close corporation can legally be sold without handing in the signed form, Van Rensburg replied: "How legal such a transaction would be is an open question. If it has not been handed in, the original owner will still be owner as far as we are concerned."

Van Rensburg says that the onus to pay taxes lies with the chief accounting officer of a close corporation. That would be the registered address of the corporation (usually the same address as its auditors).

Penzhorn, meanwhile, has denied any knowledge of payments to Lubowski's personal account; or to the Paradiso Bond Trust account which Lubowski controlled at the time of his death; or that he (Penzhorn) had ever signed any cheques to Lubowski.

Penzhorn refuses to disclose the name of the purchaser of Global Capital Investments CC. He cites attorney-client confidentiality as the reason. But an attorney tells the *FM* that the attorney-client relationship does not apply in a sale of this kind; it would apply only if Penzhorn had acted as attorney for the purchaser.

The *FM* understands that Penzhorn has been ordered, in terms of the Defence Act, not to make any further statements.

Eddie Botha

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The trial continues today.

on April 29. — Sapa.

Big four control 80,7% of shares on JSE

BARRY STREEK

CAPE TOWN — The big four SA companies controlled 80,7% of the shares on the Johannesburg Stock Exchange in October last year, while individuals held only 1,3% of the shares, according to the latest Takeover Digest.

The digest, edited by Robin McGregor, says the big four increased their dominance over the JSE from 64,6% in 1983 to 80,7% last year.

The Anglo-American Group had 45,3% of JSE control based on market capitalisation, the Rembrandt Group 16,1%, SA Mutual 9,8% and Sanlam 9,5%.

Anglo-American's share dropped from a peak of 60,1% in March 1987 but the digest said gold price fluctuations affected its position significantly because the group's accent on gold.

The Rembrandt Group's share went up from 2,1% in 1983 and 7,6% in September 1988 to 16,1% in October last year.

The digest said 4,9% of JSE shares were controlled by directors, 3,6% was foreign controlled, the Liberty Group held 3,4%, Anglovaal 2,2%, the state 2,2%, the FS Group 1,1% and the Ventron Group 0,6%.

In March 1983, ordinary investors controlled 19,9% of JSE shares, but this had steadily declined to 1,3% in October 1989.

(180)

B10

(80)

More rationalisation in finance services sector

B Day 20/4/90

NEIL YORKE SMITH (180)

INADEQUATE economic growth and the importance of economies of scale will ensure continued rationalisation of the financial services sector, say analysts.

Smaller companies in particular were expected to experience an increase in mergers, acquisitions and closures because they could not rely on economies of scale, especially where technology was concerned.

"Also, to maintain a thriving financial services environment the economy needs growth of 5% to 6% a year," said an analyst.

"Instead average growth over the past few years has been below 2%."

Too many players chasing too few skills and an inadequate infrastructure made rationalisation necessary, said a financial services consultant.

Sources were sceptical about the need for so called "bucket shops" in the market.

"Few do traditional lending business. They make most of their money from trading operations," said one.

Industry players welcomed last year's rationalisation. which included a number of mergers and some disposals.

Cape Investment Bank (CIB) acquired Corbank in February. Expected benefits include the strengthening of Corbank's asset base and CIB's entry into new markets like foreign exchange dealing.

Management consultancy based group Columbia sold many investments to concentrate on its interest in rural retailer Acrem.

This type of activity is likely to continue this year, analysts said.

BDay 20/4/90 (180)

Emerging economic growth 'on way'

LIZ ROUSE

WHILE the present economic slowdown is expected to continue through most of 1990, it is not the same animal as the recession in 1985.

Therefore, although productivity is generally low, there is an emerging growth on the way which is expected to gain momentum, according to Davis Borkum Hare analyst Lindsay Lurie.

An improvement in expenditure is projected for 1991/1992, although the increase will be moderate since interest rates are not expected to decline sharply.

Private consumption expenditure (PCE) will almost stagnate this year — projections put 1990 growth at 0,19%, down from 1989's 2,78%. Expenditure on durable and semi-durable goods will suffer the most.

Semi-durables will remain almost at the same level as in 1989 or might show a decrease up to 3%, while a decrease in the range of 8% to 10% in the durable market might be experienced, projections say.

There will, however, be a 2% growth rate in expenditure on non-durables. The expenditure on services is expected to show a 2% increase.

Debt

Lurie's optimism about the future is based on the overriding importance of the capacity to pay off foreign debt as the chief determinant of interest and exchange rates.

The trade account, current account, short-term capital inflows and holdings for foreign exchange are performing better, which gives a sounder base for economic growth, says Lurie.

The increased capacity to pay back foreign debt should have a positive effect on consumer spending.

Another important factor is, hopefully, an improved political situation. At the moment, dissatisfaction to the left and the right will continue to throw an aura over uncertainty on the economy.

However, since SA's foreign debt capacity has improved, the money supply will not be so harshly restricted by forbidding interest rates as in 1984/1985 when foreign debt seemed overwhelming. This should have a positive effect on investments and savings.

Main reasons why private consumption expenditure remains at a low level are:

- The official policy of positive real interest rates which will cause a decrease in inventories and consequent lower levels of profitability due to a sales reduction;
- The effect of high interest rates, which will decrease the positive effects of easing hire purchase restrictions;
- Inflation will remain at about 14,5%, resulting in a real income decline;

Other negative factors are the phasing out of the Lifo reserve, which means that companies carrying credit reserves will have to pay tax on those reserves; lack of skills, which is inflationary; the strain of population growth on scarce economic resources for investment; and the increase in excise duties.

Mining

Positive factors are the more than R4bn tax relief; tax measures to increase personal savings as a percentage of personal disposable income; reduced government expenditure; the easing of hire purchase restrictions; the phasing out of differential surcharge rates; the abolition of the 20% excise duty on locally made jewellery; and the encouragement given to the mining industry.

Now fears for the future begin to disperse the hopes

BDay 20/4/90.

180

MIKE ALFRED

PRESIDENT F W de Klerk's famous speech on February 2 delighted me. My sense of humanitarian indignation was at last assuaged. Now, but a few weeks later, I'm beset by a nagging anxiety about our country.

Maintaining one's principled indignation is a simple task when the world changes little. Now that the next era stands stark before us, there's no alternative but to face the ugly realities of the new politics.

The most distinct possibility is that within a few years we'll exchange one monolithic central government for another. Supplant one nationalism with another, one which will doubtlessly perpetrate a further series of arbitrary actions made kosher by the appelation "democratic".

As the Afrikaner protected his own, so will the black African. The public service will become an even larger sponge mopping up the poorly educated unemployed. Once ensconced, bureaucrats will have to find something to do; using their limited capacities, they'll create new systems, new rules, new regulations. It will take three years to obtain a driver's licence.

Given the urgent need to develop the black sector, so criminally neglected, funds hitherto flowing to maintain white privilege will be severely limited. The ANC may well honour its principles of non-racism but the inevitable shift in power and resource allocation will cause many of us to feel even more like *bywoners*.

While the rest of the world shakes off the excesses of totalitarian socialism, our new government, unduly influenced by a powerful labour movement, will continue to be seduced by its unrealised possibilities. I believe we'll hear a great deal of, "Yes, well, they didn't do it right in Hungary. We shall be more effective." It will be a variation on the ugly sisters trying to force their feet into the glass slipper. Hope in all its forms is an unquenchable human condition.

I believe that the stated goal of nationalisation is seriously offered. Its proponents, the leaders of the black trade union movement, have amassed considerable clout these 10 years past. I fear they mistakenly equate power with business acumen.

The populace at large will suffer the creation of a political economy of state control. The reasoning is seductive: whence comes the money for reconstruction if the state may not play businessman and banker?

The ideologues haven't twigged that business really isn't about making money; rather it's the single most significant opportunity arena in which ordinary people can create meaning from life's mystery. Excise that chance and state-initiated dehumanisation wins another victory.

They also haven't acknowledged that business is willing to pay for reconstruction voluntarily. The private sector disbursed R600m on social investment spending in 1989 and intends spending R800m this year.

Business, while conservative, is not stupid. While not democratic, while having been grossly exploitative of labour in the past, it is highly pragmatic, non-ideological and can move and adapt far faster than any state institution.

But of course, this will all have to be learned by our new masters. My words won't help. Maybe several generations will develop and fade before a state-run economy will cyclically succumb to normal human cussedness. By then its well-meaning proponents will be interred in heroes' mausoleums and our well-educated children will be seeking their own idealistic solutions to right the mistakes of the past, instead of letting well alone.

And what of our present masters, those sly devils smelling so strongly of roses? Soon they'll be able to ascribe the problems they spent so much talent, time and our money creating on a bumbling black government. (The ANC would be smart to insist on a lengthy interregnum of joint responsibility.) Moreover, a black government of their making and choice. Talk about nepotism!

Seldom has a political figure been as completely created by his opponents as ANC deputy president Nelson Mandela. Seldom has so much total onslaught been directed at creating a hothouse in which the opposition has so thrived.

Once again, the Nats, showing their incomparable political acumen, have made a unilateral choice; this time designating a favoured child. An infant with no tangible political organisation, with no measurable constituency. As a political party the ANC has much to accomplish.

The other children, who by implication have been rejected, are beginning to resent the game being played without them. So down we go into anarchy and confusion, using the cannon-fodder created by the iniquities of apartheid and the remnants of tribalism. The horrible, headline-grabbing Natal violence will afford both the Nats and the ANC the chance to punt the necessity for strong central government, law and order and other rhubarb.

While the heroics of politics occupy the front pages, AIDS picks its stealthy way among us. Domestic crime, also fuelled by apartheid's injustices, is a greater problem for ordinary citizens than political unrest. Facing mobs sharpens the brutalities and blunts the effectiveness of our police force, opening doors for white vigilantes playing a dangerous game of their own. We'll see the virtuous and oh-so-reasonable-sounding right venturing ever further, seeking people to bully and kill in self-defence.

For me potential tragedy lies in politicians perceiving themselves as saviours, such self-assessment carrying with it the aura of arrogant omnipotence. Strong on power needs, low on intellect, conceptualisation and sensitivity, the universe of politics hasn't been assailed by a new thought for 150 years.

Alas, politicians are the gods who'll engineer our socio-economic reconstruction — the perfect beings who believe they hold the monopoly on correct methods. Methods grounded in outmoded, ineffective ideologies, the defence of which becomes the main task rather than the seeking of optimum solutions.

Socio-economic development should be apolitical. All should share in it, thus creating a cornerstone of true democracy. The priorities in socio-economic development should be based *ab initio* on problem definition, and then managed by goal-setting and strategy formulation rather than being predetermined by some restrictive "ism".

Yes, I espouse managerial rather than political methods.

Social reconstruction should be managed by teams chosen from society at large: multiracial, multidisciplinary, multi-party. Their plans should be made public. Only after wide debate and approval should projects begin.

Teams should be disbanded once they have completed their task, lest they begin to relish the perks of power.

My hopes are mixed. On balance I suppose that as a relatively privileged member of society I shall suffer relatively less in the equalisation process unless my livelihood and assets are wrested from me. After the initial white-heat of political and social adjustment, I foresee a more relaxed, less aggressive, less racist society in which we'll have to find our satisfactions in less materialistic ways.

My greatest hope is but an unrealistic dream: That for 10 years there'll be a moratorium on party or race politics; that a council of wise leaders committed to the common good will be chosen from all sections of our society, to set SA well on the path of pragmatic adaptation and development.

☐ **Mike Alfred is publisher of The Manpower Brief.**

Blacks get chance to join industrial mainstream

S Times 22/4/90.

(180)

By Charmain Naidoo

BLACK businessmen may now own land and operate in the former whites-only industrial area of Alrode South, Alberton.

The reform came as a result of persistent lobbying by East Rand industrial township development company Investron, says managing director Allan Goldring.

Investron has advocated open industrial areas for more than a decade.

Advantages

Mr Goldring says: "The move heralds a new era for the black entrepreneur wanting to develop a strategically located factory or workshop. He can enjoy the advantages of his white counterpart."

Alrode South is a major industrial growth point in the Pretoria-Witwatersrand-Vereeniging area. Its proximity to large townships and their labour pools makes it an ideal industrial base.

Mr Goldring says: "The black businessman is now able to buy land freehold, build and operate his own factory or buy a ready-made one. If he prefers, he can lease a production facility."

Mr Goldring believes that the property ownership reform will have a positive ripple effect across established industrial areas.

"It will create more opportunities for black businessmen as well as provide for more employment, keener competition and an all-round better image for SA."

There have been too many restraints on businessmen who have had to invest in proclaimed black industrial areas, most of them far from markets.

"There are other stumbling blocks for those operating from isolated black industrial townships — the availability of development finance, insurance and mortgage finance is severely restricted.

"Another problem has been lack of contact with white businessmen and distribution networks which are reluctant to enter black townships for fear of violence and intimidation.

Overheads

"The black industrialist has also tended to have little or no contact with other businessmen, many of whom — in other circumstances — would have become important stakeholders as suppliers, associates or customers."

Much of today's industrial growth, Mr Goldring says, is attributable to the small industrialist who establishes a small production facility employing between five and 50 people.

"The emerging black industrialist needs to be placed among other established and aspirant entrepreneurs to gain access to wider markets and better technologies.

"They produce essential products and services but need to curtail their overheads.

"Shared costs — security guards, secretarial and admininstrative services — reduce overheads."

Investron has launched a project to help black industrialists realise their dreams of owning or leasing property.

"The company offers an industrial property solution in the form of individual sectional title factories that share certain facilities."

New Mitchell's Plain 'hive' draws keen business interest

CAPE TIMES 23/4/90. (180)

By MICHAEL DOMAN, False Bay Bureau

A NEW complex of 65 units for small businesses in Mitchell's Plain is over-subscribed — three months before it is due to open.

The "industrial hive" complex is opposite the Mitchell's Plain Town Centre and is being built for the Small Business Development Corporation.

Mr Johann Naude, corporation senior manager, said at least 75 businessmen had applied for premises.

"Indications are that we will have to start negotiating with the City Council for more land because demand is so high," said Mr Naude.

A major criticism of Mitchell's Plain has been that few job opportunities exist nearby and that residents have to travel great distances to work.

Tenant mix

Mr Naude said the units in the new centre would be 75 square metres, but that some would have to be bigger because of the type of business.

"We will also be relocating tenants from our older, adjacent premises to the new site, since they have outgrown the 35-square-metre spaces they now have.

"We will be trying to get the best possible tenant mix from applicants so that we don't have too many of one kind of business.

"We are negotiating with a city clothing manufacturer, who has many employees from Mitchell's Plain, about setting up in one of our new units," Mr Naude said.

The corporation will have an information office at the new "industrial hive".

Muslim drive to wipe out drugs

9764S 23/4/90

Staff Reporters

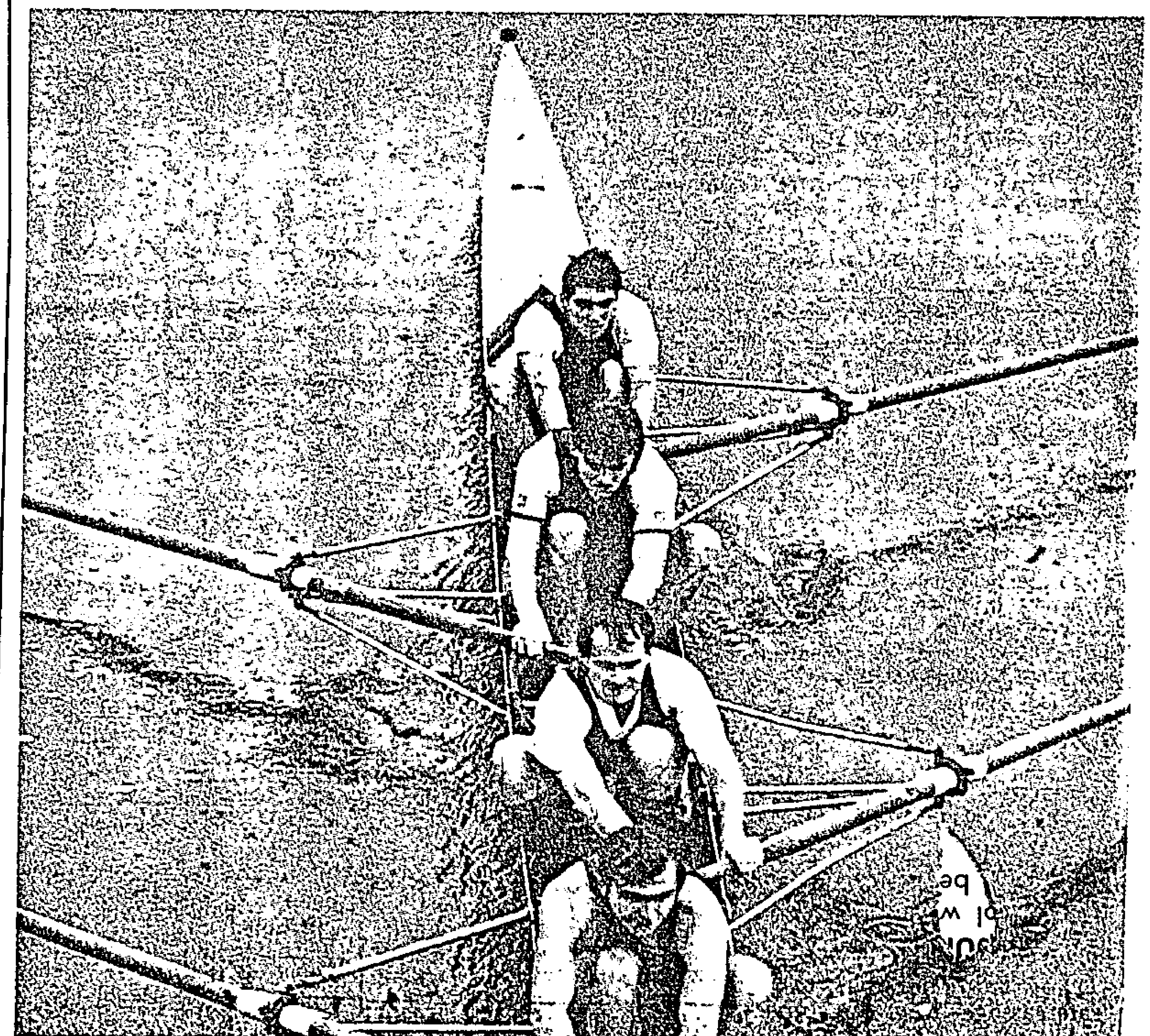
THE Muslim community wants to more drug-counselling centres in the Peninsula.

The move — the latest in an anti-drug drive — was proposed at a meeting held by the community at the Schotsche Kloof Civic Centre yesterday. About 1 000 people attended.

Speakers condemned drug abuse in the community, especially in the Salt River-Woodstock areas, and urged the establishment of as many counselling centres in the Peninsula as there are shebeens.

WANTED MAN

Nearly 50 people offered to train as drug counsellors in response to a call for 10 young men and women to volunteer for the task of fighting the drug



B/Day 23/4/90.

FW: free enterprise the key to SA's future

(180)

LONDON — A free enterprise system and assured property rights should be embedded in a new constitution, but neither the purpose nor the effect would be to entrench existing imbalances in favour of the white minority, State President F W de Klerk said yesterday.

"There's no question of entrenchment or disadvantage," he said in reply to questions from Brian Walden broadcast by London Weekend Television.

"Free enterprise has proven itself to be a success across the world; redistribution of wealth is a socialistic term ... I'm absolutely against that."

De Klerk said this did not mean there was not a problem: "We have got to solve the problem of backlogs of poverty in another way.

"... We sincerely believe that stability will ... be built on broadening private ownership, so we need economic growth- ... such as you have in Britain, which (Prime Minister) Mrs (Margaret) Thatcher so marvellously succeeded in reviving.

"We do not want economic inequality ... through growth we will open opportunities for all South Africans," De Klerk said.

If negotiations with the ANC and others on a new SA broke down, government would continue gradual reform to revitalise a climate conducive to their resumption.

"If negotiations break down, they will just have to be resumed again because it is the only viable alternative for SA."

De Klerk reiterated his "basic principles" for the negotiation table, and his commitment to put any agreed model to the electorate of the present Parliament.

"I do not intend to go to them with a model which will mean suicide for them," he said.

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SA's future

B/Day 23/4/90

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The whole process of negotiation was going to be "unbelievably difficult", in view of government's concept of power-sharing being so far from what many understood by majority rule.

On the ANC's insistence on majority rule, nationalisation, continued sanctions and the armed struggle, De Klerk said he was "strongly opposed to war talk — even if it is just rhetoric, I regard it as a stumbling block in the way of negotiations which must be removed".

He said there was also another side to it: "We must also distinguish what is positioning and what is reality."

On government's insistence on built-in protection for minorities, De Klerk rejected as "absolutely wrong" a suggestion that his real objection to majority rule was that it would take away from the white minority power what enabled them to protect their privileges.

"There is no question of the whites, in any way whatsoever, trying to cling to a situation where the real power will be in their hands. It won't be a solution for SA."

Returning to his outline of basic principles for minority protection, De Klerk said a Bill of Rights was needed.

"We cannot only secure individual rights, but certain collective rights with regard to cultural and religious matters could be safeguarded through a Bill of rights, coupled with certain provisions in a constitution."

☐ Constitutional Development Minister Gerrit Viljoen arrived at D F Malan Airport in Cape Town yesterday after four days of top-level discussions with US Secretary of State James Baker in Washington and with Thatcher in London.

He said one of the chief concerns voiced to him was about violence in Natal. — Sapa.

Market talk of free prime fuelled by BA performance

180

ROBERT GENTLE

SUSTAINED market talk of the imminent freeing of prime and a rise in interest rates was fuelled further on Friday when the normally quiet three-month liquid BA futures contract saw a sudden upsurge in trading activity.

Statistics released at the weekend by Rand Merchant Bank, the official futures clearer, showed that 62 contracts worth R59,2m were traded in the May, August and November BA futures.

That compares with only R10m the previous day and a total absence of trade the day before that.

Virtually all the R59,2m business — 97% — was registered in the August and November contracts, suggesting that the market expects a rise in interest rates in the longer term. B Day 23/4/90

Also confirming this were the higher yields at which the contracts closed the week. The nearest contract, the May BA future, closed at 18,65%, — or 15 points higher than the spot BA close of 18,50%.

Futures traders will no doubt welcome the rumoured decoupling of prime from the Bank rate as the resultant volatility in the BA rate will force the market to start hedging its interest rate exposure.

The long-neglected BA future should, therefore, receive a considerable boost in trading volumes, and futures brokers will benefit from the increased broking activity.

A trader from Greenwich Futures said: "If prime is indeed freed, everyone from banking managers to corporate treasurers will need to address the problem of how to hedge the resultant interest rate risk."

Taking the debate on nationalisation into the market

BDay 24/4/90

180

TONY MANNING

THE current debate about nationalisation is largely being conducted at an intellectual level by whites who agree that it's a lousy idea. Black politicians say that so far it's the only option on the table. The black masses, who will bear the brunt of any nationalisation efforts, are at best spectators.

A great deal of damage has already been done to the SA economy by the statements of black leaders like Nelson Mandela and Walter Sisulu. Foreign investors take their threats seriously, and respond fast. SA is not their only investment opportunity, and they shift their funds with the speed of light. Nor will they rush back here while this remains a high-risk country.

More serious, though, is the fact that local managers are becoming increasingly edgy. In just a few weeks their mood has changed from one of excitement over the prospects of the "new" SA, to one of alarm.

In public they must say that things will work out; after all, many of them have large blocks of shares in their companies and they must talk those shares up rather than down. But of course, they delay new investments — using recession as the reason.

In private, they worry about getting their money out of the country and resettling overseas.

There's also a change in the attitudes of many black workers, who think the revolution is over. Industrial relations action in the first quarter was up four times over the same period last year. Experts warn that more problems are on the way. Township violence and recent events in the homelands do little for confidence.

In short, the national will is being sapped. We are in terrible, terrible trouble.

So where do we go from here?

The swing to black rule in SA is unlikely to take longer than most people think. President F W de Klerk is a thoroughly nice chap, but he won't hand over the keys to Tuynhuys without a fight.

Already we see serious rifts in black society, and the various contenders to the throne have yet to lay their complete proposals on the table. More fragmentation is inevitable as they stake out their positions. The potential is there for irreversible damage to this economy and this society.

Unfortunately, the world isn't on hold while we squabble. Our competitors won't wait for us to catch up. During the past decade, countries everywhere have been muscle-building their competitive edge; we've systematically whittled away at virtually any advantage we might have had.

White South Africans can never atone for 40 years of horrendous social engineering. All of us enjoyed the fruits of National Party policies, even if we proclaimed ourselves against them.

Black South Africans are right to be angry. Their call for the redistribution of wealth is entirely understandable.

Their soaring expectations should be no surprise; nor should any white underestimate the emotional importance of Mandela's release and the unbanning of various resistance movements.

However, there's one fact that none of us can get away from, and that we must cope with together. If we don't take immediate steps to rebuild the SA economy — and to bake a much larger economic cake — all of our dreams will come to nought.

There will be nothing for anyone to share. There will be no equal education, no new housing or hospitals or pensions. The waBenzi might be black, but the masses will not revere them.

Threats of nationalisation might make the uneducated masses cheer, but they won't strengthen us for the future. We have a crisis on our hands.

It's time that every politician acted responsibly, and made every last citizen aware of the extent of our problems — and how high the cost of resolving them will be.

Marshall McLuhan once said that, as the world becomes a global village, "There are no longer any passengers on Spaceship Earth; everybody is crew." Equally, if this country is to be a player in tomorrow's global economy, there can be no passengers on "Spaceship SA"; everybody must be crew.

Natal University's Prof James Moulder recently calculated that whereas countries like South Korea and Taiwan are able to double their GNP every 10 years or so, it's likely to take SA 150 years.

Government recently voted R150m for black education; the NECC calculates that R21,5bn is needed to close the gap between black and white education.

No one should underestimate the size of the task that lies ahead. Nor should we put off tackling it.

If our collective goal is to create a bigger, more equally distributed economic cake, the place to do it is in the business arena. After all, that's where we learn to get on with each other — and where we stand shoulder to shoulder against the competitive world.

Starting right now, every business leader should look long and hard at how his organisation is managed. People should be drawn into the management process, and exposed to the realities of business life.

For starters, steps should be taken to see that every individual understands five critical things: 1 What to do; 2 Why to do it; 3 How to do it; 4 How well to do it; and 5 How well he or she is doing.

Most people in most companies cannot perform because they don't understand these basics. Most people in most companies have been systematically disempowered. They have been forced into a position where they have to say, "You can't trust me because *I* can't trust me."

The change we need won't come about through "sexy" or sophisticated programmes, processes, or training. It hinges on giving people the fundamental bits of information without which they cannot perform.

If the rank-and-file worker is to be convinced that capitalism works, he must experience it working for him. Share schemes and other incentives are vital components in the process of wealth redistribution.

Healthy debate about wealth redistribution is necessary. It's being waged in many countries besides SA, as the walls of socialism crumble everywhere.

But before we can share riches, we must share dignity, responsibility, and information. Without those, there will be no wealth for anyone.

A propaganda war is being fought. If business is to survive, business must join the fight.

□ Tony Manning is a business consultant and author on business issues.

□ The weekly column by Business Day's Washington correspondent Simon Barber, who is visiting SA, will appear tomorrow.

Firms urged to fund education

Sowetan 25/4/90

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By ASHA SINGH

SOUTH African companies should fund education to produce better technical experts and to ensure their own survival, says Mr Bobby Godsell, Anglo American Corporation's Industrial Relations and Public Affairs Director.

Speaking at a function hosted by the Programme for Technological Careers (Protec), in Braamfontein this week, he said employers involvement in education should not be merely an example of good citizenship, but for genuinely producing highly qualified technicians required for future South Africa.

Economic changes in the country have increased the demand for skilled personnel and workers with sound technological backgrounds.

Godsell said apprenticeship training similar to that provided by Protec was "highly stimulating and rewarding" because of the mixture of theory and practice.

He believed more institutions should offer apprenticeships to increase the number of skilled workers.

Financing education should not be left exclusively to the state, he said.

"While the state should be the major financier, other institutions and companies should contribute towards education.

"Education must be shared by the community," he said.

Speaking about the student's role in education, Godsell maintained that concentration and application to studies would assure the student of a comfortable future in South Africa.

"We must have high expectations for our students who form the basis of the country. Student must be willing to apply themselves to studies.

"Throughout the history of mankind, people have excelled with inadequate tools but with every learning medium available now, students should have minimum difficulty in studying," he said.

Bobby Godsell

COMPANIES

(180)

Interest rates start to bite for Malbak

A 1024 25/4/90

BRENT MELVILLE

THE six month performance of Malbak shows Gencor's diversified holding arm has finally started feeling the pinch of interest rates and tougher trading conditions.

Executive chairman Grant Thomas said the results could be regarded as satisfactory in view of the fact that Malbak was reporting on a half-year of which all six months were affected by recession.

This was reflected in the level of interest payments, on borrowings of R1bn (R832m), which slashed R91m (R61m) from operating income of R335m (R277m) — a 21% improvement. Turnover was up by a commensurate amount to R4bn (R3,3bn).

Last year Malbak's borrowings:permanent capital ratio decreased from 61,7% at the half year to 48,1% by year-end. With it now at 61,6%, Thomas figured on a gearing closer to 48% than 62% by August.

Operationally the group's five major divisions — out of seven — have upped their contribution to attributable earnings to 98% (92%) of the R111m (R101m).

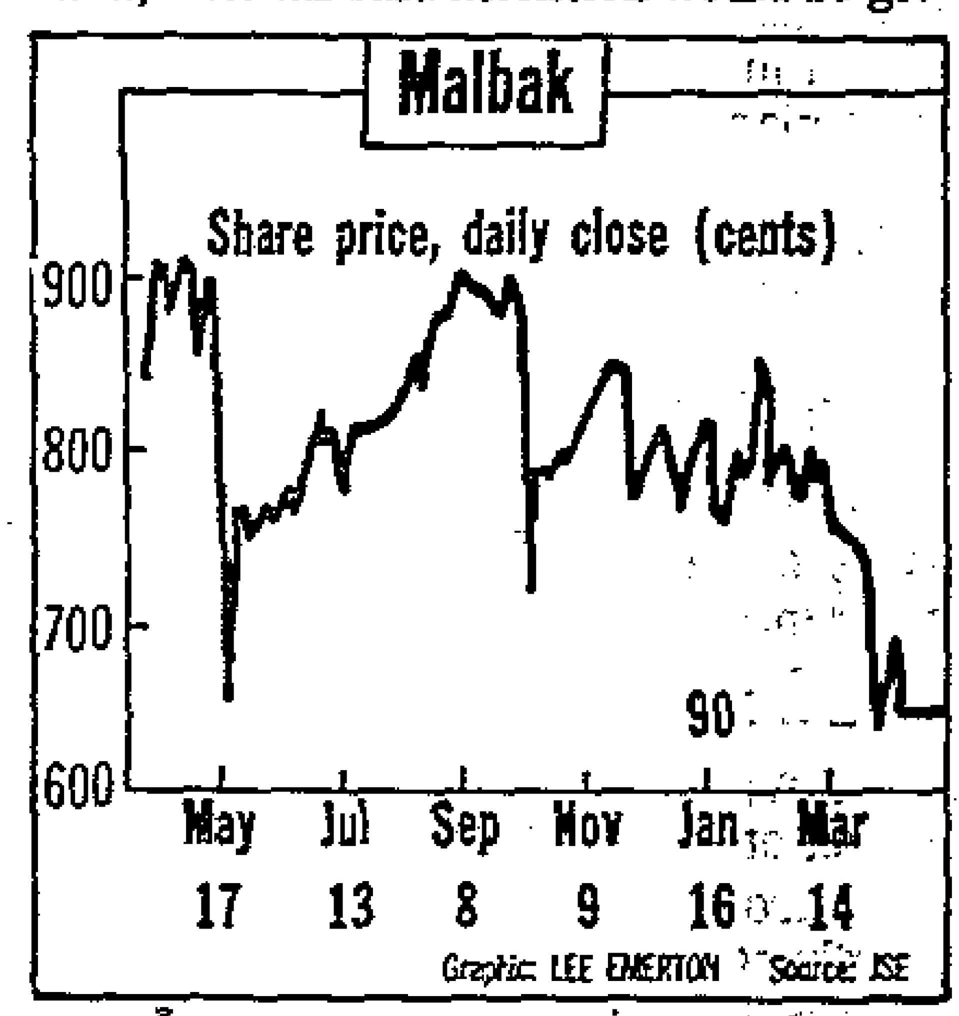
Thomas attributed the stagnant performance in the Development division and poor International division results to Protea Pharmaceutical — adversely affected by reduced government spending and operational problems — and Medical Supplies, which was hit by operational and relocation problems experienced by UK based M Y Holdings.

Of the major contributors, Holdains bolstered its contribution to total earnings to 24% (22%), or R26m (R23m). Engineering and mining supplies (Standard Engineering and Haggie) improved its donation to 21% (20%) or R23m (R20m) with Food, in the form of Kanhym, adding R17m (13m) — or 15% (13%) of total attributable profits.

The Construction supplies division, on the back of solid Darling & Hodgson results, improved most, upping its stake to 17% (14%) or R19m (R14m).

The largest single contributor was still the Branded Consumer Products division which added a full R31m (30m). Thomas was happy with the performance in view of recent measures to reduce demand.

Although Malbak has been traditionally focused on rapid expansion through acquisition, Thomas said attention would be given to organic growth over the short term.



He said, however, acquisitions would be considered when prices were likely to be cheaper in 18 to 24 months time.

"In addition we are looking to getting our borrowings as low as possible."

A possible feature next year could be the merging of Malbak and Malhold to increase the marketability of shares.

"Malhold was created virtually by accident and there is little reason for its existence except that at present it would cost us R10m in stamp duty on transfer of shares to merge the two," Thomas said.

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BDay 25/4/90

Export processing zone in SA possible

PIERRE DU PREEZ

EXPORT processing zones — areas within geographic boundaries of a country excluded from customs — could be successfully implemented in SA, says Central Merchant Bank (Senbank).

If this concept became a reality, manufacturers would then be able to import goods freely without being taxed in any way, convert them into intermediate or final products and then export them again, the bank said in a statement.

SA forfeited many job opportunities and much prosperity by exporting primary products and importing them in processed form later, said Senbank.

Potential investment in these zones would also revive local economies by creating job opportunities.

Table Bay was advocated as the first free export processing zone.

However, profound changes to the existing economic structure in SA would have to be brought about before an export processing zone could be created.

Serious consideration would have to be given to protectionist policies in favour of the domestic producer. Relaxation of this policy could force domestic producers to improve productivity to remain competitive.

Export incentive policies would have to be adapted to the operation of an export processing zone. The incentive scheme introduced on April 1 was a step in the right direction.

Government should have a long-term objective of more open trade in order to give the free-market system greater scope, said Senbank. This would bolster overseas investors' confidence and provide greater incentive to settle in such an area.

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Difficult

It was also essential to "depoliticise" a decision to create an export processing zone, in order to counteract opposition by local pressure groups.

The ideal situation would be for the whole of SA to be a free-trade zone, but with all the present political and economic problems such a step would be extremely difficult to implement.

'From bush fighter to economist'

MICHAEL HARTNACK

HARARE — The SA liberation struggle was "gradually working away from the era of the bush fighter" to the "era of the new economist", Soweto civic leader Nthato Motlana predicted yesterday.

Motlana, leader of a 105-member delegation of black SA businessmen to Zimbabwe, said SA was plagued by a lack of trained black economists.

Motlana told a seminar on opportunities for trade between a post-apartheid SA and its neighbours that while it was hard to name five black SA economists with the necessary qualifications, there had been an upsurge of black businessmen with import-export licences, issued by a government keen to circumvent sanctions.

Motlana said the 1976 disturbances had prompted the formation of the Small Business Development Corporation, backed by state funds.

"But to our utter dismay it turned out that the major part of that money went towards establishing the small white business and the blacks, as usually, were left sucking the hind titty.

"In present-day SA in order to qualify for a business licence you have to be very careful about the political stance you take in public, about the statements you make.

"When you do get a licence you are seen as someone willing to bend under the strain," he said.

Motlana urged recognition that black businessmen could perform an essential role with the same social conscience as academics.

Caution

Opening the meeting in Harare yesterday, Industry and Commerce Deputy Minister Moton Malianga said while current policy of the Southern African Development Coordination Conference (SADCC) and the East and Central African Preferential Trade Area was to reduce dependency, SA would resume a focal role once apartheid was abolished.

"We should then fully realise the 'complementarities' in the economies of this region. Developments in SA have taken a promising turn and we are watching developments with caution and interest," he said.

"Co-operation would have to be radically different from the colonial type of monetary union which SA wants to foist on its neighbours," said an Industry and Commerce Ministry paper tabled at yesterday's seminar.

It predicted that, like Rhodesia after 15 years of isolation, post-apartheid SA would not fully recognise the cost of present policies "until the time of reintegration".

President Robert Mugabe's former special adviser on sanctions, and current head of the parastatal Zimbabwe Development Corporation, Christopher Ushewokunze, predicted that a majority rule government would come to power in SA with a political base but not economic one.

It had to design strategies for "economic involvement" by itself and the black majority, he said.

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BD 23/5/90

SOWETAN BUS
Building the Nation

Managing scarce, limited resources

Sowetan 26/4/90 (180)

ALL societies have limited resources and face the problem of managing the scarce resources.

An economic system develops over time and influences how resources are used. Because the government is a part of the economic system, the economic system is also firmly tied up with the political system of the country.

The workings of an economic system are extremely complex and people are often highly critical of an economic system because it influences their living standards and welfare.

OUR writer on the economy, Mark Addleson, this week gives the first in several articles that will look at various economic systems. Addleson is economics lecturer at the Wits Business School, and we hope his articles will give a better understanding of what the economy is about, and how different systems function.

Limited

South Africa is no exception, and as there is a lot of debate about what is a suitable economic system for the future, a useful starting point for us is to examine the purpose and requirements of an economic system.

What an economic system has to do.

The task of an economic system is to manage the society's limited resources. The system determines how the basic choices in the society will be made.

The limited manpower and skills, equipment, factories and raw materials have to be managed in order to produce those things that are needed by everyone.

Divided

Resources have to be divided among the production of food, housing, transport, medical care and the many other goods and services that we need for our day to day living.

All the types of goods mentioned here are made to be consumed; they are things which satisfy our needs.

Because the population is growing, and in our case the growth is rapid, we also must try to ensure that the economy grows so that there are more goods and services available in the future.

To achieve growth, it is necessary to invest some of our resources in developing the skills of people through education and training and also in building factories and shopping centres, houses and roads as well as dams for water and electricity.

Unfortunately, if resources are used in the construction of, say, a road or a house, both of which will improve some people's lives in the future, those same resources are not available to produce food and things to drink, which contribute to people's current living standards.

So an economic system is not only used to decide whether to produce, say, more meat or more bread for consumption now, the economic system also has to allocate resources between our present needs and our future needs, to provide for a bigger population and ideally to raise living standards.

Why there is disagreement.

Making these choices between the production of different consumption goods or between consumption and investment is no simple matter, and because people's welfare is affected by all these decisions it is extremely important that the right decisions are made.

In other words, it extremely important that the country's resources are used as efficiently as possible, in order to make the greatest possible contribution to welfare.

Choices

In addition it is quite clear why any economic system inevitably gives rise to a lot of disagreement because not everyone agrees on what are the right choices to make.

Unless there is agreement among everyone about the priorities of the society - what should be produced, who should get the fruits of the production and that the system is unfair.

Promote welfare.

Unfortunately because an economic system is built around the need to make choices, which will not please everyone, there is always an element of inequality in the system and the potential for conflict is always there.

What we would look for in an economic system?

In the light of our discussion we can identify a number of ingredients which are necessary to make up a good economic system.

We want a system which is efficient in providing for the needs of the population. It must ensure that resources are used well to produce those things that people need most so that resources are not wasted and people's welfare is advanced.

Democratic

Another important feature of a good economic system would be whether it is democratic or not. A democratic system is one where the largest number of people possible have a say in how the resources are managed, in what is produced, and how the fruits of the production system are divided up.

A democratic system would also permit people

*To Page 17

P.T.O

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Building the Nation

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Sowetan 26/4/90 (180)

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*To Page 17

P.TO

Making use of general experience

180 Beeld 27/4/90 183

THERE are obvious benefits of specialisation in the management consultancy industry.

Still, some operators, even the smallest, continue to offer general consulting services.

Growing black businesses are especially well positioned to make use of generalist consultants, says black consultant Willie Ramoshaba.

For a relatively low fee they gain access to valuable experience and wide-ranging business knowledge, he says.

The broad focus offered by the general consultant can benefit smaller companies which can't afford different specialists for marketing, finance and production planning.

Simple logic and the consultant's general business experience are valuable in solving problems and identifying potential growth areas, he says.

Quality from the top to the bottom

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27/4/90

EFFECTIVE quality management can be the difference between mediocre companies and top performers.

Quality goes beyond ensuring the final product is problem-free. It implies ensuring quality at every level of a company, from management to shop floor level.

Quality Management Associates director Colin Bloom says: "Improving quality at every stage not only improves the service offered but also improves the bottom line."

Management consultants play a vital role in helping businesses implement and manage quality improvement programmes throughout their organisations, he says.

"The best way to measure the value of quality is to count the cost of non-conformance to quality principles."

Significant savings occur after implementing quality management techniques.

"By eliminating time wastage by management and workers we have succeeded in improving quality of the final product as well as profits," says one MD.

Other managers confirm maximising quality the first time round is cheaper in the long run. This is because there is less task repetition, less need for checking and rechecking and dealing with fewer complaints also reduces costs.

Understand

Says Bloom: "Our business is to make people understand their own work processes in the overall process. They must be able to define their role in an organisation.

"This implies moving away from vertical communication networks and developing more horizontal communication throughout the work force."

It's important to stop people passing the buck.

Each person must check his own work. Using prevention skills, the employee can find the input that caused the problem and fix it, he says.

"The result is reduced operating costs."

QMA is involved at all levels of a business.

"We've found motivating from the top is most effective," says Bloom.

He cites cases where MDs were the first to learn quality management techniques and it was actually they who motivated the focus on quality throughout the company.

The best way to ensure a company focuses on quality improvement is by showing management how much "lack of quality" is costing.

One aspect of quality

COLIN BLOOM

improvement programmes is illustrating the importance of integrity and responsibility to fellow workers.

"Good communication and good morale are directly related to improved efficieny — from the shop floor to board level."

Using technical and management tools, quality can be improved by focusing on conformance, prevention and striving for zero defect, Bloom says.

"After a while, people simply refuse to accept second best, from themselves or from colleagues."

MDay 27/4/90 180

'Change agents' advise on people-related issues

THE organisational review staff of Kessel Feinstein Horwath Human Resources (KFH) call themselves the "change agents".

They give advice on a host of people-related issues in business, from management structures to remuneration strategies and systems.

Providing the focus for the human resources consultancy are Arthur Schafner and partner Peter Kramer, who has a masters degree in financial management.

One of the most important organisational issues is management. It might become apparent to a firm that its management structure is faulty. It might have too many managers at one level and too few at another. There might be a need for management training courses to assist in strategic planning.

Assess

Through these courses, companies are helped to assess their needs and prepare proper strategies. This is usually a team effort, with different divisions of KFH involved in the assignments.

Businesses also often need help in succession planning — making sure there are understudies to key posts in the organisation.

Another example of where consultants are needed are in employee share ownership schemes, which are rapidly growing in popularity as a way to give employees a stake in a company's growth.

This often has tax advantages and at executive level has developed into a trend among listed companies.

Drawing up new remuneration strategies can include coming up with tax effective packages — and here the expertise of an auditing firm helps.

Remuneration evaluation can include comparing a company's remuneration levels with the going rates in the market.

Says Kramer: "We are usually asked to advise on a specific issue rather than give advice on the organisation in general."

He says the consultancy's client base ranges further than only audit clients.

Sometimes a problem at an audit client is spotted by the auditors, who alert the consultancy.

Says Schafner: "A practical example is where turnover is too low given the market conditions. The organisational review consultants might find that what is lacking is proper training of the sales force. We identify the problem and assist in setting training courses."

Evaluate

The "change agents" also help evaluate working conditions, including hours and overtime compensation. These are gauged and employee attitudes canvassed before recommending a strategy.

The consultancy is sometimes called on to investigate the reason for low staff morale, a situation which might necessitate employee opinion surveys. It also advises on various administration procedures relating to staff, including advice on the structure of payroll and taxes.

ARTHUR SCHAFNER

PETER KRAMER

Management consultancy

BDay 27/11/90

Finance is needed for developing businesses

180 88

DEVELOPING businesses have a vital role to play in the future of SA and it's madness that there is no capital available for them, says Ernst and Young (E&Y) corporate advisory services MD Claire Herbst.

Immobility

Indicative of the problem is the immobility of funds on the JSE where, despite massive funds available for investment, liquidity is low and growing businesses find it difficult to raise new cash.

"The companies we're talking about are not after risk capital, but seeking funds to finance rapid growth."

Herbst says there has been substantial growth in E&Y's business network services, which aims to match buyers and sellers of interests in companies.

"We are usually involved in medium to large companies and deal in amounts of anything from R1m to R30m."

Companies looking for expansion finance have usually experienced tremendous growth and are in a position in which they require capital injections to facilitate further growth. The new money is usually used to increase working capital.

"It's ironic that, given this situation, institutions keep investing in the traditional blue chip companies, even though they offer lower rates of return in most cases," she says.

Monitor

"Institutions don't have the infrastructure to monitor a lot of small investments."

Despite the incredible demand for finance, it is still very difficult to raise, she says.

"Merchant banks are not active in raising small amounts of equity and unlike London we have no investment banking community.

"We always have a few companies on the books that are looking for capital.

"They often have between one and three major shareholders, are well established and need finance for new projects or expansion."

Herbst's organisation tries to raise funds for the companies via a network of investors, most of whom are looking to take some form of equity in the operations.

"Majority stakes are fairly easily placed, but it's harder to find buyers for minority holdings."

Pre-screen

Her operation usually earns fees on an hourly basis, but incentive-based fee structures are also used, Herbst says.

"We pre-screen most prospects, many of which are E&Y clients. This adds credibility to any requests for finance."

Programmes call for total commitment

BDay 27/7/90

ERIC WARNER

FULL commitment of management and staff is vital if maximum benefit is to be derived from implementing management programmes, says Malbak group manufacturing systems consultant Eric Warner.

This often involves pre-training to prepare managers for the changes that are likely once new programmes are in place.

This is particularly true when implementing something like the manufacturing resource planning (MRP II) programme, he says.

"Managers must be made aware that MRP II is a way of managing a business, not just a computer programme," says Warner.

Managers need to be trained and must be well prepared for the implementation of the programme.

The idea is to focus on developing managers rather than simply getting involved with just another computer system.

Warner says use of in-house video-based systems to provide simultaneous development of management and computer skills has been successful in preparing managers for potential changes.

"This approach has achieved excellent results, notably in Malbak's Protea Pharmaceuticals subsidiary," he said.

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Reduce

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"Because of the training we were able to significantly reduce the time taken to get up and running on the MRP II programme."

The success of any programme depends on constant feedback and monitering.

"As a result of implementing programmes and diligently monitoring performances, we have seen, for example, improved accuracy in material and inventory controls in some areas.

"My role as manufacturing systems consultant for Malbak is very broad," says Warner.

"I am involved with manufacturing companies of all sizes, many of which operate in widely differing markets."

His job involves entering organisations and trying to define "what they are really about".

B|Day 27/4/90

Joint ventures provide new-look facilities

180

THROUGH strategic moves over the last year, KreditInform is well-positioned as the largest business information supplier in SA.

Information is available for virtually all aspects of the business cycle, from details about investment, researching company histories and performance records, procurement details, credit management, marketing and sales.

Instead of reinventing the wheel, MD Ivor Jones says the new-look facilities are provided through joint ventures set up with the most prestigeous specialist information providers in SA.

Stems

One of the new developments stems from a joint venture between KreditInform and Ezee-Dex, the mining and engineering buyer's guide.

The database from this official purchasing reference for the Institute of Purchasing of SA will be downloaded into KreditInform's existing database.

"The venture places us in a position to provide procurement information to our existing network users and opens up the network to all buyers so they can access the system for a product, see which companies provide it and check their track records and performance on the KreditInform and McGregors online databases."

Another alliance sees KreditInform linking up with Trade Information Services (TIS), SA's largest tendering service.

Buyers and sellers in the engineering, industrial, mining and allied industries, who are already communicating through the Entrac network, will be allowed access to KreditInform's database.

"Their network has access to Entrac, the largest tendering database in SA. With TIS's 400 online users and its more than 4 000 offline users, communication between all major corporations and service companies in almost every sector of commerce and industry in SA is becoming a reality," says Jones.

In TIS's system, users can access Entrac, the merged services of Minelink and Tirandata Desk Top, which provides electronic tendering, purchasing and communication systems for the mining industry, parastatals and other large industrial organisations and their suppliers.

TIS MD Cyril Blackbeard says the company publishes formal and informal tender inquiries from more than 4 000 sources in most industry sectors.

About 3 000 inquiries are published to almost 3 000 suppliers, resulting in about 15 000 quotations daily.

Future developments include expanding the system into other African countries.

Also coming onto the online system are the specialist sales and marketing information services from KreditInform company Matrix Marketing.

Marketing

Jones says: "This move sees the facilities available to marketing and sales specialists.

"They will be able to access our database, look at information from a marketing viewpoint and analyse it. They will be able to see details like customer spreads, ask for certain limits or geographic details, and request segments of the database online."

B/Day 27/4/90

Business Day SURVEY

180

The management consulting industry has been boosted by increasing business concern with areas like quality control, productivity and management efficiency. Consultants provide a wide spectrum of services to all types of business at all levels. ***NEIL YORKE SMITH*** *reports on the industry and looks at the benefits and pitfalls.*

FINE LINE BETWEEN CONSULTING AND TRAINING OF MANAGEMENT

180

MANAGEMENT consultants draw a fine line between pure consulting and management training.

Behaviour Management Development MD Peter Steyn says: "Training is definitely a form of consulting, especially when the solutions being developed are tailor-made for the client as opposed to simple off-the-shelf training packages."

He says executive programmes require far greater input from the trainee.

"This applies to the individual training requirements of both small and large organisations."

The '90s will lean towards consulting for individualised training needs and the development and implementation of training solutions included in the broad strategic planning process, he says.

Follow-up

Significantly, follow-up and re-assesment of the affectiveness of a programme will become more important.

"The salesman who sells predesigned packages without pre-assessment is not selling a comprehensive service."

Organisations growing rapidly stand to benefit most from executive training.

"This is largely because under growth conditions staff are required to meet new management expectations in a very short time."

There is vast scope for organisations which provide a comprehensive training service to smaller organisations and complement existing facilities in larger companies, says Steyn.

"Research is vital. The training consultant must aim to leave in his wake motivated staff in companies that have higher staff retention and are more profitable as result of successful intervention."

Nurturing the businessman

D 1024 27/4/90

THE Wits Business School Centre for Developing Business offers counselling and training to small business operators, most of whom are black.

Centre head Ian Clarke says: "Black business is not as successful as it should be, largely because of inherent barriers.

"But we're working to improve things and have already enjoyed some very satisfying successes."

The counselling is relatively informal. "Our approach is to help identify what the businssman wants and how he can achieve his goals.

"We teach lessons that will be used in any business situation.

"The last thing we want to do is impose unnecessary values (which often get rejected) onto the smaller operators."

The centre aims to ensure people do the right thing — and not just on a once-off basis.

It has an important role in the SA economy, especially given the current situation in which so few people and companies are interested in getting involved in businesses at grass roots level, says Clarke.

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Lucrative

"Even the black management consultants prefer the more lucrative business of consulting on strategic issues for large companies.

"They are earning big money from clients who want to learn something of black business thinking."

What other avenues are open to emerging businesses?

"We offer regular courses designed to assist smaller businesses," says Clarke.

"These are reasonably priced and have derived visible benefits for the businessmen who take the initiative and enrol."

There is a growing group of educated black entrepreneurs with some business experience and a good feel for business, says Clarke.

"It is this success-orientated group which can gain the largest benefit from consulting services."

IAN CLARKE

(180) BDay 27/4/90

Shortage of skills calls for increased flexibility

BDay 27/4/90

THERE is no way the skills in SA can do the full rounds, says the head of Finansbank's management consultancy arm Jan de Coning.

"This is why management consultants are in such demand."

De Coning was deeply involved in the strategic repositioning of many organisations in Namibia before independence and lessons learned there have made deep impressions on his views of political and economic change in SA.

"We have less time than Namibia had. The process started there 10 years ago, but in spite of the time to adjust mind-sets and prepare for future growth there was still much confusion," he says.

"As in Namibia, our role in SA is to take the agony out of unavoidable change."

SA companies face rapid repositioning.

"Many are seeing their planning horizons changed through political and economic developments."

The most important thing is to maintain and enhance flexibility.

"Rather than simply cruise, companies must learn to bob and weave without losing sight of the long-term targets."

Most consultants confirm there has been an increase in strategic awareness among SA organisations.

"Planning is beginning to melt into the minds of top management," says De Coning.

There is a need to establish qualified blacks in senior positions.

"Over the years, black entrepreneurs have been squashed. We desperately need to revitalise entrepreneurial thinking and action amongst blacks."

Style

De Coning says SA is in a unique position to develop its management style without simply relying on overseas influences.

"Firstly, the key is to open the economy to all, get rid of barriers to entry and allow anyone to get into business," he says.

Finansbank focuses on organisational development consultancy. This includes organisation development, systems and integration and specialised training and development.

Organisation development involves managing change in a company through the development of human resources.

"We are geared towards making organisations flexible and innovative. This is particularly relevant in the constantly changing SA business environment," says De Coning.

The team helps facilitate strategic planning projects and stays with the client while change is implemented.

"Usually we're involved over a two to three-year period."

Many companies have excellent strategies but for various reasons have not implemented them, says De Coning.

Involvement in systems integration involves helping a company to enhance the usefulnes of its systems, he says.

"We are not involved with initial design of the computer system, but are interested in helping the client to use the best system to facilitate change."

As far as specialised training is concerned, De Coning's teams design solutions, after which the custom-made package becomes the property of the client.

Changes will yield more opportunities

POLITICAL and economic changes seen in Eastern Europe and those likely to occur in SA will provide opportunities for the management consulting industry.

This is according to Vernon Ellis, managing partner of Andersen Consulting responsible for Europe, the Middle East and Africa.

He says in countries like Hungary concepts such as strategic planning and human resource management are sometimes quite foreign to management.

"Exciting business trends will result in a dynamic management consulting industry. The emphasis in SA and overseas will be on the fully integrated team approach to ensure there are no divergent interests."

The potential is huge, but as in any industry, this has its problems.

BD 27/4/90

Improve

180

"Poor communication between consultants and businesses, especially in Eastern Europe, is a big problem.

"This will improve when things are less chaotic and consultants establish why they're there, what they're doing and business knows why they're using outside help."

As East European and African managers become more familiar with business and the way in which international markets operate, the demand for consultancy services can only grow.

One of Ellis's problems is a shortage of people.

"As Anderson expands it employs and trains graduates from a variety of backgrounds.

"We're open minded in our recruitment approach, but we want top people — from computer specialists to historians.

Training of new recruits takes place overseas and starts from a very broad base. Specialist skills are developed later.

The group is determined to maintain its SA links.

"We have regular contact at all levels with our counterparts in this country, and everyone benefits."

Reluctance to change to new techniques

27/4/90 O/Dev/2-7/4/90 (180)

SOUTH AFRICAN managers have a mole-like attitude in their reluctance to use new and challenging techniques such as Just-in-Time (JIT) and Manufacturing Resources Planning (MRP II) philosophies, says KPMG Aiken & Peat senior consultant Brian Silsbury.

JIT originated in the '50s in the Japanese automative industry when the Japanese had to rebuild plant and equipment after the Second World War.

Western methods of manufacturing and material cost control proved too expensive, forcing them to adopt the pricing policy of "profit is selling price less cost".

Silsbury says: "The Japanese decided to focus on cost production programmes, such as attacking waste in its many forms."

This led to them to concentrate on inventory reduction programmes and getting quality right first time.

Philosophy

"Through the JIT philosophy, companies such as Toyota, became world leaders."

Another Aiken & Peat consultant, Keith Pretorius, says: "It is not easy to implement JIT in SA, but it does work.

"Our aim in the long term is to get a one-to-one repetitive production or zero defect Japanese type system," he says.

Consultants say the JIT philosophy to promote the quality of the working environment needs to be addressed in SA.

A company must be prepared to change its attitude completely if it is to successfully introduce a JIT philosophy, says Pretorius.

"You must be able to identify small failures and turn them into opportunities."

Frustrations faced by consultants trying to get a message across include managers not realising the benefits of JIT and MRP II.

An attitudinal problem is preventing some SA companies from increasing growth and productivity, he says.

Most companies will die without growth, so there is a real need for systems which allow growth and flexibility.

Another problem faced by consultants is that even after the decision to modernise has been taken, lack of awareness of what is involved and the commitment required result in tardiness in implementation.

BRIAN SILSBURY

Pretorius, who has travelled widely in SA as a consultant, describes some organisations as chaotic.

"People are sent on training courses, but what they learn is not implemented," he says.

"Even though some companies recognise their management limitations often, because of their egos, they are reluctant to seek assistance."

Management consultancy

Larger firms use in-house specialists

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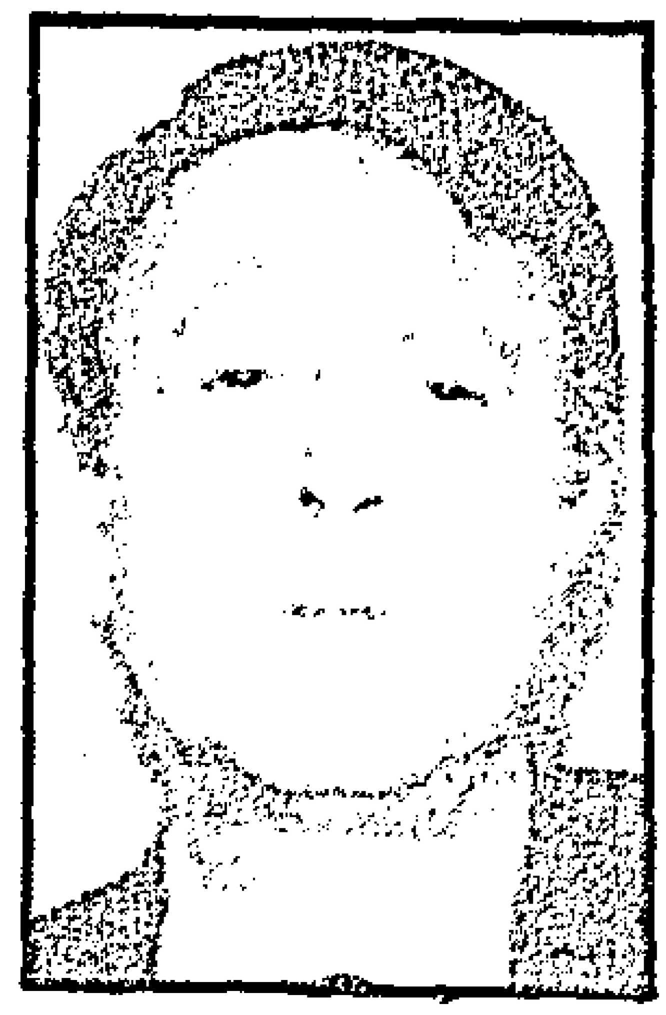

BILL MOON

SOUTH AFRICA'S biggest companies appear loath to call in outside consultants, but they do use specialised skills already in their organisations to solve management problems.

Anglo Vaal Industries (AVI) senior personnel consultant Bill Moon says the group uses internal consultants wherever possible.

This approach was echoed by other major operating companies.

Holding companies such as Barlows say they leave the decision to management of the independently operated subsidiaries.

Most organisations say there is often a cool response to people brought in from outside.

A spokesman for one large organisation says: "They often don't understand the corporate culture and conflict develops between staff and the outside consultants.

"We prefer to use our own people, especially in sensitive areas."

Another factor working against the outside consultant is the high fees.

Says one director: "Even in the biggest companies, senior management gets uptight when a consultant charges up to R5 000 a day and in the end has little to show for his efforts."

Mining

AVI's consultants include specialists in mining engineering, personnel, administration and finance.

They are based at the AVI head office and provide consulting services to group operations wherever necessary.

Says Moon: "The specialists determine what technically goes on in their disciplines.

"They are involved in the technical investigations and programmes to improve standards."

The consultants treat mine and line management as clients.

They look into prospects, report and make recommendations.

Moon says management responses to consultant recomendations are generally positive.

"These people are recognised as specialists and there is no doubt their views are taken seriously."

As in many organisations which employ most skills on a full-time basis, AVI makes only limited use of external consultants, says Moon.

"Generally, they will only be employed if we don't have the expertise in-house.

"For instance, it is not cost effective for the smallest of the six big mining houses to employ a full-time dietician.

"When such skills are required, we would use outside consultants."

Moon says the most important determinant is cost effectiveness.

"It makes no sense to employ resources you don't use properly."

An example of such thinking is reflected in AVI's approach to some aspects of mining training.

Training

"Anglo American has large-scale training courses and can offer good rates to smaller companies like AVI.

"We do not have the same facilities and it is cost effective to use others.

"On their part, they benefit as expensive resources are put to more efficient use.

"The whole approach is very business-like."

Advice that is ignored leads to frustration

B/Day 27/4/90

USUALLY, consultants are called in by management. Because of this, positive action based on consultant recommendations can be expected from clients.

Not true.

Many consultants say they are often frustrated, even by the most forward-thinking of clients, when progressive decisions and implementation of decisions is unnecessarily delayed.

However, one cynical client says: "It's not the consultant's money he's suggesting we spend in vast amounts."

What are the consultants' biggest problems?

Finansbank's Jan de Coning says: "One of the most important things is to gain the trust of the people who might be affected by your findings."

Leading black consultant Willie Ramoshaba says there is often a surprising resistance to change, despite potential benefits.

This is confirmed by other industry players.

Says one: "In some cases, clients or their employees do not understand the ideas we would like to implement.

"Another problem is that there is often resistance to our being there.

"The idea of an outsider coming in and 'trying to run the show' is often threatening to some managers, who feel their positions may be undermined," he says.

The worst result of poor reaction to the consultant is that company morale fails, which makes people less keen on implementing new ideas.

180

This is especially worrying in cases where a troubled company is involved.

"The worst reception usually occurs when a dissatisfied board goes over the head of the MD and other executive directors and calls in outside help," says a consultant.

In such cases, it is vital to show staff and management that any action taken is for their own good.

What the consultant must do is communicate that however tough they are, the measures taken are absolutely vital and without them the organisation could collapse and everyone would be worse off.

This is especially important in cases where the company is losing money and radical restructuring is needed.

Another important aspect is education.

For a programme to work, the people it is designed to affect must be sufficiently informed about it, the rationale behind it and the possible consequences.

F/M 180

CONFIDENCE MERGER

Anyone worried by the non-appearance of the SA Chamber of Businesses' Business Confidence index (BCI) can take heart. It will appear this Thursday and, thereafter, on the first Thursday of each month, accompanied by the Industrial Confidence index (ICI).

Consolidation of the two indices follows the January 1 merger of Assocom and the Federated Chamber of Industries. The BCI is a quantitative statistical measure based on a number of market indicators, while the ICI is a qualitative measure based on responses of industrialists.

The pitfalls in investing overseas

B Day 27/4/90 (2250) (180) (18)

ROBERT GENTLE

THE R50m rescue package unveiled by Malbak this week for its UK-based packaging company M Y Holdings is but the latest example showing that foreign investment by SA companies is not always a bed of roses.

In December 1989, SA brothers Robin and Nigel Matthews had to turn their back on S W Wood, the UK metals group in which their consortium had bought a 26,7% stake barely nine months earlier.

A sharp downturn in the trading environment in the Far East had hit the firm's steel division while another had run up losses because of inadequate controls.

Barlow Rand may still be hanging on to its 86% owned UK group, J Bibby, but the latter's performance over the past year or two has been pedestrian at best. In November last year earnings fell from 18,4% to 16,6% a share.

While Bibby's materials handling and science products divisions register strong performances, the perenially weak agricultural division, which accounts for about 40% of turnover, muddles along.

It has for some time been labouring under depressed market conditions, the most recent being over-quota milk production, an unseasonally mild winter and the health scare over salmonella and listeria.

Altron's 65% owned Gloucester-based high technology group Telemetrix, while by no stretch of the imagination a problem company, nevertheless still has to prove it has the makings of a high flyer.

It reported a £2,11m pretax loss for the 18 months to December 1988, although most of these occurred before Altron's involvement.

Subsequently, underperformers were disposed of, a rights issue held and new acquisitions undertaken from Norway to the US.

The following set of interims showed a slender £1,5m profit, thanks largely to the strong performance by US subsidiary GTI.

Telemetrix's latest acquisition, the privately owned Trend Group, saw a slight deterioration in profits last year, although Telemetrix is banking on the value of Trend's manufacturing and marketing base.

Anglovaal's prize £16,5m acquisition in early 1989 of UK mineral resources company North Sea & General — since renamed Anglo Pacific Resources (APR) — has also had problems.

The first results a few months later showed a 37% fall in pre-tax profits to £1,29m. The directors attributed this to the switch of core activities away from oil and gas towards Australian gold mining. (210)

APR subsequently made an offer to raise its holding in UK minerals concern Anglo European Minerals, and potential looks good.

However, the less than spectacular showing of the above concerns in no way detracts from the otherwise impeccable track record of many UK operations where former SA businessmen or SA companies hold the reins.

South Africans must look for unity — Durr

SOUTH Africans needed now to find those overarching values that united them, Trade, Industry and Tourism Minister Kent Durr, said yesterday.

Addressing an Industrial Development Corporation (IDC) design awards function, he said: "We know what divides us in SA — we must find and build upon those things that bring us together and unite us."

Government stood unequivocally for free enterprise "with a human face".

It was the only proven engine, seen in a longer perspective, of economic growth that had to supply the wherewithal to address the grosser inequities and disparities in SA society. B/Dam 27/4/90

Durr said a display of business confidence in SA was also now justified.

"Aside from social responsibility programmes, we need new investments in additional productive capacity, and the typical ingenuity and risk-taking ability of our business community should now be unleashed as never before," he said. (180) (39)

Durr said wealth creation and the inclusion of all within a successful economic system in SA, with economic justice and equality of opportunity, clearly remained the "great challenge of our time".

He said while the informal sector had a vital role to play, SA had to recognise the huge importance of its formal First World sector. "We must do nothing to weaken it, everything to strengthen it," he said. — Sapa.

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Demand grows in black sector

TOP black business consultant Willie Ramoshaba says growth amongst emerging black entrepreneurs will continue to boost demand for services of organisations like his WR Consultants.

"Also more white-run companies want knowledge of the black market.

"This is beneficial to experienced black consultants who have some insights to share."

He expects management consultants to become increasingly important in matching the differing expectations of black and white business.

Emerging

Ramoshaba's organisation helps emerging businesses to raise finance. "We usually handle amounts above R100 000." It also helps operators to run their businesses once they are off the ground.

"Our contacts and good communication links help us to structure agreements between black businesses and big companies.

"We also do management accounting for the top end of the black market."

One of his company's most valuable functions, he says, is to establish contact between SA businessmen and their counterparts in Europe, America and the rest of Africa.

WR Consultants recently arranged for more than 100 black businessmen to visit Zimbabwe on a fact finding, contact building mission.

"The response was phenomenal," he says.

Providing that competitive edge

W/t Argus 28/4/90 (180)

AS a consequence of increasing demand from the marketplace, the Small Business Development Corporation (SBDC) has embarked on a series of proactive courses designed at addressing the needs of small entrepreneurs already in business or those about to start up on their own.

The intensive course structure aims at providing participants with that necessary competitive edge, through the acquisition of skills and knowledge which no entrepreneur should be without.

The course philosophy is spelt out by SBDC managing director Ben Vosloo, who observes that entrepreneurs "fulfill a key role through a process of self-development".

"These members of the community are the ones who, with their characteristic enthusiasm and aspirations towards progress, recognise opportunities for enterprise or else create them. Without entrepreneurs there can be no development and progress," Vosloo observes.

"They are, as it were, the backbone of a country's economic development and therefore it is only fair that they receive sufficient rewards by way of a compensating or satisfying profit or dividend."

The **How to Start up Your Own Small Business** course was designed specifically to further entrepreneurship development. An important element helps participants draw up a comprehensive business plan, which is regarded as the road map to any successful business venture.

Many businesses fail primarily as a result of some shortcoming in the Business Plan. The problem is that most people are so pre-occupied or obsessed with their business ideas or dreams that they fail to see or admit that there might be a potential error in their plans.

The plan is no complex mechanism but represents simply a detailed action programme outlining every conceivable aspect of your proposed business venture. It represents a comprehensive approach spelling out what you intend doing, how you intend doing it, when you intend doing it and why you believe your idea is viable.

SMALL BUSINESS INDABA

Compiled by the SBDC

THE Small Business Indaba is a bi-monthly column, a joint co-operation between the Small Business Development Corporation and The Argus. It is designed to offer advice to those considering entering business for themselves and to act as a sounding board for those encountering problems or requiring further information. For further details ((021) 461 8450.

It is an important exercise for the following reasons:

- It forces you to arrange your thoughts in logical order;
- It forces you to simulate reality and anticipate pitfalls before they occur.
- It should be your working action plan or guideline when your business is up and running.
- It is an essential aid when applying for financial assistance or trying to sell your idea.
- It is an essential decision-making tool.
- It can eliminate potential flaws.
- It can be useful when tendering for contracts.
- It can assist you when trying to obtain credit terms from suppliers.

Other important ingredients contained in the SBDC's training programme are how to:

- Determine and analyse your market
- Ascertain whether or not you can make a profit and what your breakeven point is.
- Control your cash flow and draw up a cash flow forecast.
- Draw up a basic balance sheet.
- Keep accurate records.
- Purchase, cost, price and control your stock properly.
- Sell properly.
- Collect debts.
- Determine your financial requirements.
- Apply for a business loan properly (if necessary)

Pinelands entrepreneur Loray Daws, who started up a business in November last year selling Computer Aided Design (CAD) equipment, providing a computer bureau facility and training services, took the SBDC course and describes it as an important exercise which helped put him on the right track.

The record so far set up by his business, CAD 2000 CC, bears that out. Turnover last month reached a remarkable R500 000 and a target has been set to reach R1,2million by the end of the first year of operation. Notably, performance closely matches the Business Plan he had to prepare during the SBDC course.

