BLACK/WHITE JOINT SMALL BUSINESS VENTURES IN SOUTH AFRICA

by

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SUMMARY

The political history of South Africa, especially that of the apartheid years, has affected the structuring and functioning of business in the country profoundly. In general, White business is highly developed and formal, with access to financial and infrastructural support. Black business is often subsistence-based, informal and struggles for access to support mechanisms.

These structural inequities have had a depressing impact on the economy that will continue if they are not resolved. Following the 1994 elections, policies and legislation have been introduced aimed at redressing structural imbalances. There is thus both a political and an economic imperative to bridge the gaps that have arisen between Black and White business.

The study proposes Black/White joint ventures as a mechanism to this end.

The history of Black/White relationships means that these enterprises are likely to face many problems. A model has been developed through the study for the formulation, structuring and operation of Black/White joint ventures that takes into account the factors that are likely to impact on these ventures and affect their success potential. The process of applying the model in practice is directed towards results that are not prejudiced by the background of the parties to the venture.

The study expands the concept of joint ventures within the South African context to incorporate initiatives along a continuum ranging from extensions to employment to full joint ventures. Depending on its nature and objectives, a venture may be placed and remain at any stage along the continuum, or may progress along it.

Case studies of Black/White joint ventures were investigated in depth and analysed in terms of the application of the model, in order to determine the relevance of the model. In all cases, the success or failure of the venture under scrutiny could be ascribed to the way in which the presence of various elements identified as being components of the model had been accommodated in practice within the venture.

The use of the model when applied to formulating, structuring and operating a Black/White joint venture can contribute to its success potential.

Key words: Black/White joint business ventures; formulating, structuring and operating; business structural inequities; political and economic imperatives to change; continuum; model components and application; case studies; enhancing success potential.
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1.1 BACKGROUND

The structure of business in South Africa is a function of the political history of the country. Over past centuries, this has been characterised by various drives towards separatism, which culminated in the policies and practices of "apartheid" in the second half of this century, until it was overturned in the 1994 elections.

The comprehensive system of social engineering known as apartheid gave complex institutional voice to a perceived hierarchy of value based on racial categorisation. Racial categorisation was further expanded within the Black population to distinguish between groups speaking different languages. Categorisation into various racial or ethnic classifications served as the basis for a comprehensive system that directed people's behaviour in terms of the grand plan of a balkanised country formed around the political segregation of these defined groups.

All groups were subject to the control of the White minority, which received preferential treatment. The base of the hierarchy was formed by the indigenous Black peoples, who comprise the great majority of the population.

This fundamental conviction of a racially-based hierarchy of values was enshrined in a complex bureaucratic web encompassing political, legal, social and economic structures. The effect on the business life of South Africa has been profound. For decades, South African business has functioned within an artificially-created environment that has in many ways been directly opposed to the fostering of free enterprise and a culture of entrepreneurship, individual achievement and personal excellence.

1.1.1 Separatism and racial categorisation

Racial interaction in South Africa has followed a fundamentally similar path since the earliest recorded times. Settlers from various European countries laid successive claim to the governance of the country following the first planned and formalised settlement by Holland in the mid-seventeenth century. In line with the tenor of their times, these settlers
of various origins had in common a perception of the indigenous peoples as being inferior and thus incapable of participating in the government of the area; however, the rule of law of the governing power was enforced over citizenry and population alike.

Attempts to accord recognition to indigenous peoples met consistently with resistance. Thus Britain’s avowed intent to enforce the repeal of slavery throughout the territory (then governed by Britain) was a direct cause of the Great Trek of Afrikaners from the boundaries of the Cape Colony into the hinterland, which was populated by indigenous peoples but as yet unclaimed by settlers of European origin.

Rationalisation of this resistance was built into the socialisation of the settler population, culminating in the comprehensive policies of apartheid, which enshrined racial prejudice by statutory means into the country’s various political, social, economic and legal structures. Black South Africans were forbidden a political voice.

The various structures of apartheid were directed towards restricting the participation of indigenous peoples in the economic life of the country to a subordinate and supporting role. The fact that the indigenous peoples formed the vast majority of the population was considered relevant only in terms of their capacity, through their numbers, to provide the labour necessary to drive progress.

Foremost in effect of the array of structures aimed at ensuring that Black peoples remained at the bottom of this racial hierarchy was the Bantu Education Act of 1953. Under the provisions of this Act, education of the majority was limited to and focused around training in the menial skills that would provide the necessary support for White expertise. Education for the Black population was not deemed important enough to be made compulsory, and State spending on education also followed a hierarchical, race-based approach, being heavily skewed in favour of Whites.

1.1.2 Discrimination - the Black experience

At the same time, Black business interests were stifled through a network of restrictive laws and practices that narrowly defined not only the type of business that could be operated by Blacks, but also where such businesses could be located and their clientele.
Decades of inadequate and inappropriate education compounded the problem, leading to a situation where lack of education and economic exposure severely prejudiced the business know-how and skills of the Black majority.

1.1.3 Affirmative action - the Afrikaner experience

However, within the apartheid system a formal affirmative action programme directed at accelerating the development of a previously disadvantaged group was formulated and instituted with notable success.

Afrikaners had been discriminated against and sidelined by the British colonists. Consequently, Afrikaners formed the lowest-skilled and poorest strata of the White group. A strategy for incorporating the Afrikaans-speaking White group into the mainstream of the economy was instituted following the victory of the Nationalist Party, which was heavily supported by Afrikaners, in the 1948 elections. This entailed affording protection and favour to White Afrikaans-speaking persons - in particular, Afrikaner business interests. This programme proved highly successful.

Afrikaner political dominance was entrenched and extended via the various sub-systems of apartheid to other areas of influence. A sustained programme of advancement of White Afrikaners encompassed the civil service, banking, agriculture and "big business". Afrikaans, a language once the target of derision and scorn, was given equal footing with English as one of the two official languages of the country. Not unsurprisingly, this comprehensive and sustained programme of Afrikaner development bore fruit, and Afrikaner business interests flourished, bolstered by an increasingly powerful political lobby and a bureaucracy that was staffed overwhelmingly by Afrikaners.

1.1.4 The structure of South African business

The South African economy is characterised by structural imbalances and inequities, with clear divisions along racial lines. These divisions have been manifested and consolidated over the past decades, and have had particular impact in terms of such aspects as education and training, economic exposure, access to opportunities and institutional discrimination. No aspect of life in the country has been unaffected by the pervasive
character of apartheid policies and practices.

The structural impact of the past decades is particularly obvious in the South African business environment. The cumulative effects of many decades of apartheid policies and practices on the economy have resulted in performance in practically every sector struggling to overcome a decline.

The business environment is characterised by fundamental inequities and structural imbalances. Over the past decades, apartheid has systematically eroded the capability of Black South Africans to function effectively within the formal business environment. Black business generally operates on the periphery of the formal economy in a secondary capacity. Most Black businesses are subsistence-based and often informal. They are generally based on technical expertise, but lack operational and managerial skills. White business interests own and manage the economy; Black involvement in White-owned business is mostly labour-based, with negligible managerial presence. The country has far too few skilled managers, and far too many unskilled and semi-skilled workers. This profile is directly opposed to that needed to accommodate demographic trends.

1.1.5 Apartheid in a global context

Apartheid, as a formalised system of social engineering, was introduced shortly after the second World War, when the world was recovering from the effects of Hitler’s racially-based social experiment. Images from the liberation of the concentration camps were stamped on the world’s social conscience. World opinion recoiled from the implications of another system based on race categorisation; external resistance to the South African government was manifested by various countries isolating the country through sanctions and boycotts.

This isolation was met with increasing intransigence on the part of the Nationalist government. However, this approach (known as the “total onslaught” strategy) took its toll on the economy, which was being progressively weakened through the system of apartheid itself.
It became clear that in order to survive, let alone prosper, South Africa would need not only to discard apartheid, but also to introduce and implement systems that would redress the severe imbalances that apartheid had created in every aspect of the country’s economic life, and lay the foundation for future growth. Along with dismantling the structures of apartheid, urgent attention would have to be given to methods of revitalising the economy and stimulating growth.

1.1.6 South Africa in the 1990s

Initial steps towards a new approach to the South African situation were taken with the opening of the political environment to Black South Africans in early 1990, through the unbanning of Black political organisations opposed to apartheid and the repeal of certain racially-definitive legislation. South Africa’s radical political turn-around culminated with the election of a democratically-based government in April 1994; this was hailed by a jaded world as a political miracle.

However, a political solution is not sufficient on its own. The economy is in serious trouble. Characteristics of South Africa in the late 1990s include the following:

- decreasing job opportunities in the formal sector for a fast-growing population
- a large subsistence-based and unrecorded informal sector
- a decline in labour intensity and growing unemployment
- a decreasing skills base and low productivity

Achieving an economic turn-around comparable to the political change in the country is essential if the slide into decay is to be arrested. In order to do so, the effective participation of Black business in the economy is imperative. This is recognised by the new government that was democratically elected in 1994.

1.1.7 The challenge to business

As a result of the policies and practices of the past few decades, South African business faces its new political environment and the twenty-first century ill-equipped to face the challenges of a new era.
The serious structural damage wrought over the past decades needs to be redressed. Long-term, structural methods such as educational strategies and meaningful development programmes are essential in this regard. However, the situation of the country is such that in addition, shorter-term, practically-based initiatives need to be pursued as well.

Black South Africans form the clear, and growing, majority of the population. As such, they not only increasingly represent the consumer market, but must be incorporated into the economic life of the country as a matter of urgency. Black business needs to generate wealth rather than to subsist.

South African business needs to explore ways in which the business skills and expertise than have been kept as the prerogative of Whites can be extended to Black business in order to redress the past and normalise the situation for the future.

1.1.8 Black/White joint ventures

One method of bridging the Black/White business divide in South Africa is through various types of joint ventures. These initiatives make use of the opportunities provided by specific circumstances at particular times. Their very immediacy make the lessons learnt by individual initiatives extremely valuable to the change process.

Given the situation and structure of South African business, and the complex socio-cultural factors that impact on Black/White business interaction, careful attention should be given to specific aspects of the formulation, structuring and operation of joint ventures of this nature in order to overcome potentially prejudicial aspects and increase their chances of success.

1.2 OBJECTIVES OF THE STUDY

Careful documentation and analysis of various types of Black/White joint ventures will be an important input to understanding and shaping the change process within the business life of South Africa.
Lessons learnt from successes and failures can shorten the learning curve for others, and hasten the process of normalising the structure of business in the country.

An intensive and detailed analysis of selected Black/White joint business ventures has thus been undertaken in the study in order to ascertain the various factors which contribute to the success levels of the initiatives. The study identifies these factors, and makes recommendations on how they should be approached. A model has been developed for this purpose.

The study investigates selected Black/White joint small business ventures in terms of socio-cultural aspects associated with such interaction that will impact on their chances of success. Through in-depth analysis of specific ventures, these aspects are identified, and their impact on the performance of the venture is assessed. The extent to which the transfer of business skills and know-how takes place is considered, and recommendations made on ways of approaching Black/White joint ventures that take such factors into account in order to enhance the probability of success.

The aims of the study thus include:

* the identification of factors that, given the history and circumstances of business in South Africa, have the potential of either enhancing or impeding the progress of Black/White joint small business ventures

* recommendations on how to turn these factors to the advantage of existing and proposed ventures

* recommendations on planning such joint ventures in such a way as to maximise the benefits of the Black/White interactive process

* recommendations on ways of hastening the transfer of White business skills and knowledge to Black partners in such ventures

* the development of a model for formulating, structuring and operating Black/White joint ventures that, when applied, enhances their success potential.
1.3 SCOPE OF THE STUDY

Black/White joint small business ventures are as yet uncommon in South Africa. They represent initiatives which, given the nature of business in the country and the general state of the economy, are a relatively unexplored way of addressing the need to extend meaningful participation in the economy to Black business operators. The various experiences of individual initiatives are thus valuable to those contemplating similar actions. The study has therefore been undertaken on a case study basis.

Specific ventures have been selected where the protagonists embody the peculiar circumstances of South African business. Each case study is undertaken comprehensively and in detail, and is analysed with the aim of reaching recommendations on methods of enhancing the potential success of such ventures.

These recommendations provide important input to persons contemplating such ventures in the future. The study is investigative and exploratory in nature and of limited extent; of necessity, qualitative research methods have been used.

Purely financial relationships, many of which are currently being negotiated in various "Black empowerment" deals with White-owned (usually public) companies, are not considered to be joint ventures as defined, and are thus not dealt with in the study.

1.4 IMPORTANCE OF THE STUDY

The South African economy is in serious trouble. The governing authorities are faced with a plethora of problems needing urgent and immediate attention that are focused around issues of political power and social environment. Much of the task of regenerating the economy falls on the private sector, stimulated in part by government policies to this end.

If South Africa is to achieve economic growth, business urgently needs to search for practical and workable solutions to these problems that will work in the short term, and be enhanced by long-term developmental projects. Joint Black/White small business ventures are one such short-term mechanism. If successful, they can provide
employment, generate wealth, provide a mechanism for skills transfer and accelerate the formalisation of Black business practices.

It can be expected however that the disadvantaged circumstances of most Black South Africans will have left them inadequately equipped to cope fully with the demands of the formal and established business environment. Similarly, established White business can be expected to be largely ignorant of the influences that have shaped Black business practices. This is likely to have an adverse effect on the nature and operations of Black/White joint ventures. Both parties will need to function as full and effective partners with understanding of each other’s backgrounds and operating environments if the potential of such initiatives is to be realised.

By careful analysis of the factors that have contributed to the success levels of such ventures that have been undertaken, and through assessing the likely impact of such factors on future ventures of this kind, a model is suggested for formulating, structuring and operating Black/White joint ventures. The application of this model means that the learning curve of such initiatives can be shortened. The study therefore contributes to the urgent process of normalising business in the country.

In many respects, this study is breaking new ground. It will provide valuable input to the very difficult process of redressing the inequities and imbalances in the South African business environment. This is an essential step to future growth.

1.5 FRAMEWORK OF THE STUDY

The study is divided into three major sections, the first setting a theoretical basis, the second documenting and analysing various case studies, and the third drawing conclusions and developing recommendations on a model for Black/White joint ventures.

1.5.1 Section One: Theoretical content

This section sets a theoretical basis for the study by examining the broad business context within which Black/White joint ventures take place. The concept of joint ventures is
explored as well as the methodology used in the study and a model proposed for these ventures. This section focuses on extracting expected or potential factors likely to affect Black/White joint ventures, and thus on what can be expected in such situations.

Chapter One: Orientation

This chapter provides a background and motivation for the study. The objectives, scope and importance of the study are defined and an outline is given of each chapter.

Chapter Two: Literature survey

A review of relevant literature focuses on identifying the likely patterns and parameters of Black/White interaction within the business context. This leads to an identification of possible pitfalls that can be expected in the context of Black/White joint small business ventures, as well as the potential benefits that can arise from such initiatives. Topics covered include the following:

* the influence of apartheid on Black/White social, cultural and business interaction

* White and Black business norms and conventions and differences between the formal and informal sectors

It should be noted that at the time of writing the study was the first of its kind, and there was thus no literature on the topic per se. A range of literature relevant to the issues embodied in the topic has therefore been reviewed and incorporated in the theoretical framework.

Chapter Three: Impact of apartheid on business

Input from the literature survey has been drawn together to note the impact of apartheid on business in terms of the implications for economic growth
and the structuring of business in South Africa. The need for a new approach is defined.

Chapter Four: Development of proposed model

This chapter explores the possibility of using Black/White joint ventures as a possible method of redressing inequities in the business environment. Joint ventures of this nature can be considered a type of external affirmative action mechanism that may provide a workable methodology in this regard.

A model is proposed for the formulation, structuring and operation of joint ventures between Black and White business, the components of which take into account the various elements that are likely to have an impact on their success potential. A process of applying the model is also proposed that is directed towards achieving results that are not excessively prejudiced by the socio-economic history of the parties to the ventures.

Chapter Five: Joint ventures

Joint ventures are explored in general, in terms of such factors as underlying principles, the ends to which such ventures are directed and their potential for use as a Black business development tool.

Apartheid has affected the degree of acceptance of business in South Africa towards the idea of Black/White joint ventures and has thus affected joint ventures per se; joint ventures are relatively uncommon. A continuum approach is therefore proposed that extends the concept of joint ventures to take account of the South African situation. The influence of government policy in terms of initiatives directed at stimulating Black participation in the formal economy through contractual obligations is outlined.

Chapter Six: Methodology - the case study approach

The methodology used in the study, namely the case study approach, is
explored in terms of its suitability for the topic.

1.5.2 Section Two: Empirical content

(Chapters 7 to 10)

The empirical content of the study is investigated through case studies of selected Black/White joint small business ventures. The case studies are directed around the key factors of such initiatives identified in the first section of the study.

Case studies are also analysed in terms of the application of the proposed model.

1.5.3 Section Three: Conclusions and recommendations

(Chapter 11)

Lessons are drawn from the case studies covered, and factors for success and failure are identified. The extent to which the key factors have influenced the success levels of the initiatives is analysed. The potential of the model for use in Black/White joint ventures is identified, as well as the circumstances in which such initiatives are likely to succeed or fail.

Adaptations of the application of the model are proposed that are likely to enhance its usefulness.

Recommendations are made on ways in which the initiators of such joint ventures can guard against failure and foster the conditions that will enhance the likely success.

1.6 SUMMARY

The impact of apartheid on business in South Africa has been profound. Formalised business and industry is White-owned and managed; the vast majority of Black businesses are small, and most function within the informal (or unrecorded) sector. Decades of
discriminatory legislation, particularly with respect to education, have resulted in the Black majority being ill-equipped to face the demands of an economy ravaged by unworkable policies, inept government and years of world opposition. The challenge to business is to find workable ways of redressing inequities.

Black/White joint ventures are proposed through the study as a possible way of restructuring these imbalances. A model has been developed and evaluated against careful investigation of individual Black/White joint ventures in order to identify factors in the formulation, structuring and operations of such initiatives that will affect their chances of success.

The objectives, scope and importance of the study are noted, and a framework given of the various sections.
CHAPTER TWO
HISTORICAL BASIS FOR STUDY (LITERATURE REVIEW)

2.1 INTRODUCTION

The study is first-line research and as such, there is no literature that is directly applicable to the topic. Literature searches have thus been directed to related topics, and to the historical basis for the development of attitudes and perceptions on the part of White and Black business that may affect the operations and success of joint ventures between these two groupings.

The first part of the chapter outlines the approach taken in exploring the historical basis for the topic.

The second part of the chapter outlines the early history of economic interaction between the indigenous peoples of the country and the colonisers from Europe. Early settlement structures, together with changes in the colonial powers and the structural order had a great impact on the interaction between settlers and indigenous peoples. Similarly, the consolidation of settler and colonial structures and clashes between them, was to become increasingly important in shaping the future of the country. Power struggles between settlers and colonists for economic dominance inexorably led to the subjugation of the indigenous peoples.

The third part of the chapter looks at the emergence of a "new indigene", namely the Afrikaner. The development and consolidation of Afrikaner identity has been key to the economic relationship between Black and White in the country. The issues of ethnicity, race and class are outlined with respect to the development of Afrikaner identity, and the early importance of ethnicity to the concept is explored.

Pertinent aspects of the growth of Afrikaner nationalism are explored in the fourth part of the chapter. The changing world experience of the Afrikaner in the early years of the century through industrialisation and urbanisation placed the nascent Afrikaner identity at risk. Competition with the Black majority in the unskilled labour market meant that ethnic identification soon became transformed into racial differentiation.
In addition, political compromise after Union in 1910 between British imperialism and Afrikaner nationalism meant that class issues threatened Afrikaner identity further. The concept of Afrikaner ethnicity provided a useful tool for politicians, and political power was gained through its manipulation. Economic dominance, particularly over the Black majority, was essential to the maintenance of Afrikanerdom. In essence, this amounted to a drive for the colonisation of the country by this new indigene. An important tool in this colonisation process was the Broederbond, an influential organisation founded to promote Afrikaner advancement.

Political power was gained by the Afrikaner nationalist movement through manipulation of the concept of Afrikaner ethnicity. This took place through the incorporation of race as a fundamental definition in the concept, and the consolidation of this amended interpretation of ethnicity into an over-riding concept of Afrikaner identity.

Control of the State, gained in 1948, offered the opportunity to consolidate political power through the economic advance of Afrikaner enterprises. A programme of affirmative action for Afrikaners was instituted, which in many instances tied State capital to Afrikaner enterprises. In addition, protectionist policies against Black labour were instituted.

The fifth part of the chapter outlines the nature of the apartheid State. A racist economy evolved through the manipulation of ethnicity and the Balkanisation of the country into a number of territories set aside for Black occupation.

The role of the private sector in colluding with the establishment of the apartheid State and a race-based economy is noted. However, the success of the Afrikaner affirmative action programme led to the realisation of its restrictive influence on future growth. A growing awareness of the opportunity costs of the apartheid State led to a gradual withdrawal of support by the private sector for the concept of an ethnic/race-based economy.
2.2 EARLY HISTORY

2.2.1 Colonisation and race

From earliest recorded history, economic and political power in the southernmost tip of Africa have been inextricably tied to the issues of ethnicity and race.

Dreyer (1980:63) notes that the economic and political development of indigenous societies in South Africa was irreversibly altered with the arrival of European settlers, who were part of a world system that gave them access to power, resources and information which those they colonised could not hope to rival, and which meant that the domination of the indigenous peoples by the settlers was a foregone conclusion.

The tenor of the times meant that this was erroneously ascribed to race. Records of early economic colonisation indicate the early transformation of the understanding of settler/indigenous interaction into a framework based on racial differentiation. This pattern was to define such interaction for many centuries.

The transformation in turn of race-based perceptual frameworks into ones based on free association and interaction can be viewed as the greatest future challenge of the country.

2.2.2 Early economic interaction

In common with colonisation patterns elsewhere, early trading with the indigenous peoples was to the economic advantage of the visitors. Dreyer notes that "doubtless the Europeans congratulated themselves on the hard-headedness of their trading, and thought the natives fools to sell their cattle for such trash" (1980:72).

However, the indigenous peoples were quick to learn the ways of the new world to which they were being exposed. After the return in 1614 of Xhore (a Khoikhoi chieftain who had been kidnapped and forcibly taken to England in 1613), the English immediately noticed a rise in the prices of cattle and sheep (Dreyer 1980:78).
Early records note that the economic exploitation of indigenous peoples by the colonists became a source of friction early on. Two of the castaways from the Nieuw Haarlem, which went aground in 1647, stated on their return to Holland that the blame for past conflict between Dutch settlers and indigenous peoples lay in "the rude unthankfulness of our own people". The rebel Eykamma, when asked in 1658 why his people made war on the Dutch "countered by asking why the Whites had ploughed over his people's land and sought to take the bread out of their mouths by sowing corn on their best pasture" (Dreyer 1980:78-89).

2.2.3 Early settlement structures: slavery and frontiers

Giliomee ascribes the change in the relationship between settlers and indigenous peoples from one of master-client into labour-oppression, serfdom and slavery to the closing of the frontier, stating that it was only after indigenous labourers lost the ability to leave that they were consistently seen as Black and racially inferior.

Superior position and status was protected by restricting access to (for example) literacy. Strong dissatisfaction arose among the settlers when the missionaries started work, because indigenous peoples were put on an equal footing.

However, changes in the colonial powers led to changes in the structural order. The emancipation of slaves in 1833 meant legalised equality between settlers and indigenous peoples. This threatened to lead to the disintegration of the social order and was thus particularly traumatic for the settlers.

During the course of the 18th and 19th centuries the Dutch and later Afrikaans-speaking colonists had come to see themselves as an indigenous ethnic group with a distinctive national character and culture.

In the Free State and Transvaal Voortrekker settlements their early concept of themselves as a group separate from and superior to the Black indigenous peoples was incorporated in legislation (Adam & Giliomee 1989:93-97).
2.2.4 Consolidation of settler structures and power

Although race as a definitive issue of economic dominance had emerged from the earliest days of colonisation, such domination was by no means restricted to race. The struggle for economic dominance led to the definition and consolidation of a separate White grouping, namely the Afrikaner (also called the Boers). This in turn was to play as important a role in the country's future as the race issue, and to become inextricably intertwined with it.

Giliomee notes that "whereas slavery and settlement stimulated a racial consciousness, the Afrikaner's clash with British imperialism brought the concept of a distinct White political entity to the fore. The annexation of Basutoland (1868), the diamond fields (1871) and the Transvaal (1877) shocked Afrikaners throughout South Africa into the awareness that they were a spiritual entity. However, while a national consciousness had... emerged, the Afrikaners were still far from united" (1989:100).

2.2.5 Subjugation of indigenous peoples

An constant factor of South Africa's history from the arrival of the first European settlers was the progressive subjugation of the indigenous peoples; Dreyer states that power struggles for economic dominance amongst colonists and White settlers developed into "racist ideology that relegated Blacks to political limbo and economic helotry".

Dreyer also notes that by the 1880s there were only two significant military powers left in South Africa; Boers (Afrikaners) and British, and that the independence of the Blacks had been lost.

However, Black resistance to their subjugation was constant; as early as 1900 a Natal Native Congress had been formed, with the aim of articulating mounting African grievances against the White oligarchy (1980:63,109,119).

In the face of mounting power struggles for economic and political dominance between colonists and settlers, which used the race card to define and consolidate position, this resistance was futile.
Dreyer gives the 1913 Natives Land Act as an example of the racist nature of legislation aimed at structuring the economic life of the country to favour Whites at the expense of Blacks. The Act was patterned after the Cape's Glen Grey Act of 1894, which taxed all landless African males who did not work three months out of the year.

At the time of the Natives Land Act, almost a quarter of the Black population were tenant squatters on farms owned by Whites. Relations between farmer and tenant were frequently harmonious and African peasantry were showing that they could adapt to the new economic order. However, the Act made it illegal for Blacks to occupy farmland throughout the greatest part of the country - it had been made a crime for Blacks to cultivate the land on their own account in their own country.

A steady stream of legislation from 1917 onwards was clearly aimed at further consolidating the position of the already all-powerful Whites (1980:103-4,123)

Parallel to the consolidation of White dominance was the establishment of the Afrikaners as a separate White grouping, the identity of which had been defined early on largely through race. Political concessions to Afrikaners by the British after the Boer War were thus vigorously opposed by Blacks.

Dreyer notes that it must have seemed inconceivable that when the Boer war ended the British would prefer their White enemies to their loyal Black subjects. The prominent Black writer, Sol Plaatje, argued strongly against the injustice and sheer illogic of handing over loyal British subjects to what he insisted were England's enemies (and the Afrikaner pro-German rebellion of 1914 provided him with fresh ammunition). He described the position of Black South Africans as a "helotage under a Boer oligarchy" and intolerable.

However, such protests were to no avail. Dreyer notes that "a number of reasons may be mooted to explain Britain's betrayal of her Black South African subjects - cupidity, weakness and guilt were amongst them. Racist sentiment...was on the rise. (The gold and diamond mines were sources of enormous wealth.) The political power of several hundred thousand Black miners...was negligible compared to that of the skilled White mineworkers, let alone the mineowners. Another significant factor was liberal opinion (regarding the barbaric means Kitchener had used to force peace on the Boers). Political power was
therefore reconstructed on a basis of modified Afrikaner nationalism plus Chamber of Mines financial clout" (1980: 112-127).

2.3 RISE OF AFRIKANER IDENTITY

2.3.1 Development of a new idigene

The subjugation of the indigenous peoples and the economic domination of the country by colonial powers and settlers are aspects of South Africa's history that are common to many countries. What is of particular importance in this respect in South Africa, however, is the development and consolidation of a "new indigene", the Afrikaner.

The origins of this group were in various European settler and indigenous populations; however, within a relatively short time a distinct identity was beginning to form, which was consolidated over time.

The development of Afrikaner identity was stimulated and gained impetus from various political moves on the part of the colonial powers. It was however defined most firmly by political manoeuvring within the Afrikaner grouping itself, which led eventually to the political dominance of Afrikaner nationalism and structural adjustments to entrench this dominance. This in turn was to have a profound effect on the economic relationship between Black and White in the country.

The rise of Afrikaner identity is intimately tied to issues of ethnicity, race and class and to the manipulation of these concepts for political gain.

2.3.2 Ethnicity, race and class

Ethnicity refers to the definition of shared group interests, often focused around a common group cause.

Adam defines ethnic mobilisation as "the process by which mere particularistic interests become common cause. Adherents mobilise for...group action and the promise of a better
future in the name of a common bond" (Adam & Giliomee 1979:61).

Giliomee states that "ethnic identification occurs most strongly where a collection of individuals come to consider themselves communally deprived and believe that mobilisation as a group would improve their position, or where persons seek to protect the privileges they share with others against those who do not have them or whom they are exploiting collectively" (1979:83).

Although ethnicity and class can be seen as opposing forces, the relationship between them is often one of dynamic tension. Adam notes that the "emotional anchorage" and symbolism of communal mobilisation through ethnic appeals lend themselves far more easily to successful appeals of solidarity than do calls for the unity of crosscutting class interests" (1979:61-2).

However, ethnicity often develops into class concerns, and class concerns are often articulated through and transposed into ethnically-based appeals.

A more common transposition though, is that of ethnicity and race, particularly in situations where such confusion serves political ends. In contrast to (for example) language or shared history, race is "unique in its visibility and impermeability" (Adam & Giliomee 1979:33).

Adam notes further that deliberate confusion of the two concepts of ethnicity and race for the sake of expediency and political gain is not always successful, as "ethnicity will always be considered a form of racialism by those affected, as long as it is imposed and does not correspond with the self-concept of ethnic group members" (1979:289).

Cheater refers to the pervasive nature of racism as a form of over-riding ethnicity in a case study of the politics of factory organisation in Zimbabwe (Cheater 1986). She notes "the major importance of race as a form of ethnicity in the factory (which) simultaneously defused the significance of what were perceived to be relatively minor ethnic divisions among the Black workforce itself" (1986:54).
She notes further that although in social terms "ethnicity did seem important in structuring workers' images of traditional cultural values...ethnicity affected relationships on the shopfloor...not in the ways anticipated...ethnic clustering in certain departments and sections of the work process was essentially a by-product of labour recruitment using kinship connections" (1986:51-3).

The relationships between ethnicity, race and class, and the exploitation of these concepts for political gain, has shaped South Africa's history over past centuries. These relationships and processes are of particular importance in the development and consolidation of an Afrikaner identity.

2.3.3 Identity through ethnicity

Adam describes the development of Afrikaner identity through manipulation of ethnicity, race and class as follows: "The structural transformation of South African society (through the success of Afrikanerdom) amounts to an ethnic revolution. It channelled and stimulated rapid industrialisation through protectionist and racial legislation.

"The parallel accumulation of wealth and the acquisition of undivided political control by a formerly-disadvantaged out-group resembled the takeover by a new class. In this instance the new "ethnic class" entrenched itself within the existing economic system by ethnic patronage and exclusion" (1979:177).

2.4 THE GROWTH OF AFRIKANER NATIONALISM

2.4.1 A changing world experience

The defeat of the Boer forces by the British provided an important focus for the consolidation of Afrikaner ethnic identity. Giliomee describes this as a survival tactic: "For Afrikaner nationalists the alienation, anxiety and insecurity of the new order could only be reduced within the womb of ethnic collectivity. Only by stressing their ethnic identity could the humiliation of defeat and the cultural chauvinism of the English be overcome" (1979:107).
Giliomee describes the situation of Afrikaners at this time as follows: "White Afrikaners entered Union in 1910 with their economic position far from secure (in the transforming) largely subsistence rural economy into an industrial economy firmly tied to British imperial interests. Foreign capital dominated the mining industry. Industry and commerce...were almost exclusively in the hands of non-Afrikaners...the English also dominated the public sector. But...four fifths of farm land was in the hands of Afrikaners" (1979:145-146).

The changing nature of economic life in South Africa from an essentially agrarian society to an industrialised one had a major impact on the development of the Afrikaner group. Rapid industrialisation and urbanisation of people whose previous experience was largely agricultural, left a deep imprint.

At the beginning of the century only 10% of Afrikaners lived in cities and villages; by 1911 this had risen to 29%; by 1926 to 41% and by 1960 to 75% (Adam & Giliomee 1979:104). For the majority of Afrikaners, urbanisation and industrialisation were coupled to poverty.

Giliomee (1979:150) notes that "capitalist development and rural poverty led to rapid urbanisation by Afrikaners during the first three decades of the 20th century. (Many were) destitute - people who subsisted largely through the efforts of welfare organisations...perhaps as much as one quarter of the Afrikaner population of just over one million. The income of the remaining...was not high either".

Afrikaner poverty in the early years of the century was a source of concern, and a threat to the nascent identity of the new indigene. However, it provided a focus and opportunity for politicians to clarify Afrikaner ethnicity; very soon this clarification was defined in terms of race and class concerns.

Giliomee states that poverty during the Depression in South Africa "was confined to one section of the White population, the Afrikaners, whose lack of proficiency in English was often a barrier to economic advance. It was this context that made Afrikaner poverty such an emotional issue" (1979:151).
In a speech at the 1938 Blood River commemoration, the Afrikaner politician DF Malan stated that "Die Afrikanertrekker...is...die swakste toegerus vir die stryd. Die swaarste las rus op die swakste skouers...Dis sy nood wat hom dryf (na die stad)...swygende maar diep armoede...armoede is onmag en nederlaag" (Malan 1964:126).

2.4.2 Ethnicity becomes race

The changing situation of the country did not affect only Afrikaners; the Black population similarly experienced rapid urbanisation, in this case stimulated further by legislation that prevented them from agricultural involvement and taxation demands. Competition between Blacks, who were much more numerous, and Afrikaners in the cities for scarce resources was to become the factor that above all others redefined ethnicity as race.

Malan (1964:124) stated that "...een ding waar is, dat dit in die stad is waar die Afrikanerdom se stryd gewen sal word...dit nie slegs die Afrikaner is wat trek nie, maar ook die nie-Blanke met sy honderduisende. Die lewensbestaan wat daar gemaak kan word, word saam met die Blanke deur hulle gedeel, en as getalle alleen kan beslis, dan is die kansie van die stryd al dadelik teen die Blanke. Dis oral so, maar nerens kan u dit so aanskoulik voor u sien as in die grootste stede."

Giliomee notes that in this situation, class concerns were clearly defined, and that for the emergent Afrikaner grouping "ethnic identification sought to attain political and cultural goals and meet diverse psychological needs...the outcome of the Afrikaners' struggle in the economic field would be decisive in determining whether they would see themselves primarily as an ethnic group or a class.

1 (translation) The Afrikaner migrant is the worst equipped for the struggle. The heaviest load rests on the weakest shoulders. It is his need that drives him to the city...silent but deep poverty...poverty is powerlessness and defeat

2 (translation) One thing is true, that it is in the city where Afrikanerdom's struggle will be won...it is not only the Afrikaner who is migrating, but also the Black in his hundreds of thousands. The living that can be made there is shared with them by the Whites, and if numbers alone can decide, then the chances for the struggle are clearly against the Whites. This is the case everywhere, but nowhere can it be seen as clearly as in the largest cities.
"In the 20th century, Afrikaners who had been forced to migrate to the cities often entered the job market on the lowest rungs, hardly any higher than the equally unskilled Black labour force and far beneath the skilled English worker. From a class perspective, the obvious characteristic was the cleavage between capitalists and workers in a system that exploited the largely unskilled and proletarianised Afrikaner and Black labour" (1979:107).

This situation is evident in a 1904 Transvaal Chamber of Mines report, which stated that Afrikaners were "incompetent and apathetic indigents (who) can hardly be considered in efficiency the equal of a Native" (Idasa:1995).

Competition for labour opportunities between Afrikaners and Blacks was seen by White politicians as a rallying point for Afrikaner support, using a class basis which in turn transformed the issue into one of race.

Giliomee notes that Afrikaners objected to competition with Blacks not so much because they were Black but because they were offering their labour at a cheaper rate that Whites could socially afford (1979:108).

Malan (1964:126-7) described the situation as follows: "Die Afrikanertrekker in die stad moet lewe...en...ten spyte van sy armoede...as 'n beskaafde witman...Maar komende van die boereplaas het hy geen ander kansie nie as om te probeer lewe as 'n ongeskoolde of halfgeskoolde arbeider van sy handwerk...(hy vind) beskermde werkverskaffing en beskerme hoe lone vir nie-Blanke gelykop met Blanke. Maar omdat hy geen vakman is nie, staan hy voor 'n geslote deur. Aan die ander kant van hom weer is daar lone deur die vrye kompetisie tussen wit en gekleurde en swart so laag afgedruk...dat (hy) nie in staat is nie om daarvan fatsoenlik te lewe nie."

(translation) The Afrikaner migrant must live in the city, despite his poverty, as a civilised White man...However, coming from the farm, he has no option but to try and survive as an unschooled or partly-schooled labourer...he finds reserved/protected employment and high salaries for Blacks equally with Whites. But because he has no expertise, he stands in front of a locked door. On the other hand, free competition between Whites, Blacks and Coloureds has driven salaries so low...that he is not able to live decently.
2-13

2.4.3 Political power through Afrikaner ethnicity

The plight of the Afrikaner, and the concept of Afrikaner ethnicity, provided a useful tool for politicians.

Giliomee notes that "Both Hertzog and Malan tried to mobilise the electorate by exploiting the concept of Afrikanerdom, both defining it in ways that suited their political strategies. Hertzog, in attempting to build a cross-ethnic middle-class base, wished to make the term an inclusive political concept...Malan’s political strategy was to unify the Afrikaners who constituted more than 50% of the electorate" (1979:111).

Dreyer notes that the issue of the protection of Afrikaner identity was used cynically and expediently by politicians, at times from opposing camps, in order to gain power.

"After 1922 (the miners’ revolt) the Communists threw their support behind Hertzog and Malan. With equal opportunism (these) temporarily dissembled their racism ..in order to woo the Cape Native voters, whom they hoped to remove from the electoral rolls as soon as power permitted. In 1919 Hertzog had lauded the Bolsheviks...Now he went so far as to contribute funds to the biggest African organisation of the day, the Industrial and Commercial Workers’ Union (ICWU).

"Meanwhile Malan extolled the "true patriotism of the Native", whom he declared "entitled to take his place side by side with the (Afrikaner) Nationalists in the common political arena"...the Afrikaner Nationalists prized power above any principle, and in 1924 they got it. The backlash from Smuts’ suppression of the miners’ revolt gave them a parliamentary majority in combination with the all-White Labour party. No sooner had Hertzog been summoned to form a government than his true colours asserted themselves" (1980:137).

In the 1930s the Afrikaner’s quest for identity entered a new stage when the United Party (UP) was established, fusing Hertzog’s National Party with the pro-Empire party of Jan Smuts and bringing class issues to the fore.

Malan broke away to form the Purified National Party, in response to the perceived threat that (English) mining capital would predominate in the UP. To the Afrikaner Nationalists,
this would split the Whites into a capitalist and working class, enabling underskilled Afrikaner workers to be replaced by cheaper Black labour. Fusion thus posed a threat to Afrikaner identity through workers mobilising themselves on a class base.

The Nationalists claimed that fusion would end with Afrikaner culture being swamped; there would be no hope of an Afrikaner party winning power and using the State to promote the interests of Afrikaners (Adam & Giliomee 1979:110).

2.4.4 Race, political opportunity and the quest for "separateness"

Adam refers to the bitter struggle between English capital and the (new) indigenous farming group over State control at the time of Union as an early anti-colonial movement (1979:51). However, it can also be seen as the beginning of yet another colonisation of the country, this time by the new indigene, the Afrikaner.

Adam notes that "only through State power could a weak and nascent Afrikanerdom hope to wrench a share from the giant foreign mining houses and move into other lucrative economic activity. Protectionist policies were a prerequisite for success in this endeavour."

Political power and substantial Afrikaner inroads into English monopoly capital however only constituted the outcome of a long process of ethnic activation. After the Boer War, a first phase of "cultural remoralisation" centred around the suppressed Afrikaans language and heritage symbols" (1979:51). The Afrikaner Nationalist leaders Hertzog and Malan from an early stage employed language as a mobilising tool (Adam & Giliomee 1979:106).

More important than ethnicity however, was the role of race in the consolidation of an Afrikaner identity. Black indigenous peoples shared many common experiences with the new indigene, from agriculture to urbanisation. This class similarity became an increasing threat to Afrikaner identity, and to the use of Afrikaner identity as a focal point for political power.

Dreyer notes that "For almost three centuries, colour and all that was implied by colour had been the parameter that distinguished Afrikaners from Africans" (1980:147). It was essential therefore that this distinction remained and was strengthened if Afrikanerdom
was to achieve its aims.

Removal of what political power was available to Blacks was essential to the achievement of State control by Afrikaners. In 1936 the Natives Representation Act (NRA) was passed in order to abolish the surviving Black franchise (in the Cape).

Dreyer states that "The NRA had little to do with the question of representation as such. It was a matter of identity, of how the nation, as embodied in the electorate, was to be defined... (with the passing of the Act)... Africans felt a sense of despair. Year after year their rights had been systematically reduced, their freedoms circumscribed.

"White opinion was contemptuous... and invariably patronising even when well-meaning. The country's three prime ministers since Union, Botha, Smuts and Hertzog had none of them scrupled to bamboozle African leadership with promises where they could, and to crack down ruthlessly where they couldn't. White votes counted more..." (1980: 145-147).

Whitening the electorate opened the potential for a political presence for Afrikaners. Giliomee notes that "in 1911 Afrikaners over 21 represented just over 50% of the total adult White population. They could make claims on the State to be provided with education and job opportunities" (1979:148).

This was recognised by the State. The United Party implemented policies (subsidised by the gold mining industry) that benefitted Afrikaners as a group, through the so-called civilised labour policies, state aid to farmers and a programme to promote local manufacture and industry; the cornerstone of the latter was ISCOR, established in 1928. Between 1927-8 (the Depression) and 1938-9 (drought) expenditure on agriculture increased by 400%. The government also introduced legislation that increased the farmers’ control over their Black labour force (Adam & Giliomee 1979: 150-153).

2.4.5 Economic colonisation

Giliomee (1979:147) notes that the Helpmekaar (Mutual Aid) fund was used to establish Afrikaner enterprises that would provide employment and training in business skills. The
first enterprises in the drive for Afrikaner economic power were launched during 1915-1918, and included Nasionale Pers, Santam, Sanlam, KWV and Avbob; many of these enterprises openly appealed to Afrikaner sentiment and solidarity.

However, despite these initiatives, Afrikaners still felt they were losing out. "Without the capital resources, connections and interlocking directorates of big English capital, the small Afrikaner businessman could not compete for a share of the growing economy...During the 1930s members of the Afrikaner cultural and business elite embarked on a strategy of ethnic mobilisation to improve the economic position of the Afrikaners. Ninety percent of the Reddingsdaadbond fund (1939) was devoted to investments in Afrikaner businesses, particularly Federale Volksbeleggings.

"(The drive to create and support Afrikaner economic strength) was a strategy with both a materialist and ethnic appeal...Volkskapitalisme would entail Afrikaners owning the means of production, investing in and patronising Afrikaner enterprises and employing and caring for Afrikaner workers. The spearhead was the Broederbond" (1979:153-157).

2.4.6 The Broederbond

Giliomme notes that "the Broederbond was founded in 1918 to promote Afrikaner interest and the Afrikaans language. In 1928 it became a secret organisation restricted to male Afrikaners. Recruits...strove for the ideal of an everlasting and separate Afrikaner nation, who would give preference to Afrikaners...in economic, public and professional life...The stated aim was the creation of a consciousness among Afrikaners concerning their language, religion, traditions, country and volk, and the promotion of the interests of the Afrikaner nation.

"In the 1930s and 1940s key figures in the political, cultural and economic elite of the Afrikaners were enlisted. Economically it was the driving force behind the movement to promote Afrikaner private capital and combat the influence of socialist trade unions....culturally it championed mother-tongue instruction in single-medium schools. Politically it campaigned against British imperialism and worked for unity among the Afrikaners" (1979:247).
The commercial arena was an important focus for the pervasive influence of the Broederbond. Giliomee states that "as directors of new enterprises...leading Broederbonders...acquired considerable influence in Afrikaner business life" (1979:157).

In the political arena, the Broederbond was also highly influential. From early on the Broederbond acted as a secret communication channel between the Nationalist Party government and the Afrikaner elite, being both a generator of ideas suggested to the political leadership and a sounding board for government initiatives (Adam & Giliomee 1979:251).

In 1934 the National Party (NP), in the form in which it was to rule South Africa for over four decades, came into existence. In the years that followed the NP, the Broederbond, the Afrikaans press, writers, businessmen, schools, universities and even the church all attempted to foster a consciousness among the Afrikaners of an exclusive political identity.

In the 1930s the NP rallied most of the Afrikaner intellectual elite behind this cause; extensive use was made in this process of the Broederbond to ideologize Afrikaner identity and history (Adam & Giliomee 1979:112,196).

2.4.7 Political entrenchment of ethnicity

The mobilisers in the Afrikaner economic movement realised that ultimately only political power would effectively enhance the Afrikaners' economic position.

It was the entrenchment of Afrikanerdom as a political class, encompassing all economic classes of the ethnic group, that made possible an ethnic revolution through the capture of State power. An important element of the electoral victory of the NP in 1948 was a decisive measure of Afrikaner unity over the party's demands for national independence, its promotion of Afrikaner business interests and its championing of Afrikaner culture; the party rose to power as the embodiment of ethnic interests.

The NP after its electoral victory in 1948 greatly increased the scope of State intervention in the economy whilst at the same time fostering Afrikaner economic advance. This was achieved through implementing its concept of a strong interventionist State resting on an

2.4.8 Affirmative action - the Afrikaner experience

After 1948, control of the State would to an important extent shape the Afrikaners' economic advance. "The Afrikaner's material position depends largely on control of the public sector, which employs 45% of the Afrikaners" (Adam & Giliomee 1979:255).

Afrikaner agriculture was rewarded for its support of the NP; soon after it came to power the NP moved to meet the labour needs of agriculture by tightening the system of influx control and establishing labour bureaus. Farmers were also aided by favourable prices set by the control board, by government subsidies and by massive funding of agricultural research.

The NP also gave protection to unskilled and semi-skilled White workers (particularly garment, leather and engineering workers and municipal employment) through the 1957 job reservation laws. "Predominantly Afrikaans, they were poorly educated, badly paid and the most exposed to Black competition" (Adam & Giliomee 1979:255).

Job reservation encapsulated two cardinal labour principles; Whites could not be replaced by Blacks in the same job and Blacks could not be appointed in a supervisory position over Whites.

The NP also used public or semi-State corporations (some of which, such as Iscor, were founded before 1948) to promote Afrikaner economic advance. Under NP rule, the dimensions of public corporations were greatly extended, and they were important aids to Afrikaner economic advance. Giliomee notes that under NP rule the public sector's share of the economy nearly doubled and that following 1948, the public sector became progressively Afrikanerised.

He states further that Afrikaner advance in the private sector can be ascribed largely to the special relationship since 1948 of the Afrikaner businessman to political control. Aspects of this special relationship included government favouritism towards Afrikaner capital and a system of interlocking directorates between State corporations and Afrikaner
private capital (1979:164-9).

2.5 THE APARTHEID STATE

2.5.1 A racist economy

What Adam refers to as "Afrikaner politics of privilege maintenance" (1979:13) were to shape every aspect of economic life in South Africa. Crucial to continuing Afrikaner privilege was the policy of "separate development" or "apartheid", which ideologized and institutionalised ethnicity on racial lines.

Adam notes that "An obvious institutionalised racism, which leads to unequal distribution of opportunities and life-chances according to skin pigmentation, pervades every corner of South African society. However, the very structural entrenchment of racial segregation in conjunction with the Afrikaner ascendancy to political power in 1948 has changed the expression of this racist reality as well as its impact on group relations" (1979:32).

In the process of consolidating Afrikaner ethnicity through the establishment of the apartheid State, Giliomee states that "'Afrikaner identity' (had become) a political code word that relates to the status which accompanies political domination and to the range of ... privileges and spoils, of which crucial ones, such as career chances in the civil service and public corporations depend on political control and the policy of separate development, which ensures Afrikaner hegemony" (1979:122).

2.5.2 The manipulation of ethnicity and Bantustans

Without a means of ensuring that the Black majority would remain in the subordinate position to which the political manoeuvrings aimed at Afrikaner dominance had relegated it, the future of Afrikanerdom was by no means secure. Manipulation of the concept of ethnicity through the policy of apartheid and the creation of "Bantustans" (self-governing territories for Blacks) provided the means.
Adam describes this process as follows: "because of the numerical weakness of the ruling Afrikaner group...the government (has) adopted a policy of dismantling the nation through the creation of self-governing ethnic units, which nonetheless remain in a client relationship to the centre because of their economic independence" (1979:41).

Fredman, Nel and Randall note that "In 1913 the Natives Land Act set aside seven percent of the country as Black "reserves". In 1936 this was brought up to almost 14%...there was (however) no suggestion that (the reserves) would have to accommodate all the Black people, or that they would become self-governing territories in which Blacks would exercise political rights. This idea developed only after 1948, when the NP came to power and the system of apartheid rigidly formalised the prevailing racial segregation in the country" (1983:14).

The discriminatory foundation of apartheid is evident in the apportioning of the "self-governing territories"; "White South Africa consists of 87% of the country, and Blacks must exercise their political rights in the remaining 13% constituting the "homelands"" (Fredman et al 1983:85).

The rationale for this divide-and-rule system was supposedly based in ethnicity; in reality however this was an imposed categorisation that was applied in terms of structural limitations only to the Black population. This imposition represented a further disruption and dislocation of the social and political structures of Black societies; not only its nature, but the manner of its enforcement was foreign to traditional Black approaches to government.

Dreyer notes that "The familiar "tribal" divisions into Zulu, Xhosa, Sotho, Tswana and so on turn out to be imprecise innovations of relatively late date, more European misconceptions than reality...(for example) the tribal designation of the Tswana, a Sotho sub-group...the adoption of the name (suggests Ramoshana) was in the nature of a witticism on the part of those who took it over - so little seriously did they regard such concerns...All these groups were part of a continuous tradition and culture, closely linked in innumerable ways...and comprising a homogenous social entity" (1980:207).
In his examination of the political structures of Black South Africa, Dreyer notes further that "the modern geopolitical essence of the "nation", the concept of land as private property in macrocosm, is an un-African idea. It was introduced into southern Africa by the Whites" and that in traditional African polity "constituent chiefs were in no way vassals of the paramount and no tribute was paid...nor, significantly, was there an obligation for chiefdoms in a cluster to unite in defense of one another" (1980:208,206).

In this regard, Fredman et al note that "...democracy is part of the African heritage. In traditional African society chiefs and kings had not been above the law, but had to consult their people through a system of councils...Shaka and Dingaan...were exceptional in societies in which consultation, debate and the limitation of the power of rulers were the normal pattern" (1983:8).

2.5.3 The role of the private sector in the apartheid economy

The private sector and the business community in South Africa was intimately involved in protecting the apartheid ideology and its structural manifestations, particularly in the early years of Afrikaner Nationalist rule, by colluding in the establishment of an economy that was structured to bolster the apartheid State.

This was achieved through a combination of protection of vested interests through the ties between private capital and State institutions, and the extension of State favours to private capital for the support of the structures of the apartheid ideology.

Adam states that the private sector was largely responsible for entrenching the protectionist policies that led to the establishment and consolidation of Afrikaner nationalism. "It is obvious that private business in South Africa has long happily adjusted to, if not instigated, the State apparatus of Black labour control. Particularly the nascent and weak Afrikaner capital has looked to State protection against more competitive outsiders and labour threats alike...organised commerce, industry and agriculture, which in theory should be the main pillars of the free economy, are among the worst culprits...These groups needed the State to elaborate and back up restrictions. The State met these expectations and went beyond them...the coercive State apparatus of apartheid laws emerged in response to demands from specific constituencies" (1979:185-7).
The pay-off for the private sector in this approach was naturally short-term; the implications for sustainable economic health were largely ignored in favour of immediate benefit. In this regard, Adam notes that "Private capital may not reap the optimal profits under a system of restricted labour policies and substantial State interference, but it still yielded sufficiently huge profit margins that would not have been possible in the first place without State suppression of effective bargaining and the low social costs of labour as a result of apartheid" (1979:185).

From in-depth interviews conducted with influential individuals during 1974 and 1977, the role of the private sector in supporting structural racism is clear: "Amongst businessmen, all those who supported the government also supported the principle of apartheid; so did a third of those who were critics of the government. But they thought that it was not just sufficient to "consolidate" the homelands; new industrial centres, they believed, would have to be established in the "homelands" for the policy to succeed" (Fredman et al 1983:28).

Adam notes the effect of a strong and interventionist State founded on a coercive application of ideology on a business sector geared towards short-term profit: "...the very perception of Afrikaner power (has) led many opponents of apartheid to ingratiate themselves with the authorities in the hope of future favours...the interchangeability of business rationality".

He describes the opportunistic approach of the private sector as follows: "with the growth of Afrikaner-controlled State capitalism...the South African State frequently conflicts with private interests and has been able to impose its blueprints on private capital. Much of South Africa's economic history appears as the subjugation of laissez-faire economic policies to the ideological designs of Afrikanerdom, from which private capital on the whole benefitted immensely" (1979:179,12).

2.5.4 Change in the nature of Afrikaner business

The success of affirmative action policies led to the establishment of a significant Afrikaner presence in the economy. With maturity, the benefits of a less insular approach were sought by Afrikaner business leaders; the need for development and growth of their
enterprises was incompatible with the exclusionist attitudes of the early years of the Afrikaner affirmative action programme.

With time therefore, many Afrikaner enterprises adopted a more pragmatic and class-based, rather than ethnic, approach to their business dealings. This necessitated partnerships in various forms with other (White) business enterprises.

In this regard, Adam states that the most significant developments of the 1960s and 70s were firstly, the emergence of the Afrikaner industrial and bureaucratic bourgeoisie as the dominant element of the South African State and secondly, the linkage and interpenetration of both English and Afrikaner capital (1979:11).

He notes further that advances of Afrikaner economic power through the public corporations (parastatals) and by way of redirecting national income into sectional support, still left English capital in a dominant, though reduced, position. Mergers and joint ventures of Afrikaner and English capital greatly increased in the 1970s as Afrikaner capital, first accumulated in banking and insurance, was forced to diversify by the sheer weight of funds (1979:132, 180).

The success of the Afrikaner affirmative action programme had thus led in turn to a situation where the opportunity costs of its protectionist policies became a hindrance to the beneficiaries.

Adam notes that "The State's elaboration of the racial order has brought in its wake new costs and lost opportunities. Manufacturing and commercial interests demand more trained Black labour, need greater political stability, a larger domestic market, and better export opportunities. The racial order militates against all these imperatives" (1979:187).

Surveys noted a growing dissatisfaction in the business community with the increasing opportunity costs of apartheid and decreasing benefits of protectionist policies.

Fredman et al note that the attitudes of White businessmen to petty apartheid were influenced by economic factors: "a luxury that we can't afford. Separate facilities...cost a lot of money...negative effect on productivity (arising from) segregation at work and the
long journeys made necessary by segregated residential areas".

Businessmen interviewed also displayed a growing awareness of the economic ill-effects of job reservation (about two thirds of the businessmen interviewed were in favour of its immediate abolition: "It involves separation on the basis of racial criteria, not rational economic criteria (and productivity)...productive Blacks should be given precedence over unproductive Whites" (1983:68,48).

Adam notes that "...a mature Afrikaner bourgeoisie in full control of State power has now identified itself with laissez-faire labour policies of English capitalists with whom it (now) shares similar interests of curbing the historical monopoly of expensive White labour".

He describes the changing situation further as a "backlash against traditional government interference into the market, including the Black labour market (that) reflects the mood of a self-confident Afrikaner business class that no longer needs to rely on State protection as in the past. It is big business and not the small and struggling Afrikaner enterprise that now sets the tone" (1979:182,191).

The important influence of the private sector in shaping and changing the economy is noted by Cheater, who states that "The State depends on capital for its continuing existence...To maintain the State, government depends on capital, its systems of taxation, appropriation and reward, and its methods of surviving economic crises" (1986:148-9).

The business sector therefore has an important role to play in influencing economic policy. Where political ideology and economic sense are in conflict, this role becomes all the more important.
CHAPTER THREE
THE IMPACT OF APARTHEID ON BUSINESS (LITERATURE REVIEW)

3.1 INTRODUCTION

This chapter explores the profound impact of the application of the apartheid ideology on the country. Literature on the topic is reviewed. The first part of the chapter describes the way in which the policy of apartheid, originally formulated as a means of establishing Afrikaner power, was applied in order to institutionalise racial discrimination. Apartheid provided a means of circumventing the numerical superiority of the Black population.

The second part of the chapter explores the South African population in terms of the importance of ethnicity and numbers to the various population groups, the implementation of apartheid policies as a means of dealing with this, and the irrationality of apartheid in the light of numerical pressure. Population growth and profiles are explored in this regard.

The third section of the chapter explores the impact of apartheid on the country’s economy, and the way in which apartheid has structured the economic potential of South Africa.

The fourth section describes the situation of the business sector, which is characterised by structural divides that have been shaped by the country’s history of discrimination and division. Businesses in the formal sector have benefitted from apartheid through preferential treatment afforded to White business, and have thus been slow to effect change, even when encouraged to do so by legislative change. The large informal sector has arisen as a result of the inability of the formal sector to absorb the increasing labour force. The issues of unemployment and labour are explored.

The fifth section explores the impact of apartheid with respect to racism in the workplace and society, the development racially-focused attitudes and the lack of social responsibility on the part of the formal business sector.

The final section notes briefly the need for change if South Africa is to survive, and the crucial role of the business sector in facilitating and assisting such change.
3.2 STRUCTURING AROUND RACE

Centuries of progressive subjugation of the indigenous (Black) people of the country culminated in the institutionalised racism of apartheid. This political ideology was focused around the domination of resources by Whites, and led by the "new" indigene, the Afrikaner.

Apartheid provided a means for Afrikaners to overcome the dominance of the colonial powers, particularly the British, and in turn to assume control. Initial appeals to an ethnic consciousness soon became focused on race as a way of overcoming the class position of Afrikaner labour, which being un-or semi-skilled, was in direct competition with that of the Black majority.

Afrikaner identity and political power was thus developed and consolidated through the use of racism. "The enactment of racial laws in the first decade of Nationalist rule was as much directed at fostering Afrikaner unity in light of its internal stratification as it aimed at holding the "Swart gevaar (Black threat)" at bay" (Adam & Giliomee 1979:41).

Apartheid was essential to this process. Giliomee notes that "South Africa's institutionalised racism (the policies that distribute power, wealth and privileges unequally on a racial basis) can best be understood as the product of the Afrikaners' conception of their distinct place in the social structure" (Adam & Giliomee 1979:84).

The success of apartheid as a key element in the process of achieving a driving sense of Afrikaner identity is evident in in-depth interviews conducted by Fredman et al (1974:96), which revealed that ..."Afrikaners view themselves as a separate group whose own interests are paramount."

Once political power had been achieved, the further development, refinement and imposition of the race-based ideology of apartheid was essential to the continued dominance of the Afrikaner.

Giliomee suggests that the policy of apartheid should be seen as an instrument that structured the South African State in such a way as to both foster and conceal Afrikaner
dominance. He describes the imperative towards a system structured around racial dominance as follows: "In the legislation two considerations were inextricably linked: without a privileged position the Afrikaners could not survive as a separate people; without safeguarding the racial separateness of the people a privileged position could not be maintained (1979:116,117).

3.2.1 Ideology and rationality

Ideology is seldom rational, and adherents of ideology do not often count the cost of their convictions. In South Africa, the ideological basis for the development of apartheid did not disappear with the implementation of the ideology. The numerical dominance of the Black population remained.

The methods used by the apartheid State to undermine this fact and retain White dominance were to shape every aspect of the country’s social and economic life for many decades. Adam notes that "an ideology once entrenched must be considered an independent force, generating its own dynamism and motivations" (Adam & Giliomee 1979:18).

This has been the case in South Africa; apartheid policy makers were able to ignore economic common sense in favour of ideological demands through the exercise of extreme State power. Every aspect of social and economic functioning was surrounded by a web of legislation directed at entrenching the ideology. By doing so, the State was able to circumventing the practical issue of population numbers.

This in turn has had a radical effect on economic growth and business success.

3.3 THE SOUTH AFRICAN POPULATION

3.3.1 Ethnicity and numerical strength

Sparks (1994:7-8) notes the success of the ethnic approach to Afrikaner identity: "For the previous fifty years, especially, (Afrikaners) had seemed in the grip of an ethnic
paranoia" and the dependence, because of their small numbers, on racial separation as a political tool for maintaining this sense of collective identity: "There could be no further retreat...they would lose their national identity and suffer cultural death. So alongside their ethnic nationalism grew a sense of themselves as an endangered species...They therefore equated racial integration with "national suicide".

In contrast, surveys carried out by Fredman et al (1974:9) showed that "...as many as 64% of urban Blacks feel no tribal or ethnic ties at all...Later research has strongly supported these findings...many urban Blacks view ethnic separation with deep suspicion, as a means of keeping Blacks divided".

3.3.2 Population numbers and apartheid

The Afrikaner politician, D F Malan's views on Jews, whom he considered as being behind the liberal and communist threat, make particularly interesting reading when seen in the context of the Afrikaners' ethnically-based rise to power. "(die Jood) is orals...in die minderheid; hy vergader orals vir homself baie meer as wat kragtens sy getalsterkte aan hom toekom..."1 (Malan 1964:116).

Afrikaner politicians used political power to bypass the logic of population numbers; the Black majority was thus accommodated only insofar as they served the ends of perpetuating of Afrikaner power. Apartheid policies were thus aimed at reducing the unit value to the economy of the Black component and increasing that of the White component.

The pressure of Black numbers was fully recognised by Afrikaner politicians. In the race for political dominance, the Black population was hamstrung through a cynical and particularly short-sighted ploy by restricting their access to education.

Malan described the situation as follows: "Die naakte waarheid is dat die omstandighede teen ons is...Ons het teen ons die mag van getalle...ons het teen ons nog 'n groter en sterker aangroeiende mag as dit. Dis die van die onderwys. Want kennis is mag...om 'n

---

1 (translation) "(the Jew) is everywhere...in the minority; he accrues everywhere for himself much more than he is entitled to according to his numbers"
Blanke minderheid te staan teenoor 'n geweldige oormag van beskaafde en opgevoede nie-Blankes wat ons lewensbestaan met ons wil deel...maak die stryd om 'n Blanke Suid Afrika...oneindig swaarder” (Malan 1964:112-3).

Legislation was introduced that (inter alia) directed the movement of Black labour and restricted educational opportunities. As Malan had stated in his speech at the Winburg centennial in 1937, Blacks were to be kept in a state of economic servitude: "Ons het egter 'n volk gebly deur 'n verhouding van heer en diensbode tussen blank en swart to skop, en nie rassevermenging toe te laat nie” (Malan 1964:236).

3.3.3 Numerical pressure for ideological change

The consequences of this approach were to affect all aspects of social and economic structures in the country. The sheer weight of Black numbers however, and the need for a productive economy, made it impossible for this to continue.

"In its endeavour to make the country safe for Afrikanerdom (the NP government) set up a bulwark of restrictive racial legislation. However, no laws could ultimately prevent the growing dependence on a voteless labour force and the consequences flowing from that” (Adam & Giliomee 1979:115).

As an example of the effect of this legislation on labour movements, Dreyer (1983:24) notes that during the year ending June 30 1969, the average daily number of prosecutions under these numerous laws and regulations (relating to influx control) was 1 732. This adds up to several hundred thousand prisoners a year, even excluding those arrested but not prosecuted.

2 translation: "The naked truth is that circumstances are against us...We have the power of numbers against us...we have an even bigger and stronger power against us than that. It is that of education. Because knowledge is power...to stand as a White minority against an overwhelming majority of civilised and educated non-Whites who want to share our livelihood with us...makes the struggle for a White South Africa...infinitely more difficult."

3 (translation) "However, we remained a people by creating a master/servant relationship between White and Black, and not allowing miscegenation."
Jooma notes that by the early 1980s "it was becoming obvious to government policy formulators that the system of influx control or statutory migrant labour was simply unworkable. Apart from the racially discriminatory effect that a criminalised system of labour controls produced, it was found to be retarding economic growth" (Jooma 1991:v).