Daws recalls that their were a diverse group on his course, ranging from himself in the computer industry, cafe owners, a yacht builder, a plumber and a dentist. All had the common objective of establishing successful businesses.

With a past history as an employee in the hotel trade, subsequently as a draughtsman and interior designer, Daws says that he sought assistance from the SBDC course in order to obtain a grounding in the financial nuts and bolts of running a company.

"The financial elements of the course were brilliant, stressing certain home truths, especially with regard to break-even points in a business.

"The course did cause me to have a rethink about the way I was running the company. No sooner had I completed it than I took a decision to change the discount rates I was offering and improve the controls on cash balances," Daws remarks.

He also took time to give more focus to his company's mission statement and target where it was he wanted to go. This effort is beginning to pay off.

In order to obtain further information regarding the SBDC course, its content and venue, contact Rosabelle Riese on telephone (021) 462-1910.

Jeff's worth R167m

180

Business Times Reporter

THE personal shareholdings of Jeff Liebesman in the 22-company FS Group are worth R166,9-million.

Mr Liebesman's investments are disclosed in AAF Investment Corporation's annual report.

AAF is listed on the London Stock Exchange, which requires that directors' shareholdings in companies related to that company be disclosed.

Mr Liebesman says he is the sole shareholder in Confor Holdings, which has 63% of top listed company FS Group.

FS Group itself sits atop FSI, which is stacked on top of Waicor, which bestrides W&A, which is on top of Hunts, which is on top of numerous companies, some of which, such as Natbolt, have underlying companies, such as FS Team.

S/Times 29/4/90

Tiers

There are thus eight tiers to the empire over which the articled clerk of nine years ago has control.

Confor's stake in FS Group alone is worth R153,2-million. Mr Liebesman also has 2,1-million preferred ordinary shares worth R9-million in FS Group and smaller holdings in several other companies.

The shareholdings of the other top men in FSI — Neville Cohen, Ivan Posniak and Terry Rolfe — are also worth millions.

AAF has produced an illustrated corporate profile separate from its skimpy and dated annual report. Almost all the historical assets were sold in 1988 and the company started last year with £27-million cash. Peter Greenhalgh, formerly a merchant banker and a non-executive director, was appointed managing director.

Dr Greenhalgh has put together AAF Consultants to investigate possible acquisitions.

The company has acquired two system and modular building companies, one based in the UK and the other in the US. System building involves manufacturing the greater part of (mostly sophisticated up-market or specialised) buildings in a factory.

In the US, where the market is more mature and competitive, the AAF subsidiary offers design, project management and financing facilities.

The new acquisition turned over more than £20-million and made a pre-tax profit of £1,8-million. It cost £8,6-million and the PE is 7,3. The group has £18-million cash and no debt.

MANUFACTURING – GENERAL

1990

MAY – ~~JULY~~ Aug.

December's leading indicator shows rise

810cy 2/5/90

ANDREW GILL

SA's leading indicator for December, signalling future economic activity, has risen for the first time in months, latest Reserve Bank statistics show.

The indicator points to a high point in economic activity in five to 20 months, and to a trough in two to 10 months.

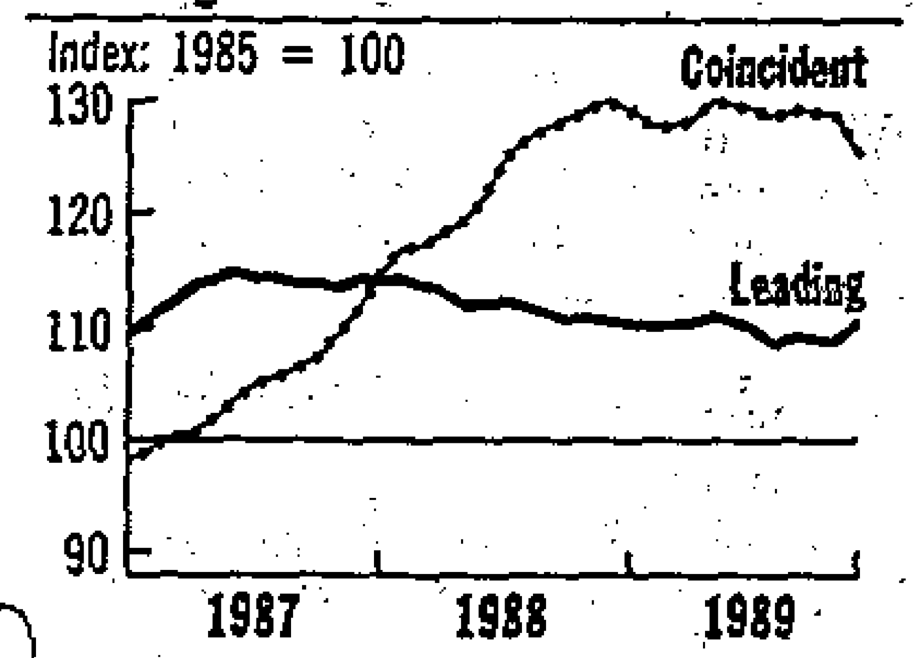
Indicators included in the compiling of the leading indicator are employment, consumption, trade, orders, new companies registered, fixed investment, prices, costs and profits. (180)

The indicator increased 1,6 points to 110,1 points in December compared to November's 108,5. It has been on a declining trend since mid-1988.

Reflecting the current downswing, there was a 2,4-point drop in the coincidental indicator — which shows the current point in the business cycle — to 125,8 points in December from 128,2 points in November.

An economist warned, however, against seeing the increase as indicative of a trend.

Leading and coincident indicators



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Cloud over Barlow Rand's earnings

BLDay 21/5/90 BRENT MELVILLE (180)

FOLLOWING the assault of interim disclosures last week by the first wave of Barlow Rand subsidiaries, market analysts are doubting the diversified-industrial holding giant's ability to maintain earnings this year.

As a prelude to Barlow's half-year results (to be announced in three weeks), analysts are already pegging the group's year-ends between 10% and 15% below last year's earnings — largely on a lowered contribution from Middelburg Steel and Alloys (MS & A).

Reporting last week were Adcock Ingram, Barprop, Namibian Sea Products (Namsea) and Romatex. Namsea's bottom-line profits sank from R5m for the comparable period last year to R1m.

Pharmaceutical group Adcock Ingram upped attributable earnings by 29% to R20,7m. Analysts figure that of the remaining companies in the food and pharmaceutical division, 63%-held Tiger Oats is likely to achieve the best results — although that only translates into a rise more or less in line with inflation.

An Ed Herne and Rudolf analyst said it was expected C G Smith Sugar would suffer from drought conditions on the Natal south coast, and it was likely Imperial Cold Storage (ICS) would show shocking results.

Textile company Romatex, the first of the listed industrials to report, showed a 24% decline in earnings to R17,1m. Highly geared steel group Robor Industrial Holdings (RIH) is also expected to do poorly.

More optimistically, unlisted Barlows Equipment should do well on good demand for Caterpillar, and Reunert is still on a growth track.

Growth

Of the remaining industrial concerns, directors of the biggest, 64%-held packaging giant Nampak, have voiced concern over the proposed change in the tax treatment of depreciation, saying it could add R10m to Nampak's tax charge this year, knocking 21c a share off earnings.

For unlisted Barlow Motor Holdings, Consumer Electric Products Group and Plascon-Evans Paints, analysts estimate a small earnings growth.

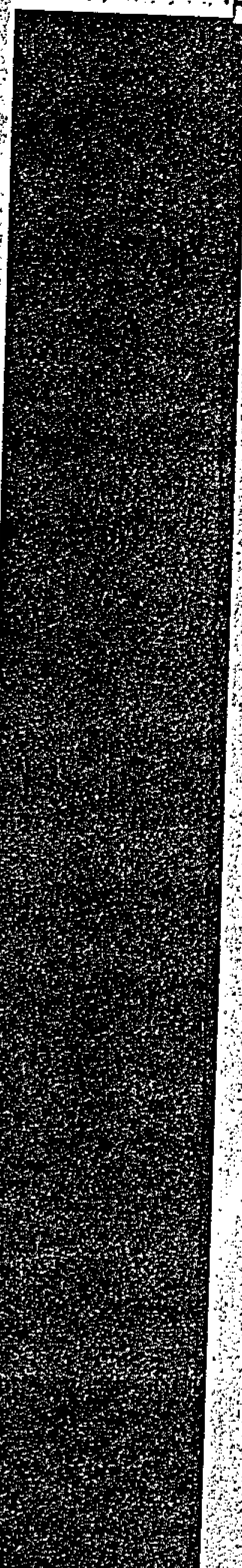
Property interest Barprop has shown marginal improvement in earnings for the first six months, although U.K arm J Bibby is expected to show disappointing results.

To a large extent, however, analysts are basing their forecasts on Barlow's mining and mineral beneficiation interests, which contributed R450,1m (R288,6m) to attributable profits last year.

Pretoria Portland Cement (PPC) is expecting a stagnant performance due to the slowdown in building, but should benefit slightly from favourable interest on its substantial cash pile. Rand Mines should show a slightly below-inflation improvement.

However, one analyst believed the contribution of Middelburg to be unsustainable.

☐ Analysts say the share price could afford to come off some more before stabilising at about R36 or R37.



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BIPav 21/5/90 180

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Capital project spending slows down

LESLEY LAMBERT

CAPE TOWN — Spending on capital projects will show limited growth this year and may even decline as the economy slows down and business conditions deteriorate, Old Mutual economists say in their latest Economic Monitor.

While the expected deterioration in general business conditions is likely to affect investment expenditure which increased at a slow rate of 4% last year, compared with 8,6% in 1988, a repeat of the 24% cutback during the 1985/86 recession is unlikely, they say.

This is because the cyclical bottlenecks in the economy — inflation, the balance of payments and the exchange rate — do not call for the same degree of constraint in domestic demand as in the previous downward phase of the business cycle.

On the whole Old Mutual economists, lead by Dave Mohr, expect a further moderate decline in aggregate real domestic spending this year after a 1% decline last year.

B/Day 21/5/90 (180)

Private

Domestic production could, however, register a small increase as a result of an anticipated moderate increase in foreign demand and, thus, export volumes. A poorer agricultural year may, however, restrict the scope for any improvement in domestic production.

The economists say it is essential that the current economic consolidation phase is extended to provide a further boost to the foreign exchange reserves and to curb inflationary pressure.

In addition to the continued stringent monetary policy, certain established economic forces should also contribute to a further slowdown in real economic activity, they say.

As far as private consumption expenditure is concerned, they feel that this year's total wage and salary bill will show a smaller increase than last year's 18,4%. Besides the relatively low 10% general salary increase for civil servants, salary adjustments in the private sector should also become more moderate as business conditions become tighter and profits are pressured.

After rising by an estimated 1% last year, total employment in the economy is expected to show little, if any, growth.

Mission was not to lift sanctions

180

Sowetan 3/5/90

By JOSHUA RABOROKO

THE South African black business mission to Zimbabwe was to exchange views and not a sanction-busting campaign by the group, the chairman of Get Ahead Foundation, Dr Nthato Motlana, said in Johannesburg this week.

He said the mission aimed to gain business experience from their counterparts in order to prepare themselves for the post-apartheid South Africa.

While it was important that the outside world should maintain sanctions, it was equally essential that both South Africa and the rest of the world start thinking of a new economic order in a post-apartheid South Africa.

He said black business people needed to play a vital role in structuring political, economical and social independence.

The mission was not a campaign against sanctions, but was designed to learn how other business people operated in the free economy.

Tours

He was explaining the position of the 142 South African black business people who toured and visited many business places, including the Zimbabwe International Trade Fair last week.

Motlana said the ANC and the State President, Mr FW de Klerk, were prepared to dismantle apartheid. As soon as that was done South Africa would become a member of the East and Southern African Preferential Trade Area (PTA) and the Southern Africa Development Coordination Conference (SADCC).

"Our mission was to learn from Zimbabweans how they are able to run the economy after they gained independence from colonial rule. We are also going to be free and needed their experience," he said.

He said black business had undergone a painful and severe period of being oppressed through the apartheid system. Now that the evil system was to go, blacks needed to prepare themselves to trade with their neighbours.

Blacks business should get involved in the manufacturing sector of business and learn to export their goods to other countries, adding, " we should stop the dependency syndrome that we are currently engaged in."

The coordinator of the trip, Mr Willie Ramoshaba, said the group was able to hold talks with both the ANC and PAC representatives to explain their positions.

Business Report

Decline seen in manufacturing capital investment

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(180) (26)

By ARI JACOBSON

FIXED capital investment in the manufacturing sector has declined by 8,7% in real terms since 1984, a trend indicative of prevailing future uncertainty over the performance of the economy, says Old Mutual's economist Rehan le Roux.

However, total capital expenditure rose by 4% in 1989 in real terms — based on 1985 prices — helped along by increased activity on residential buildings (7,5%), non-residential buildings (15,9%), construction works (9,5%) and transport spending (5,4%).

Manufacturing — comprising roughly a third of total capital spending — stemmed the tide with a 3,5% decline for the year.

In an interview after the release of its latest economic monitor, Le Roux says with current manufacturing capacity virtually utilised at 84,6%, its imperative for fixed capital to provide the greater chunk of total expenditure for the economy to grow.

"Higher interest rates have also acted against viable projects with returns below the effective cost," says Le Roux.

Spending on capital projects, which focused on replacement rather than the expansion of fixed stock, shows little growth this year and could even retreat a little, says the Old Mutual Economic Research Unit.

The unit says the expected deterioraton in general business conditions is expected to have a detrimental effect on investment expenditure.

Investment spending increased at a slower rate of 4% last year compared with 8,6% in 1988.

"While public authorities cutback 7,5% on spending, public corporations driven by large capital expenditure on Mossgas and Mossref rose 33,4%."

Le Roux points out that the private sector's meagre 1,9% increase comes off a high base last year but still dominates a 64% slice of total expenditure.

However, the unit does not foresee a repetition of the 24% cutback experienced in the 1985/86 recession as the cyclical bottlenecks in the economy do not call for the same degree of domestic demand constraint as in the previous downward phase of the business cycle.

Moreover, newly released figures indicate that inventories are being run down and a further decline is foreseen this year.

On the whole, the unit expects a further moderate decline in aggregate real domestic expenditure in 1990, following the 1% decline last year.

Domestic production, however, could register a small increase as a result of anticipated moderate increase in foreign demand, but a poorer agricultural year in 1989 may restrict the scope for any improvement in domestic production.

Commenting on the short-term prospects for the economy, it is essential that the current consolidation phase be extended to provide a further boost to the foreign exchange reserves and to curb inflationary pressure, the unit states.

Private consumption expenditure is unlikely to rise in real terms because of lower expected increases in remuneration, an expected relatively high rate of inflation and the high levels of outstanding debt.

Investor confidence is vital

B/Day 7/5/90 (180)

MICHAEL SPICER

FIRST and foremost, we in the corporate sector believe the retention of domestic and international investor confidence is critical to economic growth.

While the criteria for such confidence, including the levels of state participation in the economy, might vary from country to country, if business concludes that state intervention and regulation stifle initiative, entrepreneurial activity and the ability to make profit, then capital and skills flight will ensue.

As the world increasingly turns from Africa, SA has the potential to emerge as the only African country capable of attracting capital either for its own development or for projects in neighbouring countries but under its management control.

Secondly, the economic system that SA adopts must be market-oriented. This does not mean the state has no role, but that the primary role in making investment and other resource allocation decisions be taken by the market and through market mechanisms.

Interest rates must be market-related, i.e. positive; wage rates should be market related, though productivity is an important variable; and exchange rates should be market-related and not overvalued as in so many African countries.

The trading system should be fully open to capital flows — a goal here being the relaxation and ultimate abolition of exchange controls.

Finally, the corporate sector believes, in the light of general international experience, that the size of government is critical to the well-being of the economy.

One of the major factors leading to changed economic policies by government was the realisation in the late 1980s that the country could no longer afford a bureaucracy of the current size without serious inflationary implications and the continued decline in infrastructural investment in favour of non-productive consumption expenditure.

If these guidelines are followed, then targeting inflation should also be an economic priority. The differential between SA's inflation rate of 15% and those of her major trading partners of 4%-5% will lead to a vicious circle of inflationary pressures as SA tries to juggle the need to keep exports competitive with the inability to sustain higher import costs.

The inevitable result of policies proposed without regard to limited resources is hyperinflation of a South American kind.

A prime example of this kind of voodoo economics is the mooted rapid change from what some have described, in my view somewhat inaccurately, as a high-cost, low-wage structure to a low-cost, high-wage structure. As a means of boosting manufacturing industry and consumption, thereby spreading wealth and boosting economic growth, it is an illusion.

The outcome without concomitant gains in productivity would be a massive boost to inflation more than negating any gains.

Prioritising productivity gains by accelerating political change, allocating greater resources from state, trade union and employer resources to appropriate education and training, and devising a range of participatory schemes to give workers a greater sense of engagement and "ownership" will be the precursor of the ability to pay higher wages, to reduce costs, to achieve more equitable wealth distribution and to move up the development ladder.

The above policies, together with the abolition of apartheid, will provide an environment conducive to the work ethic, without which required economic growth gains cannot be made.

Free enterprise gives SA the best chance of generating high economic growth and distributing wealth more equitably. The only way to raise growth rates is to optimise the use of production, capital, labour, land and entrepreneurship.

An emphasis on combating poverty and creating more wealth through economic growth, rather than redistributing existing wealth, is essential.

☐ **Spicer is public affairs consultant at Anglo American. This is an excerpt from his address at the recent Nafcoc conference at the Wild Coast.**

BOOKS

B Day 7/5/90 (180)

Natal business confidence hit 'by unrest and disasters'

TIM COHEN

DURBAN — Business confidence in Natal has declined, the level of unemployment has grown severely and unrest has caused substantial productivity loss, says Inkatha Institute executive director Gavin Woods.

Woods says no new jobs have been created in the Durban/Maritzburg formal sector for the past nine years. At the same time the informal sector, the vast majority of which consists of retail trade, has become overtraded.

The economic plight of the area has been exacerbated by alternating droughts and floods which have accelerated the rate of urbanisation.

The move to the cities and high birth rate have combined to make the region one of SA's poorest areas, and poverty was a root cause of the unrest.

"People in Natal are unhappy, discontented, and therefore unstable," Woods says.

He estimates the unemployment level to be around 45% for adults and 75% for the youth.

But despite this gloomy economic outlook, Maritzburg Chamber of Industries director Rowand Waller says only two industrial companies have closed their doors in the last six months.

Figures compiled by the SA Chamber of Business for February showed Maritzburg businessmen were significantly more confident about their prospects than their colleagues in other regions. However, Waller ascribes this to selective sampling in Maritzburg, and further concedes that the confidence level has dropped in the last two months.

Both Woods and Waller are convinced companies which have facilities in other regions are shifting production to plants outside the troubled Maritzburg region.

Others have investigated the possibility of moving their plants, but the process of re-establishing has proved prohibitive.

Most industrialists concede that their level of production has been affected by the violence, but find it difficult to quantify the amounts involved.

Robin Pater, president of the Maritzburg Chamber of Commerce, says he is aware of a number of companies which intended establishing themselves in the Maritzburg region but which decided against it because of the unstable conditions there. However, there have been no pullouts so far, he says.

Small firms can make it big at trade fair

(180)

Sowetan 9/5/90

By JOSHUA RABOROKO

MATCHMAKER 90, the business fair to be held at the National Exhibition Centre in Crown Mines, Johannesburg, from May 16 to 19, is set to be a forum for interchange and as a means of integrating all South Africans as trading partners in business and industry.

This is the one opportunity small businesses have each year of showing the sort of goods and services they offer. It is also the one time major corporations can find the kind of goods and services they are looking to buy.

The director of Matchmaker Service, Mr Zuko Tofile said this year there would be more than 110 stands at the Fair.

Sponsored

Some small businesses are veteran exhibitors, others are newcomers.

Many who showed their wares at the four previous exhibitions had become established and no longer needed exposure.

Many of the stands were being sponsored by big companies, who in keeping with the spirit of the fair, were "partnering" small entrepreneurs and provided merchandising expertise and support to make exhibits more effective.

Tofile said the Matchmaker was a major event that reflected the new South Africa taking shape in the 1990s - a South Africa dedicated to cooperation and to the promotion of business enterprise and opportunity among all sections of the population.

Participants

"Matchmaker is an exciting exhibition designed to bring together two dynamic currents of business in our country - on the one hand, the expertise and established success of the white business world; on the other hand, the eager and fast learning new generation of developing black business," he said.

He said participants in Matchmaker include white-run companies looking for products and services that black business might be able to provide, and white-run companies able to provide products and services that their associates in the 'white" business would could use.

"If you are looking for new sources of supply and service, Matchmaker may be able to introduce you to black suppliers whose prices and quality may be just the news you want to hear.

"Suppliers who, because they do not have the marketing budgets of comparable white-run firms, may not otherwise come to your attention."

The opening ceremony will be performed by the Ambassador of the United States, Mr William L Swing and a prominent black businessman, Mr Habakuk Shikwane, who will also be displaying his goods at the action packed fair.

First fair

The first Matchmaker Fair came about almost spontaneously. Mr Benjamin Brown, a senior commercial officer of the US foreign Commercial Service, had taken a visiting American personality on a courtesy call to Soweto in 1985, when he was questioned about the US involvement in helping black business in South Africa.

On April 23 and 24 1986, the Soweto Chamber of Commerce and Industries and the American Chamber of commerce held South Africa's first major business-to-business show at Nasrec. Its main objective was to assist small, black-owned firms establish contacts and develop business with US subsidiaries and other large companies.

Grown

The fair had grown over the years, expanding to include South African and foreign companies, he said, adding, "big business has finally realised that its little brother has a lot to offer and is keen to develop his potential."

Big exhibitors include, Barlow Rand, Standard Bank, SAB, Get Ahead Foundation, specialised exhibition, Habakuk Cane Furniture, Foundation of African Business and Consumer Services and Vametco Mineral Corporation.

Mr Zuko Tofile

Black business needs massive aid, says Ngcoya

(180) Sowetan 9/5/90

By JOSHUA RABOROKO

MASSIVE economic and management resource intervention was needed from the private sector if black business was to strengthen and contribute to the economy, the newly-elected president of the Foundation For African Business and Consumer Services, Mr James Ngcoya, said this week.

Ngcoya, who is also president of SABTA, said black business had no credible involvement in any major sectors of the South African economy.

Major obstacles to the growth of black business, politics aside, were the numerous constraints under which the black entrepreneur had to operate.

Prosper

These constraints included the lack of access to legislature, bureau cratic ham-handedness, over-regulation, the Group Areas Act and no, or poor, access to finance, he said.

"For South Africa to prosper and grow it is necessary for blacks to enjoy a meaningful stake in the economy.

"A clear strategy needs to be developed which includes 'buy-ins", "joint ventures", "partnerships", and "share participation" in white organisations and companies".

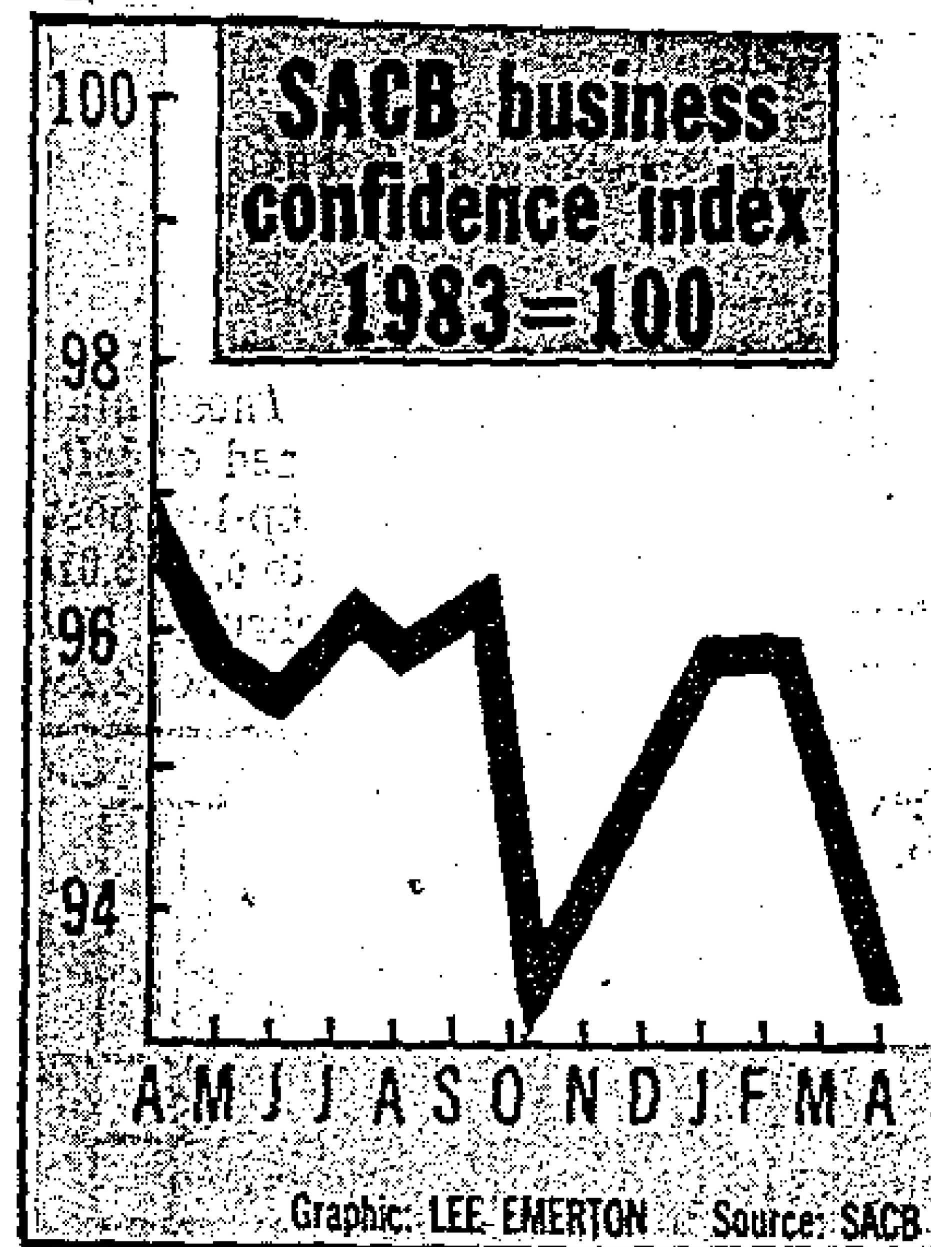
He said the success of SABTA was a classic example of a "s ccess story" involving people at grassroots levels, an attempt to unify similar interests, to provide political clout and give black business "economic muscle" on the business front while simultaneously uplifting the quality of its members and addressing the unemployment problem in South Africa.

The formation of an association of associations to form a major organisation - Fabcos - with clear and well defined aims, would help provide the necessary political clout and coordinated approach so badly needed.

He said the innovative structures of Fabcos had been specifically designed to leave the political and decision-making process in the hands of blacks.

Others who were elected are: Dr Ellen Kuzwayo (first vice president); Mr Sam Ntuntubele (second vice president); Mr Joas Mogale (secretary general); Mr Pat Mbatha (treasurer); Mr James Lenyehele (Public Relations Officer); executive members are Mr A Tambo, Mrs N Rampomane and Mr A Lukhele and all representatives of the 12 affiliates form part of the executive.

Mr James Ngcoya



Talks could boost business confidence

SYLVIA DU PLESSIS (180)

A FAVOURABLE outcome to negotiations between government and the ANC could underpin business confidence in the months ahead, SA Chamber of Business (Sacob) director-general Raymond Parsons said yesterday. BDay 9/5/90

The future mood in the business and manufacturing sectors depended not only on how "weighty" economic factors were, but also on whether dialogue between the two parties would be sustained, he told a press conference.

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His words followed the release of the chamber's latest monthly business and industrial confidence indices, both of which reflected waning optimism.

Parsons said if the Groote Schuur talks had been captured in the time period in which the indices were formulated, the decline in confidence might have been less steep.

Continuing political and economic uncertainty in SA sent Sacob's business confidence index (BCI) for April plummeting to 92,1 from March's 94,2 — its lowest level since February 1987.

Sacob economist Keith Lockwood said this was due to indications the economic slowdown was gathering momentum and to a lack of support from the financial sector and political developments.

While business had been expecting the downturn, its length and depth were still unknown and had given rise to much of the uncertainty.

But there was also little, "if any", support given to the level of business confidence by political developments in April.

"Although there were few new developments, the general feeling that the transformation of the country into a true democracy would be a slower and more painful process than many had initially supposed, was reinforced."

Sacob's manufacturing activity indices — linked to those of Seifsa — also fell sharply in April, to their lowest level since the survey was initiated.

The chamber said a slowing economy played some role, but the decline could also be ascribed to fewer workdays and disruptions to production and sales, as well as May's public holidays.

Regional expectations of manufacturing production over the next year were lower than before, particularly in the Transvaal, and if this pessimism continued it could contribute to slower economic growth.

But the relatively favourable outcome of government/ANC negotiations could also serve to underpin future confidence levels in this sector, Sacob said.

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More emphasis on export of manufactured goods

B/Day 9/5/90

TRADE and Industry Minister Kent Durr last night emphasised the importance of manufactured goods exports for economic growth.

ACHMED KARIEM

Addressing the opening of the National Woolgrowers Association Congress in Bloemfontein, he said only 8% of wool production was developed locally into final products for export.

"Exports are regarded as the vehicle to expand the market. Higher added value means larger valuable foreign exchange earnings and potential profit.

"This also opens the way for opportunity in local design and the longer production runs hold the key to higher productivity, lower unit costs and greater competitiveness. These are all necessary components of a successful export strategy."

The Department of Trade and Industry had drawn up an action programme in order to encourage SA manufacturers to enter the export market, and to encourage existing exporters to increase their involvement in long-term export trade.

The department's new general incentive scheme placed greater emphasis on the export of manufactured goods, he said.

"SA can now look forward to a period of restructuring of exports where there will be a move away from the primary product export syndrome which has been dogging the country since its early economic history."

Wool had been SA's main export for many years, and its export earnings had been surpassed only by gold and diamonds since the development of industries and mining.

SA — with a national stock of 16,1-million head — ranked fifth in the world as producer of wool for clothing and second only to Australia in the production of fine merino wool.

Wool production was 93,2-million kg in 1989, which was 6,5% higher than the previous year.

"Owing to good climatic conditions and the high international wool prices, combined with strong demand, a 5% increase in wool production can be realised.

"The total SA wool income for the book year ending June 1989 was R898,2m, which is 20% more than the previous year," Durr said.

Black skills: getting in at grassroots level

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It's my business

THAMI MAZWAI

A FEW weeks ago I voiced concern at the concept of Black Economic Empowerment, saying most of the time little came from these conferences in terms of grassroots strategies.

Instead, industry's white captains got a chance to tell us how they hated apartheid, and what they were doing for poor us.

For some blacks it was a chance for another release of frustrations. Many a time the ordinary entrepreneur did not even know of these conferences, and that they were also about him.

Today we carry a story and advert that has some direct meaning for the grassroots entrepreneur.

John van Reenen, of Van Reenen and Nicholls, is advertising services he needs from black entrepreneurs.

More companies must now follow suit. All they have to do is place an advert in *Sowetan Business* and thousands of entrepreneurs in our area of circulation will respond.

Van Reenen has challenged our entrepreneurs to offer him their skills. Like anybody else, he will accept the best tender. Only blacks will compete in this market.

Many overseas companies in the past adopted black businesses into which they poured money and resources. This was fine.

There were also those businessmen who asked black entrepreneurs to do work for them, say print their stationery.

What the black entrepreneur did not know was that his merchandise was destroyed on receipt and that from a white company, far superior in quality, used. Hypocrisy in its most naked form.

To make it worse the black trader was paid from the company's social responsibility budget. In other words, he was in the same queue with Cripple Care and other charity organisations.

Initiative

John's initiative will obliterate this. A market has been created in which blacks will compete with each other.

They seldom survived in the general market, apartheid saw to that.

This is not racism, as many will suggest. It is giving our entrepreneurs opportunities denied them over the ages.

With each job done to specifications more contracts will follow. Skills will improve.

The many plumbers and other types of artisans trained at Bantu Education schools now have a chance to sell their skills.

We know that even the Department of Bantu Education, which controls the schools that gave them training, hardly offers them this opportunity when needing services. The department instead uses white contractors or, like it was proved last year, the services of companies owned by children of white officials.

Early this year Dr Dawie de Villiers, then Minister of Mineral and Energy Affairs and Public Enterprise, scorned a suggestion that blacks get 10 percent of Government contracts.

Tendering

He argued that this would militate against the spirit of tendering. He even rejected suggestions that a separate market be established where only blacks would participate.

I won't remind the Minister that National Party governments granted contracts to Afrikaner businesses over the last 40 years, all to help Afrikaners develop their economic clout.

By now we are aware that what is sauce for the gander is not necessarily sauce for the goose as far as Government reasoning goes. That is why De Villiers does not agree with the concept of a market specifically created for blacks. All of a sudden they are now talking of the spirit of tendering.

Has Dr de Villiers noted that an astute businessman considers this idea worth exploring?

In fact, when we visited Van Reenen it appeared he was hardly aware of the suggestion to the Minister, but, believe it or not, he was all excitement as we got down to the nuts and bolts of developing this concept.

In closing, I can only say that our chaps will now also be able to sharpen their tendering skills, their downfall in the general market.

Develop

In the blacks' only market, which will be a passing phase, efficiencies will be developed.

I have no doubt within years, or even months, our fellows will be in the general market giving their competitors hell, just as many are doing well in the white CBD's despite coming in from behind.

SOWETAN BUSINESS

Bumper quarter for unit trusts

THE first quarter of 1990 has been a bumper one for the unit trust industry.

Unit sales hit a record as did the market value of the country's 33 unit trusts and the number of unit trust accounts exceeded 600 000 for the first time.

Sales of units for the period topped the R638m mark, comfortably exceeding the previous record of R599,3m for the September 1987 quarter.

Euphoric

However, on account of a significantly higher level of repurchases during the March quarter, the net inflow into the industry at R634,7m is below the 'record R453,8m achieved in the September 1987 quarter.

Roy McAlpine, chairman of the Association of Unit Trusts commented: "The industry experienced a strong upturn in sales during the first six weeks of 1990. The mood in the country was euphoric - the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally.

"In addition a couple of new unit trusts were launched which appealed to investors.

Tempered

"However during the latter half of the quarter - from about mid February - the mood of optimism was somewhat tempered in response to a lower gold price, the poor performance of international markets, especially the Tokyo share market, and the ANC's public pronouncements on nationalisation.

"This had an impact on unit sales which slowed quite noticeably."

McAlpine said that in spite of this, it is very pleasing to note that there are now over 60 000 unit trust acounts in South Africa, a 15 percent increase over the last 12 months.

Soared

He added that not only was there a significant rise in the new money that flowed into unit trusts in the quarter, the total value of the assets managed by the industry soared by almost R1-b in the three months, from R6 643m at the end of 1989 to R7 624m at the end of the March quarter.

According to statistics released by the Association of Unit Trusts, the market value of the funds climbed almost 45 pc from March 1989 to March 1990, an impressive increase and an indication of the growing public awareness which the industry now commands.

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South African investors have become very aware of the excellent performances which the unit trusts have delivered for their unitholders in recent years and the performances reported for the March quarter are no exception.

The five year compound annual average performance (capital growth plus income) of the country's seven general equity trusts which have been in existence since 1986 ranges from 27,2 pc to 32,5 pc and averages 31,3 pc per annum.

Over the most recent one year period the annual return of the 13 general equity trusts is even more impressive, ranging from 21 pc to 44,3 pc with an average of 35,4 pc.

The specialist equity trusts also performed well for their unitholders, achieving a compound average return over the past five years of 25,2 pc and an average 30,3 pc over the most recent 12 month period.

Unitholders have experienced outstanding growth in the value of their unit trust investments in recent times, but McAlpine cautions that it would be unrealistic to expect unit trusts to continue to achieve returns of the magnitude achieved in the past 12 months.

He also believes that it is unlikely that the record sales notched up in the first quarter of 1990 will be repeated in the current quarter since the prevailing sentiment among investors, both internationally and in South Africa, has become very much more cautious.

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A chance to take a step forward in SA's steel industry

Sowetan 10/5/90

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By THAMI MASWAI

JOHN van Reenen has an offer than can't be refused. He is calling on black entrepreneurs whose activities can be utilised by his steel company to come forward. If they have what he wants, he will offer them contracts.

"I do not believe in giving a man a contract for the sake of it, he must work hard and justify my giving it to him," he said.

The tall and medium-built Van Reenen is chairman and chief executive of Van Reenen and Nicholls, a medium-sized steel company whose profits were R400 million last year.

It is situated at the Alrode Multipark, Alberton. It has branches in Welkom, Rustenburg, Port Elizabeth, Durban, Witbank, Klerksdorp, Cape Town, East London and Pretoria.

Company

The company will spend up to R500 000 a month in business to independent black operators.

These include welders, panelbeaters, mechanics, plumbers, window cleaning, and any other activity needed by a steel company.

Recently two black contractors cleaned the company's Alrode offices and carpets.

Why the interest in black business?

"I have now reached where I wanted to be and want to put something into the community. Black entrepreneurs were suppressed for too long and I must now help in their development.

"They need the breaks, and these must be provided by companies like ourselves. All of us must make the country prosper," he said.

Mr John van Reenen

Van Reenen, a 41-year-old trained accountant started his concern 12 years ago. This was after he failed in three other initiatives.

The first was a concrete company, the second in showbiz promotion and the third as a consultant.

As a showbiz promoter he brought Jimmy Smith, Lou Donaldson and Willis Jackson into the country.

Before going it alone he has also worked for three companies. He lasted three months in an electrical company, a year in a concrete company and three in one manufacturing TV sets.

"They considered my management philosophies too radical.

His steel company cuts steel for the mines and the industrialised countries.

When he started out with his partner they stocked steel, selling it to buyers needing urgent supplies.

"As it took time for orders to be delivered, we could satisfy many customers wanting emergency supplies. We later bought Amsteel and Jackson, and this increased our activities.

"With us the customer is king. We differ with many companies in that they say we produce this and that. We ask the customer what he wants and deliver it. Because of our reliability and service we got plenty of orders. It is the customer who decides how fast you can grow.

"We compete with 32 other companies. We must thus make sure we do it right," he said.

His staff understands this philosophy. To achieve this, a programme to make workers understand the workings of the business world has was introduced.

"They must understand that good customer service decides their paypackets. If more people like our service they will obviously keep buying from us and this means we grow as a company," he said.

Van Reenen, who has three children, also has interests in West Germany and the United States.

Van Reenen says a shortcoming of black businessmen is that they do not sell themselves.

"They are too shy to come forward. Even those manufacturers who long wanted to give black entrepeneurs contracts could not find them readily. I now want them to come forward and talk to my company.

"With other companies in this area also interested in giving some of their contracts to black operators, the operator may find himself kept busy seven days a week.

As many black entrepreneurs do not have the expertise in dealing with major companies, we will help as much as we can," he concluded.

All those interested must telephone Martina Henshall at 908-1540.

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Investment drop in fixed capital stock predicted

B Day 11/5/90

THE private sector's investment in fixed capital stock is likely to plunge by more than 5% in real terms this year, according to the latest forecast by the Bureau for Economic Research (BER).

The BER has reduced its forecast for private fixed investment dramatically since its forecast at the end of last year of a 0,9% drop. Factors depressing fixed investment include negative prospects for profits, farmers' expectations of smaller output, a long period of high interest rates and softening world commodity markets.

"The private sector is thus facing a number of factors which tell them that it would not be wise to invest in fixed assets. To those already mentioned we could add political uncertainty and especially the preference of the ANC to nationalise assets rather than to leave them in the hands of private business," the BER said.

Public corporations' and government's fixed investment is expected to remain on a more even keel, with real growth of 1,1% expected for government and no growth for public corporations. Total fixed investment

GRETA STEYN

is expected to drop by 3,2% this year. A further 4,4% decline is forecast for 1991.

By contrast, private consumption expenditure should increase by a real 1% during 1990 and by 2,3% in 1991, with the demand for durable goods weakening and declining by about 6% in 1990.

Wages and salaries are expected to increase rapidly, and gross domestic product growth will be 0,8% during 1990, recovering to around 2,5% during 1991. Unemployment will increase during this forecast period, the BER warns.

A more stable rand/dollar exchange rate is forecast during 1990 and 1991, at about R2,67 for 1990 and R2,84 for 1991, and the rand should remain stable against the DM. An average rand/pound exchange rate of 4,38 is expected for the current year and an average exchange rate of around 55 yen to the rand for 1990.

The BER sees the balance of payments as the most important constraint on growth and projects only 0,8% real economic growth for the year.

Only the rich have a 'vote' in the market

Sowetan 11/5/90

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Our writer on economic affairs, MARK ADDLESON (left) of the Wits Business School, continues his series on economic systems.

ALTHOUGH each country has a unique economic system, all economic systems are made up of the same basic parts, which are combined differently and so take different forms in each country.

Components of any economic system

The three components of any economic system are the activities of people who buy and sell in markets, the plans and policies devised by government, and structures created by tradition.

Together they define the characteristics of an economic system for producing and distributing things to satisfy people's needs.

Fruits

When someone talks about a planned economy, such as that of the Soviet Union, he means that the decisions about what to produce and how to divide the fruits of production are made by government. It is the plans and policies devised by the state which are the most important element in managing the society's scarce resources. The other two elements, markets and tradition, also play a part in the decisions, but it is a much smaller role.

In a market economy on the other hand, which is sometimes referred to as a 'free enterprise system', people's buying and selling activities in markets plays a major role.

The market activities are also influenced by government policies. Sometimes the role of the state is very important in this type of economic system and tradition also plays a part, but this is usually very small. Under a traditional system each generation is expected to follow in the footsteps of the previous one and to do the same work as the parents and grandparents. Custom also determines what share of the produce goes each person.

Market activity.

For many centuries markets have served as a means of allocating resources. Whenever people get together to exchange things, or buy and sell, they create a market.

A market can be very well organised and can take place at a particular location, like a stock exchange - where shares of ownership in companies are bought and sold - or a municipal fresh produce market where fruit and vegetables are traded.

A market can also be informal. When a doctor or plumber sets up a business these people (the sellers) and all their patients and customers (the buyers) represent the markets for the services. In the same way a hawker on a pavement and the people who buy from her, or a shebeen owner and her customers, each constitute a market.

Why people trade

Markets exist wherever people trade. That trade can occur through direct exchange (also called barter) where one person exchanges something that he has for something which another person has. For example, I might be willing to trade a pair of my shoes for a pair of trousers which you have.

Because I place more value on the trousers than on the shoes, and you vice versa, we both gain through the exchange.

Today the principles are exactly the same but most of the transactions involve money instead of direct exchange.

These transactions influence the use of resources in the society. In a market economy the buying and selling decisions of many hundreds, thousands, or even millions, of people influence what things are produced and also how they are distributed among the households in the society.

Prices and Profits

In our example the 'price' I was willing to pay for a pair of trousers was one pair of shoes. Essentially this is the same as if the price of a pair of trousers was R40 and a pair of shoes cost R40. Although we are talking about the money and prices, one pair of shoes exchanges for one pair of trousers.

Prices

The prices and the money which sellers get from the transactions actually serve to guide the use of trousers in markets. Sellers will always try to sell those things which give them the biggest income or the highest profits. When you spend your money you are indicating to the seller what you like to buy, and the seller will then order or produce those things which sell best.

When people spend their wages and salaries they are voting for the goods that they buy and their spending influences what is produced.

The weakness of the system

Through the money 'vote', producers or sellers are motivated to respond quickly to what people want. The big drawback of the market system, however, is that if you do not have the money you cannot afford to buy the goods and you will have to do without.

If you are rich you have a very big 'vote' in the marketplace, but if you are poor you have no 'vote' at all. So a market system often does not serve the needs of the very poor.

This creates tremendous problems in a society like South Africa's where there are a few very wealthy people and many very poor ones. Because apartheid laws have prevented blacks from gaining a bigger share of income, apartheid has also prevented many blacks from participating in and benefitting from the market system.

CONFIDENCE INDICES FM 11/5/90

More pessimism (180)

Business confidence in April, measured by the SA Chamber of Business's Industrial Confidence Index and Business Confidence Index, fell for the second consecutive month.

The business index fell from 94,2 in March to 92,1 — its lowest since February 1987. Negative factors were a declining dollar price of gold, lower rand/dollar exchange rate, a falling JSE index due to gold and higher overseas interest rates, higher unemployment, decline in volume of manufacturing production and planned construction, lower exports and declining immigration.

The index measuring industrialists' expectations was pulled down by a slowing economy and seasonal factors such as public holidays. ■

CORPORATE DEBT (180)

Uppers and downers

Credit extension is a powerful stimulant to economic growth. It provides liquidity for expansion, finances a level of real capital expenditure that would not otherwise be possible and, consequently, increases profits.

In the Eighties, however, a rise in corporate debt distorted the relationship between debt, on the one hand, and cash flows, capex and profits on the other. FIM 11/5/90

This had its roots in what Old Mutual's *Economic Monitor* calls "the credit-financed miniboom in 1983-1984." In a special focus on corporate debt, the *Monitor* records that total domestic credit, extended by private banks to companies, rose strongly during the first half of the Eighties. Excluding offshore financing, for which no figures are available, debt rose from R4bn in 1979 to R17,5bn by the first half of 1985, or at average annual growth of close to 31%.

As a result, the ratio of:

☐ Corporate cash flows to outstanding debt fell from around 76% in 1981 to below 30% by 1986; and FIM 11/5/90

☐ Debt to income rose from 15% in 1980 to 33% in 1986. (180)

Moreover, with debt rising an annual 24,6% between 1982 and early 1986, capex increased only 6,5% a year in the period.

As the rise in outstanding debt outstripped cash flows, capex and profits, the normal growth process was reversed and credit extension became as helpful to business as anabolic steroids are to athletes.

Not only was credit readily available domestically but local borrowers could tap offshore credit at a time of relative rand strength when international rates were even lower than those available locally.

Then came the deterioration of the rand, the increase in international rates and steeply rising domestic interest rates. Finally came the foreign debt crisis of 1985-1986. In the face of a crippling liquidity squeeze, companies increasingly turned to "credit for non-capital spending purposes."

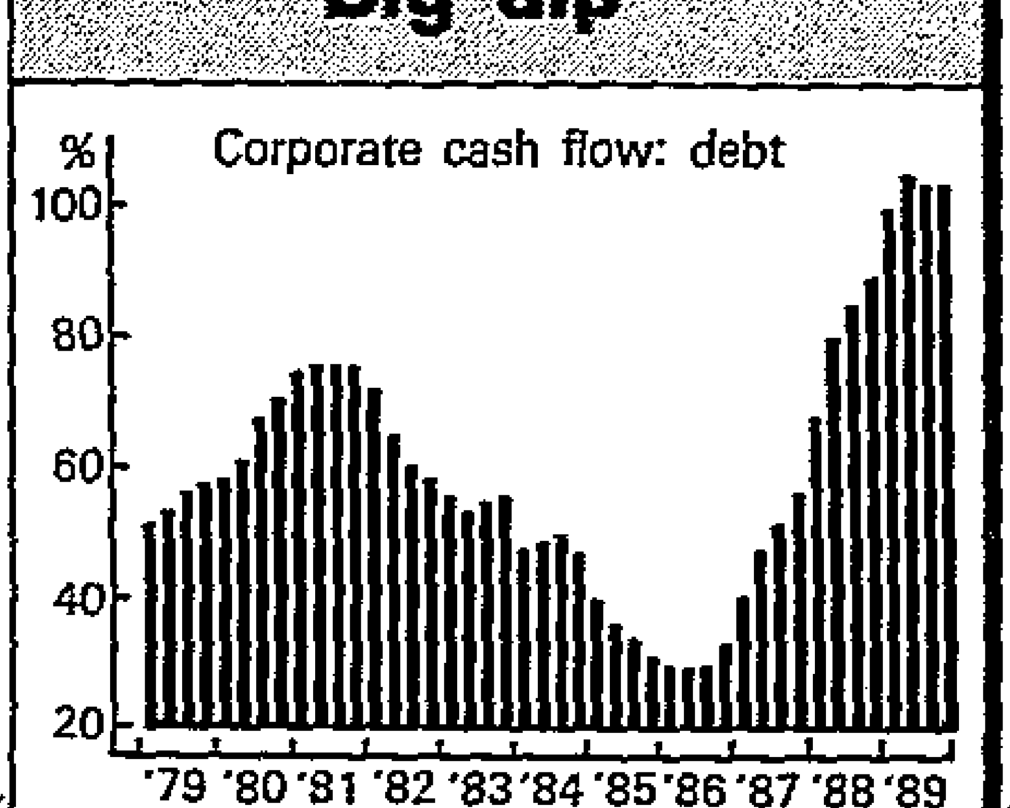
Fortunately, the period proved to be a watershed for business. "Nominal credit demand by companies showed no net growth and, by the middle of 1987, total outstanding debt was actually more than 5% lower than in the middle of 1985."

The result was a significant improvement in debt ratios. That of cash flows to total debt improved from just below 30% in 1986 to over 100% by 1989 (see graph).

"Between the final quarter of 1986 and the second quarter of 1989, credit extended by the domestic banking sector to private companies rose by some 46% in nominal terms, roughly equalling the increase in nominal private sector fixed investment."

With credit once again creating capacity for growth, the *Monitor* suggests the corporate sector should be able to avoid a repetition of the severe consolidation forced on it in the 1985-1986 recession. It "is a major reason why the current downswing should not be as harsh as the two painful experiences of the Eighties." ■

Big dip



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(180) S Times 13/5/90

Confidence falls

By Don Robertson

THE spate of holidays in April helped to lower business confidence and indices reflecting optimism have plunged to their lowest since the beginning of 1988.

The business confidence index from the SA Chamber of Business (Sacob) shows that while the economy is slowing, the number of holidays in April resulted in fewer working days with disruptions to production and sales.

The business confidence index in April fell to 92,1 from 94,2 in March. The index of manufacturing activity fell to 64 from 112 in February. A figure of 100 represents the neutral point betweeen optimism and pessimism.

"Movable feasts" will have to be resolved, says Sacob director-general Raymond Parsons. "Core" holidays should be retained, but others should be spread throughout the year.

Outlook

The outlook for the rest of 1990 remains relatively favourable, but poor business conditions in two consecutive months, resulting from a significant drop in the number of working days, could adversely affect business sentiment and lead to an acceleration of economic slowdown rate.

The confidence indices would not have fallen to such an extent if the successful talks between the Government and the ANC had been taken into account in the survey period. The cut-off point for the survey was April 20 — before the talks took place.

Should the second round of talks on May 21 be equally encouraging, the confidence indices could improve in May.

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Premier blooms after Tony goes

By Julie Walker

PREMIER Group began to bear good fruit under new management after the Flour of the Nation Tony Bloom departed two years ago.

In the year to March this year, Premier placed its shareholding in SA Breweries in Bevcon and raised R281-million in a rights issue. Therefore its results are not strictly comparable with the previous year's.

Trading margins were increased from 6,9% to 7,7%. Although turnover of R4,34-billion was only 5% higher than in the previous year, attributable earnings were up 32% at R122-million.

Dilution depressed the rise in earnings a share of 180c — still 25% more than the previous year's.

Interest-bearing debt was reduced sharply to below R300-million, giving a debt-equity ratio of 23% compared with the previous restated 52%. Management expects continued growth in 1990, barring unforeseen disaster.

Premier company CNA Gallo was first with the goodies again. Its earnings grew by 26% to 142c a share from a 24% rise in turnover. The dividend was raised by 22% to 55c.

Absolute

There were mixed fortunes from Premier's other listed interests. Twins, Gresham and Safimed are being reshaped.

Of the 31 companies reporting preliminary results this week, only Punch Line and Fintech suffered absolute losses. Poorer performances than in the previous year were recorded by nine, leaving a score of improvements.

Earnings growth of 20% or more was achieved by 13 companies, although one or two were from low bases.

Where they did well, the earnings from top companies increased at a faster pace than did dividends.

But dividend cover was sacrificed by a few companies reluctant to see a hiccup on their five-year financial history graphs.

In the year to February, Altech's 268c was maintained in spite of a 6% fall in bottom-line earnings to 834c. Parents Altron and Ventron, whose earnings were hammered by a quarter by the disasters of Fintech and Punch Line, also declared the same dividends as in 1989.

There was a drop in Drop Inn's cover too. Earnings fell by 23% to 6,2c a share in the year to February 1990 because of thefts, but the 3,25c dividend was kept.

Reunert starred among Barlow group interims to March. Its earnings jumped by nearly a third to 80,1c a share on a 21% rise in business to R651-million.

Robor added 14% to earnings on a turnover rise of 17% to R403-million.

Restraints

High-street retailers mirrored economic conditions. Edgars featured with turnover close on R1-billion and earnings growth of 26% to 243c a share for the year to March, although management reports a steady slowdown in consumer spending.

Edgars says that real growth in clothing, footwear, household textiles and accessories (CFTA) was only 2% nationally, but Edgars achieved 9%. It expects a contraction in real terms of the national CFTA market this year, but still expects to achieve real growth in earnings and increase market share because of its strong account base.

Self-imposed growth restraints by Amrel — which operates 17 big-name furniture and clothing chains — limited sales to a 12% rise to R849-million in the year to March. In spite of the difficult conditions, earnings of 245c a share were 4c up on last year's record performance. Amrel expects 1990 to be a tough year, with little chance of improved earnings.

Uncertain

Toys brought no joy to Reggies shareholders. Everything from warehouses to management contributed to a dive in earnings from 5,1c to 0,4c. Its shares hit a low of 18c on Thursday.

Lower margins and higher interest knocked OK Bazaars' bottom line in the year to March. A tight year is expected by management, which will concentrate its efforts on improving stock turns and combating the shrinkage "phenomenon".

Vansa's interim to March showed a big drop in income to 3,3c a share from 23,8c previously. Lower dollar prices and a stronger rand dented export receipts.

Market conditions remain uncertain in spite of an increase in the price of vanadium pentoxide. Demand for chrome ore is not expected to grow much.

Business urged to tackle Aids now

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Business Times Reporter

A STRATEGY to deal with the looming Aids catastrophe urges corporate decision makers to act quickly before the danger becomes "utterly unmanageable".

The strategy, spelt out in a new report, is the first of its kind in South Africa and has been greeted by medical authorities as "long overdue".

It includes a suggested protocol covering both new and existing workers in which the interests of both employer and employee are protected.

The problems raised by employees carrying the human immunodeficiency virus (HIV), which precedes Aids, are dealt with in an effort to offer "hard-pressed corporate decision makers" practical guidelines that are both cost effective and as human as possible.

Included in the report's recommendations is the key suggestion that organisations, public and private, treat all HIV-infected employees "as you would treat a valued employee suffering from hepatitis".

Apart from the medical similarities of the two diseases, the report says that to treat HIV- and hepatitis-infected employees in the same way will do much to remove the social stigma attached to Aids.

Conservative

More importantly, it will mean that by the year 2000 — when by even the most conservative estimates, several million South Africans will be infected with HIV — there will be hundreds of thousands still usefully employed in commerce or industry whose skills would otherwise have been lost.

Commenting on the report, published by the International Research and Information Service (IRIS), an independent information-gathering service for SA corporations, South African Medical Journal editor Nick Lee says: "This is long overdue. What people desperately need are some practical guidelines. We know there is a problem — but what most people, particularly businessmen, do not know is what to do about it.

"Aids is everyone's problem and we must all act now or it will be too late."

The report was compiled over five months and gives the best available picture of Aids and HIV-infection from Uganda to South Africa, according to editor Chris Erasmus.

Mr Erasmus says: "We have been careful to avoid the hysteria seen in some reports. But based on our information it is clear that official government and World Health Organisation figures badly underestimate the true extent of the problem to our north.

"If there is no immediate and appropriate action by the public and private sectors, we face catastrophe with literally millions of people dying of Aids in the next decade."

No money to be made out of nationalisation

(180) S/Times 13/5/90

Nationalisation is not the only threat to South Africa's future prosperity, says **Prof Lawrence Schlemmer,** who is director of Wits Centre for Policy Studies

IN ALL the argument about economic policy, the anti-nationalisation school has won most rounds.

It is noteworthy, for example, that Alec Erwin, a professional economist for the Mass Democratic Movement, cautiously stops short of arguing for nationalisation.

He says that "... neither the unfettered ownership rights of free market capitalism, nor the bureaucratic control arising from State ownership, provides for effective social control of the economy" (SA Labour Bulletin).

It is worthwhile to briefly recapitulate the arguments for and against nationalisation of the "commanding heights" of the economy.

It is argued that nationalisation will enable the State to redistribute wealth. If the State assumes control of a major conglomerate, even assuming that no compensation is paid, it seems fairly obvious that it will acquire very little capital to use for discretionary purposes.

At best the State acquires what it would have taken in taxes, plus the profit after taxes. To stimulate growth, the State will have to reinvest at least some of its profits, which is what private shareholders do.

Hence the State may end up with little more than it would have in company taxes to spend on mass needs. If compensation is paid, the State will have even less to spend.

Others argue that nationalisation will enable the State to determine employment policy. If nationalised, labour forces could be artificially increased to aim at fuller employment.

Alternatively, wages could be increased or particular categories of employees could be advanced rapidly and artificially. These objectives are probably achievable if the new government owners are willing to sacrifice profitability.

But will the effect be greater than, say, leaving the operation in private ownership and offering tax incentives for increased labour-intensive methods of production?

Since even the most idealistic of governments would not wish to run inefficient industries, the effects on wealth redistribution are likely to be less than many expect.

Suffering

In fact, more social benefits can be achieved through State intervention and taxation than through assuming ownership.

Industrial production, banking, insurance, mining and other targets for nationalisation are all competitive operations. Nationalisation would undermine competition.

Today's wealth may be available to redistribute, but what of tomorrow's? In time, the benefits become constrained and everyone suffers — the nationalised capitalist, consumer, worker, shareholder and the welfare-hungry mass public alike.

The dominant feature of free-market entrepreneurship is that there are ruthless criteria for success — the bottom line of the income statement and the balance sheet.

Hence private entrepreneurs and their managers are anxiety-driven and it is this extra "business adrenalin" which makes capitalistic enterprises relatively efficient.

Managers in public enterprises, on the other hand, can relax in the knowledge that the State is the final guarantor.

Logic

It is predicted that there will be a flight of investment capital under nationalisation.

There are many other arguments but the above will suffice. That virtually all countries which have nationalised are now seeking to introduce or reintroduce market factors must have some effect on a future government.

The ideological/analytical war between public and private control will not necessarily be won through logical persuasion and debate. The motive to control the economy has large political components which are immune to economic logic.

In its long period of exile, the ANC survived the political drought sustained by revolutionary theory which it shares with other liberation movements, including the PLO and the IRA.

This theory, as many universities know, becomes a total mode of thought in which all problems are traced back to some central evil, the capitalist mode of production. The ANC has never been alone in this theoretical obsession. It is less blameworthy for its persistence than other agencies — such as the Western bourgeois universities.

There are factors running contrarily to nationalisation. For example, current Western disapproval of this policy might intensify to a point at which international support might become conditional on acceptance of continued private ownership of large companies.

Nationalisation is not the only threat to prospects for growth in the economy. Here one is talking about "socialisation" as opposed to "nationalisation" of production.

Joe Slovo argues that "the destruction of the political and economic power of capital are merely first steps ..." He quotes Mikhail Gorbachev as calling for "real socialisation and the real turning of working people into the masters of all socialised production".

A great deal of informal public debate suggests that a mixed economy is seen as the compromise between nationalisation and market-related capitalism. The radical mixed economy is clearly highly State interventionist and could entail a veto of management decisions by organised labour on the shop floor.

Most boards of companies would probably prefer to be nationalised, with compensation obviously, than to struggle under socialisation of production.

If anything is likely to be a formula for capital flight, a collapse of business confidence and falling growth, it is the kind of mixed economy that some interests in the MDM have in mind.

Terrifying

JCI economist Ronnie Bethlehem probably comes closer to the mixed economy concept that most businessmen have in mind.

He argues that "it is the duality of capitalism and socialism that South Africa will have to incorporate in its mixed market system system" (Business Day 28 February).

These words no doubt sound terrifying to investors, but Dr Bethlehem specifies that the market system must be dominant and that both capitalist and socialist institutions should be subject to the disciplines of the market.

Dr Bethlehem suggests that a "restructuring of ownership" takes place to give blacks a substantial stake in entrepreneurship. In the article, however, he does not indicate how such structuring should take place.

If it is to be significantly at the cost of existing shareholders or taxpayers, then it will, like most other mixed economy models, simply inhibit the growth that South Africa requires.

I am also not convinced that the extension of entrepreneurship to individuals will have the symbolic appeal to outweigh the powerful, if economically irresponsible, symbolism of ANC economic policy.

It might be far more appealing, and effective, for the State to expand its current privatisation strategy to empower black communities in the field of social services.

Loan funds, even larger than the recently created R2-billion "social upliftment" fund, might enable identifiable collectives, such as civic associations, and trade unions, to become co-operative owners of service companies, peri-urban or urban housing estates, shopping centres, economically viable production operations and perhaps even urban service companies in fields such as refuse removal, electricity and water reticulation.

Dangers

A condition for a loan to establish an economic collective would have to be that a suitable management team be in place.

I am not suggesting privatisation to community collectives as the only strategy. It is merely an example.

The imprecision of the mixed economy concept and the consequences which are masked by good intentions, hold very grave dangers to the future prosperity of all South Africans.

● *An edited extract from Mixed Signals: The Nationalisation Debate, in the Autumn edition of Indicator SA published by the University of Natal.*

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Business Day SURVEY

THE search for a peaceful solution to SA's problems cannot be left just to the politicians. Business has a role to play in helping shape post-apartheid SA and through the pooled resources of Assocom and FCI, the SA Chamber of Business will be able to offer an extensive range of services. ***ZILLA EFRAT and SYLVIA DU PLESSIS*** *report.*

Some of the advantages

- ☐ Authentic voice of business;
- ☐ Interface with government and other key constituencies;
- ☐ Labour relations issues;
- ☐ Business confidence and industrial surveys;
- ☐ International Chamber of Commerce;
- ☐ ATA Carnet system;
- ☐ Forum for small and large business;
- ☐ Network of business contacts.

A MERGER TO MEET THE NEEDS OF CHANGING TIMES AND ATTITUDES

THE SA Chamber of Business (Sacob) — the country's largest national business organisation — was formally launched at a media conference yesterday afternoon.

The new body, created through the merger of Assocom and the Federated Chamber of Industries (FCI), represents the most powerful private sector lobbying force in SA.

Its logo is "The Voice of Business".

Allied group chairman and Sacob deputy president Denis Paxton says the merger could not have taken place more timeously, given government's policy of becoming more involved with the private sector.

A Sacob staff member says: "Having to consult with only one body, government departments are approaching us for input far earlier in their policy formulation."

Another major benefit of the merger has been the elimination of inter-association rivalry. This has enabled Sacob to deploy its resources more effectively and achieve its objectives with more focus.

Assocom and FCI had appointed a joint steering committee with equal Assocom/FCI representation under the chairmanship of Paxton.

Paxton, a past Assocom president, investigated how a new national business organisation should be structured.

The joint steering committee submitted its first report to both Assocom and FCI in mid-'89.

After further investigation, a final report giving the green light was adopted by the two bodies.

Sacob came into existence on January 1 1990.

Regional organiser Eric van Dyk says its establishment was inevitable.

"It not only seemed logical for business to speak with a stronger voice from a strong base, but the members of the two bodies indicated clearly this was what they wanted," he says.

"Government also made it known it favoured one body with which it could consult and to whom it could listen."

Sacob matches the profile of business in SA almost exactly.

It represents 102 chambers of commerce and industry with a membership of around 35 000 companies and a target of 40 000 over the next three years.

It also speaks for 109 direct members — among the largest business corporations in SA, and 62 national associations representing trade and employer interests across the broad spectrum of the SA economy.

B/Day 17/5/90 (30) (180)

Business has key role in shaping a new SA

RAYMOND PARSONS

THE search for a peaceful solution to SA's problems cannot be left to the politicians alone, says Sacob director-general Raymond Parsons.

Business has a role to play at all levels and must help shape a post-apartheid SA because it is in its interests to do so.

Shape

Parsons says the areas in which business has a "critical" stake are the shape of any new constitution, the economic values and principles it embodies and the economic system emerging from it.

"What is important in a new constitution for business is the focus it gives to people's rights and responsibilities in economic affairs. The concepts of private property, right of contract and personal culpability are relevant to the constitutional debate," he says.

"The future of SA business will require the highest degree of sensitivity to the constitutional framework within which it will function. These are key matters to which business will have to give attention — and which it is well-qualified to do."

More immediate, however, is the debate surrounding the kind of economic system which follows from political negotiations.

"There is a big gap between politics and economics — a gap which needs to be bridged," Parsons says.

"There is already a Sacob task force examining the issues involved in the discussion about nationalisation and redistribution of wealth."

This group, drawn from top businessmen and economists within Sacob, is undertaking research and consultation to assist in formulating the organisation's stance.

"It is important to realise it is apartheid, and not capitalism, which is on trial in SA.

Clarify

"What blacks have experienced as 'rules of the game' are the antithesis of a free enterprise economy. It is essential to clarify the debate on this level — we must not throw the economic baby out with the apartheid bathwater."

Business must look at ways in which the performance of the market economy in SA can be improved or restructured.

"Markets facilitate restructuring if they are allowed to do so.

"We need to broaden and deepen black participation in the economy.

"Hopefully, it will be possible to shift the debate off the ideological level on to a more empirical basis.

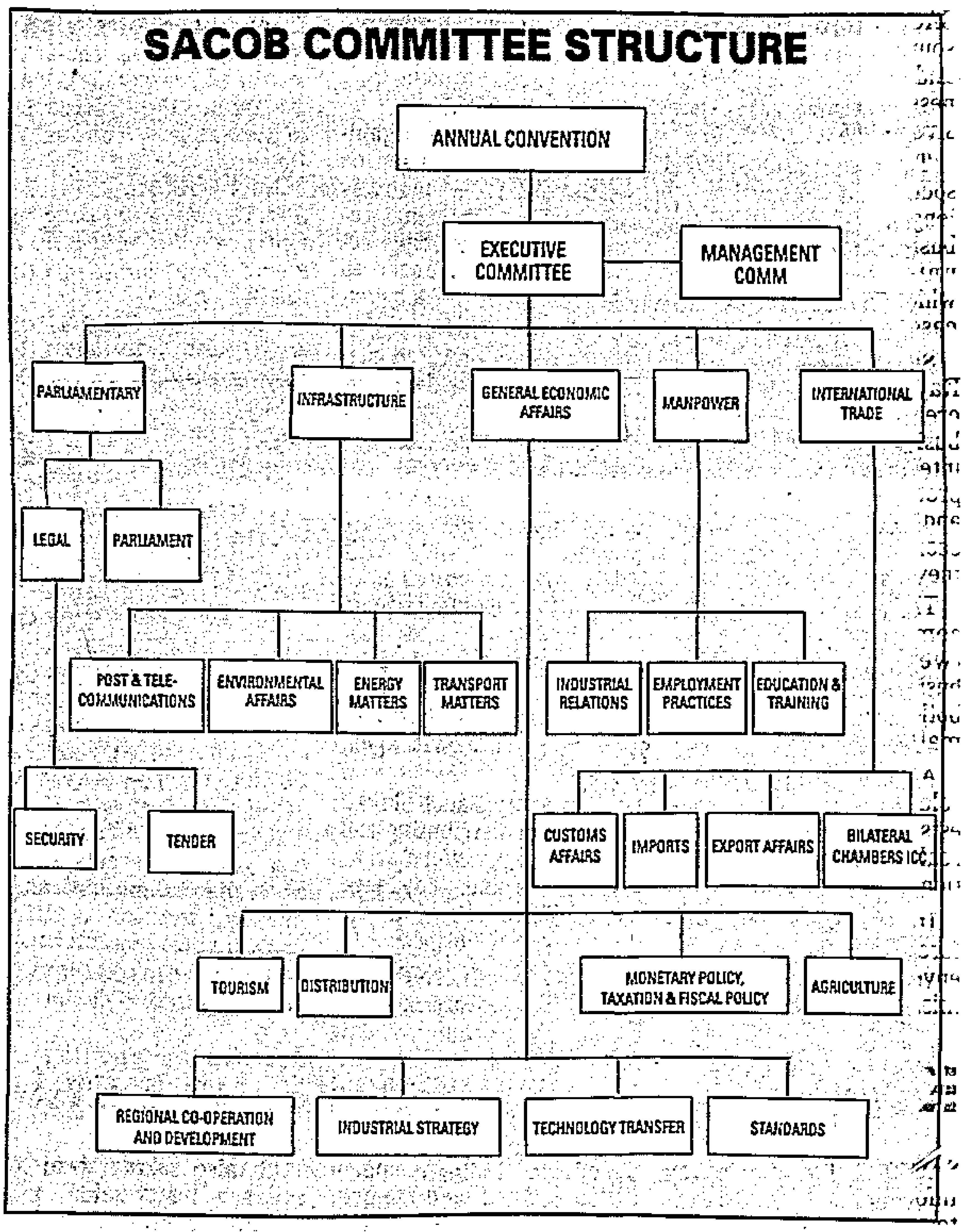
"But business must be prepared to deal with the nationalisation arguments as robustly and critically as it previously dealt with interventionist government policies."

Parsons says SA has entered "an era of great hope, but also one of great uncertainty".

"Businessmen have a vital stake in the outcome of conflicting forces. It remains important that political leaders in SA manage the process of change in ways which retain the confidence of the main players, including the business community.

"Sacob expects to play a major role in addressing these questions. It will seek to maintain a favourable environment for the business community and will keep members informed of key developments affecting their interests.

"It will do so in the firm belief that a sound economy is essential to underpin the social and political goals to which all South Africans aspire," he says.



Committees are the chamber's backbone

B/Day 17/5/90 (180)

SACOB's 20 standing committees play a vital role in advising the national body on a wide range of issues affecting the business community.

There are more than 400 businessmen and women serving on these commitees, all drawn from the senior echelons of chambers and companies.

Sacob regional organiser Eric van Dyk says the committees — Sacob's backbone — are a blend of professional expertise and practical business people.

They not only enable Sacob to mobilise the views of members on key issues, they also enable the organisation to be pro-active, he says.

Through the standing committee structure, the interests of business are synthesised and meaningful representations to the authorities are formulated.

The structure enables Sacob, in formulating its views, to take into account the interests of all businesses, large and small.

There are standing committees for export trade, import trade, economic affairs distribution, board of trade and custom affairs, conditions of tender and contract, standards and environmental affairs, energy and water affairs and manpower.