Fredman et al note that the report of the Riekert Commission, which was set up to look at the utilisation of labour in the country, stated quite bluntly that it should be accepted that by the government that urban Blacks were a permanent feature of South African life. With the acceptance of the Commission’s recommendations, the Nationalist dream of turning the tide of influx and of Blacks "returning home" to their "homelands" was finally abolished (1983:31).

Sparks states that political change was ultimately due to a realisation that "...the racial arithmetic of South Africa was loaded against (apartheid); that White South Africa was inextricably dependent on the Black labour force" (1994:92).

However, he notes that "...reforming apartheid was an extremely difficult thing for South Africa’s White minority to contemplate...empowering the Black majority meant it would take over control of the country". The pressure of demographics, and the statistical irrationality of apartheid, meant that a solution had to be found. Sparks refers to "the unique balance of mutual dependency that made apartheid impossible and that drove its squabbling factions to a constitutional settlement against all the odds" (1994:6,230).

3.3.4 Population growth and profiles

Viljoen et al note that "rapid population growth is intensifying the economic, social and psychological problems associated with un- and under-employment, especially since it retards the prospects of those already born" (1987:43).

Beukes notes that: "The total population of South Africa will almost double between 1985 and 2010. The most striking aspect of this increase is to be found in the black segment. An increase of 130% over the 1980 population will take place in their numbers. Related to this is the change in the age distribution of the population. A continual decrease in the average age is taking place, which provide a scenario of a South African population which
is increasingly Black and youthful. This outlines the challenges which must dominate the development agenda. In addition, by 2010 73% of the population will be urbanised and urban growth will take place faster than general population growth. Of fundamental importance is that the new urbanites will be mostly Black. The demands created in and around the cities by this dynamic are the universal ones for employment, housing, services, amenities and education" (Beukes et al 1991:42).

3.4 APARTHEID AND THE ECONOMY

Apartheid has had a profoundly damaging effect on the country’s economy.

Manning refers to the effect of apartheid on the economy of the country as follows: "Forty-plus years of clumsy and costly social engineering have created serious distortions in our economy" (1991:107).

Cross describes the effects of apartheid on the economy as follows: "South Africa has a very low growth rate. Capital flows and skills are volatile. The commodity based export sector is in long-term decline. Unemployment is huge, labour costs are rising, population growth unchecked, and urban - rural migration already in flood." (Beukes et al 1991:35).

Naude et al (1973:17,16,36), in their investigation into management responsibility and African employment, note that the impact of apartheid has meant that (the South African economy can be classed as) "semi-developed, highly dualistic...and in a long-run process of structural change. In its development it is hampered by rapid population growth and imbalance between the overall supply and demand for labour, as well as by a complex of socio-political restrictions of a statutory and conventional nature."

Apartheid is responsible for "the facts of underdevelopment, dualism, poverty and unemployment...the current situation is to a considerable extent the result of protectionist and discriminatory policies of the past and the present...the policy of separate development (apartheid) is deplored inasmuch as it is used in justification for inequality and discrimination both in the homelands and in the common area."
The investigation notes further that "...too much emphasis is usually placed on the highly industrialised and modern character of (a part of) the South African economy. South Africa belongs in the category of semi-developed countries such as Mexico, Venezuela, Chile and Spain." Characteristics of countries in this category include:

* a comprehensive process of structural change, in which the relative significance of the agricultural sector for employment, production, exports and capital formation is reduced in favour of local industry, mining and the tertiary sector.

* a rapid process of urbanisation, accompanied by serious problems of adjustment in social, economic and political spheres.

* rapid growth of the population and labour force, and resulting imbalances in the demand and supply of labour ie scarcities in the highly skilled and managerial category and surpluses in the unskilled category.

* the existence of various forms of dualism eg regional inequalities in the level of development and cleavage between the urban and rural (subsistence agriculture) socio-cultural pattern.

* shortage of capital, technical know-how and managerial expertise, either country-wide, in specific regions or with regard to specific population groups.

* bottlenecks and crucial shortcomings in infrastructure eg transport, training facilities, housing etc

* cyclical or chronic imbalances in the Balance of Payments

* very unequal distribution of income and wealth.

Cross describes the South African experience as having been one of "racial inequality, ethnic rivalry, social and economic structural duality, and the perception by the mass of society of the State as a vehicle of exploitation (that has resulted in)...a large majority of people living in urban ghettos and barely viable rural areas lacking many of the attributes
for successful social and economic mobility". He notes that in South Africa the borders between the elite and the dispossessed have been "explicitly articulated by skin colour and the lengthy political and cultural history which has erected this as the great divide" (Beukes et al 1991:30-31).

Adam notes that South Africa's history has meant that the economy has to bear additional hidden costs, such as the impact on inflation of "undertrained, under-utilised Black labour and overpriced White workers" (Adam & Giliomee 1979:4).

Beukes states that "the record of economic growth during the past 30 years has been one of continued decline, combined with a decline in overall productivity...a lack of domestic investment, waning investor confidence, rising cost of capital, capital flight, lack of support of human resources and technological skills, limited access to international markets and high inflation. To a decisive degree, this must be attributed to apartheid policies and international resistance to them" (Beukes et al 1991:44).

3.5 SOUTH AFRICAN BUSINESS

3.5.1 Structural divides

The business sector in South Africa is characterised by structural inequality which largely reflects the country's political and social history of division and discrimination.

Beukes states that "economic inequality in South Africa is closely allied to the inequality of power, with a predominantly racial dimension". Cross notes that "in South Africa the borders (between the elite and the dispossessed) have been one of kind, explicitly articulated by skin colour and the lengthy political and cultural history which has erected this as the great divide" (Beukes et al 1991:43,31).

Nattrass notes that one of the characteristics of economic development in South Africa is a very uneven spatial distribution of economic resources. The major proportion of all economic activity is concentrated around the main urban areas, historically centred on mines and seaports. Development in South Africa was directed by political institutions
designed to foster racial separation and to control Black participation in the economy. These political institutions, coupled with the uneven spatial distribution of economic activity, have resulted in a situation in which the subsistence sector has become increasingly overpopulated. In South Africa the situation is one where "whilst capital accumulates in the modern sector, the access of the major portion of the labour force to that capital is rationed" (Nattrass 1984:39-40).

3.5.2 The formal sector

The preferential treatment accorded to White business enterprises under apartheid was reflected in the response of these formal sector businesses to opportunities, however limited, to redress the situation. Rather than opening opportunities to Blacks, they generally chose to preserve their privileges.

Naude et al (1973:57) describe their observations in this regard as follows: "...the scope for differential interpretation and implementation of present laws and thus the scope for individual and company discretion is much wider than is usually acknowledged...companies are urged to express their opposition to specific aspects of government policy eg job reservation, restrictions placed on African training, migrant labour, separate amenities...employers do have an important task in this regard and...do not always exert enough pressure...employers favour only marginal changes which will not materially alter the pattern of racial domination".

Ball & Asbury note the effect of years of protectionist policies on formal sector businesses. "Most medium and large South African companies are...only partly decentralised and they have become fairly formal in their processes and systems. They tend to be fairly rigid, responding rather slowly and deliberately to new threats and opportunities. They are likely to change only reluctantly" (1990:24).

3.5.3 The informal sector

Beukes notes that the effect of economic decline over the past three decades combined with high population growth has been that the formal economy is less and less able to accommodate the increasing labour force. "The percentage of the workforce without
formal sector employment opportunities increased from a already high 25% in 1974 to 42% in 1989. Almost 85% of the unemployed are from the Black community. The upshot of this trend has been that a growing number of people have had no other recourse but the informal and subsistence segments of the economy" (Beukes et al 1991:44).

Coetzee states that the dramatic reduction in the employment absorption capacity of the economy over the past twenty years led to an automatic growth of the informal sector. He notes further that given the rapid growth of people living in "informal conditions", this sector will continue to play an important role in the economy; providing a means either for survival for those outside formal employment, or of making a living for those en route to the formal sector (Beukes et al 1991:190).

Ahwireng-Obeng notes that people operating in the informal sector are subject to "frustration, poverty and hardship" but that they are there because they are excluded from social and economic institutional structures and systems, and thus "have no alternative to living marginally from pre- and micro-entrepreneurial activities" (Beukes et al 1991:214).

3.5.4. Unemployment

Viljoen et al note that since the 1970s the South African economy has shown an increasing inability to provide employment for its total labour force, even at the peaks of business cycles. Fundamentally, unemployment rates should therefore be explained in long-run structural rather than in short-run cyclical terms. Something more than a normal cyclical wave in the business cycle set in that is not explainable by trend, cycle or seasonal variation.

They point out that the definition of unemployment includes jobless persons who seek work, but who may not be interested or able to fill existing vacancies. However, it does not include underemployed persons, ie persons who may be working below their skills levels, persons working fewer hours, days or months than they would like to work or people working unproductively, or unemployed persons who do not actively seek work (1987:13,26).
3.5.6  Labour

Adam states that a growing number of sociologists account for racial and ethnic antagonism in terms of group competition for scarce resources. Recent analyses have isolated a split labour market as a cause of ethnic antagonism, which is represented as taking two antithetical forms; exclusion movements and caste-like systems such as apartheid "caste is an aristocracy of labour in which higher-paid labour deals with the undercutting potential of cheaper labour by excluding them from certain types of work" (1979:34-35).

Surveys conducted by Fredman et al (1983:53) revealed that "White businessmen, despite their openness to change on other economic issues, were reluctant to accept Black trade unions with which they would have to negotiate in the same way as with White unions. About three-quarters preferred the system of liaison committees, which are consultative bodies without real negotiating strength, to proper trade unions."

Adam prophetically noted in 1973 "...the fate of South Africa may well be determined in the factories of an integrated economy in which Blacks have assumed an increasingly decisive role...A future accumulation of co-ordinated bargaining and strike threats...could achieve substantial economic improvements" (Adam & Giliomee 1973:280).

3.5.7  Class and labour

Cheater (1986:149) states that by assuming the ultimate right to decide on redundancy, short time and other aspects of the control of labour, government assumes the blame which, in other circumstances, would be apportioned to capital by threatened workers.

She notes further that "Relationships between workers and management and workers and government are more complex than their structures imply...although government policy officially attempts to strengthen labour against capital, bureaucrats in government and managers in the private sector are linked by stronger class ties than are superficially apparent" (1986:134).
3.6 IMpact of Apartheid

3.6.1 Racism in the workplace and society

Zimbabwe, like South Africa, has a long history of racial polarisation and White economic domination of the Black majority. Political change geared towards redressing imbalances caused by this history occurred earlier in Zimbabwe. The experience of Zimbabwean business is thus of great interest to South Africa.

In her study of workplace politics in a Zimbabwean factory, Cheater (1986:54) remarks on the extent of workplace structuring along racial lines and its impact on socialisation: "Until Independence, Zimtex management was officially exclusively White (but there were "unofficial Black appointments). This racial barrier was also a virtually unbridgeable social barrier...the social barrier at Zimtex continued to remove Whites from Black concerns, and perhaps caused Blacks to keep their private issues from White knowledge. The social gulf created by White racism was...extensive."

She refers to White perceptions of the racial and cultural components of the stereotypical Zimbabwean worker as follows: "The worker is believed to be congenitally incapable of sustained physical labour if this involves speed and intermittent extra effort; incapable of understanding or communicating in plain English...He apparently lacks "feel" for machinery and will consequently abuse it; will not reveal the cause of any dissatisfaction he may feel, but simply walk out or blow up, whichever is the most inappropriate under the given circumstances; is somehow "different" to the workers of Western Europe in response to incentives; and is, fundamentally, incomprehensible. The White management of Black labour is built upon these premises".

Observation during the case study revealed the following: "White managers generally denied that they harboured racialistic perception, but these denials were constantly overridden in many cases by their behaviour, both verbal and kinetic. The failure to remember Black workers' names was seen by management as a consequence of their inability to get their tongues around a foreign language...To the workers such lapses merely confirmed that they were non-people, machine cogs without individuality, in the eyes of the White managers" (1986:108,110).
Racially-based practices, once established, are pervasive and extremely difficult to root out. Tacit acceptance of what has become a behavioural norm is reflected often in the covert refusal of those advantaged by discrimination, to change their customary practices. Thus relatively minor change is perceived as being a major step forward; the gap between expected and accepted behaviour often offers a considerable zone of comfort where the need for real change can be rationalised away.

This is recognised by Fredman et al, who note that many of those surveyed believed that the Wiehahn Report signalled a breakthrough in racial discrimination and that it represented major changes in employment practices. However, the legislation that actually resulted still left room for racial discrimination in employment and White workers in a much more powerful position than Black workers. "Government policy seems to be to try to steer carefully between economic necessity and the retention of the privileged position of the White worker" (1983:50).

Internalisation of discriminatory experiences leads to the development of coping mechanisms on the part of those discriminated against. The psychological dimensions of the work experience are thus an important determinant of perceptions of the structures giving rise to such experience.

In the introduction to a series of unstructured interviews, Dovey et al (1985) state their aim to determine the psychological quality of the interviewee’s daily work experience; his or her career history and the formal and informal channels used in obtaining employment; and the nature and degree of any discrimination encountered at work. The impact of apartheid at the South African workplace is noted in many of these interviews. Apart from legislated measures such as job reservation, influx control and preferential labour areas, other discriminatory practices in the workplace are described, ranging from "trickery...to more subtle measures such as the exploitation of poverty. Decision-making power and ownership rest firmly in White hands...Whites hold nearly all the higher-level positions, while Blacks occupy the lower. Race is thus a powerful determinant of a person’s access to, and success at, work in South Africa...while many whites interviewed believed that racial discrimination at the workplace is decreasing, most Blacks did not...White privilege at the workplace was firmly entrenched."
Fredman et al point to the self-sustaining nature of economic discrimination based on race in the South African workplace and the way in which the vicious cycle is perpetuated. "The wages of Black labour have been kept low for so many years. This is one of the factors that has made it so difficult for Blacks to accumulate capital and to invest, thus increasing their incomes through interest or dividend payments" (1983:44).

Nattrass states that "Racial discrimination has affected the economic position of all South Africa's Black population groups. In particular, however, it has limited the access of Africans to education and training and has confined them to the lower rungs of the job ladder" (Nattrass 1984:69).

Naude et al (1973:121) state that factors such as "the low literacy rate, high labour turnover and a lack of emphasis on training and skills" have created a vicious circle where workers are generally unable to articulate their grievances in such a manner that they are taken seriously, and that formal channels of communication in this regard are thus seldom instituted voluntarily.

Beukes et al (1973:36,20) note that the implications of racial discrimination are very widespread: it influences such factors as training, education, job opportunities, geographical mobility and reference bases; in effect, racial discrimination influences the market structure and market forces.

Racial discrimination (both statutory and conventional, including restrictions on job opportunity) is thus an overriding structural determinant which influences many other factors. Further factors influencing actual wages and benefits of the various race groups include the following:

* overall labour supply and demand (market forces)

* shortage of specific crucial categories of labour or skills (giving rise to a scarcity premium)

* regional distribution of labour supply
* general literacy rate and basic education

* the possession of specialised training

* acquaintance with the modern work pattern

* work performance (productivity)

* overall wage structure

* substitutability (ie by machinery or through job re-organisation)

* bargaining power (which depends on institutional and racial aspects and experience, as well as the material position of the worker ie risk-taking ability)

### 3.6.2 Attitudes

Attitudes are formed through experience and reflect intensities of feelings generated through experience. Attitudes in turn inform action. People are social animals, and their experience of social situations, both spontaneous and structural, is thus an important influence on the formation of attitudes and possible actions flowing from this.

Fredman et al point to the importance of determining attitudes in predicting reactions. Attitudes towards our social and political world are formed through experience and an understanding of attitudes can thus be helpful in forecasting behaviour. A comprehensive and unbiased understanding of feelings and attitudes is particularly important in being able to cope successfully and creatively with rapid social change. They note that "a change of practice can cause a change of attitude...as a result of the abolition of discriminatory laws and segregation measures, the attitudes of the population also change" (1983:70).

With regard to the formation of attitudes under apartheid, they note the steady increase in dissatisfaction by Blacks: "In 1972 almost half the respondents in a survey by Schlemmer believed their situation was improving; in 1977 only 26% still held that view...the degree of discontent increased dramatically after 1977" (1983:12).
In this regard, Steve Biko, quoted in Dreyer (1980:59), states: "The claim by Whites of monopoly on money and security has always been so exclusive that Blacks see Whites as the major obstacle in their progress towards peace, prosperity and a sane society. Through its association with all these negative aspects, Whiteness has thus been soiled beyond recognition".

Fredman et al note the determination of Whites to continue with the institutionalised system of racial domination and White privilege: "Three-quarters of White voters agreed in 1974 that concessions could be made to Blacks only as long as Whites continued to have the main say...and that any political concessions made to Blacks would have to be firmly in line with White interests...about half the White voters believed that well-educated Blacks should be allowed to vote, but that Whites should stay in control" (Fredman et al 1983:12).

This determination was reflected in a militant approach towards the retention of privilege, with nearly 75% of the White voters surveyed stating that they would be prepared to fight to retain the status quo. Fredman notes that these attitudes served political ends; they were strongest amongst Afrikaners (only 10% were prepared to make political concessions), and were largely the result of manipulation by politicians: "The militant attitude of Afrikaners has been deliberately fostered by their political leaders, who talk constantly of the need for patriotism and military preparedness in the face of the "total onslaught" against the country". However (as has been the case), it is noted that pragmatism might well prevail should conflict threaten with no possibility of a clear victory: "It is possible that some of the Afrikaners who were prepared to fight in 1977 would...negotiate and even make concessions".

Adam ascribes the (grudging) change in Afrikaner political thought in the late seventies to an imperative for ethnic survival "beyond a mere reflection of narrow group interests" and describes this as a "dialectical interaction of structure and superstructure (which means that) even the most rigid belief systems undergo changes if new circumstances of group survival so require." He notes that contradictions are lessened by an ongoing reinterpretation of traditional parameters, and that the pace and extent of the change does not depend on the intrinsic content, but on the role of the designated interpreters (1979:18,19).
Along with increased militarisation of the White psyche, the surveys revealed growing impatience, anger and deep politicisation amongst Blacks, particularly after the watershed Soweto riots of 1976 (Fredman et al 1983:97-99, 103).

Naude et al (1973:121) noted in their study that "personal forms of contact or communication with supervisory staff and management (White) are quite incidental for Africans and hardly go beyond "enlightened paternalism"".

3.6.3 Lack of social responsibility

The panel report on management responsibility (Naude et al 1973:45) notes that "there is a direct link between the economic and social dimensions of the responsibility of management. For the entrepreneur the rationale behind action in the wider social sphere is the expectation of increased labour productivity and the benefits of a settled and stable worker community, which may eventually enhance profits and thus the return on capital."

Twenty-five years later, and after profound political change, established business is still reluctant to acknowledge this. Hofmeyr & Rall (1995:110) express concern at the low priority given to community involvement by South African human resource professionals surveyed and note that "Community problems, in particular violence, unemployment, lack of housing, and the breakdown of education in some areas, will continue to impact industry...The low ranking may suggest a managerial approach of trying to insulate the organisation from community issues...However,...external macro and internal micro issues are interlocked...There seems to be little doubt that such issues will become more important to organisations in the next few years."

3.7 CHANGE

3.7.1 The imperative to change

Sparks describes the situation in the country by the late 1980s as follows: "...the most prolonged and intensive Black uprising in South Africa's history, which had begun in September 1984 and was still shaking the country to its foundations despite Botha's..."
attempts to clamp down on it with two states of emergency and a savage use of force. By 1989 more than 4,000 people had been killed and 50,000 detained without trial; international sanctions were being applied and the rand currency had crashed... (In 1990) after seven years of racial unrest, there was a clamour for political change: international pressures were on the increase, the country was under economic and diplomatic siege, the Black townships were on the boil, living standards for the White minority were declining, and there was a general state of emergency (1994:48,5).

The political imperative for change as a survival tactic is described by Ignatius Vorster regarding (then President) F W de Klerk (Sparks 1994:95) "he realised that if you go on like this you are going to lose the game, the cup, the league, everything".

3.7.2 The need for a new approach

Ball & Asbury note that "Structural problems... are not going to disappear. A large, unwieldy, unproductive bureaucracy will remain - only its racial composition may be amended. Skills shortages leading to low productivity will plague us for many years to come. At the same time aspirational demands will run ahead of the economy’s ability to meet them..."

They predict further that "The management brain-drain of the past two decades will not be reversed" and that "super-performing" companies will tackle the issue partly by "intense work with capable Black people through soundly-based mentor systems" (1990:243,247). Although these statements refer to internal organisational methods, they are equally applicable to the development of new types of organisations.

3.7.3 The business community and change

Viljoen et al state that "Structural unemployment should be addressed through economic growth and the improvement of the employment-creating ability of the economy. The economic growth strategy should include...the education and training and efficient utilisation of the country’s work-force...To improve the employment-creating ability of the economy, continuous attention should be given to...the promotion of the small business sector...and the education, training and efficient utilisation of the country’s available
Cross notes that the relationship between the State and the private sector is an essential factor in the country's future. "This has been one of the most crucial areas of failure within Black Africa and thus perhaps the most important area where lessons should be learned. The onus for absorbing this lies both on the ideological apologists for black rule and on the South African private sector as a common audience" (Beukes et al 1991:35).

He states further that "South Africa will go into its new era with a highly developed private sector, which will be a continuing ideological battleground. The private sector probably more than any other grouping holds the reigns to the successful transition to a new age. The reasoning is not so much ideological, as starkly apparent from the economic structure and the trends. The State will not be able to fund the revolution of rising expectations in terms of demand for income earning opportunities, let alone the needs for housing, education, and social provision which will follow the formal transition to a post apartheid era. Hence the private sector, and the relationship between it and the state are of crucial importance" (Beukes et al 1991:35).

Naude et al state that "private enterprise (in South Africa) has to fulfil a strategic role with respect to employment, income, structural change, grassroots development, individual household welfare and the overall evolution of a peaceful, pluralistic society. Private enterprise, both local and foreign controlled, is urged to accept this broad responsibility and to participate actively in its implementation" (1973:137).
CHAPTER FOUR
TOWARDS THE DEVELOPMENT OF A MODEL
FOR BLACK/WHITE JOINT BUSINESS VENTURES

4.1 INTRODUCTION

The political and economic history of South Africa, especially over the past five decades, has shaped the structure and practice of business in the country. In particular, business has been influenced by:

* racial discrimination against the Black population.
* affirmative action policies that favoured White Afrikaners in the political/bureaucratic and business arenas
* increasing involvement and interference of the (Afrikaner Nationalist) State in business affairs

Zimmerman notes that "Rarely in human history have the great mass of people been denied opportunity and resources as happened systematically under apartheid in South Africa. It has not been just positions reserved for Whites, but the education, training and experience that equips individuals for high-level professional positions that was denied to Blacks" (SAIRR Fast Facts April 1995).

This situation, briefly outlined in previous chapters, has resulted in the structural inequities between "Black" and "White" business that characterise business in the country.

In summary, White business generally is formal and functions within the network of structures that organises business life, utilising sophisticated systems and expertise in the process. Black business generally is informal, often operating outside the formal business network, lacks systems and is deficient in expertise and knowledge.

Undoubtedly, the formal business community has benefitted in many ways from apartheid. This has however been something of a double-edged sword, as business now has to cope with the economic and structural results of a particularly short-sighted ideology.
Redressing the situation will require substantial input from the business community, not only in the form of taxes to fund government initiatives, but also through the development and implementation by business of innovative programmes to this end.

Manning (1991:7) states that "the part business must play goes way beyond paying for reform. Business has a serious responsibility (a) to remain viable, create wealth and generate jobs and opportunities for personal growth; (b) to sensitise people to the need for change; and (c) to help them learn new behaviours and thus bring about change."

4.2 POLITICAL CHANGE

The political structuring of the country has been based for centuries (and particularly during the apartheid era) on discrimination against the Black population in all walks of life, in favour of White privilege and advancement.

However, South Africa has recently undergone radical political changes. The process started in 1990 and was institutionalised with the first democratic elections in 1994. The elections, with the majority of votes being polled for a Black majority party, the African National Congress (ANC), saw the formation of a Government of National Unity (GNU), with representation from all competing political parties. (The National Party subsequently withdrew from the GNU; at the time of writing the situation with respect to opposition politics was in a state of flux prior to the country's second democratic election to be held in 1999.)

The Constitution outlaws discrimination on any grounds, including race, gender or sexual orientation, and the new South African State has instituted a political process of redressing imbalances caused by past policies. One manifestation is an aggressive programme of affirmative action directed at the Black population which has been instituted in the civil service; pressure has been put on the private sector by the State to do the same through (for example) proposed legislation and sub-contracting criteria for State construction tenders.
Previous policies resulted in an economy characterised by protectionism and monopolistic practices. Despite policy statements directed at correcting this situation and freeing the economy, it is doubtful whether in practice it will be possible to do so without simultaneously giving policy-directed attention to the results of discrimination. Thus "State interventionism continues with specialist directorates being created in the Ministry of Labour to deal with equal opportunities, minimum standards and industrial restructuring...the posts indicate the serious light in which the ministry views discrimination in the workplace " (SAIRR "Frontiers of Freedom" Second Quarter 1995).

In the above publication Kane-Berman predicts that: "Interventionism in the name of promoting racial equality will impinge on the prerogatives of the business sector." He notes further that the ANC-led government will be characterised by "privileged treatment for organised labour and affirmative action policies. Affirmative action in both the public and private sector will ensure that South Africa remains a race-conscious society long after the abolition of the old apartheid laws."

With regard to the role of business in the generation of wealth, it can be expected that on the political level, South Africa’s history will ensure that class issues will continue to be clouded by the overwhelming issue of race and the results of racial discrimination and privilege.

For the country’s new model of a non-racial society to be realised fully, careful attention has to be given first to the ways in which race has defined socio-economic status. The danger naturally is that the process of redressing the past, by its very nature, may tend to achieve the opposite and reinforce a racial bias in the future.

Kane-Berman also notes that: "The media and the government continue to see wealth and income in South Africa as a Black/White issue (ignoring)...deepening class divisions within the Black population...(between) the burgeoning new nomenklatura - people put into civil service jobs and other positions in the gift of the government on the basis of their political loyalty (and) a growing underclass which is overwhelmingly Black, largely unemployed or able only to eke out an existence through subsistence." (SAIRR Fast Facts February 1996).
Simply stated, South Africa cannot afford to perpetuate its previous patterns of economic activity. The country has achieved economic growth rates over the past decades that cannot cope with its population growth (particularly the growth of the unskilled population).

Studies from various sources confirm this. For example:

- The Bureau for Economic Research (BER) at the University of Stellenbosch estimates that the number of job opportunities will increase by an annual average of 1.4% until 1999 if economic growth averages 2.8% per year. By 1999 there will be only 500 000 more job opportunities in the formal sector. Unemployment will rise as the economy cannot be restructured overnight. If the structure of the economy does not change, a 6% to 7% growth rate will be needed to absorb new entrants to the labour market.

- The Minister of Labour, Mr Tito Mboweni, says that an annual economic growth rate of 8% to 10% is necessary to accommodate the annual new entrants to the labour market and to lower the current level of unemployment.

- The Chair of Anglo American, Mr Julian Ogilvie-Thompson, says that with a GDP growth rate of 3% per year formal employment will increase from just less than 8 million in 1995 to about 8.5 million in 2000, while a growth rate of 5% per year will boost formal employment to 9 million.

- Real economic growth in 1995 is expected to have been between 2.5% and 3% (in 1993 it was 1.1% and in 1994 it was 2.3%).

- The CSS estimated the unemployment rate for 1994 to be 32.6% (unemployed people are those over the age of 15 who are not in paid employment or self-employed, are available and have the desire to take up employment or self-employment).

(SAIRR Fast Facts January 1996)
Predictably, the call is for increased economic growth. However, the situation is far from simple, and increased economic growth, which has been achieved recently (albeit to an inadequate extent), masks further structural problems in the formal sector. Amongst these problems are capital deepening in the economy, expensive organised labour, and the relationship between the two. Indeed, the latter is often cited as a reason for the former. Kane-Berman notes that the new Labour Relations Act strengthens the arm of organised labour vis-à-vis the unemployed as well as vis-à-vis employers (SAIRR Fast Facts February 1996).

In addition to these structural problems, the business community in the country is faced with further profound problems, such as:

* low productivity rates
* lack of competitiveness on world markets
* the opening of the economy to foreign competitors following the political changes in the country

In this regard, Manning notes that "Just as we have experimented for so many years with socio-political issues, now we will have to try to construct a new kind of economic order...in the face of extreme odds" (Manning 1991:107).

This new economic order will have to take account of the situation in both the formal (largely White) and the informal (largely Black) sectors of the economy.

4.3.1 Change in the formal sector

Zimmerman (SAIRR Fast Facts April 1995) states that Blacks constitute 76% of employees in the organised formal sector of the economy, and that although Whites are a small and declining fraction of the population (7.5% of those under 14), they typically hold (90% of) key positions in business firms, government offices and the professions.
If South Africa is to develop its economy and enterprise, it will need a new mix of workers. The apartheid economy of South Africa was based on the tripartite mix of White professionals, capital intensity and a large supply of unskilled or semi-skilled Black workers.

Modern economies develop and grow through the extension of professional and technical skills throughout the workforce. South Africa is no exception. However, in past years, formal business was under no real pressure to change the situation. Manning (1991:159) states that "When it comes to the nurturing aspect of black development, South African companies have clearly not tried hard enough. If the harsh South African workscape has bred many fine White business leaders, it has not been a place that ever gave Blacks a chance. Nor can White managers hide behind apartheid laws, and blame them for the lack of action."

Manning also quotes Gavin Relly (a past chair of Anglo American) in his acceptance speech on being awarded the 1986 Harvard Business School Club of South Africa "Statesman of the Year Award" as follows: "I think we all thought it would be so much easier to develop managerial and director skills among black, coloured and Indian South Africans than has been the case. Our environment in-house and socially has been hostile, at least passively. Much of this can be traced to apartheid, but a good deal also to our own shortcomings" (Manning 1991:158).

Many businesses in the formal sector have attempted various methods of addressing this situation. Naturally, these actions have received impetus of late with the recent political changes, and company actions have been promoted by varying degrees of perceived political coercion.

Initiatives aimed at redressing the imbalances caused by the past have been focused mainly at areas such as:

* affirmative action programmes
* organisational restructuring

These two areas, particularly that of affirmative action, have received much publicity of late. Zimmerman notes that "Ambitious affirmative action programmes will create tension
and strain as the gap between the supply of Black professionals and demand for their services becomes evident (manifested in) bidding up of wages for Blacks with competitive skills (or) pressure to attack or erode educational and training qualifications for some categories of professional jobs" (SAIRR Fast Facts April 1995).

Affirmative action programmes and organisational restructuring initiatives, when they are merely paying lip service to the ideals of equity in opportunity, are counter-productive. Many companies implemented such programmes so as to have a selection of Black faces visible in high-status positions. This of course is change that is essentially meaningless.

Sparks (1994:13) notes that during the long process of negotiation that would lead eventually to the political transformation of the country, the black leaders attacked the power-sharing plan (put forward by the National Party) as a fraud that would give the illusion of majority rule but in fact freeze apartheid's inequalities. This is comparable to the present dissatisfaction in Black business quarters with window-dressing affirmative action programmes that put Blacks in quasi-managerial positions with titles and salaries but no decision-making powers.

Such initiatives compound the attitudinal problems that have arisen over the years of racial separation.

Manning notes that the work situation of Black employees in the formal business sector often results in negativity. "Negative thinking (is) a natural result of years of overt white superiority, oppression, inferior education, low job status, a lack of suitable role models, and no access to an "old boy" network.". The invidious effect of such negativity is often under-appreciated. He quotes Hofmeyr as follows: "In many instances (negative attitudes) are covert and express themselves in neutrality" (1991:159).

Zimmerman states that without Blacks trained in marketing, engineering, design, manufacturing, law, personnel, finance and management, South African business cannot grow. (Similar skills are needed in the public sector as well) (SAIRR Fast Facts April 1995).

In addition to the technical and educational processes of achieving this, South African formal sector businesses also need to focus on attitudinal and cultural change.
4.3.2 Change in the informal sector

When looking at the role of the informal sector, Nattrass (1984:55) states that "There are two distinctly different views of the role that the informal sector plays in the development process. The first sees the sector as comprising a group of incipient or infant capitalists, whose growth has been limited by a number of constraints such as lack of capital etc...the second group sees the sector in terms of its marginalisation from the formal manufacturing sector...the informal sector is both peripheral and functional to the efficient operation of the formal sector...it acts as a soak pit that absorbs the structural and cyclical employment problem of the advanced block."

These approaches to the informal sector should not be seen as being mutually exclusive; in fact, the two approaches can be complementary.

The informal sector in South Africa acts primarily as a catch-net for the inability of the formal sector to absorb labour. Most informal sector businesses are micro to small in size. By its nature, much of the output of the informal sector is directed towards subsistence and is not fed into the politico-economic processes of the country, through (for example) the taxation system. The size of the informal sector means that its potential importance has to be factored into any programmes for meaningful economic growth in the country.

Recent statistics on the size of the informal sector include the following:

* According to the Small Business Development Corporation (SBDC), South Africa's small and medium sector employed about 2.5 million people, i.e. 17% of the economically-active population in 1994. Micro and "survivalist" enterprises employed an additional 4.5 million, i.e. over 30% of the economically-active population. The SME sector accounted for some 45% of South Africa's GDP, while micro-enterprises contributed a further 15%.

* According to the Bureau for Market Research (BMR) at the University of South Africa, some 1.6 million people (or 16% of all people working) were actively involved in the informal sector in 1994.

(SAIRR Fast Facts January 1996)
The change that is needed in this sector if it is to contribute to meaningful economic growth is firstly, a change from subsistence to wealth creation and secondly, the formalisation of appropriate enterprises currently operating within the informal sector.

Ahwireng-Obeng (Beukes et al 1991:216) notes that "What is needed in the informal sector is improvement in the ability of the individual to earn sustainable income. Ability-building in this regard implies improving accessibility to socio-economic resources, exposure to developing interpersonal confidence, and upgrading skills (management and technical)."

Naturally, sustainable development in the informal sector has to take account of the need for educational progress in the Black community.

The 1995 overall Matric pass figure in South Africa was 55.25%, with the pass rate for Black candidates being 43.4%. Four out of every five Matric candidates are Black. Black pupils did worse than the national average but also worse than the year before; however, they did better than in 1989, 1990, 1991 and 1993. In 1990 and 1993 their pass rate was below 40%.

Delvare notes that in the second half of the 1980s, the average failure rate of undergraduate Black students at the predominantly White technikons and universities was around twice that of White students. Many of the problems confronting tertiary institutions stem from the schooling system under apartheid (SAIRR Spotlight June 1995).

The improvement of educational profiles is naturally a long-term issue. However, their impact on the success of business enterprises in the informal sector is profound, and needs to be taken into account in any attempt to improve the performance of informal sector businesses.

4.4  RESTRUCTURING

Doing business in South Africa is no easy task. The country faces major problems: low growth, poverty, uncompetitiveness, massive internal debt, huge socio-economic backlogs,
crime, skills shortages, and probably the unruliest public service in the world (SAIRR "Frontiers of Freedom" Fourth Quarter 1995).

Manning poses the problems facing business in the country in the future as follows: "How should we change our organisations to meet the challenges that lie ahead? How can we cope with a shortage of managers, and with a workforce that is largely uneducated, unskilled, even illiterate? How can we bridge the racial divide? And what of the awful problems that politics introduces?" (1991:163)

In order to improve the position of business in the country, there is obviously a need to address the problems both of the formal and informal sectors of the economy. However, if attempts to address the structural imbalances of business are restricted to these two concerns, this will merely serve to improve the status quo.

In addition to ways of improving the situation of enterprises in the formal and informal sectors, there is also a political and an economic imperative to bring the Black and White business sectors together.

Manning states that: "Big businesses have been eliminating rather than creating jobs...there is general consensus that small business must be fostered, and that the informal economy must be allowed to grow. Small is beautiful because it is (a) entrepreneurial, and (b) highly productive...but certain industries demand critical mass. In SA, both big and small businesses are necessary...New relations between them must be shaped. New ways of cooperating must be worked out. The best of both must be tapped to create a new federation of organisations, and to revitalise our ailing economy" (1991:107).

In this regard, the process of political change has lessons for the changes needed by and in business. Sparks notes that "In any negotiating process, he (Mandela) said, two fundamental issues would have to be reconciled: the black demand for majority rule, and white concerns stemming from this demand. Attention would have to be given to structural guarantees ensuring that majority rule did not mean black domination of the white minority. "Such reconciliation will be achieved only if both parties are willing to compromise"" (quote: Mandela) (Sparks 1994:53).
There is an analogy to the business world in the experiences of political bodies in bringing about political transformation; structural change is needed in the economy as well and will have to be undertaken by the key players, i.e., the business community in both the formal and informal sectors, in a spirit of compromise.

It is important to note that the extensive and long process of planning and negotiation of the political transformation has as yet no parallel in the business world. This process paid dividends in the peaceful political transition to democratic government. In comparison however, the business community is very tardy in applying these lessons from the political arena. It is doubtful whether the economy can hope to really perform in the long term if the process of structural change does not take place with the same effort and commitment.

Sparks (1994:74-84) gives some details of the extent of pre-planning and exploration of (political) issues that would have to be resolved before a political solution could be reached, through extracts from Wimpe de Klerk's diary of the Mells meetings which took place between 1987-1990: "Our agendas are very concrete and direct: on Mandela's release and ANC undertakings in that connection; on the armed struggle and a possible suspension of it by the ANC; on the various steps that must be taken before pre-negotiation talks with the government can take place; on constitutional issues such as a transitional government, minority safeguards, an economic system etc; on concrete stumbling-blocks and the exploration of compromises to get out of deadlocks; on sanctions; on ANC thinking on all kinds of South African political issues and on government thinking on those self-same issues. I am convinced that the discussions have greatly improved mutual understanding...".

Attention to the finer detail is no doubt one reason why the transition defied expectations of violence and collapse. However, no comparable effort has taken place in the business sphere, where an equally radical structural transition is needed, and one which is also needed to proceed smoothly.

There is therefore a need to explore methods of structuring and operating business enterprises that can achieve similar advances in the sphere of business restructuring in the country as have been achieved in the political sphere.
4.5 DEVELOPMENT OF A MODEL

Given the nature of business in South Africa in terms of its structure and operations, and the political and economic imperatives to address the imbalances and inequities caused by past policies, ways of bringing Black and White business closer together should be explored.

Well-structured and responsibly-run joint ventures between Black and White business provide a possible method of addressing the problem.

However, given the country's history, it is to be expected that bringing about such ventures will be problematic, and that various factors will mitigate against the success of such ventures. These factors will obviously need to be avoided. Similarly, attention will need to be given to various factors that, if present in such a joint venture, are likely to enhance its success potential.

Through exploration of case studies, these factors have been identified. This has enabled the development of a model for the structuring and operation of Black/White joint business ventures in South Africa.

4.6 COMPONENTS OF A MODEL

Manning (1991:164) states that empowerment must be the objective of every company in the new South Africa, but that three factors will make it difficult, namely:

- The skills shortage
- Inadequate communication on the job
- Extreme socio-political differences

Coping with these factors must be priorities in creating a new kind of organisation. In addition, the model must accommodate the need for such enterprises to:

- accommodate and utilise different types of business exposure
accommodate differing levels of skills, expertise and knowledge

facilitate an efficient transfer of formal business expertise and knowledge from White to Black business practitioners

speed up the process of formalising informal business enterprises.

The model will therefore need to include the following components (see Figure 4.1):

4.6.1 Choice of partners and market/s

In their surveys of how Black and White South Africans view change, Fredman et al (1983:59) found with regard to Black attitudes to economic change: "There is every indication that...expectations of economic change are directed almost exclusively at a greater share of and advancement in the free enterprise system, and that to a remarkable degree respondents are orientated towards performance and ready to take risks in entrepreneurial enterprises."

The choice of appropriate partners to serve an identified market will be influenced by economic and/or political imperatives. With regard to the latter, it should be noted that pressure is being put on the private sector to enter into alliances with Black business partners by (for example) stipulating that a certain portion of the funding for State contracts is to be used in the employment of Black sub-contractors.

4.6.2 Formulation

Formulating the parameters of the joint venture between the parties will entail primarily the development of acceptable ownership structures and associated contractual liabilities.

4.6.3 Design

The overall design of the venture will entail primarily the development of acceptable and agreed management structures and responsibilities, operational systems and systems for access to information by the parties.
Figure 4.1
COMPONENTS OF A MODEL FOR BLACK/WHITE JOINT VENTURES
Beukes (Beukes et al 1991:52) states that "Management capability is probably the scarcest resource in South Africa." This situation will compound the difficulties of designing management systems that are geared towards empowerment.

Sparks quotes de Lange on the early part of the process of political change as noting that "The lack of mutual trust is due to the lack of meaningful contact. There is a tremendous need for more contact to build up mutual understanding" (Sparks 1994:74). This is an important consideration in terms of designing for business change.

4.6.4 Implementation

Successful implementation of the joint venture will depend heavily on the thoroughness of the formulation and design; it is in this area that the use of mechanisms specifically designed to bridge the gaps between the parties to the enterprise is particularly crucial. This will entail (inter alia) the application of systems for control, staying within time frames, communication and skills transfer. Mentorship systems will also be an essential part of this component.

A very different approach towards the enterprise is demanded to that which often prevails in South African companies at present. Manning (1991:175) describes the situation with regard to management practices in South Africa in the following terms: "Most South African managers have been brought up to be autocrats. They give instructions. They expect obedience. They demand respect. They treat their workers like children. So while such concepts as participative management might sound like just the thing for these times, and while they might talk enthusiastically about it, in truth most pay no more than lip service to the idea."

The following quote is also pertinent in this regard: "Human communication styles and skills are important criteria in the creation of a satisfying sense of human community at work...where communication is influenced by power and status criteria, workers are likely to be unfulfilled...In general, South African management has poor communication skills: there are very few contexts characterised by humane and concerned communication.." (Dovey et al 1985:introduction)
4.6.5 Potential impact factors

The potential influence of impact factors on all three aspects of the structuring and operation of the joint venture (formulation, design and implementation) will need to be acknowledged. In terms of the above components, the factors likely to influence them are:

**Formulation:** Ethnic and language factors, race-based experience and the political background of the parties

The past business-based Black/White interaction of the parties will be an important factor in the progression from formulation to design of the venture, and will affect both components.

**Design:** Past exposure to business of the parties concerned in terms of aspects such as the type and level of the exposure, and whether this was in the formal or informal business sectors

Past work experience of the parties and their "agents" or workforce will be an important factor in the progression from design to implementation of the venture, and will affect both components.

**Implementation:** Education, training and skills and expertise of the parties, including the type, level and relevance to the venture of the skills and expertise so gained

4.6.6 Criteria influencing success

Criteria that will influence the success of the venture will need to be applied in the formulation, design and implementation of the venture.
4.7 THE MODEL PROCESS

The attitudes and expectations of the parties concerned have an important influence on the success or failure of any enterprise. Attitudes and expectations are formed through the impact of various factors associated with experience and exposure.

Criteria influencing success are thus developed through careful consideration of potential impact factors. The application of these criteria in the formulation, design and implementation of the joint venture, will in turn enable the enterprise to modify and direct attitudes and expectations of the parties concerned to the benefit of the enterprise.

The model is directed towards the creation and operation of enterprises that are able to overcome the crippling legacy of apartheid, through bridging the many gaps between Black and White business-related expertise, experience and exposure. Naturally, this can only happen if the model is applied in practice.

4.8 APPLICATION OF THE MODEL

The model has been developed from two broad inputs that have been explored in the study, namely:

* the economic, social and political history of the respective parties (theoretical basis), and

* past experience of the respective parties to Black/White joint ventures contained in case studies (empirical basis).

The process of applying the model is directed towards achieving results in Black/White joint ventures that are not excessively prejudiced by the socio-economic history of the respective groupings represented in the enterprise. Figure 4.2 outlines the proposed application of the model. This proposed application has been tested against the results of the case studies before finalisation. The application process contains the following elements:
Figure 4.2
OUTLINE OF PROPOSED MODEL APPLICATION
4.8.1 Select partners

Partners to a joint venture will bring various strengths to the table in terms of such aspects as access to markets and finance. In order for the venture to be based on a foundation with the potential for consolidation into business success, the choice of partners must be informed further.

4.8.2 Define expectations

The respective parties will come to the joint venture with certain expectations. These will be affected and informed by various factors, which will in turn affect both their performance and that of the enterprise. As part of the exploration of this aspect, it is necessary therefore to explore the formative elements of this aspect.

4.8.3 Define experience and exposure

The past experience and exposure of the respective parties to business will largely define their attitudes and capabilities; this will in turn have a marked impact on the nature and potential for success of the proposed enterprise; attitudes will have an impact on expectation and capabilities on the assumption of responsibilities.

4.8.4 Define areas of responsibilities

The areas of responsibility of the respective parties must be clearly defined, in terms of both ownership and operations. The ownership aspect will need to consider (inter alia) shareholding proportions, benefits and organisational structures. The latter will in turn also need to consider the extent of direct involvement of the ownership echelon in the operational areas of the enterprise. The operational aspect will need to consider (inter alia) the organisational design in terms that will facilitate the application of the criteria for success.
4.8.5  Apply focus programmes

Customised programmes will need to be developed and applied within the enterprise that are aimed at maximising the potential for success and minimising the potential for failure. These programmes will be for aspects such as mentorship, training, communication, performance criteria and time frames for achievement of objectives.

4.9  SUMMARY

The political and economic history of South Africa has led to structural inequities between Black and White business in the country. White business generally is formal and utilises systems and expertise; Black business generally is informal and lacks systems and expertise.

Radical political change has taken place in the country. There is also an imperative towards economic change both in the formal and informal sectors of the economy. This situation has emphasised the need to consider ways of bringing Black and White business closer together.

The chapter looks at the development of a model to facilitate the structuring and operation of joint business ventures between Black and White partners, in terms of the probable components of such a model and its practical application in these joint ventures. The application of the model has been refined and developed further following the results of the case studies that were undertaken during the study.
5.1 INTRODUCTION

An examination of available literature revealed no relevant literature on the specific topic of Black/White joint ventures. Literature on related topics was concerned mainly with the need to:

* increase employment in formal sector enterprises
* stimulate the small business sector
* improve levels of formalisation and business efficiency in the informal sector

Literature on the general topic of joint ventures enabled the formulation of a definition and the identification of general principles of joint venture formation and management.

5.1.1 Definition of joint ventures

A joint venture can be defined as an undertaking in which two enterprises of distinct individual identities, that are often retained in the joint venture, come together in pursuit of a common goal, where each contributes financially to the pursuit of the goal and benefits from its achievement.

Joint ventures are often formed across national boundaries, where one (resident) partner has the advantage of a local base and knowledge, and the other (outside) partner wishes to enter the local market and can bring various needed capabilities and resources into the joint venture.

5.2 IMPERATIVES TOWARDS FORMING JOINT VENTURES

Reasons for forming joint ventures are many, and are likely to fall into at least one of the following broad groupings:
• access to wider markets and increased influence in the marketplace of the potential partners, where this may be limited individually but increase in a joint venture

• increased buying power and influence over suppliers

• enhanced image, particularly where there is a political or social imperative to joining forces

• complementary and supplementary expertise that makes pooling resources a logical move to attain certain goals.

A successful joint venture can be thought of as a business application of the Gestalt principle, where the whole is more than the sum of its parts.

5.3 GENERAL PRINCIPLES

General principles gleaned from the literature apply to local and international joint ventures, but do not consider the South African situation specifically.

In this regard, Calitz (1993:13) notes that business strategies are increasingly concerned with developing total systems of integrated products and services, and that "internal growth" acquisitions aimed at facilitating this are often aligned with an external growth strategy that focuses on acquisitions in the global market place. To be successful, such an external growth strategy needs to consider the role of co-operation through joint ventures and other strategic alliances.

Lorange (1991:27) stresses that success depends on creating a realistic strategic focus for the joint venture. If the venture is going to be viable, the behavioural chemistry between the partners must be compatible and the political climate must be favourable. Critical viability issues include:

• clarity of purpose of the joint venture for both parties
• balancing of each party's contributions
complementary and compatible values and status
- openness and honesty regarding any underlying agendas
- a "feeling out" phase that is sufficiently extensive during negotiations.

According to Lorange, two of the most important political considerations are firstly to ensure that the most important internal and external stakeholders will see the benefits of the venture and thus support it, and secondly to ensure that a range of people within the enterprises are committed to the venture. Lorange also stresses the importance of compatibility of the partners in terms of their business cultures and common understandings.

Lyons (1993:138) notes that alliances have two basic critical stages, namely the choice of partner and the management of the resultant alliance. Niederkofler (1991) relates the choice of partners to strategic fit, which will be present when the partners' interests overlap and each when each controls part of the resources needed to pursue shared goals. Compatible interests and complementary resources are a fundamental pre-condition to building a successful relationship.

However, strategic fit in itself does not guarantee a successful joint venture - whether it can be made to work must still be determined. Operating fit must be established and achieved by the managers responsible for implementing the relationship. In order to achieve this, Niederkofler stresses that existing organisational incompatibilities must be compensated for. If this does not happen, procedural, structural and cultural differences between the partners will become insurmountable barriers to successful co-operation.

Irvin (1988:6) categorises joint venture strategies as being resource-driven, market-driven or risk-driven. Lorange cautions that both partners should have multiple driving forces in order to sustain the venture. If a partner has only one driving force, there will be no imperative to sustain the co-operation once that has been realised and/or internalised.

Calitz (1993:28-32,49) notes that the major reasons for considering involvement in a joint venture include those of strategic enhancement, market positioning and cost advantages, and defines the five elements in creating "win-win" joint ventures as being:
5-4

- explicit, realistic understanding of competitive realities in terms of each other’s contributions when putting together the venture

- managing the venture so that both parties contribute productively

- streamlined planning and control routines, rather than cumulative systems that are the sum of the partner’s individual administrative practices

- managerial motivation that is directed at joint success, rather than a watchdog attitude of the partners over each other

- learning from the joint venture’s total experience, rather than merely gleaning financial reward.

Calitz also states that joint ventures require a different, more co-operative way of approaching management and organisational tasks. They can be designed to compensate one partner’s weaknesses through the other’s strengths; the weaker can then develop those strengths with lessened risks.

Kohn (1990:14) cautions that joint ventures are complex undertakings that are frequently unsuccessful, often due to the reluctance by a participant to relinquish part of the control, and notes that if trading control for market share or profit will be too daunting, the joint venture should not start.

5.4 ASPECTS TO BE CONSIDERED IN FORMING A JOINT VENTURE

In general therefore, the partners to joint ventures will have to consider a number of aspects when embarking on the enterprise. Depending on particular circumstances, various aspects will be important to a greater or a lesser degree to the success of the joint venture. These aspects will include:

- the financial relationship between the parties in terms of who brings what to the table
ownership and profit-sharing relationship between the parties

who does what in terms of the operational aspects of the enterprise as well as areas of accountability and responsibility

different expertise held by the parties and what this will count for in the joint venture

the management of the relationship between the "parent" parties in terms of the joint venture

the need for a joint approach to marketing, including such aspects as supplier relationships and the accrual of "image credit"

control of achievements

infrastructure and systems

compatible communications within the joint venture so that the partners have the same understanding of directives, events and results

5.5 INTERNATIONAL JOINT VENTURES

Joint ventures are often used as a mechanism for international trade and access to markets in a different country, where the advantages of such an enterprise can include:

expertise on local conditions, needs and expectations

working within local political and economic power structures

more efficient use of resources by using existing resources rather than duplicating those needed
beneficial financial structuring of the enterprise through the different currencies involved.

As well as bridging business involvements between nations, joint ventures can also be used as a mechanism for bridging national business barriers where these exist within a country that has structural divides within its economy, such as is the case in South Africa.

5.6 JOINT VENTURES IN SOUTH AFRICA

The strategic imperatives towards Black/White joint ventures in the context of the "new" South Africa have been noted previously. Increasing pressure is being brought to bear on business, particularly established White-dominated business, through government initiatives in this regard.

Tenders for government contracts generally stipulate that formalised co-operation between established and new business enterprises, particularly where the latter are owned by "previously-disadvantaged individuals" is a pre-requisite for consideration. Tender Boards, State and provincial, have formulated quotas for such co-operation.

In late 1997, the Minister of Labour announced that these conditions would also be expanded to include the internal situation within companies, where progress towards employment equity within the enterprise would also be monitored.

Given this situation, where political pressure is being brought to bear on business to enter into arrangements of this nature, coupled with the divergent nature of past development of Black and White business, it is useful to expand the term "joint venture" when considering Black/White joint ventures in the South African context.

The term has therefore been extended to consider joint venture-related possibilities along a continuum ranging from employment to a full joint venture.
5.7 CONTINUUM APPROACH TO JOINT VENTURES

The continuum only includes enterprises that have a joint venture element. Naturally, there are various other business opportunities open to enterprises, but these have been excluded from consideration for the purposes of exploring the topic. Within the continuum, five broad categories have been identified that progress from employment to participation in a full joint venture between fully independent partners, as follows:

![Joint ventures continuum diagram](image)

**Figure 5.1: Joint ventures continuum**

5.7.1 Employment

Within employment, various avenues may be found to accommodate an employee who demonstrates the potential to run his or her own business. As with the broad continuum, employment can thus offer a progression towards increasing independence. The manner in which this takes place, and the success of the development of the employee towards independence, will be largely a function of enlightened and progressive management. Options along this employment "sub-continuum" include:

"Intrapreneur" development

During the course of employment, an employee may be identified as having entrepreneurial potential. The term "intrapreneur" is used to define such a person who continues to work within the organisation.
This can be the basis for new approaches or structures within the employing enterprise. The intrapreneur may be able to exercise the potential for independent planning and action to the benefit of the enterprise while fully within its broader planning and control, and with the risk being taken fully by the organisation.

However, scope for the exercise of these abilities may be limited within the structures of the organisation. The intrapreneur may then leave the employment of the enterprise, often with the support of the employer, in order to pursue his or her entrepreneurial potential further with a greater degree of independence and shouldering a greater element of risk.

Assisting employees to start enterprises

Where an employee has clear entrepreneurial potential that cannot be realised within the scope of the employment, the employer may assist the employee to start out as an independent enterprise.

This type of arrangement may also have clear benefits for the employer, particularly where restructuring and downsizing is envisaged in the future. Often, this assistance will incorporate an undertaking by the previous employer to provide at least part of the market for the new enterprise.

Outsourcing to previous employees

Outsourcing to previous employees who have started their own enterprises may also form part of the supplier chain, where the new supplier, by virtue of having been previously employed, has an in-depth and intimate knowledge of the needs and situation of the established organisation.

The important issue of building and maintaining supplier / client relationships within the supply chain may be significantly shortened or eased where supplies are outsourced to previous employees. Relationships have been built during the period of employment, although they will naturally need to be consolidated and formalised through the outsourcing process. Contracts to supply needed products and/or services to a previous employer can thus also serve as a useful bridging situation between employment and the
full cut-and-thrust of the open market for the fledgling entrepreneur.

5.7.2 Assisted sub-contracting

A move towards independence is into the field of sub-contracting, where sub-contractors work to the main contractor rather than directly to the client.

In the South African context, sub-contracting is often used as a vehicle by Government to encourage the development of Black business through letting out qualified contracts for Government work. Contracts of this type stipulate that a percentage of the contract must be sub-contracted to enterprises that qualify according to stated selection criteria, usually defined as small, micro or medium-sized enterprises (SMMEs) owned by previously-disadvantaged individuals (PDIs).

Although the intention is clearly to stimulate the participation of Black business in the formal economy, the integrity of such arrangements is often not investigated or monitored much beyond the signing of the contract, or is investigated superficially. Abuse of the aims of this initiative is widespread; however, it has also been the basis of some significant achievements with regard to the development of Black entrepreneurship.

The disadvantaged background of Black business in general means that Black sub-contractors often have difficulty in fulfilling their contractual obligations to the main contractor.

Where success has been achieved in the aim of developing Black business through sub-contracting, it has been where assistance of some sort is provided by the main contractor to the sub-contractor in the fulfilment of operational obligations. The assistance is generally of an administrative and managerial nature, and often takes the form of a type of mentorship, where the sub-contractor is put on a steep learning curve with regard to formal business practices. This type of assistance and exposure to the requirements of contracted formal business can be valuable grounding for a fledgling contractor who wishes eventually to bid for contracts as a main contractor.
5.7.3 Regular sub-contracting

An entrepreneur may, for various reasons, wish to contain the exposure of the enterprise either to a limited operational area or to a limited financial risk, and thus prefer to operate as a sub-contractor. The main contractor assumes the total liability for performance on all aspects of the contract. However, the main contractor will demand satisfactory performance on the element of the contract that has been sub-contracted.

Sub-contracting is often an area where hard bargains are driven. Sub-contractors are working within a margin from the main contractor which must be tightly controlled from both sides if both parties are to achieve their objectives of performance and profit.

However, mutually beneficial relationships can be built between main contractors and sub-contractors. Many main contractors have a stable of sub-contractors which they use regularly. Reliable working relationships have been built through participating on various contracts.

It is extremely useful for main contractors to be able to extend their capacities and capabilities by drawing on the services of reliable sub-contractors who can deliver on time and within budget. It is also valuable for sub-contracting enterprises to be able to rely on being offered frequent work from contractors with whom they have a solid and well-tested working relationship. In effect, as with the progress along the employment sub-continuum, this type of relationship can become part of the supplier chain.

To succeed in building this type of relationship, a sub-contractor needs to be reliable, dependable and able to control performance and budget within tight operational and financial constraints. This requires reasonably high levels of administrative and managerial skills, as well as reliable levels of technical and operational competency, coupled with strong negotiating skills and an ability to function well within a demanding business relationship.

Sub-contracting developed from assisted sub-contracting

Regular sub-contracting between a sub- and main-contractor, as described above, can
develop from instances of assisted sub-contracting, where the main contractor has
developed confidence in the abilities and capacity of the sub-contractor, by virtue of
having been party to assisting in their acquisition.

As with outsourcing to previous employees, sub-contracting of this nature can serve as
a useful element of the supply chain. Past relationships that have been built will be
important indicators of aspects such as reliability and predictable performance and can
assist greatly in planning.

An important aspect of regular sub-contracting that develops from the relationship
between a main contractor and an assisted sub-contractor is that the mentorship of the
sub-contractor by the main contractor can continue and play a part in the further
development of the sub-contractor.

In this type of situation, the relationship can become one of continuing comfortable
dependency of the sub-contractor on the assistance and advice of the main contractor.
However, it can also develop further into a full joint venture between the two parties.

5.7.4 Assisted joint ventures

As with the initiatives in sub-contracting, Government is attempting to stimulate the
development of Black business and its participation in the formal economy by stipulating
that certain contracts be undertaken by joint ventures and consortiums that partner
established White-owned businesses with those selected according to SMME and PDI
criteria. In these instances, the stress is less on operational and more on organisational
participation.

Assisted joint ventures can thus take place where one partner is unable to fulfil the all of
the requirements of a full joint venture (see below), but where a joint enterprise can fulfil
defined strategic objectives. As with assisted sub-contracting, this type of situation offers
opportunities to redress the imbalance through mentorship.
5.7.5 Joint ventures

As noted, in order for a full joint venture to take place, the relationship between the parties will be structured around certain foundational elements, namely:

- start-up financial participation by both parties that is reflected in the ownership and profit-sharing of the venture
- differing and complementary expertise and market access
- a managed relationship between the parties directed towards achieving the objectives of the venture.

Joint ventures can be formed "ab initio", or as a further development or maturing of dependent relationships that have come about to fulfil various strategic objectives. This may include assisted sub-contracting or an assisted joint venture.

Fulfilling the foundational elements of a full joint venture requires relatively high levels of professional business knowledge, performance and access to finance.

It should be noted that purely financial relationships, many of which are being negotiated in various "Black empowerment deals" with White-owned (often public) companies, are not considered to fall into the category of joint ventures as defined, and are thus not dealt with. However, many of these deals are broadly political in nature, designed to serve various strategic aims associated with unbundling and image and as such may have an impact on the topic of Black/White joint ventures, even if only in terms of creating performance-related expectations.

5.8 POTENTIAL PROBLEMS

In addition to the model elements and potential impact factors discussed in Chapter 4, potential problems will face Black/White joint ventures, given the history of Black/White business relationships, the structure of business in the country, and political pressure for
Restructuring. These potential problems include the following:

5.8.1 Window dressing

Political incentives to form joint ventures has led to the frequent exploitation of the concept for the sake of expediency. In order to be in a position to bid for government contracts, alliances are formed which are often in name only. Lip service is paid to the concept through window dressing organisations to reflect a "politically correct" profile.

In some instances, window dressing may be for the sake of expediency from both parties; however, in other cases one party may have different expectations in this regard to the other. An established White company may consider the need to obtain an acceptable profile merely as a nuisance that will not materially affect it, whereas the Black partner recruited for this aim may have aspirations for development that will be disappointed.

Conversely, an established White partner may wish to enter into the spirit of the concept by forming a working relationship with a Black partner, whereas the Black partner may not want anything out of the relationship more onerous than a financial reward for the use of the connection.

It should be noted in this regard that promotion of Black business in the contracting field by Government has also meant that a favourable price margin may be allowed to Black main contractors when tendering for Government work. As could be expected, abuse of the aims of this concession takes place and is often ingenious, ranging from shell companies with Black figureheads to sub-contracting by successful (and more expensive) Black tenderers to White main contractors - the Black contractor becoming in the process an employing agent, rather than developing as a contractor.

5.8.2 Supply and demand

This situation is exacerbated by the dearth of Black entrepreneurs capable and willing of entering into joint ventures with White business. A restricted supply, together with political pressure to deliver, can lead to a situation where the cost, in its various forms, of providing for the demand, becomes unrealistically high.
5.8.3 Lack of innovative management thinking

The protectionism of the past and the economic pressures of the present has meant that management in South Africa is generally hesitant to make changes perceived as high risk.

Human and Horwitz (1993) noted that South African businesses on the brink of the new political situation were generally inward-looking, with management placing a low priority on issues such as strategic alliances. Innovative practices were not common; where small jumps into the future often (predictably) produced shocks, this resulted in retreating to past habits. The certainty and comfort of the inside of the organisation was preferred to the challenges of unexplored territory. South African managers were ill-equipped to cope with a complex future.

Designing and implementing joint ventures between Black and White enterprises requires innovative and flexible thinking on the part of management, together with high analytical capabilities and a willingness to attempt untried solutions to complex problems.

5.8.4 Continuation of the structural status quo

Mothobi and Cheater (1975) raise issues related to workplace experiences in Zimbabwe that remain valid in South Africa. They note that expertise in formal employment will have been defined by race, White expertise being overwhelmingly managerial and administrative, and Black expertise technical or production-oriented. Race-based expectations arise through work experiences, which in turn influences attitudes. Little impact is made on racial restructuring through training aimed at improved performance; rather, the status quo is reinforced and attitudes confirmed.

The potential also exists in joint ventures as well as in the workplace to reinforce the status quo as noted above. This could result further in the Black partner being dominated by White expertise, and a stagnation of structural progress. Preventing this from happening requires high levels of awareness, flexibility and a willingness to adapt from management.
5.8.5 Increased cost and time

The many gaps in terms of a lack of shared expertise and business exposure that need to be bridged in Black/White joint ventures, mean that these initiatives are likely to require a higher investment in terms of time than a conventional or traditional enterprise, and to be correspondingly more costly, at least in the initial stages. This should be viewed as an investment in the future of the enterprise. If the implications of this aspect are not dealt with initially, it may well lead to the collapse of the initiative.

5.8.6 Barriers to entry of Black partners

Black partners to a joint venture face more than their share of barriers in gaining entry to an enterprise of this sort. In addition to the impact factors noted previously, these barriers include the vitally important aspects of access to capital and bridging finance, and the high cost of capital.

The Small Business Project (1997) notes that the legislative environment raises significant barriers to entry for small businesses. Over 150 laws on the statute books, taken together, result in very high compliance costs and effectively deny market access to many small businesses. The competitive environment is significantly distorted; whereas larger enterprises generally have the resources to meet the regulatory burden, small ones often do not.

It can be expected therefore that in addition to the numerous other differences, there will be a difference in size between the partners to a joint venture with the White partner probably being larger than the Black partner. This is itself may pose its own problems in structuring the enterprise.