Other standing committees include legislation and parliamentary liaison, taxation, transport, security, energy affairs, agricultural affairs, industrial strategy, technology transfer, travel and tourism and Post Office affairs.

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'Global village' is exporters' market

BDay 17/5/90

THE nations of the world are increasingly looking to exports for economic growth and competition on the international market is growing.

Sacob deputy director-general Ron Haywood says the world is changing and there is a movement towards a "global village".

This increases the need for SA to think in international terms.

Haywood says sanctions were an expensive and difficult learning experience, but will stand SA exporters in good stead in the years ahead.

Many companies lost their traditional markets through sanctions and had to find alternative ones and new methods of trade. This leaves SA exporters in a better position as old markets open up through political change.

Certain industries which are world leaders in their fields, such as Armscor, have developed in the face of sanctions and will have positive spin-offs in the future.

Initiatives made by President F W de Klerk have led to a more open attitude to SA and goodwill towards the country is increasing.

Haywood, who has witnessed an upsurge in foreign visitors to SA, says all sorts of markets are opening up to SA and previously clandestine export activities are reducing.

Sacob trade secretary Bess Roberston says the world is moving towards greater deregulation to facilitate easier trade and to build up economies. But SA has "lost out" because of the inward policy started in the '60s.

She says the economies of those countries that limited two-way trade have suffered.

Business cannot develop a keeness of trade if it lives in a protective environment and the most successful countries have been those that lived with competition.

Another international trend is towards trading blocs, with one of the largest, the European Community, set to come on stream in 1992.

Robertson says this scenario must lead to a southern African bloc and there are many benefits to be reaped if SA can overcome political obstacles with its neighbours. Much of the infrastructure for such a bloc is already in place.

Haywood says the international trend is to use chambers of commerce to establish trade links with other countries. The recent Polish chamber of commerce visit to SA is an example.

RON HAYWOOD

Through its link with the International Chamber of Commerce, Sacob is able to provide information on a wide range of issues affecting trade.

Sacob also administers some bilateral chambers of trade represented in SA. It has an ongoing relationship with the Department of Trade and Industry and the Department of Foreign Affairs.

Keeping an eye on Parliament

BIDay 17/5/90 (180)

SACOB'S Parliamentary Information Service monitors activities in Parliament and provides the chamber with a flow of relevant and up-to-date information, says Sacob legal manager Ken Warren.

This facilitates timeous reaction where necessary.

All documents tabled in Parliament are dispatched to the Johannesburg office by express post or priority mail and short summaries and ratings of Bills are prepared to indicate ~~their~~ broad content and significance from business, industrial relations, legal and socio-political points of view.

From a central database, the parliamentary office prepares daily status tables charting the progress of the various Bills through Parliament.

Warren says: "This information service enables Sacob staff to seek comment or input via the Sacob network.

"It ~~also allows~~ them to prepare memoranda and submissions timeously for consideration by parliamentary joint committees, government departments and agencies."

The parliamentary office not only acts as "the eyes and ears" of Sacob in Cape Town, but also attends to the logistics of arranging meetings with, and presentations to, cabinet ministers, key parliamentarians and government officials.

Sacob unveils new charter

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) has pledged itself to the concepts of human rights, cultural rights, minority rights, peaceful solutions to SA's problems, a market economy, private property and a negotiated new constitution.

These are among the principles embodied in its Charter of Economic, Social and Political Rights outlined last night by director-general Raymond Parsons at a media conference to mark the official launch of the chamber.

Parsons said many businessmen involved in labour negotiations, consumer boycotts and the "broader debate" on current socio-political questions had requested guidance as to where Sacob stood on certain basic issues.

"(The charter) provides a valuable framework and a point of departure for the formulation of more specific policies and strategies," he said.

"We believe it is an essential restatement of principles at a time when the pace of change in SA has quickened ... and when there is a danger that sight may be lost of certain fundamental values which many businessmen would like to uphold or see upheld."

(180)

Parsons said the charter committed Sacob — formed in January through the merger of Assocom and the Federated Chamber of Industries (FCI) — to urging all members of commerce, industry and business to adhere to its principles.

However, the charter was just one of three inter-related steps Sacob was taking to address the questions businessmen were asking, he said.

□ To Page 2

5/10/90

Sacob president Leslie Boyd at the official launch of the organisation last night Picture: ROBERT BOTHA

Sacob charter

bDay 17/5/90 (180)

□ From Page 1

Other measures included a position paper on the issues surrounding inequality of wealth in SA — to be released within a few months — and an examination of the economic aspects of any new constitution.

Sacob president Leslie Boyd said its task was to promote policies aimed at optimal wealth creation in SA, and which promoted a sound economy.

"This path, Sacob believes, is the only sure way to secure employment, rising living standards, improved social standards and, above all, a free society."

In a message of support for Sacob, acting State President and Constitutional Development Minister Gerrit Viljoen said the merger of Assocom and FCI "... should enable the new chamber and the business community to act more effectively in meeting the challenges of a changing SA".

● Sacob survey Page 12 and 13

SA growth lies in improving products

(180)

5 Day 17/4/90

SA's future growth lies in improving its products and strengthening its manufacturing base, says Sacob deputy director-general Ron Haywood.

There is a need to add value to raw materials to promote economic growth, bring in foreign currency and create employment.

All the mineral-rich countries of the world have "sold their family silver" and are today poor.

But those countries which could not depend on their own raw materials have developed a different mentality and have shown strong growth, Haywood says.

While it is essential the manufacturing base grows, SA is faced with many inhibiting problems.

Shortage

These include inadequate education, a skills shortage and the need for research and development. The weak rand and surcharges make the capital required for manufacturing growth expensive.

In addition, factors such as high interest rates, inflation and the uncertainties in the country stand in the way of attracting investment into the manufacturing sector.

Given SA's limited resources and the challenges facing the country, there must be co-ordination and co-operation between different sectors of the economy and between government and private enterprise.

Haywood says Sacob sees itself as the bridge between different sectors of industry and commerce, different government departments and the public and private sectors.

(180)

A stronger voice to advise government

BD 17/5/90

SACOB was formed to give business a stronger voice in its dealings with government, inform members of developments, provide a forum to discuss issues of concern and develop new strategies.

These broad objectives provide the backdrop against which the role of the chamber's economics department needs to be viewed.

Chief economist Ben van Rensburg says: "The department has the job of formulating and motivating submissions to government on issues relating to the economy and the management of it.

"The purpose of this is to improve government's understanding of the problems facing business and to influence the policy directions taken by the authorities."

In formulating its policies, the department makes use of input from Sacob's membership, which is encouraged to make its views known to the various committees.

Because of the committee structure, Sacob's economic policies can justifiably claim to represent the views of business.

Van Rensburg says the department also makes use of two sets of indices — the Business Confidence Index and the Survey of Confidence Levels in the Manufacturing Sector.

The economics department has the additional responsibility of informing members on the performance of key economic indicators, changes in official policy and international trends and the likely impact of such changes on SA business activity.

Pooling resources yields better service

B Day 17/5/90 (180)

SACOB, through pooling resources of both Assocom and FCI, offers the SA business community an expansive range of services.

The country faces major social and economic challenges and it is imperative businessmen have a strong, unified forum through which to represent their case.

Sacob director-general Raymond Parsons says the creation of "the voice of business" will ensure their interests are adequately protected and promoted, and will help create an econonic climate in which they can flourish.

The chamber serves as a communication link between government and business on a daily basis, both formally and informally.

As such, it plays a vital role in furthering the interests of business in the realms of policy formulation.

It regularly receives foreign trade missions and envoys on SA fact-finding missions and also promises better and more effective international contact between local business and the outside world.

Parsons says the organisation keeps its finger on the pulse of the economy by conducting ongoing research and producing reports which are accepted barometers of the economic situation in SA.

These include its monthly business confidence index and survey of confidence levels in the manufacturing sector.

In addition, it operates a number of standing committees which deal with subject portfolios of significant and ongoing concern to business.

Arranging conferences and seminars on practical issues requiring business' attention is also on its agenda.

In this way, Sacob plays a key role in distributing and disseminating information, experience and knowledge on subjects critical to the well-being of business.

Apart from its role in influencing policymaking, Sacob also creates a network of business contacts within which members can maximise their business opportunities, says GM Robert Kaiser.

It is also party to the ATA Carnet System, which provides for duty-free movement of sample goods internationally.

Kaiser says Sacob's 102 constituent chambers serve their members by representing them in their respective areas.

These chambers have established sound relationships with local and regional authorities and maintain an ongoing liaison with them.

They provide services such as medical and pension facilities for employees, group insurance and group discount schemes on a collective basis which individual companies cannot achieve on their own.

Consituent chambers also organise events such as trade exhibitions and present members with valuable business information which would otherwise not be readily available.

Five embassies attend forum

B Day 16/07/90

ONE of the most notable developments in the CSR field in the past year has been the beginnings of a process of consultation between the major donors of social responsibility spending.

This is something that was impossible for a long time because of the normal competition between companies and because CSR spending was, for some, aimed in part at enhancing the corporate image.

This is a CSR goal now falling into disuse among most major corporate donors.

Recently, a group of CSR representatives of corporations and embassies held their fourth informal forum.

AECI Quality of Life budget manager Sandy Vandeyar says no fewer than 27 companies and five embassies — which spend many millions of rands on social projects annually — were present.

The purpose of this gathering, which meets more or less quarterly, is to share views, avoid duplication of projects and, as Vandeyar says, "ensure we avoid re-inventing the wheel".

It has served many useful purposes and promises to facilitate more productive CSR spending. It has already led to sharing of information on criteria, procedures, and systems.

180

Weed out

"Our goal is to improve efficiency, share successes and failures and prevent duplication.

"The gathering has also served to weed out chancers who sometimes appear among applicants for CSR funds and to promote especially worthy projects," Vandeyar says.

A longer term goal will be to work towards pulling in smaller or conservative companies not active in the field.

A 'tax' will cover reconstruction

(180)

BDay 16/5/90

GIVEN that there are many businessmen who believe CSR spending a waste of shareholders' money, an obligatory, legally enforceable, CSR "tax" for companies larger than a designated size is unlikely to win universal approval.

But Concept Interface MD Andrew Feinstein says this must be the way to go.

Concept Interface provides political research and analysis, advice on crisis management, community and government relations and lobbying, CSR research, informal sector/private sector relationships and general promotions and marketing in the "black market".

Its corporate clients include some of the best-known names on the CSR front. They include Liberty Life (Concept Interface helped devise the R67m fund recently announced by chairman Donald Gordon), Shell, the Permanent Building Society and Gencor.

Consultant

Unusually, Interface also acts as consultant to a number of left-of-centre educational, cultural and other groups such as the Funda Centre, SA Musicians' Alliance and the Peninsula School Feeding Association.

Its work includes organisational management and training, development planning and implementation and project development.

Feinstein says Interface has an innovative approach to CSR.

"We come with a political rather than a business background, but with a clear understanding of business needs.

"We believe a predominantly market-based economy is in the best interests of SA's future as a demo-

ANDREW FEINSTEIN

cratic country. But there is no such thing as a perfect market.

"The slogan 'the business of business is business' is inappropriate," he says.

If the new SA is to prosper, the racially skewed disjunctures have to be rectified and the private sector has a choice as to how this will be achieved.

Says Feinstein: "This can be achieved either through massive state intervention or through substantial private sector intervention in a pro-active way.

"If it is going to be the latter, it is necessary for the private sector to get prepared before the new government steps in and tells business what to do.

"We would like to see the corporate sector develop a coherent strategy so its position is clear during the political negotiations and the early days of a new government.

"We believe the basis of this strategy must be an agreement from the business community to lobby for a law requiring all companies above a certain size to pay a proportion of pre-tax profits (say up to 1%) to a fund to be used for social reconstruction."

Ignoring the revolutionary nature of the concept, Feinstein's arithmetic is not off-beam.

One percent of pre-tax profits is a not an unreasonable figure for a company which is committed anyway to setting aside for CSR spending.

It would also make available on an annual basis a sum not a great deal less than that set aside by government in the last Budget for remedying what were called "backlogs".

What about who decides how the money should be spent?

Feinstein says the establishment of a planning unit, on which representatives of the broadest possible range of interests sit, including big and small business and organised labour is necessary.

Compromise

The unit would be chaired by a representative of the state. The key would be compromise, thus ensuring the interests of all are served.

This would replace existing CSR programmes carried out by individual companies. Such a system would be more efficient and would avoid what he calls the "shotgun effect" of present CSR spending.

The ultimate rationale for supporting such a system, however, is that it is now crucial — particularly while anti-capitalist rhetoric is so prominent — for the business sector to intervene in the reconstruction of SA.

Private sector is set to play crucial role in new South Africa

(180) B/Day 18/5/90

IN THE last three months, SA has been set firmly on the road towards resolving its political crisis.

But one thing on which all contending parties agree is that a political settlement will not, in itself, remedy the economic malaise which manifests itself in low growth, skills shortages, unemployment and poverty.

The "new South Africa" will not be born wealthy.

While macroeconomic decisions will play a major role in determing whether these ills are eliminated, private sector corporate social responsibility (CSR) — in whatever form — remains crucial.

The Urban Foundation is the largest organisation through which CSR is conducted.

CEO Sam van Coller says the foundation's work will have to concentrate increasingly on making an impact on the the most disadvantaged 50% of SA society.

Van Coller says there are three basic approaches to CSR which have developed in SA.

Firstly, for some companies, CSR spending is carried out purely for corporate image or marketing reasons — to earn plusses in the eyes of the public or staff.

Secondly, there are those who believe CSR should have a social welfare function, acknowledging that SA's social welfare system is wholly inadequate. It is appropriate, they say, for those who make profits to spend part of them on social welfare.

Relief

This can take the form of ad hoc relief where crises arise — flood relief or, to take a current example, relief for the Natal refugees. Or it involves assisting welfare agencies take care of "society's casualties".

Thirdly, the more sophisticated approach sees CSR in developmental terms.

In this respect, the work can be carried out at different levels, says Van Coller.

There are local development projects which involve upgrading individual and community skills and capacities.

Then there are regional and national development programmes and, at the top of the CSR ladder, working for changes to government policies seen as obstructing the development of a stable and prosperous society.

The Urban Foundation is involved in development work at all of these levels.

Van Coller says local development programmes tend to receive fewer resources from the foundation because these can be conducted by individual companies.

The main Urban Foundation focus is on regional and national development and on working for policy changes.

The foundation has set out to create institutions with the capacity to conduct development programmes. Examples are its housing companies in different parts of the country.

In the area of education there is the Teacher Opportunity Programme (Tops) — jointly established by Mobil and the Urban Foundation — which this year aims at upgrading the skills of 10 000 teachers.

The task of working for policy change on behalf of business, Van Coller says, falls to organisations like the foundation, the SA Institute of Race Relations and Wits University's Centre for Policy Studies. It is not a role which can be taken on by individual companies.

Key tasks

Van Coller says political progress will not lighten the load of organisations such as his own and he sees key tasks ahead.

Firstly, it will continue to work for the successful removal of racial structures — for example, the Group Areas Act, the Land Acts and racially structured local government.

"We do not assume racial laws will simply disappear. We will continue to do this work through research, testing our research, observing international experience and promoting constructive proposals," he says.

It is essential for the foundation to interact with black political groups on those issues where there will be change over the next few years.

Secondly, even when all racial structures are gone, SA will be left with a society with seriously disadvantaged people.

"We will need to create ways of giving them access to skills and resources."

Thirdly, he says, it is vital for the foundation's programmes and policies "to impact more on poverty".

SAM VAN COLLER

Private sector will bear the brunt

180

B Day 18/5/90

THE private sector will have to bear the brunt of redistributing wealth and general social upliftment.

At an Association of Round Table in Southern Africa conference held in Cape Town recently, Sanlam MD Pierre Steyn said in a society which was changing rapidly on all levels the most urgent social problems were job creation, education, training, housing and the need for social upliftment.

"We will have to accept responsibility in shaping an environment of stability and peace through upliftment, not only for altruistic reasons but for our very survival," he said.

Goal

There are a number of ways to attaining this goal:

- Prejudice has to be eliminated and an atmosphere created in which all employees, regardless of race or sex can be assimilated;
- Opportunities for employees through training and other available methods have to be created — this will have to be based on merit and not tokenism;
- Business has to assist employees with housing in order to enhance their human diginity and quality of life;
- Privatisation has to take place in such a way that the underprivleged will be the main beneficiaries;
- Sustained support has to be given to organisations promoting entrepreneurship, such as the Small Business Development Corporation, and those promoting quality of life, such as the Urban Foundation.

David Pincus

NATAL FM 15/5/90

Picking up the pieces

After riding out some of the most intense political violence yet seen in the country, industry and commerce in Natal — in particular the Maritzburg-Hammarsdale corridor — are starting to pick up. (180)

As a semblance of normality returns to the factory floor, employers are starting to count the cost of the violence. It's hard to measure but all agree that business in the most troubled regions has taken a hard knock. There is also the uneasy feeling among employers and workers that they are now experiencing an artificial calm, imposed by security force reinforcements and stepped-up army patrols through the townships that serve as dormitories for industrial centres.

Rowly Waller, director of the Maritzburg Chamber of Industries, says that at the height of the stayaway in early April, forced by running battles between Inkatha and the UDF, one manufacturing member reported a daily production loss of R15 000. Other factors are harder to assess, like decreased productivity and lower morale.

"We estimate that over the past six weeks absenteeism has been running at about 30%, bearing in mind that there were periods when we had nobody at all coming to work."

Waller offers the following rough calculation, which applies only to the chamber's 200 manufacturing members, who employ about 35 000 people. A 30% absentee level means there are about 10 000 workers missing on any given day. Waller estimates the average wage to be about R80 a week, which means R800 000 in lost wages over the past six weeks.

He also estimates that wages make up about 20% of the cost of the average finished product, which means a loss of about R160 000 a week to industry — and that's only for the chamber's members in the Maritzburg region.

There have been other costs. "Our employees are losing houses all the time," Waller says. "In many cases they don't want to repair them, even when employers offer to help, because they feel it will just make them a target if the violence flares up again."

Surprisingly, business confidence is still buoyant in the Maritzburg region. It's among the highest in SA, according to the latest SA Chamber of Business and Seifsa surveys of confidence levels in the manufacturing sector.

The monthly survey of expected manufacturing production for the 12 months ending next March showed that Maritzburg had the second highest level of confidence, 136, compared with 74 in the Transvaal and a national average of 102.

The optimism is hard to explain, except to generalise that the common perception in Maritzburg is that things can only get better. While wider concerns, such as the slowdown of the economy and disruption caused by the number of public holidays in the past two months, saw confidence drop in most parts of SA, in Maritzburg the more immediate problem of dealing with the violence appears to have overshadowed other problems.

A similar effect regarding industrial relations has been observed by employers in Hammarsdale, the industrial hub bordering violence flash point Mpumalanga.

In response to the violence, a peace committee has been set up by companies in the area. It is ploughing money into community projects and mediating between local political leaders.

A spokesman for the committee, who asked not to be named, says there have been very few labour problems in Hammarsdale.

"Generally, employers have displayed great concern for their workers here. And we can only admire the guys who still manage to get to work despite all that's going on."

While the increased army and police presence has largely capped the violence in Mpumalanga, there are other problems developing. The transport system has broken down and employees are forced to walk to work, often long distances through hostile areas.

Even company transport schemes have largely stopped. One of the big employers in the area was forced to withdraw its buses when one of its vehicles was hijacked at gun point. It feels it can no longer risk its drivers' safety by sending them into Mpumalanga.

Though no businesses have closed or relocated from Hammarsdale because of the violence (nor in Maritzburg, according to the local chamber), new employment prospects have been scotched by companies holding up expansion plans or diverting investment to other areas.

On a wider level, national corporations have felt the effect of the Natal violence. Norman Nunan, OK Bazaars' regional director for the Midlands, says the violence has had a significant impact on the chain in Natal, though he says it's impossible to gauge the exact cost.

"The position is very fluid. It changes from month to month and moves from area to area. But when somebody gets stabbed in the doorway of one of your shops, as happened in Maritzburg recently, it affects business."

Marius Schlechter, Pep Stores' regional director for Natal, says both sales and customer volume dropped sharply in March and April. "It's picking up again quite quickly but we were badly affected by the violence." Schlechter says he cannot give figures yet.

Idasa, together with researchers from the University of Natal's Economic Research Unit, are assessing the effects of the violence and will present their findings at a seminar in Durban on June 14 titled: Violence in Natal: Counting the Cost, Assessing the Future. Idasa's Charles Talbot says the seminar will look at the broad implications of the violence, including the economic impact on industry.

☐ Natal is not the only area where unrest has severely hurt business. In Ciskei, industrial unrest followed March's coup and wholesale destruction of businesses. At its peak 28 factories were on strike. Virtually all are now back at work.

In Welkom, white businesses are losing R1m a day in a boycott by blacks that began early last week. It was called after a series of attacks on blacks by rightwing vigilantes.

Shaun Harris

Cape Town's novel idea

(180) FM 18/5/90

Cape Town business leaders have decided to promote their city as SA's first export processing zone. But, in lobbying for the idea, proponents are suggesting a radical departure from the usual export zone.

Traditionally, a government establishes an export zone by lifting import duties and other fiscal controls in a specific, limited area, usually near a port. This allows industrialists to invest in the area because they can maximise export earnings. Worldwide, about 400 successful export zones have been established.

The resulting stream of foreign investment, enhanced job-creation, higher export earnings and the injection of new technologies, generally more than compensate for the State revenues lost because of the abolished duties and taxes.

However, Wesgro executive director David Bridgeman says neither Cape Town — nor SA — have all the ingredients to become a successful export zone.

"In contrast to centres such as Shannon (Ireland) and Taiwan, which are both close to major growth markets or on major trade routes, we are situated off the beaten track, with the African market a rather poor shadow of a growing market. This means we have to look at the situation from a different perspective."

This month Wesgro, an organisation supported by local councils and the private sector to promote economic growth in the Western Cape, submitted its proposals for an export processing zone in Cape Town to the Cabinet. A decision is still some months away. Instead of delineating a specified geographic area, the zone's incentives would apply to any company in the Cape Town region meeting the zone's conditions.

"In contrast to the rest of the world, where zones are traditionally situated in a specific, controlled location, our suggestions provide for developments that would not be tied to specific locations," Bridgeman says. "In other words, any industrialist in the area could qualify for the incentives. We have no need to concentrate industrial growth in specific areas in order to make the optimal use of infrastructure. In general, our national infrastructure is good."

Another major difference is that he does not see the zone focusing on attracting foreign investment — at least not until the political and investment climates improve.

"We must instead focus on our existing industrial export strengths in the area and encourage these to expand dramatically in the years ahead. These include the textile, clothing and electronic sectors, all strong in the Western Cape."

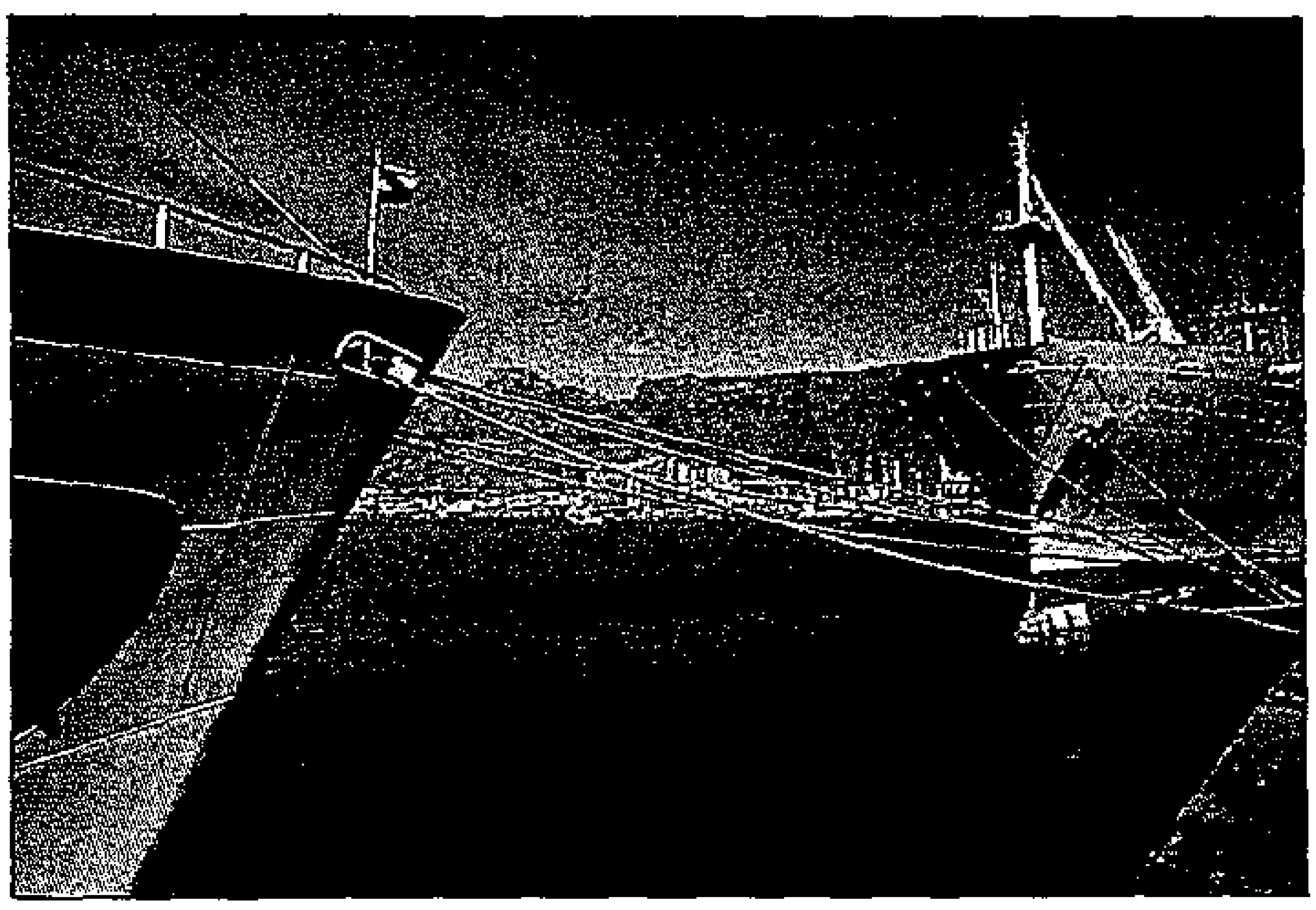
For example, SA still exports 90% of its wool clip in raw form, while the value of these exports could be increased tenfold by manufacturing jerseys, suits and other clothing for world markets.

"The comparative strengths of our region lie in technology, our strong management expertise and good quality, well-educated labour resources," Bridgeman says. "While other zones internationally often attract investment by offering cheap labour, ours is no longer cheap but it is cost-effective."

By focusing on the area's strong points, Wesgro intends using them — together with certain State incentives — as levers to increase exports from the area. In addition, the under-utilised Cape Town harbour offers excellent facilities for exporting around the world, he says.

"We do not see the export zone as a means of promoting regional development. Rather our focus is primarily on export promotion, using the existing infrastructure, skills and investment strengths of the area."

So, what should government do to help? Bridgeman says government's general export incentive scheme, which came into effect on April 1, already contains strong incentives for beneficiated manufactured exports. And, together with Customs Act encouragement for manufactured exports (using imported materials), they could be adapted to promote manufactured exports from Cape Town, he says.



Fill these outgoing ships with jerseys, Cape Town says

Bridgeman is vague on specifics but government could be swayed by the simplicity of his idea to move away from its traditional antagonism towards export zones.

"We must promote the export zone concept purely to enhance exports — and not for any other social or political reason, as has happened in the past," says SA Foreign Trade Association CE Wim Holtes.

"The concept allows industries to lock up parts of their manufacturing into export-dedicated production.

"The abolition of import duties and other zone incentives are normally linked to export performance."

But Customs officials have traditionally opposed the concept for fear that it would lead to a loss of State revenues. Applications by East London, Port Elizabeth and Richards Bay were rejected.

Since then, however, Economic Co-ordination Minister Wim de Villiers has been put in charge of assessing export zone applications and Wesgro is optimistic that, with the change of thinking in government, its proposal will be approved.

Slowdown hits manufacturing hardest — IDC

BIDay 21/5/90

(180)

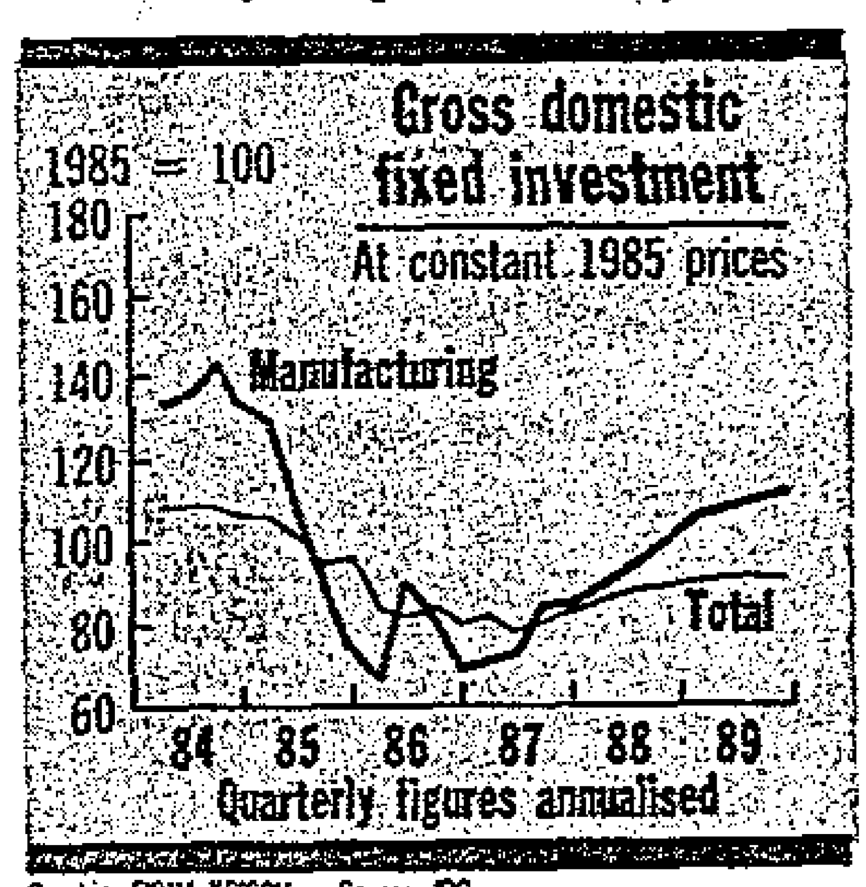
BRENT MELVILLE

THE manufacturing sector has been especially hard hit by economic slowdown measures, with real manufacturing production about 2,0% lower over the last quarter of 1989 compared with the same period in 1988, says the Industrial Development Corporation (IDC).

According to the IDC's latest report, this compares with a real production increase of 0,8% over the previous year.

The IDC attributed the slight increase, made in spite of slowdowns in both manufacturing as well as mining production, to consistent growth in agricultural production, electricity generation, construction and transport services.

"Another positive development was a major expansion in export volumes, the volume of non-gold exports having increased by 16% in 1989."



Graphic: FIONA KRISCH Source: IDC

The report noted the expansion in real fixed investment decelerated in sympathy with the developments in the economy. In the last quarter of last year it was about 2,0% higher than a year ago.

In addition, growth in real fixed investment in manufacturing was lower than during the first half of last year, growing at an annual rate of about 10% in the fourth quarter (see graph). However, the report added that real fixed investment in manufacturing would inevitably weaken in accordance with the lower level of economic activity this year.

The IDC felt prospects for real growth in the domestic market were poor and exports were therefore gaining in relative importance: "Manufactured exports would benefit especially from the new set of general export incentives that came in to effect this April," it said.

The report highlighted the fact that for the three months ended February, the value of manufactured exports increased by 9% compared to the previous three-month period.

Production prices for the three months ending January were on average 15% higher than the year before and the labour cost per worker for the three months ended December last year was 20% higher.

A bear phase awaits industrials — analysts

(180)

B/Day 22/5/90

THE industrial index, which started weakening early in February, could enter a major short-term bear phase very shortly, according to top analysts.

The sector's recent results were a very mixed bag.

Most worrying, say analysts, are a number of poor results from food companies, which tend to be counter-cyclical.

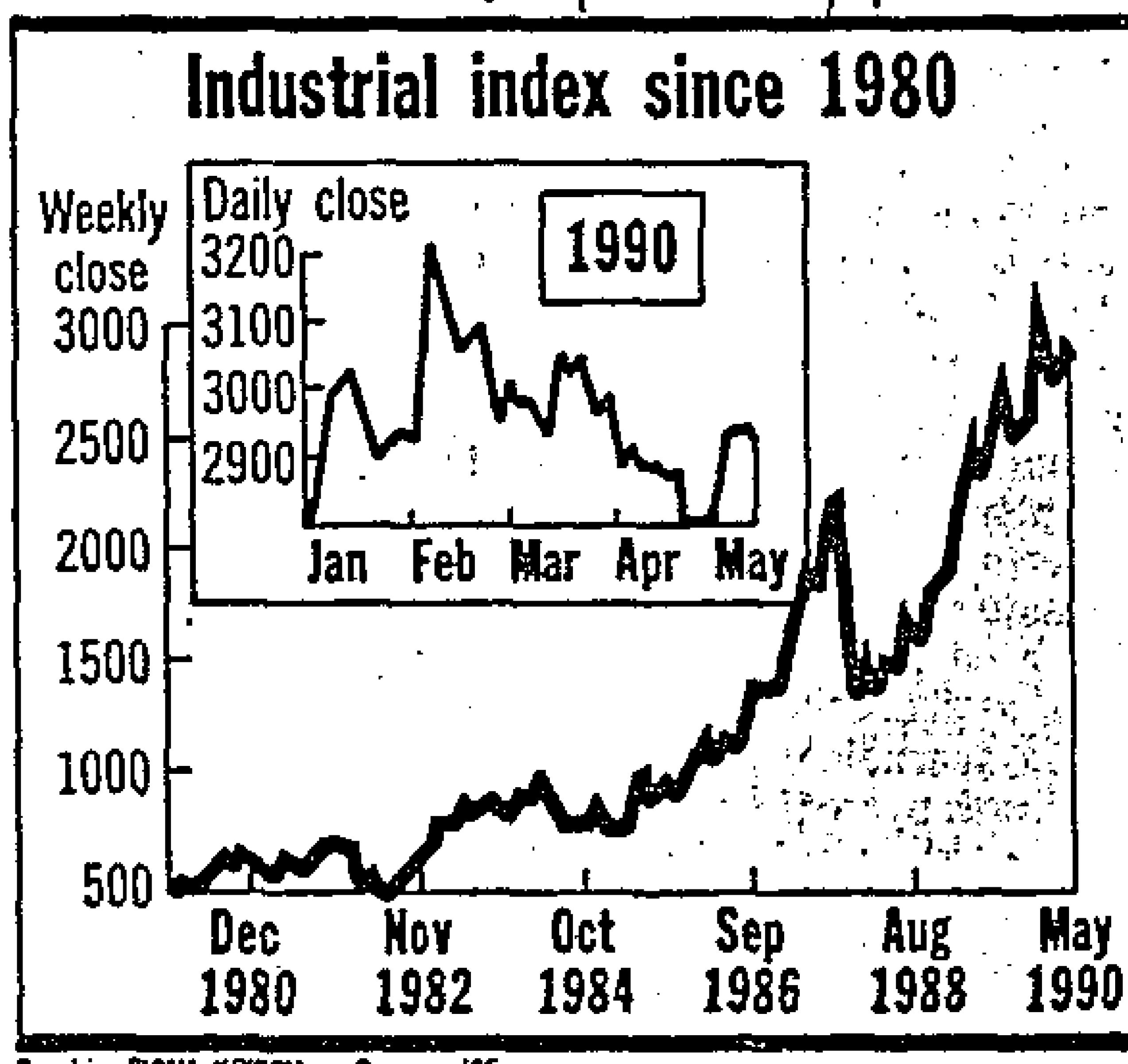
Analysts say fundamentals such as continuing high real interest rates, slackening economic growth and labour and political unrest have combined to produce more negative than positive factors. They add that the JSE is reacting more sharply to political developments than ever before.

Overall, the few pickings seen on the JSE are De Beers, platinums and certain base metal counters, besides special cases in most sectors. Industrials are seen as distinctly weak.

Mathieson & Hollidge research head Dee Ashton says: "Technical analysis of the industrial market suggests an increasing level of long-term sellers, although there are still signs of short-term jobbers taking advantage of rallies.

"The greater number of long-term sellers suggests that the sector has gone ex-growth. For example, in October 1989, capital appreciation in the sector on an annualised basis was 75%; it is now 21%.

"Despite the general rise in the index, it is not increasing as fast as it used to. It appears that it will slow further during the year, suggesting that the index is starting a downward corrective mode likely to continue until early-1991."



Graphic: FIONA KRISCH Source: JSE

BARRY SERGEANT

While analysts argue that industrials appear expensive, many counters offer attractive earnings and dividends yields.

On fundamentals, analysts stress that signs of a crack in the Dow Jones index — which the JSE industrial index tends to shadow — are still much in evidence. Analysis of earnings using price/earnings ratios show tremendous variance among industrials, and can normally be explained by detailed examination of each company.

For example, SA Breweries boasts a PE of 16 after this week's outstanding results, while Barlows sits at 7,4. Lonrho is on 15,8, mainly because of its offshore earnings and strong platinum interests. Altech is on a 7,2 PE despite recent poor results, threats to its business occasioned by defence spending cutbacks, and cutbacks by quasi-government organisations such as the Post Office.

However, institutional fund managers see long-term buying opportunities in industrials.

Of this week's new Old Mutual unit trust fund launch, fund manager Adrian Allerdyce said it would be "fully primed to take advantage of an upturn in the market, expected late next year and in 1992." The market was not overpriced in the long term; weakness in the market yielded "ideal buying opportunity".

An overall picture of industrial counters, including hundreds of JSE-listed companies, suggests that the outlook for interest rates is a vital factor.

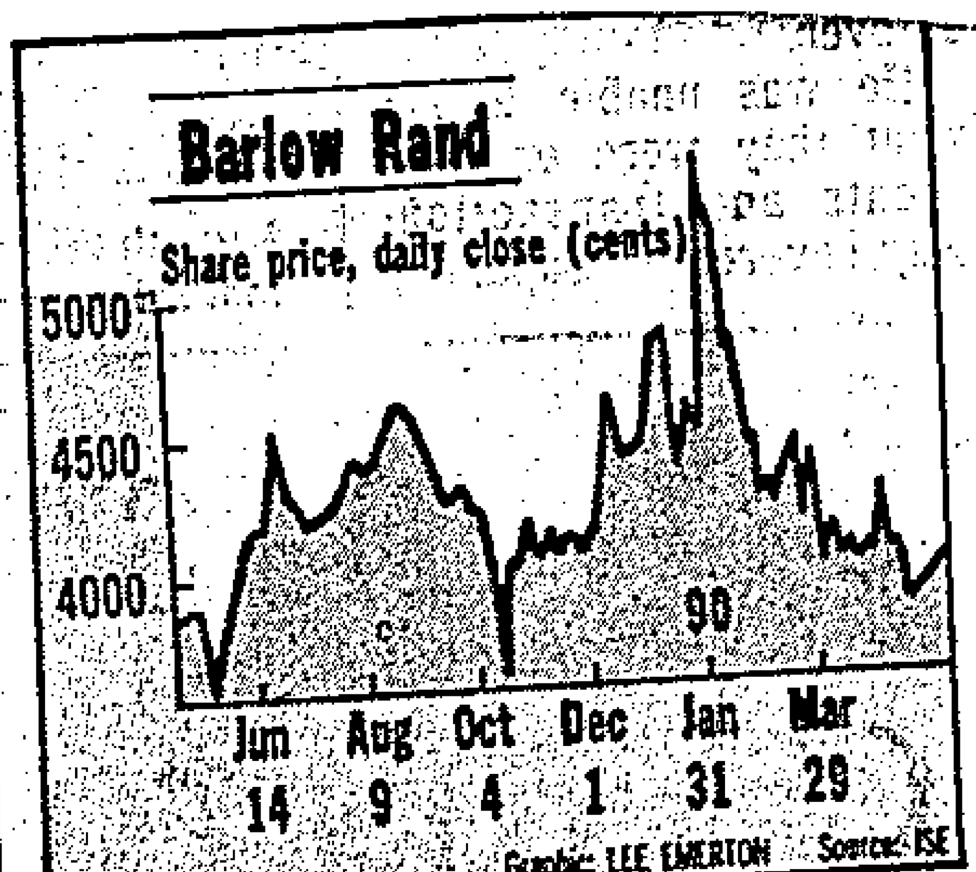
Executive bankers and economists expect rates to peak in about the third quarter, while inflation delcines. The implication is that interest rate-sensitive industries should benefit from increased demand when interest rates start softening.

This bodes well for highly geared companies. Retailers with established inroads into the more affluent black consumer market are seen as well placed for healthy growth, as spending power in this area is expected to rise.

Services are expected to grow 3% in real terms, against a maximum estimated 1% increase in real GDP for the year.

A favourable outlook is also seen for industries that could benefit from the latest legislative changes such as relaxation of hire purchase restrictions, and export-oriented companies with specific potential for exports to Europe and the East, as the rand is not expected to weaken significantly against the dollar during this period.

One analyst summarises industrials thus: "Although portfolios should still be weighted towards industrials, most blue chip industrials seem relatively well valued. Accumulation rather than aggressive buying is recommended, with a bias towards interest rate-sensitive stock (furniture and motor)."



Barlow Rand lists dividend of 51c

(180) BARRY SERGEANT (220)

MULTINATIONAL Barlow Rand, SA's leading industrial counter, exceeded market expectations by maintaining its interim dividend at 51c after a 9% fall in earnings per share to 218c (241c) for the six months to end-March.

CE Warren Clewlow said trading conditions in the second half of the financial year "will remain difficult and the ferro-alloys and stainless steel division will produce substantially lower profits".

As a result, earnings per share for the full year would be below those achieved last year, he said.

The Barlows share price has been marked down sharply recently, but gained 60c yesterday in active trading to close at R38,75, capitalising the multinational at R7bn. BDay 22/5/90

The share price is on a historical seven times price:earnings ratio, and off its 12-month low of R33.

Other key figures for the six months were turnover up 11,4% to R13,8bn, long-term liabilities marginally up at R1,9bn, and capital expenditure at R808m.

Barlows' segmental analysis for interim on interim shows: mining and mineral beneficiation down 13% to R221m; industry down 9% to R154m; packaging and textiles down 8% to R116m; food and pharmaceuticals up 2% to R211m; and international up 16% to R57m.

Property, finance and administration recorded a deficit of R22m (R20m). This gave an overall 6% increase in profit after taxation, including associate companies, of R736m. Interest paid was sharply up, but in line with expectations, said Clewlow.

Fedvolk to go lean after poor results

BD 23/5/90 (180)

ZILLA EFRAT

INDUSTRIAL holdings giant Federale Volksbeleggings' earnings have plunged 35% in the year to March through poor performances from some subsidiaries, coupled with the economic downturn and high finance charges.

Earnings of 56,6c (86,9c) a share, on a 13% rise in the weighted average shares in issue, follow directors' revised forecast in March of about 60c a share.

However, newly appointed MD Peet van der Walt says Fedvolk has reassessed its portfolio and introduced remedial plans to return the Sankorp-held group to profit growth.

While he will not disclose full details, he says Fedvolk will have to reduce its sensitivity to economic cycles and narrow its focus.

Short-term and medium-term actions will result in certain rationalisations, disinvestments and other operating strategies.

Fedvolk has declared an unchanged dividend of 21c a share, covered 2,7 (4,1) times, as the group views the earnings drop as a temporary setback.

Attributable profits fell 26% to R95,3m (R129,5m) after substantial losses were made by tractor producer Fedmech and white goods manufacturer Tek.

The service division, which includes Price Forbes, Avis, Fedics and Interpark, improved its earnings by 14% to R29,9m (R26,3m).

Van der Walt says while Avis experienced sales growth, its margins came under pressure.

The food division, comprising Fedfoods, showed a slow 4% growth in earnings to R35,4m (R34m), but the pharmaceutical division, consisting of SA Druggists, saw its

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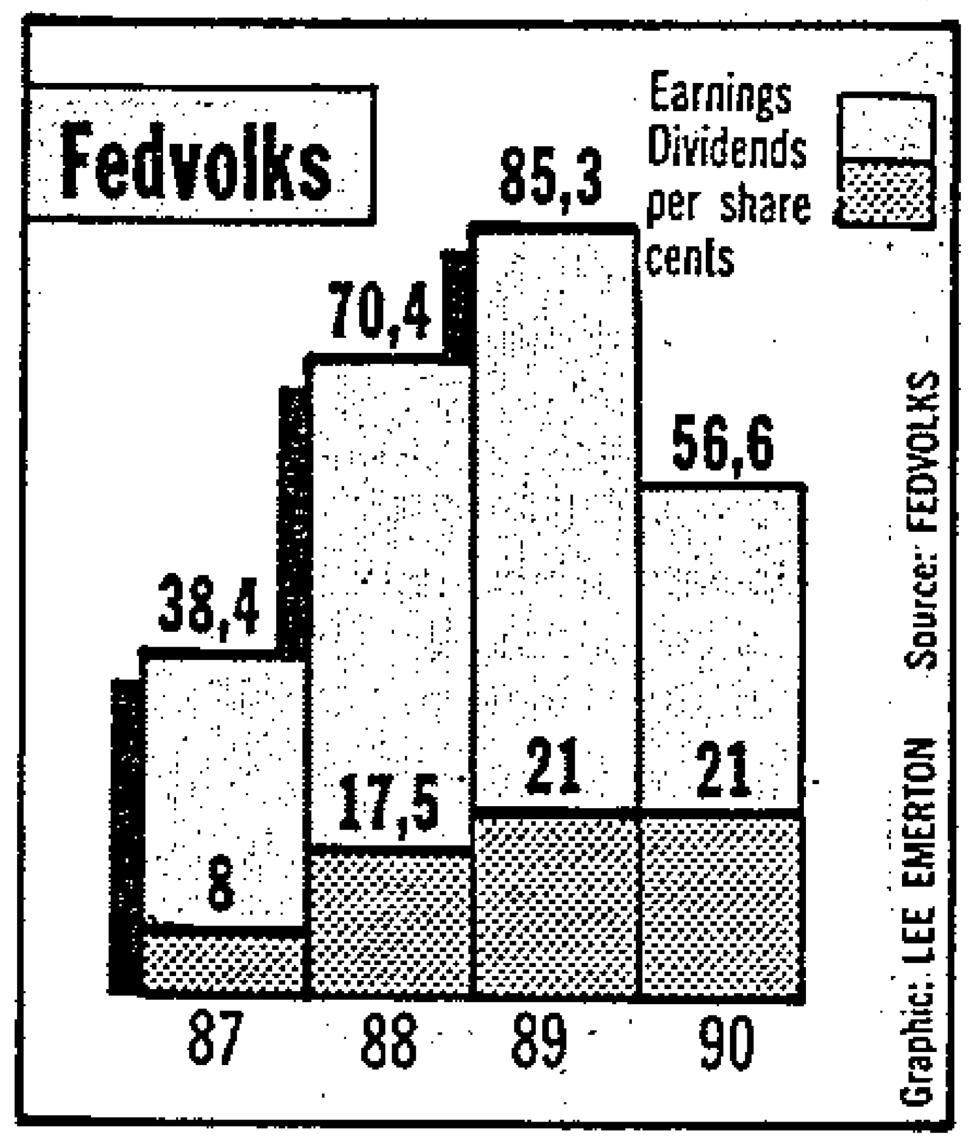
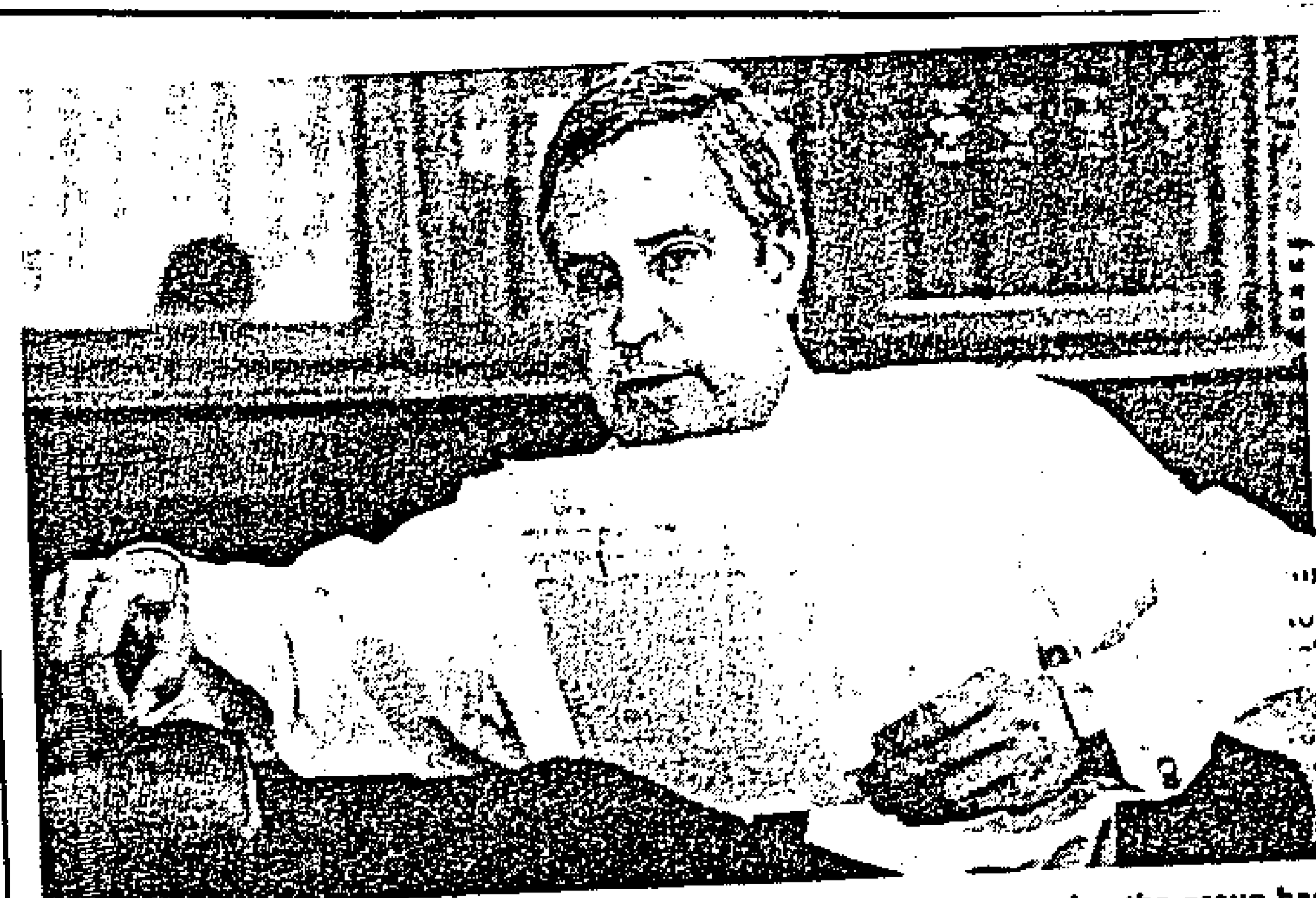




Peet van der Walt, MD of Federale Volksbeleggings, who said yesterday the group had taken action to return it to profit growth. Picture: ROBERT BOTHA

Fedvolk

BD 23/5/90 (180)

☐ From Page 1

earnings fall 1% to R27,7m (R28m).

The domestic and consumer division made a R2m loss after profits of R23,5m the previous year. Teljoy showed almost static growth, while crockery manufacturer Continental China, set back by production problems and industrial action, turned in poor results.

Tek was affected by high stock levels, large borrowings and restrictions on consumer spending in a weak durables market.

The motor component and agricultural equipment division, which includes Gabriel, Raylite and Champion, saw its earnings plummet 28% to R14,5m (R20,2m) solely because of losses made by Fedmech.

An extraordinary item of R85,7m comprises extraordinary losses incurred during the year and a provision for the cost of further portfolio rationalisation.

Turnover rose 13% to R3,8bn (R3,4bn), but the drop in consumer spending, particularly in the second half, is seen in the 9% fall in operating profits to R291m (R321m) on operating margins of 7,6% (9,5%).

Increased interest rates and overstocking in some divisions saw the interest bill soar 89% to R130,7m (R69,2m) and interest cover fall to 2,2 (4,6) times.

On a higher tax rate at 43,5% (37,8%) and after outside shareholders took a lower stake at R15,9m (R40,4m), attributable earnings were down 26%.

With the economic climate for the current year set to be be exceptionally difficult, earnings in the first half will be lower than of the previous year. Nevertheless, a growth in earnings for the full year is expected.

CIM - TIS 23/5/90 (180

Concern over unemployment

THE past year's rapid economic growth rate had led to a marked decline in unemployment this year, Sanlam said in its economic survey for May.

The number of registered unemployed whites, coloured people and Asians had, for instance, dropped from more than 82 000 in August 1986 to less than 43 000 by the end of 1989, with black unemployment following the same falling trend.

But the report warned: "It remains alarming that — according to official figures — almost 750 000 blacks, or less than 10% of the economically active black population, are still unemployed."

Retail sales had dropped markedly since the latter half of 1988, although spending had stayed relatively high, but real spending on most consumption categories was "declining noticeably".

Sales of new passenger cars were down and were expected to drop further due to "continued high financing costs and high prices of new vehicles".

Factory output had also declined in volume recently, and the report expected business conditions in the industrial sector to deteriorate further in the year ahead.

"There are growing signs that the downturn in general economic activity is gathering momentum. We expect that real gross domestic spending will decline by about three percent in 1990, which will not be as bad as the drop of almost eight percent in the previous downturn in 1985," the report said.

Inflation was expected to run at around 14% for 1990, with the inflation rate for food, especially, being "still very high".

Although the rand was expected to perform "fairly firmly" in the next few months, it was necessary in the long term for South Africa to "push its inflation rate to considerably lower levels if it wishes to protect its currency and keep its products competitive on foreign markets".

The current account on the balance of payments was expected to show a surplus of around R6 billion in 1990. — Reuter

W/Mail 25/5-31/5/90

Is big also bad? ANC and industry agree to differ

The historic meeting between business and the ANC this week made it clear that a major obstacle remains: The ANC wants anti-trust legislation on the lines of the US or British models, business considers this 'perfectly foolish'. REG RUMNEY reports

THE African National Congress has made an anti-monopoly drive part of its agenda.

This became clear at the press conference after the Consultative Business Movement's "Options for Building an Economic Future" meeting between businessmen and the ANC.

It also became clear that apart from sanctions and nationalisation this was an issue on which big business parted company with the ANC.

The 270 people paid to be at the meeting, which was also attended by 50 to 70 guests, including an ANC delegation of 40 people.

Anglo American executive director Gavin Relly's speech, released at the conference, contained much of what has already been said by the private sector about the limits imposed on redistribution by the economic state of the country and outside investment.

ANC deputy president Nelson Mandela's address to the meeting covered a number of economic issues. He stressed that the structure of economic power as well as political power would have to be altered.

He said the "excessive concentration of power in a few white hands" had to change.

"It is said that less than 10 corporate conglomerates control almost 90 percent of the shares listed on the Johannesburg Stock Exchange. If somebody did any arithmetical calculation, he or she would probably find that the total number of people who sit on the boards of these companies as directors is far less than 1 000. These will almost exclusively be white males. If you add to this fact that 87 percent of the land is by law white-owned and is in fact owned by a minority even among the whites, then the iniquity of the system we have all inherited becomes even more plain."

Two sides of the coin ... Nelson Mandela shakes hands with an ideological adversary, Gavin Relly

Mandela's speech played down the issue of nationalisation — though in the press conference later he affirmed it had not been dropped from the ANC's agenda.

Nationalisation and redistribution were not the only words in the ANC's economic agenda. One of the many other issues the ANC would have to consider was whether South Africa might learn from United States anti-trust laws or the work of the Monopolies Commission in Great Britain to ensure no unhealthy overconcentration of economic power.

At the press conference Relly reacted to the idea that Anglo might be broken up in terms of anti-trust laws: "I think the idea perfectly foolish." A distinction had to be made between monopoly and bigness. "Bigness can't help itself."

He said he did not think South Africans were stupid enough to kill the goose that lays the golden egg.

In his speech, Mandela did qualify the anti-monopoly drive suggestion by adding that South Africa's economic realities might dictate various optimal sizes for different firms. Among factors to be considered in looking at economic concentration were economies of scale, the capacity to generate large enough funds for investment, the strength to compete on international markets and the ability to do research and development.

Mandela raised the possibility of putting government appointed directors on the boards of privately owned companies.

He said the state might establish new public corporations or strengthen existing ones. One area for public involvement might be housing.

But, he added, enormous savings would be made in abolishing apartheid administrative structures and thinning down the security forces.

He said too that small and medium business would have to be encouraged.

Other points made by Mandela were that privatisation would have to stop, at least until a new government was in place, especially since it would reinforce unequal power relations.

There was, he said, agreement on the need to generate sufficient domestic savings, attract foreign investment and keep inflation low.

He expressed concern at reports of domestic companies exporting capital from South Africa — the propagation of "a gloomy picture of South Africa" would sink South Africa into the economic crisis afflicting many African countries.

Mandela emphasised the need for a democratic parliament and the public to work out a macro-economic national plan.

"We are saying, in other words, that the process of growth cannot be left to develop spontaneously because it would ineluctably result in the structural distortions and imbalances which have to be corrected."

Growth by itself would not ensure equity, he said, apparently in response to a liberal economic stance.

Mandela warned that public finances would come under pressure from a future state's social responsibility to provide some sort of material cushion for the disadvantaged.

Concerns about the capacity of the tax base to carry an increased state budget were legitimate but with envisaged rapid economic growth, the tax system would have to be reviewed. (180)

"The aim would be to reduce the burden of direct and indirect taxation on sections of the community least capable of looking after themselves and to shift more of the load on to the corporate sector without, of course, producing a situation of diminishing returns."

Liquidations surge and firms stall on payments

(180)

BD 28/5/90

ZILLA EFRAT

SA INDUSTRIES, feeling the effects of the economic slowdown across the board, are not paying their bills.

While liquidations are on the rise, overdue accounts have been increasing significantly.

For example, overdue accounts in KreditInform's KISS system, which contains the ledgers of more than 100 companies representing a broad spectrum of SA industry, are at 34%.

KreditInform MD Ivor Jones says the overdue situation has been consistently deteriorating on a monthly basis since November, and appears to be worse than that seen in 1983/84.

First National Bank GM group credit Neil Garden says the risks on many accounts, including home loans, are increasing as the inability to meet repayment rises.

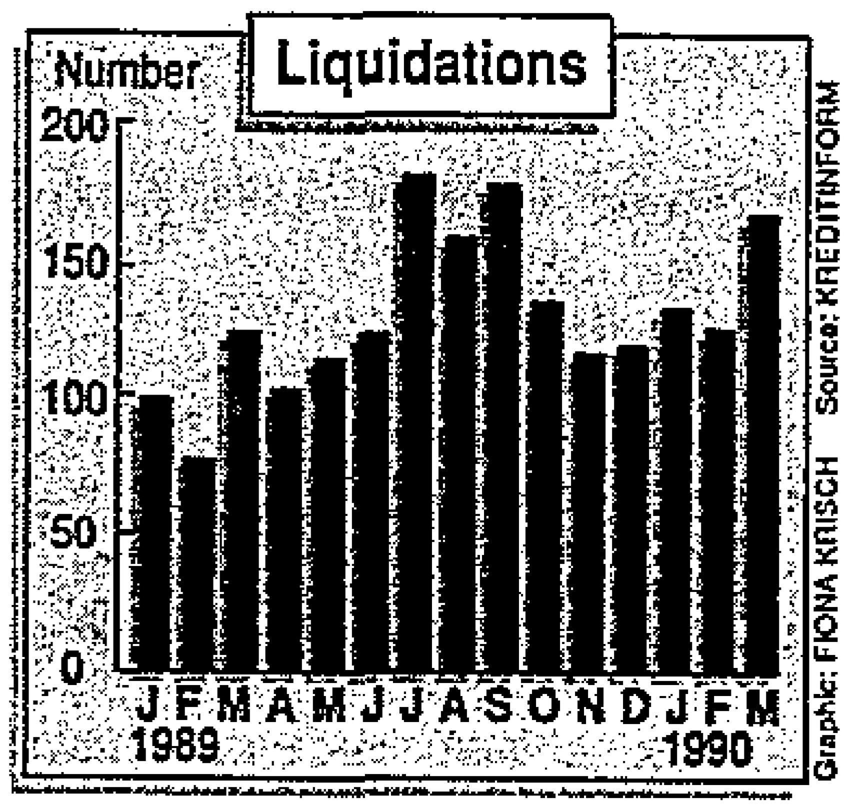
With cash being very tight, companies are using tactics to delay payment, such as querying accounts and insisting on reconciliations, says ITC chairman Paul Edwards.

He says as companies try to improve their cash flows by delaying payment they impact on other companies, especially the cash-strapped small companies.

The good news is that SA business has become more sophisticated in managing its credit.

Edwards says businesses have learned many lessons from previous downturns. They are now better managed and leaner, which will prevent a "blood on the wall" situation.

While it is an old game to stall payment, there are mechanisms to ensure prompt payment today.



Liquidations surged 40,5% in the first quarter of this year, compared with the same period last year, and 13,6% on the last quarter of 1989; and there is a noticeable trend towards increasing overdue accounts.

The emergence of credit bureaus with advanced credit data systems means few companies are likely to risk their credit ratings. Companies are also taking more sophisticated steps to protect themselves.

Garden says the balance sheets of the larger listed companies, compared with previous downturns, are in better shape. Good credit management in the larger and medium-sized companies makes them better equipped to withstand the downswing.

Jones says those companies which keep their gearing low and react quickly will be able to weather the current storm. Those who do not will push the liquidation figures higher.

He says all industries are illiquid and sales have been falling across the board. But the hardest hit industries are those in consumables, with the rest of industry following.

Garden says the signal from all industries in the last few months is their future financial results will not be good, as they feel the effects of the softening in consumer demand, coupled with work stoppages and unrest throughout SA.

High interest doesn't gel with reform

WMail 25/5 - 31/5/90

180

The government's current deflationary policy of high interest rates may conflict with the process of reform and negotiations, reports ALAN HIRSCH

AS the downturn in domestic spending bites into the manufacturing sector it appears increasingly likely that the government will be forced to counteract the severity of the economic slowdown.

The monetary policy of high interest rates which aims at containing domestic expenditure is the required response to the twin problems of foreign debt obligations and inflation, but the timing of the strategy does not mesh with the government's reform and negotiations programme.

Government economists, such as Japie Jacobs, special advisor to the Minister of Finance, continue to insist that they can see no reason to depart from the current deflationary policy of high interest rates. Sources indicate that Finance Minister Barend du Plessis had expected lower interest rates in the third quarter of this year, and he might feel politically pressurised to push for such a move if the economy continues to decline.

Economists Johan Louw of Sanlam and Edward Osborne of Nedcor both have revised their predictions of 1990's gross domestic product growth rate to 0,5 percent. In other words, the output of the economy will increase marginally over the course of the year. As Osborne points out, if one takes into account the way the growth rate is calculated, 0,5 percent is tantamount to zero growth.

1990 will be a year of standstill and consolidation, but not recession, the economists both argue.

Yet Johan Louw estimates a decrease in gross domestic expenditure of 3 percent. This means that South Africans will be spending less this year than last year, inevitably leading to declining living standards. Louw argues that the downturn will not be as severe as the 1985/86 period when domestic expenditure fell by 8 percent, and that wage increases in recent years will soften the blow. Also, the budgetary income tax breaks announced in March will only filter through in July.

Edward Osborne believes that the Central Statistical Services (which provide the estimates of quarterly growth trends) may have factored an expected decline in agricultural output too strongly into the estimates of the economy's performance between January and March.

The performance of the mining sector also seems less sluggish than the first quarter estimates indicate. So, although the South African economy seems to have experienced two consecutive quarters of negative growth (to the end of March), the most recent estimates might be too pessimistic.

But if there is positive growth this year it will only be because of the continuing strong performance of exports relative to imports. So the marginally positive growth rate by no means indicates a relatively healthy domestic economy.

Barend du Plessis

Moreover, the low gold price might weaken export levels, not only damaging the growth rate, but also South Africa's balance of payments position. Louw now estimates that the current account will meet the maximum requirement of a R6-billion surplus to match potential capital outflows (rather than exceed it as he predicted earlier this year). But Louw's estimate is based on a gold price which averages $390 over the year, which it may not judging by its performance this week.

One of the reasons for the relatively low level of imports is the fact that because of an extremely low level of investment in the manufacturing sector there have been very few imports of productive machinery in the past year. The low rate of capital formation in manufacturing is a most disturbing feature of the contemporary economy, notes Osborne.

So far, says Osborne, the collapse of investment in industry has not resulted in widescale lay-offs (though the *Weekly Mail* described disturbing trends in the clothing and textile industries two weeks ago). If the retrenchment trend grows the government might be forced to restimulate the economy.

Alex Boraine, co-director of the Institute for a Democratic Alternative in South Africa (Idasa), is very concerned that the condition of the economy might jeopardise the negotiations strategies of both the government and the African National Congress.

The government, he argues, was pressured into talks partly by the economic crisis, but socio-economic degeneration leading to widespread militant discontent may dissolve the climate for negotiations, weakening both the government and the ANC.

Boraine believes the the ANC will have to join with the government in short-term initiatives to alleviate the conditions of the very poor. The dispersal of the state sponsored two billion rand "Independent Development Fund" might bring some relief, and indicate that the negotiations are bearing fruit. In the absence of such an intervention, says Boraine, the Pan Africanist Congress could begin to mobilise the discontent in the townships.

Yet Osborne notes that it will take time for the fund to become operative, and he does not expect it to have any impact before 1991.

BUSINESS

Bigger, better show will be hard to match

By HILARY ANDERSSON

THE MatchMaker '90 Exhibition at the Nasrec showgrounds last week was bigger, better organised and more successful than last year, said Co-ordinated Marketing and Management representative Howard Pell.

However, continued growth of the project, which has parallels in Cape Town and Pietermaritzburg, faces certain challenges.

The initiative, which aims to match the needs of big businesses with the interests of small firms, attracted five new buyers this year, including Rand Mines and Crown Cork, according to MatchMaker Services executive director Zuko Tofile. BP and Gencor are expressing interest in next year's event.

He said the core of interested companies, though, remained American. Attempts were being made by the organisers to attract a more diverse selection of companies, especially South African concerns.

He adds MatchMaker's budget increased by 50 percent this year and was expected to double to almost R500 000 next year. The United States Agency for International Development had also donated R130 000 to help the development of the recently formed MatchMaker Services, which provided training and advice to small businesses.

The rapid expansion of the project had caused the need for permanent staff and offices. This need had been recognised and sponsors were now sought, he said.

Pell said from both the buyers' and the sellers' side MatchMaker'90 had been a success. There was a substantial increase in turnout this year. It was believed that the more selectively drawn up invitation list this year led to an increase in contracts signed.

Tofile said the sought-after exhibitors' stalls at the three-day show were oversubscribed this year. One hundred and eighteen small businesses exhibited their wares, compared to only 45 in the first exhibition in 1986. About 65 percent of the businesses had exhibited last year and came back for more.

For many small black entrepreneurs the exposure to big business and white businessmen alone is enough to make the exhibition worth their while. Exhibitors this year came from as far as the Transkei, the Northern Transvaal and Bophuthatswana.

Competition for floor space at MatchMaker had meant increased selectivity, and consequently a higher quality of product exhibited. This was seen as a positive development by Tofile.

The changing face of MatchMaker is one where the big companies attend out of strictly business interests, instead of out of social conscience. "We don't need handouts", said a speaker at the MatchMakers opening ceremony.

Tofile says about 70 percent of the sponsoring companies, however, did give "handouts", in the form of the finance of exhibitors' stalls or one-off contracts, and leave it at that. It is only the other 30 percent which provided advice and other non-financial support to the small companies. It was these sponsors who have nurtured MatchMaker's success stories.

CIH Chemicals, sponsored by Mosanto, was one such success story, according to chief executive James Findlay. Mosanto had offered marketing and book-keeping advice and use of their buying power to help make the small Alexandra-based company a success.

Ludo Curtains, which was started in 1987 and operated out of a garage for a year but now has premises in Malboro, has exhibited at MatchMaker three times now. Lucia Mothiba, the owner, claimed that she had "double the success" every year.

Reason to get it right

180

British consul general John Doble, making his first official appearance in SA, sounded a positive note during an SA-Britain Trade Association lunch in Johannesburg. Here is an abbreviated version of his speech.

Our commitment to SA and to all South Africans is strong. There were some who disengaged in protest against apartheid; but Britain remained, during all those difficult years, trying to promote reform through persuasion and dialogue.

SA is more important to Britain than it is to any other country in the world, apart from your immediate neighbours. We have more at stake than anyone else; for us it is much too important for posturing.

Many South Africans have some degree of British ancestry. Around half of all the overseas investment here is British, to a large extent for historical reasons; and we sell more than £1bn of exports to SA each year, rather more than we do to the whole of Latin America.

It is not for the British government to get involved in the process, that has happily begun, of South Africans working out with South Africans, a constitutional solution to what is a unique SA problem. At the same time we want to do anything we can to help achieve a peaceful and prosperous future.

British-SA trade, I'm glad to say, is flourishing. Last year, we sold you goods worth £1,038bn; you sold us £885m. But, whereas our exports were static with your tight monetary policy, yours to us went up by 10%. In the first quarter of this year, there has been considerable growth in each country's exports to the other — ours up by 14%, yours by a staggering 43%. Our visible trade is now in balance for the first time since 1986. We have done well in power generation, railway engines, machine tools and mine equipment.

Invisible trade is also healthy. Lloyd's has long had expertise in handling the special insurance needs of SA industry. In the other direction, British tourism here, from a high level, rose 18% in 1989. SA has long been a favourite wintering place for those who can afford the trip from Britain; and tourism should be a growth sector for you.

Of course, new investment is critical for you, if SA is to create jobs. Mrs Thatcher has ended the voluntary British ban on new investment. Commentators have said that this will not necessarily lead to any immediate new investment at all: they point to businessmen's doubts about the future here, partly in the light of the ANC's remarks on nationalisation. People have also pointed out that SA will now be competing for investment with eastern Europe.

But, unlike the countries of eastern Europe, you have a functioning, free-market economy and business practices with which British firms are familiar. I believe that there is great potential for new British investment here, once — and these are the two big provisos — you have achieved a new constitution acceptable to the majority of the people in this country, and one which retains a largely free-market economy.

The recent government-ANC talks, coupled with more realistic remarks by ANC leaders on economic policy, give considerable hope that such a settlement will be achieved. Almost all the top British firms have remained in SA, because of faith in your future and with an eye obviously to future business.

So once political reform releases the full potential of your economy from the restraints of both apartheid at home and sanctions abroad, I expect to see most British firms investing in expansion, to meet increased demand. The enhancement of black living standards, which is already under way, will obviously create great new demand in sectors such as construction, water supply, furnishings, electricity supply and domestic equipment.

With a settlement here, much new demand will also come from the other countries of southern and central Africa. There has been much talk at the UN and elsewhere of the plight of Africa and the need for aid of Marshall Plan proportions. This is clearly over-optimistic, especially with the urge, the duty, to help the countries of eastern Europe emerging from the long, dark communist night. But there would undoubtedly be a great welcome internationally for a constitutional settlement here, together with a determination to rebuild the economies of the whole region.

Considerable new aid would flow, mainly to the surrounding countries. A very great part of the equipment and expertise to rebuild these economies, would come from SA. British firms bidding for contracts there would probably generally bid through their SA subsidiaries, or take SA partners. Within a few days of Namibian independence, Lonrho announced a $150m sugar plantation and refinery producing 60 000 t rising to 100 000 t a year. Guinness will be made under licence in Windhoek from June 2.

In Mozambique, Gencor and Lonrho are discussing a joint project for the rehabilitation of the Moatize coal mines, which could produce 7 Mt a year for 500 years. The electricity industries of the countries of the region are already talking to Eskom about a regional electricity grid possibly including the Congo River. These are just a few examples of the sort of projects which could be expected in the wake of a political settlement here.

Britain and British firms are strongly committed to SA. They welcome unreservedly the new policies of your government. They are keen to take advantage of the great opportunities which will result from a constitutional settlement when SA is able to resume its natural role as the engine room for the growth and redevelopment of much of Africa.

COMPUTER SPENDING FM 25/5/90

Bringing up the rear

Political uncertainty and economic recession are forcing SA companies to fall behind their counterparts in Europe, North America and Japan in their rate of investment in computer technology. (180)

This is one of the findings of an international survey of information technology trends co-ordinated by auditing firm Price Waterhouse. The quarterly survey, which for the first time included SA, canvassed computer users in 11 countries.

It found that the percentage of SA computer users planning to increase investment in hardware and software was lower than

FM 25/5/90 (180)

that of any other country surveyed.

Only 43% of the 300 local companies polled plan to increase their investment in computer hardware this year, 34% expect spending to stay the same and 23% see a decrease in investment. The net percentage of companies planning to increase spending — 20% — compares with an average of 54% for other countries. Japan and France came out tops in hardware spending with a net percentage of more than 90% of the companies surveyed intending to invest more in hardware.

SA came out slightly better when planned investment in computer software is surveyed.

A net percentage of 27% of local computer users intend to increase expenditure on computer software in the next year. The average among the other nine countries that participated in the software survey was 53% (Denmark did not participate). France again headed the list of spenders, with a net percentage of 80% of companies intending to

FM 25/5/90 (180)

increase investment in software, followed by Japan and Portugal with more than 70%.

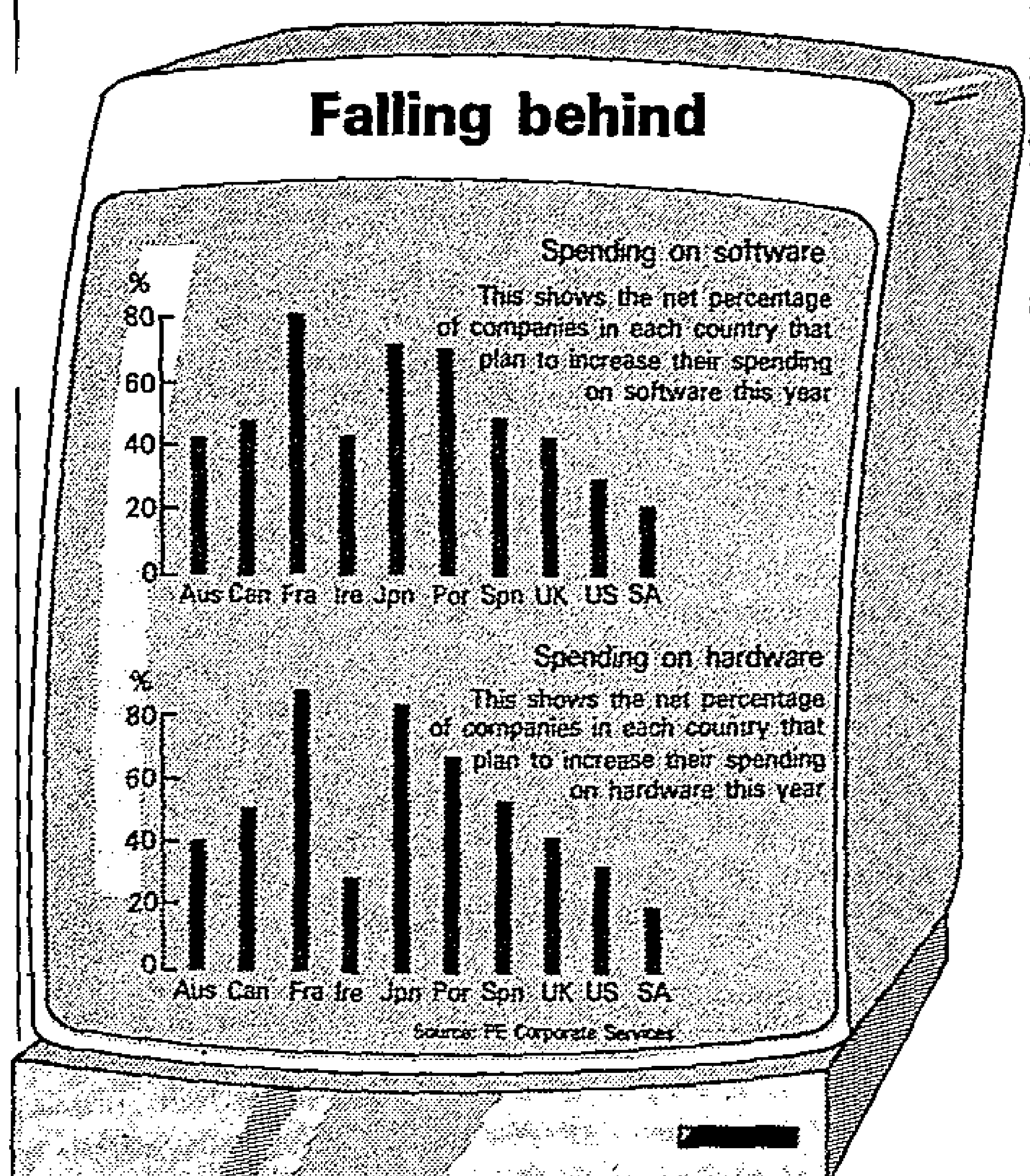
Stan Daneman, managing consultant of local Price Waterhouse subsidiary PE Corporate Services, stresses that the survey canvasses only the opinions of computer users and does not attempt to quantify the amount being spent on information technology. However, he warns that SA's apparent lag in computer investment could impair the country's competitiveness. Many countries, particularly in Europe, are moving towards messaging systems such as electronic data interchange that depend on high investments in information technology.

Government should reduce tariffs on imported computer products, especially hardware, because the additional costs could drag down users as well as vendors of information technology, Daneman says.

The biggest obstacle to local investment in computer products and services is the high cost of the technology. The survey found that cost containment was the biggest problem facing managers of computer installations. This was followed by the integration of information technology with the company's business strategy.

Internationally, management priorities are the integration of information technology and corporate strategies, meeting deadlines, maintaining software programs, predicting technology trends and then containing costs.

Daneman says it's encouraging that local users of computers are in line with international trends in wanting to integrate information technology in their businesses. However, they are going to struggle to achieve this without substantially increasing their investment. ■



Arnold van Huyssteen

BUSINESS CHARTER FM 25/5/90

Stating the obvious

The SA Chamber of Business's "charter of economic, social and business rights," published last week, is unfortunately entirely predictable. It reiterates support for democracy and a free enterprise economy — and is most notable for its omissions.

For a start, there is no indication where the chamber will stand on the delicate (for it) issue of free trade vs protectionism — a dilemma for it from the moment a merger of Assocom and the Federated Chamber of Industries (FCI) was mooted. (180)

Even when the charter tackles non-business issues, there are some unresolved questions. On the language issue, the charter says: "A person belonging to an ethnic, reli-

FM 25/5/90 (180)

gious or linguistic group shall not be denied the right to enjoy his own culture, to profess and practise his own religion, or to use his own language."

Does this mean that in the new SA citizens will be able to write to any branch of government in Shangaan or Gujerati and expect a reply in that language? Or expect an education in any language, or be able to read a government gazette in any language? (The ANC reportedly favours keeping English and Afrikaans as official languages.)

In addition, it might have been appropriate to state that there has been blatant discrimination against blacks in the supply of public services and that specific efforts must be made to remedy shortfalls in areas such as housing, health and education.

The charter does support economic growth, education and social welfare, but it needed to go further. It is now well recognised that declarations of support for free enterprise will remain empty verbiage unless blacks perceive that discrimination will be remedied within the framework of the market economy and within a reasonable period.

However, the chamber is hard at work preparing two follow-up documents — one on the nuts and bolts of economic policy, the other on constitutional issues. It is reasonable to hope that these detailed policy statements will fill gaps in the charter itself, which is intended as a general statement of principle.

Meanwhile, the charter may help business to make conciliatory noises at the meeting with the ANC scheduled for this week. ■

siness Times, May 27, 1990

SA lacks a nati

EVERYONE agrees: South Africa must export more value-added goods to earn the foreign exchange we need to fuel our growth. S|Times 27/5/90

We must move beyond exploiting our raw materials; the time has come to make our mark in manufacturing.

Many firms now cite increased exports among their key goals. Some businessmen talk glibly of SA being the next industrial miracle — the "Japan of Africa."

By TONY MANNING, an independent consultant in strategy and change, and author of a number of management books

(180)

WE MUST COMPETE ON A WORLD-WIDE SCALE

There's no question of the need to build export sales; what we must question is which game we'll play and how we'll play it.

Unfortunately, this country is not in good shape for international competition.

For the last decade, we've pursued the futile course of inward industrialisation. Our economic future was hijacked by "experts" with a laager mentality, whose views have been thoroughly refuted by any number of studies in the real world. In the process, we failed to build the "muscle" we need to compete in foreign markets.

In many industries today, it's impossible to compete effectively without global economies of scale. Deregulation and the opening up of markets everywhere allows big players to mass produce items for consumption or use across countries and cultures.

Values

These companies design and make products that appeal to people regardless of their values. They strip out the differences that make a product more appropriate to one niche than another.

Instead of doing their R&D, product engineering, component sourcing, and assembly or final manufacture all in one location, they locate each function in the country where it'll be done best.

This means that they can choose one location for its skills, another for its raw materials, a third for its proximity to their markets.

But size alone is no guarantee of success.

Even firms with limited ambitions, who want to operate only in their own "backyards", have to face the threat of global competitors. So today virtually every company of any size faces a huge challenge: how to be as good as the best competitor in the world. To be a player, you simply have to be "best of breed" in all you do.

On the surface, South Africa's best bet might seem to be in narrow niche markets where customer needs aren't being satisfied. One leading export consultant recently argued: "SA has a special advantage because we've learned to make small quantitites of goods."

The problem is that today, everyone makes goods in small runs. Something like 75% of all machined parts in the world are made in batches of 50 or less!

Harvard Business School professor Michael Porter has just completed a mammoth four-year study of 100 companies in 10 countries to find what separates the winners from the losers. The results show just how tough our task will be.

When I visited him recently, Porter told me that to win in the world marketplace, certain non-negotiable criteria must be present:

- A demanding home market;
- A sophisticated support infrastructure (what Porter calls 'factors' — e.g., talented, skilled people);
- A network of dedicated, reliable suppliers; and
- Tough competition.

Now, the harsh fact is, very few South African industries meet these basic criteria. The vast majority don't have particularly demanding local customers, a specialised "pool" of skills, committed suppliers, or enough competition. They've become "fat and happy" while the rest of the world has become lean and mean.

Laws

Those factors aside, the most serious problem facing SA is a lack of national will to win. Until this single issue is addressed, all other efforts are likely to be futile.

The experience of Japan and South Korea shows clearly that governments play a key role in making nations competitive.

Firstly, they create the climate in which competitiveness flourishes among individual firms. The statements of politicians, their sensitivity to business's needs, and their insistence on long-term thinking all foster investment and entrepreneurship.

Secondly, government can enact laws which encourage rather than discourage competition; which make capital investment attractive; which make risk-taking and profit-making a way of life; which let people act honestly rather than dishonestly; which encourage group harmony rather than conflict.

And thirdly, government can provide the infrastructure which business needs: education and welfare; housing and medical services; telecommunications; roads and railways, harbours and airports.

The South African Government — no matter whether it be white or black or both — should urgently take the following steps:

...ional will to win!

1. Encourage the widest possible debate about this country's competitiveness, and push the debate down into individual firms.

2. Vigorously promote the idea of our becoming a "world class" competitor. Create an umbrella promotional theme to support this idea, and encourage as many organisations as possible to join the effort.

3. Develop an industrial policy which will allow South African companies to be truly competititve. This is a highly controversial topic, but without a co-ordinated effort SA is unlikely to succeed. A review is needed of which industries are "strategic" and which just have powerful lobbyists working for them.

Some industries will need protection. Some will need special support. These issues must be subjected to rigorous examination and critical discussion with a wide range of people.

4. Dramatically upgrade the State President's Awards for Exports — in terms of the size of the prize, the prestige, the publicity. Market the Awards aggressively.

At a company level, there are also four priorities: (1) Develop and implement clear, aggressive strategies for penetrating foreign markets; (2) tie up strategic alliances that will give us access to technology, skills, and customers; (3) urgently improve the quality of our goods and services; and (4) improve productivity by automating factories and training people.

Without doubt, the key to success is total commitment. We have to recognise the magnitude of the task that lies ahead of us. We have to settle in for the long haul.

We have to persist even in the face of extreme odds.

This country has enormous disadvantages in the international arena. It's a long way from anywhere. It's part of the "impoverished South". There are enormous demands on the economy, and very few people with the education, the "worldliness" or the drive to take us into the future. And the apartheid label is still around our necks.

Local companies will have to be radically transformed if they are to become global competitors. A great deal of time has already been lost. The next few years promise to be extremely difficult; they'll present managers with more challenges and surprises than they care for. Nor are other countries or companies waiting for us to catch up.

But a great deal of progress can be made — if we start now. We must become more marketing orientated. We must become customer focused. And we must start now to build the core capabilities that will be needed in the battle for market share.

F W de Klerk is opening the doors of the world to South African commerce. It's time to become a world-class competitor.

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Business ethics seminar

S Times 27/5/90

Business Times Reporter

STELLENBOSCH University Business School is to present a seminar on ethical perspectives for the business sector.

Speakers will include Ned Perm managing director Bob Tucker, the Department of Public Administration's J Gildenhuys, Stellenbosch Business School's Willie Esterhuyse and Rector of the Peninsula Technicon Franklin Sonn.

Major issues to be discussed are: The moral image of the SA business sector; business ethics in the correct perspective; impressions of black attitudes to the social responsibility of the business sector; the Freedom Charter; nationalisation and other factors affecting business.

The seminar is intended for the manager who believes business ethics incorporate more than the sale of products at low prices. It will also focus on employment with fair remuneration and competition.

The seminar will be held on June 12, starting at 10am and ending at 4 o'clock. The venue is the business school in Hoheizen, Bellville.

Make it at home call to industry

(180) By IAN SMITH (ea)

THE drive to cut South Africa's huge import bill is being taken to industrialists' doorsteps.

Top companies, mining groups and parastatal organisations are mounting an exhibition of equipment which is imported at prices inflated by the low rand.

They are asking the manufacturing sector: Who can make these goods for us? ST Times 27/5/90

The exhibition on the Witwatersrand Technikon campus in Johannesburg from June 26 to June 28 is backed by the Institute of Purchasing in SA (Ipsa). Top businessmen will lead discussions each day on import replacement and export opportunities.

Ipsa past chairman Charles Lewis says engineering components for the motor industry, machine parts, pumps, valves, electrical components, textiles, chemicals and switchgear — which cost about R20-billion a year to import — will be on show.

"Manufacturers will be able to gauge the size of markets for goods they could make," says Mr Lewis.

"Many of the goods could be exported at competitive prices because of the low rand. Our manufacturers should be gearing up for 1992 — when Europe becomes our biggest trading partner."

Snobbery

Wits Technikon Business School director Bob White says that at least 20% of goods on the import list are made in SA. Another 20% could be made here without major investment.

"Many buyers stick to imports because they have always bought them. There's even an element of snobbery — if it's imported it must be better," says Dr White.

"But there is also not enough information about what is available in SA."

Too many companies turn to foreign markets only when they want to get rid of surplus stocks.

Contamination scare brings new SA cover

(180) ST Times 27/5/90

By IAN SMITH

PRODUCT-disaster insurance has come to South Africa.

The final cost of Perrier's worldwide withdrawal of 160-million bottles of its famous mineral water will be known only in six months, but it has drawn attention to the financial hazards of product contamination.

Interest from SA manufacturers has prompted Lloyd's-represented brokers Hammond & Graaffs to introduce products contamination insurance.

Similar sophisticated cover was developed overseas by Lloyd's in the late '80s to insure against product contamination and extortion.

The insurance can cover the cost of ascertaining the cause and potential damage of the contamination as well as the recall, examination and destruction of the product.

It can also cover the loss of net profit for up to a year, restoration of the product and re-establishment of its reputation and market share.

Perrier was not covered for its worldwide recall in February — but there has been a rush to Lloyd's in the UK by food and drink manufacturers.

Hammond & Graaffs managing director Herbert Hammond says the saga highlights the vulnerability of manufacturers, particularly of high-profile products, to contamination scares.

"It does not matter whether the scare is real or a hoax — the damage can be catastrophic.

"While most big companies survive, a single-product manufacturer faces greater risk," says Mr Hammond.

Top Swiss banker expected in SA

B Day 28/5/90 (180)

GRETA STEYN

THE head of the London branch of the Swiss Bank Corporation, Hans de Gier, is to visit SA this week for meetings with major corporations, according to SA banking sources.

However, the London office of the Swiss Bank Corporation could not confirm the imminent visit by the head of its branch executive committee, reports IAN HOBBS. The office said it never discussed employees' business movements.

Local banking sources said De Gier, accompanied by an associate director, wanted to visit SA as a result of recent political reform initiatives. The emphasis of the visit would be on meeting executives of major companies, with banks of secondary importance on the itinerary. Among others, De Gier would meet representatives of Rembrandt, whose associate Richemont is based in Switzerland.

Coinciding with De Gier's visit will be the routine annual trip to SA by a mission from the International Monetary Fund (IMF). The IMF mission takes a long, hard

□ To Page 2

Banker

(180)

□ From Page 1

look at the country's economy and writes a report after the visit.

The IMF is expected to again express criticism of the Group Areas Act which, it believes, restricts labour mobility. The removal of restrictions on labour mobility is one of four conditions SA has to meet before the US will vote in favour of IMF assistance for the country.

Meanwhile, banking sources emphasised De Gier's trip to SA was not routine — as were those made annually from Switzerland by bankers in the bank's gold department. Bankers believed the major portion of SA's foreign loans against gold, or gold swaps, was received from Swiss banks.

It was also a Swiss bank, Union Bank of Switzerland, which arranged the first new foreign loan — albeit a very small one — to the SA government since the debt standstill of 1985.

(180)

Barprop steps up drive to improve property portfolio

CHARLOTTE MATHEWS

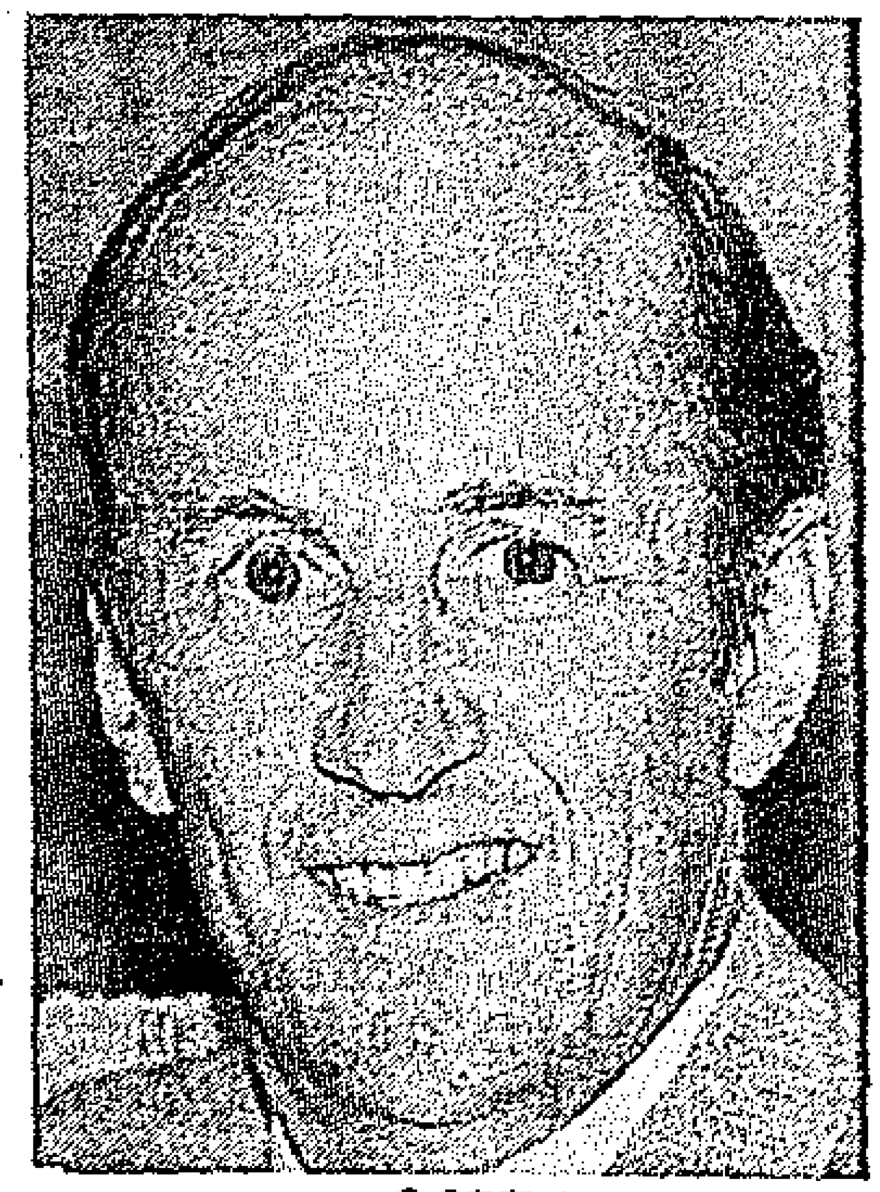
BARLOW Rand Properties (Barprop) had sold property worth R40m as part of its drive to upgrade its portfolio from mainly industrial to a range of industrial, office and commercial property, MD Colin Steyn announced on Friday.

"The proceeds of the sales will be invested in the acquisition and development of well-located facilities that satisfy the quality and growth requirements of prime investment property," he explained.

The company had also bought agricultural land in Verwoerdburg off the Ben Schoeman Highway for R3,5m. The land would be re-zoned for hi-tech industrial use.

In one deal worth R27,5m Barprop sold 16 properties to Pangbourne Properties. The properties — located around the country — were mostly leased to companies in the Barlow Rand group.

The other major deals were the sale of a factory and land in Isando to Kempton Forum for R7,7m, the sale of premises in Port Elizabeth to Gutsche Investment and Management Company for R1,3m and the sale of property in Welkom to a trust for R1,5m.



● STEYN

Private sector moots upliftment fund

LINDA ENSOR

THE private sector is tentatively considering establishing its own social upliftment fund to support government initiatives in this regard.

At a media conference following last week's meeting between the ANC and business leaders, former Anglo American chairman Gavin Relly said such a fund was under discussion.

Michael Spicer, Anglo American's public affairs consultant, said on Friday no sums had been agreed upon.

He added the establishment of the fund was nowhere near being finalised.

Conversations had been held between a number of private sector personalities on the issue and these were continuing, he said. (180)

But as yet no conclusions had been reached. B|Day 28|5|90

Government has established a R3bn trust fund under the chairmanship of Jan Steyn, honorary chairman of the Urban Foundation, for social upliftment.

Liberty Life also recently set up a R67m charitable trust.

Of this, R65m is being derived from shareholders' funds.

Spanish businessmen set to visit SA

MANDY JEAN WOODS

A GROUP of about 30 Spanish businessmen and bankers are to visit SA for two weeks in early June to investigate business prospects, Spanish/SA Chamber of Commerce president Tom Larobe said yesterday. B. Day 29/5/90

The delegation would meet a wide variety of top businessmen, bankers and government officials, he said.

In the year to end April, SA exports to Spain totalled about R1,4bn while Spain's exports to SA totalled about R37m.

Spain is SA's second largest importer of coal.SA exports mainly machine tools.

President F W de Klerk's recent visit to Spain had done much to improve relations between the two countries, and a decision by Spanish businessmen to establish a Spanish/SA Chamber of Commerce — which will be officially launched at a function on June 7 — was spurred by the goodwill visit. The function will be attended by Trade and Industry Minister Kent Durr and other dignitaries.

Both Spanish and SA government officials had "seen the initiative with sympathy", he said.

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Strikes hit Coke, construction firms

South 30/5 – 6/6/90

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ABOUT 300 construction workers downed tools at several building sites in Cape Town this week to demand that their employer negotiate retrenchments with their union.

The workers, members of the Black Construction and Allied Workers Union (Beawu), went on strike on Monday at about 10 sites where Resnekov and Nielsen Building and Engineering are doing contract work.

Another major strike in Cape Town this week brought Coca Cola deliveries close to a standstill.

Workers at Peninsula Beverages, bottlers of Coca Cola, in Athlone and Parow Industria downed tools in support of wage demands.

A worker spokesperson said they wanted a minimum wage of R350 a week. Workers presently earned R230.

A spokesperson for the Food and Allied Workers' Union said the union was busy signing up members at the Parow depot.

Company spokesperson Mr Bryan Morse said about 80 workers were on strike at the Parow plant.

Morse said strikers at Athlone had returned to work. The strike only affected truckhands, and not production staff.

He said no deliveries were presently taking place.

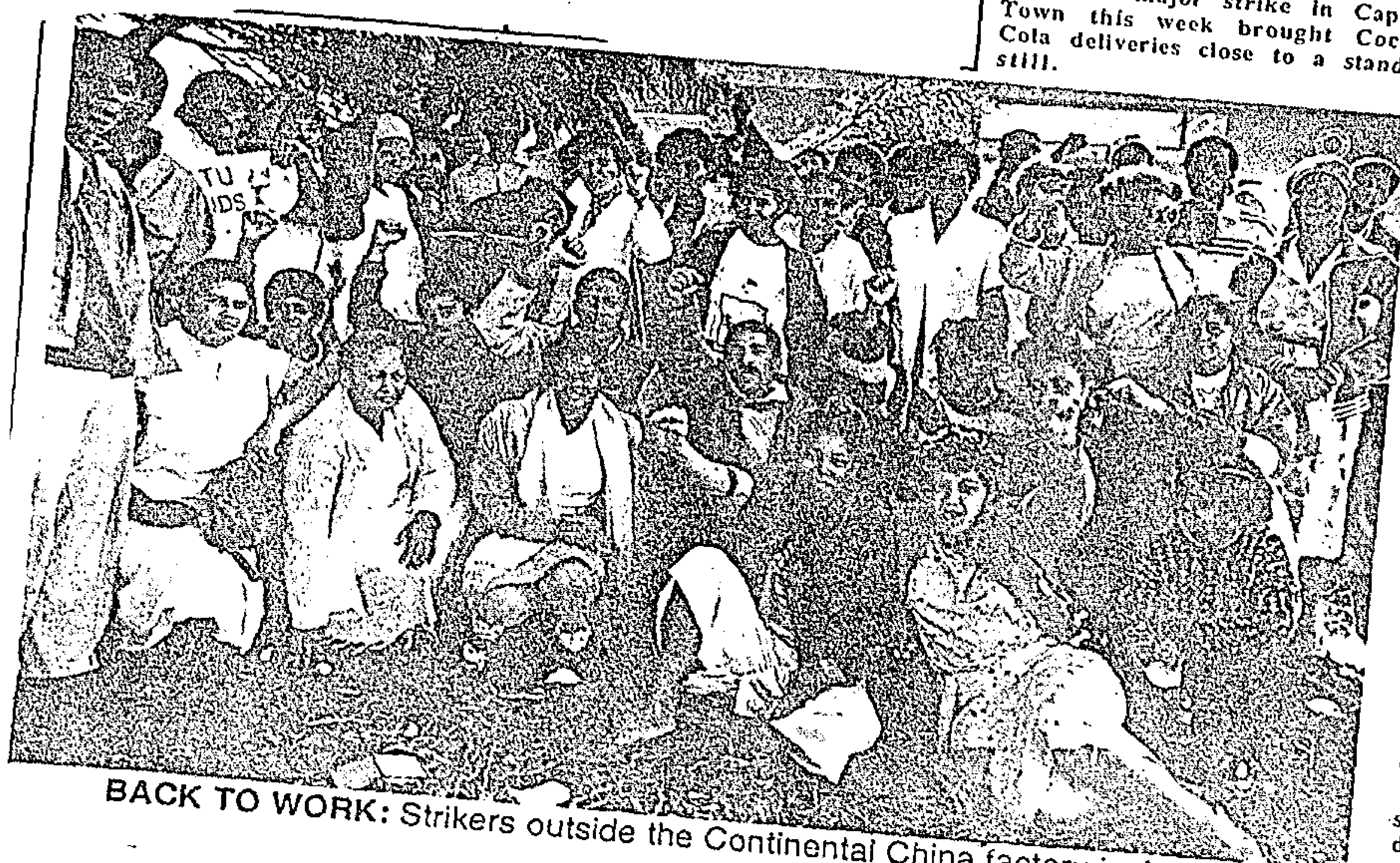
About 1 400 workers dismissed from a Woodstock frozen food factory last week after a strike over wage demands returned to work this week.

A spokesperson for the Food and Allied Workers' Union said Irvin & Johnson had agreed to reinstate workers dismissed for taking unprocedural industrial action.

A two-week strike by about 600 members of the Chemical Workers' Industrial Union (CWIU) at the Continental China factories in Atlantis and Blackheath ended this week after workers accepted the company's offer of R4,45.

A strike by about 120 CWIU members at Price's Candles in Observatory and in East London is continuing.

CWIU members at several offshore oilrigs operated by Sopelog decided to suspend strike action pending a meeting with management next week.



BACK TO WORK: Strikers outside the Continental China factory in Atlantis

'Burnt for R35 a week'

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South 30/5 - 6/6/90

By CHIARA CARTER

AN outcry has erupted over working conditions at an Atlantis smallholding where charcoal is manufactured.

A former employee this month contacted the Advice Office to reveal what she claims are "horrific" working conditions.

Ms Maggie Scholtz, 41, who worked for four years as a labourer at the plant, claimed workers were paid as little as R35 a week and had to make charcoal under "unsafe" working conditions.

Overtime

Scholtz said workers were not paid overtime although they frequently worked until after 8pm and on public holidays.

She claimed they were not given adequate protective clothing and were frequently burnt when shovelling hot coals.

Scholtz showed burn marks on her arm.

She and her husband, who was employed as a foreman at the plant, were dismissed earlier this month after the owner accused them of stealing charcoal.

She said the dismissal followed an argument over working conditions and said they were evicted from the premises where they had lived in a shack.

The other workers live on the owner's farm outside Atlantis.

They are given free accommodation and bread and tobacco but have to provide their own food.

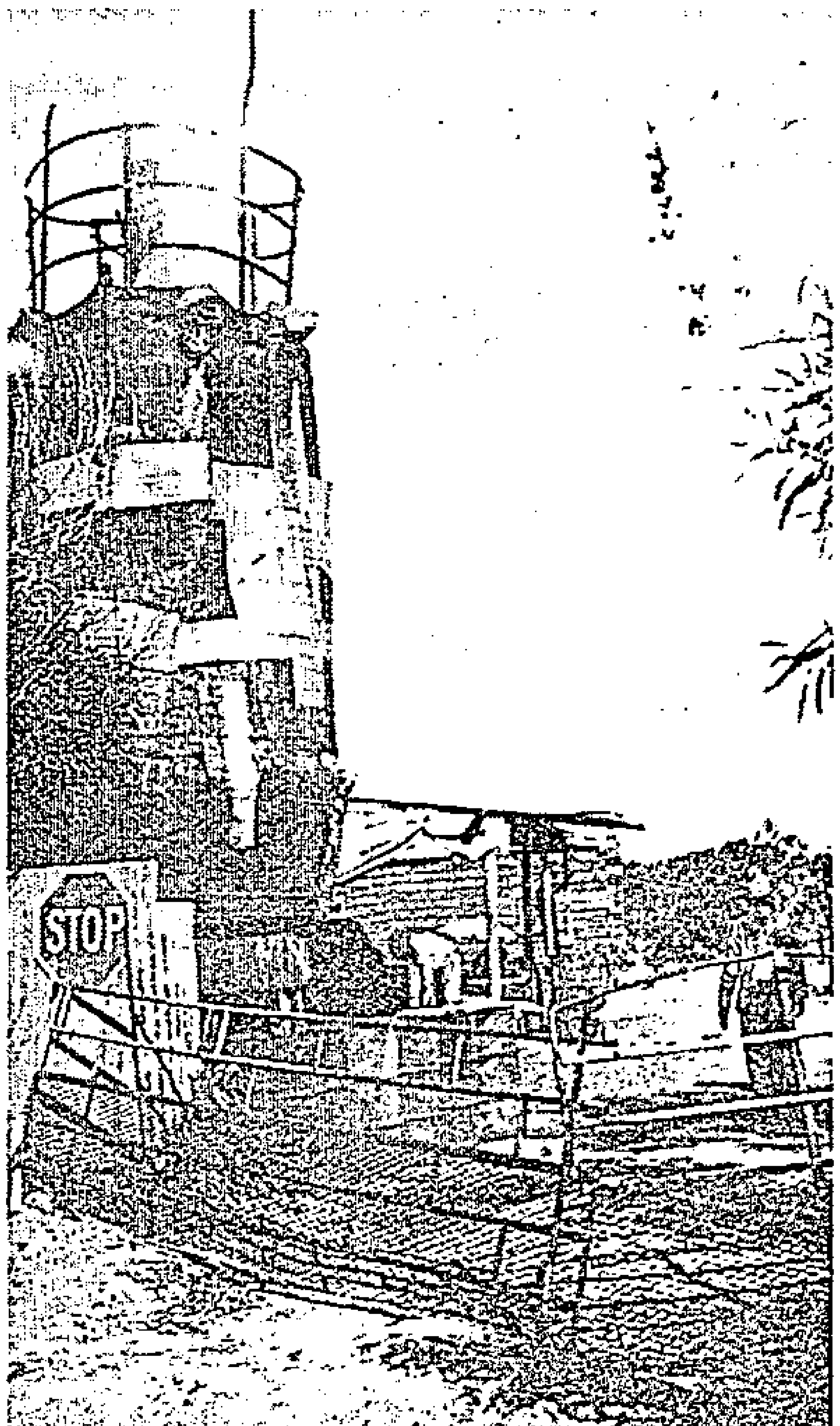
When SOUTH visited the smallholding in Atlantis Industria, several workers were standing around an old-fashioned wood burner.

They included a 69-year-old man who earns R45 a week.

Several of the workers had burnmarks on their arms and none wore protective clothing.

A spokesperson for the Atlantis Advice Office described conditions at the plant as "archaic" and said the Advice office intended contacting the Department of Manpower.

BURNT: Maggie Scholtz shows the burn marks on her arms PICS: YUNUS MOHAMED



'UNSAFE': The charcoal burner

Union to tackle retrenchments in furniture industry

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South 30/5 - 6/6/90

THE Paper, Print, Wood and Allied Workers' Union (Ppwawu) has launched a campaign to recruit workers employed in the furniture industry in the Western Cape.

A Ppwawu spokesperson said the union had launched the campaign because a growing number of workers in the industry had indicated interest in joining Ppwawu.

The industry is presently dominated in the Western Cape by the National Union of Furniture and Allied Workers (Nufaw).

Security

The spokesperson said Ppwawu intended fighting for job security in the industry where retrenchments do not presently have to be negotiated.

He said that the union was seeking legal advice about an attempt to exclude workers who were not members of Nufaw from sick fund benefits.

Contribution

Ppwawu has issued pamphets calling for a minimum wage of R262 a week, a 40-hour week, 20 days' paid sick leave, six months' maternity leave, and five weeks' annual leave.

Ppwawu has also called on employers to increase their contribution to the provident fund.

At present, workers pay 70 cents a week and employers pay 10 cents.

Ppwawu organises furniture workers in other regions but has previously been unable to make significant inroads into the industry in the Western Cape.

Bday 30/5/90 (150)

Quality upgrading vital for economic survival

THE quality of SA products and services is among the worst in the world.

Quality Management Associates (QMA) director Peter Gilbert says as SA's economy shifts from raw material export to exporting manufactured products, economic survival will depend on quality.

"By the year 2000, the ability to deliver defect-free products will no longer be a competitive edge — it will be the price of admission to world markets."

Despite this, the majority of businesses are not mobilising resources to improve quality, he says.

Many senior managers say quality can be negotiated. Costs and deadlines are all-important and quality is often compromised to meet these demands.

What they need to realse is that, by doing things right the first time, they can cut costs and meet deadlines.

The only way to get managers take quality improvement seriously is to show them the amounts of money being wasted, Gilbert says.

The cost of not doing things right in manufacturing is usually between 10% and 30% of sales. In the services industry, the figure is often as high as 50% of operating costs.

Less than 5% of the above costs are in defective products. The rest lie in bad debts, high staff turnover, failed product launches, warranty costs and excess inventory.

Only once there is a renaissance in mangement thinking can corporate culture be changed and quality become imbued in business policy.

Gilbert says every company needs a statement of quality committing it to "doing things right the first time every time".

Turning this statement into a reality means educating all employees, starting with management. When management shows it is serious about improving quality, employees quickly get the message, says Gilbert.

PETER GILBERT

Concepts

QMA bases its courses on the philosophy and concepts developed in America by Philip Crosby, whose 250 associates have helped more than 200 Fortune 500 list firms "do it right the first time".

QMA's successful local clients are equally impressive. They include Sasol, Murray and Roberts, Old Mutual, Carlton Paper and Nedbank.

Transnet plans to send about 170 000 employees through QMA's Rivonia office in a quality programme that will take more than five years to implement.

At the start of any quality improvement programme, QMA helps executives identify a plan of action.

The QMA philosophy is based on four concepts:

□ Quality is defined as conformance to requirements, which are not necessarily the same as specifications;

□ The system of causing quality is prevention, not appraisal. Gilbert says many organisations waste about 30% of personnel on checking others. Not only is this expensive, it wastes time and is insulting. Employees need to feel they own their process. The emphasis needs to be placed on preventing defective product or service in the first place, not inspecting them when work is complete;

□ The standard for performance is zero defect. Gilbert says giving people standards that encourage them to believe errors are part of normal business is counterproductive and again insulting;

□ The measurement of quality is the price of nonconformance — what it costs to do things wrong.

Integrating these four concepts into employees behaviour and thinking needs structures such as an executive steering committee, co-ordinators and a quality improvement teams (QIT).

QITs are established at each major location of the company and comprise functional heads of operating departments. Gilbert says they are not corrective action teams or quality circles, but are there to implement the necessary management systems to cause quality to happen as part of normal business routine.

Quality improvement does not happen by accident, he says.

Executives and managers need to be trained to implement necessary management systems. Then every employee, from CE to the most junior staff member, needs to be trained in the common language of quality and provided with skills to put what they learn into practice.

Awareness

Although most courses are based on those developed by Philip Crosby Associates, QMA has developed the Indaba on Quality — a quality awareness programme aimed at incorporating the Third World component of SA.

Quality is ultimately about people, communication and leadership and Gilbert says there will be radical changes in SA management in the future.

Winner of the Toyota Award for the Best Idea last year, Gilbert will present a paper on The Role Of Quality In SA's Future at this year's Sapics conference.

Industry will have to pay for education

(180)

B Day 30/5/90

SA INDUSTRY will pay for education and training one way or another, says Sapics education vice-president John Burmaz.

Unfortunately, too many companies see education and training as a cost instead of as a pre-requisite. They don't realise they either invest in employees' knowledge or pay later for the lack of it through mistakes and waste.

Running the American Production and Inventory Control Society (Apics) programme of certification courses is a central focus for Sapics.

Certification in Production and Inventory Management (CPIM) is the Apics qualification recognised in industry worldwide. To qualify, candidates have to pass five of the following six modules: inventory management, production activity control, just-in-time, capacity management, master planning and material requirements planning.

Covered

Burmaz says it usually takes about two years part-time to complete the modules. Each module is covered in a three-month course of weekly lectures.

Exams, set and marked in the US by Apics, are sat three times a year. Candidates can write two modules — one in the morning and one in the afternoon — at each exam sitting.

The course material and exams are as easily adapted in SA as they are in Mexico, Turkey, New Guinea or Scotland, says Burmaz.

Principles of good practice in production and inventory management are universal, he says.

Qualified Sapics members give lectures after hours at technikons in Johanesburg, Durban and Cape Town.

Sapics hopes to introduce the Certificate in Resource Management (CIRM), which broadens CPIM to include financial aspects, transportation and other apects of the manufacturing picture, next year.

Background

Apics principles and practitioners' courses can be studied as self-contained courses or as background to the CPIM qualification.

The basic principles course is ideal for anyone involved on the shop floor and in stores, purchasing, data processing and production-related areas.

Burmaz says the course — which has a three-hour lecture a week for 20 weeks — is very popular, with about 120 students enrolling every year.

The production and inventory management practitioners' course attracts about 60 students a year and is divided into four 11-week modules: master planning, inventory management, material requirements planning and capacity and priority control.

Burmaz says enrolment for Apics' courses has grown about 40% over the past few years. There is a realisation that manufacturing creates wealth but economic growth will be constrained by lack of skills — which can't be created overnight, he says.

Industrialised countries have five technicians or support personnel for every degreed engineer. In SA there are three times more engineers than technical people.

It is a tragedy that South Africans — and blacks in particular — regard technical education as inferior, he says. Less than 30 students a year enrol for Wits Technikon's industrial engineering courses.

Many companies contact the technikon offering in-service training and employment to students in production management and industrial engineering, says Burmaz.

"We could place five times as many students as we have."

Targeted

A direct mail advertising campaign targeted at about 10 000 companies has been launched by Sapics to promote its courses.

Burmaz says companies are discouraged by the high costs involved in putting an employee through three or four years of training while paying a salary. Bursaries may be a more economic alternative.

This year, Sapics introduced two bursaries for the range of courses leading up to the CPIM exam. The first two candidates will start studying next year.

B/Day 30/5/90

Main role is to (180) provide knowledge

THE SA Production and Inventory Control Society (Sapics) conference has not only become the most important event on the society's calendar, but is considered SA's major manufacturing conference, says president Dave Tootill.

The launch of the conference in 1980 stimulated the 21-year-old society's membership which now stands at about 1 600 people in seven chapters around the country.

Affiliated to the American Production and Inventory Control Society (Apics) — the largest growing professional society in the US, Sapics is a non-profit making society which aims to promote professional and scientific production and inventory management.

Tootill says: "Our role is to provide formal and informal knowledge to the manufacturing industry.".

Organising

Central activities are organising the conference each year and running Apics' Certification in Production and Inventory Managment (CPIM) programme — a set of internationally recognised part-time courses for people on the planning side of manufacturing.

Sapics holds chapter meetings, seminars and the annual conference to keep members up to date on new developments.

Local and international publications provide information on the latest ideas and techniques and regular columns in Promat News and Engineering News help Sapics reach an even wider audience.

SA's place in export market not assured

B/Day 6/6/90 180

THE lifting of sanctions would make it easier for SA manufacturers to export their products, but it did not guarantee these would be competitive, SA Chamber of Business (Sacob) deputy director-general Ron Haywood said yesterday.

Addressing a media conference on the release of Sacob's latest business and industrial confidence indices, Haywood said it was also clear SA's past reliance on gold and base metal and mineral exports would "no longer hold".

This was because of the poor performance of gold and other commodity prices, coupled with rapidly rising costs in the mining industry and the trend towards mechanisation.

"There are many examples of developing countries which relied on commodity exports for their economic growth, and which are now faced with large-scale debt and low growth because of the slump in world commodity prices.

"At the same time the price of manufactured goods has remained relatively stable, and has even risen in many cases," he said.

SA needed to expand its exports of manufactured goods to bring about the economic growth, and ultimately the job opportunities, necessary to improve the living standards of a growing population.

"There must be a refocusing of efforts to export manufactured goods arising from those areas where SA has a comparative advantage."

SYLVIA DU PLESSIS

Exports of manufactured goods had grown, but SA's relative share of total world exports of such goods had dropped, with its share of total EC imports falling from 0,65% to 0,41% between 1979 and 1987. The position had since deteriorated, Haywood said.

"The worst export performers over the latest 12 months are, without exception, manufactured goods, and the best performers have chiefly been those sectors which contribute relatively little to the total.

"It should also be noted that, after taking into account the depreciation in the rand and the increase in commodity prices since 1985, export revenues would have had to increase at least 49,5% simply to maintain export volumes."

Further, the relatively high proportion of basic and semiprocessed commodities in total SA exports, together with low commodity prices on international markets, contributed to a decline in SA's terms of trade in 1989.

This implied SA had to use relatively more of its exports to pay for the same quantity of imports.

Haywood said this trend was likely to continue as long as the country exported such a large proportion of its raw materials in an unbeneficiated form and commodity prices remained low.

US provisions adapted to SA

Tough insider trading law in the pipeline

BDay 11/6/90

(180)

CAPE TOWN — Legislation aimed at getting tough on insider trading in securities markets has been tabled in Parliament.

LESLEY LAMBERT

The Companies Second Amendment Bill has been designed to enable the JSE and the police to prosecute offenders who would have been able to slip through the net of ineffective laws in the past. It backs up the tough measures proposed against insider trading in last year's separate amendment to the Companies Act.

Under existing legislation, no prosecutions have ever been brought for insider trading, which is loosely defined as the illegal use of unpublished, price sensitive information for self enrichment.

The new proposals tighten existing laws by redefining the term "unpublished price sensitive information" and clarifying the circumstances under which use or possession of the information is considered illegal.

The Bill also extends the powers and duties of a statutorily backed Securities Regulation Panel, which was established to police financial transactions and assist with insider trading prosecutions.

The Bill defines an insider trader as anyone who directly, or indirectly, knowingly deals in a security on the basis of unpublished price sensitive information about the security.

It proposes that the offender be found guilty if the information was obtained by espionage, theft, bribery, fraud, misrepresentation or any other wrongful method, or if such dealings would constitute the use of information in breach of any contractual relationship.

"Unpublished price sensitive information" is defined as information relating to the internal affairs of a company or its operations, assets, earning power, or involvement in a transaction or proposed transaction. It also applies to information not generally available to the reasonable investor, or information which would reasonably be expected to materially affect the price of the company's shares.

Clarification of the legislation is also expected to have the effect of excluding a number of innocent activities which were previously included in the amendment to clauses prohibiting insider trading.

In a memorandum to the Bill, the legal draftsmen explain that the existing provisions for insider trading have been derived from equivalent provisions in the US, mainly because interpretations by the courts over the past few years have given a high degree of certainty to the legislation.

But, some financial institutions have expressed concern that the net has been cast too wide and that certain important, innocent investment activities are included in the prohibition of insider trading.

This perception is based largely on the fear that South African common law concepts of fraud differ from those in the US and those differences will result in South African courts giving an interpretation which would widen the prohibition.

The Securities Regulation Panel, which is comprised of members of the JSE and the private sector, governs takeovers and mergers and has the power to investigate corporate transactions.

It also exercises strict control over insider trading, investigating suspected cases and handing them over to the police

□ To Page 2

Insider trading

BDay 11/6/90

(180)

□ From Page 1

or the Attorney-General for prosecution.

Until now, the securities transactions which it has been empowered to regulate have been limited to transactions resulting in a change of control.

The Bill extends the powers of the panel to the regulation of transactions where control already vests in one person who acquires more securities in the company.

By doing this, it places all areas where invester protection is required under the control of the panel on the basis of self-regulation within a statutory framework.

Stals won't take his foot off the brake

● From Page 1

Vic Hammond is looking for 20% sales growth. Edgars has debtors worth R600-million, and they are being watched closely.

McCarthy Group joint managing director Theo Swart confirms that the motor industry is in a crunch. He estimates that car sales this year will be 210 000 to 221 000, and he foresees no improvement in 1991.

Corporate buyers now account for 80% of all new-vehicle sales and the used-car market has taken a dive. Mr Swart expects no immediate decline in interest rates, saying the 50% increase in perks tax has aggravated matters.

Distress

180

Mr Swart says the perks tax conflicts with the Government's desire for motor-makers to invest billions in Phase Six of the local content programme.

Reflecting distress in housing and construction, the brick industry is operating at only 55% capacity and five paving-brick companies are up for sale.

Keith Nurcombe, national marketing director of market leader Toncoro, says conditions have not been as bad as they are for the past 10 years. S/Times 3/6/90

"Even the 1983 recession wasn't this bad. We've really had a hard landing. We have been forced to be meaner and leaner and have mothballed some of the older plants."

BUSINESS BRACES ITSELF FOR A BUMPY LANDING

By DIRK TIEMANN

THE Reserve Bank's soft landing is more like a crash for the vehicle and building industries. But others appear to be landing in mousse.

A survey of shopfloors across the nation shows non-vehicle and building sectors keeping their heads up under trying circumstances.

Small and medium businesses are finding the going harder than big companies, most of which have strong balance sheets.

Nedbank chief economist Ted Osborn says the economy isn't in recession, but it is stagnating.

Zero

180

He says the gross domestic product growth rate will be 0,5% this year, tantamount to zero.

He also says demand for durable goods such as cars and furniture has fallen appreciably. April car sales fell by 22% in real terms.

Nedfin managing director Ron Rundle reports that hire-purchase and lease credit rose only 3% in the March quarter to R25-billion, the smallest since 1987.

"There is no such thing as a soft landing. Business is in for a rocky ride."

Mr Osborn says that although the economy is not yet in recession, it's heading for it. He says monetary and fiscal policy should be relaxed to prevent it.

"Small and medium firms are being knocked. They don't have the capacity to withstand the downturn."

Standard Bank chief economist Nico Czypionka concurs that fiscal and monetary policy should be relaxed.

But other commentators urge Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals to be tough and squeeze inflation out of the system no matter how it hurts.

Mr Czypionka expects policy easing in the third quarter. He says the economy is finally behaving according to Reserve Bank plans.

"People are now adjusting their expenditure patterns. New-car purchases have dropped and furniture and appliance purchases are down. Inventories are being liquidated and imports are declining, which is having the desired effect on reserves."

CHRIS STALS
Painful remedy

S/Times 3/6/90

Tough

Derek Russell, chairman of the Retail Liason Committee which keeps tabs on sales for most of the big retailers, says growth is beginning to slow gently. He reports no repetition of the dramatic downturn in 1983 and 1984. He expects sales to shrink by 5% in real terms in the year ahead.

Joshua Doore furniture group chairman David Sussman says: "Nominal growth in turnover is up 18% over last year."

Pick 'n Pay and Edgars are both experiencing real turnover and profit growth, although they describe conditions as tough.

Pick 'n Pay chairman Raymond Ackerman says the pressure must be taken off and the monetary-fiscal door opened a little.

Edgars Group chairman

● To Page 3

Anglovaal and parent unveil record earnings

B/Day 5/6/90 (180)

BARRY SERGEANT

FINANCIAL, industrial and mining group Anglovaal and its parent, Anglovaal Holdings, have announced record consolidated earnings and dividends for the year ending June 30 1990.

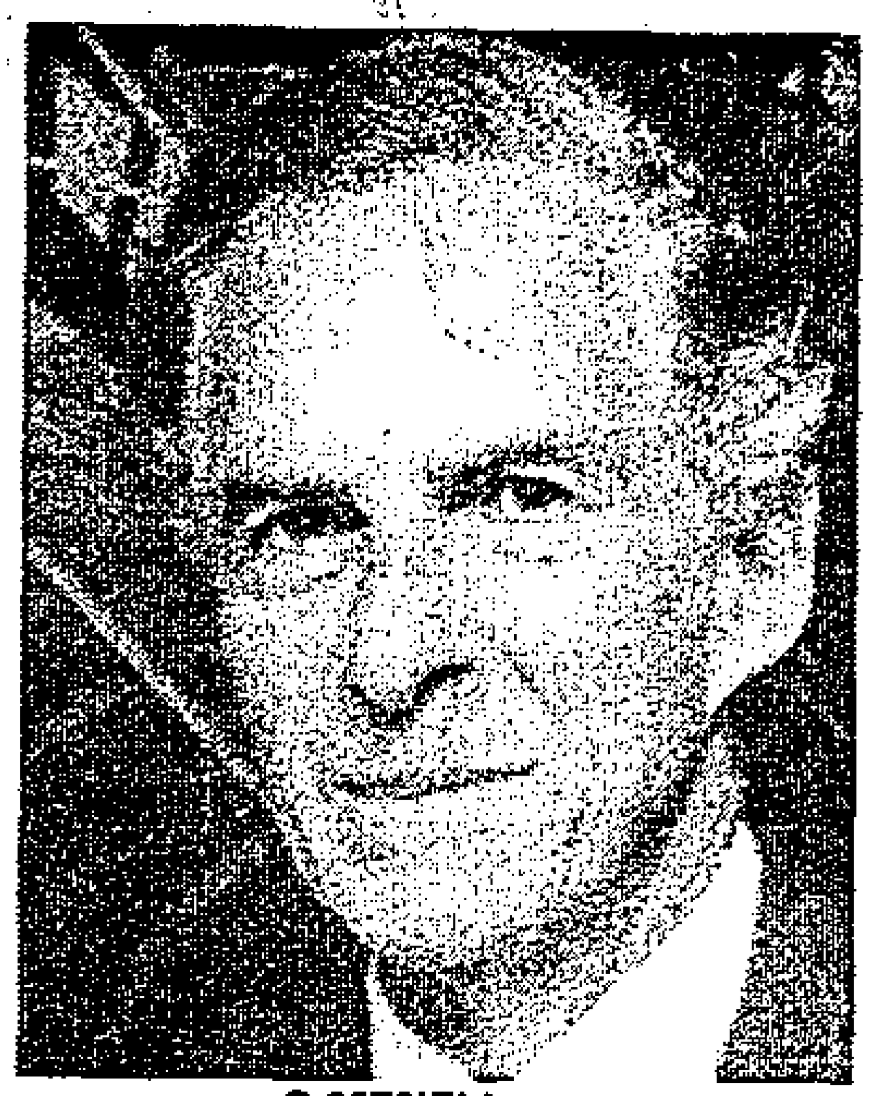
Deputy chairman Clive Menell says these were brought about by significantly higher equity-accounted earnings — mainly from Associated Manganese mines — while the forecast earnings from Anglovaal Industries (AVI) is also expected to rise, "even though Anglovaal's Holding in AVI is 6% lower at 60% following a change in AVI's structure".

Anglovaal's income from its gold mining investments decreased.

Anglovaal has raised its final dividend 22% to 62c (51c) on its ordinary and "N" ordinary shares; the total dividend increased 21% to 92c (76c). Anglovaal's estimated consolidated earnings for the year were 27% up at R232m (R183m).

But individual share earnings increased 21% as a result of more issued shares following last month's "N" ordinaries rights issue. The new "N" ordinary shares issued in the rights offer (raising R822m) are not eligible for the final dividend declared today.

Anglovaal mining investment company Midwits has declared a final 4c dividend, giving a total unchanged 6c dividend for the year. Midwits has announced estimated earnings of R26m (R31m). Midwits issued variable rate redeemable-cum-pref shares on June 30, raising its pref dividend payments by R7,2m.



● MENELL

Midwits chairman Clive Menell said dividends from gold mining investments were lower but the company's equity-accounted earnings were higher, mainly as a result of the cessation of losses related to the company's investment in Klipspruit Colliery, which has now been sold.

Because funds from Midwits' R439m rights offer will only become available later this month, the board resolved previously that the ordinary shares to be issued in terms of this offer would not rank for the dividend declared today.

Anglovaal Holdings has declared a final dividend of 62c (51c) a share, giving a 21,2% rise for the year to 91,5c (75,5c). With the holding company's main revenue source its dividend income from its Anglovaal shareholding, it reported an estimated taxed profit 22% higher at R8,5m (R7,0m).

Meanwhile, Zandpan has reduced its final dividend to 11,5c (17c) a share, giving total dividends of 22c (30,3c) a share for the year. With Zandpan gold mining company's main investment a 19,6% holding in the Hartebeestfontein Gold Mine's equity, its estimated consolidated profit for the year declined to R29m (R39m), reflecting the lower dividend income from Harties.

Based on Anglovaal's ordinary dividends for the year, holders of Anglovaal unsecured variable rate subordinated loan stock will receive interest of 92c (76c) a unit, of which 40,5c was paid in January.

All the estimated profit figures are shown after the deduction of taxation, minority interests and preference dividends, but before extraordinary items.

Securities panel ready to police businesses

180

B/Day 5/6/90

PIERRE DU PREEZ

THE Securities Regulation Panel has been established and has met eight times to draw up rules for takeovers and mergers, to arrange its financing and to create its basic infrastructure, the Registrar of Companies said in his annual report for 1989.

The panel was expected to begin its functions of regulation and control this year.

The great success and importance of close corporations as a form of enterprise in the economy had necessitated a review of priorities in respect of company law reform.

During 1989, the Standing Advisory Committee on Company Law (SAC) reviewed the programme for company law reform which was drawn up in 1985 with a view to certain shifts in emphasis.

The objectives were to simplify company law and to avoid SA becoming isolated from significant and appropriate developments in other countries.

Obligation

Matters which received high priority during the period under review included the abolition of the distinction between public and private companies and the increase in the maximum permissible number of members of close corporations.

The making of loans to or the provision of security in connection with an obligation of members or officers of a close corporation, and close corporations or companies controlled by them, was also under consideration.

Certain essential functions could not be dealt with effectively by the Registrar of Companies, largely because of the lack of expansion of the Registration Office and insufficient computer facilities.

These functions included matters such as the identification of companies which were no longer in business, intensification of checking on companies which failed to submit annual statements, and the drawing up of a register of directors and auditors.

Since the start of close corporations in 1985, a total of 146 543 had been registered up to December 31 1989, according to the report.

Aggressive tactics are W & A's secret

B/Day 16/90 (180)

EDWARD WEST

FSI subsidiary W & A was fighting intense competition and slowing industrial and consumer demand through a combination of aggressive marketing, asset management and expense controls, chairman Jeff Liebesman said in his 1990 annual review.

Subject to no further significant deterioration in economic conditions, a satisfactory performance was expected for the group in the year to December.

W & A is a holding company for manufacturers and distributors of industrial products such as footwear and hosiery, tyres and vehicles, houseware and health care products and for property development companies.

Since FSI acquired control of W & A in 1987, turnover increased 2,5 times from R830m to R2,1bn. Operating profit increased 2,8 times from R93m to R267m.

● LIEBESMAN

During 1989, W & A's turnover increased 44% to R2,1bn, profit attributable to shareholders by 60% to R86,1m and earnings a share by 20% to 114,7c.

Gearing was below a self-imposed ceiling of 60% — 31% at December 1989 — at a time when assets grew from R529m to R1,46bn.

In the early part of the new decade W & A management's emphasis centred on consolidating and building core businesses, organically and acquisitively, and on internationalising its operations, Liebesman said in the review.

The company would continue examining options for streamlining the financial structure of the group to improve earnings flow upward and to assist local and overseas investors gain an understanding of W & A.

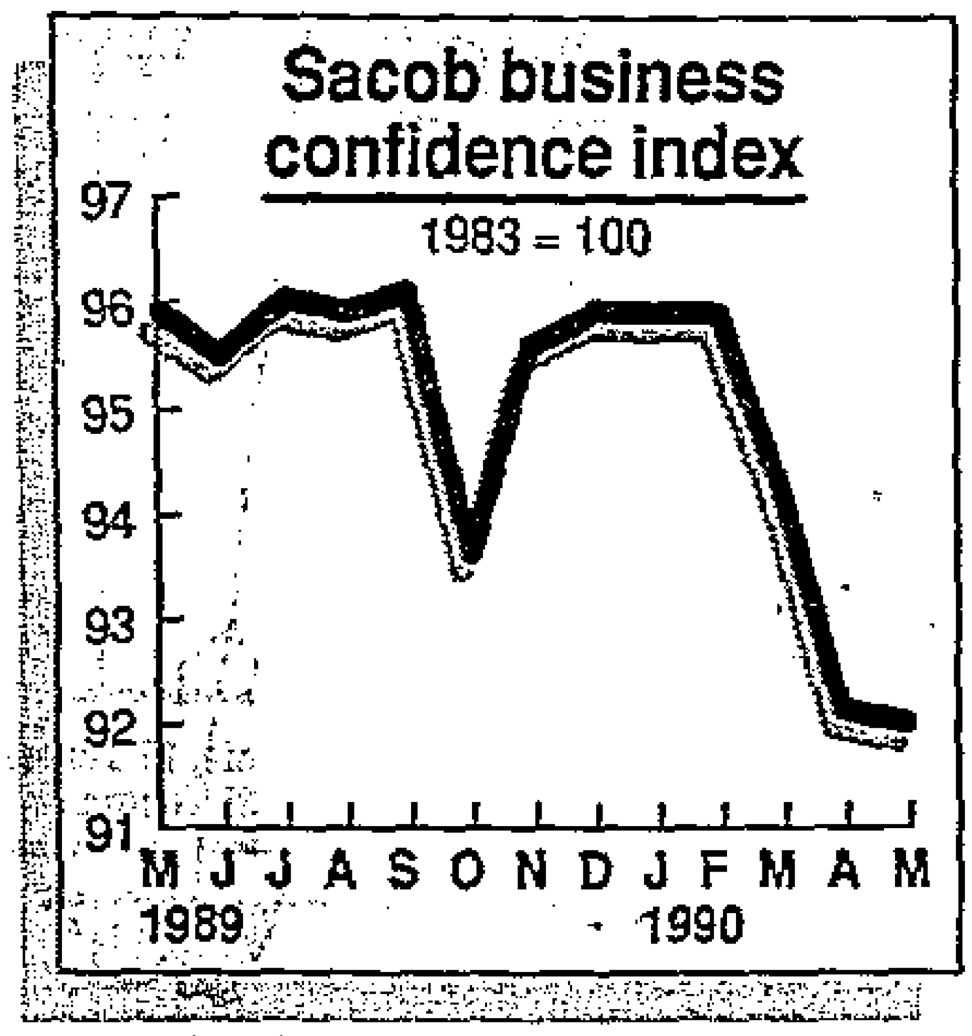
AAF Investment Corporation, 58% FSI-held and listed on the LSE, owns modular building companies in the UK and US and has £18m cash available for investment in its own and other industries.

Subsidiary Homemakers expected further satisfactory growth in 1990, given stable operating conditions, as did industrial fasteners, automotive products, hosiery, rainware and rubber products manufacturer and distributor Hunts.

Coal distributor MacPhail had opened additional distribution bases to expand its national network, and would consider further acquisitions in core businesses in 1990.

Marginal drop in business confidence

(180)



Graphic: FIONA KRISCH Source: SACOB

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) business confidence index deteriorated further in May after registering sharp declines for two consecutive months.

That it declined only marginally despite new developments — to 92 points from 92,1 — could be ascribed to the "balancing out" of positive factors by negative ones, Sacob economist Keith Lockwood said yesterday.

"The steadier business mood was the net result of a number of influences, both positive and negative, on the economic and political fronts, with the slowdown in the economy providing the overriding influence," he said.

Apart from the impact of a weakening gold price and further evidence of an economic slowdown, the level of uncertainty over the course of economic and socio-political developments remained high.

There was also uncertainty on other countries' attitudes towards recent SA reforms and the degree to which such changes in attitude would be reflected in the policies adopted in their dealings with SA, he said.

Lockwood said President F W de Klerk's recent European visit helped emphasise SA was still part of a "wider community of nations" and that it could no longer afford to adopt isolationist policies.

"Much of the future economic growth of the country will depend on strategies aimed at improving the export performance of the SA economy.

☐ To Page 2

Confidence

B/Day 6/6/90

(180)

☐ From Page 1

"While it appears unlikely there will be a significant easing of sanctions pressures from official quarters until further reform steps have been taken, the prospect of their removal is significantly brighter," he said.

However, it was important to recognise that if sanctions were dropped some SA businesses they protected from competition could experience difficulties.

Lockwood said business sentiment might drop as the economic downturn deepened, but political developments and more favourable international relations flowing from these would serve to underpin confidence levels.

Sacob's manufacturing activity index rose to 98 in May from April's 68. This level, still below 100, implied manufacturers expected orders received to be slightly lower than in April, and confirmed the downturn was firmly in place, he said.

The chamber's expected manufacturing production index for May and the year ahead showed manufacturers' longer-term outlook was significantly more pessimistic compared to earlier surveys.

For the first time, the aggregate expected production index indicated that, in response to the fall-off in demand for consumption and investment goods, manufacturers expected to produce fewer items in the coming year than they did in the previous year, Lockwood said.

"This has serious implications for the supply-side of the economy, and suggests the downturn will be longer and deeper than was initially anticipated."

● See Page 3

these new mines

SA 'could fill trade vacuum'

Bloem 8/6/90

THE road to economic development and growth in SA lies in industrialisation with greater beneficiation of mineral and agricultural products, says Trade and Industry Department deputy director-general G Breyle.

Breyle, speaking at the third meeting of the Federation of SA Chambers of Commerce Abroad (Fedsaca) on Wednesday, said the value of manufactured and beneficiated products would have to assume a more important role in SA's future export package. (180)

He added SA had trade links with almost every country in Africa and it could fill the vacuum developing in Africa with the continuing retreat of many European companies from the continent.

Fedsaca was formed four years ago to assist 10 bi-national chambers of commerce improve trade relations with SA. Trade missions are organised annually.

Fedsaca chairman Jardine Neto said the 10 bi-national chambers of commerce from Europe, South America and the Middle East represented 2 000 companies. Bilateral trade between Fedsaca-affiliated countries with SA amounted to billions of rand.

Fedsaca does not favour sanctions against SA. — Sapa.

Exporters urged to move nearer SA coastline

94 7/15 8/6/90 180

By ARI JACOBSON

THE SA coastline, with cost-cutting location advantages, must be the focus of long-term export manufacturers, in catering for world demand, said SA Foreign Trade Association's (Safto) Wim Holtes at the launch of Sun Packaging (Sunpak) conversion plant, to eliminate ozone-depleting gases, in Atlantis yesterday.

Sunpak manufactures a wide array of foam products for the food, beverage and home renovation industries — under licence from Japanese company Seikisui Plastics.

Holtes, the keynote speaker, stressed the cost disadvantage of transporting goods destined for overseas markets from the hinterland.

Exports which made up a third of the SA's gross domestic product (GDP) had an important role to play in the future growth of the country, he said pointing out that 25% of a medium-sized comapany's turnover should be focused in the export sector.

Holtes said the pivotal areas in the export drive of the 1990s would be chemicals, paper and packaging, processed foodstuffs, automative and transport equipment, machinery and engineering.

The switch towards manufactured exports required a capital-intensive bias which through wealth creation would provide the foundation for employment generation in labour intensive industries in the long run.

"Future developments in the export industry relied on entrepreneurial innovation in the business community rather than growth of primary export markets."

Holtes mentioned that commercially oriented projects would ripple into SA economy backed by the innovative-flair business leaders.

"In comparison Eastern Europe has been recognised as a skeleton without the heart and lungs of a business community."

SA impressed foreign businessmen with its financial discipline "yet bankers abroad still consider SA Third World by First World standards although first rate in Africa."

Holtes warned that the slowing world economy would impact on demand for the country's exports at a time when the domestic economy was retreating.

"However, the export incentives introduced in April would encourage continued production in this area."

Black business to examine rebuilding SA's economy

(180)

THEO RAWANA

REPRESENTATIVES of black business will discuss reconstructing the SA economy at the 26th annual conference of the National African Federated Chamber of Commerce (Nafcoc) in Durban next month.

Nafcoc public affairs manager Gab Mokgoko said yesterday the conference would "attempt to bring to the fore what the real issues ought to be in the reconstruction of a mixed SA economy, the extent of the mix and the mechanisms required to ensure and hasten full black participation in such an economy in the '90s".

The destruction of black business property during riots would get special attention, Mokgoko said.

The conference would also address the role of women in the national strategy for economic liberation.

"The president of Nafcoc (Sam Motsuenyane) is expected to give an insight into what he considers should be the framework of an economic agenda to be pursued during the 1990s, as well as the key elements of such an agenda in order to achieve economic parity among South Africans," Mokgoko said.

Chambers of commerce in the southern African region would also attend the congress, he added.

With an eye on its future role in Africa, Nafcoc has established a Joint Working Committee with the Lesotho Chamber of Commerce.

Mokgoko said the committee met last month to examine closely the unfolding political situation in SA and its economic impact on Lesotho and the southern African region.

Assist

It also considered mutually beneficial projects and programmes.

"The committee recognised the urgent need to assist indigenous Africans to share in the Lesotho Highlands Water Project beyond the level of worker," Mokgoko said.

Another matter discussed was the membership of Nafcoc on various regional and Pan-African business formations.

"The committee was also briefed about the discussions held between Nafcoc and the ANC in Lusaka and in Johannesburg, discussions with the PAC in Johannesburg and the Wild Coast Conference on restructuring the economy," he added.

Mokgoko said Motsuenyane led the Nafcoc executive to Lesotho last year to lay the foundations for mutual cooperation.

He said the binding principles of the two chambers were:

- To serve the indigenous African business community and to ensure the advancement of members in commerce and industry;
- To evolve a framework for utilising the strengths of each chamber for the betterment of the collective membership;
- To develop the talents and abilities of members through education and thereby enable them to compete more efficiently in commerce and industry, domestically, regionally and internationally; and
- To form joint business projects and programmes to harness scarce resources.