5.9 APPLICATION OF THE MODEL

The model proposed in Chapter 4 can be applied across the continuum of joint venture-related enterprises. Naturally, depending on the type of joint venture under consideration, various elements may not be applicable.
5.9.1 Case study approach

Political pressure that is brought to bear for the inclusion of Black enterprises in the South African economy through the formation of joint ventures between Black and White business, means that in assessing the usefulness of the model, a case study approach is the most valid. This is explored in more detail in Chapter 6.

In addition, Black/White joint ventures are still in their infancy and people involved in such initiatives are finding their way. A quantitative approach would be likely to give misleading results because of the pressure that is being brought to bear on business to enter into arrangements of this nature. "Politically correct" statements and "wish lists" of (potential) achievements will be presented which in many cases will not reflect accurately what is happening on the ground. A deeper investigation of the issue is needed, for which the case study approach is ideally suited.

5.10 SUMMARY

Literature on the topic enabled the formulation of a definition and the identification of general principles of joint venture formation and management. There are various imperatives towards forming joint ventures, which can be used to bridge business involvements internationally, as well as to bridge national business barriers where structural divides exist.

In South Africa, there are strong strategic imperatives to forming joint ventures that bridge the Black/White business divide. The term "joint venture" has been expanded to consider a range of possibilities along a continuum ranging from employment to full joint ventures between independent parties, which is explored.

In addition to the potential impact factors noted previously, Black/White joint ventures face many potential problems. The proposed model can be adapted to be applied across the continuum of joint venture possibilities. Pressure for the formation of Black/White joint ventures means that information gained on such enterprises through means other than intensive case studies is likely to be misleading.
CHAPTER SIX
METHODOLOGY: THE CASE STUDY APPROACH

6.1 INTRODUCTION

Methods used by the mass media to investigate topical issues are generally directed around reportage, often in an anecdotal format. Depending on the publication, exploration of these issues and incidents takes place in varying degrees of depth. The popular appeal of this approach lies largely in the tendency of the reader to identify with personalities, situations and circumstances that play a part in the issue or circumstance being reported. This approach, by its nature, tends towards the subjective, sensational and "saleable". In many instances, validating and ratifying assumptions does not play a definitive role in the media process.

This type of popular reportage is not to be confused with the case study approach as a research technique. Case studies that are conducted under an acceptable research-directed framework form part of a range of research methodologies. All research methodologies, in order to qualify as such, need to be directed towards results that are valid and reliable.

There are various descriptions and definitions of research-directed case studies. Yin (1989:23) defines a case study as an empirical enquiry:

- that investigates a contemporary phenomenon within its real-life context
- where the boundaries between phenomenon and context are not clearly evident, and
- in which multiple sources of evidence are used.

Feagin describes a case study as "an in-depth, multi-faceted investigation, using qualitative research methods, of a single social phenomenon" (Platt 1992:44).
6.2 QUANTITATIVE AND QUALITATIVE RESEARCH

Case studies clearly belong to the realm of qualitative research techniques and methodologies. However, the use of case studies as a research tool is often questioned, particularly with respect to the validity of results.

This questioning forms part of the general debate on the efficacy of qualitative as opposed to quantitative research techniques. The debate has been centred around the influence and impact of the various methodologies used on the reliability and validity of results. In this respect, qualitative techniques are often seen as being in opposition to quantitative, statistic-based methodologies.

6.2.1 Quantitative methods

Quantitative methods are considered by many as providing objective and unbiased results, uninfluenced by the human factor of the researcher conducting the study. They are directed towards arriving at numerically-based results. These statistically-based methods have attempted to reduce the human factor through methodologies such as the application of large-scale formalised questionnaires conducted in an impersonal manner, such as through the post. Responses are coded and analysed statistically. Stone (1978:41) notes that quantification of a measured attribute allows mathematical methods to be used in the analysis of the results.

6.2.2 Qualitative methods

Qualitative methods are designed to explore the human factor and to capture nuances of cause and effect which arise from the human factor itself - not that of the researcher, but of the protagonists. These methods are directed towards the accommodation of factors that cannot be translated into, or contribute to, numerically-based results. They are largely based on personal interaction between the researcher and the study subject. In such methods, the skill and objectivity of the researcher is naturally of particular importance, as this can critically affect the classification of information and analysis of the results. Pirow (1992:78) defines qualitative variables as all those for which a fixed unit of measurement cannot be defined (see also Leedy 1993:139).
6.2.3 Arguments: quantitative versus qualitative

Supporters of quantitative over qualitative approaches base their criticism of the latter largely around the areas of objectivity of results and the internal validity of the respective processes, as noted below.

**Objective results:**

Quantitative research methodologies provide the means to analyse a situation objectively and attain a result that is unbiased, and therefore more valid and useful. Results obtained from qualitative research methodologies, on the other hand, are unreliable, as the analysis is influenced by the perceptions and prejudices of the researcher conducting the study.

**Internal validity:**

Bias, ie the interpretation of an individual researcher, is seen as being inescapable in the application of qualitative research methodologies. The validity of results is therefore seen as suspect, as it becomes impossible to compare the results of various research projects conducted by different researchers. Stone (1978:42) states that wherever possible, standardised methods should be used.

6.2.4 Arguments: qualitative versus quantitative

Supporters of qualitative over quantitative approaches base their criticism of the latter largely around the areas of whether quantification is possible in all instances, options in determining causation and the need to keep sight of the unusual or specific, as noted below.

**The possibility of quantification:**

Social science questions whether it is possible to hold factors constant in situations where human, rather than numerical, influence is dominant. In such situations certain elements cannot be quantified and thus do not lend themselves to numerical definition and comparison.
Burgess notes that "The prestige of statistics as the one scientific method has naturally often led in sociology...to a naive and uncritical application of quantitative measurement" (Platt 1992:21).

Sayer (1984:220) argues that not only does the large-scale formalised interview format not control bias, it introduces bias by not allowing for different interpretations of the questions asked by the various respondents. The use of interactive or structured interviews allows the researcher to correct this, by ensuring clear and common understanding of the questions by the respondents.

Selection from a range of options:

Makin (1993) notes that all research involves a creative process through which data is explained, and that a number of options can apply in the explanation of statistical associations. However, careful research into the history of the situation is needed to indicate which theoretical perspectives are most appropriate to the particular instance. Quantitative research is thus limited in investigating causation - in this regard, a qualitative approach is likely to be more useful.

Obscuring of factors:

Quantitative methodologies tend to obscure specific factors operating in specific situations (Kazdin 1981). Statistically-based research thus has a limited application and is clearly inappropriate for investigating the unusual, unique or novel.

6.2.5 Specific applications

From the main arguments regarding qualitative and quantitative approaches, it is clear that both have a role to play in the exploration of phenomena. Within each broad approach, specific applications should take place as appropriate to particular phenomena under investigation.
6.3 QUALITATIVE RESEARCH AND THE CASE STUDY APPROACH

Makin notes that quantitative methodologies are incapable of providing a fully comprehensive explanation of all situations. It is clear that qualitative research has an important role to play in the full exploration of situations and phenomena. This is an area of broad agreement. However, the acceptability of case studies per se is still an area of some disagreement, where the "case for case studies" is still questioned by some proponents of a dominantly quantitative approach.

An exploration of the arguments for and against case studies indicates that not only do they provide a valid application of qualitative methodologies in specific defined circumstances, but also that results obtained through a purely quantitative approach are themselves open to question.

6.3.1 Arguments against case studies

Some of the arguments against case studies as a valid research technique are closely related to those against qualitative research techniques per se. They include the following:

* they are exploratory and descriptive and as such are only part of the initial stages of research

* they are biased (in favour of what the researcher wishes to illustrate) and therefore lack objectivity

* they often carry ideological rather than analytical implications, and conclusions are affected accordingly.

* their nature makes them unrepresentative - the lack of sampling means that any conclusions drawn cannot be applied generally

* independent and dependent variables are not measured accurately and thus arbitrary interpretations are employed
they are weak in terms of both internal and external validity. In terms of internal
and external validity, the arguments against case studies can be stated as follows:

**Internal validity:**

Bias, or the researcher's effect, is seen as being an inherent flaw in the case
study approach. Bias is seen as resulting from an excessive dependence on the
individual abilities of the researcher; an additional aspect to this is that results can
be manipulated by researchers with specific communication abilities.

Case study methodology is seen as being relatively unexplored, which in turn
compromises internal validity. The point is often made that there is no tried and
tested, and universally applicable method of conducting a case study in such a
way as to provide dependable results. Simon states "the specific method of the
case study depends on the motherwit, commonsense and imagination of the
person doing the case study. The investigator makes up his procedure as he goes
along" (Platt 1992:18).

Associated to this is the lack of experimental controls and thus built-in corrective
features to the methodology that would provide "scientific distance". Yin (1989)
states that rigour and reliability can be lacking.

**External validity:**

Case studies are stated as lacking in external validity on the grounds that results
cannot be generalised and applied to other settings. The point is often made that
only probability sampling meets the scientific criteria of representativeness;
without a probability sample drawn from a population, there is no scientific basis
to generalise.

6.3.2 Arguments in favour of case studies

Similarly, many of the arguments in favour of the use of case studies in research are
closely related to arguments in support of qualitative research techniques in general.
They include that case studies are an effective method for collecting data on many
variables for each case, and that data on cases can be placed in context.

With regard to arguments against internal and external validity, the following is pertinent:

* an explanatory case study can be considered a whole experiment, as it "is dependent on an accurate rendition of facts and comparison" (Yin 1981)

* generalisability can apply through case studies by considering the kind of unit observed, rather than (as with quantitative methods) simply the number of units observed (Kennedy 1979)

* Yin (1982) notes that traditional statistical techniques are irrelevant in situations of case comparison; often these lead to the "accumulation of numerous variables, typically greater in number, by an order of magnitude, than the number of cases being studied" (Stoecker 1991:93)

Stoecker states further that a case study approach can fill certain gaps, notably in addressing three main areas. These are:

* the inability of probability samples to ensure accurate or valid explanation

* quantitative methods do not control for bias, as respondents may have differing interpretations of questions

* quantitative methods are inappropriate in applied research; cross-sectional findings cannot provide explanations of the unique, novel or idiosyncratic.

### 6.4 A CONTINUUM APPROACH

Makin describes the conflicts between quantitative and qualitative research techniques as a "false dualism". Each approach should in fact be seen as appropriate to particular situations, and the decision on what type of research methodology is most appropriate should be informed by the type of situation under investigation.
It is clear that there is a place for both approaches. In this regard, it is useful to see research methodologies as a continuum, where the selection is determined by the appropriateness of a particular technique, methodology or approach to the situation being analysed.

On such a continuum, case studies could be considered as occupying the extreme of the qualitative end of the scale, and probability curves the other extreme, ie that of quantitative methodologies. This is noted in Figure 6.1 below.

<table>
<thead>
<tr>
<th>QUALITATIVE</th>
<th>QUANTITATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>case studies</td>
<td>structured interviews</td>
</tr>
<tr>
<td>participant observation</td>
<td>surveys</td>
</tr>
<tr>
<td>Probability curves</td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.1: Research methodology continuum

Sayer (1984:220) advocates a related approach, by distinguishing between “intensive” and “extensive” research designs. Extensive research is based on statistical association, such as large-scale sampling, and is concerned with the descriptive mapping of common patterns and properties of a population. Intensive research is based on observable, concrete interactions, using qualitative methods for the purpose of causal analysis. Sayer’s definitions would thus also fit on such a continuum, with "intensive" methods being qualitative, and "extensive" methods corresponding to the quantitative approaches.

Makin states that investigations into the validity of case studies as a research tool have concluded that the case study has an important role to play and should be included in the range of research techniques available to explore situations and phenomena.

6.5 THE IMPORTANCE OF CONTEXT

Different methodologies are appropriate to various situations. Leedy (1993:139) notes that the problem will dictate the methodology. What defines the most appropriate
Methodology to be applied in a particular situation is likely to be the context of the situation to be analysed. A careful examination of the context will enable the situation to be placed on the continuum.

If a situation has a homogenous population, this makes it possible to derive a representative sample. In addition, a homogenous population that displays numerous instances of particular phenomena lends itself to quantitative methodologies. It should be recognised that certain phenomena do not lend themselves to extrapolation or replication, and are thus inappropriate for an investigation focused around quantitative methodologies.

Quantitative methodologies are thus most suited to contexts where there is a certain frequency of occurrence of (a limited number of) variables. On the other hand, where unusual or out-of-the-ordinary behaviour is evident in a situation, this would be an appropriate field for qualitative methodologies, and in particular, the case study approach.

Where a situation has contextual elements that do not easily fall into either of the two extremes, it may be advisable to apply a mix of both quantitative and qualitative methodologies, in order to arrive at a balanced analysis. A case study approach could also be used to supplement quantitative analysis, by exploring the "outlyers" in order to arrive at a comprehensive explanation of a particular set of occurrences.

Case studies are not looking so much at quantifying what has happened or is happening, as exploring the reasons why something has happened in a specific way. In this regard, the influence of the human factor is of particular interest. In such an investigation, the number of possible variables is likely to be of such an order of magnitude as to effectively render quantitative techniques useless.

The case study approach is thus most suited to a context which has unique features, and in which the human factor, in all its complexity, plays a dominant and definitive role. This is the type of context where new ways of doing things are being tried, and where people are exploring the untried and untested in search of solutions to problems which are either themselves new, or which have become resistant to established approaches.

This is a "cutting edge" context, where the influence of the context itself in many ways
defines the approach to solving the problem.

Figure 6.2 below has been developed in this study to illustrate a contextual application of the continuum approach.

<table>
<thead>
<tr>
<th>QUANTITATIVE: REPRESENTATIVE SAMPLES</th>
<th>QUALITATIVE: CASE STUDIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homogenous population</td>
<td>Unique situation/s</td>
</tr>
<tr>
<td>Observed behaviour of some frequency</td>
<td>Too few examples for reliable samples to be drawn</td>
</tr>
<tr>
<td>Common practices</td>
<td>Uncommon practices</td>
</tr>
<tr>
<td>Adaptation of past methods (may serve as an indicator)</td>
<td>Little relation to past methods</td>
</tr>
<tr>
<td>Human factor can be subsumed</td>
<td>Human factor is definitive</td>
</tr>
</tbody>
</table>

Figure 6.2: Contextual applications of quantitative and qualitative approaches

6.6 USES OF THE CASE STUDY

Case studies are most useful in specific types of situation, in particular those that do not lend themselves to quantitative analysis, including situations:

* that are new and novel
* where there is no precedent for actions that have been taken
* where new and untested ideas or approaches are being tried out
* that are changing
* where the human factor plays a vital role

In such situations, there are likely to be too many variables to be analysed reliably through quantitative techniques. Methodologies that combine both qualitative and quantitative aspects, such as participant observation surveys, are also likely to be largely unreliable.
Case study investigations of selected instances make it possible to draw out and define causal factors that are resistant to numerically-based analysis. It is also possible through the case study approach to define contextual, operational and definitive factors that will affect the potential for success (or failure) of similar applications.

The fact that outlying and singular situations occur in no way diminishes their importance, or the need to explore them. This is particularly so when the phenomenon is of a pioneering nature. In certain instances the pioneering phenomenon may well spark a trend. In other instances, it may prove impossible to create the circumstances and combination of factors that enabled the original phenomenon to take place. In still other instances, an adaptation of the original may take place, possibly with greater impact.

Adapting, correcting and modifying pioneering phenomena in order to increase their usefulness and impact will often be beneficial; intensive investigation of such phenomena through the case study approach can enable this to take place with a increased degree of confidence and potential for success. In addition, such an investigation can prevent replication of ineffective, costly or harmful practices encountered during the original experience. Easton (1992:1) describes the case study as an intensive study of a person, group or organisation (see also Stone 1978:135-138 on the usefulness of the case study).

The exploration of the singular is thus essential to a broad understanding of phenomena. The case study provides an effective means for doing so.

6.7 APPLICATION OF CASE STUDY APPROACH TO BUSINESS RESEARCH

Makin notes that the case study is particularly suited to the analysis of organisational phenomena. The case study approach is specifically pertinent to the investigation and analysis of certain business situations and phenomena. This is because success in many areas of business depends to a large extent on the human factor and the "surprise" factor, both of which are extremely difficult to quantify. Scott (1975:143) notes that reliable knowledge of organisational behaviour can best be obtained through firsthand observation (see also Bennett and Felton 1974:165).
The human factor

The effect of the human factor on success has been a key topic in business literature for some time, ranging from executive communication and interaction skills, to the impact of quality circles on production achievements.

In addition, popular business literature notes the trend towards the service sector becoming the growth area of the next few years, and that advances in technology and systems will largely be geared to providing higher levels of service to consumers. The successful provision of service is critically dependent on the nature and quality of human interaction, both between the service provider and the consumer, and between the elements making up the service to be provided.

The case study approach provides a means of exploring causality with respect to the operations of the human factor in business. Much of the research to date around this topic has concentrated on effect and predictability.

The "surprise" factor

Doing things differently, or indeed doing different things, can offer an enterprise a major competitive edge, enabling it to be first out of the blocks in the competitive race. Very often, much effort is taken by the protagonists to cover their tracks during the process until they have established a lead on the opposition which will be unassailable for a time.

In this type of situation, the protagonists can be expected to act in such a manner as to confuse predictions - if their actions can be foretold, they will not be able to realise the surprise factor which is key to the successful implementation of strategy.

Quantitative research methods that are based on numerical analysis and probabilities are not of much use in such a situation, where a primary tactic is indeed to confound the predictable. Of more use is a qualitative approach that takes account of examples of behaviour from the usual to the unpredictable.

Unexpected behaviour that delivers desired results in a particular business situation, once experienced, sets an example that can be emulated in subsequent situations. The
unusual and unpredictable nature of such behaviour means that noting such examples can only take place in a case study format.

It can thus be considered important for business schools in particular to promote the application of case study research as a useful tool for the exploration of suitable phenomena, in order to arrive at a broader understanding of the business environment.

6.8 CASE STUDY DESIGN AND EXECUTION

The process of drawing up the case study is of vital importance in aiming at results that take into account the qualitative nature of the method. The researcher needs to aim constantly for objectivity. This entails a considerable amount of secondary research and unbiased investigation in order to place the case within a context and environment that notes what may be conflicting rationales for behaviour on the part of the various protagonists. In her introduction, Cheater (1986) states that "there is no substitute for direct observation and free, unstructured questioning in any study of micro politics. At the same time, such techniques are usefully supplemented by statistical and other data from the organisation itself."

The design of a particular case study needs to consider aspects such as:

* identification of the case, including its parameters
* identification of the key protagonists
* identification of the time frame to be covered
* availability of primary and secondary sources of information

Conducting a case study entails consideration of aspects such as the following:

* careful exploration of the various contexts surrounding the case. Different contextual interpretations may exist on the part of the various protagonists; it is essential to the objectivity of the results that these are noted fully
exploration of the actual situation, in terms of:

- its history
- the industry environment
- the current situation
- implications for the future

Where the case under study is of a unique nature, the objectivity of the results will be protected by noting, where possible, a range of potential implications for the future.

- the use of both primary (where possible) and secondary sources of information.

Available primary sources should be accessed through interviews, which should be structured beforehand and properly documented, either through recordings (approval must be given by the interviewee) or written notes taken during the interviews. Documentation should be objective and non-analytical.

Secondary sources can include official documentation, reports and media coverage of the situation. Again, a range of secondary sources should be accessed if possible.

- analysis of information. It is essential that the analysis takes account of such factors as divergent views and contextual influences.

6.9 THE STUDY PROCESS

Given the nature and present status of the topic under investigation, case studies are considered to provide the most appropriate research methodology. The process of this study, as outlined in Figure 6.3, is concerned with the following elements:
HISTORY OF BLACK/WHITE RELATIONS IN SA

SOCIO-CULTURAL FACTORS wrt BLACK/WHITE INTERACTION

EXPERIENCE EXPOSURE ATTITUDES

SITUATION & STRUCTURE OF SA BUSINESS

NATURE OF BLACK/WHITE BUSINESS INTERACTION

LIKELY IMPACT ON BLACK/WHITE JOINT VENTURES

CASE STUDIES

CRITERIA

MODEL FOR BLACK/WHITE JOINT BUSINESS VENTURES
- maximise success potential
- minimise failure potential

Figure 6.3
THE STUDY PROCESS
6.9.1 History of Black/White relations in South Africa

The study investigates the history of Black/White relations in South Africa and the way in which that history has shaped aspects of interaction between the races.

6.9.2 Socio-cultural aspects

The history of interaction between the races in South Africa has determined and shaped the nature of an extensive range of socio-cultural factors which in turn impact on the interaction between Black and White.

The study looks at how the experience of, and exposure to, such interaction has created attitudes and expectations from and to Black and White.

6.9.3 Situation and structure of business in South Africa

The country’s history of colonisation, and the socio-cultural interaction of Black and White, has determined the nature and structure of business in the country. The study outlines major relevant elements of history and race-based interaction.

Together with the attitudes and expectations formed through experience and exposure, these elements have largely determined the nature of business-based interaction between Black and White in the country. In general, Black and White business enterprises have developed along different paths, function in different areas of the economy and are structured and operated differently. The study outlines these differences.

6.9.4 Impact on joint ventures

The study notes that the different paths followed by Black and White business in the country are a hindrance to meaningful economic growth and business development. Joint ventures between Black and White business are proposed as a means of bridging the gaps that have arisen between these two. However, it can be expected that the pressures that have led to the separate experience of business by Black and White, and the results of those pressures, will have a marked impact on joint ventures between them.
6.9.5 Case studies

Case studies of various Black/White joint ventures have been undertaken. These case studies explore the extent to which the likely impact of the nature of business interaction in South Africa between Black and White has affected the situation in reality. The case studies have been used to check and define key impact factors in this regard.

6.9.6 Criteria

Results from the case studies have enabled the drawing up of criteria that, when applied, will affect the likelihood of success or failure of a Black/White joint business venture.

6.9.7 Model

The key success criteria that have been formulated and checked against the case studies have served as input to the development of a model to guide the formation and operation of Black/White joint business ventures.

The model is aimed at maximising the success potential of such joint ventures. It will assist business in shortening the learning curve of normalising relationships between Black and White business, and will thus contribute to the change process in the country.

6.10 CASE STUDY METHODOLOGY

The methodology that was used for conducting the case studies that form part of the study is outlined below.

6.10.1 Initial investigation

This consisted of collecting information immediately available on the case under consideration. Information was collected from both primary and secondary sources.
6.10.2 Identification of relevant aspects

Aspects of the case under consideration that were relevant to the study were identified broadly. This included aspects such as the nature and scope of Black/White interaction in the venture.

6.10.3 Identification of key players

Individuals who were key players within the case under consideration were identified. This could include persons who were not directly involved, but who had a determinant role in shaping the venture.

6.10.4 Obtaining permission

Permission was obtained from the relevant persons for the venture to be studied, as well as their commitment to co-operate in providing information. This included permission for full documentation including (where possible) taping of interviews as appropriate.

6.10.5 Development of specific questionnaire/s

Structured interviews played an important part in investigating the circumstances of each venture. Outline questionnaire/s were developed for the interviews with the key players. These questionnaires contained standard questions that were be common to all the cases considered. They were also customised for each specific venture.

6.10.6 Conducting and documenting of interviews

Interviews were conducted with the identified key players in each case study. These interviews were based around the questionnaires developed for this purpose, but were not restricted to them.

Interviews were carefully and thoroughly documented. Permission was sought for interviews to be taped. This documentation has been retained separately in order to be available for queries.
6.10.7 Collection of supplementary information

Where appropriate, supplementary information was sourced following the interviews.

6.10.8 Writing of the case study

Information gained from primary and secondary sources and from interviews was put together in an accessible format that placed the results of the investigation into the parameters of the study.

6.10.9 Analysis of the case

Each case study was analysed according to the framework provided by the proposed application of the model outlined in Figure 4.2.

6.11 SUMMARY

Renewed interest of late in the case study as a research method opens the possibility of a more complete exploration of phenomena. Arguments both for and against the use of the case study are strongly related to arguments placing qualitative and quantitative research methodologies in opposition to, and competition with, each other.

This is a false duality. Both quantitative and qualitative methods are useful, and a continuum approach is therefore proposed. The techniques that should be applied in a particular situation should depend to a large extent on the context within which the phenomenon takes place.

The case study approach is particularly useful for exploring phenomena that are unique, novel, changing and where the human factor in all its complexity plays a vital role. The importance of the human factor and the surprise factor in business makes the case study very useful in researching on-the-ground business situations.
The design and execution of a specific case study needs to be undertaken carefully, in order to enhance objectivity and validity. Properly done, a case study can achieve both internal and external validity.

The chapter also outlines the study process, including the methodology that was used to conduct specific case studies within the study.
CHAPTER SEVEN
CASE STUDY: THABONG SERVICE STATION

7.1 INTRODUCTION

Welkom is a town situated in the heartland of the Free State, a province previously synonymous with conservatism and a deep suspicion of "big city" ideas that challenged a largely rural outlook on life. The town owes its existence and prosperity to the twin staples of the Free State economy, namely gold mining and maize farming. In keeping with the apartheid design of South Africa’s settlements, Welkom is the "White" town. Alongside it is its poorer Black neighbour, the township of Thabong, designed to function as a dormitory town for the Black labour supply to the mines and White business in Welkom.

In line with apartheid policies and legislation, ground and business rights in Thabong were previously owned either by the government or Whites. Money spent in the township thus also went to build White business. Administration of Black townships was in the hands of White officials.

Prior to the radical political change in the country that culminated in the 1994 elections, the tentative opening up of the economy was explored through various initiatives. One such initiative took place in Thabong from 1992 through the involvement of a White entrepreneur with one of the taxi associations based in the area.

7.2 BIRDCON

Jonathan Bird heads a construction and development company, Birdcon, that focuses mainly on the construction of large filling stations. He had acquired property in the township, including a filling station, Thabong Service Station, as well as vacant land behind the filling station that had been earmarked by the Thabong Town Council for use as a taxi rank, on a 99-year lease. Under an agreement with the Thabong Town Council, Birdcon also had a preemptive right over the surrounding area, meaning that no development could take place without Birdcon's prior approval.
The changing situation offered an opportunity to improve business through firstly, increasing market share and secondly, through broadening the base of involvement in the filling station to include people from the community it served.

7.3 THE TAXI INDUSTRY IN THE WELKOM/THABONG AREA

The main client base of the filling station was drawn from the taxi industry in the area. The taxi industry offered one of the very few opportunities open to Blacks for entrepreneurial activity during apartheid. The ubiquitous minibus-taxi or “Combi-taxi” soon became the mode of choice for Black travellers. Not only did it provide an affordable and convenient alternative to the often inadequate State-subsidised bus services for Black travellers, but it provided the means for economic independence for many entrepreneurs. Restricted business opportunities for Blacks under apartheid meant that the interface between Black and White business often involved the minibus-taxi in some form.

In the Welkom and Thabong area, the taxi industry was composed of a number of associations, catering both for short-distance (mostly urban) operations and long-distance operations that mainly served the routes to Lesotho, where many of the miners working in the area had their homes. Common interests, in particular the need to present a united front to the Welkom City Council, had led to the formation of an umbrella body called Group 17 (see the Power Road case study). However, the various associations that together formed Group 17 also functioned in their individual capacities and were free to negotiate as separate entities.

One of the taxi associations in the area had formed an agreement with a competing filling station that was situated along the same road from Thabong Service Station. This agreement essentially involved a percentage of sales of petrol to taxi drivers going to the association. A local long-distance association known as Majakathata (meaning the hard-living ones) also expressed an interest in entering a commercial relationship with Thabong Service Station.
7.4 THABONG SERVICE STATION

Thabong Service Station is situated on the main road entering the township. Its operations comprise the following:

* fuel pumps
* a workshop
* sale of consumables such as oil
* a fast foods outlet on the premises

The filling station was operated under a lease agreement with Birdcon and the property on which the filling station was situated was bonded to Shell. Part of the rebate on fuel sales went towards this debt. An oil rebate was dependent on minimum monthly sales.

The service station had an investment of approximately R250 000 in fixtures and fittings, as well as a working capital debt in the form of an overdraft. A separate lease agreement governed the fast foods outlet.

The service station was one of five overseen by a general manager for Birdcon, Fred van Zyl, who visited the premises approximately once a week. Day-to-day management was the concern of a local employee, Sandile.

7.5 INITIAL NEGOTIATIONS BETWEEN BIRDCON AND MAJAKATHATA

Following an approach by Majakathata to Thabong Service Station, discussions took place between the taxi association and Birdcon. A high degree of goodwill was present, and a desire for cooperation was expressed by both parties that would be reflected in joint shareholding and management of the filling station.

Because of the substantial bond held by Shell on the filling station, any agreement reached would be subject to Shell's agreement. (This was obtained by Birdcon.)
7.5.1 Shareholding

In reaching a price for the shares to be purchased by Majakathata, a valuation of R250 000 for the business was used as the base.

In assessing the contribution of each party to the deal, Birdcon stressed that it had invested considerable capital in developing the infrastructure and putting the business aspects of running the enterprise in place. Majakathata's approach was based on their contention that they controlled the potential market, and that the resultant partnership should be based on Birdcon bring the facilities to the table, and the taxi association the market. Access to the market should thus cover part of the price of the shares.

The approach of the taxi association was reflected in the price of R45 000 that was set for a 50% share in the business. However, proof of the claimed market access formed part of the agreement; the shareholding would apply if 300 000 litres of petrol were sold per month on average. 160 000 litres per month (average) would operate as the baseline, representing 20% ownership. Majakathata was given two years to increase the literage to the target amount.

As shareholders, Majakathata also became liable for part of the overdraft facility of R110 000 that was being used. It was agreed that no dividends would be paid until the overdraft had been cleared.

7.5.2 Management

A management committee was formed of five persons, with two from the Black party and three from Birdcon. It was agreed that Sandile, the operational manager in place, would retain his position for the transitional period that was envisaged.

Fred van Zyl would continue to oversee the operations of the filling station as in the past.
7.5.3 The fast foods outlet

Majakathata expressed a keen interest in the fast foods outlet. However, this enterprise, although situated on the premises, had no connection to the service station and was subject to a separate lease. As such it could not form part of the agreement.

It was agreed however that should the rental be increased due to increased turnover, the taxi association would be paid a percentage of the increase.

7.5.4 The ranking space

Both parties expressed keen interest in developing the ranking space and upgrading it. Birdcon had already undertaken some initial work in this regard, such as levelling the ground.

Majakathata accepted that the ownership of the rank would remain with Birdcon. However, the rank would be leased to Majakathata on a five-year renewable basis at a nominal rental of R100 per year. Both parties would actively pursue the upgrading necessary to be able to accommodate long-distance taxi operations effectively.

The lease for the rank would contain conditions related to proper management such as cleaning, maintenance, payment of rates and services and control of the use.

7.5.5 Future developments

As an indication of goodwill and a desire to work together into the future, Birdcon agreed to negotiate a percentage of gross income to be paid to Majakathata on any further developments that it undertook within its area of preemptive right.

Access to Birdcon structures, expertise and facilities was also offered.

Payment was made by Majakathata for their shares and the joint operation commenced immediately.
Work on the rank also started and was completed within the year. As well as shelters and ranking areas for taxis to the various destinations, the improvements included office and meeting space for the association. As negotiated, Birdcon retained ownership and leased the facility to Majakathata at a nominal fee, the lease being for a period of ten years.

7.6 FURTHER NEGOTIATIONS

However, by September 1994 it was evident that the joint operation was not proceeding as hoped, and Majakathata requested a meeting with Birdcon. Their concerns noted in the letter requesting the meeting included:

* no signing authority on the filling station bank accounts for their directors
* a lack of management and financial information
* the fast foods outlet
* no proof of shareholding

The meeting was held as requested, and most of the concerns of the taxi association were resolved. For example, it was agreed that a management report would be compiled every two weeks and that copies of the share certificates, which were being held in safekeeping for Majakathata with Birdcon’s attorneys, would be made available.

However, it was clear that deeper problems were present and that unless these were identified and resolved if possible, the joint venture would not achieve its potential. This proved to be the case.

7.7 PROBLEMS EXPERIENCED IN THE VENTURE

The goal that had been set and agreed to by the taxi component as well within reach, that of 300 000 litres of petrol a month, was never achieved. Management problems that had not been resolved were still evident in 1998, and the relationship between the two parties to the venture had not developed as was hoped at the commencement of the enterprise.
Van Zyl left in October 1995 because problems experienced in the venture. These problems continued and were confirmed in 1998 by the Black partners.

### 7.7.1 Representative powers

The association did not allow its delegated representatives (ie, their two directors), and later their delegated managers, to act on their behalf without constant referral to the association for approval of decisions and actions to be taken.

Van Zyl stated that "...they didn't understand that they had a representative representing their side. They thought that as they were shareholders, that everyone could have a say in how the garage was run. It was very tricky to handle."

He notes this issues as a fundamental problem "...basically, what really went wrong was they didn't allow...their director, representing them, to handle it. Every one of them thought he was a director and every one of them was demanding things and wanting to have a say in how the garage was run...I would never go into a thing with an association like that again - it's much too many cooks spoiling the broth."

Zachariah Khiba was re-elected as chair of Majakathata in 1998. He was the chair at the inception of the joint venture, but spent some time away from the association after failing to be re-elected and at the urging of his doctor, who had diagnosed stress-related health problems. On this issue, Khiba notes "(there are) many members of Majakathata, and everybody, when he comes to the garage there, he wants to show that he is an owner. He is a shareholder. And he has got a say. It is our big problem. Too many cooks in one pot. Everybody when he comes there, wants to say something to the manager."

Van Zyl describes the problems this approach caused for the management "...it was always a meeting with the whole association. It would have been better to have just met with say the executive, rather than the whole association. (We often suggested that to them), but they just would rather that everyone was there, because they didn’t want to be looked on as hiding anything. I don’t think that they understood that it made it difficult at all. But we didn’t achieve very much by doing that."
Although van Zyl interpreted this situation as one of unclear lines of authority, the issue has another dimension as well. Involvement of the wider body in decision-making is common in taxi associations and is often present in Black organisations, such as stokvels. Organisational hierarchies can also often represent status more strongly than decision-making authority.

This can make the process of taking decisions time-consuming, and can often lead to no decision being taken rather than one that may not be favoured by powerful persons who are nevertheless not in an "official" decision-making position, or to a decision being taken that reflects the wishes of such persons rather than those supposedly making decisions, or to decisions being postponed until agreement can be reached.

This type of situation naturally requires delicate handling. That it was present, and the difficulties of dealing with it, was noted by van Zyl: "A few members were very outspoken about everything and seemed to hold a lot of power. And these guys made it very difficult. A handful of them - four of five of them. And yet they weren't on the executive."

7.7.2 Ineffective structuring

The situation described above was a fundamental problem, and caused further difficulties, particularly in the way it affected the directorial and managerial structuring of the venture. This issue made it impossible to apply the principle that the board of directors sets the policy of an enterprise and directs management to implement that policy in the best interests of the shareholders.

The executive committee of the association assumed a dominant role, with the Black directors effectively having no decision-making authority. When the Executive Committee changed along with the internal politics of the association, which is common and frequent practice with taxi associations, the direction of the filling station was also affected. Continuity of approach was lost, and long-term planning was made very difficult.

NM Leketsoane, a member of the Executive Committee who had been involved since the inception of the venture described the situation: "the problem with us was the
association. After doing everything (Khiba) was the chairman. And he entered into a contract with Birdcon. And everything seemed to be very smooth. But...there were elections. And he was nowhere. But honestly, there was a promise of progress.

After the elections things started to be redrawn...verbal agreements and so on were taking place...to an extent of an agreement of the directors. It was not the same. Things changed. And we (who had been involved) were not consulted."

Khiba concurs: "after the election for the executive committee of Majakathata, things changed altogether...the attitude of our people (is) when you were a leader and somebody comes after you, that somebody wants to make things change...he wants to make things go by another way."

Bird noted the difficulties and frustration that this caused and that the interference of the association made it impossible for the directors to function as directors: "You set up and then they postpone because they are having elections and then they are out and then they are in. There wasn’t continuity. Zachariah didn’t come in, they ousted him and there was another chairman. That’s where it all went wrong. And then Mafereka (Joel, a local politician) was appointed a director. He was an exceptional guy, really a good man - he went to Parliament. And then he didn’t have follow-up."

Galilee Mokhosi, a member of Majakathata who was employed as a manager at the filling station, noted that these changes affected the venture’s structures and direction profoundly "The five directors have not really been in a team since then." Khiba stated that "the structures had changed radically, changed altogether. Even now (1998), we don’t know who are the directors at this junction" and that when the (changed) executive committee installed Mafereka for a period in the filling station "the directorship was not consulted. Things were discussed and agreed upon ... Mafereka ... was the decision-maker on behalf of the entire directors...a link...between the executive committee and the garage."

This structural confusion and lack of direction led to a situation where although the day-to-day running of the filling station was left largely in the hands of the Black partners (with the inefficiencies associated with a lack of direction), Birdcon continued to hold overall
managerial control through van Zyl and to run the financial aspects of the venture, and to do so at a distance and within the wider Birdcon context.

Khiba described the situation as being one where "the banking of the money was done and 90% of the money was controlled by Bird and van Zyl (who) were the signatories. Only them...and they transferred to match up companies." Mokhosi notes that "when we made a follow-up of that money they showed us that they owed companies and when they were short to a certain company, they would always transfer the money to the other one. So that when that one picks up, then they put back the money from there." He expressed concern as to whether money used in this way was ever recovered.

7.7.3 Inefficient management and inadequate communication

The situation was not helped by a general dearth of regular, easy-to-understand information. Khiba described a situation where "We didn’t know how things were going, the interest on the money, what was going on, nobody knows, up to now...that is one of the things (where) management (was and remains) very poor."

Van Zyl also admitted to a casual approach towards the production of management information: "We were at fault in that one of our partners (who) was supposed to be the accountant got the figures, but didn’t produce figures every month. So I started doing it myself, but I’m not an accountant. We couldn’t give them accurate figures all the time...That side wasn’t good enough.

"...there was cash taken out and I don’t know where or how...obviously it must have been to transfer from one account to another, because he (Bird) worked between the companies and it must have been money like this...but I don’t know. And then trying to trace it through the bank, the bank didn’t have records unfortunately."

This lax approach, and the disappointed expectations and suspicions that resulted from it led eventually to both van Zyl and the managers from Majakathata being accused of stealing from the enterprise. Although stronger control measures were instituted, the situation by then had escalated to the point that van Zyl left, stating: "I’m actually very glad to be out (but) it could have been a great success. Such a pity." The Majakathata
managers stayed on under censure.

Bird noted that this situation was "a major knock to the joint venture...because he (van Zyl) was supposed to be the linchpin."

There was little regular, face-to-face communication between the parties, particularly once the interference by the taxi association had started to affect the structures of the venture. Khiba noted that the new committee had met only twice with Bird in the first five months of 1998, and Mokhosi that contact with van Zyl had taken place only during his weekly visits to the filling station.

This situation was partly caused by the fact that Birdcon is based in Pretoria, with many diverse and large business interests. Bird noted that "It's such a small business that I can't spend too much time. It's a nuisance, ja...all we wanted was our rentals etc to be paid, because we have to pay Shell." He stated that for the joint venture to work, Birdcon should have responded immediately to any problems, but that, in hard business terms, the small size of the enterprise did not warrant the cost of doing so.

7.7.4 Lack of understanding of business concepts

There was a clear lack of understanding by the Black partners of the business in which they had become involved and of business in general. Khiba noted that the demands of a formal business were foreign to the Black partners and that this meant that they did not perform as they should have "There is our fault. Really, we can't run a business like that just out of our experience. We must be educated in how to run a business. Exposure, ja. We must have...that kind of education."

Vusi Radebe, a member of the executive committee involved since the inception of the venture, noted that "It is a different thing to run a formal business - it is not like running your own taxi."

Van Zyl noted that the extent of the apparent lack of formal business knowledge hampered the progress of the venture. He described this as a lack of understanding both of business in general and of the specific business of the filling station. "They couldn't understand
basic business concepts. They said 'I'm coming and putting in R50 of petrol and that's all profit'. They didn't understand that we had to buy the petrol first of all. They couldn't understand why we weren't making a tremendous profit. They had that perception that a garage coins it.

"My meetings with them, when I was trying to report back on how we were going, really they were a waste of time. I thought it was actually good, but it wasn't.

"They were expecting dividends to come back quite quickly. And they couldn't understand why they weren't coming. Getting profit from a filling station (needs) a lot of turnover, and the margin is very small. It was a big disappointment to them, and hence they then thought that something funny was going on.

"A lot of them really didn't know what an overdraft meant. So basic business concepts were lacking. Even though their own running of their taxis - there they understood it. But they didn't see the way it applied in the wider thing of the filling station.

"I arranged business concepts training...It was open to all the members and advertised, but only a handful came." Mokhosi stated that he had undergone some initial training through Shell, but although helpful, it was insufficient for his needs.

Bird however expressed scepticism as to the extent to which a lack of formal business exposure was responsible for the problems experienced by the venture, and ascribed many of problems to greed and personal interest: "Whether I send my accountants to help them or whatever, I don't think they want the admin, because it is just a free-for-all...they are not doing anything, and no matter what I do, they don't do it...I think they are very clever. They know exactly what they are doing...they are just creaming off."

He expressed the opinion that the state of affairs at the filling station was a manifestation of a deeper malaise, a "lack of business ethic...today in the country. It's a national problem."
7.7.5 Personalities

It is clear that personal interactions between various parties and the pressures from these interactions influenced the shape and progress of the venture. In this regard, Van Zyl notes of certain of these interactions: "They boycotted us because they didn’t like Sandile. Sandile apparently had had a fight with one of their members and then...they said we are not coming back until Sandile is gone. I had to fire Sandile, which was unfair. He was a strong fellow, a strong personality."

"Matthews (Motsieloa, the first manager from Majakathata)...was under pressure all the time from the taxis. I was always talking him into not resigning. I had to rely on him a lot - he was a good guy. Matthews (eventually)...got out as well. He wasn’t prepared to be involved.

"The directors certainly got to know the systems...But before they could really make it useful they were kicked out and someone else was put in. Matthews got quite good. And Zachariah (Khiba) - he was actually very switched on, but he got completely fed up with them. He was very involved at the beginning and very good. But he couldn’t take the pressure, he told me straight."

Bird noted that the highly personal elements of trust between the individuals involved, along with continuity and commitment were vital to the success of a joint venture of this nature.

7.7.6 Lack of control and opportunism

The combination of a lax approach towards control, strong personalities and the interference of the broader association created a situation where shady practices could occur and suspicion was rife.

Van Zyl stated that this combination of factors gave rise to situations such as: "I found the new manager (Sandile’s replacement) paying wages to people we didn’t have after about a year or so. And I had found out (by then) that you really had to approach the taxi association before you did anything. They got him in and he promised to pay it back,
which I wasn't too happy with (but) the few radicals wanted to keep this guy. Maybe they were the ghost people that he was paying..."

After some time, controls were tightened and a person was appointed to clean up and implement control systems. However, this move, according to van Zyl, proved awkward for some of the people involved. "In the last four months (that I was there) I got an accountant in there, a young White lady, and that place was making a profit - suddenly. This lady, she was very, very good. And she was catching the manager out and making him pay back stuff that had gone missing.

"The ideal would have been to keep that lady on. She really was quite hands on, and got reports daily, and checked stock and that worked. Once the lady took over, we had complete records of everything, day-by-day. We were actually then making money, because she was checking purchases and sales and also stock. Very tight control.. We had actually got to the stage where in a few months time we could have been out of our overdraft. Then they wouldn't have (her), who was saving us a lot of money."

Bird stated that the reason why Majakathata rejected this person was also one that contributed to van Zyl's departure. Following an approach by Total, he had asked van Zyl to investigate the possibility of running the nearby Total filling station together with Majakathata as well. Van Zyl had entered into this second station as a shareholder together with the bookkeeper, rather than with Majakathata as an expansion of the joint venture. Bird stated that if the venture had acquired the second station "you can afford now to have a full-time bookkeeper and there is a lot of sense. But Fred was greedy. He went and did it with the bookkeeper. On his own, without talking to them. Fred doesn't realise the implications of what he did." Wryly, Bird noted that this action "...wasn't very helpful."

Khiba stated that lax control continued to be a problem that needed to be resolved, and cited examples such as: "management don't even have petty cash. If they want to use money, they just go to the till and pick up the money there. Maybe they want to use it for petrol or to buy some polish or whatever. They just take it from the till..." and the problem of "some people (who) if they want to pour petrol (and) haven't got money show the Majakathata membership card, and just pour petrol in and go away. Tomorrow they
refuse to pay that money, the shortage. It is the attitude of our people. That gives us a very big headache...it is one of the mistakes of the management."

7.7.7 Unrealistic expectations

Khiba stated that the original expectations of the Black partners were unrealistic, based largely on the view that as Birdcon was known to be a successful enterprise, the venture would also be successful and profitable from the start. "We were expecting by this time, because we didn't know so much about this kind of business...to have some money, to be rich, and to have new vehicles...because we came to this venture with somebody with more experience than us. And we were expecting things to be run by those people who have more experience than us. We were expecting to have the money from those people. They must work and give us the money. We must just sit down and collect!"

He stated however, that these expectations had undergone a radical change through their experiences on the venture, and were in themselves fundamental to many of the problems: "I think that (the original expectations) is the whole problem. Business is not like that." Mokhosi stated that they had not expected the difficulties that they had experienced, nor that after a number of years, they would still not be showing a substantial profit. Radebe noted that the increasingly impatient expectations of the members of the association were a constant pressure on the Black partners to the venture: "there are people who are asking us questions and we have very wrong answers. They must pour the petrol from this garage. So many thousands and thousands of litres and they are expecting a profit out of that. Now they ask us, where's the profit? We haven't got answers! We are running a danger now because people are waiting and waiting and waiting up till now." Khiba concurred, noting that "If you make such a promise to the people, they are expecting to get the money after a few days. Not after a few years."

Radebe stated that the enthusiasm of starting the venture has naturally been tempered by the realities of making it work within the context of bridging gaps the between Black and White business, but that these difficulties should be seen in their turn in the context of building a long-term relationship "That agreement, it was the marriage. And after marriage, now you must put this thing to bed. Now the running of the marriage, actually it was a wedding, it was a wedding then a marriage. We all enjoyed the wedding! But
now the marriage is the court and society. Now those you must really deal with practically. This is where our problem lies."

7.8 **FUTURE OPTIONS FOR THE VENTURE**

The newly-elected executive committee of Majakathata in mid-1998, at the time of writing, was faced with difficult decisions regarding the future of the venture. Clearly, it could not continue with the same practices that had characterised its operations almost from its inception. The problems that the venture had experienced would have to be dealt with and its future format decided.

Bird was adamant that Birdcon would not continue within the joint venture format as partners with Majakathata: "I don’t want to be a director because I am getting summoned for their incompetence... I have got responsibilities as a director. I have told them exactly what to do and how to do it. I have sent accountants down to help them do it. And they are still not doing it. So I withdraw. I am out of it. I am not going to be a shareholder or a director any more. It’s been proven over a long period that the risks are too high for me."

Shell had indicated to Bird that they would be prepared to give Majakathata assistance in getting their administrative affairs in order and training their management, but would not be prepared to offer any financial assistance. Bird doubted whether the financial affairs of the filling station could be sorted out without liquidation "I don’t know what they are going to do to put the books together after so many years. I honestly think that you have to sink it and then start afresh. Get rid of your liabilities, get rid of everything and start a clean slate."

He had worked out a business plan to be applied following his withdrawal, but stressed that the relationship between the parties would not end, as he continued to own the property "Remember there is a relationship between a landlord and a tenant. So I want them to succeed. In other words, whether I am a director or not is immaterial. As a businessman, I must make sure they pay the rent. And they are not going to be able to pay it unless they succeed. So there is always a partnership. I am prepared to sit with
them and they can come and talk to me. But I am not going to have the legal liability of being a partner (any more)."

Khiba noted that, whatever shape the enterprise took in the future, radical changes in approach would be needed if it was to succeed: "I don’t know where we can get somebody, maybe from the sky, to come and teach us to change. We must change our attitude."
CHAPTER 7A
ANALYSIS OF CASE STUDY:
THABONG SERVICE STATION

The analysis of the case study: Thabong Service Station has been undertaken in terms of the model application outlined in Figure 4.2.

7A.1 TYPE OF JOINT VENTURE

On the joint venture continuum outlined in Figure 5.1, the initiative falls into the category of a joint venture. The Black partner bought into what was a going concern, but one which changed its structure and focus with the entry of the new partner.

The relationship between the parties was founded on financial participation that was reflected in the ownership of the venture, differing and complementary expertise and market access, and a managed relationship between the parties directed towards achieving the objective of the joint venture.

7A.2 SELECT PARTNERS

Partners were selected on an economic imperative. The political climate of the time facilitated the expansion of the ownership of the previously White-owned enterprise to include a Black partner, but the primary reason was that this was seen as providing a way to increase market share to the benefit of both parties in a competitive environment.

Birdcon’s competitor in the form of a filling station not far away in Thabong had entered into a commission agreement with another local taxi association under which a percentage of fuel sales to taxis would be paid to the association. This gave the association an incentive to encourage their members to fuel their vehicles at the filling station concerned. Their future partners, a competing association, approached Birdcon and proposed a similar arrangement.
By virtue of the fact that both parties were operating in the same small town, they were known to each other. However, the divisive nature of life under apartheid meant that they had had no previous dealings with each other of any significance.

7A.3 DEFINE EXPECTATIONS

A contract was drawn up defining expectations of the increased market in terms of literage sold as well as the price to be paid for the shares and dividends to be paid. However, little attention was given to defining clearly the implications of this and to investigating whether it was feasible, given the environmental factors. The taxi association's word that their members would show their support for the venture by changing their purchasing habits, was accepted at face value.

Agreement between the parties was reached very quickly as there was a high degree of goodwill present; after only three meetings to explore the venture, both parties were keen to sign and commence.

The economic imperative that initiated the venture was shared by both parties and their expectations in terms of a profitable venture were similar. They differed however in their understanding of the time implications of those profits.

Birdcon was keen to start achieving the promised increased sales as soon as possible in order to reduce and eliminate the operating overdraft. Majakathata on the other hand expected to see an immediate income for the association derived from the dividends, without expecting that the venture as a whole would need to be put on a profitable footing before this could happen.

Although the two sets of expectations were related, the essential connection between the two was not fully realised by the Black partner. The speed with which agreement was reached meant that this message was not communicated fully, and the implications in terms of when the expected income for the association would be manifested was not fully understood.
Taxi associations derive much of their income from membership fees, and there is thus often fierce competition for members. Associations with additional sources of income could offer more to their members and would therefore increase their attractiveness to prospective members and influence within the taxi industry. The Black partner therefore had a driving imperative to deliver what they had promised to their members, who had high (and probably to an extent unrealistic) expectations themselves of the venture. The White partner was not fully aware of the extent of this pressure.

The two parties were understandably anxious to start the venture. However, more time should have been taken in drawing up a contract that spelt out in detail the situation regarding the deployment of income received in terms of dividend payments, so that the expectations of both parties could be synchronised in terms of the implications of the performance targets.

7A.4 DEFINE EXPERIENCE AND EXPOSURE

This was not done as part of the process of designing the venture. Assumptions were made by both parties of each other. The Black party assumed that as Birdcon was an established, successful enterprise, the venture would automatically itself be successful. The White party assumed that as the Black party was composed of taxi operators, they would be able to deliver the increased market that had been promised.

The divergence of experience and exposure between the two parties was not realised in the beginning, but became a fundamental factor in the venture as time went on. The formalised business practices of the White partner were foreign to the Black partners and at times misunderstood.

The taxi industry represented one of the very few business opportunities open to Black entrepreneurs. It flourished during the 1980s in a transportation environment characterised by inadequate policy and ineffective regulation and control. Essentially left to its own devices by a State that had made no provision for its existence, let alone for its incorporation into formal transportation systems, the industry developed its own ways of working as a matter of necessity. The lack of exposure of the majority of taxi operators
The system that evolved in these circumstances worked within its own closed environment, but in many ways diverged sharply from accepted ways of conducting business.

The lack of contact between White and Black business meant that the parties had no real knowledge of each other's operating practices, nor even that they were different and the extent of the difference. This knowledge was to be hard come by, as the different ways of doing things manifested themselves as problems in the venture.

7A.5 DEFINE AREAS OF RESPONSIBILITY

These were not defined in the contract, which merely proposed that the Black partner would appoint two out of the five directors to manage the filling station. This statement in itself was the cause of misunderstanding and conflict with regard to the position of the day-to-day manager and his relationship with the directors.

In the initial discussions, this aspect was not explored fully. The commitment of the Black partner to achieve increased fuel sales was their prime area of responsibility, but the implications of this commitment in terms of a plan to reach that goal was not explored.

7A.6 APPLY FOCUS PROGRAMMES

This aspect was not considered at the beginning of the venture. However, it became clear early in the joint venture that the problems were arising because of a lack of understanding by the Black partner of the modus operandi and systems involved in running a formalised business. Some attention was then given to filling these gaps, but it was largely unsuccessful.

7A.6.1 Mentorship

The Birdcon manager under whom the filling station fell attempted to mentor the manager appointed by the Black partner during the course of the venture. Thabong Service Station
was one of five filling stations that were overseen by this person, and he could not give his undivided attention to the venture. It is clear that he was not able to fulfil this role adequately. There was no-one appointed as a mentor with sole responsibility for facilitating the venture.

7A.6.2 Training

Informal, on-the-job training was attempted by the overall manager; this took the form of explaining the meaning of the various documents that guided the business such as bank statements and month-end profit positions. It became clear that this was not sufficient and seemed to be causing confusion.

A short training course was therefore arranged that would introduce the Black partners to formal business concepts. The course had to be cancelled however, for lack of interest. This is a clear indication of communication problems in the venture.

7A.6.3 Communication

It is clear from the situation with regard to training that communication was inadequate. Explanations that had been offered to the Black partner of business documentation and key figures were misinterpreted and became the source of further confusion and misunderstanding. Confusion over accounts and normal transfers within the Birdcon group arose and caused suspicion, compounded by sloppy financial administration.

The need for further knowledge in aspects such as these by the Black partner was not realised at the outset. Without a common base of understanding, it is very difficult for partners in a venture to communicate their views to each other. If a situation of this nature continues, misunderstanding is compounded and resentment builds.

Communication was complicated further by the way in which the taxi association worked; all agreements and operating procedures, no matter how mundane, had to be referred to a meeting of a wider committee. This made it very difficult act speedily, or to build personal relationships between the managers and directors based on their individual input, as the executive committee of the taxi association acted as a communication filter, often
in the process changing the message and rendering feedback ineffectual.

7A.6.4 Performance criteria

Performance criteria were not spelt out in sufficient detail; the only criterion that was measurably defined was the litres of fuel to be sold each month.

No performance criteria were set for the operations of the filling station beyond fuel sales. It was assumed that management would carry on as before, with an expanded board and that the Black partner would gradually assume managerial responsibility as the operations became more familiar.

However, during the initial discussions it was stated that the Black partner wished to assume operational management responsibility from the beginning of the venture, and only reluctantly agreed that the existing manager could remain. Very soon after the starting the venture and after considerable manoeuvring, this person was replaced with a person from the taxi association with no experience of running a filling station. The lack of clearly defined performance criteria became a problem in this situation.

7A.6.5 Time frames

Agreed time frames for the achievement of the fuel sales were set during the initial discussions, and the extension of the shareholding was tied to the achievement of the defined goal.

However, these time frames were not detailed in the agreement and goals were not related to defined time frames. The expanded fuel sales were not achieved; despite this, the shareholding was increased in the hope that this would act as an incentive.

With regard to time frames in general, it is clear that the parties had different understandings. The White party focused on operations feeding the long-term view of investing money and expertise in the venture in order to build a stable enterprise with regular returns.
The Black party on the other hand was more focused on the short-term view, expecting immediate dividends on their shares in order to provide the source of income that was expected. For this to transpire, increased sales were needed that would firstly reduce the overdraft and only then pay dividends. The time frames of the two parties were therefore in conflict.

7A.7 OWNERSHIP

In the contract, the ownership element of the joint venture was clearly defined in terms of shareholding; for the Black partner, an initial purchased shareholding of 50% would only apply if the increased fuel sales that were expected to arise from the joint venture were achieved. If not, the base of 20% would apply. It should be noted that although the sales did not reach the target, the 50% shareholding was granted as an indication of good faith.

The benefits of ownership to the Black partner were also defined in terms of:

- a commitment that the Black partner could lease a taxi rank to be developed on vacant ground adjacent to the filling station at a nominal rental
- an undertaking by Birdcon to negotiate a percentage of gross income on any further developments undertaken within their pre-emptive right area in Thabong
- 30% of any increase in the rent for the fast-foods outlet warranted increased patronage of the filling station would be paid to the Black partner.

The structures of the joint venture were not defined beyond a proposal that two of the five directors to manage the filling station would be from the Black partner. The extent of direct involvement of the directors in the operations of the venture was not defined. As noted above, there were different expectations from the parties in this regard, which was a cause of problems.
7A.8 OPERATIONS

Operational areas were not defined in the contract, although they formed the subject of some of the initial discussions. This was the cause of confusion during the venture.

7A.9 ADDITIONAL ELEMENTS

7A.9.1 Taxi association structures and culture

Structures within taxi associations are generally rigid. Office bearers in the association form the Executive Committee, which runs the affairs of the association. Seats on the Executive Committee are positions of some status. The Executive Committee takes all decisions that affect the association, and strict adherence to its directives is usually demanded.

This element of taxi industry culture, and the impact that it would have on the joint venture, was not fully appreciated by the White partner at the outset. Although the association nominated two directors, and later on a manager for the filling station, all decisions had to be referred to the Executive Committee for ratification.

The Executive Committee in turn will often defer a decision until the matter has been aired at a meeting of the association members, particularly where the matter under consideration is controversial or of special interest to the members. The joint venture was naturally of particular interest to the association members as it represented an unusual undertaking, with an anticipated income, for the association. Input from members in a matter of particular interest will naturally influence decisions that are taken.

The directors, although nominated by the association, thus had no real decision-making powers. The process outlined above, by which the Black partner assured its constituency that no decisions would be taken with consulting them, proved very difficult for the joint venture. In the nature of business, decisions have to be taken frequently and timeously, and this was often not possible. This in turn created frustration, suspicion and resentment within the venture.
The operations of the joint venture would have been smoothed considerably if this aspect had been foreseen and planned for. Various options are available in this regard.

The Executive Committee of the taxi association could have obtained the agreement of the membership that the directors would act independently as needed with full and frequent report-backs. The joint venture would then be able to act as required by the demands of the enterprise. Alternatively, a separate structure with its own legal identity could have been set up as an independent division of the taxi association.

Consideration of this aspect would have facilitated the operations of the venture considerably.

7A.9.2 Management information systems

The venture would have benefitted significantly from a user-friendly management information system that would have provided essential information in an easily-understandable form. This would have smoothed communication between the parties and provided a basis for joint planning.

7A.9.3 Control

Control systems for the operation of the venture were both inadequate and applied ineffectually, and thus the source of frustration and misunderstandings. The lack of control made the venture vulnerable to opportunism and fraudulent practices and was a major contributing factor to its decline.

7A.9.4 General

The use of a person dedicated to facilitating the venture and resolving areas of conflict would have significantly improved the performance of the venture. Such a person would have to have appropriate abilities and a knowledge of the different ways of working of both parties. After the departure of the person who was supposed to do this within the venture, no replacement was put in.
In the absence of a dedicated person, areas of conflict will inevitably become personalised and lead to suspicion, misunderstandings and power plays within a venture of this nature.

Although to some extent persons of different backgrounds will ease into constructive relationships over time, given sufficient goodwill, this period can be shortened significantly and performance improved accordingly through the use of a skilled facilitator.

The cost of this input, which was given as a reason for its absence, must be weighed against the significantly increased chance of success that it brings to an enterprise of this type. Small enterprises are likely to feel the cost of this input keenly, and thus it is important in a small enterprise that these skills are present within the venture and are exercised in a hands-on manner by both parties.

7A.10 CONCLUSION

The inception of this joint venture was characterised by goodwill and an eagerness to work together by both parties. However, this enthusiasm to get the venture started meant that the planning was not undertaken in sufficient detail to compensate for the differing ways of working and understandings of what was expected of the two parties.

The preparation of a detailed contract that spelt out all the various aspects outlined above would have been an investment in the future of the venture that would have borne dividends.

A period of orientation, where both parties could have been exposed to the different ways of working of their prospective partners, would have provided valuable input to the formulation of the detailed contract.

Although the venture continues to operate, at the time of writing it had not yet reached the performance anticipated at its inception in terms of litres of fuel sold and was in fact facing possible dissolution. It is clear that had the model been applied from its inception, performance and potential would have been significantly enhanced; failure would probably have been success.
CHAPTER EIGHT

CASE STUDY: HIGHWAY CONSTRUCTION VENTURE (HCV)
AND SUB-CONTRACTORS - TREE FELLING

8.1 BACKGROUND

Some work had taken place prior to the 1994 elections in the construction field in anticipation of the changes that would need to take place to expand participation in the construction industry. This work was focused on the development of "emerging" (ie Black) contractors who had not previously had the opportunity of working in the formal contracting field.

Black participation in the industry had been largely restricted to providing labour, with some technical and supervisory participation in the larger companies. Black-owned construction companies were generally very small, operating almost exclusively in the housing field in Black areas.

There was a need to increase the level of formalisation of these enterprises and to improve their business and managerial skills in order for them to be able to tender for formal contracts, to compete with the established companies and to function reliably as sub-contractors to these established companies.

Government departments and quangos, as well as professional bodies serving the various elements of the construction industry, took the initiative in investigating programmes that could contribute to addressing this need.

The focus was on the two main areas of redesigning tendered contracts to create an environment for Black participation, and the preparation and development of Black contractors. Contracts were therefore split up into component parts to allow for sub-contracting, with set-aside percentages recommended in State tenders for sub-contracting to Black contractors. Programmes were designed to advise Black sub-contractors on formalising their operations and to provide training in technical and basic business skills related to contracting.
Networking took place between people and organisations working to address these needs in the contracting field. In the process, contacts were made between advisors, professional associations, established firms, individual Black contractors and Black contracting groups.

8.2 STRATEGIC ISSUES WITHIN THE CONSTRUCTION INDUSTRY PRIOR TO 1994

As discussed in prior chapters, the situation prior to the 1994 elections was one of Black/White polarisation. The structure of business reflected this polarisation, with White and Black business developing along different paths and operating along different lines.

Strategic planning by large construction organisations in the period leading up to the 1994 elections took into account the following:

* an assumption that the new government would introduce policies to open the construction industry to Black participation other than their traditional labouring role.

* the need for a broader base of participation in the contracting field. The skills base of industry had been eroded over the last years of the apartheid era by decreasing government funding for basic infrastructure.

Established White contracting firms working in Black areas during the turbulent last years of apartheid experienced increasing difficulties. Vehicles and personnel were attacked. The lack of a sense of community ownership meant that infrastructure that was constructed needed costly maintenance. The need for increased government spending on infrastructure in deprived Black areas was assumed to be a priority for the new government.

The radical political change that was anticipated could be expected to have an impact on business, particularly in terms of the implementation of policies to redress the structural imbalances. There was also a need for development, particularly in Black areas that had
been prejudiced by inadequate funding and administrative neglect.

The two would have to mesh, with government spending on infrastructure being used as a lever for instituting the necessary changes in the construction industry demanded by the new political order. Contracting requirements would in all likelihood reflect this, with tenders for government-funded contracts containing some form of dedicated developmental content aimed at the entry of Black contractors into the industry.

The strategic assumptions outlined above took place, and in 1998 a set-aside requirement for the use of small contractors from previously-disadvantaged groups is a standard clause in the majority of government tenders.

8.3 IMPERATIVES TO BLACK/WHITE ALLIANCES

Given the above situation immediately prior to the 1994 elections, there was obviously a strategic need to explore alliances with Black contractors, or to develop potential Black contractors.

Experiments in interacting with Black contractors thus took place amongst the more pro-active of the established contracting organisations. Within the context of Black/White polarisation and the privileged situation of established White business, it was to be expected that interactions would have their fair share of problems.

Organisations that were not pro-active and that adopted a "wait and see" approach, can also be expected to encounter problems themselves when forced by the consolidation of the expected changes, to participate in the transformation of the contracting industry. Policy imperatives to change continue and increase; not only external relationships, but also internal structuring is under scrutiny from government, particularly in considering tenders for government-funded contracts. Employment equity and affirmative action are two such internal aspects.