Mokgoko said the principles were the "pivotal reasons of Nafcoc's thrust in its relationship with various African chambers of commerce on the continent".

Nafcoc members serving on the committee are A S Nkonyeni, Sy Kutumela, E F T Maahlo and Mokgoko, while the Lesotho chamber is represented by A Majara, M Putsua and Z A Tsotsi.

Major SA firms hit hard by recession

W Mail 8/6-14/6/90 (180)

By ANN FRIEDMAN

THE economic downturn is beginning to show in the profits of South Africa's conglomerates, several of which have reported poor financial results lately.

Barlow Rand's profits have fallen, as have those of smaller industrial group Fedvolks. Gencor's industrial arm, Malbak, has shown only limited profit growth. Anglo American this week reported healthy results, although much of this came from diamonds and other commodities.

Barlow Rand's 700 companies cover almost every sector so that its performance is a microcosm of the economy itself. Traditionally Barlows' earnings have correlated pretty closely with the economic cycle.

It recently reported a nine percent decline in bottom line profit for the six months to the end of March — at the same stage last year it reported a 40 percent increase.

Barlows' Middelburg Steel, which was hard hit by a major slump in the stainless steel market, was much of the reason for the group's profit decline.

Industrial companies such as Nampak (packaging and paper) and Romatex (textiles) also contributed less to Barlows' earnings and even its food interests, through CG Smith (which include Tiger Oats), saw profits up by only 10 percent. One which did well, however, was pharmaceutical group Adcock Ingram. But Barlows' troubled gold mine interests in Rand Mines, which include the endangered ERPM, lowered their contribution to group profits.

About 30 percent of profits came from mining and minerals, a further two thirds from industrial interests, and eight percent from Barlows' activities overseas.

Barlows' results, being for the latest six-month period, are probably a better indicator of what's happening in the economy at present than are those of Anglo American, whose results reported this week are for its full year to March.

Anglo reported its profits had increased by 20 percent for the year, but much of this was earned by De Beers, in which Anglo has a 33 percent stake. The booming diamond business, which increased its profits by 31 percent to R889-million, made more of a contribution to Anglo's record R1,5-billion profit than did its gold mines, troubled as they have been by a falling gold price and rising costs. Diamonds accounted for 28 percent of the group's profit while gold dropped to 12 percent.

Its overseas investments — through Minorco and Anglo South America — made substantial contributions to profits as did commodities, such as platinum (through Rustenburg Platinum) and vanadium (through Highveld Steel).

Profit growth in the second half of the year was, however, slower than in the first, and chairman Julian Ogilvie-Thompson this week forecast a period of "consolidation", with commodity prices falling and profits in the group's industrial companies likely to be negatively affected by the economic slowdown.

Some of the bigger industrial companies in the Anglo stable are AECI, South African Motor Corporation (Samcor), Mondi Paper and Tongaat-

CONFIDENCE INDICES FM 8/6/90

Wait and see

(180)

Two Chamber of Business confidence indices show pessimism on the rise in May, for the third month in a row.

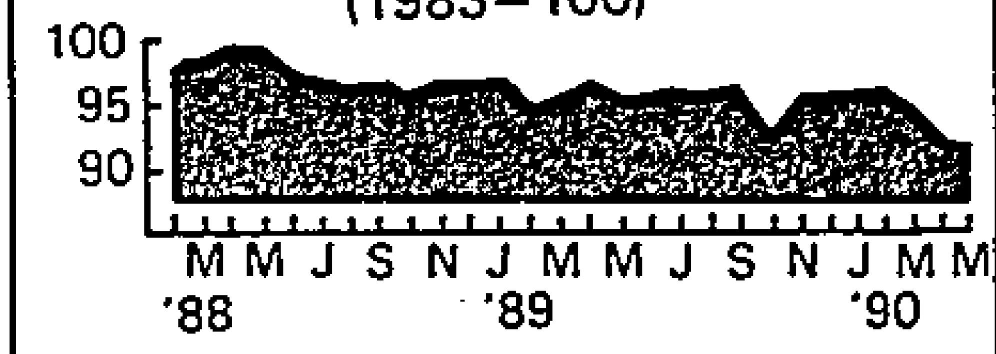
The Business Confidence Index (BCI) — indicating what businessmen are doing — fell only slightly, from 92,1 in April to 92. But the index for manufacturing sales (measuring expectations) dropped to 100 from 112.

While three-month BAs and commercial banks' prime lending rates remained unchanged, negative influences on BCI were:

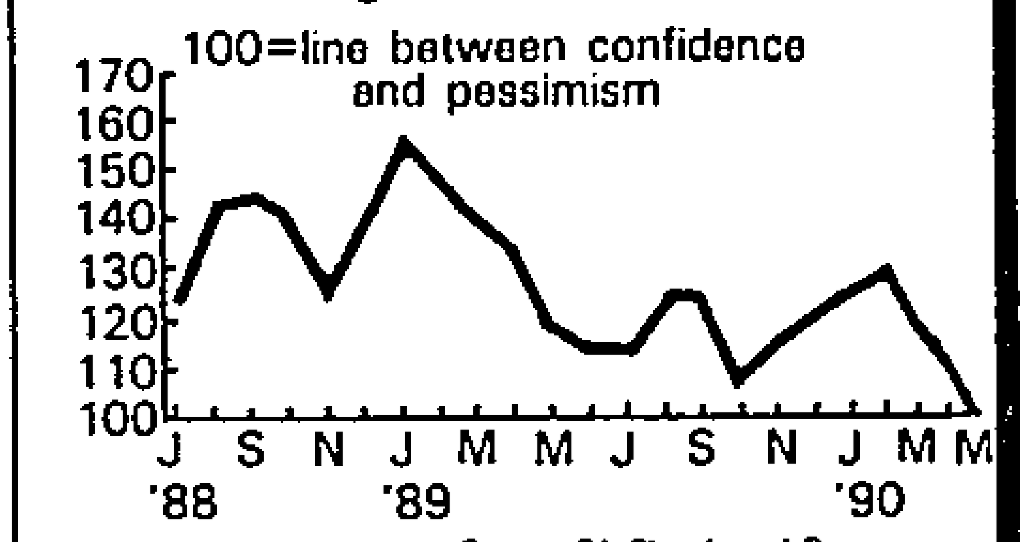
- ☐ A weaker dollar gold price in London and lower rand/dollar exchange rate;
- ☐ A sharp decline in new car sales and small drop in real retail sales;
- ☐ More insolvencies, up 40% in the first three months of this year compared to 1989 (still less than the 129% rise in the first quarter of 1985); and

Still down

Business Confidence Index (1983=100)



Index of expectations for manufacturing sales for the next year



Source: SA Chamber of Business

FM 8/6/90 (180)

- ☐ Lower, though still positive, net immigration.

Positive influences include:

- ☐ A drop in CPI from 14,9% in April to 14,6% in May;
- ☐ Higher real merchandise imports and exports;
- ☐ Firmer JSE share prices;
- ☐ Lower registered unemployment for all races; and
- ☐ Increased value of building plans passed.

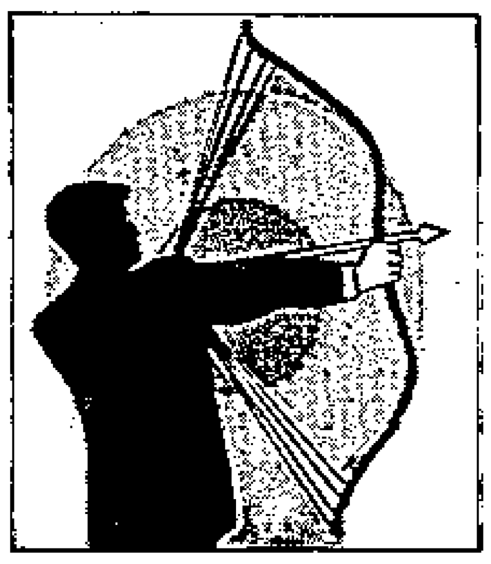
The chamber attributes the small change in BCI to a wait-and-see attitude by businessmen as expansion projects and new ventures are postponed. Confidence levels in the manufacturing sector are the result of businessmen reacting to the recessionary climate, expecting fewer orders and lower sales in May.

For the first time since the survey began in July 1988, manufacturers expect to produce less in the coming 12 months than in the past year. The chamber says this indicates the downturn will be longer and deeper than originally expected, but hopes that reduced taxes for individuals, lower interest rates and stimulus from expenditure of the R3bn social upliftment fund will soften the recession.■

THE FUTURE F/M 8/6/90

Can we deliver? 180

Today's business leaders look at tomorrow



What sort of future does SA have? Is it one that reasonable people will want to share? If so, much will depend on our leading businesses — for the plans they lay now will determine the shape of the economy.

The *FM* canvassed eight leading businessmen, chosen not on conventional lines but because they are managing and planning the kinds of business that will create proper jobs, not just employ vast masses of the unskilled or undertrained.

Understandably, they generally perceive great risks, particularly the danger that political decisions could shatter confidence. Beyond that, however, they see widening opportunities to be tapped as SA emerges from international isolation.

We are likely to remain comparatively isolated if only because foreign investors are turning towards newly-freed eastern Europe. In the circumstances, we will continue to have to rely on our own resources, our own ability to marshal the finance, skills and people central to economic advance.

Venture capital still waiting in the wings

180

STimes 10/6/90

By DIRK TIEMANN

ENTREPRENEURS, the life blood of a progressive economy, have few formal avenues to raise start-up capital.

Financial institutions demand collateral and spotless records and are not good bedfellows in a venture capital (VC) operation.

Their relucatnace to become involved has opened a niche for venture capitalists prepared to help entrepreneurs in return for a stake in the business.

Jitters

New Company Investments is a listed company which does that.

Project manager Grahame Snow says: "Our stake is between 26% and 50%, depending on the potential of the business. We are funding seven projects to the tune of R12-million.

"All except one were entered into in the start-up phase. Experience has shown us that if the innovation is good, the business will shoot through the roof. But a downturn usually follows. Our job is to stand by the business through the turbulent times.

"This distinguishes us from banks, who get jittery at the first negative indications. As long as we see potential in the product our support is guaranteed."

In general, two out of five projects fail, one is outstanding and two deliver normal returns. Mr Snow says VC requires high initial investment.

"We have a finger in several projects to minimise our risk. Venture capital funds like ourselves seek a capital profit for our investors.

"We pioneered the formal VC industry by listing. We have to show investors that VC should not go wrong."

NCI receives hundreds of project applications every year, but only a few are accepted. NCI has been in operation for 2½ years. Most of our current seven projects started in the seed capital phase and are now in the 'mezzanine stage", still requiring capital boosts.

He believes they are "ready to go on the boil".

Technifin, also a VC fund, has a R50-million kitty from the Council for Scientific and Industrial Research and the Industrial Development Corporation.

Problem

Chief executive Lourence Greyvenstein says: "Only 20% of our business is supporting the entrepreneur, the rest is using technology developed by CSIR to set up a business with a 50-50 partnership.

"The problem with the SA entrepreneur is that he wants to own 100% of the business, at the same time trying to raise 100% of the capital. We go for a 50-50 stake in every venture we support, giving the company the option to buy us out once we have completed our role.

"Generally, we look at seven years before profitability is attained."

Mr Greyvenstein says raising capital is easy for the good entrepreneur, but building the business is difficult.

Winner

He suggests that banks set up a subsidiary structured like a VC fund with expertise to assess the prospects of a new business. Banks are however averse to waiting seven years for a healthy return.

"Technifin, operating for only 17 months, has set up six companies. The average investment in a business is R1-million, but can rise to R3-million for a real winner."

South African Venture Capital Association (SAVCA) chairman Jo Schwenke says the image of VC enterprises as quick-buck operations must be changed. It should not be done through legislation but by self-regulation. That is what the SAVCA hopes to achieve.

S/Times 10/3/90

Plans to expand shelved

By DON ROBERTSON

BUSINESSMEN are postponing expansion plans and new ventures until political changes are spelt out.

Uncertainty about the economic and socio-political future is a feature of the business confidence index prepared by the SA Chamber of Business (Sacob).

The index dipped marginally to 92 from 92,1 in May after sharp falls in the previous two months, reflecting a decline in economic activity of 0,1% in the first quarter.

Businessmen reported in the May survey they were encouraged by the drop in the inflation rate to 14,6%, an increase in exports, an improvement in JSE prices and a decline in registered unemployment.

But the gold price has fallen sharply, new-car sales continue to decline and insolvencies rose by 40,5% in the first quarter compared with the first three months of 1989.

180

Interest

Indications are, however, that the economy is now expected to bottom out in the first half of 1991 and not later this year as had been expected.

Interest rates are not expected to decline until inflation shows signs of a large drop and the gold price improves, says Sacob. There is, however, little possibility that the gold price will rise much in the next 12 months.

Manufacturers indicate that production in the next 12 months will be lower than last year.

The confidence index fell to 100 in May from 112 the previous month. A level of 100 represents the neutral point between optimism and pessimism. This implies that manufacturers expect zero growth in the next 12 months.

"This has serious implications for the supply-side of the economy and suggests that the downturn will be longer and deeper than was initially anticipated," says Sacob.

There could, however, be support for the economy from the reduction in taxes and the R3-billion set aside to reduce socio-economic backlogs.

FINANCE

B10 Day 12/6/90 (180)

'More to business than profit'

Own Correspondent

DURBAN — Business could no longer exist just to make profits while having no interest in social concerns and the community in which it operated, JSE executive president Tony Norton said yesterday.

Opening the congress of the SA Sugar Technologists' Association, he warned that the community would probably have to accept a drop in standards as change took place.

There was a tremendous lack of the relevant skills in SA which would require skilled people "not to work harder, but to work smarter". Training would have to start at the bottom so that a company's resources could be stretched.

Norton warned that unless companies moved to meet the unfulfilled needs of the community the "enormous promise of the future could be destroyed".

SA was in the fortunate position that the world itself was changing and needed only to tag along in its programme of change — rather than standing out as the exception.

● NORTON

Government was showing it understood the economic scene, and he had confidence that the team of Finance Minister, Reserve Bank Governor and other leading officials had "got the economic show on the road"

If the economy could grow at 2% a year under mismanagement the possibility for much better growth under proper financial management was strong.

And Norton considered that SA would get access to foreign capital as the political situation normalised.

Business had the responsibility to espouse the economic system of the future. It was plain that the old "capitalist" system was self-destructing, but a socialist centrally planned system was no better.

Britain was a good example of responsible free enterprise to which the rest of the world was moving.

Business had to be innovative, productive and competitive.

It had to be moral with directors being recognised as the custodians of assets as well as value systems; they should pay tax and should not spend undue effort to avoid tax. They should set an example to their staff and community in paying tax.

Business needed to pay attention to its stakeholder's needs and to relevant issues (not party political matters) in the community.

Manufacturers' refund to make up for inequalities

(180) LESLEY LAMBERT

CAPE TOWN — Government is to refund manufacturers for tax paid on capital and intermediate goods in an attempt to redress inequalities which have stemmed from double taxation under the GST system.

Announcing this during his briefing on the proposed new VAT system yesterday, Deputy Finance Minister Org Marais said the effect of the tax concession would be to reduce the price of manufactured goods, with beneficial effects for inflation.

"The concessions will be phased in over a period. They will eventually eliminate double taxation from the production/merchandising chain, will lead to marked cost savings and ought to be passed on to the consumer," Marais said. B Day 15/6/90

Double taxation is regarded, along with tax evasion, as a major flaw in the GST system. Both are addressed by proposals for the new VAT system.

Double taxation occurs when a consumer is charged GST on top of all the tax costs that have been built into a product during the production process. It means the consumer is actually paying invisible tax over and above the 13% GST rate.

By pushing up the price of goods, double taxation also adversely affects the competitiveness of SA's exports.

Apart from the inhibiting effect this concession is expected to have on inflation, it should also, provided manufacturers pass on the saving, help to boost exports which, in turn, would stimulate economic growth.

Paper intensity puts brakes on productivity, say experts

NEIL YORKE SMITH

MOST institutions are too paper intensive and could boost efficiency and profits by eliminating "paper cycles", say financial industry players.

Improved back office efficiency would enable institutions to increase their client focus and boost profits, they say.

"To avoid situations where people and paper run around in circles, institutions must improve productivity by drastically redesigning paper flows," says Andersen Consulting financial industry chief Wendy Lucas-Bull.

And Nedbank executive GM Willie Boshoff agrees, saying: "carefully planned moves to increase automation and reduce the amount of paper circulating always have positive results".

However, he says rationalisation strategies, including automation, could be disastrous if they are not properly planned.

"New controls must match the sophistication of every new system. A formal basis is vital. Doing things ad hoc creates chaos out of every inter-related system.

"Still, the situation where a document is prepared by one person, checked by another, approved by another, data captured by another and the printout itself checked by someone else, is ridiculous," he adds.

Says Lucas-Bull: "Productivity is improved by cutting redundant tasks. There is no need to compromise controls. Effective strategies focus on efficiency, management profile and concentrating on core business."

Good strategic planning and risk analysis have to be matched by the quick implementation of decisions, she says.

Comparing administration areas to "paper factories", Lucas-Bull says: "They provide good opportunities to implement theories like 'Just in time' which improve efficiency and profit."

Boshoff confirms this but says new techniques are only as good as the people implementing them.

"We are always looking for top people. At this level they are not only motivated by commensurate renumeration but by the challenge. A handful of well paid top people will outperform pure numbers."

Lucas-Bull says: "Employees must focus on adding value at every stage. If value is not added a rationalisation opportunity may exist."

Sensitive

Strict capital adequacy requirements, tough competition and increased market sophistication put increasing pressure on institutions to make optimal use of capital.

"Many are becoming less risk averse and more sensitive to market information," she says.

"They are focusing on managing risk properly. This means getting excellent market and competitive information."

International business trends, especially the focus on what is the core business, would become apparent in SA, she says.

"Overseas institutions concentrate on what they do well. They refine operations and, where relevant, rationalise."

Lucas-Bull reckons staff prefer these circumstances as career paths are more clearly defined.

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BDN 18/6/90 (180)

Trusting in good management to get through tough times

LINDA ENSOR

BUSINESSMEN are in for a tough time in the next 12 to 18 months, believes Marinus Daling, chairman of the massive Sanlam subsidiary Sankorp, which controls assets worth over R50bn.

But in the long term socio-economic developments in the country and the world will present opportunities for SA businessmen. Daling foresees slower economic growth and high real rates of interest internationally and in SA, where a period of continued instability is likely.

"We have seen an increase in stayaways and tension on the shop floor which inevitably has an effect on productivity and confidence and therefore on the likelihood of people spending money.

"Government is busy trying to get inflation out of our system and to eliminate artificial ways of propping up businesses. That doesn't happen without pain. And unfortunately we have a weak gold price at the moment.

"I believe it is inevitable that businessmen will have to look very hard at the cost side of their businesses."

Daling says those industries closest to the consumer will be hardest hit, though exporters will not enjoy a safe passage through the rough ride.

● DALING ... a positive outlook.

Sankorp has a controlling stake in Gencor, which represents 55% of its total assets. Through Gencor, Sankorp controls Genbel, Gengold, Trans-Natal Coal, Samancor, Impala Platinum and Messina, as well as 15 individual mines in the group.

Daling says Gencor management believe mines should be run like any other business. They are not working on the assumption that any of the group's marginal mines will have to close down, though obviously all mines must at some point come to the end of their working lives.

"A flexible approach is adopted at these marginal mines. Personally I don't think it will be necessary to close down any though it will be necessary to continue to run a tight ship.

"Because we are approaching the mines from a business viewpoint we don't have a critical cutoff point where we say that at this gold price we will not continue running a mine. What we do is to make more and more adjustments and become more clever and more flexible," he says.

"The gold price is a commodity subject to continued price changes and it would therefore be wrong to base a fundamental decision such as closure on a short-term view of the gold price."

Retrenchments and cutbacks in production will obviously be necessary to save the marginal mines, he adds. Evidence of this has already been provided by the announcement that Gencor's marginal Stilfontein mine is to retrench 500 workers.

But while the immediate scenario is sombre, the long-term outlook is promising to business, Daling believes — provided that the economy remains a free enterprise one.

He pinpoints three key areas of growth: the provision of basic necessities to improve the quality of life of the black community, exports and the beneficiation of metals and minerals.

However, before embarking on an explanation of his views, Daling insists on a proviso. "I am not so much a believer in good industries and bad industries. I am a believer in good management and not so good management."

Basic

Future growth of the economy will, Daling believes, take place in those sectors geared to the improvement in the quality of life of those large sectors of the SA community who have been "left behind".

"If you look at black spending patterns, you see that black people are spending most of their money on food, transport, housing, health and clothing. These are basic necessities of life and people will spend more money on such items as their disposable incomes rise."

Another element of the improvement in the quality of life is increased electrification of metropolitan areas, with its corollary of an extended use of home appliances.

The highly diversifed Sankorp, which is represented in almost every sector of the economy and employs more than 450 000 people, is well placed to take advantage of these opportunities.

In industry it has major holdings in, for example, Siemens, Conshu, Plessey SA, Sentrachem, Datakor, and Automakers (Nissan). Through Gencor it controls Engen and Sappi.

It has a controlling interest in Malbak and its subsidiaries and in Federale Volksbeleggings and its subsidiaries including Fedfood and SA Druggists.

In the wholesale and retail trade it controls Tradegro and its subsidiaries, as well as Ellerine (via Malbak), and is represented in the engineering, construction, transport and property industry through its interests for example in Murray & Roberts, Unitrans, and via Malbak in Haggie and Blue Circle.

Daling also predicts that black people will become increasingly involved in the financial services sector (insurance and banking) and here again the enormous group is well placed.

As regards exports, including the beneficiation of metals and minerals, Daling says: "I think theseneed to promoted within the group. At board meetings we urge people to take a long-term view of exports and invest more time and money in them."

He stresses that expansion initiatives within the group are decentralised with no prescriptions on strategies coming from Sankorp itself.

Capex on group level for projects under way — including the expansion of the sub-vertical shaft at Winkelhaak — exceeds R2bn.

Both exports and expanding the "quality of life" market, are tied, in Daling's view, to SA's role in Africa. "Africa south of the Sahara needs SA now more than ever. The world's attention is now on Eastern Europe and the Soviet Union, and potentially in mainland China which I believe will be the next country to open up.

Expertise

"The amount of capital and expertise that those systems will require is so huge that there will be little left for Africa, which runs the risk of becoming 'the forgotten continent'.

"SA will be able to keep the prospects of multinational companies heavily engaged in the northern hemisphere alive in Africa. I think they will have to do so through SA and this will create tremendous opportunities for us."

The immediate obstacle to Daling's vision is, he says, the dismantling of apartheid in a way which preserves a free enterprise system — a subject he can engage you in for several hours if he had that much time to spare.

White business has a vital role to play in black empowerment

B Day 21/6/90 180

JOHN R WILSON

SOUTH Africans need to understand the depth of black resentment which underlies the calls for economic retribution to eliminate the evils of capitalist exploitation. Surveys have clearly shown blacks believe that free enterprise does not work in their favour and that capitalism is not capable of moral judgment.

They further believe that: free enterprise is organised taking away from blacks; free enterprise is preoccupied with bottom-line profit without concern for the work force or for the social environment in which it operates; big business is a white free market system with its own racist norms; and free enterprise ensures that 20% of the population owns 80% of the land of SA.

The consequences of these beliefs expressed in terms of business are disturbing. In the first place, apartheid and business are seen to be inseparable and black business success is bracketed with this.

Secondly, abolishing apartheid will not make the poor rich overnight, and the redistribution of wealth does not mean "taking away from them that have and giving to them that have not". The redistribution of wealth means complete equality of access to ownership of assets without restriction. Abolishing apartheid makes this possible.

☐ WILSON

In post-apartheid SA the negotiated compromise between free enterprise and socialism could well lie in the greater involvement of capital and labour in industrial planning, strategy formulation and the allocation and productive utilisation of resources for the benefit of all.

Business organisations, through their members, could play a leadership and co-ordinating role in changing the perceptions that blacks have formed of a free market economy by encouraging them to join and become active participants in traditionally white business organisations and by teaching the basics of business through, for example, training programmes and business games. This could lead to direct involvement in the economy by promoting "investment stokvels", or syndicates for direct participation in developing black businesses, or in share ownership on the JSE.

If we don't start today to educate and train blacks to play a major role in the economic life of the country, then we will be the ones who will ultimately be to blame for the failure of the economy.

Key in this is the adoption of an affirmative action programme by companies for total equality in the work place and the advancement of blacks to management levels, not as a right but purely on merit. Such plans should specify targets, designated jobs and detailed career paths. I would view this as an essential step in the redistribution of wealth.

There is no quick fix to inadequacies in black education because the nub of the problem is a dearth of qualified black teachers. This is a problem that cannot be solved by money alone, but will also take time, in fact as long as it takes to obtain a primary, secondary and tertiary education. We will have to find nonconventional solutions to this problem to speed up the process, as time is not on our side.

Apart from adopting a single educational system with integrated schools dedicated to maintaining standards, what about a crash programme using all the facilities of white education, including teachers in a second session each day as well as in school holidays? We must also give serious thought to using the teaching methods of cram schools as well as using the television network in a high profile educational drive.

First priority, however, is going to be to remotivate black youth to want to go back to school. Calls by black parents, the ANC and Nelson Mandela for youth to return to the classroom have been ignored and we have a major problem which requires an imaginative solution. The solution has to be an alternative to the excitement of gang warfare and being rulers of the townships while school boycotts are in progress, which has been the situation for most of the decade of the 1980s.

Late as it is, we have got to avoid the tragedy of an uneducated generation who will be in the prime of life in the 21st century.

If we aspire to winning nation status, then we need to study the economic success of Japan and Korea. In both of these countries the economic miracle was preceded by a restructuring of the educational systems and a massive drive to educate the whole work force for the economic needs of the country.

We are way out of step with the job needs of SA by offering as the norm a classical education.

People's education is a misunderstood concept. It is not a call for the lowering of educational standards, but rather a call for the participation and involvement of blacks in designing an educational system relevant to their needs and aspirations.

The voice of business needs to be heard loudly and clearly on the relevance of our present educational system in meeting the needs of a developing technological society.

The urgency of economic empowerment of the black community is that more than 50% of SA's population is under the age of 16 and a growth rate of at least 8% a year is necessary to provide jobs.

Economic empowerment of blacks is predicated on eliminating the morass of financial and legislative barriers erected by white SA since the last century to keep blacks in serfdom. While progress has been made in deregulation, free competition will come about only when the Group Areas Act is abolished and there is equality in access to the ownership of land and other assets.

In the meantime, the development of the informal sector and small black business is seen by many as the answer to the unemployment problem as well as the introduction of blacks to the free enterprise system.

While there is no doubt small black business is very significant in the economy, much of it provides a service activity that keeps money in circulation but does not create wealth. As a result of deregulation this position is changing, and black entrepreneurs are moving into manufacturing, which is the real generator of wealth in the economy.

These new businesses are important contributors to the GDP and to alleviating unemployment. It is important to note that co-operatives are favoured by blacks over small individual businesses, because of the concept of collective responsibility and the sharing of scarce human resources that is possible in this business model.

However, the growth of black business in SA in the near term is constrained by factors such as a lack of general management skills; a lack of financial and marketing expertise; and a shortage of venture funding for new business enterprises.

If we are serious about growing the economic cake through black economic empowerment as the most effective means of wealth creation and redistribution, then we must be concerned about these limiting factors. We must also be concerned as to how to grow black business so that it becomes an integral part of SA's economic activities.

A blueprint for this will be a priority for our economy to flourish in a post-apartheid society.

White business has an important role to play in this through the establishment of a skills base for the transference of business expertise to speed up the process of black economic empowerment.

☐ Wilson is former chairman of Shell SA. This is an excerpt from his address to the Institute of Directors in Johannesburg yesterday.

Barlow Rand again SA's top company

B/Day 21/6/90 (180)

EDWIN UNDERWOOD

INDUSTRIAL and mining conglomerate Barlow Rand was again selected SA's top company in the annual Financial Mail Top 100 Companies survey.

Strong domestic operations coupled with successful exports from the likes of Middleburg Steel & Alloys and Rand Mines resulted in Barlows retaining top position in the rankings of total assets, profit and turnover. It had the highest JSE market capitalisation, against the second highest the previous year.

Barlows achieved net profit of R1,06bn in the year to September 1989 from turnover of R26,4bn. The group's JSE market capitalisation was R8,23bn.

Steel giant Iscor, listed in November 1989, bounded into second position with assets of R7,79bn and net profit of R1,01bn. It was ranked seventh in terms of turnover and sixth under market capitalisation.

Third in terms of total assets was Anglo American Industrial Corporation (AMIC) with assets of R7,76bn. With its market capitalisation at R5,3bn at the time of the survey, Amic was ranked fifth in this category and was fourth in terms of net profit.

SA Breweries moved up a notch to fourth place with assets of R6,97bn.

Barlow Rand's food, packaging and textiles subsidiary C G Smith fell from third to fifth place in assets but was again ranked second in turnover terms.

Fuel and chemicals group Sasol moved from fourth to sixth place in terms of total assets.

The biggest jump up the list was Rembrandt's industrial holding group HLH, from 128th to 54th position. Rembrandt lost its second place after restructuring but is still ranked seventh in assets.

Retail furnisher and appliance group Ellerine recorded the greatest fall from 77th place to 99th, and pharmaceutical and medical group Adcock Ingram was ranked 100.

According to the survey the trend in the Top 100 had been towards real asset growth.

TOP 10 ranked by assets (Previous position in brackets): 1 Barlows (1), 2 Iscor (-), 3 Amic (6), 4 SAB (5), 5 C G Smith (3), 6 Sasol (4), 7 Remgro (2), 8 Sappi (11), 9 C G Smith Food (7), 10 Perm Group (8).

TOP 10 ranked by market capitalisation: 1 Barlows (2), 2 SAB (1), 3 Sasol (3), 4 Remgro (4), 5 Amic (5), 6 Iscor (-), 7 Sappi (6), 8 Tiger Oats (10), 9 C G Smith (8), 10 not listed.

TOP 10 ranked by net profit: 1 Barlows (1), 2 Iscor (-), 3 Sasol (3), 4 Amic (5), 5 Remgro (2), 6 SAB (4), 7 Sappi (13), 8 Hiveld (28), 9 C G Smith (6), 10 AECI (8).

TOP 10 ranked by turnover: 1 Barlows (1), 2 C G Smith (2), 3 SAB (3), 4 C G Smith Food (4), 5 Tradegro (5), 6 Malbak (6), 7 Iscor (-), 8 Amic (10), 9 Tiger Oats (7), 10 AECI (11).

S/Times 24/6/90

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W&A restructure hints

Chairman Jeff talks of options

BY DAVID CARTE

FSI and W&A watchers are standing by for yet another restructure of Jeff Liebesman's many-tiered empire.

Chairman Liebesman says in the W&A report for the year to last December that the group will spend the early part of the current decade getting better at what it already does. The emphasis will be on consolidating and building up core businesses.

But some eyebrows have gone up over his promise to "remain alert for exceptional opportunities" and another statement: "We continually examine options for streamlining the financial structure of the group so as to improve operating returns and management effectiveness as well as to improve the upward flow of earnings."

JEFF LIEBESMAN ... rules a many-tiered empire

At a time when interest rates are positive in real terms, there is a considerable amount of debt in the FSI-W&A empire.

Some analysts expect corrective measures. Because of its outstanding return on equity (23,6%), W&A can contemplate a rights issue without dilution despite an earnings yield of only 13,8%.

One speculation is that FSI will sell Formscaff to one of the subsidiaries or associates. That would move cash higher up the structure and debt lower.

Revamped

The group could be more liquid, particularly since there is another R164m of long-term debt higher up in FSI.

W&A's net debt rose by 81%, or R110m, to R259,2m. Assets rose 27% to R1,2bn. Most (R93,6m) of the new debt was long term, R40m arising in new-look Vektra (formerly Tarry's) and R30m in a revamped Teamcor.

Mr Liebesman says gearing has been held at 31%, but that is to measure it less than conservatively.

If shareholders' funds are marked down for a R120m shortfall between the market value of associates at cost and intangibles, such as trade marks and patents (R135m) are left out, they are reduced from R823,5m to R555,6m. Net debt:total shareholders' funds becomes more like 47%. Total debt (R357,9m) to total shareholders' funds is 64%.

Last year the interest bill was high at R73,4m. It equated to a rate of 23% on average total debt for the year. The abnormally high rate is because 49%-owned Homemakers' interest bill is equity accounted, but none of its debt is shown on the balance sheet.

Homemakers' net debt has soared by R84,9m to R102,7m. This is out of sight in W&A.

Enlarged

Debt:equity, of course, is not the only measure of liquidity. Another is the number of years it would take net cash flow to mop up total debt — 3,3 years, which is quite comfortable.

But by yet another measure, interest cover is a bit slender at 3,6.

The additional debt was needed to fund an enlarged group, whose turnover soared 43%. Stocks and debtors were held to 18% and 28% rises respectively and the current ratio was a comfortable 2,7.

Balance-sheet items that soared were patents (84%), investments (42%) and outsiders' interest (31%).

W&A's gearing could be a strong bull point when interest rates soften. Each percentage point decline in rates over a year would represent a saving of about R3,5m. Higher rates, of course, would cut the other way.

The W&A report is impressive for its glossy pictures, copious information, good organisation of material, the clear statement of the company's mission and modus operandi. But W&A could provide better segmental information and more on unlisted interests.

Mr Liebesman paints a picture of a company growing fast "in a disciplined manner". W&A has a clear focus: "Manufacture and distribution of basic consumer and industrial goods."

Brains

But the company seems to go for nearly any type of acquisition, from shoes to pharmaceuticals and even timeshare development.

Hunts, which chipped in R46,1m to the bottom line, is by far the biggest income source, followed by Homemakers, which contributed R20,3m. AAF brought in R7,3m and MacPhail R3,3m. That accounts for R77m of earnings of R86,1m.

The group does not lack for financial brains — there are 10 CAs and two BComms in a board of 15.

There are only three non-executive directors, two of whom were full-time employees in the past. A couple more independent outsiders would be reassuring now that the group is so large.

The company is looking for "satisfactory" earnings growth this year. If it achieves that in spite of the appalling economic climate, it will buck the trend and prove conclusively that the phenomenal successes of the past five years were based on far more than effective financial engineering.

Light on horizon for FVB holders

S Times 24/6/90

Business Times Reporter

THE suspension of Federale Volksbeleggings (FVB) shares on Friday could herald the long-awaited offer to the long-suffering minority.

A minority take-out is only one option for controller Sankorp. It could also restructure the company, sell assets, or place the conglomerate, or parts of it, in its other conglomerate subsidiaries, Murray & Roberts or Malbak.

It might have nothing to do with FVB, but some M&R directors are learning to speak Afrikaans.

An analyst says that if M&R or Malbak were involved, their shares would also have been suspended. It is also unlikely that a large scale carve-up will take place while the minority is still on board. The best bet is a take-out, recapitalisation — then a ruthless rationalisation drive.

If there is to be an offer to the minority, Sankorp will have to offer a good premium on the 300c at suspension, even though the closing price is a big gain since Business Times tipped the share as an asset situation at 230c on May 6.

(180)

Fat

One analyst says: "Minority shareholders have stayed with underperforming management for years on the grounds that this was a good asset situation. They won't accept any offer unless there is a fat premium."

FVB has done abysmally relative to its rivals for 20 years, hence the large discount to asset value, but it is of considerable historical and sentimental significance. It was the vehicle by which Afrikaners made their mark in private industry. Four years ago Sankorp had several problem children. Today FVB is the only one.

The company has sound subsidiaries with large market share, such as Fedics, Fedfood, SA Druggists, Firestone, Avis and Wilson Parking and a minority stake in Satbel — but it has always had acute problems in one area or another.

Tractor-maker FedMech and white-goods producer Tek are the latest headaches. The group has long been too highly geared. After losing most of shareholders' funds to forex errors, it has twice been recapitalised in the past four years.

BDay 25/6/90

Using European aid to prepare for 1992

(180)

ZILLA EFRAT

GRANTS in aid, currently being offered to companies establishing businesses in Europe, could help SA firms obtain a foothold there ahead of European integration after 1992.

London-based international consultant in grant research Peter Brooks says a multitude of schemes are available to foreign investors and businesses already established in Europe.

The rationale behind them is to bring in expertise, increase employment and strengthen international competitiveness ahead of Europe 1992.

These schemes are offered by a variety of organisations, including central and local governments and regional development organisations.

Benefits include tax holidays in various locations, tax-free grants and aid, rent and rate-free premises, low rate loans and funds for staff training.

"For some types of grants and aid a company can qualify for funds from six or more different sources in just one of the 12 EC nations," says Brooks. He sees no reason why SA companies should not qualify.

Manufacturers and people with craft and trade skills stand to benefit the most, followed by service industries.

Brooks, who helped develop the only comprehensive database of European grants, says applying for the schemes can be time-consuming and requires knowhow and patience, but the rewards can be high. However, not all schemes are worth the effort.

To assist South Africans, Brooks will hold a series of seminars, organised by SPIM Educational Seminars, in Johannesburg and Durban in July.

CSIR advises companies to follow European standards

EDWARD WEST (180)

ANY country that did not harmonise measurement and testing facilities with those of the EC could be faced with technical barriers against the entry of its products into the EC, the CSIR said yesterday.

It said this was the implication of an EC directive that said any product, service or organisation operating in accordance with European approved standards, would be allowed into EC states without hindrance.

This meant SA manufacturers needed to obtain the correct European specification. The solution would be to send the product to an "approved body", but this might prove impractical because the required approved body would be abroad. B / Day 26/6/90

However, efforts were well advanced to have the Europeans recognise the testing and measurement facilities at CSIR's production technology division and the National Calibration Service.

The path for SA products' acceptance abroad lay through mutual agreements with trading partners for national measuring standards facilities, calibration services and accreditation schemes for testing laboratories.

However, before mutual recognition of national facilities could happen, mutual confidence had to be established, the CSIR said. SA and Taiwan were already partners and the Taiwanese were also developing their national measurement system and had agreed to join SA in mutual recognition exercises.

Try for East German foothold, says SBDC

180

PIERRE DU PREEZ

SA ENTREPENEURS would do well to establish a foothold in East Germany as soon as possible, Small Business Development Corporation (SBDC) western Cape regional GM Wolfgang Thomas said yesterday.

Thomas, back from a short trip to the country, said the East Germans were looking for new markets and appeared to be very amenable to the idea of establishing trade links with SA businessmen.

"East Germany is a very good bridge to Central and Eastern Europe," he said.

Two particular fields were mentioned where SA entrepreneurs could get involved — clothing and high technology.

"Although things look very dull in the country at the moment, we must remember that the economy is being built up after about 40 years of communist rule," he added.

There were strong indications that small businesses would soon get effectively organised in East Germany.

"Local initiatives are likely to be linked up with well-established structures in West Germany, which should soon span the whole country," Thomas said.

Given the state's vast support to the small businessman and the buoyancy of the West German economy, among other factors, the East German small business sectors should recover amazingly rapidly.

"People whose small businesses were taken over by the state in 1972 can now apply to get their businesses back," he said.

Details were still being worked out, but it seemed likely that tens of thousands of entrepreneurs would come forward to restart their (or their parents') small businesses.

Thomas added that he did not foresee any problems for SA businessmen who became involved in East Germany after 1992.

"We must remember that the EC is not the whole of Europe. Businessmen need not fear repercussions because by that time they would have established a good foothold in greater Europe," he said.

New strategy helps small businesses

(180)

W/Mail 29/6/90

ANGLO American Corporation has adopted a two-pronged strategy of doing business with small businesses.

Called the Small Business Initiative, one arm is a company called LITET Limited (previously Labour Intensive Industries Trust Limited) which acts as a vehicle for investing in smaller business concerns. The aim is to provide financial and managerial assistance through the taking of minority stakes in emerging businesses.

The other arm is the Small Business Unit, the purpose of which is to increase Anglo American Corporation's and its associate companies' business transactions with the small-business sector.

According to the Corporation's latest annual report, LITET's first investment was made in Masakhane Industrial Cleaning Services, which has a contract to clean a mine hostel in the Free State goldfields.

During the 1989-90 financial year, Anglo American Corporation agreed to invest another R1,3 million over five years in the Small Business Development Corporation (SBDC), bringing its total commitment to R5-million.

LITET also financed a contracting fund, managed jointly with the SBDC. It was specifically established for the assistance of small businesses dealingwith the Corporation.

● Anglo American Corporation and its associated companies have spent more than R200-million on skills training during the 1989/1990 financial year.

Of the 2 696 people in trade apprenticeships, almost 20 percent were drawn from outside the white community.

The Corporation and its associated companies have invested in educational programmes at a variety of levels: 23 high school scholarships, 122 pre-university programme bursaries, 669 university scholarships, 581 technikon scholarships, 101 in-service bursaries and 422 company-sponsored part-time students at universities and technikons. — Sapa

Mr Chris Hull, finance manager of Anglo American Industrial Corporation Limited (AMIC) has been appointed a director of AMIC

NEWS

A man designed to rein in pin-striped miscreants

Frank Kahn . . . unafraid of corporate clout and unintimidated by the State or the armed forces.

THE past decade has seen South African business becoming riddled with fraud, corruption and bribery.

Now the Government is considering forming a task force of "supercops" to combat it and the man tipped to lead the group is Cape Attorney-General Frank Kahn.

A prerequisite for the job, one imagines, is being sufficiently hard-nosed to stand up against the power of corporate capital. Frank Kahn's record certainly suggests that this is one of his major attributes.

When in August 1988 the Harms Commission was appointed by the State President to investigate alleged irregularities by Sol Kerzner and Pretoria attorney Albert Vermaas, investigating officer Frank Kahn showed tough resolution in digging away at detail.

These investigations led directly to the criminal indictment of Mr Vermaas as well as Member of Parliament Peet de Pontes and Brigadier John Deysel. Mr Kahn, it seems, is not only unafraid of crossing swords with corporate clout but is equally unintimidated by the State or the armed forces.

He looks tough and talks tough with a bearing and manner that would have any pin-striped miscreant thinking long and hard about trying to pull the wool over his eyes.

But his way of doing things belies his looks. He does not believe in witch-hunts and, whenever possible, he resorts to requests for written or verbal submissions rather than dishing out subpoenas right, left and centre.

He is adamant, however, on the whole question of bribery and corruption. In a press interview last year he said: "The moment one subscribes to the philosophy that the ends justify the means, we lose international credibility and credit-worthiness. One lie begets another and eventually it undermines the fabric of public life."

However, he said this week that he firmly believed that

Personality

FRANK KAHN

Written by: CHRIS MOERDYK

South Africa was characterised by a strong vein of self-respect, proof of which was the judicial system.

"This, after all, is the dividing line between a banana republic in which fraud, bribery and corruption are common place and a stable western democracy that attracts the confidence of foreign investors."

He sees the role of the news media as being important in the work of commissions of inquiry and has gone on record as saying that the press had gone a long way in assisting the Harms Commission in its work.

Of course, he welcomes the idea of a squad of "supercops" but typically has made no comment on the suggestion that he should lead it.

He believes it would be extremely effective if the idea is to have a small group of experts working closely together and able to act quickly.

This is particularly necessary as the problem, he feels, in getting fraud and bribery suspects to account for themselves, is that they are usually long-gone by the time traditional police methods have brought cases to court.

But he does seem to have things in perspective. He does not see the business shenanigans of the past decade as being a solely South Africa phenomenon but something that is a headache in countries the world over.

Frank Kahn is a man of considerable experience. His quarter century of service in the attorney-general's office has seen him prosecute in all manner of cases.

He firmly believes that, as far as white-collar crime is concerned, all South Africans are victims because this crime more than any other directly affects the entire economy.

He was born in Cradock in the Cape in 1940 and in 1962 he obtained his BA LLB at the University of Cape Town.

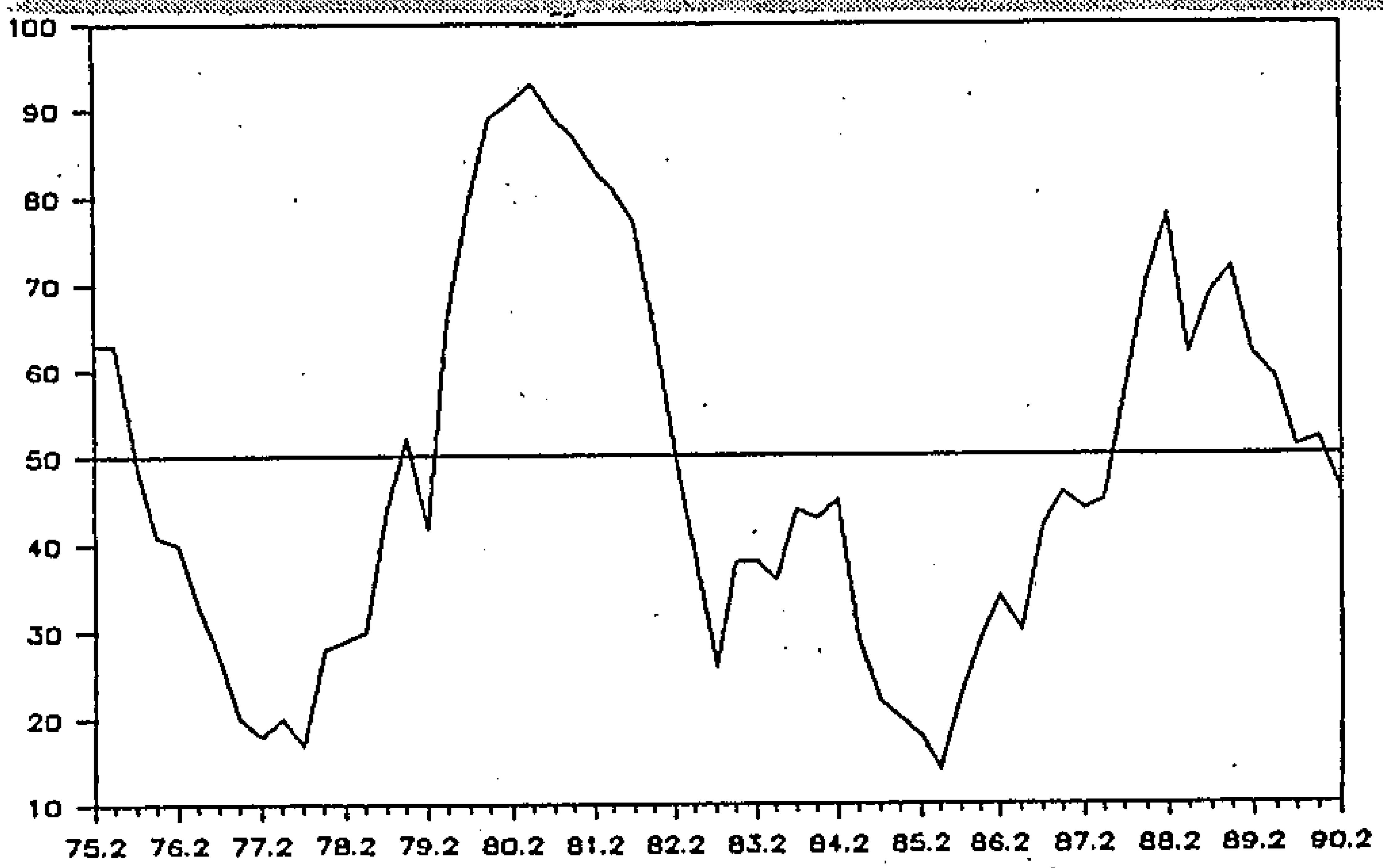
After a short spell of reading law in England he returned to South Africa to work in the juvenile court in Wynberg. In the same year he joined the Attorney-General's office and that is where he has been since.

In 1977 he led an investigation into a major foreign exchange scandal and a year later he became one of the first public prosecutors to be involved in a case of white, right-wing terrorism.

He is married with one child — a daughter who, not surprisingly, is studying law.

He is not a sportsman and told a journalist last year: "Sport leaves me cold." He added that his hobbies tended to be smoking and eating junk food as a result of what he described as a "tireless routine".

Business confidence of manufacturers turns negative



Business confidence index (Manufacturing sector).

CAPE TOWN — For the first time since 1987, the business confidence of South African manufacturers has turned negative, according to the Bureau for Economic Research at Stellenbosch University,

The Bureau's latest survey on the manufacturing industry released yesterday disclosed that contraints hampering business activities — with dire results on the business confidence as well as longer term expectations in the manufacturing sector — were not expected to disappear in the immediate future.

According to survey results the constraint with the highest intensity index, has been the current level of short term interest rates, which was not expected to decrease dramatically in the near future.

Next on the list concerned insufficient demand which reflected a lack of vigour in the market economy.

The survey said that with official dampening of growth in the South African economy, manufacturers had opted for exports to supplement the sales volume in the local market.

The third most important constraint hampering business activities was that of a shortage of skilled labour.

The current general political policy — the fourth highest on the list of constraints — increased marginally during the survey quarter and would remain a negative and uncertain factor until some kind of political settlement has been reached.

"Sanctions as a constraint eased somewhat during the survey quarter, but to what extent this can be ascribed to talks about the easing of sanctions is uncertain," the Bureau said.

However all was not gloom and sales, production and new orders received were on higher levels than the same period a year ago and would be maintained during the third quarter. — Sapa

'National backing necessary to sell new SA to world'

(180

● YOUNG ... there is a need for a national will
Picture: ROBERT BOTHA

LINDA ENSOR

TO CREATE and sell the new "South Africa Ltd" on the aggressive international market will require a mobilisation of the national will and a consensus about goals, which can best be achieved by a tripartite alliance between the state, capital and organised labour, says visiting British businessman Michael Young.

Young was a foreign policy advisor to Ted Heath's government and is currenly City Corporate Financial and Public Affairs chairman.

He believes such an alliance — as has developed in Japan and to a lesser extent in Germany and France — gives countries a head start over their competitors in the international race for markets.

Young says consensus on how best to maximise the country's assets in the national interest will be essential, once the country's political dispensation has been regularised, if SA is to grasp the immense opportunities which exist in Europe and North America.

Transitions

Social cohesion will also be crucial if the new government is to succeed in achieving a fine balance between the need to attract foreign capital by offering a good return on investment and the need to change social expenditure patterns to redistribute wealth.

"SA is undergoing major political and economic change. Clearly there has to be a view of where you are trying to get to, as that is the only way societies hang together when they pass through such difficult transitions."

Another reason why Young stresses the need for a national will, is the danger, given SA's history, that labour out prices itself as it seeks fulfilment of wildly inflated expectations.

"There is not a bottomless purse from which salary increases can be drawn; it has to be paid for by increased production and productivity. That is a difficult message for all people to understand, especially in SA where the state has played such a huge role in the economy, in some cases an even greater role than in Eastern European countries.

"This builds up a notion in the minds of the people generally that somehow the state will provide. It is only people and their efforts that can provide and an understanding of the way these things work needs to be woven into the fabric of the society."

Which is not to say that Young sees no role for the state in the economy, even if it is simply a co-ordinating, facilitating one.

He likes to see himself as an "objective man", steering clear of ideologies.

"We are dealing with many shades of gray. There are very few absolutes, if any," emphasises Young, who says he occupies the centre seat of the political spectrum. He was a parliamentary candidate for the SPD/Liberal alliance in Britain.

He believes a mixed economy will emerge in SA, if only because of the need for fundamental redistribution of wealth. The vital, still unresolved question will be the weighting either towards the private or public sector.

Young feels the priority of a national economic strategy, arrived at through national consensus, should be to create the infrastructure for value-added manufacture. While SA has a virtual monopoly of some mineral resources, it holds a small percentage of the world's value-added manufacturing goods.

Young stresses that the inflow of foreign capital will be vital if SA is to sustain economic growth and develop its economic potential.

"There is going to be renewed interest in this economy by the private sector. Here is a very interesting market which, if all goes according to plan, could well be the economic motor for the African continent."

Companies already here would probably look at further inward investment with a view to developing and shoring up their portfolios.

While admitting that SA will be competing with Eastern Europe for foreign aid, especially as West Germany is deeply preoccupied with the unification of the country and with the development of surrounding countries, Young thinks Britain and America will press for aid for SA.

"If the rest of the world is serious about SA — and I think it is — it ought to be thinking about a programme of sustained aid to the new SA in order to assist in the transition phase.

Access

"I would like to see soft loans, direct gifts tied to specific and agreed upon projects and better trading terms, especially with the EC. I would hope the huge EC market would be made as open as it possibly could be to the new SA's manufactured exports."

Young "guesses" the British government will push for an agreement for SA similar to the Lomes agreement for former French colonies, giving the country special access to the European market.

"I am extremely optimistic that SA will arrive at a new political dispensation and that it will get there sooner rather than later. In my commercial judgment I would want to be preparing now and looking at a changed dispensation within five years.

"There is so much here, there is so much going for South Africans that, unless you are so obstreperous with each other and foul up badly, you have to succeed."

Young says captains of industry in the UK, Europe and North America have no doubt that SA has turned the corner. There is a growing awareness of what can be achieved under a new political order.

BER reports slump in business mood

B Day 3/7/90

HELENA PATTEN (180)

THE business confidence of SA manufacturers in the April to June quarter was negative for the first time since 1987, says the Stellenbosch Bureau for Economic Research (BER) in its latest survey.

This was despite "still fairly good conditions" in the manufacturing sector.

The bureau, which based its report on information from 869 manufacturers in 21 sub-sectors, says sales, production and new orders received are higher than during the same period a year ago and are expected to hold up in the third quarter of the year.

Nevertheless, 54% of the respondents expressed dissatisfaction with prevailing business conditions.

The bureau says constraints hampering business activities are not expected to disappear in the immediate future.

It says constraints include: insufficient demand, reflecting a lack of vigour in the market and the official dampening of growth which has prompted manufacturers to look to exports to supplement sales volumes; shortage of skilled labour; the general political policy, which is expected to remain a negative and uncertain factor until a political settlement is reached; and sanctions, which eased somewhat as a constraint during the quarter.

However, manufacturers still expect an increase in their business activities over the next 12 months. Seven percent net of the manufacturers plan to increase their real investment in machinery and equipment, although this is compared with the 27% net in the previous survey.

Industry will need strategic thinkers

180 Star 3/7/90

By Dick Usher

CAPE TOWN — The leaders of industry will be facing challenges in a vastly different economic and socio-political scene than that existing today, says the new president of the Insurance Institute of South Africa.

Cornelius "Oosie" Oosthuizen, MD of Santam, was inducted as the institute's president this month, at a time he believes is unique in the history of the country and the industry he represents.

"What is needed is strong, but innovative, not authoritarian, leadership.

"I go along with some of the US definitions of a leader in that he must be able to motivate human resources in such a way that he and his people will be in a position to reach at least some of the goals of the organisation.

Strategic thinkers

"Having goals means that you must have a strategy to reach them and we are going to need leaders who are strategic thinkers.

"Which is a leading reason why I'm so mindful of the institute's educational role and the need to expand it."

He believes that strategy is not a theoretical subject which can be taught, but it can be formed by broadening the base of understanding and experience.

For it to be fostered the individual needs an understanding of psychology and the different aspects of marketing, of economics and demographics, the political situation and the environment. . . .

"The aim must be for education to expand people's horizons so that they have as many possible resources available to them when they make decisions," he said.

Cornelius Oosthuizen . . . The aim must be education.

The institute is mainly an educational body. Under its auspices is the College of Insurance through which employees in the industry study for professional qualifications by correspondence and it also offers short courses in topical matters and important developments in the industry.

Beyond that, it has started providing education in more elementary subjects such as numeracy and literacy, a development which Mr Oosthuizen feels will assume growing importance in the next several years and will require development and expansion.

Dramatic impact

While he will urge this forward during his one-year term as president, Mr Oosthuizen does not see himself as making a dramatic impact on the affairs of the institute.

He rather sees his role as the continuation of a process he has been involved in shaping during his years on the institute's council.

During those years the forces which are now reshaping South Africa were emerging to create the challenges which lie ahead.

"In the past year we have seen the dramatic changes in Eastern Europe which are already reshaping the world in which we live, while the more immediate changes in South Africa will influence our economic, political and social lives.

"Those changes will bring with them a high degree of psychological emotion and stress," he said.

This would require strong leadership in the coming years, placing a heavy responsibility on the leaders of today to identify and train the leaders of tomorrow.

"It is up to us to find those who have the competence and courage to act as leaders in a future that will be characterised by uncertainty and resistance," said Mr Oosthuizen.

He started in the insurance game — "Anyone will tell you that in the short-term insurance business there is never a dull moment" — in 1949 with Santam and rose through the ranks to become managing director in 1980.

En route he gathered a BA, an MBA, an FCII and a CIS. He also served as chairman of Santam Namibia, is director of several companies, past-chairman of the South African Insurance Association, is a member of the advisory committee on short-term insurance and of the board of the International Insurance Society, and is a past-president of the Insurance Institute of the Orange Free State.

Representative

Membership of the institute is by individuals, not corporate entities, and it represents all arms of the insurance industry — short-term, life companies, brokers, reinsurance brokers and reinsurance companies.

"My main message, specifically for the insurance industry, is that the challenges which lie ahead are the responsibility of all of us, as present leaders, to be prepared for the changes which are taking place across the world and right on our doorstep.

"To be prepared in changing the hearts and minds of people now and equipping tomorrow's leaders for the times ahead.

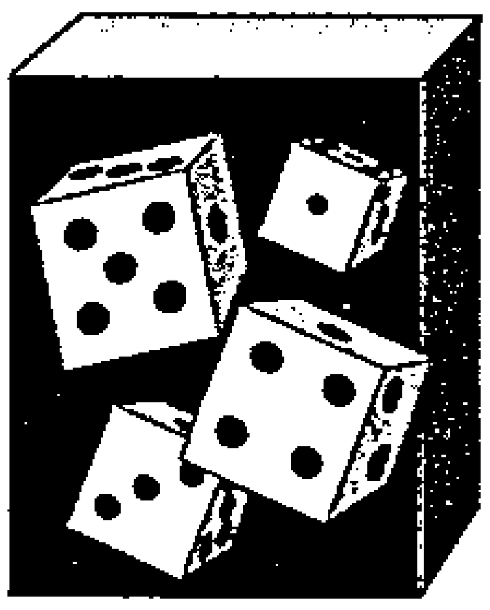
"It is long-term, we will not make it in a year but have to go forward in the process of adaping to change and helping other people adapt".

FM 6/7/90 (180)

CONGLOMERATES

The flaws of size

■ Without cash flow, the greedy groups took on more than they could handle



When trading in Federale Volksbeleggings' shares was suspended a fortnight ago and Tollgate started to dismember itself by selling Arwa, an end was written to the quarter-century saga of SA's conglomerates. Fedvolks had the dubious distinction of being the last conglomerate to be salvaged by a cash-rich parent and the last to underscore the dangers of undirected asset accumulation.

Where are the Abercoms, Lucems and Proteas which regularly hit the headlines in the heady days of the late Sixties and early Seventies? Why is Malbak still with us, in name at any rate? What does it have in common with Fedvolks, even if the latter seems destined for oblivion as part of Sanlam's plans for its salvation (see *Fox*)?

The answer is simple: all have been swallowed by the new conglomerates, the large insurers pushed to invest burgeoning cash flows in SA's investment hothouse.

There are a thousand and one excuses why so many high-flying conglomerates of 20 years ago crashed. But, in the final analysis, the reasons are straightforward: indifferent management and no one to stump up finance when cash-flow problems develop.

Maybe Punch Barlow was the first to see the conglomerate light, but the real pioneer of transforming the holy grail of earnings growth into conglomeration was Fred Beard with Protea Holdings. It got under way in the late Sixties, when Beard realised what could be done with highly rated paper. But accumulating assets had its limits. The cost of failing to manage those assets became plain when business conditions deteriorated — and after Beard named son Aidan as deputy chairman and MD. The sheer diversity of Protea's interests — chemicals, consumer products, electrical goods, medical and laboratory equipment, protective clothing and instrumentation — was all too much.

Management began to falter in the early Eighties, though shortcomings were masked for some time by an economy booming on record gold prices. And, by 1984, the increasingly cash-strapped conglomerate had fallen easy prey to a Sanlam chasing assets at almost any cost. Sanlam left the Beards in nominal control, which seems to have added to the company's misery but was also in line with Sanlam's preference for the power of ownership rather than managing assets.

But let's go back 20 years or so, to the good old days, when Jo'burg had more cowboys per square yard than the Old West. When the likes of Julius and Eddie Trump were shuffling companies faster than a three-card con artist could move his cards; when Murray McLean and David Lurie were dazzling local shareholder hicks with forays into Europe and America; when Punch Barlow was showing how profit consolidation could be parlayed into the stream of acquisitions which built Barlow Rand; and when Jan Marais dream for TrustBank had not turned into the nightmare of near collapse and lifeboats launched by the Reserve Bank.

Aidan Beard

Punch Barlow

Let's blame a lot of it on the Trumps, last heard of in the US after SA's investment community decided to have no more to do with them in 1977. Theirs was simple sleight-of-hand — the outer limits of the conglomerate urge. They regularly failed to produce timeous reports. Even when they did, their paper-based empire was already radically different. By the time TrustBank, their major creditor, realised what was up, the brothers had generated a negative net worth for Salect, their holding company.

They had accumulated some assets which seemed fine, but the sum of the parts added up to less than zero after netting out debt. Trustbank protected itself by taking out the furniture, property and Suzuki distributorship interests. But that did it little good and it took years before TrustBank eventually rid itself of its property millstone.

Perhaps nothing could have worked, given the Trumps' idiosyncratic management style. But nor did things work for others who tried to break out of tried businesses into the exciting world of the conglomerate.

Messina was just such a case. Once upon a time it was a perfectly good copper company with well-run and profitable mines in the Transvaal and what was then Rhodesia. The wheels came off after the controlling family, led by Commander Harry Grenfell, decided to diversify. In rapid succession Messina bought into Steelmobile (it made containers for Safmarine), Concorde Bank, Leason-Afmec (crane hire) and the motor manufacturer then known as Datsun.

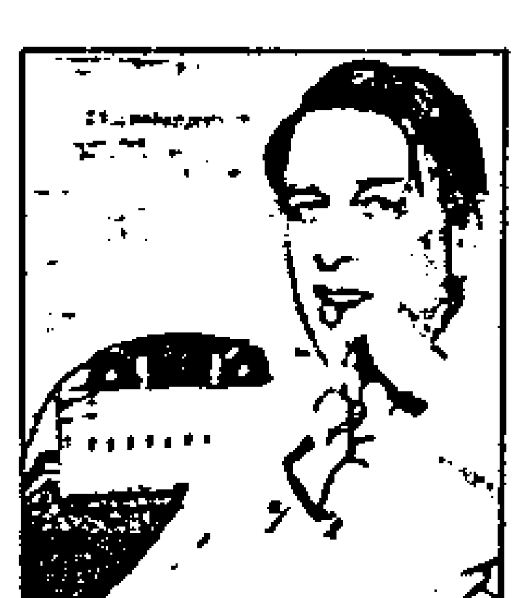
The wheels might not have come off if copper prices had surged to record levels. But when it became clear that Datsun, like all motor companies, was a cash-hungry animal, Messina was in a financial trap. To make matters worse, Steelmobile and other diversifications ran up losses or failed by a wide margin to produce expected profits. Gradually, everything was sold — Datsun (later renamed Nissan) ended up in Sanlam's hands. The final act was played earlier this year, when a deal on a new platinum mining venture was struck with Impala, another indirect Sanlam offshoot.

Messina, at least, is left with a comparatively valuable asset: its platinum interests. Not so Abercom, the highest flyer of all when McLean and Lurie were at the helm and until McLean decided to sell everything and swan off to the Sorbonne. McLean was astute. He started with nothing, sweet-talked Slater Walker into a mutual share swap and then parlayed that paper asset holding into an aquisitive binge.

It was fine as long as McLean was around and the company was comparatively small. And he did try to keep things manageable by splitting Primrose (whose management was then assumed by Lurie) off from Abercom. But it eventually became clear that problems were mounting. A host of smallish companies were sucked into the Abercom orbit, but once their owners had been attracted by decent exit earnings multiples, they cleared off and left the assets without management.

For a while, McLean and Lurie were blue-eyed boys here and in London

McLean



Lurie

Keys

and they managed some acquisitions abroad. But once McLean was gone and Lurie started falling out with the likes of John Feek, the writing was on the wall. Peter Herbert, brought in from UK tobacco company Gallaher in 1978 to run the company post-Feek, gradually started to sell assets. Sanlam came in as big daddy and by 1986, when Marinus Daling eventually eased Herbert out of the chair, the sale of assets was well under way.

Sanlam's intervention was of little use and the final anomaly was when Abercom was ignominiously shovelled into Malbak. A couple of years ago, the Davidson fan interest in the US was the last foreign interest to be sold and the residual cash was ploughed into MY — a tuppeny-ha'penny English bicycle retailer and packaging firm slated to become Kohler's vehicle into Europe. It has proved an intractable lossmaker; the bike and sports interests have been sold; and last year Malbak was forced into a R50m refinancing to salvage what was left of Abercom.

There's an irony for you — Protea and Abercom, highflyers less than 20 years ago, being saved by another highflyer turned dog turned holding company.

What about some of the phoenixes, risen from their own ashes? Malbak is the most obvious example. It was formed back in the heady market days of 1969, when the Malcomess farm equipment company was merged with the Bakke plastics and packaging firm. There was certainly no clear commercial logic for the deal and any expected management synergies simply failed to materialise.

But Malbak managed a series of paper-based acquisitions and, perhaps more important, was a training ground for Derek Keys and his colleague Grant Thomas. Keys is widely seen these days as a corporate doctor. His abilities have been plain since he shifted from Malbak to sort out a troubled Gencor. He is widely tipped as the next head of a Sanlam in need of firm direction.

Incongruously, eventual salvation was founded on the acquisition of an increasingly problematic Protea Holdings in 1984. That created an even more unwieldy organisation involved in almost everything from chemicals through packaging to overalls. New head Grant Thomas sweated the assets — arguably about the first time there had been active management from the top. And away the company spun on a whirligig of acquisitions, refinancing and restructuring.

Tiger's Rudi Frankel ... looked for a secure anchor

The acquisitions were helped by US divestment. Malbak managed to pick up plums such as Wyeth's local ethical drug and baby food interests.

Except that when management is busy with acquisitions, it tends to overlook the need to manage the underlying assets. In October 1989, Grant Thomas pooh-poohed analysts' reckoning that Malbak would go ex-growth. Days later he was forced to swallow his words when the Quality Tyres' "major irregularities" maccaroni hit the fan.

Malbak acquired 28% of Quality in 1988, upped that to 40,7% in July 1989 and only found out about the "irregularities" at the end of last year.

Essentially, it fell into the old conglomerate trap: acquiring something without thorough examination.

Malbak excused itself by saying operating subsidiaries were allowed management autonomy.

By 1990, Thomas was having to admit that Malbak was ex-growth and forecast a 10% earnings drop for the year to August 1990.

Another irony was that David Lurie lost his touch. After Primrose was swallowed into Tongaat-Hulett's brick division he tried to build Lucem into something, failed and disappeared to the US, while Lucem was shuffled into Ozz. Only a week or two ago, Ozz announced the sale of its brickfield interests — the assets are still being churned.

Not every conglomerate ended in failure — Barlow Rand and the other mining houses are obvious exceptions. What, in the final analysis, differentiates them from the failures is their access to cash flow. Remember the troubles Rennies ran into after 1977, when foreign parent Jardine Matheson flatly refused to plough in more money to restructure the balance sheet?

Until recently, at any rate, groups like Anglo American have been able to mobilise massive cash flows from gold and other minerals to finance diversification.

Barlow Rand seems to have realised this at an early stage and even ended up in bed with others tuned into the same wavelength. And that ignores the swathe of acquisitions such as Nampak from a shrewd Oscar Fruman, Federated Timbers from Natie Kramer, appliances galore from Bud Jorgensen and the Fuchs family's electrical goods business.

Think back to 1977, when Rudi Frankel — one of the wiliest old foxes in Johannesburg — was buying the Tannenbaum family's interest in Adcock-Ingram for Tiger.

Old Mutual already had a toe in the Tiger control door after Tiger issued shares for the Stein Brothers and Ruto acquisitions. More were issued to Mutual for the Adcock-Ingram takeover. Frankel said then he was determined to "anchor and moor" Tiger to Mutual to ensure his company did not fall prey to "Chinese paper merchants."

Coincidentally or not, Old Mutual was also at the time busy pushing open the Barlow Rand control door — it had walked in when Natie Kramer sold the Barlow shares he received for his Federated Timbers to Mutual.

The next step was when Old Mutual added to its Barlow Rand holding during the Northern Lime/PPC merger. And the final move was when Tiger was stripped of its Bibby shares — Barlow paid for it with shares which were warehoused in London before being bought from Tiger by the Old Mutual — and direct control of Tiger handed to Barlow Rand.

That deal summed up what is needed by a successful conglomerator — access to a rich parent who can underpin paper offers for acquisitions.

If you don't have it, best keep out of the game. These days, Sanlam plays the sugar-daddy role for Malbak and is about to swallow its pride and salvage Fedvolks; Mutual does the same for Barlow Rand; and most other players have left the field.

Jim Jones

TOP COMPANIES: CORRECTIONS

In the SA Giants League table on page 130 of this year's *Top Companies* survey, which lists the 50 largest SA companies on the basis of total assets, Southern Life was unfortunately omitted. With total assets of R13,25bn, which ranked it fourth in the Life Assurers' League on page 249, Southern Life would have ranked 16th in the SA Giants League, slotting into the Financial section between Volkskas and UBS.

Concord Insurance was inadvertently omitted from the Short-term Insurers' League table on page 260. Concord, which last year ranked at number 13 in this table, would this year have ranked 17th on the basis of total assets of R73m for its year to December.

On gross premium income of R78,6m, Concord would have ranked 19th, compared to 17th last year, and its ranking on the basis of the percentage of pre-tax profit to GPI would have been fourth, against second in the previous year.

The *FM* regrets these omissions, for which we apologise.

FEDVOLKS (180) FM 6/7/90

Thank the Mutual

Minorities have Old Mutual to thank for the revised offer for Fedvolks from the Sanlam group. The Mutual, which for years has held an 11% interest in faltering Fedvolks, flatly rejected Sankorp's original cash bid and demanded that underlying quoted assets — SA Druggists, Fedfood and Teljoy — should be distributed in specie. Once Sanlam had given Sankorp the green light to accede to the demand, the offer had to be extended to others.

The net effect is that minorities are being offered R460 cash for every 100 Fedvolks held. Or they can take R205 cash plus 56 SA Druggists shares, 12 Fedfood and 12 Teljoy. Before Mutual's intervention, Sankorp was hoping to succeed with a bid in the region of 350c (*Fox* June 29), the top of Fedvolks' trading range of the previous 12 months.