It has become clear to reactive organisations that in order to be able to compete for government-funded contracts, they will have to change. They are likely to encounter
similar problems to early Black/White initiatives, which therefore remain relevant. It is thus useful to explore the type and nature of early interactions, not only to learn from the past, but in order to shorten the line to the future.

8.4 HIGHWAY CONSTRUCTION VENTURE (HCV)

The Highway Construction Venture (HCV) consortium consisted of the four major construction firms of LTA, Grinaker, Basil Read and Concor. It was formed to undertake the extension to the N17 highway from Rossettenville to Taylor’s Travel Lodge. This was a major undertaking of considerable length.

Members of the consortium had been involved in certain initiatives to do with the situation and development of Black contractors, as part of their ongoing assessment of the construction environment. It was evident that some form of Black/White interaction would be advantageous in terms of their future positioning. It was therefore decided to try out such an interaction on the HCV contract, in order to explore the implications of the anticipated policy in practice.

Eugene Erasmus, the project manager for HCV, noted that early Black/White alliances were essentially undertaken by the established companies as cosmetic improvements to improve their image with the new government: “The whole thing of course was totally politically driven in 1994. Contractors were told ‘you will use previously-disadvantaged people and develop them to bring them into the mainstream.’ In 1994 everyone was looking to ‘rent-a-Black’. We were being proactive in this situation and trying to get in early. It was not a contractual requirement yet in 1994 to use emerging entrepreneurs, but HCV went into it to be proactive - we could see the writing on the wall and we thought well if this is the way it is going to be, let’s do it now.

*We didn’t even begin to realise the complexity of what was involved, and what would have to be involved if this type of relationship was going to be made to work...the tree-felling was where we cut our teeth on the whole concept. Other people are not even at that stage now.*
"So much of what happened then is still applicable today... the issues are still the same and the elements that make for a successful relationship have not changed. It is really all still relevant."

8.5 THE TREE-FELLING SUB-CONTRACT

As with the vast majority of road construction, preparatory work on the HCV job involved a considerable amount of clearing before the necessary earthworks could be undertaken and finally, the laying of the road.

Some of the tree-felling that was necessary as part of the preparatory clearing was identified as providing an opportunity to explore a working relationship with a Black contractor, by separating it from the main contract and out-sourcing it to a Black contractor as a sub-contract. Some 3,000 trees, in three groups, were to be felled over a period of a few months in this sub-contract.

8.6 THE SUB-CONTRACTOR

Steve Daniel and Teddy Naidoo, operating as Jarren Daniel and Associates, were based in Lenasia (south of Johannesburg) and had extensive experience as small building contractors. They had both matriculated and undertaken further studies in architectural drafting and quantity surveying respectively.

Daniel and Naidoo had also participated in the initiatives aimed at formalising the operations of small contractors and empowering them to enter the formal contracting arena. The contact between HCV and the sub-contractor, and the proposal to explore a joint initiative in the form of a sub-contract, was made during these interactions.
In this context, initiatives such as the HCV sub-contract were defined and driven by the established contractor, as they were offered to Black contractors as an opportunity. This was naturally problematic for the Black contractors that were trying to break into what was for them a closed shop. Daniel noted that the venture represented: "an opportunity to say we have broken the White closed rings. Because we as smaller contractors, operated on the periphery of the formal sector all the time" in a situation that entailed "the difficulties of White, formalised contractors trying to accept little (Black) fellows like us."

Erasmus concurred, noting that this situation will prevail for some time: "The main ingredients still remain. You have got very large established organisations and small enterprises. The large organisations, by virtue of contractual requirements, are looking to use previously disadvantaged - either SMMEs or PDIs or whatever you want to call them. And the relationship remains in the sense that you have got a very large organisation and then you have small organisations. How do you ensure that the needs of both those parties are met in whatever relationship you draw up?"

In addition, the formation of relationships had to take place within the context of prevailing Black/White attitudes, that had been shaped to a large degree by apartheid structures and practices. Daniel noted that "at the time of the election, the White attitude was very rigid. I’m the boss, I know what I’m doing, you do it my way...the master and servant attitude was still very prevalent."

Although some conditions of contract were waived such as the strict requirements on sureties, no regular assistance, training or mentorship was provided to the sub-contractor by HCV. Erasmus noted that "HCV was really expecting just that the sub-contractor would do the job, as normal, within budget and time and not give any hassles. As far as we were concerned, it was just a sub-contract. We were expecting to have a sub-contractor as normal to do the job that was required, just of a darker hue!"

However, when it became apparent that the sub-contractor was having operational difficulties, some leniency was shown towards their performance achievements and penalties were not imposed when they could have been.
Daniel and Naidoo had only minimal experience in tree-felling, as Daniel explained "the Council...were cutting a little road, not even a slip road, (and got us) to clear about 18 or 20 trees that were in their way. We got in there, just did our little bit. That's as far as it went. Certainly not (like HCVJ. We were not pushed, we could take a tree a week!"

Despite this, both were confident at the start that they would be able to cope because of their general experience in the building field. Daniel noted that "basically we are involved in ground-floor experience in the contracting world. And that kind of ground-floor experience (including monitoring staff) is the same no matter what you do. Putting up a wall or pulling down a tree or putting up fencing." However, they realised as the sub-contract proceeded that to go from felling 20 trees with no pressure, to 3000 within a rigid time frame, was a big jump and that they "were in well over our heads".

**8.8.1 Over-extending**

Erasmus noted that in his opinion this "under-judgement" is a common problem with Black entrepreneurs: "Also you have the very real and related problem of the entrepreneur over-extending himself. There are still very few successful Black businesses around, especially in the contracting field, and those that are around naturally spread themselves very thinly because they are in tremendous demand. Especially when people are looking for a Black entrepreneur for their contractual needs.

"Then you find that things go wrong, and they are bound to if people are over-extending themselves and don’t have the middle management skills that are needed. You will find an entrepreneur who is very good at what he does, but when he has to deliver on a larger scale than he is used to and maybe has to employ people to be able to do so, he doesn’t make provision for middle management, or doesn’t have the middle management skills that are needed himself."

This type of situation can also be ascribed to a natural eagerness on the part of people wishing to enter an industry to take advantage of opportunities that come their way, glossing over capacity or capability problems in case they prejudice their participation.
The predictable result of this was that, as Erasmus stated: "their performance was not good, it was not what was expected."

**8.8.2 Formal/informal gaps**

Difficulty in achieving performance can also be attributed in part to the extent of the gap that exists between the formal and informal ways of doing things in business. This was discovered by the sub-contractors during the course of the contract. Realising and attempting to adjust to this gap proved to be the most difficult aspect of the initiative as far as they were concerned.

Daniel noted that, despite their experience and qualifications "we were not ready for formal and rigid systems and requirements from a big company like that. We didn't expect it. We thought that we would be okay, but we realised that within that framework, suddenly you are working with very formalised structures. We had to go back and start changing our attitudes and trying to handle it cold.

"We had no experience in working with formalised structures and requirements. That is the key. If you had left us loose to do it the way we wanted to do it, we would have still cut the trees. We probably would have still cut it in the time - Teddy and I are that kind of people. But when we were exposed to the formal requirements, it scared us. We found the formalised structures very rigid, we found it was too difficult for us to adapt."

**8.8.3 Operational problems**

As well as being felled, the trees had to be cleaned (ie stripped of their branches) and transported off the site. Daniel and Naidoo hired casual labour in order to do the job, as well as the necessary tools and machinery such as chainsaws.

It soon became evident that the job entailed more than they had anticipated originally, and their anticipated profit margins were eroded accordingly. They experienced problems with their (hired) equipment, which slowed down their progress; although time frames had been set, they were not met. They discovered that transportation of the felled trees, some of which were very large, would have been extremely expensive and difficult to arrange with
an external transporter. In the latter instance, Erasmus came to their assistance by allowing them to dump some of the felled trees on site.

8.8.4 Costing of sub-contracts

These types of problems are likely to be more acute for a smaller operator than for a large organisation which can carry additional capital capacity to be able to work to the tight margins that are the norm in the construction industry. Erasmus noted that: "Margins are very tight. People don’t believe it when you say that you are working to a 10% margin or even less. It is possible because of the way you can offset costs, but if you are a small organisation you may not have this ability. If all you have to sell is your labour, and you don’t have capital or other investments, a 10% margin on that is too small. With the tree-felling, they were even hiring the equipment that they needed."

8.8.5 Industry culture

Within the construction industry world-wide, sub-contractors are generally used as a cost containment measure. As such, the main contractor will insist that the sub-contractor delivers what has been agreed within the time specified and according to the amount paid for the sub-contractor’s services. Within this "sub-culture" of the constructing industry, no tolerance is shown with regard to lack of performance of sub-contractors, as this will impact negatively on the time frames and performance parameters of the main contractor.

Erasmus described the accepted and traditional main/sub-contractor relationship as follows: "...historically you are sitting with large construction organisations whose people are born and bred to treat sub-contractors in a certain fashion - whether they are White or Black is irrelevant - a subcontractor is left up to his own devices, he is pushed, he normally doesn’t have much of a leg (to stand on) or an excuse for not performing. He just has to perform and that’s it. And when the certificate is measured, then it is scrutinised to a T."

This aspect was not expected by Daniel and Naidoo, who had naturally had no experience of the organisational culture within the formalised construction industry. They interpreted the "hard-nosed" attitude of the excavations manager on the site as personal prejudice against them. Daniel stated that he "was practically bullying us around - he wasn’t even
asking us. He would threaten us - if you don't do this, you are off this site... (regarding an extension of time) he said 'no ways, you cut it and finished'... He just didn't like Blacks, finished... very, very anti-Black. He did everything in his power to prevent us making a success of this job.

However, he stated that if they had been able to be exposed beforehand to what was involved in running a big site and what the responsibilities of the various managers were, they would be able to "see why he thinks like he thinks, why he reacts like that. Maybe I can probably have a little more understanding. And then when you come out of a meeting you can say I know why that guy is shouting at me. It's maybe not a White/Black thing, maybe it is a budget constraint."

Daniel also noted that without this understanding, building a working relationship between a small entrepreneur and an established organisation is extremely difficult, as the frames of reference are very different: "I have learnt working with a big company that the bottom line with big companies is budget, performance, urgency, deadlines. These things are sometimes very foreign to small contractors like myself - if there is a problem they phone me up and I issue an instruction there and then. With a hundred million rand contract the structures are very rigid and very formalised. The small emerging contractor does not have the experience and the knowledge to work inside of rather formalised structures."

8.8.6 Reporting structures

Attempting to come to grips with this new situation was compounded by the fact that no-one had been assigned specifically the task of dealing with Daniel and Naidoo. HCV personnel were all doing their own daily tasks in their own capacities. In attempting to addressing the operational problems and needs that arose, the sub-contractors would be referred to various people who at times gave conflicting advice and orders which exacerbated the problems and inevitably led to personality clashes.

The sub-contractors experienced some individuals as extremely co-operative, particularly the quantity surveyor and Eugene Erasmus; others such as the excavations manager, were seen as deliberately obstructive. Daniel noted that "as the project progressed we rubbed the rough edges against each other (and) became a little more amenable and acceptable
Building positive personal relationships is particularly important in a situation where people working to a common end are from differing backgrounds. Assigning the task of facilitating this to an individual who possesses appropriate abilities is essential if the process is to run smoothly. Erasmus has learnt that "You need dedicated people of a special calibre to look after the emerging entrepreneurs while they are on the job. These people should be doing nothing else but making sure that things are going okay...this is a major reason for success (but) they have to have special skills and abilities."

8.9 THE END OF THE SUB-CONTRACT

The operational problems that were experienced during the sub-contract were such that eventually HCV decided to complete the job themselves, as Erasmus explained: "The contract had to go ahead according to plan and could not be held up because a relatively minor job was not done as contracted."

On termination, Daniel and Naidoo wrote a report giving their views on the venture, which was circulated in the contracting industry. The report included criticism of HCV which although not directed at Erasmus, aggrieved him as he felt it "only gives their side of the story and as such puts HCV in a bad light, which is unjustified...When things started to go wrong, rather than looking at it in purely business terms, they hung their explanation on the door of racism. Contracting is a tough business. If you are going to make a success, you have to be able to deliver what you have promised on time.

"A fundamental need in contracting is honesty and openness. Daniel and Naidoo told different stories regarding progress and are evading their responsibilities. This gives the impression that they have been opportunists throughout the job and have not really been serious about wanting to develop in the contracting field...The initiative has taken up a lot of time for an unsatisfactory result."

A report for internal use could have been a valuable learning tool for both parties. Circulating the report was a short-sighted action by the sub-contractors, which prejudiced
any future relationship that they might have had with HCV. The contracting industry in South Africa is a "small shop", where news spreads quickly, particularly about things that are likely to have a negative impact on a contract.

HCV took on Daniel and Naidoo as a strategic move; they did not at that time need them in order to get the main contract. By not resolving the situation amicably it reflected badly on their image in the industry.

Once policy has been instituted, it must be supported by delivery; if delivery is not satisfactory, it places the implementation of the policy and the achievement of policy objectives in jeopardy. In this regard, Erasmus expressed the opinion that experiences such as the case under consideration "encourages window-dressing; it is much easier to have a token in order to get the job than to spend the time to make sure that inexperienced Black sub-contractors do things right when they are not serious about their own development.

"It is clear that hand-holding is needed far more with Black than White sub-contractors. Initiatives like this one are going wrong in that Black entrants really need an experienced contractor to walk with them, but this is of course very expensive. If you budget for the sort of involvement that it seems is really needed to make it a true success, it makes your price for a job too high.

This is one of the prices that will have to be paid in order to redress the inequities in the South African business environment in a meaningful manner.

8.10 CONCLUSION

Both parties went through a sharp learning curve on the tree-felling venture and much of what was learnt has been incorporated into current policy and practice in the contracting field. A further example in addition to those noted above is the realisation of the importance of preparatory training of entrepreneurs, as Erasmus stated: "An entrepreneur has to know what he has to do in order to perform and make money. There is just no way that he can learn all this on the job...there has to be a basic level of understanding and
competence before the job commences, or it will be a disaster. There is no short cut. You cannot do it with no skills or experience and expect it to work. Black entrepreneurs may have some experience, but in an environment that is very different from a big contract. Training before beginning is essential."

Advances have been made in policy and practice. However, Erasmus cautioned that problems lie ahead for Black contractors unless policy is revisited: "Maybe the biggest problem for us, is that there is no ongoing relationship possible because of the nature of the contracting business. Throughout the world it is nomadic. Contractors follow the jobs around and so do the sub-contractors. But you can’t do this now in South Africa because of the regionalism thing that is insisted on in Government policy. You must develop local people (but) if you get another contract elsewhere you cannot use these people, you have to go through it all again. And what about the people you leave behind? It is a total travesty...

"Also along with this situation, if we open the door to everyone through the policies and say everyone has the right to be able to participate and must be assisted to do so - what are we doing to the country? It cannot support this type of approach. People don’t have a right to be in business because the policies say so - you have to work at it to succeed, and some will fail. Those who are capable and have the right entrepreneurial skills will develop and may eventually become contractors in their own right."
Analysis of Case Study: 
HCV and Sub-Contractors - Tree Felling

The analysis of the Highway Construction Venture (HCV) tree-felling sub-contract has been done in terms of the model application outlined in Figure 4.2.

8A.1 Type of Joint Venture

The HCV sub-contract was a straight sub-contract between HCV as the main contractor and Jarren Daniel and Associates as the sub-contractor. It was neither an assisted sub-contract, where special attention is given to developing the skills and abilities of the sub-contractor, nor a regular sub-contract, where use is made frequently of the same sub-contractor by the main contractor.

The venture was approached by the main contractor as if it were a standard sub-contract. As such, the traditional manner of dealing with a sub-contractor was applied.

Sub-contracting is a common part of construction, and the relationship between main and sub-contractor is part of the industry culture that has developed over many decades. Large-scale contractors often work throughout the world on various jobs, and the conventional main/sub-contractor relationship is similar throughout the world.

This conventional relationship within the industry culture is characterised by an insistence on performance within time and cost frames, and a lack of tolerance of deviations from the frames laid down. Sub-contractors are wholly responsible for their performance, and where this is not achieved, strict penalties are generally applied.

Many contractors start as sub-contractors, and this approach towards sub-contractors thus fulfils functions in the construction industry that include the following;

- It forms a barrier to entry to an industry where there is little room for error
Performance risk is contained

Inadequate performers are excluded from the industry, and thus facilitates the creation of a reliable skills base within the contracting fraternity.

The HCV tree-felling sub-contract was undertaken as an experiment in Black/White interaction in construction. No thought was given to any special circumstances that may have needed to be taken into consideration in the interaction, and the "normal" conditions of formal construction with regard to sub-contracting were assumed to apply. It became clear through the course of the venture that this approach was inappropriate.

8A.2 SELECT PARTNERS

There was no formal selection procedure, and no selection criteria were applied. The partners to the venture came together through personal interaction during various initiatives focused on the development and formalisation of Black contractors. This presented an opportunity to explore further in practice the ideas that had been mooted during these initiatives. The two partners to the venture had no previous knowledge of each other.

The selection imperative from the White partner was largely political and undertaken in anticipation of changes in the contracting industry that would be insisted on in the new political dispensation.

From the Black side, the venture was seen as an opportunity that had to be grasped to get "a toe in the door" of the formal contracting industry, and they would thus have accepted any partner within reason.

8A.3 DEFINE EXPECTATIONS

Expectations were not defined beforehand. The two parties had different expectations, which were not realised.
The White side expected the contract to be "business as usual", that is to run as if it had been undertaken by a sub-contractor familiar with the way the formal contracting industry works and able to fulfil those obligations. Performance would be achieved to specifications within the time specified. The assurances of the Black party in this regard were accepted at face value. There was no expectation of the complexity of the interaction, nor of the operational problems that ensued, and thus no preventative or contingency plans were made for the eventuality that things might not run smoothly.

From the Black side, the expectations were that the tree-felling sub-contract would be the start of an on-going working relationship with the main contractor and that further work would ensue. Without inside knowledge of the conventional relationship between main and sub-contractors in the construction industry, and in view of the "political" nature of the relationship they were also naturally expecting that assistance would be forthcoming if needed.

**8A.4 DEFINE EXPERIENCE AND EXPOSURE**

A clear definition of the experience and exposure of the parties to firstly the technical and managerial aspects of the sub-contract, and secondly to Black/White interactions of this nature was not done.

From the White side, it is clear from the nature of their expectations, that as far as they were concerned this would be just another sub-contract, and thus the need to clearly define this aspect was not realised.

They accepted at face value the statement of assurance of the sub-contractor that the technical and managerial exposure and expertise was sufficiently present, whereas this was in fact exaggerated in order to secure the sub-contract. The sub-contractors both had a relatively high level of formal education and were both fully literate and numerate, and thus this assumption was understandable. A more detailed investigation would have revealed that the experience and exposure of the Black partner related solely to their work in the informal construction field, and that gaps were present that would need to be bridged in order for them to fulfil their obligations in the manner that was expected of
them.

From the Black side, the divergence between their accepted ways of doing things from the highly structured and formalised manner of the main contractor was outside their experience and exposure. The fact that this was not defined at the outset of the relationship meant that the extent of the divergence was also not realised until the work began. Trying to bridge the gaps whilst at the same time attempting to fulfil their operational responsibilities put an additional strain on the venture.

8A.5 DEFINE AREAS OF RESPONSIBILITY

Although a contract was used, this was a standard contract used for sub-contracting. A special contract that would have defined areas of responsibility fully and the modus operandi between HCV and the sub-contractor was not drawn up specifically for the job.

Contracts are an essential element of formal business practices and operating within a contract ethos is a fundamental aspect of formal business. In various forms, from complex to simple and from written to verbal, they are used to define and accept responsibilities and working parameters.

The civil construction industry, by its nature, is contract driven. Tenders that include detailed specifications and schedules of what is to be done are submitted for contracts to undertake particular work. Operating according to contractual obligations is built into the manner of working.

Where knowledge of formal business practices is lacking, the implications of contracts, however skeletal in content, will also not be fully understood. This is bound to cause problems if one party is characterised by contract awareness and the other party is not.

Although the standard sub-contract was considered sufficient by HCV, it was inadequate in terms of setting out the parameters of the working relationship between HCV and the sub-contractors because of the special nature of the interaction, which was not realised at the time it commenced.
Careful attention should have been paid to defining areas of responsibility in detail. Operational aspects should have been analysed and responsibility for each element, or subdivision of each element, clearly apportioned and agreed. In addition to operational aspects, relational aspects should also have been covered, such as lines of reporting and communication.

This way of approaching a sub-contract is very different to the conventional. However, going into this level of detail clarifies what is expected of the sub-contractor by the main contractor so that avoidable misunderstandings are less likely to occur. If problems do occur, a contract of this nature provides an agreed framework within which the problems can be addressed. It also gives sub-contractors who are not familiar with formal practices an introduction to conventional, structured business methods.

In the absence of such a framework, problems tend to be personalised. Resentment of individuals perceived to be causing or aggravating problems can also result in the reinforcing of stereotypes.

It is thus not only useful, but necessary, to prepare for ventures between partners who come from different ways of doing business in this manner.

Naturally, this type of preparation is very time-consuming. It should be viewed as an investment in the smooth running of the business that will be recouped in terms of fewer problems, and problems that are solved more quickly than if the initial time was not spent in this manner.

8A.6 APPLY FOCUS PROGRAMMES

No focused programmes were instituted.

8A.6.1 Mentorship

Mentorship was not considered; however, helpful relationships developed during the course of the work with certain individuals who offered assistance and explanations of the
manner of doing things. The job was short duration. However, if it had led to a regular sub-contracting relationship, mentorship should have been an important element of that relationship. If an individual had been assigned to the sub-contractors to deal directly with them on their problems and smooth their path, this would have made a significant contribution to the venture.

8A.6.2 Training

HCV was expecting a conventional sub-contract where training would not have been a consideration. The sub-contractors were confident that their education and previous experience would be sufficient for the job. As has been stated, the extent to which this experience was in the informal sector and the effect that this would have on the performance of the sub-contractors was not realised at the outset.

In this particular case, a pre-start orientation programme which would expose the sub-contractors to what was involved on the site, and the part which the sub-contract played in relation to the total job would have been valuable preparation for them. As suggested, this programme should also include initial exposure as observers to the formal management aspects of the job.

The approach to training in these types of ventures has changed, largely because of the experience of ventures such as the case under consideration. The need for training, including pre-start training, is recognised as a significant success factor.

8A.6.3 Communication

It is clear that communication problems arose during the course of the job; this can be ascribed to the lack of defined reporting lines. Conflicting assurances and orders were given by different people.

Although the usual weekly progress meetings took place, it is evident that these were an inappropriate forum for airing deeper concerns, as evidenced by the production of the sub-contractors of their report on the shortcomings of the venture as they saw them, and the reaction of HCV to the report. The sub-contractors felt that their problems were not
comprehended, and HCV that they had not communicated them adequately.

Clear and unambiguous communication is a vitally important element in the success of any venture of this nature. It is also one of the most difficult to achieve, and more careful attention should have been given to this aspect. Skilled communicators able to read between the lines of what is said and to read what is unsaid, can greatly enhance the success of any venture between partners of differing backgrounds.

8A.6.4 Performance criteria

In the view of the sub-contractors, performance criteria were inadequately defined and thus difficult to meet, whereas in HCV’s view, the standard sub-contract provided enough definition. A more detailed contract, customised for the particular relationship, would have cleared this and prevented this confusion (see 6.1 above). The confusion prevailed to the end, with the sub-contractors content that they had got the job done, and HCV dissatisfied with what they termed inadequate performance.

8A.6.5 Time frames

Despite being a constant pressure in contracting, time frames were also not defined in sufficient detail. Pressures that were brought to bear on the sub-contractors in this regard caused anxiety, as did their perceived failure to appreciate the importance of this aspect to HCV.

Time-related pressures do not apply to the same extent in informal as in formal construction. It can expected therefore that informal/formal relationships will experience some conflict in this regard. It is an important aspect of the formalisation of informal business practices in general, and one where there is a marked divergence between formal and informal business.

This element needs careful definition, acceptance and agreement by parties before commencement.
An element that was influential in the venture was the role played by the personal relationships that came to the fore during the job.

Positive and negative relationships were experienced, both of which had an impact on the venture. From the point of view of the sub-contractors, three persons were particularly influential. The quantity surveyor on the job was particularly helpful to the sub-contractors and went out of his way to smooth their difficulties. The excavations manager was experienced as an abrasive personality who was not prepared to offer any assistance, and who was eager for them to fail. Eugene Erasmus was experienced as helpful, but distant because of his position and influenced by (particularly) the excavations manager. From HCV's point of view, the sub-contractors were viewed as not particularly competent, and (after the release of their version of the venture) as dishonest and opportunistic.

Personal relationships will generally be present in any business interaction; in ventures of this nature, their role becomes very important. The formation of personal relationships will be influenced by political aspects, particularly when there is an element of political coercion in their formation. It can be expected in the South African context that stereotyping will apply to some extent. Skill and willingness is needed from both parties to overcome this and forge a new relationship based on mutual benefit. Aspects of particular importance in this regard are the quality of the mentorship and communication that must be present.

In terms of the application of the model (see Figure 4.2), naturally, the ownership and operations element does not apply to a sub-contract. However, it is clear that in the case under consideration, little or no attention was given to the remaining elements of the model.

The case cannot be considered a success as an experiment in Black/White joint ventures. It was an early tryout of the practical implications of political imperatives to such ventures,
but remains relevant in the important lessons that can be learnt from it in terms of their planning and operation, some of which are outlined below. Many of these lessons have been incorporated in current practice in the contracting field.

The primary lesson to be learnt is that the initial assumption that a Black/White venture would not need special attention was proved incorrect. South Africa’s political history has meant that Black and White business has developed along different paths. When these paths are brought together to form one venture, synergy needs to be achieved between different types and levels of exposure, expertise, formalisation and capacity. Assuming that this will happen without special consideration or intervention is naive, as is clear from this case.

The extent of the divergence between the different ways of doing business was only realised during the course of the sub-contract. A major part of the problems experienced in the venture can be ascribed to the fact that no special attention was given to its planning or operation, nor were special provisions made. It is essential to do so if Black/White ventures are to succeed in the future.

When considering the type of venture (see Chapter 5), a further reason for failure, associated with the above, is the fact that a straight sub-contract was used. Straight sub-contracting is unlikely to succeed as a Black/White venture unless careful and validated selection of the sub-contractor is undertaken, or unless the sub-contractor concerned is in a regular sub-contracting relationship with the main contractor.

The lack of internalisation of formal practices in informal business enterprises needs constant attention in a venture between established formal business and an enterprise with a largely informal background. Insisting on compliance with formal practices is insufficient; the need for and usefulness of such practices in terms of performance and profit achievement must be fully comprehended in order for these practices to be implemented fully.

Bridging the gaps between an established business enterprise and one from the informal sector is a task that demands the services of individuals with appropriate abilities within the venture, who are dedicated to this task.
The preparation of a detailed contract between the parties that would spell out responsibilities and define the various elements of the working relationships, should have been undertaken as an investment in the future success of the venture. Although time-consuming, this type of preparation would bear dividends. During the process, expectations are clarified and an agreed framework is set for interactions. Formulating an agreement of this nature is thus a key success factor.

The case under consideration illustrates the relevance of the model and the way in which its application can contribute to the success potential of ventures between established business and developing enterprises.
CHAPTER NINE
CASE STUDY: POWER ROAD WELKOM

9.1 INTRODUCTION

The town of Welkom is an urban node situated in the rural heartland of South Africa, and serves as a commercial centre for the gold-mining and agricultural industries in the area. It also serves as a transport hub for Black workers travelling between Welkom and other commercial centres such as the Reef (Johannesburg area) and Lesotho, where many of the farm workers and miners have their family homes.

In the Welkom area, paternalistic control was exercised by the White political structures over the Black population, which was housed mainly in the adjacent township of Thabong. In common with most townships, Thabong functioned mainly as a dormitory town for workers, and most businesses in the township were owned by Whites.

As is the case in many such towns in South Africa, the White population of Welkom is traditionally conservative, both socially and politically. Early in the 1990s this meant a difficult adjustment for them to the changes that were on the political horizon, particularly when faced with the political and social turbulence and uncertainty of the period.

This was manifested in hardening attitudes by White right-wingers, attempts by less conservative elements to work towards a more conciliatory relationship with Blacks in the area, and increasing impatience by the Black population with the perceived intransigence of many Whites and the slow pace of change.

In the early 1990s the Welkom City Council clearly reflected the conservative nature of the White townsfolk who had elected it, comprising as it did equal membership from the National and Conservative parties. (The Conservative Party had been formed by disgruntled National Party members who were dissatisfied with what they saw as an unacceptable amount of concessions to the Black population which would eventually lead to a relinquishing of Afrikaner dominance.)
The importance of Welkom as a hub for Black transport was recognised by the town management, but the boom in the minibus-taxi industry in the 1980s had caught them largely by surprise. Infrastructural arrangements were inadequate, and new facilities and arrangements were needed to accommodate the increased traffic.

From 1982, taxis had been allowed by the City Council to use a vacant site in Welkom as an informal rank. Previously, taxi operators had been prosecuted for using this site. This rank was used by both long distance and local operators serving areas such as central Welkom, the mines, Virginia and other towns in the area.

Although no services were rendered to the taxi associations using the site, a ranking fee was introduced by the Council in 1987. The taxi operators were under the impression that these payments were to be used for the development of this site into a formal rank of which the taxi industry, by virtue of its financial contribution, would have a claim to part ownership.

In February 1991 Group 17, an umbrella body that had been formed to represent the three main local associations (SABTA, Majakathata and Abtocsa), approached the City Council to establish the position regarding the expected development.

In late March Group 17 was informed by the Council that the land in question had been purchased for development by Mr Giel de Wet, a prominent businessman in the area and a former mayor of Welkom, who owned various businesses in Thabong.

The City Council also stated that the payment of ranking fees did not imply that the taxi associations had any claim whatsoever to the land. However, ranking fees would have to continue to be paid and any enquiries relating to the development should be directed to Mr de Wet.
Not unsurprisingly, the taxi associations saw this situation as a breach of faith on the part of the City Council. Their dissatisfaction was compounded by the abrupt way in which their concerns were handled.

During 1991 de Wet, through his family-centred business concerns, developed the site through a company called Power Road Taxi Developers, constructing a shopping complex, ranking facilities (funded largely by a long-term, interest-free loan from Sasol) and a Caltex filling station. De Wet’s son Christo, in charge of the development, stated "our model was accepted as the most viable (because it had) more service (elements). Shelters and roofs and toilets and all those things. So we got the tender."

When construction commenced the taxis stopped using the site. Vacant land across the road was taken up by the taxis as an informal rank. Group 17 maintained their aspirations of ownership or part-ownership of a new rank; this time on this new site.

9.4 CONFLICT OVER RANKING IN WELKOM

By the time de Wet’s development in Power Road was completed, the resentment from the taxi industry had grown to such an extent that they wanted no dealings at all with him. When requested and then - when they ignored the request - ordered by the Council to vacate their new informal rank and start using de Wet’s new ranking facilities, the taxi associations refused to comply.

By November 1991, the situation had become very tense. Deadlines for the move were issued by the Council and ignored by taxi operators. Warnings and threats from the traffic department (led by a highly authoritarian chief traffic officer) were getting stronger. Physical attempts were made to prevent the industry from using the informal rank; the City Council had large trenches excavated along its boundaries to physically block vehicles from entering and leaving the site.

The tension was aggravated by the strained political situation at the time. Polarisation between Black and White was increasing, frequently manipulated by the jockeying for position in the future political setup by the various political groupings. The political
environment was volatile and characterised by "boycott politics", intimidation and occasional violent flare-ups.

The actions of the Council were seen by the taxi industry in the area as a high-handed and unscrupulous attempt by a right-wing, imposed local authority to continue to exercise control over Black business and to force the industry to support a White business enterprise that had enriched itself through a Black market which was not able to exercise its right to choose. The Council, on the other hand, saw the expectation of the taxi industry of part-owning property in the White town and their refusal to comply with the Council's instructions, as an early warning of demands to come that should be nipped in the bud.

Christo de Wet also expressed the opinion that a hidden reason behind the tensions was the disappointed expectations of unsuccessful tenderers for the purchase and development of the site: "the Whites that didn’t get the tender, some of them grouped together to force us out of the rank. Economically they couldn’t force us because we didn’t need capital, we were self-financing. So they had to come with a different way of doing it."