The revised bid will be pushed through willy-nilly. Old Mutual has accepted for its 11% and so has Southern Life for its 5%.

Fedvolks vd Walt ... restoration after delisting

Other institutional acceptances bring the total up to 22%, which lifts Sankorp's support from its own 63% to about 85%. Other minorities will accept without demur, and those who don't will be flushed out in terms of Section 311 of the Companies Act.

Sankorp's Anton Roets makes no bones about the fact that a complete take-out was his group's best option. He makes the points that Fedvolks, or at least some of its subsidiaries, needs to be refinanced and that minorities would be unlikely to follow a rights issue. The market has been unforgiving about Fedvolks' operating performance and rates the conglomerate's share way below net worth. So a rights issue based on market price would be impractical, while one based on net worth would leave all the shares with the underwriter.

Roets adds that Sankorp was reluctant to give minorities what he describes as a free ride of an effective refinancing by Sankorp.

Sankorp's plans for restructuring Fedvolks are still in the melting pot. It has not decided how necessary finance will be injected into underfunded subsidiaries. Nor, it seems, has a decision been taken on the eventual resting place of Fedvolks' ill-matched subsidiaries. Some will go directly to Sankorp, others could end up in another Sanlam company, Malbak.

Roets says there will be no bid for SA Druggists minorities. If a transfer of the controlling shareholding in the pharmaceuticals company seems to require a bid to minorities, ownership will be left with Fedvolks.

The only part of the restructuring to be disclosed is the immediate appointment of Peet van der Walt as CE in place of Johan Moolman, who is retiring a year earlier than he'd planned. Roets assures me Moolman, who led Fedvolks into its latest troubles, has not be pushed out. Rather, he says, Moolman himself decided to leave early to give the new CE as much time as possible to put his mark on the company.

Minorities are best advised to accept the cash and share offer. *Jim Jones*

M-NET

More enjoyment

The M-Net share offer could be oversubscribed two or threefold. This translates into between 60 000-90 000 of the 430 000 subscribers. Stockbrokers say the offer could even surprise with a higher oversubscription.

The offer is 20m new ordinary shares of 2c at R1, to subscribers (15m shares) and business associates (5m). The R20m proceeds will help the company cash up for satellite broadcasting, and possibly expansion of broadcasts beyond entertainment and sport, and cut gearing from 217% to 22%.

After the August 1 listing the public will hold 13,2% of M-Net's 152m shares, management 7,9% and M-Net Holdings (in turn owned by the major press groups, including the *FM* proprietor Times Media Ltd) 78,9%.

Wynand van Niekerk, of Senekal, Mouton & Kitshoff, one of the sponsoring brokers, says the most attractive reason to invest in M-Net is that downside risk is limited; but there are significant opportunities and

Decentralisation cuts hit 250 firms

EDYTH BULBRING

MORE than 250 companies have been affected by decentralisation cuts announced this week by Trade, Industry and Tourism Minister Kent Durr.

Decentralisation Board chief director Pine Pienaar said yesterday projects submitted by these companies to the board for decentralisation concessions would have to be shelved until March next year when more money became available.

But government sources said concessions could be granted to exceptional project proposals at the end of the year if those projects already granted concessions by the board fell through.

Durr said on Tuesday the Regional Industrial Development Programme had already over-committed its R826m budget for the current financial year and could not consider new applications for decentralisation concessions until March 31 next year.

Pienaar said the Decentralisation Board was already committed to paying out concessions to a total of 3 200 companies.

This figure included the 950 companies whose projects were approved last financial year.

GERALD REILLY reports from Pretoria that DP finance spokesman Harry Schwarz said government must move to assure taxpayers that money for the industrial development programme was being wisely spent.

He said: "We hear too little of the results of this huge investment and its just about time that full exposure was given to the results.

"What we would like to know is how many factories are operating in the programme, what they are producing, how many jobs they have created, whether they are contributing to the drive for import replacement and whether they are export-oriented," he said.

"It's only on a basis of full disclosure that taxpayers can judge whether funds are being spent wisely and strictly in terms of the programme's proclaimed aims," Schwarz said.

There was real concern in the private sector about the effectiveness of the millions that had been spent on lavish concessions since the programme was launched.

He said he also wanted to know what criteria were used to select companies for decentralisation concessions.

A concentration of corporate power need not be an evil

B Day 6/7/90

180

JOS GERSON

CORPORATE power in SA is highly concentrated in the hands of a few large groups and (with the exception of Old Mutual and Sanlam) a few wealthy families.

McGregor's research suggests that the top four groups *control* companies comprising 80,7% of the JSE's market capitalisation. Yet, *ownership* is quite a different matter. For instance, Anglo-American/De Beers *controls* 45,3% of the JSE but it *owns* only 11,9% of the assets reflected on the exchange.

This divergence between control and ownership is effected by the pervasive use of "pyramided" holding companies. Shares with unequal voting rights, which serve much the same purpose as pyramids, are restricted in SA and only a few companies (e.g. Anglovaal, Wooltru and Rex Trueform) have been allowed to continue using and developing such differentiated instruments.

In the US, the UK and much of the English-speaking world pyramids, cross-holdings and dual-class shares (all of which serve to concentrate the power of principal shareholders) are restricted or prohibited altogether. Yet, in Japan, West Germany, Switzerland and Scandinavia they are quite common, even ubiquitous.

In Sweden, the corporate structure is so concentrated that a mere nine families control nearly the entire Stockholm Bourse, almost 40% of which falls under the sway of the Wallenbergs alone.

Although corporate performance can conceivably be undermined by allowing too great a divergence between shareholdings and control to evolve, the perils of prohibiting any divergence are far more onerous, as the dilemma of corporate America clearly illustrates.

Well-managed companies normally require powerful shareholders who can whip management into line. Yet acquiring 50% of a typical large corporation, without sacrificing the security of a well-diversified portfolio, is usually beyond the reach of even the richest individuals.

So how is the dilemma resolved? In two ways. Firstly, use may be made of dual-class voting shares or pyramids which allow the dominant shareholder to reduce his equity stake without losing control. Secondly, corporate debt may be employed in order to shrink the equity base, thereby making control, say a 50% stake, more attainable. The problem with the latter option is that the debtholders will worry about the risks that a highly geared firm may be tempted to take.

The solution is to allow the principal creditor (usually a bank) to acquire a significant number of shares and, therefore, a say in the running of the company. In Germany and Japan, it has long been the practice for banks to acquire an equity stake in the companies which they finance.

In the US, however, both of these "front doors" to shareholder control stand shut. Dual-class shares were prohibited in 1926 and pyramids in 1935. The Glass-Steagall Banking Act of 1933 ruled out the possibility of banks holding equity.

The result of all these restrictions is a corporate landscape characterised (as far as the bigger companies are concernd) by disparate and weak shareholders, and by managers and outside directors accountable in effect to no one but themselves.

Much of the recent spate of takeovers and the development of a market in junk bonds is a desperate attempt to open a "back door" to shareholder control. Takeovers constitute one way of getting rid of underperforming managers and were facilitated by the relaxation in the 1970s and 1980s of an absurdly over-restrictive antitrust policy.

Junk bonds were used to obtain a higher level of debt finance in order to effect the takeovers, often of dismembered conglomerates by the various division managers themselves. This back door route has run into trouble, but that merely reinforces the need to unbolt the front door routes to effective shareholder control.

In last October's Harvard Business Review, Michael Jensen hints that the relative decline of America in the postwar era and its displacement by Japan and West Germany may well be attributable to the strengths and weaknesses of their respective corporate structures.

What are the lessons for SA? We do not have a problem of weak and disparate shareholders; the oft-heard complaint is that our dominant shareholders control too much. It would be presumptuous to conclude that all is well in our corporate backyard but, in contemplating possible changes, we should be careful not to throw the baby out with the bathwater.

We should certainly not be lured by shallow and populist arguments into importing the American disease. Rather, we should ponder the very different (and seemingly superior) structures of Japan, West Germany and Scandinavia, with which we already have much in common.

More importantly, in the face of new political pressures, we must be able to distinguish between serious and spurious criticisms of our present corporate structure. On the serious side, if enhanced corporate efficiency is our objective, the main worry is that managers are not the only group that can indulge themselves and abuse their position.

Powerful controlling shareholders can do so too, and in all sorts of ways (especially if their equity stake is small). That is why the shares of a company have been known to rise upon the death of its controlling shareholder. Examples are provided by the deaths of Walt Disney, Henry Ford and Philip Frame. On account of idiosyncracies in their latter years, they were perceived as hampering their companies' profit potential or in some way prejudicing the interests of their co-shareholders.

An important mitigating consideration is that whereas managers may get away scot-free, a controlling shareholder, who indulges at the expense of this company, pays for it through the depreciated value of his equity. He also faces higher costs of capital in the event of a rights issue, since his indulgent behaviour will have frightened off prospective co-shareholders to the point of effecting a discount on the price of the new shares.

Most often, therefore, controlling shareholders go out of their way to reassure prospective investors and to maintain the value of their shares.

A semi-spurious charge against our present corporate structure is that it facilitates collusion and therefore rips off the consumer. This cannot logically be deduced as a criticism of the divergence between ownership and control (which is determined by the "vertical" depth of the pyramids). It must be taken as an attack upon the "horizontal" diversification of the major conglomerates.

There may be some substance to this argument but, more likely, it is a figment of the popular imagination. An economy which trades so openly with the rest of the world (imports comprise about 30% of total spending) cannot have a serious collusion problem. The existence of a few big players is no evidence of collusion. If occasional instances occur, the solution is to put more teeth into the Competition Board.

The most misguided criticism of the corporate structure is the one that associates it with the country's maldistribution of wealth. The two issues are separate and distinct.

Imagine a future government diluting the Oppenheimer family's say in Anglo-American/De Beers, or even buying out the controlling nominee companies. Would that change the nation's distribution of wealth? Not a jot — unless, of course, the assets were confiscated.

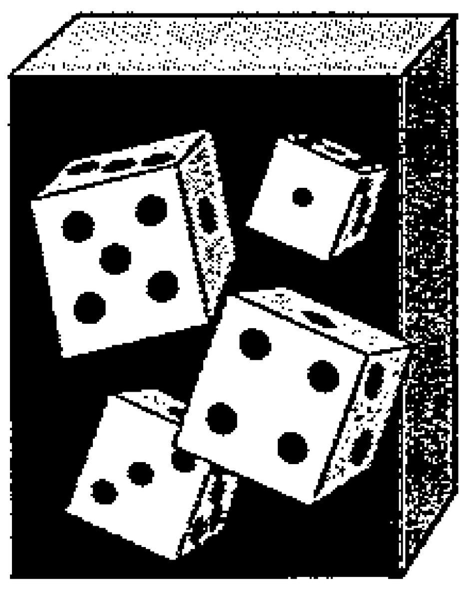
Even then, the equalising effects would be trivial whereas the blow to business confidence would be catastrophic.

☐ **Gerson is chief economist at Mathison and Hollidge Inc. These ideas form the backdrop for a UCT-based research project.**

CONGLOMERATES

The flaws of size

Without cash flow, the greedy groups took on more than they could handle

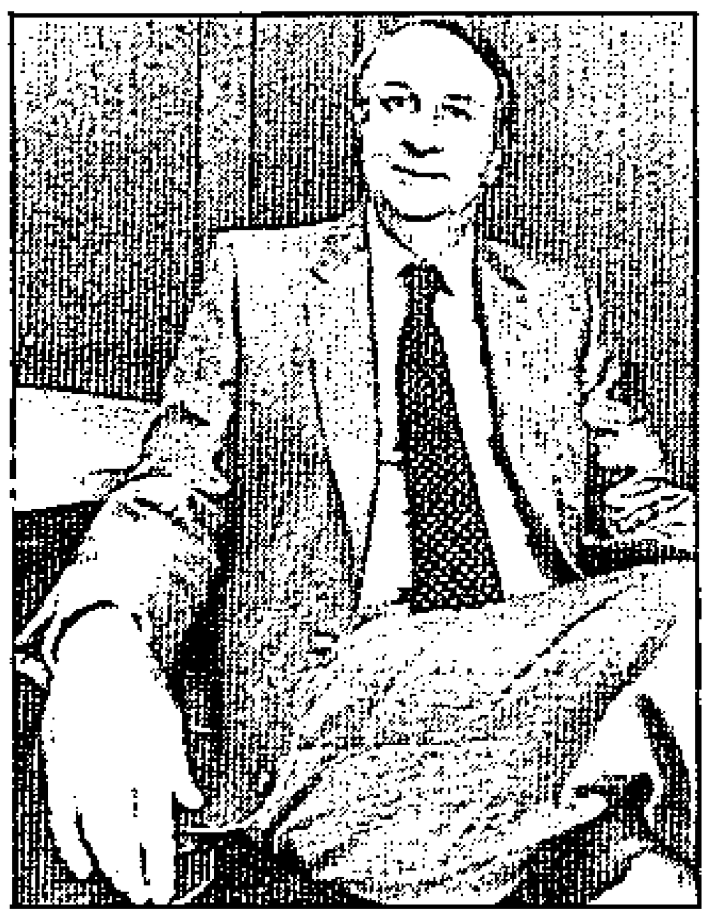


When trading in Federale Volksbeleggings' shares was suspended a fortnight ago and Tollgate started to dismember itself by selling Arwa, an end was written to the quarter-century saga of SA's conglomerates. Fedvolks had the dubious distinction of being the last conglomerate to be salvaged by a cash-rich parent and the last to underscore the dangers of undirected asset accumulation.

Where are the Abercoms, Lucems and Proteas which regularly hit the headlines in the heady days of the late Sixties and early Seventies? Why is Malbak still with us, in name at any rate? What does it have in common with Fedvolks, even if the latter seems destined for oblivion as part of Sanlam's plans for its salvation (see *Fox*)?

The answer is simple: all have been swallowed by the new conglomerates, the large insurers pushed to invest burgeoning cash flows in SA's in- nominal control, which seems to have added to the company's misery but was also in line with Sanlam's preference for the power of ownership rather than managing assets.

But let's go back 20 years or so, to the good old days, when Jo'burg had more cowboys per square yard than the Old West. When the likes of Julius and Eddie Trump were shuffling companies faster than a three-card con artist could move his cards; when Murray McLean and David Lurie were dazzling local shareholder hicks with forays into Europe and America; when Punch Barlow was showing how profit consolidation could be parlayed into the stream of acquisitions which built Barlow Rand; and when Jan



Aidan Beard

Punch Barlow

furniture, property and Suzuki distributorship interests. But that did it little good and it took years before TrustBank eventually rid itself of its property millstone.

Perhaps nothing could have worked, given the Trumps' idiosyncratic management style. But nor did things work for others who tried to break out of tried businesses into the exciting world of the conglomerate.

Messina was just such a case. Once upon a time it was a perfectly good copper company with well-run and profitable mines in the Transvaal and what was then Rhodesia. The wheels came off after the controlling family, led by Commander Harry Grenfell, decided to diversify. In rapid succession Messina bought into Steelmobile (it made containers for Safmarine), Concorde Bank, Leason-Afmec (crane hire) and the motor manufacturer then known as Datsun.

The wheels might not have come off if copper prices had surged to record levels. But when it became clear that Datsun, like all motor companies, was a cash-hungry animal, Messina was in a financial trap. To make matters worse, Steelmobile and other diversifications ran up losses or failed by a wide margin to produce expected profits. Gradually, everything was sold — Datsun (later renamed Nissan) ended up in Sanlam's hands. The final act was played earlier this year, when a deal on a new platinum mining venture was struck with Impala, an-

Bidcorp aiming at R48m buying spree after rights offer

8|0ay 6|7|90 (180)

THE BIDCORP group is looking for substantial, self-sufficient operations for the R48m net new capital being raised as part of the Bidvest/Africom R120m rights offer, Bidcorp executive chairman Brian Joffe said yesterday.

Earlier this week the group announced the restructuring of the organisation following the recent acquisition of Afcom.

In terms of the restructuring, Bidcorp will become the pyramid holding company of the group and 60% held Bidvest will become the holding company for the group's underlying operations.

Bidvest in turn will hold 100% of Cater Plus, manufacturer and distributor of products to the catering industry, 50% of cosmetic house Justine and 53% of packaging group Africom.

Debentures

Afpac will become a cash shell holding R48m.

"We are looking at a few things," Joffe said. "Our basic philosophy on investment is to invest in trading, distribution and light manufacture or, to put it another way, we like to invest in niche markets on the fringe of major industries."

The R120m rights offer will be raised by the issue of 5,9-million convertible debentures at R18 each in Bidvest to raise R106m and 13,3-million convertible debentures at 105c each in Africom to raise the remaining R14-million.

CHARLOTTE MATHEWS

Joffe said the restructuring was now complete.

"It is very difficult in the SA context to build up businesses unless you seek out opportunities. When you start small you don't always end up with exactly what you want.

Targets

"You have to be flexible until you have reached a certain size. No one is going to sell you Premier or Fedfood. You have to achieve that size yourself over time."

The Bidcorp group's results for the year to June are due out shortly. Joffe would not comment on performance except to say that the group would achieve its original targets.

Actual target figures for the year to June 1990 quoted in a recent newspaper report were R400m turnover with earnings a share between 110c and 115c and a dividend of approximately 45c.

The objectives stated in the 1989 annual report were to hold gearing down to 60% of total shareholders funds, to pay dividends covered no less than 2,5 times and to achieve at least a 40% return before interest and tax on funds employed.

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Sacob expecting zero or negative growth for 1990

180

SYLVIA DU PLESSIS

THE real growth rate for SA in 1990 is likely to be zero or slightly negative, according to SA Chamber of Business (Sacob) chief economist Ben van Rensburg.

Van Rensburg, addressing a media conference on the release of Sacob's latest business and industrial confidence indices, said yesterday a weak gold price and a "less than satisfactory" agricultural season were "two big disappointments" affecting growth performance this year.

While business was generally better geared to handle the economic downswing, the level of liquidations and insolvencies was rising and the economy was now "delicately balanced", he said.

Sacob's business confidence index fell 0,2 points to 91,8 in June — its fourth successive decline this year — following uncertainties arising from political developments, a weak gold price and the economic downswing.

But the drop was softened largely by "once-off" developments in the Consumer Price Index (CPI) and trends in motor car sales, Van Rensburg said.

While the rate of inflation has been falling since the beginning of the year, "the extent of the decline last month can be largely ascribed to a technical adjustment after the increase of 1% in GST in May 1989", he said.

"As far as motor car sales are concerned, the introduction of the Uno model has led to a 'bunching' of car sales. In the absence of these factors the BCI would probably have declined more sharply."

Van Rensburg said the recent performance of the gold price had exerted a "sharply negative" influence on SA business confidence. In addition, the prospect of mine closures had a ripple effect on employment prospects and the business mood through its impact on suppliers.

While increased recognition abroad of positive changes in SA had been welcomed, political developments so far had done little to reduce uncertainty among businessmen in June, he added.

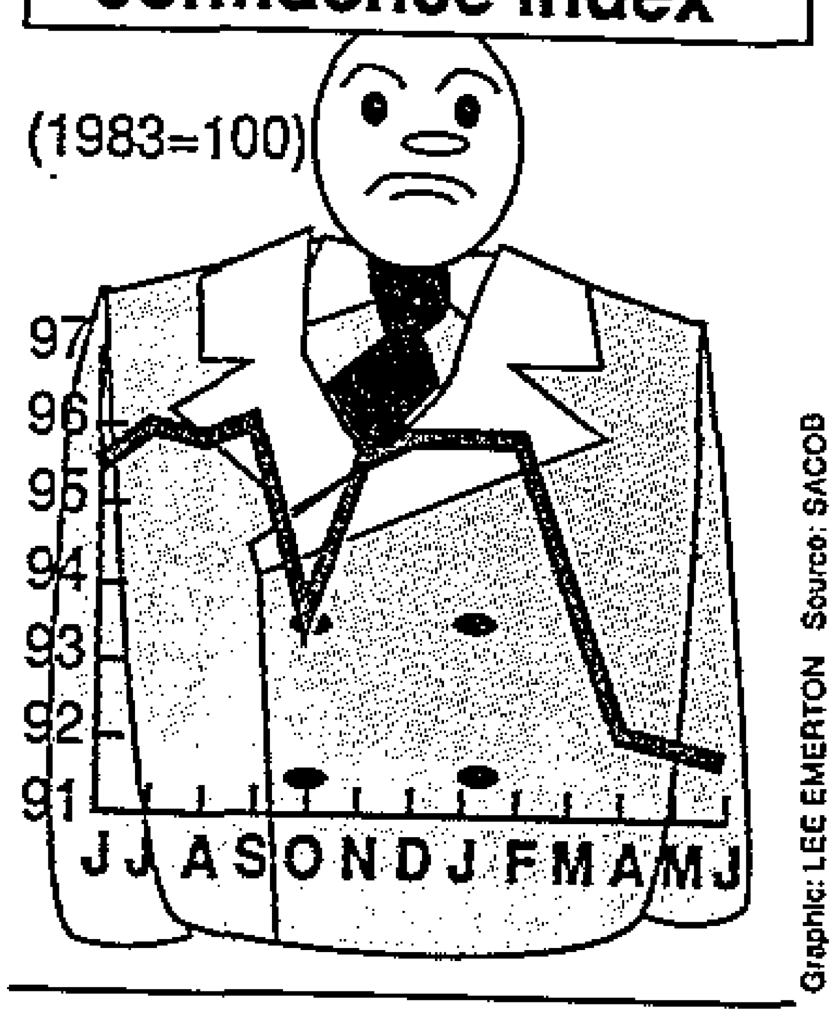
The chamber's index of manufacturing activity, reflecting the volume of orders expected to be received in the survey month compared to the previous month's actual orders volume, stood at 96 in June against 90 in May.

Sacob economist Keith Lockwood said this meant slightly more than half of respondents expected order volumes received in June to be lower than in May.

While tax reductions and salary increases in the public sector could boost demand for manufacturing goods, indications were that the coming months would be characterised by relatively high levels of strike action and work stoppages.

If such actions exceeded a certain level, the effect of the stabilising influences would be negated, business confidence would drop sharply and the economy would "almost certainly" slip into a severe recession.

Sacob business confidence index



Large firms urged to pay up promptly

180

By JOSHUA RABOROKO

THE managing director of Small Business Development Corporation, Dr Ben Vosloo, this week appealed to large corporations to pay promptly when dealing with small businesses.

In a statement, Vosloo pointed out that a stable cash flow was of vital importance for the financial survival of a small business.

He said that was particularly evident in the present economic climate.

Liquidations of companies and close corporations increased sharply during the period January-April 1990, while the average number of liquidations a month in 1988 and 1989 was 130. In March and April this year, they were 172 and ~~170~~ respectively.

Annualised, ~~that~~ represented an increase of 16 percent on the number of liuquidations during 1989.

Cause

Undoubtedly, a major cause of the increased occurence of liquidations was the high interest rate. This affected all business by increasing the cost of loan capital which, if not matched by increased prics, reduced profits.

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ANGLO AMERICAN FM 13/7/90

(180)

JOT's tittle

Anglo American is not as large as it is often claimed, says Julian Ogilvie Thompson in his chairman's statement. Ogilvie Thompson

FM 13/7/90

Anglo's Ogilvie Thompson ... how large is large?

(180)

says it is often quoted that Anglo, its associates and the companies they are purported to control, account for 45% of total capitalisation of the JSE.

He says this figure is "grossly exaggerated by double-counting and other errors" and the correct figure is no more than 30%.

Furthermore, Ogilvie Thompson comes to the conclusion that concentration of ownership of the national economy, when relating ownership to the nation's total fixed assets, does not lie with Anglo. In fact, he says, Anglo and its associates account for only 6%. The major part of SA's assets is owned by government and parastatal organisations (54%) with non-Anglo companies listed on the JSE and unlisted entities such as Old Mutual and Sanlam accounting for 36%.

He believes small countries such as Switzerland, Holland, Sweden or SA cannot afford to prevent what some think are large aggregations of capital as companies from both large and small countries compete on the same world markets. "... successful competition is only possible if companies are of broadly comparable size, able to provide or have access to the technologies that keep them competitive," he says.

He believes Anglo can use its power in areas of social as well as commercial investment. SA will need "... private organisations capable of undertaking large and important projects which government either should not or could not attempt ..."

Heather Formby

CONFIDENCE INDICES FM 13/7/90

Negative feelings (180)

The business confidence index compiled by the Chamber of Business fell for the fourth consecutive month in June, to 91,8, down slightly from 92 in May. The index, a quantitative measure of 16 business indicators, was depressed by a weak gold price, the continued economic downswing and unresolved political uncertainties.

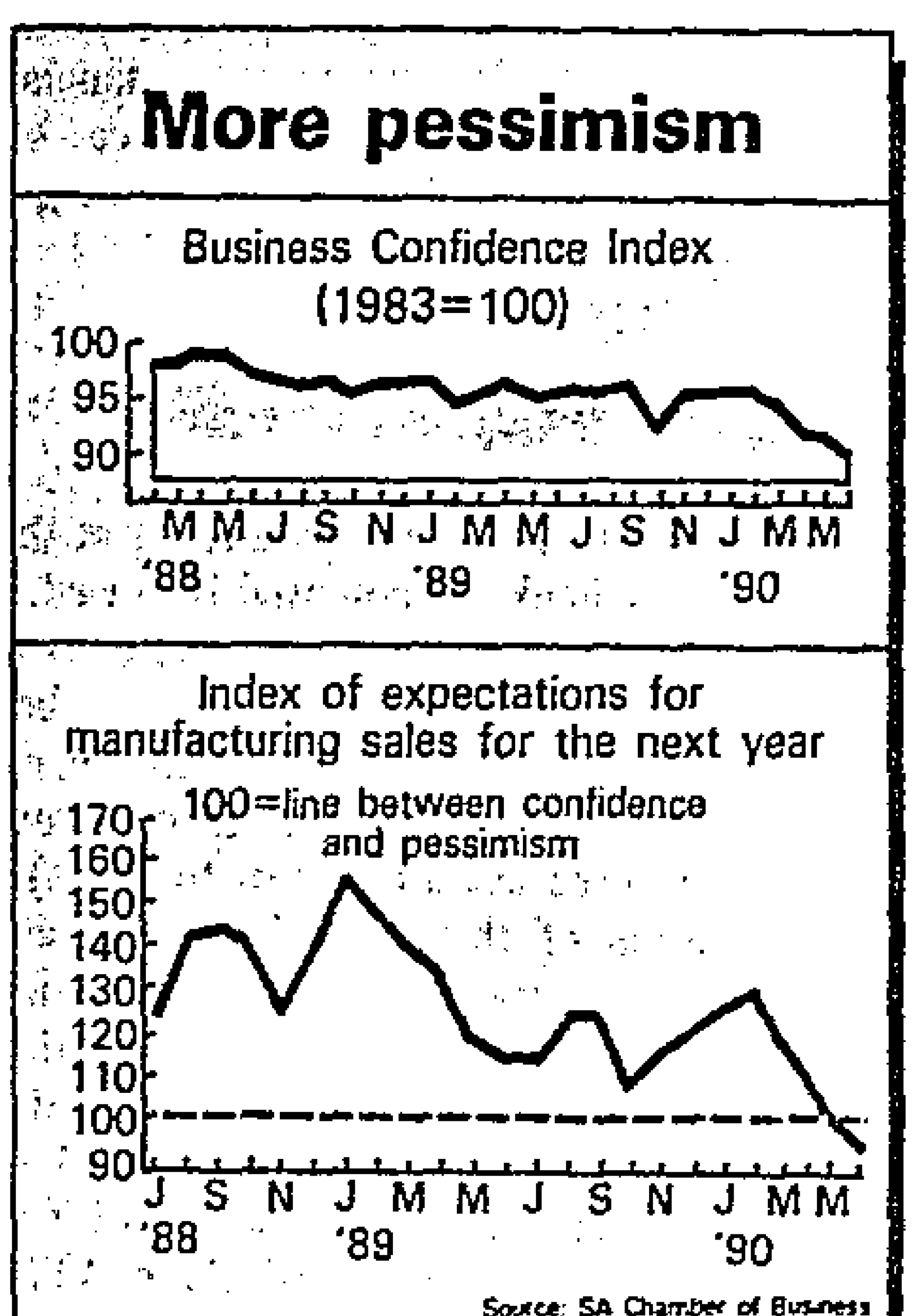
Other negatives included a small drop in imports, lower JSE share prices, a rise in the number of insolvencies and a sharply lower value of building plans passed.

These were partially offset by a slightly improved rand/dollar exchange, a sharp increase in the number of new motor cars sold (thanks largely to the introduction of the Fiat Uno), higher net immigration and a monthly rise in exports.

The chamber's survey of confidence in the manufacturing sector (a more subjective measure) projects a real decline in sales in the next 12 months, for the first time since the survey began in July 1988.

Manufacturers also expect orders to decline in June, compared to the previous month. They expect somewhat higher production volumes that month but, given the drop in demand, production levels should fall in the next 12 months.

Despite the lack of confidence, the chamber says the economy is in only modest recession, less severe than the Eighties' two other downswings. Tax reductions from the March Budget and public-sector salary increases should soften the landing, as would lower interest rates. However, work stoppages could escalate, further depressing business confidence and increasing the possibility of a more severe downturn. ■



Gloom for most JSE companies

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HELENA PATTEN

BOTTOM-LINE profits of JSE companies are expected to come under attack on a number of fronts in the coming year, with few likely to rise above the gloomy economic and stock market conditions, say analysts.

High interest rates, political uncertainty, inflation, unexciting prospects for precious metals prices and dwindling consumer confidence will all play a role in the assault on profits.

One analyst sums up the situation by saying that it is now "a very difficult time to pick any winners".

Steve Rubenstein of Fergusson Brothers says an average growth of 13% is predicted for the financial and industrial sectors of the JSE for companies with 1990 year-ends.

Output

More beleaguered than most is the mining sector.

Gold mines are being squeezed "every which way". An unrewarding gold price, high cost inflation and Reserve Bank determination to protect the rand are some of their headaches.

Platinum companies are also looking at a flat world price because of more output in the global market. The benefit from a good rhodium price is likely to be small.

Base metal companies have similarly few highlights to look forward to, although one analyst says the improved nickel price could have a positive spin-off for platinum companies.

Coal's outlook is less than bright, because Eskom's consumption has reached a plateau and export prices have weakened.

The banking and financial services sector is the one with happier prospects than most and shares in this sector are described as "defensive in an uncertain market".

The consensus among analysts is that margins will hold up well compared with the rest of the industrial sector and earnings and dividend growth of 15-20% can generally be expected.

Financial companies are expected to do well in their portfolios, said one stockbroker. This was due to an undemanding price:earnings range of between about 5 and 7, compared with substantially higher ratings of some blue chips like Richemont, SAB and Tiger Oats, but their earnings outlook was not particularly good.

Thorns

Building societies' margins are benefiting from favourable interest rates in the retail market and the fact that the cost of funding is likely to start declining faster than the cost of their retail lines.

The thorns in the otherwise rosier picture for this sector are potentially worsening bad debt ratios and slower volumes.

The insurance sector has to be seen in its two distinct components: life companies are forecast to produce earnings of between 20% and 22% and are said to be relatively recession-proof, because policies are not easily cancelled.

Short-term insurers, on the other hand, are much more cyclical performers and earnings are expected to be well down on last year's 35%-40% earnings growth. Earnings improvement this year is not expected to exceed 10-14%.

The industrial sectors are being affected by the slow-down in the economy, uncertainty about politics and the looming probability of retrenchments.

Trouble

Some analysts forecast a 20% decline in the earnings of the likes of Barlows. Amic is also expected to see a dip in earnings.

Remgro's earnings growth is not expected to be more than 5%-10%, Rainbow's results were forecast to be well below prospective forecast, Kanhym could not expect more than 10% growth, the cement producers could expect a 20% drop in earnings and the building and construction industry is said to be in trouble.

The only relief from a generally depressing scene was in the furniture and household sector, which has seen a 30% annual growth in the past three months, but even this is not expected to be sustained.

The clothing sector has also been showing some real growth, a broker said.

Cool heads prevail

By Jabulani Sikhakhane

Despite a weaker gold price and a stronger financial rand, investors were not panicking and offloading stocks, dealers said yesterday.

"There is no panic selling and investors are cautiously waiting for fresh direction. Nelson Mandela has been out of the country for six weeks and most investors are waiting to see what he will say and for direction from the gold price. But overall market undertones are still strong," one dealer said.

Dealers added that caution ahead of the US Federal Reserve Board chairman Alan Greenspan's testimony to Congress was another inhibiting factor.

The gold index shed 24 points to 1524, the overall index 15 points to 3053. The industrial index was a touch firmer at 2958 (2957).

On the announcement of possible restructuring and refinancing, WESTERN AREAS fell sharply by 16,1 percent to 390c before recovering slightly to close 55c lower at 410c.

ELSBURG, whose sole income is derived from dividend earnings from Western Areas, closed 30c off to 285c - slightly higher than its morning low. Dealers said investors had over-reacted to the news.

VAAL REEFS fell 300c to R282 and SOUTH VAAL closed 300c lower at R115.

Mining financials were easier, but CHARTER firmed against the trend with a gain of 25c to R33,75 and MINORCO rose 50c to R62,50.

Platinum share BARMINE closed 5c firmer at 420c and RUSPLATS fell 50c to R88,25. DE BEERS eased 75c to R90.

Banking shares continued attracting good demand. UBS rose a further 5c to 685c, NEDCOR rose 50c to R11,50. BOE gained 15c to 550c, while BOLAND, CIBG, REICHMAN and SAAMBOU made modest gains.

Among industrials, SAB rose 25c to R40, REMGRO 5c to R14,20 and REMB BEH 10c to R10,40. BTRDUN and TGH were also firmer.

- The volume of shares traded was 7,119 million valued at R69,366 million. The number of securities active was 360. The five most active stocks were Profurn, Iscor, RMS Prop, Mervest and Allied.

 FM 20/7/90

Cutting through the double-think

■ Structural obstacles to growth could be swept aside by new thinking (180)

The dead weight of past policies is bearing down — capital expenditure figures are likely to be depressed over the next two years. Gross domestic fixed investment, the best official measure of capex, is firmly down and expected to decline by 3% this year. A relief in interest rates might improve the picture in 1991 but there are many other factors impeding progress.

They relate to SA's economic history.

On the one hand the State has abandoned its policy of showpiece capital projects, with Mossgas the last of these dinosaurs. State departments such as Transnet and the Post Office are being commercialised — or privatised — and so in future will buy cheapest rather than give preference to SA projects. Government departments in any case have been set a 13% capex ceiling to which they will have to adhere.

Trade & Industry Minister Kent Durr's new-look department is hoping that the private sector will gear up for the export of downstream manufactured products, which would require massive capital investment. Yet this policy has been hampered by the Finance Department's insistence on placing a 10% surcharge on imported capital equipment. The change in depreciation allowances — from 50% in the first year, 30% in year two and a final 20% to a straight-line 20% over five years — also doesn't encourage capital investment.

On top of that, the prospect of nationalisation and a government which would revert to the protectionist policies only now being abandoned, is alarming.

Seifsa chief economist Michael McDonald says it's difficult for industrialists to plan ahead — it isn't even clear who's making industrial policy. "We get the impression that Trade & Industry doesn't want to penalise capital investment but Finance is so determined to protect the balance of payments that it's slapped on surcharges. However, as capital equipment is ordered a year or two before it's delivered, the surcharges didn't immediately have the desired effect on the balance of payments."

The cost of capital puts local industrialists under a major international disadvantage. The SA Chamber of Business (Sacob) launched an investigation to argue against the widely-held belief that the cost of capital had declined and that government policy was favouring capital-intensive more than labour-intensive industries.

Sacob economist Keith Lockwood says that SA's true comparative advantage lies not with labour-intensive production techniques but with the capital-intensive beneficiation of metals and minerals. The model which he developed showed that the real cost of capital equipment is 41% more than in the US, 60% more than Japan, 119% more than West Germany and 72% more than it is in the UK.

He argues that the imposition of indirect taxes, such as import surcharges, duties, GST and RSC pay levies, all contribute to the cost disadvantage. In principle at least, the imposition of VAT should reduce the indirect tax burden on industry.

"The continued imposition of an import surcharge on capital and the recent extension of the write-off period for depreciation purposes, continue to make it almost impossible for industry to compete in the very areas in which studies show the country has a comparative advantage.

"The fact that the rate of inflation in SA is significantly higher than in the country's major trading partners is a further factor making capital in this country uncompetitive."

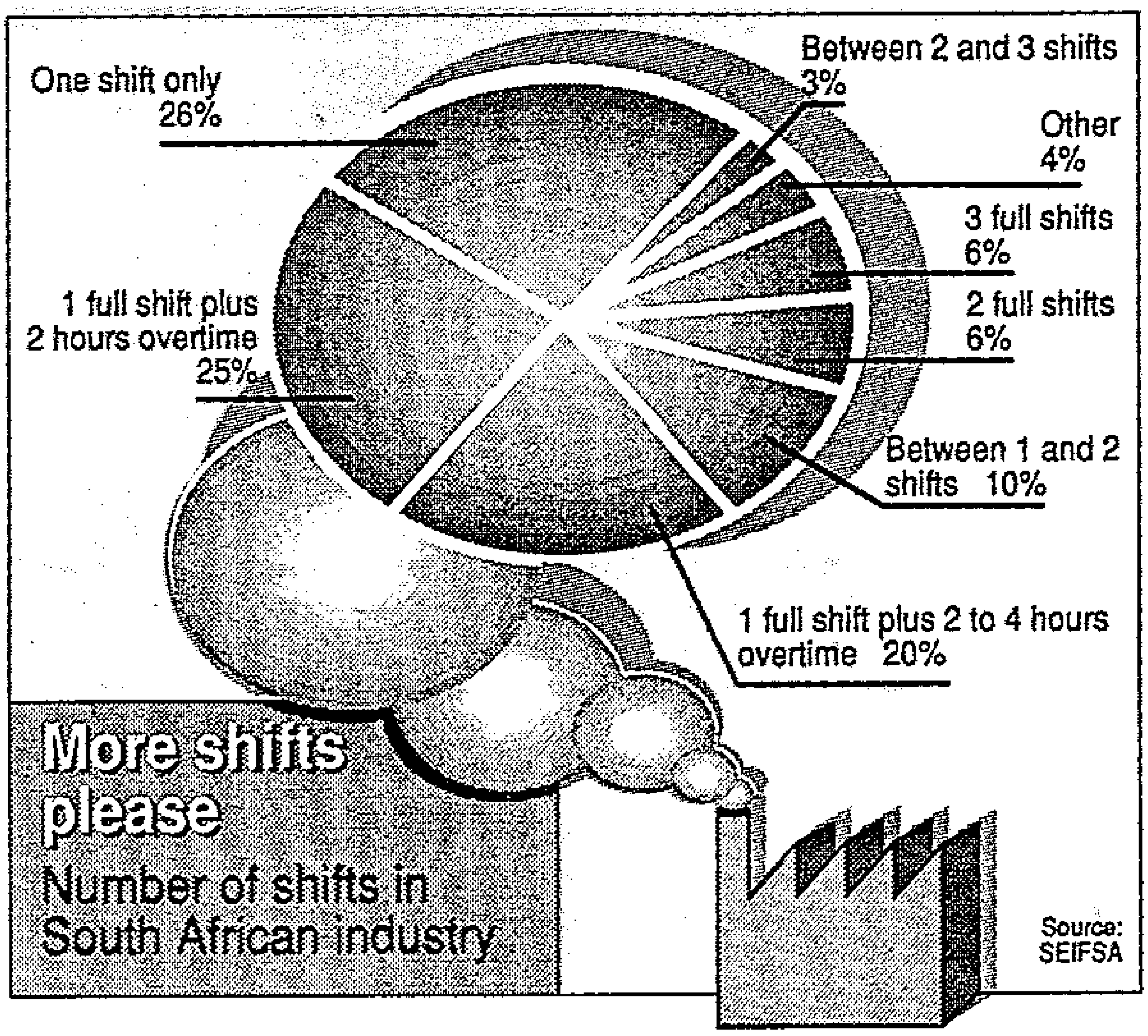
But even this gloomy story doesn't put off Mintek president Aidan Edwards, the man who popularised the term beneficiation. "The mining houses diversified their investments in the late Sixties when the gold price was low. With a sick gold price it makes sense to diversify into other ventures so we could well see comparable developments now."

The biggest of these capital investments will be the joint venture between Highveld Steel and Samancor to build a stainless steel plant which is expected to cost from R2bn to R3bn. It has already secured export markets in Japan.

Highveld chairman Les Boyd says: "We've decided that SA has a fundamental advantage over the rest of the world in stainless steel production and we're looking actively at several options."

But McDonald says while the growth of the stainless steel and ferro-alloy industry is rightly seen as an outstanding example of successful beneficiation, it may be an isolated example. "It's argued that we should set up a jewellery industry — but we need trained craftsmen brought up in a tradition of making jewellery before we can compete with a major producer like Italy.

"The more added value, the more difficult it is to compete with existing manufacturers. We can sell stainless steel all over the world but can we sell stainless steel coffee pots? Any industrialist who's making a major capital project geared entirely towards exports at this time is highly courageous."



McDonald adds that the main problem here isn't the lack of capital equipment but its under-use. In a Seifsa survey, 26% of the sample of 766 companies worked one shift only, a further 25% one shift plus two hours' overtime and just 6% a full three shifts (see chart). Government has argued that it won't penalise the purchase of capex, provided existing plant and machinery is used to its full potential. Whenever the clothing industry has sought an exemption of duty on its surcharges Pretoria has said the industry should rather go on to a three-shift system.

The most important reason for this was the lack of technicians. This was even more important than lack of demand for the product.

There are a few signs, though, that SA won't have to rely as much on what it digs from the ground for exports in the future. Sasol is spending R1,2bn on six new chemical projects, which will "save" the country R400m a year in foreign exchange. The projects will make Sasol a significant exporter of candle wax, ammonia and paraffin.

An n-butanol plant will be in production in January 1992, which will be a world scale sized plant with a cost structure that's competitive with other plants in the world. It will produce 17 500 t and the local market is only 4 000 t so the plant will be heavily export orientated.

Another big spender, which certainly has an eye on exports, especially to Africa, is the motor industry. Its capital spending gets higher and higher, even in years when vehicle sales decline. Capex in the industry — nearly R385m last year — is expected to exceed R500m this year.

Much of this is accounted for by import replacement needed under the new local content regulations. What this high level of spending will do to car prices is, of course, another story.

Even the electronics industry, which is expecting a significant knock after 1995 when the Post Office ends its preferential agreements with local suppliers, is investing in capital equipment with an eye on exports.

Altech director Keith Crosby says: "Altech has long-term plans for technological development and growth. Short-term downturns in the economy do not effect capital expenditure. Advanced technology is required in order to produce reliable hi-tech goods at competitive prices."

The more farsighted companies are continuing to invest at least in the upgrading of plant, especially those which know that as protection is removed they'll have to compete with the best in the world.

For instance, though sales in the textile industry have declined by 14%-15%, Da Gama Textiles is pressing ahead with plans to spend R34m a year on capital expenditure. CE Harry Pearce says: "We decided it was better to keep going as it was time to modernise. But we wouldn't look at a major expansion at this stage and we aren't expanding our spinning operation at all."

A more pessimistic view is held by Frame chairman Mervyn King. The group has made cautious capex plans because of the present climate. "We're told that our industry could expand on the back of an export boom from the clothing industry — but can we compete with the East and their work ethic, especially with the present state of labour relations in SA?

"There are enough maladies caused by the weak rand, but government has made it worse by import surcharges. It's also very difficult to plan ahead when at any moment a trade agreement with Turkey or Hungary or Czechoslovakia could be signed and cheap imports could flood the market. What is government's present industrial policy?"

He argues: "First, government should level the uneven playing fields in SA caused by the different tax structures and subsidies in the homeland areas. SA industrialists actually subsidise their competitors in the homelands.

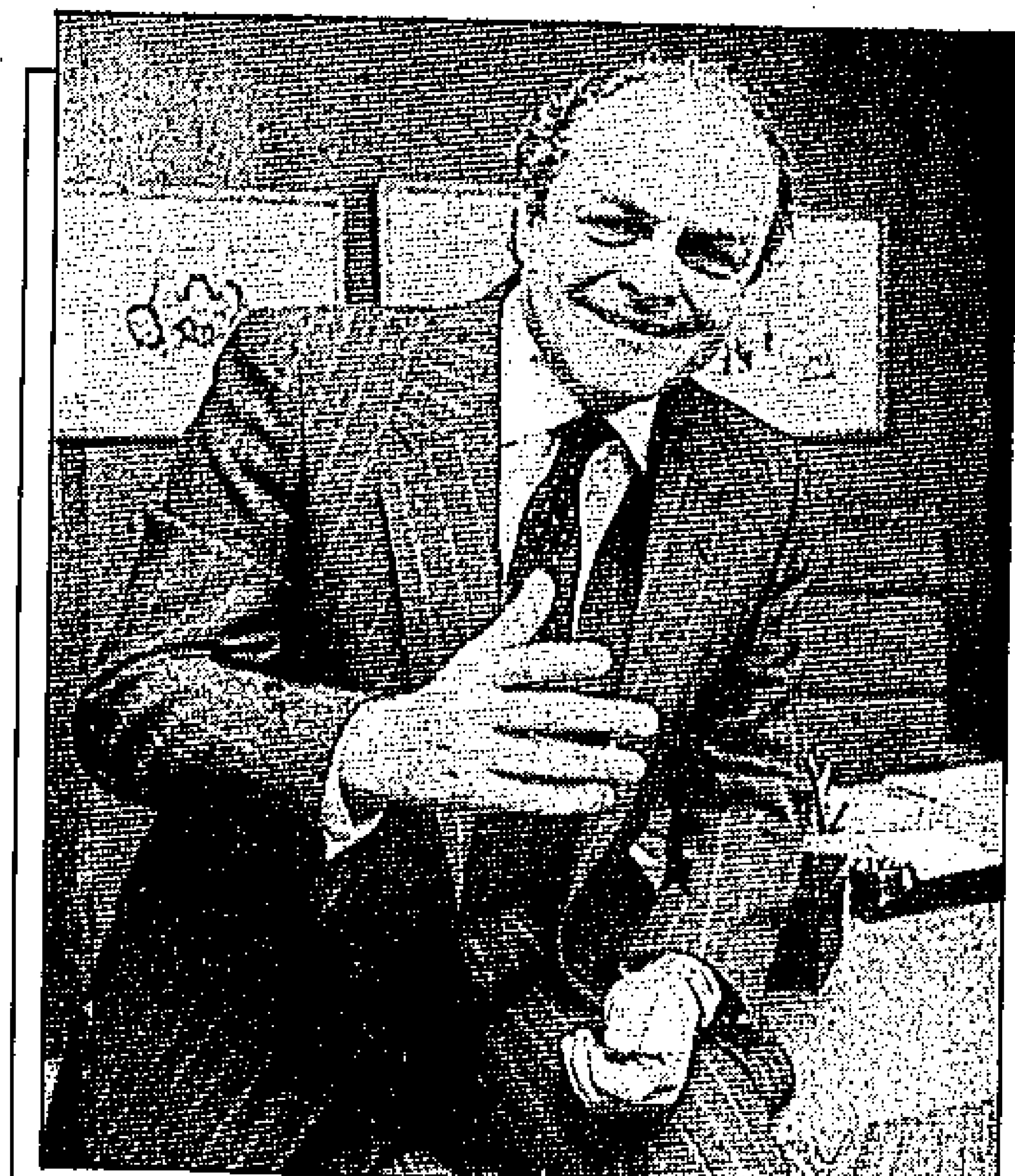
"Secondly, it should get together with industry and set the timetable and action plan for the next 10 years to enable industrialists to do some long-term planning, such as improving our skills and productivity levels to enable us to become global players.

"One minute we've got a structural adjustment programme for textiles, then we hear it's been removed . . . or has it? It's pure Alice in Wonderland."

Under the new industrial policy, inefficient industries will — or at least should — be treated as lame ducks. According to Sacob deputy director-general Ron Haywood: "Industrialists will have to accept that we won't go on making everything in this country. Import substitution is now yesterday's policy and in future only the identified sunrise industries will be encouraged."

Every industry likes to give itself the sunrise tag; even established industries like clothing and textiles claim it. And a sunrise industry in the rest of the world like electronics would have a quick sunset here without protection.

Haywood adds: "Obvious manufacturing opportunities have been missed in the past.



Frame's King ... planning ahead is a tricky business

FM 20/7/90 (180)

We are only just starting to make stainless steel exhausts."

McDonald concedes that government priorities have shifted from large engineering projects — such as Mossgas — and this will hurt the engineering industry in the short term. "Spending will shift towards housing, education and health. But in any case industrialists have learnt that they can't rely on the consistency of industrial policy."

For instance, Dorbyl was encouraged to set up a rolling stock plant — but then government changed its mind and cut back on rolling stock purchases. It was also encouraged to build a seamless tube plant for Mossgas but, unless export markets are developed, this too could become redundant as there won't be any more synfuel plants.

From now on, maybe SA can spend on capital projects for the same reason as everyone else in the world — to make products that make money, without a subsidy. ■

Sacob's Haywood ... substitution is yesterday's policy

FM 20/7/90

LOOKING AHEAD TO INVESTMENT IN 1991

(180)

To an important degree, businessmen had the stage set for the February reforms at last year's annual *FM* international Investment Conference. President F W de Klerk was the keynote speaker.

This year the conference will deal with new social and economic perspectives as we move towards a post-apartheid society — and greater acceptability in the world trading community. The impact of these factors on local investment — as well as the influence of world trends — will be a major theme.

A number of important, influential and articulate speakers from abroad have already agreed to come to this year's conference, which will be held in Johannesburg on November 1 and 2.

They include the man who foreshadowed British premier Margaret Thatcher's seminal reforms, which transformed the economy and began nearly a decade of continuous growth — the Right Honourable J Enoch Powell MBE.

Powell was for many years the most compelling and forthright speaker in the House of Commons on, among other subjects, economics and finance. He was educated at Trinity College, Cambridge; was professor of Greek at the University of Sydney before World War 2; and during the war rose to the rank of brigadier.

He entered parliament as a Conservative MP for Wolverhampton in 1950 and later represented the Ulster Unionist interest until his retirement after the 1987 general election. While in parliament he held the positions of Parliamentary Secretary at the Ministry of Housing & Local Government, Financial Secretary to the Treasury, and Minister of Health. He has written numerous books on classical and political subjects.

Finance Minister Barend du Plessis will deliver the keynote address and Reserve Bank Governor Chris Stals will speak on monetary policy at a time when there are encouraging signs that fiscal and monetary discipline are beginning to have an impact on inflation.

There is likely to be widespread interest in what they have to say in view of government's manifest commitment to curb its spending, deregulate and privatise ahead of a difficult period of drastic change.

Similarly, Thabo Mbeki of the ANC has indicated that he is willing to speak about his organisation's views on the nature of the economy for which it will press.

Three distinguished speakers are coming from the US. They are Marshall Loeb, managing editor of *Fortune*, who has visited SA before and whose magazine has been forthright in its opposition to sanctions; Kees Schager, vice-president of Prudential-Bache, who has addressed the *FM* conference before and will talk this time on the international investment trends; and David Hale, of Kempers in Chicago, an internationally renowned commentator on economics and investment.

Two other UK speakers are Don McCrickard, group CE of TSB, who will speak on innovations in international banking; and Stewart Murray, of Gold Fields Mineral Services (which has taken over what used to be Consolidated Gold Fields' authoritative study of the gold market), who will speak on the outlook for bullion.

Local speakers include Chris Frame, of Price Waterhouse, on tax; Richard Stuart, of Martin & Co, on industrial shares; labour mediator Charles Nupen on current labour trends; and SA Chamber of Business CE Raymond Parsons on policy formation.

Last year there was an unusually large number of delegates from abroad. A similar response is expected this year. Delegates who wish to make early reservations should contact conference manager Brigitte Petty at (011) 497-2135. ■


Du Plessis


Schager


Mbeki


Murray


Frame


Powell

Directors' tax dodge derailed

180 Star 21/7/90

MAGNUS HEYSTEK

THE Receiver of Revenue has delivered a crippling financial blow to private company directors as a result of a directive that stipulates certain amounts of their renumeration will now becomes subject to pay-as-you-earn (PAYE) deductions.

It also "blows out of the water" certain insurance schemes that were linked to this exemption.

Says Pat McGurk, tax partner at KMPG Aiken and Peat :"I think one of the sneakiest provisions that came through this year commits directors of companies, whether private or public subject to PAYE deductions on certain renumeration from March next year."

Popular

The clause that allowed directors of companies, including Close Corporations, to postpone PAYE deductions until the end of the tax year has become very popular amongst certain types of businesses.

Many employees in specialised functions, like creative artists or computer specialists, have used a loophole in the Act by forming Close Corporations and demanded that the CC be paid for work done by them, and not them personally. On paper they then worked for the CC which they in essence owned.

As this work was then done by either a CC or even a company, no PAYE-taxation was paid as only "natural" persons are liable to PAYE-deductions.

The CC, on its part, then onpaid the members of the CC who in effect were in the same position asdirectors of private companies, and no PAYE was again paid.

The new provision in the Income Tax Act also "blows out of the water" certain schemes whereby directors paid their PAYE savings into an insurance policy and then borrowed on this policy to pay their tax, adds Mr McGurk.

The advantage was that income tax payments were only made every six months in the form of provisional payments. These payments were calculated on the basis of the expenses of the CC, which reduced the overall tax burden.

In addition, CC members had control of their money for a much longer period which improved cash-flow considerably while interest was earned on the money until provisional payments were made.

"Gentlemen, our little dodge has been found out."

According to sources in the accounting world, the Receiver has been aware of these schemes for many years now, but the sharp increase in the use of CC's for this purpose was threatening to undermine the cash-flow of the Department of Internal Revenue.

"The bottom line now is that, if you are a director of companies, public or private, you are going to have PAYE withheld from remuneration from March next year.

"Surprisingly, there is no mention of this even in the explanatory memorandum to the Income Tax Amendment Act. I am also surprised that no one is jumping up and down in protest," Mr McGurk added.

Confusing

The proposed changes to the law have not yet been promulgated but tax analysts are predicting this be happen at any moment.

Dealing with provisional taxpayers, Mr McGurk said that confusion over whether a company director was made a provisional taxpayer by the Receiver or whether he had to make himself one had been resolved.

"Now it becomes quite clear. The day a person is appointed a director, he becomes a provisional taxpayer and it is his obligation to register as one with the Receiver of Revenue within 30 days of his appointment. If he doesn't he runs into trouble."

Company earnings growth slows

Stc 23/7/90

Year-on-year earnings growth of financial and industrial companies slowed from 33 percent in January to 23 percent by June, says UAL managing director Clive Turner.

He believes the trend will continue.

In UAL's quarterly report released last week, Mr Turner said current economic conditions dictated a cautious investment stance for the months ahead.

UAL would maintain conservative li quidity levels for its trusts in these conditions, he said.

Commenting on the quarterly results for the different units, Mr Turner said UAL Unit Trust had no direct exposure to gold shares.

But the diamond sector had performed well, and diamonds now constituted the largest sectoral weighting in the portfolio.

180

The present level of liquidity, which remained in excess of 20 percent of total assets, was considered a suitable buffer against the current market volatility expected to prevail in the forseeable future.

UAL Mining and Resources was affected by by negative sentiment about gold. This, in turn, had had an adverse effect on mining-related shares generally, Mr Turner said.

"However, with its low exposure to direct gold shares in favour of mining houses and base metals, the portfolio is soundly based."

UAL Selected Opportunities had stood up well to the uncertain investment climate over the quarter, and UAL Gilt's exposure to the gilt market through stock options was currently in balance, Mr Turner said. — Sapa.

More firms opt for debenture capital

B\Oy 23/7/90 180

HELENA PATTEN

SOFT market conditions and high interest rates have led to an upsurge in the number of companies opting to raise capital by the issue of convertible debentures.

Spokesmen for the corporate finance divisions of several merchant banks said companies were now finding this route preferable to rights issues of equity because the returns from stock market investments were relatively unattractive.

Rights issues have not been greeted with much enthusiasm this year owing to troubled market conditions, whereas convertible debenture issues offer a lower risk alternative to investors.

Listed companies choosing this method of capitalisation this year include Afmin Holdings, Duros Group, Focus Holdings, Tollgate Holdings, Unihold, Unitrans and Woodrow Holdings.

Yields offered by these companies on their debentures vary between 15% and 18% and represent a relatively cheap source of funding when compared with prime's 21%.

Finansbank director Willie Ross said the bank was recommending the debenture route to many of its clients because of the high interest rates facing companies.

He said it was possible for companies to borrow at about 60%-70% of prime by the issue of convertible debentures.

This reduced a company's commitments in the short term and had the advantage of being regarded as equity by analysts, thus strengthening the balance sheet.

Expensive

Senbank CE Hennie van der Merwe said issuing convertible debentures was a good route to choose for companies with high gearing, but was not necessarily correct for all.

"Companies should remember that such debentures will be converted into equity later and will need to be serviced forever — equity is still the most expensive way of raising money."

Another spokesman for the bank said the best route to choose always hinged on the needs of the company.

Nafcoc's status set to increase

THEO RAWANA

TWO events bound to set the National African Federated Chamber of Commerce (Nafcoc) on its way to being part of the African economic scene are on the cards. (180)

The Preferential Trading Area for Eastern and Southern Africa committee has requested the SA black business organisation to send an eight-man delegation to take part in a meeting to be held in Harare from August 20 to 23. B/Day 23/7/90

In the next few weeks representatives from the Southern African Development Co-ordination Conference (SADCC) will visit Nafcoc for talks about its representation in that body, Nafcoc executive director Mofatsi Lekota said last week.

Nafcoc public affairs director Gab Mokgoko said the organisation saw itself as a force to market the SA of the future to Africa and the world.

With the help of the International Chamber of Commerce — of which Nafcoc president Sam Motsuenyane is a member — and the ANC, a 16-man Nafcoc delegation visited Egypt, Ethiopia, Kenya, Tanzania and Zambia last year.

Aim of the visit was to exchange experience with chambers of commerce north of the Limpopo and expose black SA businessmen to post-independence challenges and opportunities in the countries visited.

Going on a mission

When 80 SA business leaders travel to the US in October for an 18-day observation mission it will be with the blessings of the ANC, which says the trip will help to prepare "black business persons for a more meaningful role in post-apartheid SA."

With that seal of approval Willie Ramoshaba, the businessman arranging the mission, can move ahead with his grand plan to help the black business community get ready for its next stage of development. He has already run trade missions to Malawi and Zimbabwe and his plans for next year include visits to Nigeria and Europe.

FM 27/7/90
FINANCIAL MAIL JULY 27 1990


Ramoshaba

"Apartheid is just about to go," says Ramoshaba, of Johannesburg-based W R Consultants. "It's time for blacks in business to prepare themselves to play a major role in commerce and industry. They should be at the doorstep."

Making the trip will be manufacturers, retailers, wholesalers, farmers and bankers as well as 40 people from Swaziland, Zimbabwe, Malawi, Botswana and Lesotho. Ramoshaba says 10% of the delegates are white, 5% coloured and 5% are Indian. They will visit trade shows, farms and corporate headquarters, tour the World Bank and White House, and in general get the red-carpet treatment from business concerns — such as franchisers — looking for a toehold in the SA market, where blacks hold half the spending power.

The trip echoes Nelson Mandela's visit with stops in New York, Washington, Atlanta, Los Angeles and Detroit. The mission adds on Chicago. Hosting them will be the US Chamber of Commerce and three groups comprising leading black Americans: Brain Trust of America, Coalition of 100 Black Women and 100 Black Men, which lists New York mayor David Dinkins and actor Sidney Poitier as members.

Leading the mission are Nthato Motlana, of the Get Ahead Foundation; Ellen Kuzwayo, Foundation for African Business and Consumer Services; James Ngcoya, SA Black Taxi Association; Solomon Morewa, Soccer Association of SA; and Jeff van Rooyen, Association of Black Accountants.

Ramoshaba says American interest in the mission has exploded since Mandela's visit last month. It makes sense, considering that Americans have developed a new love affair with things South African, especially those approved by the ANC. What's lacking in the States is a real understanding of the status of black business, which many assume to be non-existent or illegal.

"Americans have a negative image of black South Africans," says Matthews Malefane, who is producing a video about the country's black business community to take on tour. "We have to show them we (business people) are a reality, not an aberration."

In addition to seeking contributions to help defray the trip's expenses, organisers are still looking for R200 000 to pay for the 30-minute documentary, which will focus on the effect of apartheid and reforms on black business.

A Washington company is interested in syndicating the video to US TV stations. It will be produced by South Africans and Americans with an American news presenter supplying the narration.

Though it has approved the trip, the ANC is quick to point out that the mission "should not be construed as signalling a relaxation of economic sanctions . . . and neither should it be used to circumvent these."

Ramoshaba says the mission is a get-acquainted session and not an attempt to do business, even though US trade with black South Africans is not prohibited by sanctions legislation. That's why the trip is called an observation mission and not a trade mission.

"This is not a sanctions-busting trip," he says. "We want to do deals when sanctions go. We say: 'Politically, you chaps are talking. Can we?' "

Maureen Sullivan

FM 27/7/90 (180)

CUSTOMER SERVICE

Failed expectations

With international borders disappearing and companies competing more and more on a global scale, differences in products and prices from country to country are also disappearing. "Service" is thus becoming the buzzword of the Nineties and customer satisfaction will make the difference between a successful business and an also-ran.

SA already trails far behind the major economies when it comes to service. Now a new study shows that North American companies have a long way to go themselves before they meet the expectations of today's customers. FM 27/7/90 (180)

The study, by US-based Learning International, focused on business-to-business selling. It looked at nine US and Canadian industries, including chemicals and high-technology and found that only the pharmaceutical industry was satisfying its business customers.

"Learning International talked to sales people and sales managers at successful companies and determined that, to remain competitive, companies must stress the importance of partnerships with company-buyers," says Kate Murray, MD of the company's product and technology strategies unit. Once a relationship is jeopardised, she adds, other companies fill the gap. Murray spoke at a seminar last week held by her company's local distributor, Professional Learning Systems.

The research made it clear what factors buyers in *Fortune* 1 300 and Canada 150 firms value most in their relationship with a supplier: its expertise and image; its dedication to the customer; its sensitivity to the customer's needs; its products' performance and quality; its service department's excellence; and its ability to provide customer references.

"The salesperson must co-ordinate total packaging and understand how a company works," Murray says, "because once this factor breaks down, so do the others." And she believes that these factors are just as important to SA businesses as they are to overseas companies.

Ken Mason, the Johannesburg Chamber of Commerce's GM, industrial, says a factor that's a prerequisite for healthy business-to-business relationships in SA is continuity of service and products. "It's essential that a customer have continuity from a particular buyer." But the recession and the rash of strikes have hindered continuity, he says, pointing to the National Union of Metalworkers' strike last month, which slowed car production.

Also, the stocks of many products have dropped in response to decreased demand, he says. "When business expands, it will take some time to replenish stock levels and, meanwhile, there will be a gap."

He concurs that business expertise is lacking in SA and that there's a lot of catching up to do. The reason: schools are not producing enough trained applicants for business. He believes that even if the curriculum is changed, it may take up to 25 years to bridge the training gap. *Mathew Copas*

Sharper bite for board

Business Times Reporter

S/Times 29/7/90

CHANGES in the Maintenance of Competition Act have given the Competition Board sharper teeth.

Competition Board chief Pierre Brooks says that until July 4 the onus was on the board to prove that a proposed merger or takeover was not in the public interest.

The latest change puts the onus of proof on the parties wishing to merge or take over.

Dr Brooks says: "We have been fighting with one hand behind our back. Now things are far more equal."

Dr Brooks says changing the legislation does not amount to closing the stable door after the horse has bolted.

"We are empowered to look at past transactions and if we find them against the public interest, we can require the parties to undo them. (180)

"We don't want to start a lot of uncertainty, but where there are cases of abuse we won't hesitate to act."

Black look at economic future

By MANDLA TYALA

ORGANISED black business, caught between restrictive apartheid legislation and political violence in the townships, meets over the next two days to consider a future role under what could be an ANC-led government.

The National African Federated Chamber of Commerce, which has championed the cause of thousands of fledgling black capitalists for 25 years, will come to grips tomorrow with the contentious issue of what form a post-apartheid economy should assume.

Unlike the white business community which has been vocal about its disquiet at what it considers the questionable economic policies espoused by the ANC, black business has not yet taken a position on front-burner issues like the ANC's threat to nationalise certain sectors of the economy.

Although Nelson Mandela went out of his way on his recent overseas trip to tone down ANC rhetoric and committed the movement to the quest for a vibrant economy that would enhance the wellbeing of all South Africans, the other components of the tripartite alliance — Cosatu and the SA Communist Party — have made no bones about their commitment to socialism.

■ ■ ■

Nafcoc public affairs manager Gab Mokgoko said the organisation would "attempt to bring to the fore what the real issues ought to be in the reconstruction of a mixed economy, the extent of the mix and the mechanisms required to ensure and hasten full black participation" at its crucial congress in Durban.

Keynote speakers will include ANC foreign affairs spokesman Thabo Mbeki and Deputy Finance Minister Org Marais.

Black business leaders have been expressing optimism in the current political climate.

They are encouraged by the prospect of moving closer to the centre of the action in a new economic order, after decades of being confined to corner stores and spaza shops while a huge chunk of the black rand was spent in white businesses.

The Nafcoc indaba comes at a time when some captains of big business, in the midst of the Marxism-Capitalism debate, have been calling on their constituencies to understand the factors underlying black calls for economic retribution to redress deprivation caused by decades of apartheid.

Peter Wrighton, Premier Group chairman and Transvaal chairman of the Consultative Business Movement, this week pointed out in an article, urging big business to be sensitive to black economic priorities, that nearly 90 percent of SA's wealth was owned by five percent of the population which is overwhelmingly white, and that blacks own less than two percent of assets.

Against this background, black business has found itself in a curious position.

■ ■ ■

Over the years, black businessmen have been committed to free enterprise, although legislation like the Group Areas Act made a mockery of this principle.

Lately, in the debate on how to redistribute resources, some have been strongly sympathetic towards calls for nationalisation — although they accept that economic wisdom militates against it.

Nafcoc, in particular, has been accused of being over-eager to support ANC positions, sometimes at the expense of its own interests.

But in the volatile political world that is the townships the lot of black businessmen has not been a comfortable one.

Nafcoc Natal regional chairman Rodger Sishi observed:

"So many of our members have described how unpleasant it is to be in business these days. The businessman is caught in the middle of a drama over which he has no control."

Individual businessmen complain that legislation has stunted skills training efforts and political upheavals on their doorsteps have created a climate hostile to good business.

They say they are expected to close their businesses to observe certain protests and are not always told in advance of such activities — with the result that they suffer huge losses.

While big business may have the capacity to absorb such losses, they sometimes sound the deathknell for township businesses — many of which do not adopt no-work-no-pay policies for fear of antagonising activist groups.

On the flipside, there is satisfaction that the threat of nationalisation has jerked big business out of its complacency.

Many spokesmen say there was general silence until the threat of sanctions forced big business to engage in serious discussions on ways and means of bringing blacks on to the playing field.

Sunday Times 29/7/90

180

Let's look beyond the Rubik solution

S/Times 29/7/90 180

Top businessman **Bob Tucker** calls on managements to opt for more social responsibility inside their own companies

SOLVING South Africa's economic and political problems can perhaps best be likened to tackling a Rubik cube.

One of the ways of finding the solution is to attempt to resolve one face of the puzzle at a time. The difficulty is that having resolved one face of the puzzle, when one turns to the second face and attempts to resolve that, one invariably mixes up the first.

That is the traditional approach of what could be described as the formal "enlightened" white business community of South Africa. The first face which is addressed and remains the highest priority is the delivery of a satisfactory monetary return on the investor's capital this quarter.

When we have done that, we might turn to another dimension and take some of those profits and apply them to running a social responsibility officer.

The third dimension might be that we make some contribution to the protection of the ecology — which our profit maximising endeavours damaged in the first place — and a fourth, that in the light of current developments, it would be advisable to go and meet with some of the high profile leaders.

Courage.

However, these activities are disintegrated and frequently contradict and undermine the integrity of the whole. On the other hand there are two apparent advantages to resolving the cube in this way. We get six ego boosts as each of the six sides is resolved — albeit that it is extremely unlikely that we ever have more than one side resolved at any one time.

Moreover if we find one side too difficult or if we do not receive adequate acclaim for resolving it, we can always retract and turn to another side.

It is to those enlightened businessmen who are addressing the problem in this way, giving disintegrated attention to the different dimensions of their businesses, that I appeal.

If the problem is to be resolved, it is a question of how we run our businesses not what businesses we run.

In other words, how do we simultaneously respond to the exerted pressures in managing the resources at our disposal so as not merely to maximise the monetary profit but to remain viable in the South African fabric, subject to such inordinate pressures and with such maldistribution, over the next 50 years.

We cannot proceed further on the basis that the only issue of any real importance is profit maximisation.

Our businesses generate a range of outputs some of which are quantifiable and hard — such as the number of jobs, the quantity of products and services and the rand amount of profits — and some of which are very subjective and soft — such as the job satisfaction yielded, the mix of capital and labour, the inter-relationships between staff and the nature of the relationship between the business unit and the community and environment in which the business is conducted and to whom the products and services are sold.

Historically, business courage involved the risking of capital in an unknown venture to yield a return on that capital. In South Africa today, business courage should involve risking ourselves in service to the people of the organisation and the communities which the organisation serves.

Integrated

The fact of it is that each one of us can either play the closed sum game or an open sum game. In the closed sum game we compete intensely with each other to see how big a portion we can get of a declining cake.

In the open sum game we co-operate with each other to see how big we can make that cake — and the distribution of the cake is the outcome of that process of co-operation.

I do not believe the issue is the maintenance and linear increment of current profit levels, or the doubling of our social responsibility budgets or rushing off to meet the most recently identified "new leader" to persuade him why nationalisation is not a good idea.

The real issue is how to fundamentally restructure our businesses and the way in which we do that business so as to be entirely relevant and completely integrated into the reality of this country.

What percentage of all contracts and purchases go to new entrepreneurs? What are our staffing ratios? Who manages the organisation? Where do our staff live? What products do we sell and to whom? How does that enrich their lives? Are our idle buildings and computers used for teaching children and developing adults?

In the first year after a 10 percent drop in turnover, US manufacturers will, on average, cut staff by 7,6 percent — Japanese manufacturers by 2,1 percent. How do we do? And so on.

Only by changing the way we do business can we avoid the fate of the dinosaur which in its time became irrelevant and unadapted to the reality of the environment in which it lived.

VAT offers new opportunities

B Day 30/11/90 (180)

LESLEY LAMBERT

CAPE TOWN — The introduction of VAT next year would affect all companies' cash flow and profitability but it would also present new opportunities, delegates were told at a VAT seminar arranged by accounting firm Price Waterhouse last week.

One of the most important considerations would be to evaluate the effect of VAT on cash flows and to review and improve working capital and cashflow management systems. These measures could enhance profitability, Brian Schiff of P-E Corporate Services told delegates.

Schiff advised managers to assess the overall impact of the new tax system on their operations and to start preparing for the changes immediately so they could adapt their computer systems and have their staff trained by at least July next year.

He said companies would have to ensure that they avoided errors, like overpaying VAT, underclaiming input tax credits or incorrectly costing their supplies, which could affect their competitiveness and profitability.

They would also have to review and adapt their computer systems.

The effect on cash flow would differ from one company to another, depending on debtor and creditor payment periods and tax periods, he said.

But, as a general rule, companies which sold for cash on short period credit but who paid creditors over longer periods — supermarkets, for example — would be in a more favourable position under VAT than under GST.

Because vendors were entitled to an input tax credit when they received a tax invoice — before payment was made — they would only have to account for the tax collected at a later date.

Those which sold on extended credit but had to pay their creditors sooner would probably be the worst off once VAT was introduced.

As the tax would have to be accounted for when an invoice was issued for the supply of goods and services, and not when payment was received, this category of vendors — furniture retailers, for example, — would have to account for VAT before they received payment. Thus, under VAT they would have the burden of accounting for tax on their purchases.

"Companies whose annual turnovers were below R18m would also be in a favourable position as they would be entitled to operate on a two month tax period.

Wealth creation by companies shows up in value added statements

By Ann Crotty

The debate on nationalisation tends to be long on rhetoric and extremely short on any detail about its implementation.

To some extent (and somewhat simplistically) what is at stake at a company or micro level can be seen in the valued added statements most corporations are now including in their annual reports.

These statements reflect the wealth that has been created by the company during the financial year under review.

The company buys goods and services for conversion into other goods or services that it sells to its customers. In this conversion process it adds value to the goods bought by applying labour and capital in varying proportions.

In the case of SA Breweries (SAB), in the 12 months to end-March 1990 R12,1 billion was earned on the sale of products and services; it received a further R256 million income from investments.

Deducted from this is R8,8 billion which was paid to "outside suppliers of materials, facilities and services". Which means that SAB created wealth of R3,6 billion.

Some 22 percent of this wealth was re-invested within the group — nine percent to cope with inflation and the maintenance and replacement of capital assets and 13 percent to fund further growth and expansion.

Wages, salaries and other benefits to employees accounted for 48 percent; 12 percent went to the State in the form of taxes; nine percent went to the lenders of capital in the form of interest and financing charges; and the remaining nine percent went to shareholders in dividends.

Assuming that, at least initially, the size of the "wealth-created cake" is not at issue in the nationalistion debate, then the issue is how that wealth is distributed.

Killing the goose

The capitalist camp will argue that any tampering with this distribution process risks killing the *goose that's laying the golden eggs*, so that over time *companies' ability to create wealth is* steadily diminished.

There may be some scope for massaging the amounts paid in each category. But no matter who owns or manages a company, contributors to its wealth have to be paid out or they will cease to make contributions.

Employees will not work if they are not paid. Financial institutions will not provide fund ing unless they are paid interest on it. State spending has to be funded and companies make their contribution to this in tax.

There may not appear to be a critical short-term need to re-invest funds in the enterprise but if this spending is by-passed for a year or two it could have a crippling effect on the company's ability to produce.

If shareholders are not paid dividends then the company will in future not be able to raise funds in the equity market and will have to get its capital from other sources — which will also have to be paid.

In the overwhelming majority of cases (Sappi is a rare exception, as shown in the table below) employees receive the largest portion of the wealth created. Add in the amount paid to the State and, well over 50 percent of corporate wealth is accounted for.

This would seem to be in line with the aims of a socialist-style nationalisation plan — except that trade unionists will claim that the distribution of salaries and benefits to the workforce is far too skewed in favour of management and there is scope for a more egalitarian distribution.

Management's response is that employees are paid in line with their contribution to company output and in line with supply and demand forces in the market — the forces with which the trade unions are currently interfering.

			PROVIDERS OF CAPITAL		
	EMPLOYEES	STATE	INTEREST	SHAREHOLDERS	RE-INVESTED
AMIC	45	15	2	10	28
BARLOWS	49	15	7	7	22
SAPPI	30	1	19,3	14	35,7
PICK 'N PAY	71	8	0,9	7,1	13
PREMIER	57,2	11,1	7,6	6,6	17,5
SAB	48	12	9	9	22

Table shows in percentages the distribution of wealth creation.

Most of SA's top 100 use PR consultancies

B/Day 31/7/90 (180)

MARIETTE DU PLESSIS

ABOUT 76 of the top 100 companies on the JSE use public relations (PR) companies, substantiating the growing importance of this much-maligned "glamour" industry.

Public Relations Institute of SA (Prisa) vice-president Kobus Nel said an increasing number of top companies were turning to PR — either internally or externally — to ensure that their policies and services were acceptable to the public.

Training

Although more companies were realising the importance of PR, growth was hampered by a critical shortage of skilled personnel, Nel said.

Prisa hoped to alleviate this problem by the end of the decade through intensive training at management level.

The number of PR graduates had increased from 30 to 300 during the past 10 years.

Nel said internationally, expenditure in the industry had risen rapidly during recent years. While the increase in SA was notable, it was much slower, with companies hesitant to commit themselves to large PR budgets.

Although there was no real need to expand small, specialised companies into large global corporations, the industry needed the expertise and investment on all levels to cope with the rapidly changing economic climate in SA, he said.

On the prospect of SA PR going international, SA Public Relations Council chairman Llew von Essen said the sector had the ability to become "internationally minded" in the long term. However, consultants needed to "think internationally" to get into the mainstream of events.

He said local consultancies would form links with international PR companies in 1991 through the International Committee of Public Relation Consultancies' Association, based in London.

ANC goes into the souvenir business

Staff Reporter

The African National Congress is going into the souvenir business.

The organisation took steps last week to register a company that will be responsible for marketing goods bearing the colours or logo of the organisation, the temporary head of the ANC's marketing efforts, Isu Chiba, said.

The ANC has also applied for its official logo and colours to be registered under the Trade Marks Act and is investigating the possibility of copyright of deputy president Nelson Mandela's face.

ANC umbrellas, T-shirts and badges have been best sellers — and top moneyspinners — since the organisation's unbanning in February.

Now the ANC wants to start getting its own share of the memorabilia profits.

"We've taken this step because there was abuse of colours and name by a host of people who have been selling ANC-related articles for their own gain," Mr Chiba said.

"We do not feel it is correct for commercial organisations to make a profit out of a political organisation.

"We have no objection to people producing ANC articles provided they receive authorisation. There are things like royalties to be considered," he said.

If, for example, a badge manufacturer wanted to make badges boasting the ANC logo, he would have to apply for permission.

"The manufacturer would have to make a written proposal. Our marketing department will then consider the request."

Mr Chiba said the ANC had applied for a company to be registered, possibly under the name of South African Merchandising Enterprises.

"We are not making a profit, but it will serve to generate funds to help the organisation meet day-to-day expenses like rentals and staff salaries," Mr Chiba said.

Manufacturers who entered into agreements with the ANC's marketing company would pay royalties in the region of 5-10 percent.

Mr Chiba said the ANC, with a potential membership of two million people, was well poised to generate funds with its marketing scheme.

Venture capital industry boom expected

B10cu 2/8/90

Business Day Reporter

WHEN New Company Investments (NCI) has proved its ability to manage venture capital investment successfully, the industry can be expected to boom, says CE Mike Clarke in his latest annual review.

He believes this success to be imminent, and looks forward to producing "the first tangible proof of this" during the current year.

NCI, venture capital projects developer, was granted a listing for 279,9-million shares on the JSE's Venture Capital Market in April this year.

(180)

Clarke says ~~given~~ the general economic and political climate, "there can be no disputing the fact that our listing was a success, with the share price, share trend and volumes traded indicating a significant interest in our industry".

MD granted R3 000 bail

Star 3/8/90 (180)

By Celeste Louw

The managing director of a group of companies was granted bail of R3 000 by a Johannesburg Regional Court magistrate yesterday after being arrested for allegedly stealing R400 000 from his previous employers, National Finance.

Pierre Wolmarans (31) of Randburg told the court that police had started investigations into the alleged theft of R250 000 after he had told the Recdiver of Revenue of large amounts of money not declared to them.

The investigating officer, Sergeant George Barnes, said that Mr Wolmarans was being investigated in connection with the alleged theft of R400 000.

The case was postponed to August 16.

Nafcoc establishes joint economic commission with ANC

180

By MZIMKULU MALUNGA

THE National African Federated Chamber of Commerce and Industry (Nafcoc) has established a joint economic commission with the African National Congress. W Mail 3/8-5/8/90

The main objective is to formulate guidelines for the future restructuring of the South African economy, with a view of ensuring some degree of meaningful and equitable participation by blacks.

The organisation has already appointed economist Vincent Phaahla to co-ordinate research activities to provide members of the joint commission with necessary technical support.

Nafcoc's economic research department had also compiled a document on the findings of the economic conference held in the Transkei in May this year. The document will be discussed in a series of economic workshops later this year.

Another leading economist, Prakash Sethi, professor of management and associate director of the centre for management at Baruch College, has been appointed as the organisation's economic adviser.

Nafcoc president Sam Motsuenyane said Sethi would help formulate appropriate policies and strategies in order to lobby more effectively with the government and a wide variety of companies in the private sector for the purpose of:

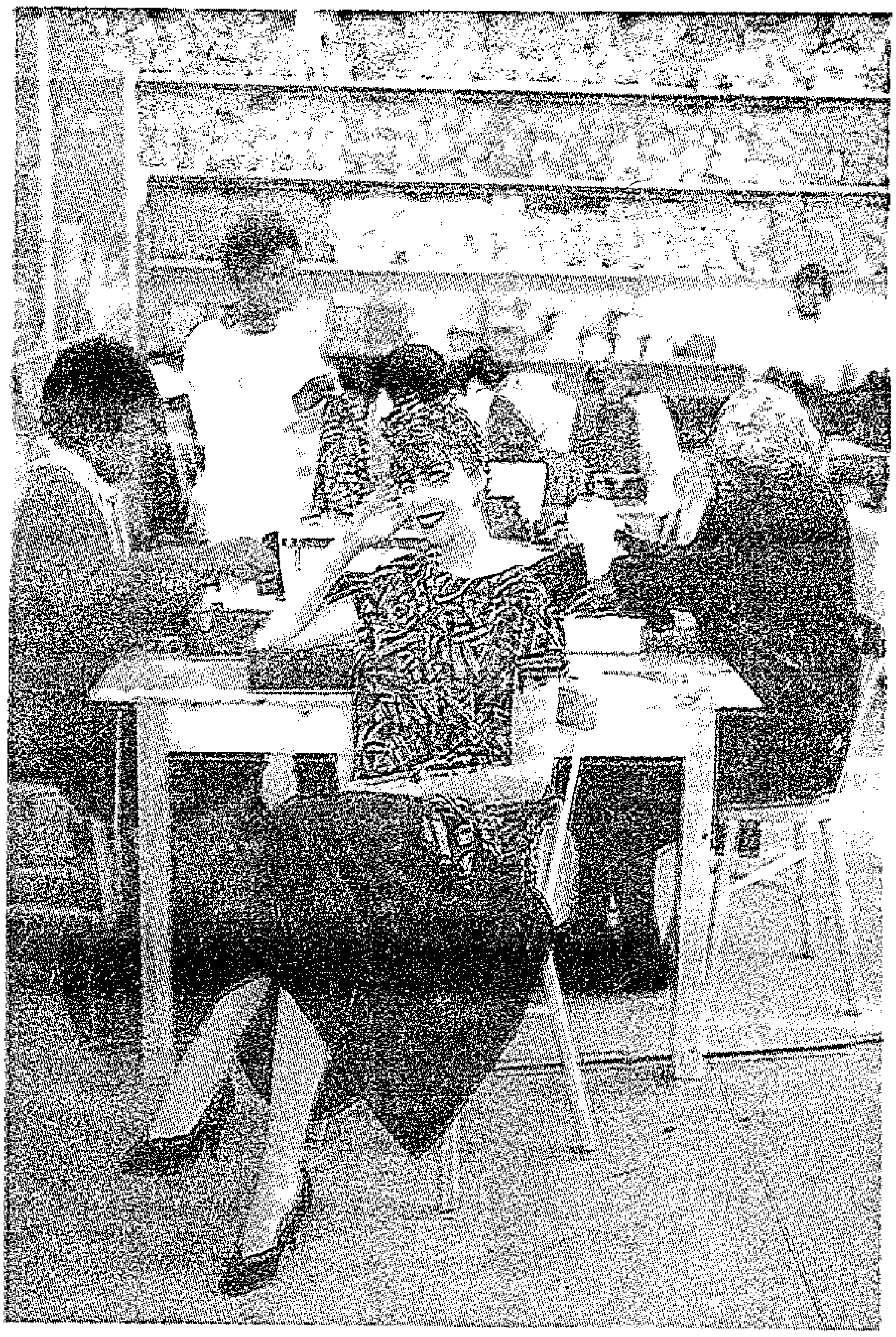
- Promoting increased ownership and control of productive assets by blacks.
- Greater representation of blacks on the board of quoted companies.
- Facilitating greater representation of blacks in top management structures of large and small companies.

"The achievement of economic parity among all sectors of our population will be Nafcoc's primary goal for the 1990s," said Motsuenyane.

He said construction of the envisaged management and leadership development centre on the organisation's property in Soshanguve had begun. "According to our latest planning schedules the centre will obecome operational by March 1991."

Silent revolution in the townships

CM-Trip 4/8/90 (180)



ETHNIC OUTFIT... Luanna Shonfeld models one of Africa Trading's colourful ethnic outfits while the women who made it (background) discover the financial benefits of self-employment.

Picture: RICHARD BELL

Economist Clem Sunter calls the Cape's Triple Trust Organisation "an example of the perfect working model" for job creation in the informal sector which, he says, will lead to his fabled economic "high road". MARILYN KEEGAN reports on the great strides TTO is taking.

A NATION of capitalists is rising from the tin shanties of the townships where the whirr of sewing machines signals hope for the unemployed and destitute.

The Triple Trust Organisation (TTO), an autonomous non-profit body, was formed two years ago by Tony Davenport and James Thomas and has provided the financing and marketing of goods produced by 400 men and women.

As the name implies, TTO consists of three "non-profit" trusts with the sole concern of creating jobs in an unconventional way.

There is the Neighbourhood Training Trust which operates from several makeshift training centres in the townships (church halls, Shawco mobile units, etc). Suitable trainees are selected and referred there by community workers. It may be a TB patient who's lost his job or a partially disabled person.

The candidates receive an eight-week training course in business skills. It is affectionately known as the "Township MBA" and has been adopted by Stellenbosch University for their informal sector training.

Hand-in-hand with the business course is an eight-week training course in a chosen field of manufacturing. It may be sheepskin slipper making, dress-making, metalwork or whatever: what the candidate does depends on aptitude.

After training, the Self-help Financing Trust gives, in the form of an unsecured loan (it amounts to between R600 and R700), the materials and machinery (eg a sewing machine) the person will need to manufacture the goods. It is this initial loan that differentiates this self-help scheme from many others.

Entrepreneurs

The TTO is administered from the Waverley Complex in Mowbray but the third trust — the Africa Trading Co-operative Trust — operates from a large warehouse in the industrial area near D F Malan airport (and within convenient walking distance for township dwellers).

Here, the fledgling entrepreneurs can buy "packs" — a complete kit for making a garment — and here they return to sell their goods, carefully checked for flaws, for a profit.

Jill Ritchie, a part-time writer who designs seasonal ranges for Africa Trading and selects wholesale materials, said: "The punch line is that we are market-led. These entrepreneurs need not waste their time trying to sell their wares. We market the products, under the label of Afri-Concepts.

The TTO runs on donated money. It was difficult, initially, to raise funds for an idea but now backers can see results and funding has become easier.

Valuable lessons

Economist Clem Sunter refers to Triple Trust as an example of the "perfect working model" for job creation in the informal sector that will lead to his fabled economic "high road".

Malcolm Harper, international expert on informal-sector development, visited Triple Trust in May this year and commented: "TTO may appear to be falling into the trap of trying to do too much but their approach differs from most similar organisations in that they have clearly separated the training, credit and marketing operations.

"Each is run as a separate self-accounting legal entity, with costs and

'Spaza' means survival

JOHN KANE-BERMAN, executive director of the South African Institute of Race Relations, said in a book just published, "South Africa's Silent Revolution", that without the presence of the informal sector in some black townships and shanty towns, the situation there would be desperate.

He said: "It is believed many people start their own businesses in the informal sector simply to survive. Rapid black urbanisation, the decline in agricultural employment and stagnation elsewhere have stimulated this 'survival entrepreneurship'."

Kane-Berman added that the combined turnover of the so-called "spaza" shops in the townships, of which there are about 40 000 countrywide, has been estimated at R7 bn.

"Raymond Ackerman, head of the huge Pick 'n Pay supermarket group, believes 'spaza' shops are his biggest competitors and that their combined sales equal those of his national chain.

"The key point about 'spaza' shops is that they operate from people's homes."

Unfilled orders likely to increase — survey

180

B Day 6/8/90

EDWIN UNDERWOOD

MANUFACTURERS expect an increase in the number of unfilled orders in the third quarter of this year, a Bureau for Economic Research (BER) survey has found.

Unfilled orders — orders received for which manufacturers have not yet produced fully completed goods — relative to sales decreased in the second quarter this year, the survey found.

"This confirms the downswing in the economy as fewer orders are being met by manufacturers," said BER economist Adriaan Mocke.

BER conducted an index-based survey reflecting trends in the manufacturing sector, with 100 representing static growth, zero representing maximum unfilled orders relative to sales and 200 the minimum of unfilled orders relative to sales. Manufacturers were asked to compare activity with the corresponding quarter a year ago.

BER predicted the index would fall to 87 indexed points in the third quarter of this year from 91 indexed points in the second quarter, showing an increase in the number of unfilled orders.

Another indicator of the downswing — the volume of orders received by the manufacturing sector — showed slight growth since the last quarter of 1989 and was expected to improve by two points compared with last quarter's 109 points.

The survey showed the index improved by 13 points for the second quarter this year bringing it to 91.

The total of unfilled orders relative to sales increased for the first quarter of 1990 compared with the same quarter in 1989.

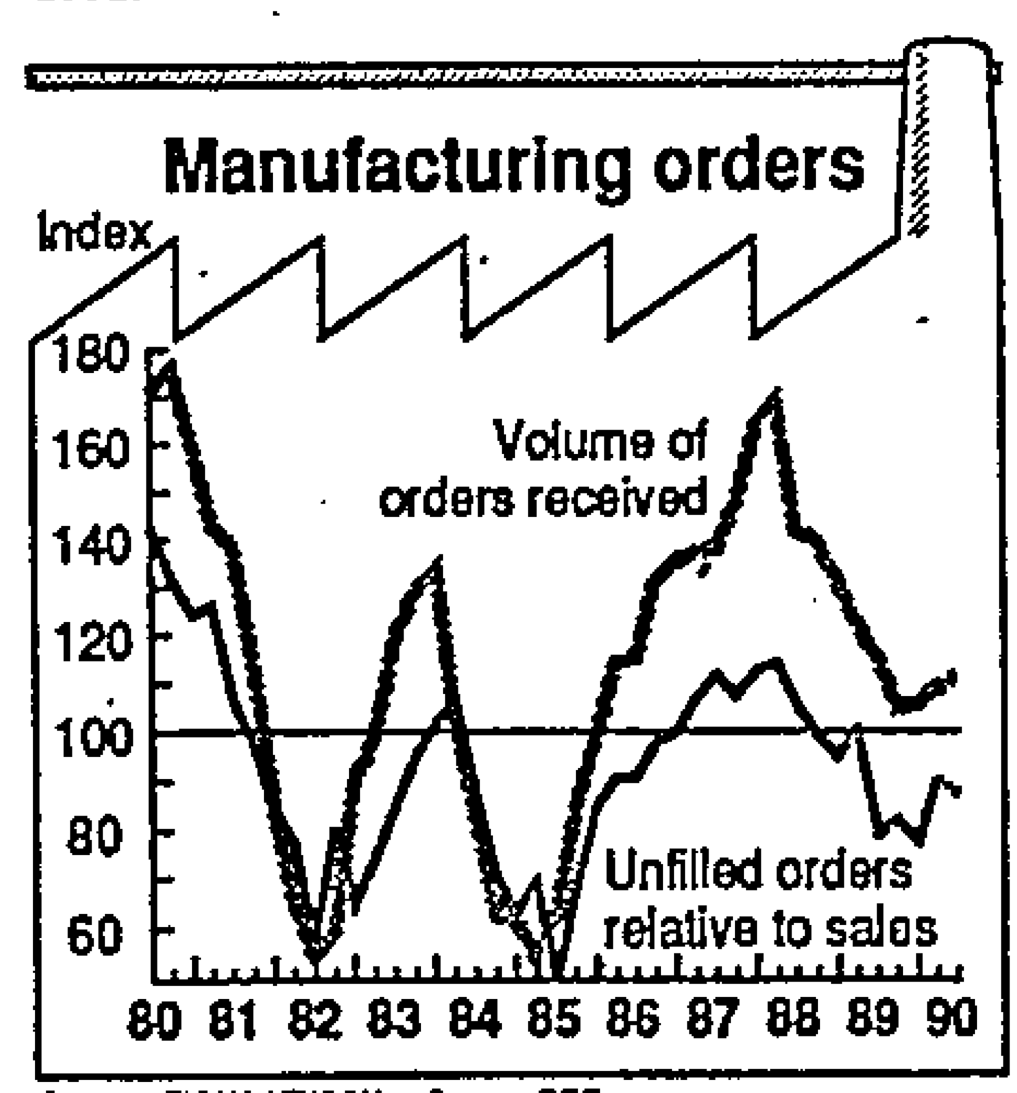
Mocke said the downswing in the economy had hit the durable sector which was traditionally very sensitive to interest rates.

He said this sector should decline further during the fourth quarter of 1990 because of worsening economic conditions. He forecast an 8% decrease in durables consumption.

Mocke predicted a 3% rise in spending on durables for 1991 because of an expected upswing in the economy during the second half of that year.

As the non-durable sector was not usually sensitive to interest rates, a growth of 2% was expected this year and a 2,4% growth next year.

Mocke said BER foresaw interest rates being adjusted downward during the last quarter of 1990 and hire purchase restrictions being eased in the first quarter of 1991.



Graphic: FIONA KRISCH Source: BER

affected by Arab conflict

Executives' pay declining in world terms

BDay 8/8/90 (180)

TANIA LEVY

SA's TOP executives are becoming worse off every year compared with their overseas counterparts, human resource consultants FSA-Contact's annual Executive Remuneration Survey said.

US executives had 125% more purchasing power than SA's top managers, while French and German executives were 68% and 46% better off respectively.

Taking the various countries' inflation and exchange rates into account to equate the purchasing power of executives' total remuneration packages, the survey of 5 300 SA executives in more than 1 200 firms found local managers lagged 27% behind their British counterparts, as opposed to being 12% ahead of them in 1986. Packages in different countries were taxed at SA rates to make them comparable.

FSA-Contact senior consultant Kira Schafller said although local tax reform programmes aimed to reduce the maximum marginal rates, this would not be enough to bring SA executives' wages in line with those overseas. Inflation and the exchange rate would need to show marked improvement before the SA position changed significantly.

The fact that nearly a quarter of SA executives were aged between 30 and 40 made the erosion of executive disposable income more alarming. Younger executives were more mobile and higher wages overseas could sway those who were unsure of SA's future.

Traditionally, management had been dominated by white males who had been promoted quickly, Schaffler said. This, the brain drain and skills shortage had led to SA management being very young.

Equal wealth distribution 'would not work'

b Day 8/8/90

ZILLA EFRAT

IF ALL Anglo American's assets were distributed equally to every person in SA, the capital value would amount to less than R1 000, Anglo American chairman Julian Ogilvie Thompson said yesterday.

Speaking at the opening of the BM6 machine at Mondi's Springs Board Mill, Ogilvie Thompson added that such a distribution would severely curtail the productive capacity of these assets.

He said those who argued that the optimum way ahead for growth in SA was a "redistributive quick fix, a once-off transfer of wealth" were living in a world of make believe.

"Any government can plunder the many to enrich the few, but you cannot plunder the few to enrich the many."

Some economists of the left criticised the size of some of SA's bigger companies and saw in "dismembering the conglomerates" a perfect way of redistributing wealth and "democratising" the economy.

However, Ogilvie Thompson said commentators across the spectrum had pointed out that the redistributive effect of such a step was "almost wholly illusory and even counter-productive".

180

He said many seriously proposed destroying the competitive advantage of efficient large companies by using crude anti-trust measures to break them up.

The goals of greater opportunity and a more equitable distribution of wealth could only be achieved by a growing market economy, he said.

"Our problem in SA is not that our companies are necessarily too large but that in relative terms our economy is small and, furthermore, the state accounts for as much as 54% which leaves little room for the private sector," he said.

Business applauds outcome of talks

(180)

B/Day 8/8/90

Business Day Reporters

BUSINESS has applauded the outcome of the latest talks between the ANC and government, in particular the ANC's suspension of its armed struggle.

Almost all businessmen canvassed yesterday welcomed the move as a step towards peace and stability, with the SA Chamber of Business (Sacob) and the Afrikaanse Handelsinstituut (AHI) predicting improved business confidence.

JSE president Tony Norton said the outcome of the talks represented "an important step on the road towards a new SA".

"The suspension of violence, plus government's concessions, were necessary steps and it was important that they were dealt with at this stage. I think the whole thing has been managed sensibly."

SA Breweries chairman Meyer Kahn said he was "absolutely delighted" with the progress being made.

Rubicon

An Anglo American spokesman described the outcome as "heartening" and said it boded well for a peaceful negotiated settlement. But everyone would be seeking concrete expressions of the commitment to peace, from not only the ANC and government but all other political bodies.

Castrol SA CE Deryck Spence said SA had "finallly crossed the Rubicon towards a peaceful, prosperous future for all". However, it would be a pity if the battleground simply moved to heightened industrial action".

A Barlow Rand spokesman said the outcome would lead to a more peaceful environment, while the Chamber of Mines said it was "a very encouraging development" which should have the support of all SA.

Sacob said improved prospects for peaceful solutions to conflict in SA could have a positive impact on business confidence. However, it was important in terms of future constitutional negotiations that the process be broadened to include other major participants in the political arena.

"Sacob also believes the suspension of violence by the ANC will have a favourable influence on overseas business and political perceptions of SA, but overseas investor interest will also depend on what kind of economic system will emerge from the political bargaining process."

The AHI said the ANC's undertaking to cease the armed struggle was "especially encouraging", and this commitment to a process of peaceful negotiation could only lead to business confidence in SA's future.

United Municipalities of SA (Umsa) director general Sipho Zwane said a bold step had been taken by both parties.

However, the CP, the PAC and the Azanian People's Organisation (Azapo) criticised the outcome of the talks.

Inkatha president Chief Mangosuthu Buthelezi yesterday "rejoiced" at the ANC's suspension of violence and committed his party to renewed peace talks.

He said he too wanted the state of emergency to be lifted in Natal, but said a prerequisite for this was a reduction in violence and the ANC and Inkatha needed to act together to end the violence.

The SACC, Archbishop Desmond Tutu and the Rev Stanley Magoba of the Methodist Church all welcomed the agreement to remove the outstanding obstacles to a negotiated settlement but said a grave responsibility rested on government to stop all forms of state violence.

The ANC had made more concessions than government, Max Coleman of the Human Rights Commission said yesterday, adding that he was disappointed that several contentious aspects of the Internal Security Act had not been addressed.

The ANC gave its views on the Pretoria Minute at a Press conference in Johannesburg yesterday. Leading the delegation were, from left, ANC NEC member Aziz Pahad, the SA Council of Churches' Sakie Macozoma, ANC secretary-general Alfred Nzo and SACP secretary-general Joe Slovo. Picture: ROBERT BOTHA

Companies face testing times over tax returns

(180) Star 8/8/90

By Derek Tommey

Companies submitting tax returns under the new self-assessment system must make sure that their returns are properly completed otherwise they could face extensive penalities, says Ian Mackenzie, tax partner at Ernst and Young.

He told a tax seminar in Johannesburg last night that under the new ruling a company would have to accept total responsibility for its own assessment.

Any errors could lead to an audit by tax inspectors.

Figures from the assessment would be fed into a computer and compared with certain parameters drawn up by Revenue officials.

If the figures fell outside the parameters, the company would be 'red-flagged'.

"Too many 'red flags' and the company will face a field audit, with the inspectors going into everything in tremendous detail."

Mr Mackenzie said that no excuses would be accepted.

Therefore it was up to companies to do their returns properly.

Companies could apply to the Receiver for guidance on difficult points and would geta ruling to enable them to submit correct returns.

He said companies would probably get an automatic tax extension of 12 to 15 months initially, but this was likely to be phased out over the second and third years of the scheme's operation.

Extensions

If, despite automatic extensions, companies submitted late returns, they were likely to be penalised, even if no tax was payable.

Mr Mackenzie said that Inland Revenue was determined to get a more efficient system going, which would enable senior people to spend more time doing desk and field audits.

Companies would still need to give all the information they now provided, such as schedules of repairs and maintenance.

They would need to produce this information in the event of any queries.

Inland Revenue would take into account differences in the size of operations and look at returns on a more practical basis.

Discussing the abolition of tax on dividends, Mr Mackenzie said that it was not known how long dividends would remain exempt.

He believed there was pressure on the Government to alter the system and it was quite possible it could change in two years' time.

He suggested that because of this, companies should pay out as dividends what they could of their distributable reserves.

"However, it is no good putting this money into shareholders' loan accounts as the interest paid on these accounts will be taxable."

He said companies should not rush into distributing reserves, but should plan and do it properly so that they got the greatest flexibility in the future.

The seminar was told that Inland Revenue would like to have the withholding tax on savings in operation from the 1991 tax year.

But Inland Revenue still had to study the measure and there were doubts whether it could be introduced by 1991.

VAT planning

Mr Mackenzie said it was absolutely vital that companies begin their planning for VAT now.

It was not just a matter of telling the computer programmer to make a few alterations.

VAT would affect many areas of a company.

Computer programmers would be extremely busy for the next 16 to 18 months, he warned.

Many firms which have been updating their systems since GST was first introduced were likely to take advantage of the changeover to install a completely new system, he said.

Uncertainty dogs business sentiment

Star 9/8/90 (180)

By Michael Chester

The SA Chamber of Business yesterday blamed the risk of nationalisation for much of the growing cloud hanging over the longer term economic outlook.

Director general Raymond Parsons said uncertainty over the future shape of the economic system — the role of nationalisation in particular — was making a "serious and corrosive" impact on business confidence.

Its latest Business Confidence Index, released yesterday, puts the level at 92 compared with 91,8 in June.

He told a news conference in Johannesburg that the overall business mood had already been forced into pessimism by signals that the recession was deepening, with little chance of a turnabout until towards the middle of next year.

Sacob feared that the economic growth rate for 1990 as a whole would register zero on the final count.

The level of business confidence was now totally vulnerable to the ebb and flow of political developments — and widespread uncertainties about what kind of economic policies were the possible outcome.

"We seem to be making progress towards a reduction of violence in South Africa, which can only be a positive factor on levels of confidence," he said. "And there is more encouragement from the removal of obstacles to more negotiations on political accord.

"But the real crunch comes with what economic options are pursued and whether there may be the threat of nationalisation — or even worse.

"Until the air is cleared," he said, "we must expect foreign investors and local businessmen to adopt a wait-and-see attitude. There will be little chance of new investment until nationalisation is wiped off the agenda.

"There are signs of more flexibility in current discussions about the future. But at the end of the day the politicians will be answerable to their constituents — not seminars.

"The vital next moves must be towards a new constitution — as long as too much haste does not run the risk of making mistakes on the way."

On the immediate economic outlook, Mr Parsons said Sacob agreed with the SA Reserve Bank that it could be premature at the moment to consider lowering the pattern of interest rates as a fillip to business activity.

However, Sacob hoped that rates would start a steady and gradual decline from current peaks with a cut in Bank Rate before the end of the year.

SACOB's monthly survey of manufacturing confidence is pessimistic in its outlook. The survey shows that the level of confidence fell from 92 in June to 84 last month.

Industry expected the volume of orders last month be down on the June figure. Overall, the industrial sector expected the volume of orders in the coming 12 months to be at much the same level as in the previous 12 months.

The Transvaal and Western Cape expect a decline in production volumes next year as does Pietermaritzburg. However Durban, Port Elizabeth and East London regions are more optimistic and expect an increase in the volume of manufacturing production.

The survey states: "These developments could be related to the fact the manufacturing sector expects the upswing to begin in the first half of 1991".

Cautious Stals 'is adamant Bank rate cannot be eased'

B Day 7/8/90

ANDREW GILL

RECENT meetings between the Reserve Bank and the business community have left those who attended with the impression that the "mild recession" had become fully fledged and that tight monetary policy would continue for longer than expected.

The Reserve Bank met bankers and the SA Chamber of Business (Sacob) on Monday to discuss the state of the economy, and Reserve Bank Governor Chris Stals is believed to have said the Bank rate would not be cut for some time.

He apparently conveyed the opinion to business representatives that despite encouraging drops in inflation and money supply, the economy needed to cool further before any loosening could occur.

Sacob director-general Raymond Parsons, who attended the meeting, said it seemed that Stals's "conservative and cautious" policy would remain in place for some time.

He said five weeks ago the Reserve Bank and Sacob had referred to the recession as "light" and "mild", but there was now evidence of a deeper recession.

"The landing will be less soft than previously anticipated," he said.

"Despite the effects of high interst rates on the business community, there is a growing realisation that a premature drop in the Bank rate would have a negative effect on the economy and on business planning.

Reduction

180

"Once interest rates begin to fall, it would be better if they declined gradually in order not to give the wrong signals."

Sacob's view was that there should be a modest reduction in the Bank rate before the end of the year, he said.

In the money market the 90-day liquid BA rate recently fell to 18% on bullish sentiment about an impending drop in the Bank rate.

Although the rate has not reversed itself, it is still trading 30 points below the Reserve Bank's indicated 18,30% re-discount rate.

FSI to restructure seven companies

B/Day 10/8/90 180

BRENT MELVILLE

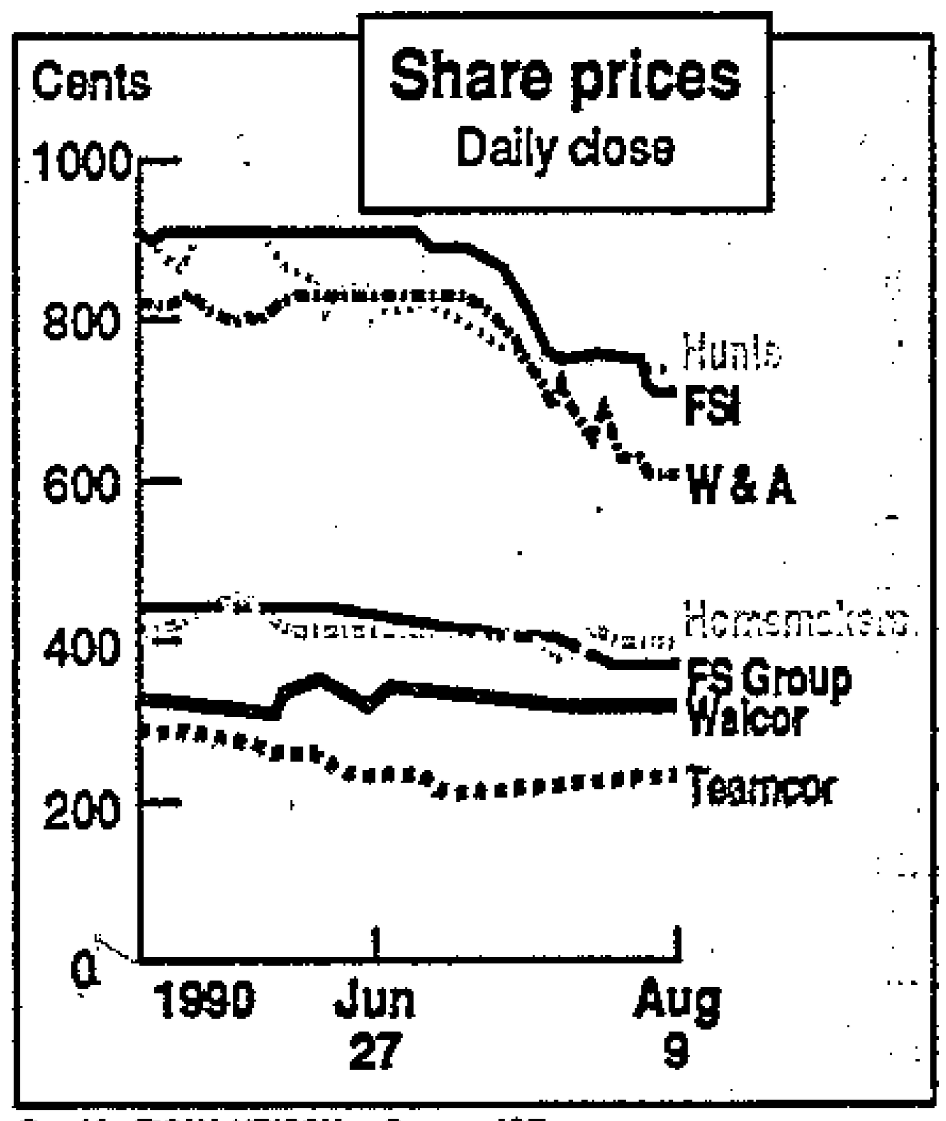
FSI Corporation has announced plans for a major revamp of seven of its listed companies, some of which will be delisted.

The restructure would involve FS Group, FSI, Waicor, W & A Investment Corporation, Hunts, Homemakers and Teamcor, regarding which cautionaries were published today.

An FSI spokesman said yesterday the announcement was only preliminary, pending a review by the boards of the companies and independent merchant bankers.

It was thought likely that Hunts, Homemakers and Teamcor would be delisted.

The announcement followed two weeks of crumbling market confidence in virtually all FSI's subsidiaries, and confirmed speculation of a restructure.



Graphic: FIONA KRISCH Source: JSE

FSI said that once the proposals had been implemented, the group's structure would become more efficient, with a simpler grouping of the listed entities.

A rights issue could not be discounted.

A broker said yesterday that any restructure would probably involve FSI moving its operating assets — including its overseas interest — down into W & A. However, the restructure was more likely to detract from investor confidence than to attract it, he said.

The broker said there appeared to be "a certain haste" to place the restructuring plans ahead of FSI's June results.

A restructure ahead of results would make meaningful comparison against previous results very difficult, he said.

He said if Liebesman was so confident about FSI's operating assets, there should be no reason to push them into W & A.

But an FSI spokesman said last night the group's results were on budget and would be published during August and September

☐ To Page 2

Restructuring

B/Day 10/8/90 . 180

☐ From Page 1

as scheduled, and in line with last year.

It was understood that Finansbank and stockbrokers Frankel, Kruger Vinderine had proposed the restructure to the JSE about three months ago. A Frankel, Kruger Vinderine spokesman confirmed that the broking firm and Finansbank had approached "several" institutions for support.

He refused to say how much institutional support the proposed restructuring had garnered.

A market analyst said the downward spiral in the share prices of FSI group's components had most likely been prompted by market worries that the domestic market had been suffering and overseas interests were too highly geared.

However, it was probable W & A would look more favourable to investors following a restructure, he said. W & A has been trading at a low of 600c, a decline of 24% from 790c just two weeks ago.

Teamcor dipped 5c yesterday ahead of the announcement to 215c, only narrowly above its 12-month low of 200c. FSI shed 17,6% to 700c in the past 14 days.

FS Group holds 64,5% of FSI, which holds 99% of Waicor and 10% of W & A. Waicor holds 51% of W & A, which holds 76% of Hunts and 49% of Homemakers. Hunts holds 63% of Teamcor.

Institutions back FSI restructuring

(180)

SYLVIA DU PLESSIS

RESTRUCTURING at FSI Corporation had the support of all institutional investors and no rights issue was on the cards, a well-placed source said at the weekend.

In addition, Sidney Frankel of sponsoring brokers Frankel, Kruger, Vinderine (FKV) has confirmed that plans to revamp the group have been in the pipeline for between three and four months.

Both claims effectively counter market talk that FSI has little institutional support and wants to hasten restructuring ahead of end-June results to complicate meaningful comparison with corresponding figures.

They follow FSI's cautionary announcement on Friday in which the group said it was considering proposals to trim the group structure.

The source said FKV and merchant bank Finansbank had been approaching major institutional investors for support since July, and investors favoured the proposed restructuring. BDay 13/8/90

FSI chairman Jeff Liebesman, reacting to these disclosures, said yesterday: "We are trying to clear up investor confusion by creating a tidier, more efficient structure."

On FSI's international operations, he said: "Their gearing levels have dropped substantially since December 1989, which we are confident places them on a far sounder footing. We would like to be left to get on with running our group and be judged on the results over a period of time."

Business 'must not rely on dialogue'

180

TIM COHEN

The likelihood of the ANC making concessions to business as a result of dialogue is limited, says Centre for Policy Studies director Prof Lawrence Schlemmer.

In an article in SA International, Schlemmer says while dialogue has other worthwhile benefits,' the duty of business leaders to protect their interests calls for more serious strategies.

Some of the "political" interests that all businesses have in common are, among others, stability, predictability in the policy environment, sensible rates of taxation, sound administration and effective education and training.

Lawrence Schlemmer, of the Centre for Policy Studies.

Schlemmer says spokesmen have suggested several "political" strategies to achieve these interests.

He quotes SA Foundation president Warren Clewlow as saying: "What I cannot accept is degeneration into economic chaos.

"Any constituency trying to bring this about will have to contend with the not inconsiderable strength and resources of the business community ranged against them."

Schlemmer writes that while resolute opposition is always a useful strategy, the method it would use is unclear.

He also suggests that redistributive development and black empowerment could be promoted on the assumption that such strategies would reduce the ANC's and 'other movements' "legitimate" reasons to oppose the established economic order.

But this would take time and massive resources, and although it is vitally essential in the medium term, on its own it will not be sufficient.

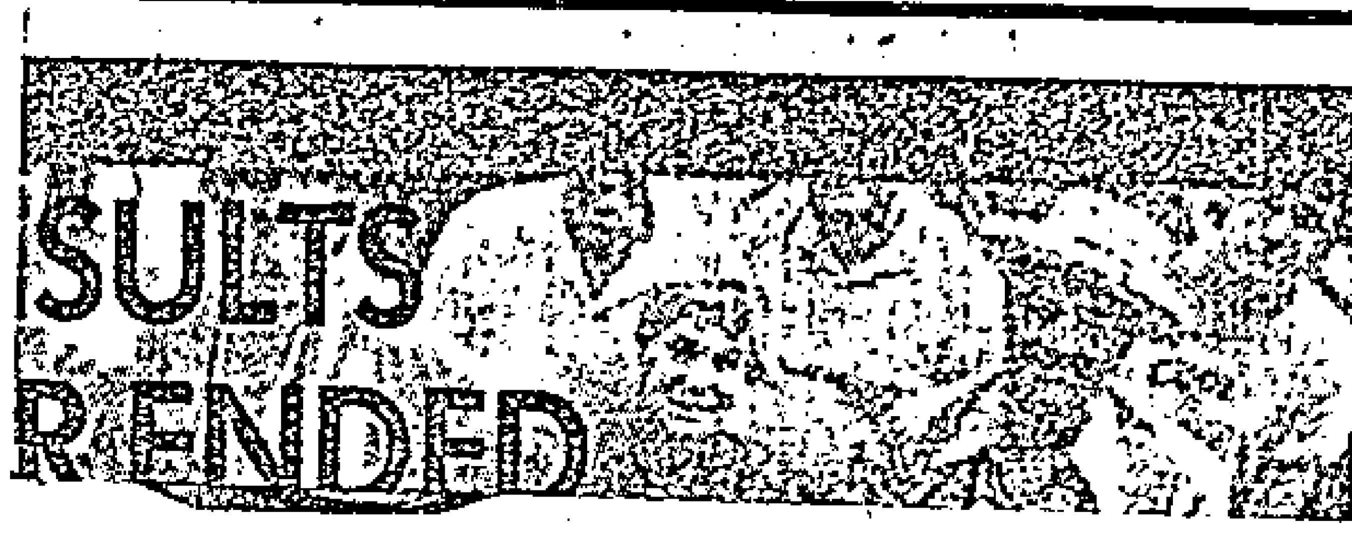
The third suggestion has been to give blacks a greater vested interest in a free economy through development strategy, black business development and empowerment.

Although this would be worthy in the medium term, a more immediate strategy would be to build alliances and constituencies.

He quotes JCI economist Ronnie Bethlehem as saying businessmen should work creatively with socialists, promoting co-operatives and even seconding management.

Schlemmer points out that co-operatives have a poor track record in Africa but adds that Bethlehem's idea of loan-based joint ventures should be taken further.

Business should also be involved in the creation of a new constitution.



"This is something against which other countries have strict regulations.

tune in to half a dozen satellite transmissions by the end of the century," he reports.

Business urged to match the pace of political change

(180)

BDay 15/8/90

TIM COHEN

BUSINESSMEN ought to make a clear break with the past in the same way that President F W de Klerk had done, Peninsula Technikon rector Franklin Sonn said yesterday.

Many businessmen were simply going on as they had before and had not matched, in the financial arena, changes that had taken place in the political arena, he said at a fund-raising lunch in Johannesburg.

He said this affected the technikon because many donor companies were subsidising all technikons equally instead of targeting the educational institutions that needed assistance most.

He also criticised government for not backing up its stated desire to develop technical education with concrete action.

Ministers often pointed out that SA suffered from a lack of vocational training but still provided universities with substantially higher subsidies, he said.

In addition, the subsidy formula introduced two years ago punished growth, which had had a greater impact on black technikons than on white ones.

One of the greatest challenges educational institutions would have to face in the future would be the question of standards, he said.

"We are not arguing for the lowering of standards. But we are arguing that the problem should be approached in a planned way," he said.

He used the example of some black hospitals where, despite the intention to maintain high standards, people still ended up sleeping on the floor.

He appealed for a well thought-out approach but added that the problem was not even being discussed.

He said his technikon, which he termed a "black, non-racial" institution, needed to raise funds because it was growing at the rate of 30% a year.

It also needed to raise R15m to build civil engineering, building science, mechanical engineering and computer science buildings.

Joint steering co

Restructured group to spend R23m

CAPE TIMES 16/8/90

(180)

By AUDREY D'ANGELO
Business Editor

THE restructured Property Group of SA (PGSA) — renamed Abbey Holdings — has more than R23m to invest through its industrial arm, Retco, it was announced at special meetings in Cape Town yesterday.

There was no opposition to the restructuring which, PGSA executive chairman Benny Rabinowitz explained, turns the complex group into "a simple triangle".

Abbey Holdings will be the top holding company. All its industrial interests will be in Retco — renamed Fenix Industries — which will have fabric manufacturer Ivitex and about R23,5m in cash to invest in suitable acquisitions.

All property interests will be in Premier Consolidated — renamed Property Corporation of SA. It will have a 23% stake in Faircape Homes, 100% of property company Bellcanto (Pty) and 19,27% of property company Bristol Industrial Corporation.

Abbey Holdings and Fenix Industries will be transferred to an appropriate sector of the JSE once new acquisitions have been made.

Rabinowitz said Abbey would have 70% of both Propcor and Fenix "and approximately R10m in the bank from the sale of Retco properties".

Retco shares will be consolidated on a one for four basis from Monday, August 20. PGSA will make an offer to buy the entire shareholding of Retco shareholders with less than 100 consolidated shares for 300c each.

Its offer to Premcon minorities will be to acquire all or part of their Premcon shares for 45c each, or one consolidated Retco share for five Premcon shares.

Rabinowitz pointed out that this gave Premcon shareholders three choices — either to stay with the company, sell for cash or move to Retco.

Retco chairman Cedric Walton said it had been decided to change its name because Retco had "for so many years been synonymous with property".

It would now be looking for industrial investments and wanted to control any companies it invested in.

After the meeting he explained: "We shall not just be an industrial holding company. We are an industrial company and we want to take an active part in the management of our companies.

"Owning less than 50% we would have no say in the direction they were taking."

The directors expected to find good buying opportunities in the industrial market in coming months. But they would buy with care.

They would avoid companies likely to be the target of industrial action in the next two or three years. And they would be careful to avoid any company which would take a long time to turn around — "we shall have to consider how long we would have to finance it".

A company with the potential for success in the export market would be "marvellous", said Walton.

Rabinowitz said that the Property Corporation would go into partnerships and joint ventures with reputable people in the property industry. The company would invest cash while the partner also put in money and did the "hands on work".

In answer to questions from the chairman of the Shareholders' Association of SA, Issy Goldberg, Rabinowitz said Abbey Holdings would have R10m in cash — which would be kept as the reserve for the whole group — no overdraft and no gearing.

Goldberg said it seemed likely that cash would be king in the times ahead.

Deepening recession will hit corporate results

A DEEPENING recession — with margins being squeezed by weakened demand and rapidly rising costs — will have a severe impact on corporate results to be published over the next few months, analysts and economists say.

And companies hard-hit by a deteriorating economy could, depending on interest rates, continue to reflect the impact of this on their bottom-lines for up to 12 months after economic conditions improve, some warn. bloom 16/8/90

The most recent spate of results, from Turner & Newall, Afpac, Implats and Ninian & Lester, for example, reflect declines

SYLVIA DU PLESSIS
and MARCIA KLEIN

in attributable profits of 75%, 15,3% (annualised), 15,5% and 67% to end-June, respectively, whether interim or year-end.

These were preceded by slides of 17% from Everite Group, 10% from Haggie and 15% from Blue Circle — also to end-June.

Max Pollack & Freemantle industrial analyst Chris Gilmour said yesterday he would be surprised if average industrial earnings growth for the next year exceeded 5%-10% — negative growth if inflation-adjusted.

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He believed companies would continue to feel the economic pinch for six to 12 months after the economy had turned around, probably in the second quarter of next year.

Consumer-oriented companies would be the first to recover — people would have more disposable income — while heavier industrial companies would see a recovery in their fortunes at a later stage because business would not have the confidence to spend on large-scale investments.

Companies included in the financial and industrial index generally determined the

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Recession bloom 16/8/90

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progress of all others in those sectors, and with poorer results or static growth expected from giants such as Barlows and Amic, smaller companies could be expected to do "much worse", he added.

Standard Bank's Nico Czypionka said the issue arose as to whether the market had fully discounted the impact of the recession on share prices.

He said shares of smaller companies had already fallen and even blue chips, although relatively stable, were not invulnerable.

Results due in the next few months would be disastrous, he added, especially as labour costs had increased, turnovers had declined and finance costs had remained high.

He said he expected the recession to end next year.

Building costs may rise by only 12%, says Bifsa

B/Day 16/8/90

CHARLOTTE MATHEWS

AS A result of the evident downward trend, building costs should increase by no more than 12% this year.

But if VAT legislation is passed in its draft form next year it could add 8% to the cost of building an average dwelling.

The Building Industries Federation of SA (Bifsa) report on business conditions released this week said the keener tendering environment would lead to productivity increases, and the trimming of overheads and profit margins in the industry.

Bifsa economist Charles Martin predicted labour costs would go up 12% in 1990 while material prices would go up on average by 16%. "Overall business conditions in the industry have deteriorated noticeably during the past quarter and contractors and sub-contractors are increasingly becoming more pessimistic about future business conditions."

He believed economic policy would remain restrictive for the next six months at least, and the overall business cycle would only bottom in mid-1991.

Although a drop in short-term interest rates was likely early in the fourth quarter of 1990, the drop in nominal interest rates in the next year would be relatively limited.

"We are convinced that the prime overdraft rate will not decline below 19% in 1990 and 15% in 1991," Martin said.

In view of these forecasts he predicted the private residential sector would remain depressed until deep into the second quarter of 1991. "Building activity in the informal sector will, however, support investment levels.

"Work volumes in the non-residential sector, which held up well until early in 1990, have started to exhibit a declining trend."

Govt criticised for suspending concessions

CONNIE MOLUSI (180)

THE SA government's moratorium on concessions to attract new industrialists was affecting the confidence level of investors, KwaZulu Finance and Investment Corporation (KFC) executive director Marius Spies said. B/Day 16/8/90

Speaking at a news conference in Durban to release the KFC's annual report, Spies said he confirmed this during a visit to Europe earlier this month.

He said the moratorium was a strange decision at a time when R3bn had been set aside for socio-economic development.

"It is incomprehensible that the government is prepared to lose momentum to attract foreign investment, which brings benefits of capital, jobs, expertise and foreign currency to SA", said Spies.

SINESS

Anglo economic expert rejects control by State

By JOSHUA RABOROKO

Sowetan 16/8/90

THE private sector must be the principal force in maximising growth and distribution in South Africa, Anglo American's senior economic consultant, Mr Aubrey Dickman, said yesterday.

Addressing a South African Institute of Management executive briefing, he said his contention was validated by the "world-wide" repudiation of statism.

The international community was waiting for unambivalent signs that a post-apartheid South Africa would want to be part of a world "disillusioned with dirigism in general and the African example in particular".

Yet there was a serious challenge to be faced in ensuring growth while meeting the reasonable expectations of those who had suffered from years of discrimination, he said.

There could be no complacency on the side of those who - however justifiably - rejected strategies for pervasive intervention in industry and finance.

Dickman said remarks made by Mr Nelson Mandela and those of his colleagues and supporters from associated organisations revealed "at best scepticism" and "at worst, a fundamental animus", towards the market economy.

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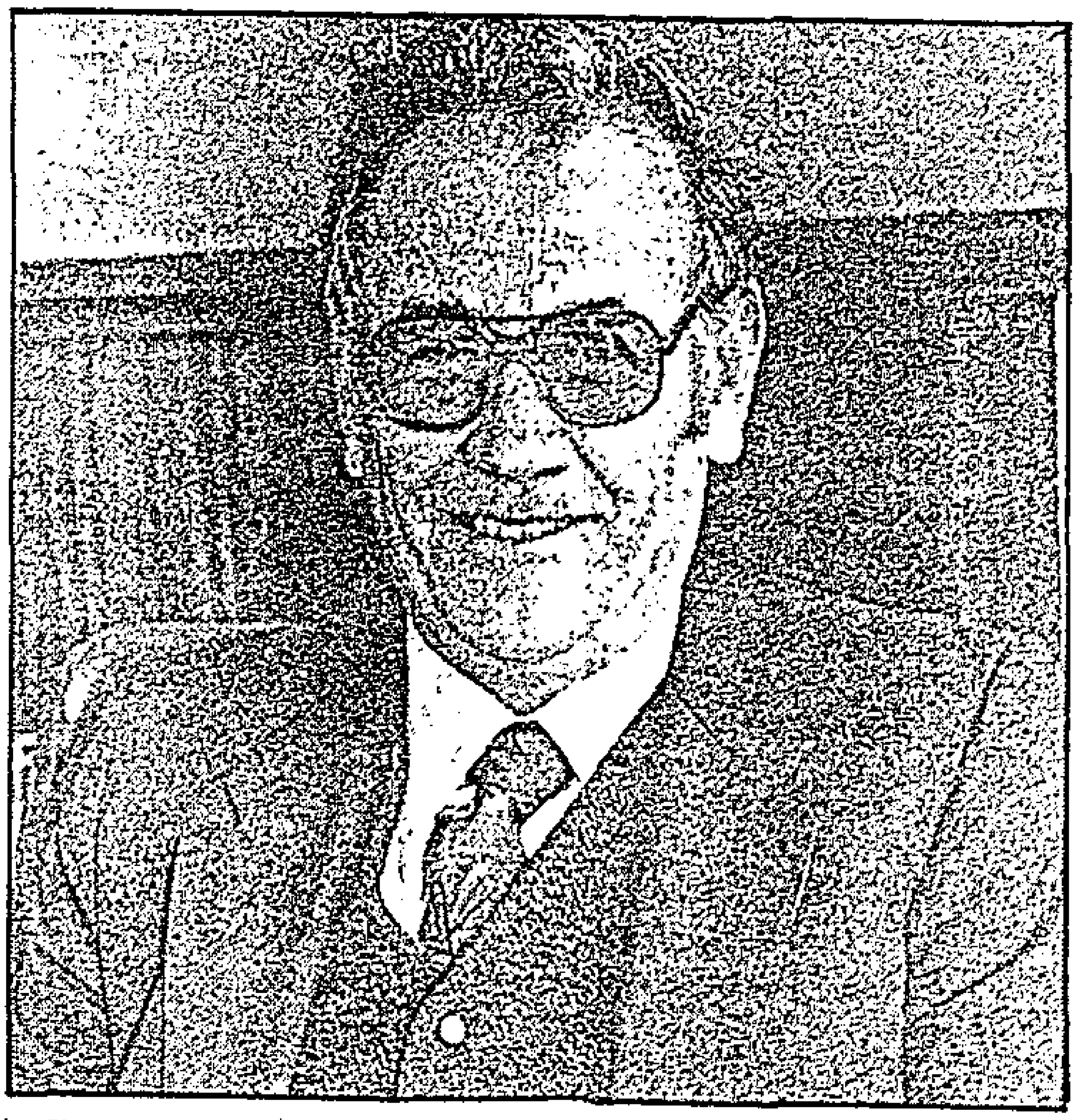
Confusion

What was evident was that interference with the market mechanism, even in an economy where democratic choices could be freely expressed, was their preferred approach.

There had been a welter of rhetoric and confusion over detail but, although the ANC did not have one policy on nationalisation but several, there were significant threads running through the various statements to discern a unifying pattern with interwoven interventionist threads, he said.

Business draws up strategies to counter consumer boycotts



Amid growing alarm at the economic damage caused by consumer boycotts, the SA Chamber of Business has drawn up a set of guidelines outlining the role businessmen can play in tackling and defusing such actions. MICHAEL CHESTER spoke to the chamber's legal manager, Ken Warren (above).

The SA Chamber of Business (Sacob) has sent out a special 10-point guideline to alert businessmen on the vital role they can play in trying to tackle the wave of consumer boycotts and in defusing potential flashpoints.

The plan has been prepared amid growing alarm at the toll of economic damage caused to black communities as well as business operations when boycotts drag on and sometimes flare into violence and looting.

One radical approach suggested by Sacob is that the authorities should sometimes consider releasing an influential black leader held in detention to act as peacemaker in boycotts jammed in serious deadlock.

Sacob legal manager Ken Warren takes the attitude that drastic problems demand drastic solutions.

"If there is a chap with lots of influence locked up in detention, able and willing to lend a hand in finding a settlement, he should be allowed out temporarily to help break any deadlock," he says.

"It sounds unorthodox, but we need to mobilise the most effective ways possible to meet the boycott problem."

Mr Warren has called on a network of well over 100 chambers of commerce and industry to urge their 35 000 member companies to swing into action on the first rumours of boycott trouble.

The first aim will be to identify the grievances at the root of any new boycott threats and then speedily seek discussions with boycott leaders and perhaps third parties on possible settlements.

Mr Warren has emphasised to chamber executives that there are no instant solutions or quick fixes as far as boycotts are concerned.

However, chambers in all areas should focus on ways to prevent boycotts through active participation in social upliftment programmes, and by keeping open channels of communication with black communities.

Mr Warren has listed a number of flashpoints where organised business scored successes by intervening to help resolve grievances — including Boksburg, Carletonville, Port Alfred and the Eastern Transvaal.

"The underlying causes were varied, from confrontations over apartheid segregation to poor water supplies," he points out.

"But it was often proved that business had a key role to play as mediator when it was shown that chambers of commerce were firmly apolitical.

"Our new set of guidelines are based on a distillation of our actual experience, and should make a valuable contribution to peaceful settlements.

"The last thing we want is antagonistic counter-boycott action, such as threats to retaliate by shutting off consumer supplies to black townships, or similar action that could only make matters worse."

The main points in the guidelines are:

- Whenever a boycott is threatened, early action should be taken to make contact with the boycott leaders.
- Chambers should seek discussions with the leaders and with boycott opponents. But clear distinctions should be made between grievances on purely political issues over which they had no powers of negotiation — and social and economic grievances where business could make a contribution.
- Concerted action should be planned with the assistance of the authorities to prevent intimidation and to protect shoppers.
- All member companies should be encouraged to hold discussions with their black employees to explain what makes business tick and the dependence of jobs and working conditions on profitability — discussions likely to cause a more balanced attitude towards boycotts.
- Negotiations should take place directly with black leaders — rather than negotiation through the press, radio or TV which runs the risk of raising false expectations that could easily prove counter-productive.
- Chambers should make use of the services of professionals skilled in the art of negotiation, such as experienced industrial relations officers.
- Chambers should not overlook the possibility of a commercial answer to a specific boycott threat, perhaps underlining the sacrifices faced by shoppers.
- Communications with the authorities should be discreet to avoid any suspicions of collusion. ("Where the authorities can assist by releasing an influential black leader who is in detention, for example, then clearly this is a useful exercise for a chamber to undertake.")
- Chambers should avoid trying to use counter-boycott measures as a weapon — "if we believe in the free enterprise system".
- Use every opportunity to emphasise and publicise business initiatives concerning economic, political and social reform.

Smaller companies ignored

STAR 17/8/90 By Ann Crotty (180)

Smaller companies (those with a market capitalisation of under R500 million) constitute some 80 percent of the numbers of companies listed on the JSE but attract little in the way of institutional funds that could support growth.

According to SA Bias chairman Mr Christopher Seabrooke: "One of the JSE's traditional functions is to act as a medium of exchange for the raising of funds for growing companies. It is easier for fund managers to concentrate on the top 30 companies with large capitalisations and good tradeability, but the growth of smaller companies is essential for the new South Africa and should not be ignored."

Mr Seabrooke was speaking at the Investment Analysts' Society annual "Best reporting and communications" award dinner where SA Bias was named the winner in the small companies category.

He pointed out that there were many companies in this category with low price/earnings ratings and high dividend yields which deserve a "light blue" rating from fund managers.

Competition is the key

(180)
FM 17/8/90

Thomas Hazlett is an economics professor at the University of California and an expert on competition, monopolies and anti-trust policies. He was in SA recently to work on a university-funded study of sanctions. He spoke to the *FM*'s John Koppisch.

***FM*: The ANC, the unions and other groups say Anglo American is too big and must be broken up. Is Anglo's size an advantage or disadvantage for SA?**

Hazlett: Anglo American represents between 30% and 50% of the Johannesburg Stock Exchange. That's certainly a large presence, but, on the other hand, Anglo is in every sense a global corporation. It has to be big to compete globally because it is competing against big companies in other, much bigger, countries. It is going to look very big here because SA is a small country.

The question is not one of size per se. The question is: is it competitive versus other firms in SA and other firms globally? If its size was acquired through competitive superiority, then consumers and workers in the economy at large benefit. So a de-concentration policy that simply aims to break up big businesses is very wrongheaded.

What can a government do to assure the greatest degree of competition so that only the best companies — the ones that consistently deliver the goods — succeed?

What you want to do for more competition is to allow greater market entry and better discipline of the existing firms in a market. To do that you want to break down the barriers that keep firms from head-to-head rivalry and the SA market certainly has an abundance of those kinds of barriers — import tariffs, government-owned monopolies such as SA Airways, Eskom and SABC that are protected from private competitors.

The aspect of competition you want to emphasise is not the outcome of the competition, but the opportunity to compete. It's like a lot of other things about public policy. You don't want your government picking your winners and losers, determining what the market shares in any industry should be. How the hell does a government bureaucrat know what the correct concentration is? You want good clean open rivalry to determine an efficient outcome by survivorship.

The ANC talks of forming an anti-trust policy modelled after America's. What's been the experience in the US?

There is absolutely no reason why SA has to have any special anti-trust policy. In America, the anti-trust laws are now 100 years old, as of last month. A recent study by a colleague revealed that in the first 25 years of anti-trust enforcement, there was a very large negative correlation between the number of cases filed by government and real per capita growth, stable prices, steel output, a lot of measures of economic health.

In fact, in the early days of anti-trust enforcement in the US, the politicians recognised this. They understood that it was okay to talk tough about anti-trust to try to win votes, but to actually unleash the wrath of regulators and prosecutors would likely risk a recession. They recognised that the Panic of 1907 was partly caused by overzealous anti-trust enforcement.

But companies are not saints. Often they act to undermine competition.

Of course, it is not true that firms never do anything to suppress competition. What is true is that it is extremely difficult to separate competitive from anti-competitive actions. Your problem is always going to be identifying competitive, aggressive, efficient behaviour from actual anti-competitive behaviour. What you get is a lot of litigation, very expensive litigation. Worse, companies don't lower their prices, introduce new products and services and enter new markets because they are afraid of anti-trust suits.

American economists have slowly come to this realisation over the last 10 years. For example, Lester Thurow, one of the pre-eminent liberal economists, has been preaching that we should abolish the anti-trust laws and simply free up international competition by abolishing tariffs. If you really want a de-concentration policy, do what the US did to some extent in the Eighties in the automobile market — strip away those barriers to entry. Take away those tariffs.

Put yourself in the situation where you have 15-20 car companies to choose from, instead of just the Big Three. Particularly in smaller countries, such as SA, the opportunity to police domestic enterprises with foreign competition is tremendous.

But anti-trust laws have had some benefits.

There is still a role for an anti-trust, or a pro-competition policy. There are particularly egregious government barriers that should be struck down on anti-trust grounds — government monopolies and laws that limit small-scale enterprises, such as bus services, taxis, beer halls, barber shops.

In the US we use anti-trust, for example, to strike down prohibitions by the states on advertising by doctors, lawyers and other professionals. That created a whole advertising market for lawyer and medical services that catered for lower-income people.

Do US consumer groups support efforts to break up big companies and to prevent companies from buying up rivals?

Often they do and the problem seems to be a general ignorance on the part of consumer groups. Nothing surprising about that; they are political organisations. But I should say the National Black Consumer Union here is surprisingly, for a consumer group, very antagonistic towards government-created monopolies and cartels.

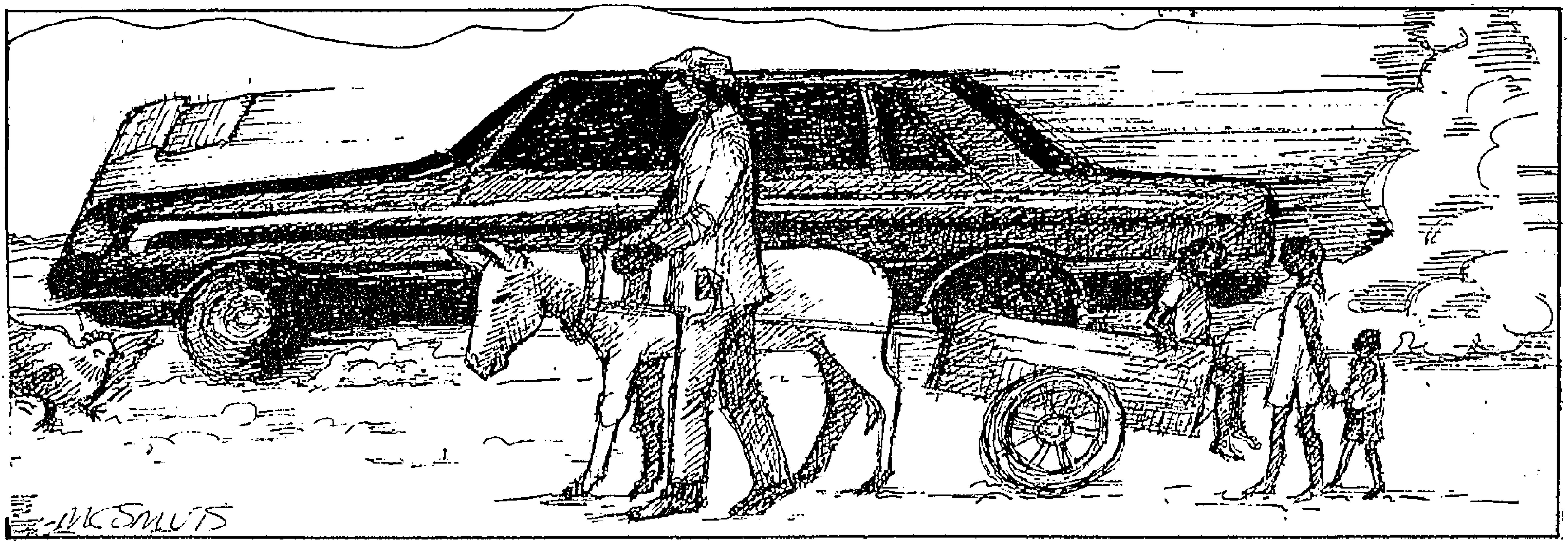
Why do you think people fear big companies?

Human nature. You walk down the street and there is a very large, very strong person coming the other way. So you cross over to the other side unless you're on particularly good terms with him. But big corporations have produced tremendous consumer benefits — the assembly line automobile manufacturing capability of Ford that brought cheap transportation, or the classic example of the middle class revolution of the 1800s, the Singer sewing machine, which took a simple technology and was produced by the millions. But we don't identify as individuals with the faceless corporation like we do with the local shopkeeper.

Joseph Schumpeter (the noted early 20th Century free-market economist) was convinced that capitalism was too efficient for its own good and would give rise to big, bloodlessly efficient corporations that would raise people's living standards tremendously, but in no way endear themselves to people.

However, it's a mystery that people are afraid of corporations that are big but not governments that are big. Governments that exercise arbitrary authority to break up corporations exhibit more arbitrary power than a corporation ever could. It's simply not true that corporations are not responsive to people. In fact, they're much more responsive than government because people shop every day but vote only every two or four years.

It is not that any one person can tell General Motors what to do, it's that if GM puts out a product that doesn't sell there is no executive in the world that can make it sell. Ford's Edsel is a perfect example.



The lack of land ownership among blacks seriously restricts their ability to provide collateral for loans and could be viewed as one of the most debilitating factors for black entrepreneurial growth

Finding a new strategy for black business

W/Mail supp 17/8 – 17/8/90

Black entrepreneurs remain largely powerless. But this is changing with the political climate and pressure from organisations like the SBDC.

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By **WOLFGANG THOMAS**

Western Cape Regional Director of the Small Business Development Corporation

THE small number of independent black businesses, except in the informal sector and a few special types of small enterprises — primarily taxis, spazas, panelbeaters and taverners — has often been seen as proof of black powerlessness in the South African capitalist economy.

Whether black employees in managerial positions of larger enterprises

... or start on their own, or if the group approach is followed like Black Chain and few other shareholder schemes — it is difficult to show spectacular success stories at this stage.

Aside from the informal sector, the significance of which itself is often disputed, the share of African owned or effectively controlled enterprises in the business sector is probably still less than four percent, irrespective of the criteria used for measurement.

The Small Business Development Corporation (SBDC), in existence for almost a decade, shares this experience, even though it operated on a strictly non-racial basis right from its formation.

Reacting mostly to applications for loan capital, the bulk of its black applicants have come from the informal sector, where high risks and lack of security restrict the mini-loans to R5 000 and much of the effort centres around the collection of repayments and rather basic "after-care".

Pro-active involvements largely focused on the development of a wide range of shopping centres inside black townships — where virtually no other developers were willing to risk their capital — and the rapidly increasing number of small industry hives, located in close proximity to townships, but open to all races.

Recently the SBDC opened its 52nd hive with more than a dozen more under construction.

The quest for more rapid black advancement in the business sphere caused the SBDC to reconsider its strategy for black business support and step up efforts in a variety of areas.

Most progress has probably been made in the legal sphere where most of the hundreds of restrictions on black entrepreneurial participation — still stringently enforced a mere 10 years ago — have gone into disuse or been abolished, many of them thanks to low-key pressure from the SBDC.

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SMALL BUSINESS

Finding a new strategy for black business

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Most progress has probably been made in the legal sphere where *most of the hundreds of restrictions* on black entrepreneurial participation — still stringently enforced a mere 10 years ago — have gone into disuse or been abolished, many of them thanks to low-key pressure from the SBDC.

What remains, aside from the *Group Areas Act* which will hopefully vanish next year, are the many *zoning* and regulatory restrictions which apply to all races, but often affect enterpreneurs more harshly than others. The SBDC acts as a catalyst where pressure has to be focused on local authorities and other vested interests still discriminating against black *competitors*.

The lack of land ownership among blacks seriously restricts their ability to provide collateral for loans and could, as such, be viewed as one of the most debilitating factors for black entrepreneurial growth.

The SBDC is often challenged to be less stringent in its security requirements but high bad debt ratios due to uncovered loans might inhibit the attraction of future capital and the safeguarding of the SBDC's image as a professionally *run financial* institution.

One way out of this dilemma might soon increase in significance: the capital to buy one's home from the local authority is added to SBDC loans and the much higher market value of the newly acquired property facilitates bond finance.

Attempts are now also underway to facilitate the *selling of business* premises to SBDC tenants, possibly at reduced prices with the subsidy element funded by alternative capital sources.

In addition to the establishment of commercial and industrial centres, the corporation also provides funds for *the erection of informal markets*, hawker carts and other vehicles and, more recently, loans for the upgrading of spazas and other owner-built township structures used for business purposes.

In light of the many serious difficulties still facing small township shopping centres and neighbourhood centres, it is no wonder that the SBDC's current thinking tends more towards such upgrading programmes.

Opportunities for black entrepreneurs to obtain loan finance for fixed assets and *working capital* are still limited. But gradually, the banking and building society branch and agency grid is starting to include black townships.

In the mini-loan sphere, the SBDC and the Get Ahead Foundation are still the largest suppliers, *aside from* "black market" or informal money lenders in the township and the much debated an probably overrated *stokvels* savings schemes.

New venues currently opening, link formal credit to other business transactions, primarily supplier credit, franchise finance, and *loan* tied subcontracting schemes.

Much neglected so far has been the whole sphere of practical business training, with apprenticeships and one-on-one mentorships promising the best results, but the hardest to organise.

With few exceptions — like the Trident Training *Trust and some ad hoc schemes* — courses offered on the open market or included in secondary and tertiary training programmes have so far proved to be devoid of relevant practical value.

The SBDC, which in the past limited its role to the *distribution of information* material and the staffing of a few dozen information and advice offices all over the country, recently entered the training field with a range of practical courses which are to supplement direct client training through its business *advisers and mentors*.

Since experience has shown that effective networking and interest promotion can be crucial for successful business growth, increasing emphasis currently falls on the identification and strengthening of support organisations.

Over the past few years some of these, like Nafcoc, the Black Management Forum, Fabcos, Achib, Sabta, and the Stokvels Association have gained wide recognition, even though the practical value of their client services still remains limited.

More important for the future will be the deracialisation (and re-intergration) of both black and non-black organisations, another area in which the SBDC plays a low-key catalytic role.

The growth of a black managerial and entrepreneurial class inside larger enterprises — waiting for opportunities to "make the jump" and start on their own or with a group — the franchising revolution which has also reached South Africa, big business interest in the establishment of black subcontracting suppliers (to cut costs and evade union pressures), a new wave of genuine black-white business partnerships, the consolidation and growth of some of the informal sector clusters (larger spazas becoming mini-supermarkets and taxi groups growing into transport ventures), rapidly expanding tertiary training facilities for blacks, a reorientation towards business activities among many community organisations, and the first positive effect of some affirmative action initiatives in the financial and rental spheres — all of these, together with the explosive growth of township markets, will boost opportunities for black entrepreneurs.

However, South African entrepreneurship currently also experiences its first big crisis: the inability of many "successful" business leaders to maintain financial discipline and consolidate their positions, having often grown with the grace of one or other major supplier or financier, whose patience gradually reaches its limit.

Given the high profile of many such leaders, consolidation, seeking and accepting advice, strengthening financial discipline and restructuring unprofitable enterprises does come about easily. If the present black South Africa becomes of age as an African developing country.

If whites accept the challenge of genuine business partnerships, rapid process of de-racialisation in the business sphere might be — the only way out of this dilemma.

THE RECESSION F M 17/8/90 (180)

Dim light in the gloomy night

Liquidations are soaring, layoffs are pervasive, the growth rate is negative — a full-blown recession is now hitting a wide range of industries, from heavy manufacturing to advertising.

But recessions don't hit all industries at once. Some industries are only starting to slow down while others have been hurting for a year or more and are now beginning to turn the corner. Still more have been unaffected by the slump and are doing quite well this year; agriculture and foreign tourism, for example. These bright spots in an otherwise dark picture will lead the economy's recovery; they indicate that we're now probably halfway through the downturn.

AECI says its growth in sales began falling in June 1989, but the decline apparently bottomed out last month and sales are now rising again. "Our sales growth had fallen to just 5% (a big drop in real terms), but in the 1984-85 downturn we were the first out of the mess and we expect to be the first out this time," says MD Mike Sander.

PVC plastics was the first part of AECI's business to suffer because they are used very early in the construction process, but they are now over the worst, he says. "We're expecting a tough second half of the year, but an improvement on the first half."

The furniture industry has been in and out of the recession already, thanks to the hire-purchase restrictions that were tightened in August 1988 and relaxed in March. Rusfurn's Geoff Austin says July furniture and appliance sales were up 29% over July 1989.

"The recession is affecting mostly companies that sell to other businesses," he says. "Businesses that sell directly to the consumer don't seem to be so badly hit. There have been some good wage increases, which means that the black furniture trade is exceptionally buoyant now." And the tax cuts, which most workers received last month, also have boosted sales, he adds.

Pick 'n Pay's non-food director Aubrey Zelinsky confirms this view. He says unit sales are increasing. "When a product is price competitive, we can't sell enough of them. We sold out 4 000 video recorders at R999 in two weeks."

Another industry that serves as an early indicator of the economy's direction is carpeting. "Decisions on the purchase of carpets tend to be put off when economies need to be made and they have been since July 1989," says Jack Crutchley, chairman of Romatex, the market leader. "But we've now reached the bottom and I expect we'll bump along the bottom for a few months longer."

But make no mistake, most industries will be mired in a deep slump for many months to come. Even industries that believe they're on the road to recovery may be set back after the effects of the tax cuts and salary boosts wear off and the shock of the oil price jump and burgeoning layoffs take their toll.

Also, this recession, the first in five years, is aggravated by the plunge in business confidence and the strikes and stayaways that have accompanied the country's rapidly changing political equation. In times like these, manufacturers start pushing exports. But with the Iraq conflict threatening a world slump, that option may be shut off.

The litany of industry woes is long. Overall textile sales were down 30%-35% on the first half of last year, according to the Textile Federation. "This is a more severe downturn than the last one, when the decrease was just under 30%," says executive director Brian Brink. "Textile mills traditionally work a seven-day week, but this has been reduced to four or five days."

Clothing industry employment began falling in April, when the number of jobs was 0,7% down on the previous April. By June, employment was 2,8% down.

In the monthly survey by the Steel & Engineering Industries' Federation of SA (Seifsa), only 32% of the more than 100 companies polled reported no drop or an improvement in sales last month, compared with 62% in February.

"The engineering and automotive sectors are not expecting any upturn for at least 18 months," says Seifsa economist Michael McDonald. "There are no capital projects in the pipeline. Government's austerity measures are biting and political uncertainty is causing investors to shelve projects rather than become involved now. High interest rates are resulting in low inventories."

He believes that the industry will lose 37 000 of its 387 000 jobs this year. "Businesses won't rush in and invest (after interest rates drop). They are bothered by the ANC's lack of economic knowledge."

SA Chamber of Business economist Keith Lockwood says capital goods are suffering because of government cutbacks. And, he says, many private-sector investments planned before Nelson Mandela's release are being shelved indefinitely because of his insistence on nationalisation.

He says political uncertainty, not high interest rates, is the prime deterrent. "With inflation as it is, it makes little sense in putting off a large purchase in the hope that interest rates will come down by one point."

The downturn in the advertising industry began only in the last six to eight weeks, agencies say. General brand building is taking a knock and agencies are moving away from long-term contracts towards week-by-week purchases. Times Media deputy MD Roy Paulson says there has been a marked downturn in recruitment advertising because the mines aren't recruiting.

The recession is mauling road transport, says Hugh Sutherland of the Road Freight Association. "We're getting a fall-off in business, which creates a vicious circle. Volumes drop. A surplus capacity develops. Road transporters try to recoup by dropping prices. Shippers realise there is over-capacity and force prices down further by playing transporters off against each other. This can only lead to casualties in the business."

Sadly, it's an experience that's being shared by industry after industry as the recession bites deeper.

Stephen Cranston and David Pincus

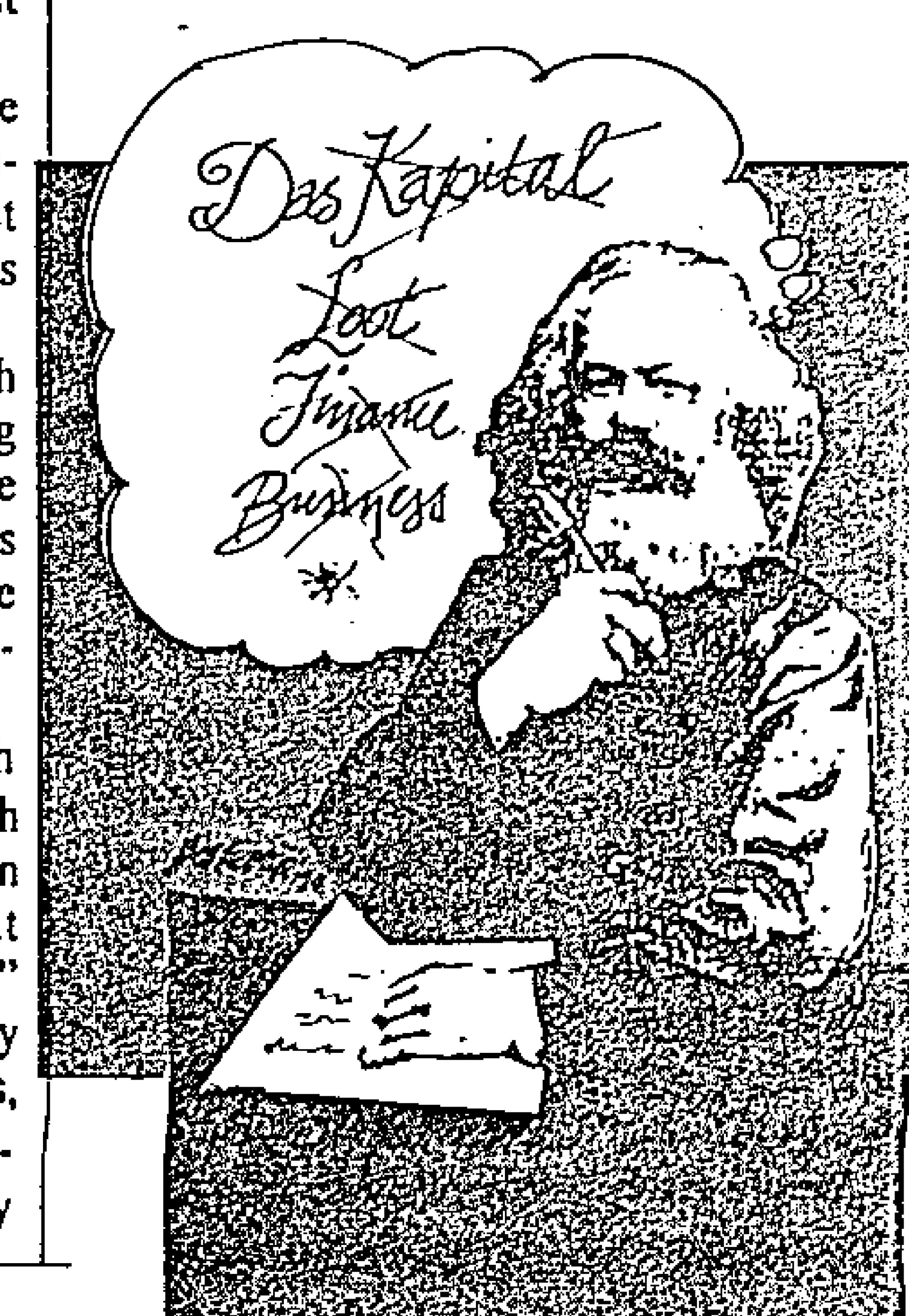
WITS F M 17/8/90

Going with the flow

The words "commerce" and "business" pack a little too much meaning at Wits. Some at the university believe it's time to eliminate them in order to broaden the university's appeal in the "new SA."

Others say the university has ~~already~~ decided to buckle to the leftwing by focusing on training bureaucrats for the next, even bigger government at the expense of producing executives for the private sector.

"The words are a little emotive," says Keith Yeomans, dean of the graduate business school. "Unfortunately, there's a linkage with the capitalist system and unfortu-



LABOUR & CAPITAL

W/Mail Suppl 17/8 – 19/8 90 (180)

BEE – something of a business buzzword

Black Economic Empowerment, BEE, is becoming something of a buzz word. What does it really mean? It means different things to different people, depending on who is using it.

By Rod Crompton
General secretary of the Chemical Workers Industrial Union

BUSINESSES are glibly tossing a new phrase around in their glossy company magazines and at business lunches. When businessmen speak of Black Economic Empowerment what they really means is quite different to real empowerment.

Firstly they mean throwing the scraps of the economy to the informal sector and small business. In their magnanimity business see themselves making economic handouts to the have-nots.

It's as ridiculous as giving someone bootstraps and hoping they can pick themselves up by their own bootstraps. The possibility that these black have-nots might have legitimate rights to a say in the economy and that this has been denied them for a very long time is quickly overlooked. Business's version of BEE is a transparent punt for their favourite hobby horses — privatisation and deregulation. The fact that these initiatives represent a ruthless attack upon the pitiful level of economic empowerment, vulnerable black workers have, is quietly swept under the carpet.

Secondly in business's view, BEE means the introduction on the factory floor of the new "Japanisation" techniques. These techniques are designed to bluff workers into thinking they have a little bit more control over their lives on the shop floor. In practice, business's real objective is to surreptitiously squeeze more productivity out of workers.

Doublespeak from the bosses is something the Chemical Workers Industrial Union (CWIU) has considerable experience in dealing with. In the late 1970s when codes of conduct for foreign companies were all the rage, the CWIU was in the forefront of exposing the false information submitted by some reporting companies.

As those codes of conduct were falling on to the dust bin of history, business and their newspapers became increasingly hysterical about the word disinvestment. The CWIU was at the forefront of exposing the fact that very little, if any, disinvestment was taking place. Instead corporate camouflage was passing for disinvestment. This process of transforming equity to non-equity ties under the guise of disinvestment is now internationally recognised.

Other examples of this myopic doublespeak are close at hand. It is universally accepted that trade unions are the best means of protecting workers' economic interests in society. Instead of empowering the unions, big business and the state forced the union-bashing amendments to the Labour Relations Act on to the unions.

It took a number of major general strikes, including the biggest in South African history to change the employers minds. This resulted in the Congress of South African Trade Unions' (Cosatu) agreement with Saccola, which has still not been gazetted because some powerful employers were able to block it. If business is serious about BEE, they should be advocating more, not less, rights for trade unions.

One might expect the right to work in a safe and healthy environment to be satisfied before economic empowerment. Again legislation, this time the toothless Machinery and Occupational Safety Act (Mosa) was unilaterally imposed on workers in 1983 just as unions were beginning to do something about the dreadful conditions in which some members have to work.

If business's are serious about BEE they should support the right for workers to defend their lives on the factory floor by supporting the call for Mosa to be replaced with decent legislation.

BEE is just another example of business doublespeak which must be exposed in the media and in practice. On the factory floor in the chemical industry the CWIU is challenging this doublespeak around the issue of retirement funds.

The assets of the private retirement fund industry (excluding the states old age pension) are currently estimated to be over R100-billion. This is larger than the 1990/91 total state budget of R71,9-billion. It is safe to assume that black workers have reasonable stake in that R100-billion, which means that they own a sizeable chunk of SA. Ownership of those assets is not, however, mean control over those assets.

In most Western democracies it is considered reasonable for the members of pension funds to have a say, if not control, over their pension monies and to use them in the members' best interests. However, in South Africa this kind of, albeit limited, economic empowerment has not been the norm.

Instead the ownership of pension assets by the pension fund members has been neatly severed by the mechanism of boards of trustees controlled by employers. Black workers are obliged to put their pension savings into funds over which they have no say and about which they have no information.

To add insult to injury this gigantic fraud is perpertrated in the same magnanimity on the employers part, and workers are expected to be grateful for the favour.

Using the compulsory pension savings of their captive workforces, white business has set about enriching themselves and the white community with investment capital at the expense of blacks. Most dismissed black workers have in real terms got less out of their pension funds than they put in while in some cases white directors have free pensions.

In response to membership dissatisfaction with pension funds, the CWIU, together with some employers, set up the alternative Chemical Industries National Provident Fund (CINPF). The CINPF is jointly controlled by participating employers and employees and provides a vehicle through which workers' collective buying power enables them to get more for every retirement Rand.

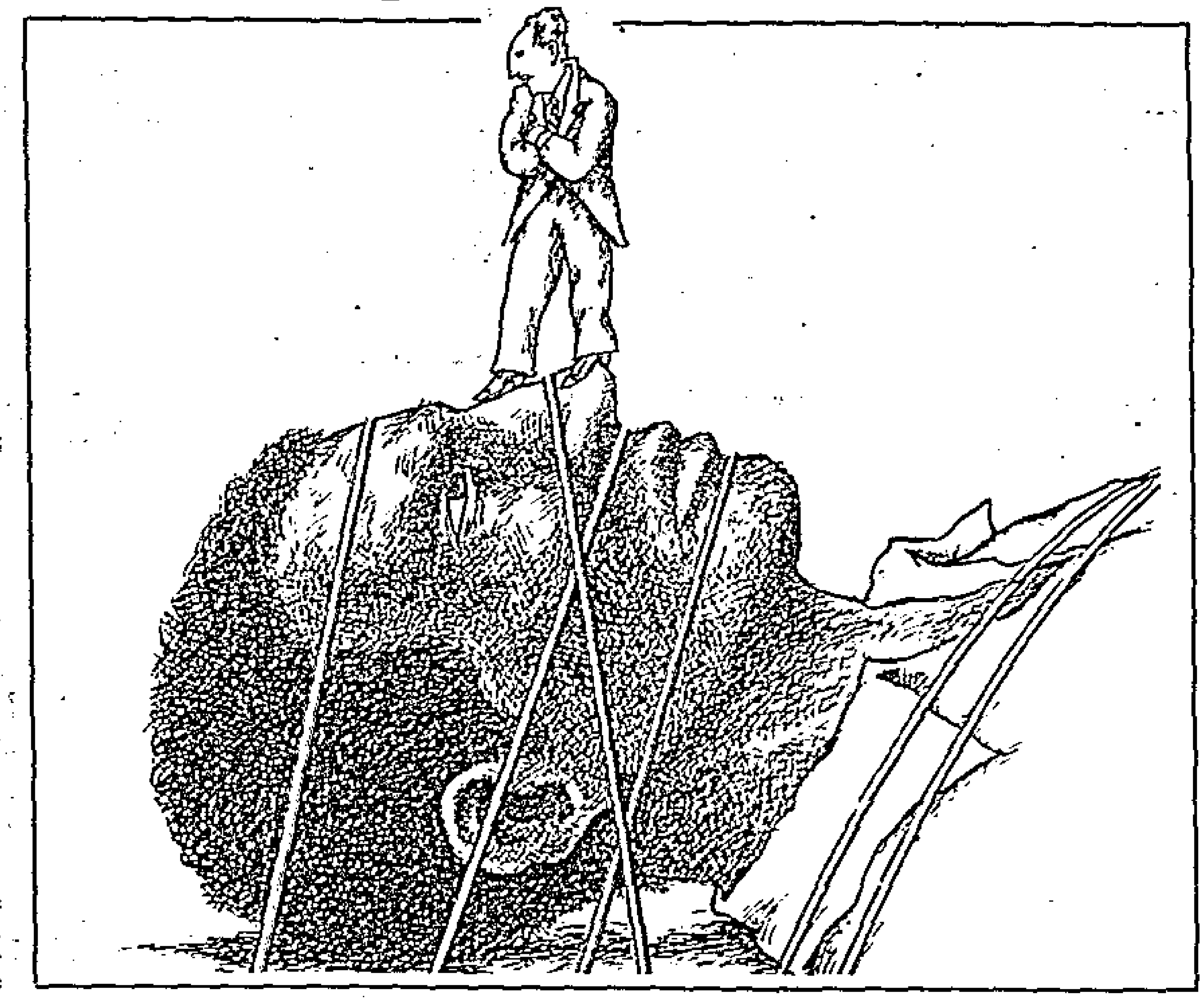
It also allows some BEE in the sense that half of the trustees are elected by the members. In this way it is hoped that some trustees are elected by members. In this way it is hoped that some retirement monies will begin to be used to the advantage of the working class instead of the employers. This represents a very minimal intrusion into the traditional preserves of white power. If businesses were in the least enthusiastic about BEE and the expected new political dispensation, one might expect them to be clomouring to join the CINPF.

Far from it. Many of the negotiations have been long and drawn out as employers grappled with their paternalistic instincts. In several cases particularly the foreign multinationals, the union is facing stiff opposition.

Last year the US-based Cyanamid fired its entire workforc when they took strike action in support of their demands. Union pressure managed to win reinstatement for the strikers after fiveweeks. Cyanamid used the LRA to prohibit another strike within 12 months. They went even further and attempted to get the workers demand for the CINPF declared an Unfair Labour Practice by the Industrial Court.

Rolfes, the East Rand chalks manufacturer, was the next to take a hard line. They withstood an eight-week strike on the CINPF. Workers returned to work and pursued the issue which has recently led Rolfes to accept the CINPF.

Far from real BEE coming as a handout from liberal companies, black workers are going to have to fight and claw every inch of the way.



Economic empowerment ... Strapping workers to the factory floor or giving them a real say over their lives?

SMALL BUSINESS

Creating jobs is only one task of Job Creation SA. The company is also often asked to implement small business development programmes

Laws a big obstacle for job creation company

W/Mail Suppl 17/8-19/8/90 180

Job Creation SA's first major commission was to create 500 jobs through 100 small businesses. It accomplished the task — and now it has to create another 250 jobs. A WEEKLY MAIL REPORTER *spoke to the two men who started the company*

IAN HETHERINGTON and Martin Manala did not believe that politicians were really interested in the development of small businesses so they started a business to do it.

They spoke to *The Weekly Mail* in their Job Creation offices in Rhodes Field (near Jan Smuts Airport), which they share with the non-profit Small Business Advisory Services.

Job Creation SA, set up in late 1985, is jointly owned by Nafcoc and, ironically, Barlow Rand. Its mixed parentage is reflected in the managerial staff, Hetherington, a former Barlow Rand man, and Manala, who came from Nafcoc.

It sells its services to companies and organisations which commission employment creation and small business development.

Its first major commission, from Barlow Rand, was to create 500 jobs through 100 small businesses. This target having been accomplished, Barlows commissioned another 250 jobs — the current major project for Job Creation.

Manala, Hetherington, and the other staff members of Job Creation are consulted by companies looking for small suppliers, by employers retrenching workers and looking for ways of enabling the laid-off workers to employ themselves, and they are consulted by landlords looking for small business tenants.

As in the Barlows commission, Job Creation is also prepared to implement small business development programmes. However, they do not loan small entrepeneurs money or house them in their own buildings, as the government sponsored Small Business Development Corporation does.

The link with the Small Business Advisory Service (SBAS), which Hetherington helped set up in the mid-1970s, comes into play when Job Creation is asked to implement projects. Job Creation contracts some of the work out to SBAS.

Job Creation says the Alexandra project, which formed part of the first Barlows contract, is one of its substantial successes. Job Creation officers sought out entrepreneurs in Alex, some of whom came through Nafcoc, and found an empty factory in Kew which the owner was persuaded to convert into a hive for 35 businesses.

One of Job Creation's toughest tasks was to cut through regulations and other obstacles to make the project viable. Hetherington is a fervent lobbyist for deregulation, having been a member of the Swart Commission which formulated the deregulation of the Ciskei.

Though he is disappointed that the only element of the Ciskei plan fully implemented was tax reform, he feels that the forces for deregulation in South Africa are winning. The next milestone, apart from the removal of the Group Areas Act, Hetherington believes, is an omnibus Bill due to go before parliament next year which will slice through licensing provisions in 60 existing pieces of legislation.

Manala and Hetherington see a range of areas where small businesses are already effective, and that can accommodate a proliferation of entrepreneurs, most of which are offered by the continuing urbanisation process.

They include: building and building supplies; furniture manufacture and sale; the production of garments; food manufacture, preparation, and sale; transport and its auxiliary services such as tyre repairs, mechanical work, and re-upholstering; and niche markets like computer furniture.

While contracting-out by big firms would seem to be a potentially important source of small business development in South Africa, the experience so far is very disappointing, says Hetherington. A major obstacle is a lack of trust on both sides. The principle expects the sub-contractor to be unreliable, and the small operator expects to be the first to be sacrificed during a recession.

Sub-contracting won't really take off, until the degree of trust between big and small firms is developed here, Hetherington argues.

there is no guarantee that data which has been processed in the past ...5

Business leaders must redress imbalances

W/Mail Supp) 17/8-19/8/90 (180)

BPSA's policy of investing in people has enabled a number of South Africans to take their place in the private enterprise system

By **GR BARR**

THE private sector can rightly claim to be one of the primary pressure groups that helped cause the South African government to begin dismantling apartheid and all its damaging effects on economic advancement for all.

That dramatic change-of-face, which began with President FW de Klerk's declarations at the opening of Parliament on February 2, has caught us all by surprise.

But from our perception, any political settlement still does remain a distant prospect. Realistically, there are going to be many major obstacles to be overcome before any material progress is achieved.

That means considerable uncertainty must exist as to where our ultimate destiny lies. And, of course, any form of uncertainty is going to damage business optimism — and reflect on the performance of the South African economy.

What is of real concern to the business community is that the public debate over the new South Africa has failed to address the vital issue of what shape our economic system must take so that it best satisfies the needs of the entire population.

We would like to stress — if there be a need to do so, given numerous examples elsewhere in the world — that a political resolution is most unlikely to succeed unless a pragmatic economic plan is also imposed.

The polemic has ranged from the free enterprise ethic through to nationalisation, redistribution of wealth, socialism and so on — but has failed to adequately detail what all these mean in reality.

It has thus become essential that the business community takes a leading role in first identifying and spelling out in detail the economic system it believes will address the needs of the community as a whole.

More particularly, it must prioritise these needs and seek out real and practical ways of dealing with them efficiently, together with all vested interests. Major challenges and opportunities lie ahead of us.

As a start, we must recognise that the new South Africa is going to bring with it major political change — possibly leading to majority rule by a sector of the population that perceptually has least enjoyed the advantages of the capitalist ethic which we espouse.

Second, it has become imperative for those who effectively hold the purse strings to the private sector economy — the large corporations, the life offices, the banks, building societies and other financial institutions — to quickly acknowledge, collectively, the imperative of seeking ways of redressing the socio-economic imbalances that currently exist.

This is not a responsibility that should or can be left to the political leaders of this country, but is also a direct responsibility of the business leaders of our economy.

It has become vital for the big institutions who accumulate, distribute, manage much of the wealth generated by the community to become far more innovative in redirecting that wealth in ways that can be most beneficial to the most important needs of that community. It also means that those benefits must be perceived by those who receive them.

Naturally, it will also require the co-operation of whatever government is in power — but the first initiative must come from the private sector.

The process has already been set in motion in various ways by organisations such as the Consultative Business Movement. But, it needs to be more vociferously tackled, and on well-constructed platforms which can be used to encourage wider public debate and initiate creative thought on the most likely financial instruments that can be employed.

To set this process in motion we recognise that while the big institutions are in competition with each other — and seek to produce the best returns for policyholders, shareholders and other vested interests — the new environment on the near horizon demands a great deal more flexibility and co-operation.

To further encourage this frame of thought we immediately identify areas whose needs are of high priority: education, job-creation, housing, base infrastructure and health.

Financial muscle and business acumen must combine to accelerate the deregulation process and remove those controls that in many instances have been imposed to protect vested interests. This has encouraged commercial power concentrations which are looked at with so much suspicion by the disadvantaged majority.

To accommodate these needs we propose that the financial institutions must take a more enlarged view of their own social upliftment programmes. More particularly, that they join resources in a manner which will avoid unnecessary duplication and focus effort.

This is already being done through the offices of organisations, such as the Urban Foundation. But other developmental areas and approaches can also be considered.

Why not create a "Development Pool" which can access a proportion of the cash flow coming from the institutions — and act as a form of differential prescribed investment for tax purposes — which can funnel resources more pragmatically into development and new wealth-creating projects.

Perhaps a less traditional and more innovative view should be attached to the manner in which contractual savings — from employer and employee — can be deployed to accommodate current as well as retirement needs.

The creation of "development bonds" can also be considered. This idea has been suggested on several occasions. In as much as the instrument would be designed to target the financing needs of a specific developmental project, the bonds could represent considerable and perceived improved investor consciousness of the use being made of government and semi-government (gilt and semi-gilt) stock.

Financial institutions have to recognise that they have no real alternative but to adapt their investment and risk parameters to accommodate the changing environment. Circumstances appear to be moving so fast that it is important that we — as the leading edge of the economic community — must take the initiative now.

It is a creative challenge, but is an encouraging one which we believe can be met if there is a fundamental change in traditional investment attitudes and the utilisation of financial resources and business expertise.

FSI denies rumour of huge rights issue

B/Day 17/8/90 (180)

BRENT MELVILLE

THE possibility that a massive rights issue might be on the cards for the FSI group has been all but eliminated by FSI chairman Jeff Liebesman.

Contrary to market speculation that a rights issue was imminent, Liebesman told Business Day yesterday that such a move was not necessary.

The rumour of an impending rights issue and questions about the merit of FSI's recently announced intention to restructure sparked criticism and sent share-prices lower across virtually the entire FSI group's board in recent weeks.

However, Liebesman said the envisaged benefits of the proposed restructuring included an enhanced cash flow — which would be higher than last year's R46m after taking into account taxation, servicing of debt, dividend allocation and investment into working capital.

He said that following the restructuring, servicing of debt would be done in a far more efficient manner.

"We will not have our cash flows blocked at the intermediary holding company levels, and the rationalisation will save us substantially on expenses.

"Because of that and after taking into account the fact that SA is now at the top of the interest rate cycle, and with no major acquisition in sight, we do not foresee the need for a rights issue," Liebesman said.

The group showed a return on equity of 26% last year and was selected as top company by Business Times. However, with several market analysts and stockbrokers questioning, among other things, the group's debt level, its rating had fallen sharply.

There were also rumours of institutional concern. House brokers Frankel Kruger Vinderine's Sidney Frankel said the rumours were ridiculous, and that the five major institutions involved had all "strongly" supported the restructuring.

Over the past six months the shares of FSI group and its subsidiaries have plunged significantly.

The group has issued only a cautionary announcement but it is thought the restructuring could involve the delisting of Homemakers, Teamcor and Hunts, as well as the injection of FSI assets (Formscaff, international operations and Reichmans) into W & A.

Liebesman said: "The one aim of the reorganisation is to clear up investor perceptions and by simplifying the group's structure, to make it more tradeable."

Some analysts believed the debt levels

☐ To Page 2

FSI

B/Day 17/8/90 (180)

☐ From Page 1

to be high.

Ed Hern & Rudolph analyst Syd Vianello said that even with no rights issue forthcoming, FSI could still have some interesting options.

"Careful planning of a company's structure could involve the creation of a variety of instruments, which would not only be tax effective initially but could be disposed of at a later date directly to institutional and/or other investors, thus tacitly procuring a rights issue."

He said the group had already used this method on three occasions via the creation and subsequent sale of Hunts, Teamcor and Vektra convertible debentures.

Growing lobby seeking immediate interest rate cut

(180)

BDay 17/8/90

GRETA STEYN

THE lobby in favour of a cut in interest rates is growing stronger with some economists and industrialists calling for an immediate reduction in Bank rate to ease the pain of the recession.

Those in favour of this view believe it can be done without compromising the battle against inflation.

Among bank economists, Standard Bank's Nico Czypionka and Nedcor's Edward Osborn say the time is right for an easing in monetary policy. Czypionka said a degree of overkill was taking place, and interest rates could be cut slightly without contradicting the Bank's policies.

"Otherwise, the Bank will battle to maintain an artificial situation," he said.

The Afrikaanse Handelsinstituut (AHI) yesterday called for a reduction in rates, saying a danger existed that the recession would be prolonged longer than was necessary. The organisation called on the Reserve Bank to seriously consider a cut in interest rates.

LINDA ENSOR reports the chairman of major industrial conglomerate Malbak, Grant Thomas, yesterday added his voice to those asking for a cut in interest rates.

"Government insistence on maintaining its interest rate policy might be out of touch with the deep recession biting the economy."

Strong

While he supported the policies to reduce inflation, he believed the pressure could be maintained without an overkill situation developing. His view was the recession was deepening each month and while those "at the coal face" saw the effects immediately, it took time for these to percolate through official statistics.

The SA Chamber of Business's view was that if present internal business and economic trends continued, there was a strong case for a reduction in interest rates before the end of the year.

Small firms championed

180

B/Day 17/8/90

Business Day Reporter

SMALLER companies — defined by the Investment Analysts' Society (IAS) as those with a market capitalisation of under R500m — constituted about 80% in number of those on the JSE and merited fund managers' support, said SA Bias chairman Christopher Seabrooke.

Seabrooke was speaking at the IAS annual Best Reporting and Communication Awards dinner in Johannesburg, where SA Bias was named the small companies category winner. Gencor won overall.

Directors' shareholdings

Star 20/8/90

Bottom Line

MICHAEL MENOF

In three annual reports I found directors either controlled the share capital or were aiming to exceed 50 percent. Is this wise or should investors avoid these companies?

In my opinion, even if it means directors are entrenched, minorities have certain protection and might even enjoy the ride.

On the other hand, if directors mess up they can always make the company private once they have dissipated the rest of shareholders' funds.

My advice is to evaluate the chairman and CEO. If they have a proven track record, they have my vote. But most important, what does the annual report reveal?

Where a group has divisions, does it report sales and profit contributions from each? Does it highlight problem areas and what corrective action was taken?

How is it controlling debt and can the operating profit cover the interest expense? What do the assets consist of and where is the intangible asset goodwill reflected?

If goodwill is not written off, are there sufficient distributable reserves to cover it?

The most significant partner in the income statement is the taxman looking for his 50 percent of taxable income. But past tax losses and generous allowances usually result in tax being low or non-existent.

So beware, the bottom line might look artificially positive. With the above in mind consider the salient features in these annual reports.

NO TAX SAVES TIME: Chairman Colin Hibbert and his directors control 52 percent of Time Holdings which is engaged in properties, housing and life insurance.

While the core business was hurt by the ailing economy and high interest rates, the results were saved by an abnormally favourable tax situation. Past losses and partial write-back of deferred tax resulted in a tax credit. The housing division received a contract (no amount specified) to provide housing for all Mossgas permanent employees.

A UK office was opened to seek joint venture partners for the insurance and property sectors. But Time needs funds and is seeking to raise R10 million convertible, redeemable 14 percent shares via a rights issue.

The property division acquired RM McCarthy (Pty) from IGI in 1989, which was paid with five million convertible, six percent redeemable preference shares — what a low rate! With no divisional results, the bottom line looked good.

Sales of R231 million (1988: R183 million) produced sharply lower net operating income of only R8,3 million (1988: R11,6 million). With a tax credit of R78 000 (1988: full tax R,5 million), attributable earnings improved to R8,96 million (1988: R8,03 million).

Shareholders' funds were R22,35 million (1988: R17,9 million) after deducting goodwill of R13,23 million (1988: R6,98 million). The reserves were insufficient to write off the goodwill.

Debt, including project finance, has risen to R35,2 million (1988: R16,6 million) and guarantees to bankers totalled R18,7 million at end-December 1989. With a net asset value of 59c a share, the current JSE price of 70c seems fair.

TEMP WORKERS SET TO HELP TECHNIHIRE: This group is resurfacing after its sale to Columbia's highfliers and subsequent buy-back by chairman Jack Eliasov who, with his co-directors, controls 75 percent of the shares.

The group hires out experienced draughtsmen, engineers, skilled artisans and technicians and has a professional placements division and computerised collection of debts.

The income statement for the 14 months to March 1990 showed sales were R6,85 million, operating income R2,61 million and interest expense only R220 000.

Full tax of R1,26 million resulted in a bottom line of R1,36 million, giving earnings per share of 11c and dividends of 3c. Shareholders' equity of R2,67 million was reduced by R450 000 goodwill. Debt was R1,46 million.

With a net asset value of 18c and a current JSE price of 23c, the directors know how to stick to the knitting.

BOYMANS BATTENING DOWN THE HATCHES: Despite trading under some of the oldest and finest names including John Orrs and Levisons, the 59 specialty clothing stores produced sharply lower earnings for the 14 months to February 1990.

But with chairman Eric Ellerine and joint MDs Abe Brodkin and Hynie Regenbaum raising their shareholdings from 43,9 to 47 percent and buying a further 42 000 shares after year-end, they certainly are confident.

This is not surprising. With a net asset value of R2,45 a share and a JSE price of R1,40, they are buying at a discount. Sales for the 14 months rose to R188 million (1988: 12 months R132 million). Operating profit was R12,2 million (1988: R10,3 million), with interest paid sharply higher at R7,5 million (1988: R3,2 million).

Tax was at the full rate, leaving the bottom line sharply lower at R2,48 million (1988: R4,13 million). The final dividend was halved to 6,5c.

Ordinary shareholders' funds barely increased to R26,4 million (1988: R24,6 million) at end-February 1990 and debt rose to R46,4 million (1988: R27,4 million).

Mr Ellerine warns that 1991's results will be hard-pressed to equal 1990's reduced earnings. The group could be a good take-over target.

These annual reports reflect able management braving a poor economy. Close examination of the numbers shows them coping.

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Gencor tops according to analysts

THE investment analysts society has judged Gencor Limited to be the company which communicated best with the investment community during 1989.

At an awards ceremony Gencor executive chairman Derek Keys accepted the society's trophy for the best overall communications from chairman Peter du Toit. Sowetan 20/8/90

Du Toit explained that the nine IAS category awards were not simply awarded for a good set of financial statements. (180)

"Our 700 members are asked to judge a company's general communications with one of its major interest groups, the investment community, and we weigh our marking system accordingly.

"Only 50 percent of the marks are for a company's reports. The other 50 percent comprise other criteria - availability to the investment community:, and the recognition by a company's management that excellent reporting and communications go beyond a set of expert accounts based on the latest accounting conventions."

Du Toit added that the IAS was greatly encouraged by the steady improvement in the quality of corporate communications since the introduction of the awards. "I believe we have focussed companies' attention on the fact that investors have a right to information about the companies that they invest in."

This year's category winners are Gengold (Gold Mining); Samancor (non-Gold Mining); Gencor (Mining Finance); First National Bank of South Africa (financial services and property); Barlow Rand (Industrials); SA Bias Holdings (Small Companies); Tradegro (most improved reporting and communications):, Anglo American Corporation (Best chairman's statement); Sappi (Best company presentation to the society).

Last year's overall winner was Barlow Rand Limited.

Minister assures local industry of Govt protection

Star 24/8/90

(180)

By Peter Fabricius,
Political Correspondent

The Government gave the assurance yesterday that any move away from the traditional policy of protecting local industry against imports would be phased in after consultation.

Minister of Trade, Industry and Tourism Kent Durr said this at the opening of Sasol's plypropylene factory in Secunda.

He said the Industrial Development Corporation's report on protecting policy was being considered by several Government departments because customs tariffs could not be isolated from other matters such as inflation, tax, surcharge, exchange and interest rates, and export incentives.

The Government was fully aware of the practical implications of any change in its traditional protection policy. It was sensitive to the importance to the business community of reducing uncertainty to the minimum.

"We are not going to spring suprises upon unsuspecting industry," Mr Durr said.

He said the polypropylene factory would ensure a bright future for the plastic in the local chemical industry.

Mr Durr said polypropylene was a clean, non-toxic "environment friendly" plastic ideally suited for domestic and medical equipment.

It could be easily recycled and did not exude dangerous gases when burnt.

De-conglomerate — or decay

180

FM 24/8/90

Robin McGregor is the author of *McGregor's Who Owns Whom* and chairman of McGregor's On-line Information

Whether Anglo controls 30% or 45% of the JSE is academic. The fact remains we have an overly concentrated private sector. The real issue is what effect this has on the economy. Does it spread wealth equitably? Does it maximise employment creation? Does it promote national growth? Does it offer incentives to entrepreneurial activity? Above all, does it reduce inflation?

The answer to all these questions is no.

Total dividends paid last year were well over R11bn. All to an inordinately small number of shareholders, most of whose shares have been held for such a long time that the original cost is a fraction of present prices. Return on investment in real terms, notwithstanding inflation, is therefore significantly more than the average dividend yield on today's market capitalisation. This, coupled with our tax laws, makes it unlikely more shares will become available.

Furthermore, for the present or even the foreseeable future, an uncertain economy will discourage new shareholders.

Some other mechanism for spreading private-sector wealth is, therefore, necessary.

The trade union movement, though still in its adolescence, has progressed rapidly and may be the vehicle required. It has been a prime mover in channelling money from profits to wages, thus redistributing wealth. However, the unions will have to decide how far employers can be pushed before the return to shareholders becomes inadequate or mechanisation becomes attractive.

Some companies play their cards close to their chests in annual reporting, but it won't be long before the unions demand full disclosure and make demands that are even more professionally documented than now. This will have both an upside and a downside for employers. Unions will not only squeeze the last drop of blood possible, but know when there is no more blood to squeeze.

Industrialist Anton Rupert's argument in favour of small business is powerful. He cites the US Chamber of Commerce in the Eighties, which had 200 000 members, 91% with fewer than 100 workers; average growth in income of the top 100 small companies was 61% compared with 2% in the biggest 500.

A recent Barlow Rand publication shows that in the Eighties, the US small business sector created 11m new jobs while big business shrank by 3m.

Conglomerates tend to promote bureaucracy and stultify enterprise, no matter what attempts are made to decentralise responsibility. Nothing can replace the growth potential of the owner-manager. He has the incentive and flexibility to make quick decisions and take advantage of opportunities. De-conglomeration through management buy-outs could be the answer.

We have, at most, three producers controlling 75%-plus of the market in many industries. This isn't healthy. But having said this, one can't deny the need for big business.

Anglo and the other giants have enabled us to establish the best infrastructure in Africa. They have developed natural resources, provided massive capital where needed, done invaluable research and development, and enabled us to compete on international markets as frontrunners in mining and other technologies.

The problem is not big business; the problem is concentration of control that a naive or conniving government allowed.

An example may be SA Breweries. Over the years it has taken over all opposition — Alrode, Carling, Colt, Culemborg, Drie Krone, Heidelberg, Intercontinental. Its financial and organisational clout are a real barrier to entry. It has always kept price rises below the rate of inflation — though just below — but vigorous competition might have kept prices even lower.

SA is a very small economic community. Simple, objective competition controls can easily be introduced. There is no need to reinvent the wheel. The US has extensive legislation, frequently modified. Its latest guideline is the Herfindahl-Hirschman Index (HHI) — the sum of the squares of market shares of all participants.

If the result is below 1 000 there is no problem; if above 1 800, the merger or takeover will be investigated and almost certainly disallowed.

Assuming SA Breweries to have 95% of the clear beer market, the HHI would be 9 050! On the assumption that three major food producers have 35%, 30% and 15% respectively of the market, with five others with 4% each, the HHI would be 2 430.

Surely the very essence of the free market system is competition. Competition not only ensures acceptable prices and services, it also spawns entrepreneurs and sharpens their teeth. Lack of competition promotes bureaucracy — the sickness of socialism.

SA cannot afford that.

FSI

Jeffrey's bay

FM 24/8/90 (180)

For every one of its champions, FSI can apparently count on a detractor — perhaps not surprisingly, given the confusion that seems to surround the group.

"Jeffrey Liebesman is running nothing more than a paper empire," complains one broker. "He's still deep in the mire with the debt the top company had to take on when the October 1987 market Crash landed him with 97% of Waicor," chimes in another. In stark contrast, yet another believes emphatically there is nothing "sinister" about the planned restructuring. "It's not another manipulation. This is a group with assets of R3bn and it must be structured properly."

The brokers' indecision underscores incomprehension among the investment community of the group, which really got into gear when Liebesman bought control of W&A from Mannie Simchowitz in 1987.

FSI's Liebesman . . . this is for investors

That incomprehension has, in several cases, led to concern about the state of the group and the reasons for restructuring.

"He'll take out minorities in Homemakers, Hunts and Teamcor, put all the operating companies (including the foreign interests) below W&A and have a clean pyramid structure running from FS Group down through FSI, Waicor and W&A into four operating divisions at the bottom."

With those conflicting views swirling around a group that has been restructured or reorganised twice since 1987, small wonder group company shares have been dithering. Plainly there is a major confusion Liebesman has to address. It's bad enough that outsiders are given minimal information about foreign interests. But when that is laid on top of the changes of the past two years and accounts which are pretty baffling, it's not surprising some investors have doubts.

Not all investors, though. There are major institutions with stakes throughout the group — though they are a pretty fragmented bunch, with no one dominating — and Liebesman tells me this restructuring is largely in response to their requirements. Keeping that support or even increasing it will be essential if FSI is to go on a further acquisitive binge. And it could be difficult to find a big daddy while ultimate control remains with Liebesman, who controls the top FS Group through an unquoted holding company Confor Holdings.

Critics expect the latest restructuring to be a repeat of 1988's, when Natbolt and so on were sold down into W&A at prices related to net worth rather than the lower share market values. Then, the subsidiaries had rights issues to pay some cash for the operating companies; that cash was used to free FSI of some debt and externalise funds to finance W&A's AAF offshore subsidiary.

Choosing that restructuring route and, say, selling Form-Scaff further down the group for cash would be shortsighted. Apart from anything else it would indicate management is bereft of ideas and again raise the cry of manipulation. Whatever the deal, it has to be proposed by visibly independent merchant bankers — the Metal Closures debacle is too fresh in people's minds for any discontented rumblings to be risked.

Starting at the top

Let's start right at the top, with FSI's unconsolidated accounts at end-1989. At first glance and if you ignore the treasury function Liebesman says FSI performs for the group, the holding company seems hopelessly overgeared with long-term debt of R159,8m topped by redeemable prefs of R171,3m balanced on ordinary shareholders' funds of R185,1m. If shareholders' funds are reduced to reflect the market as opposed to book value of the effective 55% of W&A, gearing appears even more hairy.

"Not correct," Liebesman says, emphasising the treasury function. "That long-term debt is offset by loans to subsidiaries. This is a management control tool: the top company borrows from banks and lends down to the subsidiaries. We get daily cash reports from the subsidiaries and, for example, can net out debt and cash with the banks overnight." The same, Liebesman tells me, applies to the redeemable prefs. R60m is offset by prefs in subsidiaries — R40m in W&A and R20m in unlisted Hunts Properties.

So, as Liebesman explains it, effective red pref debt in the top company is R111m. Netting out seems to me to be stretching a point, but provides some clue to Liebesman's likely thinking on the restructuring due to be announced within a few weeks.

Let's assume W&A becomes the operating company and the Hunt Props and W&A prefs are netted out against FSI's red prefs; FSI could be paid in new W&A (or Waicor) paper for wholly owned Form-Scaff. That paper could be seen as underpinning and servicing FSI's own red prefs. It's one way of relieving debt pressures at the top of the group.

In addition, Liebesman makes the point that cash flow is adequate to service that debt and even talks of the option of redeeming the prefs from cash flow.

Rights issues are not being considered, Liebesman tells me. One thing he tells me he is after, though, is a cleaner control structure to eliminate investors' confusion about where they should enter the group. "First we restructured financially, then operationally, now we're restructuring for investors."

Eliminating confusion is possible with a straight pyramid along the lines, say, of Rembrandt.

The JSE doesn't actually encourage pyramids, though it seems to turn a blind eye every time a "special case" comes along. In addition, of course, pyramid shares cannot be listed abroad — London and other exchanges are less accommodating than Johannesburg.

But Liebesman hints at a foreign listing — not just the foreign arm AAF — and that implies W&A if it becomes the repository of all the operating companies.

Having all operating divisions in W&A makes sense organisationally. For example, there should be no confusion about where to slot acquisitions; the structure will allow better tax planning; that, in turn, should enhance cash flow; and so on. And W&A has to remain the operating company — others higher up the chain of control cannot be more than investment holding companies.

This has to be the last restructuring for a long while — fund managers and analysts need time to digest the fact that the FSI conglomerate is no longer a moving target. Liebesman and his team must now work at unambiguously proving they can sweat organic growth out of their assets. *Jim Jones*

Star 27/8/90 (180)

CORPORATE SOCIAL INVESTMENT

Up to R800-m is spent a year on CSI in South Africa

Investment is sign of hope

Investing in People

A Star study into corporate social investment

Reports by Sarah Sussens.

Corporate Social Investment (CSI) has mushroomed during the politically tumultous 1980s with more and more businessmen responding to a society in crisis.

Latest trends show a growth of specialist trusts and funds and an expansion of CSI activities to include the small and medium-sized companies.

Exact figures on the amount of money spent on CSI vary from about R600 million a year to R800 million, with education being the top priority.

The CSI industry is characterised by lively debate among corporations and within target communities and it has remained a controversial topic.

Corporate South Africa has followed world historical developments in terms of CSI and has evolved from the charitable hand-out days of Dickensian times. It has survived the "we know what is best for you" syndrome and has blossomed into the consensus era, where communities are consulted.

Fall of apartheid

The development of CSI in South Africa has been heavily influenced by the rise and fall of apartheid, and the allocation of funds can be charted by the downfall of racist structures. It has led to money being spent on school, housing and with the latest deregulation moves, the flourishing informal sector.

A global move towards democratisation and peace, and a seeming break in the South African political logjam, has also placed renewed emphasis on environmental issues. Welfare organisations complain they are being neglected in the face of such stiff competition.

At a more grassroots level, the dramatic development and mushrooming of community organisations and development programmes has added new problems to the eternal one of how to allocate resources.

Many worthwhile projects do not have the "sophistication of a fax and receptionist' and because they do not know how to market themselves they are often ignored. Political rivalry is also a headache to businessmen, who traditionally back off from political controversies.

Sasol's John Bredenkamp feels there is too much duplication of projects and organisations in black education and that "the time has come ... for a rationalisation of projects and organisations. Companies should stop investing in CSI as an end in itself and get involved with other companies on a joint venture basis to ensure that the most essential educational projects ... receive as broadbased funding as possible."

However, like almost every aspect of CSI, there is a debate around this topic and people like the chairman of the Anglo American De Beer's Chairman's Fund, Michael O' Dowd feel that "central planning" could be a bad idea and could quash creativity.

"The whole virtue of having private companies operating in social welfare sector of society as well as the Government is to provide a variety of policies, approaches and insights," he said. "This is one of the main reasons why Government programmes are often unsatisfactory, as they are too uniform."

Another more controversial area of CSI relates to its definition. For example, is it CSI to bolster your own customers and turn them into successful businessmen?

Yes, says Ian Hetherington of Job Creation, who argues one of the most productive CSI projects a company can engage in is wealth creation.

There are already four million adults of working age with no jobs in the recorded part of the economy. Almost half the present population are children. They will be seeking jobs at the rate of 1 000 a day over the next 15 to 20 years — jobs which do not exist at present.

In the face of such brutal facts, wealth creation makes sense.

Bottle manufacturers ABI, who have created about 260 new jobs through a programme of upgrading their distribution network in the East Rand township of Daveyton, do not include this as a formal CSI commitment, while the Metro Group's policy of training retailers and creating new ones is seen as the crossover of CSI into marketing.

CSI is characterised by a fair amount of controversy, reflected most dramatically by its name. The better known version — Corporate Social Responsibility — produces feelings of outrage among certain businessmen, who feel it implies their company is not responsible towards the community.

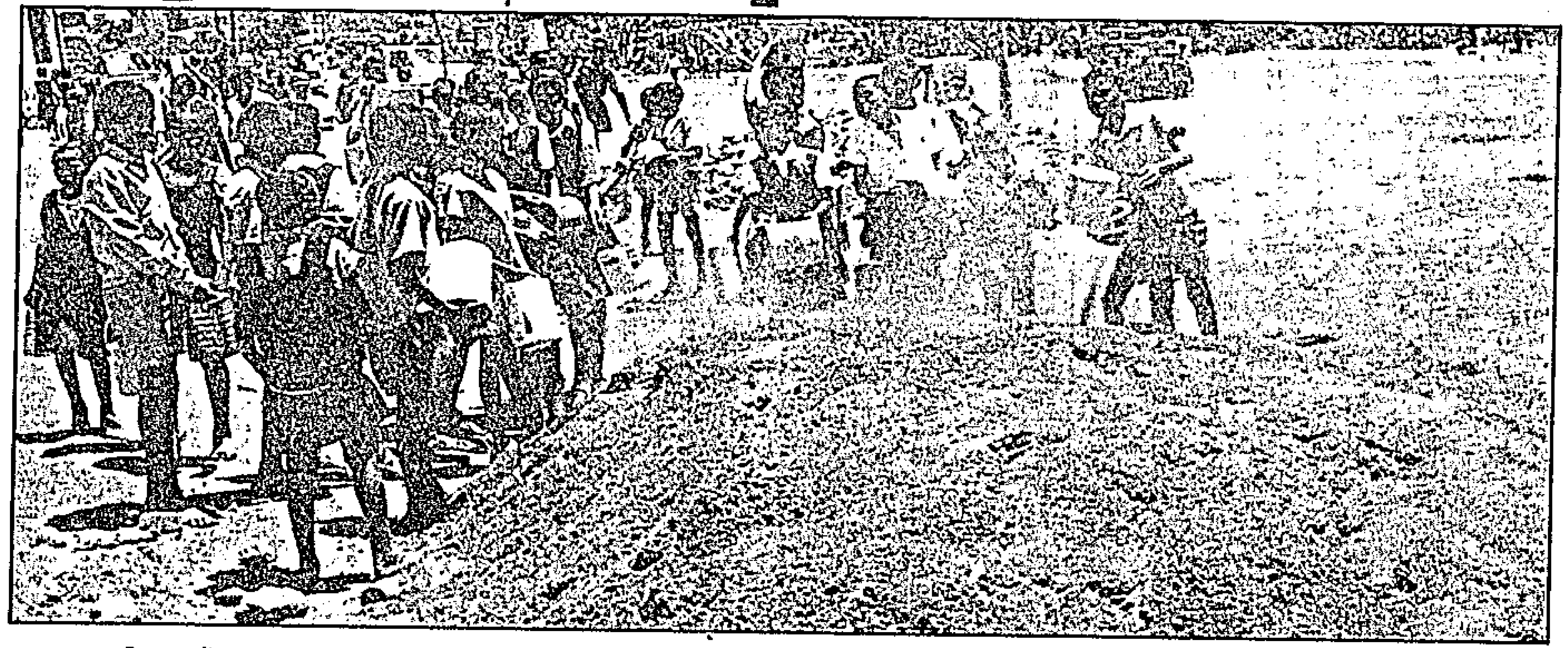
Shied away

Businessmen have long shied away from direct political involvement in the country's problems, but publicly they demonstrate their commitment to funding projects that can help create a stable society.

According to the research company, Business and Marketing Intelligence (BMI), who did research into CSI in 1987/88, it is common cause that whites in South Africa have satisfied needs and blacks do not.

It is for this reason that the bulk of CSI activities are turned towards the black community.

BMI found that the private sector was positive about the future and committed to contributing to the welfare and stability of the country and its people. Ultimately the long term success of their company depended on it — and therein lies the best and most businesslike reason why CSI has become a growth industry.



Baropodi community primary schoolchildren stock pile river sand in one of the PG Foundation's upgrading projects.

Firms' foundations build trust

Companies are increasingly establishing foundations or trusts whose sole function is to co-ordinate and implement corporate social investment policy and strategy.

One such company is the multinational Plate Glass and Shatterprufe Industries (PGSI) holding company, which set up the P G Foundation in 1987/88.

The idea is to "identify, evaluate and sponsor specific projects within selected fields recognised by the P G Group as having relevance to its responsibilities in the socio-economic and environmental milieu in which it operates within South Africa," said P G Foundation director Reg Furber.

He said the aim of CSI was to help people help themselves: "The communities themselves, however, must tell us what their needs and aspirations are. We do not impose or initiate any projects ..."

The PGF is at present trying to co-ordinate a building clinic with the school of architecture at the University of the Orange Free State. The idea is to establish building workshops in the townships and help residents upgrade their homes and squatter settlements. It also supports organisations such as the Urban Foundation and Operation Hunger.

Bloch raises earnings and dividends

Star 27/8/90

180

Bloch has reported a 20 percent improvement in dividends from taxed income of R801 151 for the 12 months to June.

The final dividend of 2,4c a share, compared with 1989's 2c, brings the total for the year to 4,2c (3,5c) a share.

This came from earnings of 4,3c a share, against 3,6c in 1989 and 3c for 1988 (16 months).

Bloch derives most of its income from royalties paid for the use of trademarks by trading companies in the Bloch supermarket group, which operates in the southern, western and eastern Cape.

Chairman Bernard Rabinowitz says the advance in taxed income to R801 151 (R672 546) was achieved in the face of a slowdown in the economy.

"Royalty income grew by 17 percent and interest received by 48 percent due to larger cash balances and high interest rates, he says." — Sapa.

R25 000 gears up to a R100 000 total investment, including gearing," he said.

... on the lookout for suitable properties for syndication and will announce our next project soon," Mr Kalkoven added.

SBDC job creation since 1981 put at 250 000

News 29/8/90

From DUMA GQUBULE

JOHANNESBURG. — Creating jobs was South Africa's top priority, SBDC managing director Mr Ben Vosloo has stressed.

Small businesses could make a significant contribution to providing jobs for the estimated 300 000 people who entered the market each year.

"In the past decade the total economy has created 540 000 non-agricultural jobs. On the other hand, the SBDC has created an estimated 250 000 employment opportunities since its inception in 1981," he said.

"Since these opportunities were created at an average cost of R3 000 a job, this is a bargain for the country," Dr Vosloo said.

According to the annual report for the year to March, the SBDC expanded its share capital by almost R30 million through a 40 percent rights issue, with more than 80 percent of private shareholders following their rights.

A special dividend of 5 percent on class A shares (held by the private sector) has been declared. Most shareholders chose to take their dividends as capitalisation shares rather than cash.

Operational assets (loans and business premises) grew 36 percent, compared with the previous year.

An amount of R62 million was approved for the provision of business premises in developing areas.

"We are involved in property development because most developers do not enter into developing areas because of perceived risks," Dr Vosloo said.

REAL AIM

The real aim of the SBDC was to act as a catalyst for development, to unleash and to amplify the entrepreneurial potential latent for too long in many of our communities, said SBDC chairman Dr Anton Rupert.

This entrepreneurial spirit had been smothered too long by shortages of capital, proper work places, know how and by legal constraints, he said.

In his chairman's address to the SBDC's ninth AGM in Johannesburg, he said: "By granting more than 25 000 loans totalling about R800 million over nine years to entrepreneurs in many of our deprived communities, the SBDC has laid a solid foundation for further economic growth in our towns and cities.

"In addition, the SBDC has appropriated R300 million for the provision of business infrastructures, with an area of more than 650 000 square metres in underdeveloped areas," Dr Rupert said.

He said political freedom was not possible without economic freedom.

"Instead of carrying on lengthy discussions about the merits of one or the other economic system, we should rather remove all the remaining shackles that still inhibit our economic performance, and allow all people to utilise their talents fully,"

● VOSLOO Picture: ROBERT BOTHA

Call to free entrepreneurs by scrapping group areas

(180) THEO RAWANA

PRESENT racially determined group areas must be scrapped to enable entrepreneurs to make full use of their market potential, SBDC MD Ben Vosloo said in Johannesburg last night. 01Day 29/8/90

Addressing the Sunday Star's Emeritus Citation for 1990, Vosloo said the move would also deracialise and desegregate business activities and help to integrate black and non-black initiatives and skills.

"One of the shortfalls in the present SA economy is the limited number of people who practise entrepreneurship as successful new entrants into business, or as creators of new business within existing enterprises.

"There is, especially in the coloured and black population groups, a large shortage of successful people practising business on a significant scale," Vosloo said.

He attributed this to: restrictive official rules, shortage of available loan funds, shortage of business knowledge and management skills, paucity of supporting development services, a poorly developed entrepreneurial culture and lack of business confidence as a result of mismanagement of the economy.

Cartels intolerable in new SA — De Beer 180

EDYTH BULBRING

MONOPOLIES and cartels must not be tolerated in a new SA, DP co-leader Zach de Beer said last night.

Addressing a Houghton Forum, and later the Sandton Chamber of Commerce, De Beer said there were indications that the ANC was prepared to be more flexible in its nationalisation policies. But it remained suspicious of "big business" and this should be taken seriously by the business community.

Competition between SA firms should be free, overseas competition should be permitted and tariff protection should be limited to industries which needed temporary assistance to get established.

The people should also own more of the productive enterprises that made up the economy, provided politicians and bureaucrats were not appointed to run these enterprises badly, De Beer said.

The DP advocated a disciplined economy for a new government which would promote sustained growth and job creation and which would require the ruthless cutting of government expenditure.

It should also include tight control of

□ To Page 2

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De Beer

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money supply, preferably by an independent Reserve Bank, with maintenance of positive interest rates to encourage saving for investment, to protect the currency and to strengthen the balance of payments.

Responding to SACP secretary-general Joe Slovo's statement that the ultimate economic aim for SA was communism, De Beer said in a statement this was utterly irreconcilable with anything resembling Western democracy.

Slovo's statement challenged the ANC to say whether communism was its economic policy, De Beer said.

He also criticised a statement by ANC economics department head Tito Mboweni, who said he was unable to guarantee that an ANC government would pay compensation if it nationalised land.

De Beer said these statements would have greatly damaged economic confidence.

Not all will be happy with govt's new economic plan

180

BDay 31/8/90

GRETA STEYN

GOVERNMENT is poised to announce a comprehensive economic package which has been described as the financial equivalent of President F W de Klerk's speech at the opening of Parliament in February.

The programme to restructure the SA economy will not be popular with everyone. Resistance from groups fighting for vested interests is certain. But count on it that Administration and Economic Co-Ordination Minister Wim de Villiers, who is something of an economic hatchet man, will persist with his plan to put the SA economy firmly onto a long-term growth track.

The idea is to co-ordinate strategies on trade and industry and monetary and fiscal policies into a comprehensive "supply-side" plan for growth with low inflation.

Some parts of the plan, such as those for monetary and fiscal policy, are already known. Only a broad outline of the rest is available from speeches De Villiers made this year. The nuts and bolts are eagerly awaited.

The first aim is to crush inflation — not only through monetary and fiscal policy, but also through changes in industrial and labour policy and through efforts to break the prevailing inflation psychology.

On economic growth and job creation, the aim is to promote industrial development. Industry, and not mining, is seen as the main engine for growth and employment, hence much emphasis is placed on manufactured exports.

The new industrial policy will have a major impact on industries enjoying import protection. De Villiers argued in a speech in Parliament that these industries have abused their position — their pricing policies are fuelling inflation and hampering SA's international competitiveness.

Originally, only manufacturers of final goods were to receive protection and this would be phased out once they could stand on their own feet. However, nothing came of plans to take away their privileges and instead protection was extended to manufacturers of intermediate products. Protected manufacturers implemented "import parity pricing" — bringing local prices in line with imported prices plus tariffs.

The practice harms SA's ability to export manufactured goods at competitive prices because of expensive intermediate goods. It is an inflationary factor that should not be underestimated.

To set the ball rolling, Trade and Industry Minister Kent Durr asked the Industrial Development Corporation (IDC) to investigate existing tariffs. Durr is currently studying the IDC report, which sought to quantify the extent of tariff protection for different industries in SA — a difficult task as there is no specific rate at which import protection is given to any one industry.

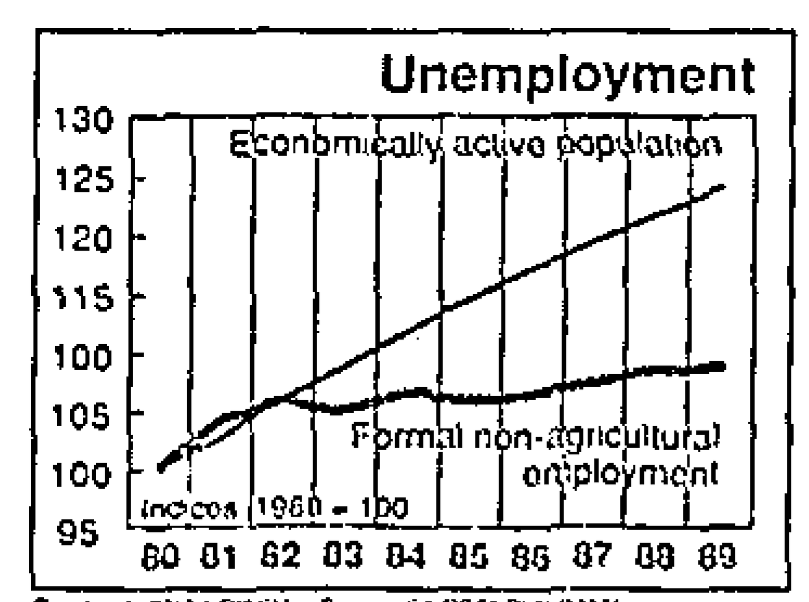
BTI chairman Lawrence McCrystal, asked for a list of industries that enjoyed protection, commented: "There are thousands of tariff items (some 14 000) in the tariff book which is probably the most complex piece of legislation in the country. Each tariff has a duty applicable to it. The duties vary from zero to 100% and then there are complex formulae and other duties as well. Short of your obtaining the tariff book and examining the tariff levels yourself there is no easy answer to your question."

Different manufacturers within the same industry enjoy different levels of protection. Products are evaluated individually and the board's decision depends on how well a case is motivated. There is apparently no formal basis for deciding on protection. Industries that enjoy protection include textiles, paper, chemicals and plastics.

The overall level of import protection in the economy is easier to estimate than that for specific industries. McCrystal notes import duties in the previous fiscal year amounted to about 5% of total imports — "which places SA, on this criterion, among the lowest countries in the world. The percentage in the case of the EC, which is regarded as low, is 5,4%. In Chile, it is nearer to 15%."

But the relatively low level of overall protection does not mean the system will necessarily be scrapped in one fell swoop.

One of the spinoffs of change could be the scrapping of the BTI. De Villiers is currently investigating the mission and functions of the board.



One wonders to what extent McCrystal will resist change as he has spent his career implementing an interventionist trade policy which has now been declared obsolete.

McCrystal says: "In the light of the tariff policy investigation there will be a need to redefine the BTI's role and functions."

Eliminating tariffs could be a drawn-out and arduous process, as consultation with the private sector is likely before any action is taken. One can expect protected industries to fight to hold onto their privileges.

But that is not the only part of the plan that signals potential conflict. The life assurers and pension funds must be growing increasingly worried about constant hints that the nature of savings is to be addressed.

In a recent speech, Finance deputy director-general Estian Calitz reiterated that action could be expected towards the "reform of the structure and raising of the level of saving so as to promote capital formation and job creation and to channel available capital in more productive directions".

This reflects the belief that the life offices do not invest the savings at their disposal in a growth-generating way.

To change this obviously implies monetary and fiscal policy measures such as high positive real interest rates and a reduction of tax on interest. But other measures cannot be ruled out. These could take the form of higher effective tax rate for institutions' income, prescribed investments or compliance with some sections of the new Banks Act, now called Deposit-Taking Institutions Act.

Apart from commerce and industry, organised labour, too, stands to be affected by the restructuring. Finance Minister Barend du Plessis and the Reserve Bank, among others, have recently emphasised what they see as the unions' role in aggravating inflation. There is a growing belief among economic policymakers that union power "interferes with the market mechanism".

A move towards decentralised bargaining appears to be on the cards. Legislative changes might be made to ensure that wage settlements are applicable only to the parties who negotiate them. At present the Minister of Manpower decides at his discretion whether to extend industrial council agreements to non-parties. He has recently been reluctant to grant extensions.

De Villiers noted in a speech "the promotion of responsible wage determination" was essential in combating inflation and boosting employment.

In government's discussions with business, the restructuring plan is being sold as an effort to free up markets and reduce the role of government.

It seems, however, that privatisation will have a limited role. The idea of privatising Eskom has apparently been shelved. Instead, talk in business circles is that the setting of Eskom and Transnet tariffs will form part of an overall anti-inflation strategy.

Government intervention in monopolies' price setting is hardly a free-market approach. But it might in any event not be politically wise to sell the programme as the unleashing of market forces.

Whatever terms De Villiers uses to sell the package, he will have a hard time defending it. Economic plans have been made before, containing many of the elements of the current effort. The announcement of De Villiers's programme will be momentous, perhaps not so much for its contents as for his determination to see it through.