9.5 ATTEMPTS AT RESOLVING THE CONFLICT

Group 17 approached Lawyers for Human Rights in Pretoria for assistance, and the Mayor of Welkom then convened a meeting on 2 December aimed at resolving the worsening polarisation between the taxi industry in the area and the Council. This was attended by representatives from Group 17, the South African Police (SAP), the Council and facilitators. (In the interim, the situation had been aggravated further by a notice from the Town Clerk, served after agreement to the meeting, ordering taxis to vacate the informal rank immediately, which caused extreme anger in the taxi industry.)

Although the viewpoints of the taxi industry and the City Council were diametrically opposed, both sides expressed their desire to see the situation resolved to the mutual satisfaction and benefit of both parties.
The Council representatives stated that the rank fees collected from taxi operators were used for upgrading general infrastructure, and that the taxi industry had been under a misapprehension regarding future part ownership of taxi facilities; this had never been the intention of the Council. A suitable site to be developed as an additional rank was under consideration; however, the site being occupied by the taxis was specifically excluded from consideration for various reasons.

The Council representatives acknowledged the role of the taxi industry as the flagship of Black entrepreneurship and an important contributor to the economy, and that concerted efforts were being made by authorities (including the Department of Transport) throughout the country to assist the industry to enter the formal sector of the economy.

9.6 AGREEMENT IN PRINCIPLE BETWEEN THE COUNCIL AND THE TAXI INDUSTRY

Following discussions, the Council representatives agreed to withdraw the notice ordering taxis to vacate the informal rank and to consider the development of the land in question into a formal taxi rank to be undertaken as a joint venture between the Council and the taxi industry. This would defuse the tension and set a foundation for positive and mutually beneficial co-operation. The proposed new initiative was seen as being complementary to the newly constructed Power Road development. All parties expressed their enthusiasm for the proposed initiative between the City Council and the taxi industry.

This was reaffirmed at a further meeting held the following week and attended by representatives of Group 17 and the SAP, Council officials including the Town Clerk and the Chief Traffic Officer, Giel and Christo de Wet, and the facilitators.

The de Wets expressed their enthusiasm and full support for the proposal, and offered whatever assistance would be required in order to expedite the initiative. They also expressed their appreciation that the situation had turned from one of confrontation to one of cooperation and mutual benefit. Group 17 expressed the hope of the taxi industry that this new approach would result in a positive relationship between the taxi industry and the Council that would be able to overcome the suspicion and bad faith of the past.
The Council representatives undertook to ask the full Council at its meeting to be held the following day (10 December), to:

* reverse its previous decision regarding the exclusion of the site in question from use by taxis and approve its use as a taxi rank
* consider the development of this site as a joint venture between the Council and the taxi industry in the area
* provide Group 17 with a statement of intent to the above effect as a demonstration of good faith.

Group 17 stated that if this was done by the Council, it would be able to recommend to its members that they begin using the Power Road development.

9.7 FAILURE OF AGREEMENT BETWEEN THE COUNCIL AND THE TAXI INDUSTRY

However, the full Council meeting of the following day did not give the expected approval, but upheld its earlier decision. This was conveyed to Group 17 in a peremptory fashion. The informal rank would be totally closed and taxis would be required to use the newly-completed taxi rank in Power Road.

Naturally, the City Council's decision gave rise to further resentment and frustration within the taxi industry and the broader Black community. It was seen as a recipe for confrontation and violence, and aggravated further the already severely strained relationship between the taxi industry and City Council officials.

9.8 NEGOTIATIONS BETWEEN POWER ROAD TAXI DEVELOPERS AND GROUP 17 REGARDING THE POWER ROAD RANK

During the period of these eventually fruitless negotiations, the Power Road development
had been standing idle as the taxi operators in the area were firm in their refusal to make use of it.

Apart from the ranking facilities, the development also housed a filling station and a small shopping centre; these enterprises were obviously based on the expectation of a market brought to them by the taxi traffic through the development. The tenants objected strongly to the non-materialisation of the promised market, and by the time the negotiations with the Council had concluded unsuccessfully, many were threatening not only to leave but also to sue the developers for mis-representation.

9.9 THE "FIRST" JOINT VENTURE

In late December PRTD wrote to Group 17 expressing their support for their attempts to gain ranking facilities and offering either to sell the filling station business to Group 17, or to enter into a joint venture with Group 17 to conduct the filling station business, which was their preferred option. PRTD gave two pre-conditions applying to both offers, namely that all taxi owners and operators be involved through the formalisation of Group 17 into a company and that the taxi rank would be utilised by the taxi owners. Caltex confirmed that they would have no objection to a joint venture, provided that the current directors continued to manage the filling station.

On 8 January 1992 an agreement in principle was signed between the Power Road Filling Station (Pty) Ltd, PRTD and Group 17 for a 50/50 partnership in the filling station, which would be managed by a committee with members from both parties. As part of the agreement, Group 17 would receive a commission on fuel sold over 300 000 litres per month and one percent of the gross rentals of the shopping centre at the rank.

9.10 GROUP 17 (PTY) LTD

On 16 June Group 17 was registered as Group 17 (Pty) Ltd, with certain of the members as shareholders. Although it would seem that a Section 21 company would have been more appropriate for the basic objective of Group 17, described by its chair Julius Kapeng
as being "to plough something back into the community that has been supporting us" a public company was formed with certain of the members as shareholders.

Kapeng stated that "we wanted to be a legal persona, a juristic person. And also to have the legal power to negotiate with the stakeholders in terms of our business." and that the type of company chosen was on the advice of a lawyer "since we are not acquainted with legal things. We were under the impression that the man understood what we were saying and he reached that advice."

Although PRTD had suggested a public company in their letter proposing the joint venture, it was a cause of suspicion later by Christo de Wet, who was convinced that "they (the shareholders) were supposed to pass on (the shares) to the others, but they never did it, they kept it in their own hands. They enriched themselves..."

During the first six months of operation, the joint venture experienced many operational problems with the running of the rank facilities.

9.11 THE COLLAPSE OF THE "FIRST" VENTURE

On 20 July, PRTD wrote to Group 17 withdrawing from the agreement and stating that they were not prepared to formalise it, citing reasons that included the following accusations against Group 17:

* enrichment by members of Group 17 (Pty) Ltd by virtue of certain individuals holding the shares in the company (see above)

* a donation for start-up operating capital not being used for the purpose of operating the rank facilities and non-repayment of a loan

* a lack of response to requests regarding improved facilities by the hawkers at the rank, unhygienic conditions of the toilets and non-payment of the electricity account
9.9

* non-attendance at directors' meetings.

Group 17 was also told to vacate their offices at the rank.

Group 17 responded through their lawyers, refuting the accusations and stating their position that the agreement constituted a formal agreement that had to be honoured. They requested a meeting to sort out areas of conflict and draw up a more comprehensive agreement. PRTD's lawyers replied, denying that there was any formal agreement and refusing any further involvement.

9.12 THE BOYCOTT

This situation served to re-ignite and inflame the tensions of the previous period. The Civic Association, as a powerful representative of the broader Black community, was consulted by the taxi industry in the area. A boycott of the complex was called during the first week in October 1992. Tension was extremely high and threats were made not only by the parties to each other, but also to the tenants of the shopping centre. The filling station was closed at the end of the week, and PRTD applied for an urgent interdict against Group 17 to the Supreme Court in Bloemfontein. This was granted on 6 October and Group 17 was forbidden by court order from entering the complex.

Particularly within the context of the time, which was characterised by political tension, uncertainty and polarisation, the boycott was a source of great concern. All parties were thus keen to see the situation resolved without further escalation of the tension.

9.13 THE "SECOND" JOINT VENTURE

In an attempt to calm the situation, the Civic Association brokered a meeting on 14 October which resulted in an agreement to reinstate the contract formally between PRTD and Group 17. Formal documentation was prepared by PRTD, namely:

* a sale of shares agreement, under which Group 17 purchased 50% of the shares
in the filling station company - the price was taken as having been paid. The reason for the sale was recorded in the agreement as Group 17 being the taxi industry umbrella body

- a shareholding agreement, which noted that the filling station company would have six directors, three of which would be from Group 17

- an association agreement, which gave a broad outline of the obligations and duties of PRTD, the filling station company and Group 17.

The interdict was withdrawn and the joint venture resumed operations for a period of over two years. However, the problems that had been present before had not been solved, and the operations continued to be unsatisfactory.

9.13.1 A "shotgun" marriage

Kapeng noted that in a large part the problems of the venture were due to the fact that the two parties had come together out of expediency, largely shaped by the political circumstances of the time and influenced by the political climate. This was an unlikely, although not impossible, basis for building a long-term relationship: "It was very tense, it was boycott politics...It affected it a lot. Because the people who were involved were of different camps in terms of their political affiliations. So one would view one another with suspicion. People did not have a trust for one another...That had quite a big effect."

De Wet also stated that "if you shoot a bullet and you shoot it the wrong way, it can't come back to the right target."

Personal relationships were not formed between the two parties. This made it extremely difficult to develop the understanding of where each came from in terms of their background and how this had shaped their approaches to the venture, that would have been necessary to make this "shotgun marriage" a stable and lasting union.
9.14 PROBLEMS WITH THE "SECOND" JOINT VENTURE

The venture very soon deteriorated into a "them and us" situation between the two parties, which was clearly evident in each party's description of operations.

De Wet noted that "Now after we signed the agreement, now we are friends, we had the party, everything is happy, we are now partners. Now the practicality after the nice part... We had certain things that we had to do. We passed on the shares to them, we have given them their monthly payment... everything according to the contract, that we have done... (Group 17) had to look after the taxi rank area (but) they didn't pay the water and electricity and they didn't even keep the place clean any more (after two or three months)...

At the filling station, our director's meeting... the first two, three four months they were there and then they just disappeared. They weren't involved."

Kapeng however, stated that "we attended the directors' meetings. The only worry was that (Christo) was always alone on his side. And when we asked where are the other directors, he would tell us that some of his partners are not staying in Welkom and they have given him the authority to deal with us in a formal meeting. So we always regarded our meeting with him as formal. We had even scheduled dates for directors' meetings."

9.14.1 The contracts

The contracts that were drawn up (see 9.13 above) were basically standard contracts that provided an outline for operations and detail as to what would apply in the event of the dissolution of the venture. Under the circumstances, they were drawn up in some haste, and the association agreement in particular did not provide the sort of operational detail that would have been useful in spelling out the various responsibilities of the parties.

Kapeng noted that with hindsight, it would have been invaluable, given the inexperience and lack of exposure of Group 17 to formal business practices, to "make a broad consultation with expertise to look into the sort of agreement we have entered into. So that they can show us the areas which will create a problem in the long run." De Wet agreed that in this type of situation, the process of developing a detailed operating agreement would be very useful: "If you have hidden agendas all the time... you are in big
trouble. The thing must be structured in such a way that...anybody can ask a question, but all the answers are available."

9.14.2 The need for training

The lack of experience of Group 17 in running a formal business of this nature was undoubtedly a contributory factor to the lack of progress in establishing and running the facilities smoothly. Kapeng stated that he had pointed out to de Wet that he was "dealing with people who have never been exposed to the kind of venture that we are dealing with. We would like you to sponsor us to have somebody that can come and train us. And he said no, I know I can train you...don't worry, I am going to do that."

This necessary training did not happen to the extent that was needed, due in no small part to the time pressures on de Wet of running the venture as well as his involvement with other family enterprises. Kapeng noted that "every time we were approaching him, (with) the students for the training that we asked for, we were told he is out of town". De Wet stated that "Whenever we had meetings, I tried to guide them or train them how to run a company. I advised them to do certain things. Go and see an attorney, or go and see your auditor or whatever the case may be...If they were really keen to make a success out of it, I think the right way would have been to get an auditor as part of their company to guide them. It would have been wise to have a legal person, or a facilitator."

9.14.3 Operational problems at the rank

Constant complaints regarding rank facilities led to de Wet eventually taking over the operation of the rank's facilities from Group 17.

De Wet noted that "It wasn't easy for (Group 17) to run the rank. They must run the rank on external funds. If they were willing to do something at the filling station those funds would have been enough...They could have made lots of money if they added value, if they motivated the people to support the project." However, he stated that "Group 17...did practically nothing. They didn't maintain the stand (or) pay the water and electricity. They didn't look after the interests of the taxis...They didn't give any hearing to whatever problems there was...so all those services, we had to take over from them."
Kapeng however stressed that some rank problems were technical: "We had a manager who would inspect all those things in the morning to see if they are still functioning well. But a problem that we picked up was that the toilets were not strong enough to accommodate people who are queuing. So every time they would block and block. We even invited experts (who) said that this flushing part of it, it is not meant for so many people.

"We were coping until Christo started saying now he is taking everything. We are expelled and he took over. And funny enough, when he took over he changed all that system...by replacing those flushing parts and having them to be able to accommodate people queuing up."

9.14.4 Representativeness of Group 17

A frequently-expressed concern of de Wet throughout the venture was whether Group 17 was representative of the whole taxi industry in the area. This was seen by PRTD as the key to attracting the support that was necessary for the filling station and the complex as a whole to flourish. De Wet noted "Part of that contract said they must represent the taxi industry. That was one of the conditions...We didn't know who they represented. All that we know, when these people boycott, it's effective...they managed to convince us that they do represent, because the taxi rank was empty. So we signed the agreement." However, his doubts continued, particularly through the ensuing period of operational difficulties, and he became convinced that "Group 17...was only representing the owners of taxis. They were not representing the drivers of taxis and they were also not representing the majority of the associations. Group 17 was controlling the whole taxi set-up and power. But they didn't represent anybody."

De Wet stated however that had Group 17 delivered the services at the rank, people would have used it happily, even if they were not fully representative, and that the venture would probably still be operational.

9.14.5 The role of taxi industry culture in the venture

The relationship between taxi owners and their drivers is a part of the industry culture that
has caused many problems. Many owners are in effect running a sub-leasing business, refusing to become involved with the taxi operations as such, and merely demanding a regular sum of money from the driver. The driver in this situation copes with most or all operational problems, and attempts to generate a margin above what is demanded from the owner. Drivers often have few benefits and little or no job security.

In recent times, taxi drivers have organised themselves into various groupings in order to lobby for improved working conditions and rights, often against opposition from taxi associations, which are groupings of owners from which drivers are excluded.

This implications of this aspect of taxi industry culture was not fully understood by de Wet. In attempting to respond to the drivers' complaints regarding facilities and to satisfy their needs as regular users of the rank, he became involved in a situation which had broader ramifications.

Kapeng noted that "For instance, at some stage he was saying why should the drivers be paid on commission. And then he started quoting the labour law, which by then was not in force in terms of our...taxi operators. He wanted to apply all those laws that would apply a normal, registered employer...things we were not doing. The question of overtime, fixed salary, pension...he was saying to the drivers...as workers you must have these benefits. And the drivers started demanding such things. And when we could not really do that, it was when the relationship really became sour. Because we did not have the capacity to do such things by then."

Zachariah Khiba, who was chair of Majakathata, one of the major taxi associations in the area, and thus a member of Group 17, expressed the opinion that this aspect was at the core of the problems experienced by the venture, and described the situation as one where "The drivers were ruling. But the owners were just sitting at the back and knowing nothing. The drivers, they were decision-makers...(this) gave us very big headaches...because the owners were not participating. They didn't manage their business well. The region was on the shoulders of the drivers...And Christo de Wet took an advantage...to work together with the drivers...that issue made Group 17 not survive anything they agreed with Christo de Wet. That was the real issue." Khiba noted further that both de Wet and the drivers were taking advantage of the situation.
During the time of operation of the venture, taxi drivers nation-wide had begun to organise themselves, and Welkom was no exception. The venture became a focus of interest for the drivers, who began to see themselves as key industry players who had been excluded. Their demands for improved services and facilities at the rank were extended into a demand for representatives of the drivers' association that had been formed to be included as members of Group 17.

These demands were put to Group 17 at a meeting, where Kapeng noted that "They were saying there is a problem (because) they were not part when the agreement was sealed. (We said) but in terms of their status, we were talking to their employers." With regard to giving the drivers membership of Group 17, Kapeng stated that in the meeting Group 17 had "said we don't have a problem (but) we must not go and do it haphazardly. We need to go and lobby, but we are going to push that they should also be part of Group 17."

De Wet stated that at the meeting "Group 17 reached out their hand to pull them in, then the drivers said...before we join we want to know what happened to your company...Show your balance sheets...show your income statements...What happened to all the money? They didn't want to say what had happened to the money. At that stage the company (Group 17) was running for about two years. It didn't have any balance sheets."

Kapeng however stated that Group 17 was not prepared to expose their financial statements to the drivers without the consent of the member associations. Obtaining this consent would be a time-consuming process, as the request would have to be put to each association at their next meetings (associations generally meet once a month), together with the request that the drivers association be represented on Group 17. It was unlikely that all member associations would agree to these requests immediately. The drivers however insisted on a time frame for the information which, according to Kapeng, was impossible to meet.
9.15 THE COLLAPSE OF THE "SECOND" VENTURE

When Group 17 did not meet the time frame, the drivers in turn boycotted the rank, moving over the road to the still-vacant site. They moved back only when de Wet started legal proceedings against Group 17. Group 17 was required to provide certain information that had been agreed to at the re-commencement of the venture by a certain date; if this was not forthcoming, they would be held in breach of the contract.

When the information was not provided, arbitration proceedings were started in accordance with the contract. De Wet noted that "During the arbitration, they were still in the office (on the rank)...from that stage, there was no working relationship between us. We ran the filling station...but we didn't have meetings with them any more. All the monies due to them was put on ice until the decision was made with the arbitration. There was no communication between us and Group 17. The judge decided after...a long time...about a year, and then they moved out."

Kapeng described the core of the arbitration hearing: "The arbitrator said...I cannot force you to work together...It was the question of whether it was possible to continue. He said you don't trust this man any more. Then Christo said he also does not trust us any more. Then he said in other words it is going to be difficult for you to continue. We said yes, it is going to be difficult. Then he said the best way is, terminate the agreement. Then we said, we are comfortable with that."

The rank is now run by PRTD, which has a working relationship with the drivers, but no business relationship. The process of winding up the venture in terms of setting a price for the shares and concluding the financial split, as ordered by the arbitrator, had not been completed at the time of writing.
CHAPTER 9A
ANALYSIS OF CASE STUDY: POWER ROAD WELKOM

The analysis of the case study: Power Road Welkom has been done in accordance with the model application outlined in Figure 4.2

9A.1 SELECT PARTNERS

The partners to the venture did not choose each other, but were forced together by expediency, largely shaped by the political environment around the complex that became the focus of the joint venture. The political situation of the time not only shaped the attitudes of the partners, but also determined the selection of the partners.

The White partner was in a situation where it had space for taxis, but no taxis were prepared to use it; the Black partner in turn had taxis for which space was needed badly. Through the venture, these two elements, which up to that time had adversarial experience of each other, came together. This was not an auspicious start in terms of selection.

Within the political context of the time and the history of the prior interaction, the partners came together with attitudes towards each other that did not provide a solid basis for future interaction. The White partner was convinced that the Black partner had entered the picture originally as a creation and front for competing White developers, who abandoned it when PRTD won the tender. The Black partner in turn was convinced that PRTD had used undue influence in the tender process through the de Wet family’s strong ties with the local authorities.

Despite this inauspicious history to the start of the venture, both parties were keen to make the most of the situation and a success of the venture.
9A.2 DEFINE EXPECTATIONS

Certain expectations from both sides were defined as part of the process of arriving at the venture. However, they were not defined in sufficient detail to be able to extract key expectations that would eventually influence the course of the venture.

PRTD was under severe pressure from the tenants of the complex, who had anticipated a market for their products and services which was not realised when the complex opened. The refusal of the taxis to use the rank made it seem doubtful whether their enterprises would succeed. In addition, the filling station at the rank, built in anticipation of constant taxi traffic, had no custom and was losing money from the time it opened. PRTD's expectations were therefore that the complex would begin operating as originally anticipated and making money.

Group 17's expectations in turn were that the grouping would be able to have an income in order to realise its aspirations. It had been formed as an umbrella grouping of the various taxi associations in the area; as a representative body of a powerful, but diffuse, market force, it would have significant bargaining power.

The fact that the Black partner's original involvement was with another developer, meant that promises had probably been made of substantial financial reward for their participation in what was hoped would be a successful tender. Naturally, the member associations would be anticipating to share in this financial good fortune.

When the bid failed, and Group 17 then entered into a relationship with PRTD as the successful tenderer, these expectations were still alive. Under the circumstances of an initial financial loss however, they were somewhat unrealistic. After the failure of the "first" venture, the boycott of the complex lead to significant financial losses which then had to be recouped before the venture could begin to make money. The expected money was not forthcoming for Group 17 and its member associations were aggrieved. This translated into a steady loss of support for the venture by the market. These circumstances were aggravated by power plays within the taxi industry, particularly between the owners and the drivers. The venture was thus under constant threat of lack of support.
This situation meant that PRTD doubted whether Group 17 was in fact supported by and able to speak for the taxi industry in the area; by the end of the venture they were convinced that Group 17 had never been representative and was in fact composed of opportunistic individuals.

The lack of understanding of the financing aspects of the venture on the part of Group 17, and the fact that a strong and open relationship was never built between the parties, meant that it remained convinced that the venture was making money and that this was not reaching them.

9A.3 DEFINE EXPERIENCE AND EXPOSURE

This was not defined. The parties made certain assumptions about each other. The commercial success of the White partner was well-known in the area and the Black party therefore assumed that the venture would also be a success. The White party on one hand, was reliant from their original plans for the venture on the support of the local taxi industry, which was the only manifestation of (seemingly) flourishing Black business in the area. The assumption was therefore made by the White partner that taxi operators were familiar with the demands of formal business and that co-operation would be smooth.

The lack of knowledge of each party of the other’s modus operandi within each business sphere was undoubtedly a cause of some of the problems that arose. Formal operating practices and the administrative and managerial demands of formal business were largely foreign to the Black partner. The taxi industry flourished during a period of bureaucratic neglect of Black business; it therefore developed operating practices that worked in its particular circumstances, but which are often not compatible with accepted practices. (Government has recently instituted a nation-wide programme of assisting the taxi industry to formalise its operations and practices.)

The Black party on the other hand, faced with an unfamiliar set of demands, assumed that these would be taken care of by the White partner, and that they would be able to acquire the exposure and experience that was lacking gradually. Time pressures on the venture meant that this did not happen; rather, the White partner took over and the Black partner
was cut off from the formal practices, thus not acquiring much experience of, or exposure to, formal practices.

This situation served to reinforce negative attitudes and to drive the wedge between the parties in further.

9A.4 DEFINE AREAS OF RESPONSIBILITIES

These were defined very broadly in the association agreement, and were more statements of general intent for both parties than defined responsibilities. Careful attention should have been given to defining which party would be responsible for what, how the various aspects as defined would be achieved and what would happen if parties failed to fulfil their responsibilities adequately.

The process of defining responsibilities in detail, as well as how responsibilities would be undertaken, would have exposed some of the inadequacies of both parties regarding their understanding of each other’s experience and exposure, their capabilities and their attitudes towards each other and the venture. Plans could then have been made to accommodate and address these gaps.

9A.5 APPLY FOCUS PROGRAMMES

This was not done.

9A.5.1 Mentorship

Mentorship did not take place. Personal relationships were not formed during the course of the venture and this made it impossible to acquire the necessary understanding of each other’s approach, let alone to expand this understanding into a wider knowledge and awareness, and to translate this into improved skills.
The lack of exposure to each other's ways of doing things, characteristic of where each party came from in the South African context, could have been bridged from both sides if each had mentored the other in this regard.

9A.5.2 Training

Training did not take place, although the need for training in formal business practices was expressed by the Black partner. The White partner, having originally intended to undertake this personally, found the demands of running the venture as well as other business interests, too onerous and time-consuming to train the Black partner as well.

This is a common error in venture of this nature. Partners will often acknowledge the need for various types of training or expertise. Where one of the partners has the knowledge that is needed by the other, the offer is usually made to fill those gaps internally and informally, thereby saving costs. However, training is time-consuming, and if a venture is to succeed, the partners should be putting as much effort as time will allow into running and developing the venture.

Professional training in the areas that are needed should be sourced as an investment in the future of the venture. The time that is needed for acquiring skills through training will be time well spent; although this may slow the progress of the venture initially, it will speed it as time goes on.

9A.5.3 Communication

Communication was clearly inadequate in the venture, although the parties did meet and talk to each other. The polarisation of the two parties to the venture increased rather than decreased as the venture went on; this is a clear indication that messages were either not being given correctly, or received adequately.

In addition, the aspect of communication between Group 17 and its member associations was clearly problematic, as evidenced by the gradual loss of support for, and commitment to, the venture by the taxi operators. The primary responsibility of the Black partner was to deliver the market to the venture in terms of support for the filling station and the
peripheral businesses at the complex by virtue of constant taxi traffic at the rank. This they failed to do, probably partly because of disappointed financial expectations of the member associations that made up Group 17.

The financial difficulties of the venture and the need to recoup losses caused by the boycott should have been communicated by Group 17 to the taxi industry in the area in such a way that support for the venture was forthcoming and reliable. This would have made it possible to plan, rather than having to search for another market, which the White partner did through forming a relationship with the taxi drivers.

9A.5.4 Performance criteria

Performance criteria should have been set in such a way that clear targets were defined, with corresponding dates for achievement. This was not done, which caused problems with regard to expectations not being met, without those expectations being realised by the other party.

9A.5.5 Time frames

This aspect of the venture was problematic. Time frames for financial achievement were not reached, placing the venture under further pressure.

In addition, the time frames associated with the taxi industry culture were also problematic. Structures within the taxi industry, such as taxi associations are often highly formal and rigid, and accepted processes are generally strictly adhered to. Group 17 had three member associations, all of which had their own schedules of association meetings and conventions regarding the processes through which in turn consultation with their members could take place.

For Group 17 to obtain the agreement of member associations to a change of direction or new action was thus no easy matter, and very time-consuming. This caused frustration and suspicion by PRTD regarding what were seen as unwarranted delays. This aspect was the final cause of failure of the venture when a time frame was set for the inclusion of the drivers in Group 17 and the provision of information that Group 17 was unable to meet.
At the onset of the venture, Group 17 clearly did not realise that this aspect of taxi industry culture would pose a problem, as it was not fully aware of the importance of time frames and their achievement in formal business. If the implications of this issue for the operations of the venture had been realised at the outset, it could have been tackled and accommodation been made through (for example), obtaining a formal mandate from the member associations for Group 17 to act on their behalf in good faith (see also the analysis of Thabong Service Station in this regard).

9A.6 OWNERSHIP

In the contracts, the ownership element was clearly defined in terms of shareholding and benefits. The agreement on the sale of shares stated that Group 17 had purchased fifty percent of the shares in the filling station company, with the price taken as having been paid.

Further benefits of ownership to Group 17 were defined as:

* one percent of the gross rental of the shops and the filling station premises
* two cents a litre on petrol sold above 300 000 litres per month.

The structures of the joint venture were not defined beyond a board of directors composed of three directors from each party. The extent of direct involvement of the directors in the operations of the venture was not defined, although the agreement was conditional on Caltex’s approval; Caltex had previously indicated that the management of the filling station should remain the primary responsibility of PRTD.

9A.7 OPERATIONS

Operational areas were not clearly defined in the contract, although broad areas were outlined. This was a cause of confusion in the venture.
9A.8 ADDITIONAL ELEMENTS

9A.8.1 Accessible information

The venture would have benefitted considerably if essential financial information had been available in a user-friendly and accessible form. This would have made communication between the parties more productive and would have facilitated communication between Group 17 and its member associations.

Financial information in the usual spread-sheet format is often confusing to persons who are not familiar with this manner of producing information. The same information in graphic format is likely to be more accessible, and will enable people to participate in planning and control. Without equal access to information that is understood, partners to a joint venture will not be able to work towards a situation of equal contribution to the venture. This in turn may cause suspicion.

9A.8.2 Problems within the taxi industry in the area

The taxi industry in the area was caught up in internal problems at the time that affected the venture profoundly. Power plays between associations and between owners and drivers are a common and frequent feature of the industry. The venture in turn became embroiled in these internal problems, when PRTD, in an attempt to improve the patronage of the complex became involved, initially in an attempt to mediate between the parties.

The internal power plays within the industry affected the attitude of the White partner towards Group 17, when PRTD became convinced that they were not representative and that this was a fundamental reason for the inadequate market.

PRTD also became involved in the owner/driver issue, eventually siding with the drivers against the Black partner. This was a direct cause of the demise of the venture. A more in-depth understanding of the taxi industry and the issues facing Group 17 in its attempts to introduce new structures in the industry in the area may well have resulted in a different and more supportive approach on the part of PRTD. An independent mediator should have been used for the internal disputes within the taxi industry; this would not have prejudiced
or compromised the venture itself.

9A.9 CONCLUSION

The defining characteristic of this venture is that it never achieved the essential nature of a joint venture. In a joint venture, separate partners with their own identity come together and form an enterprise that in turn has its own distinct identity, even though the partners may retain their own.

In this venture however, the venture never attained its own identity; a "them and us" approach by the two partners was evident early on in the venture and became more pronounced as the venture progressed. This approach, and the failure to reach a common vision for the venture as a joint commitment rather than a joining of two disparate parts, was a fundamental cause of its eventual failure.

Given the pressures that led to its inception, it is not surprising that its operations were fraught with problems. However, both parties expressed the wish to see it succeed, and this was not an impossibility.

It is clear from the analysis that had the model been applied, the venture would have a better chance for success than that forecast by its inauspicious inception and problem-filled period of operation.
CHAPTER TEN
CASE STUDY: PUTCO AND SUB-CONTRACTORS (TElkOM CONTRACT)

10.1 BACKGROUND

Transport in South Africa is highly politicised, particularly in the field of public passenger transport, i.e. systems to transport persons who either have no individual access to mobility through vehicle ownership or who choose not to use private vehicles.

The provision of transportation infrastructure is expensive, but effective transportation systems are a necessary (although not sufficient) condition for economic growth. Public transport systems generally function worldwide in support of political aims; there is a wide variety of technological means of ensuring mobility, and the means chosen vary according to economic and ideological rationales.

The nature and extent of transportation systems in a country is therefore a subject of considerable political import. Varying emphasis will be given either to mass or individual needs in terms of the funding and provision of infrastructural requirements depending on the agenda of the government in power.

This was demonstrated very clearly in South Africa during the decades of apartheid. The role of State-subsidised public passenger transport systems (bus and rail) during these years was clearly in support of the apartheid government, which funded the operations of these systems as part of control over the placement and mobility of the Black majority of the population.

"Spatial engineering under the ideology of apartheid forced large sections of the Black population to reside in places situated considerable distances from their places of work, with both residence and workplace being prescribed. Concentrated and ample supplies of labour therefore were made available to the system, with minimum inconvenience to those (Whites) who directed it. This labour supply was kept largely unskilled through the redesign of the educational system, and thus had a correspondingly low level of disposable income. Individual expenditure much beyond that required for survival was limited - certainly, the true cost of commuter transport over the prescribed distances was out of reach."
"Transportation systems were therefore developed to function as conduits between workplaces and residential locations, with the cost being largely borne by the State in the form of substantial subsidies to (in particular) the large bus companies transporting Black commuters." (Miller 1991:5-1)

Thus although the transport of Black commuters offered lucrative business opportunities for bus companies in this market, the client was not the commuter so much as the government. Certainly, without the government subsidies, there would be no market for these services - the cost of the distances that had to be covered could not have been met by the commuters. The subsidy was not paid to the commuters, but to the bus companies; this enabled the company to charge an affordable fare to the commuter.

The economic unworkability of apartheid, and the determination of the apartheid government to provide structures for its propagation in the face of economic commonsense, is clearly demonstrated through the example of public transport. Low earners, with little disposable income, were made to live far from their places of work. These settlement structures are still in place after the demise of the ideology which created them, and the mobility problems of commuters living in these areas, and their associated costs, remain. Transport subsidies to accommodate this situation account for some R2,5 billion per annum in 1998.

10.2 THE ROLE OF BUS COMPANIES UNDER APARTHEID

Bus companies operating in the Black commuter market during the apartheid years functioned in many ways as a transportation service for the apartheid system, in that they were dependent on the subsidies paid by the government to ensure that Black workers were able to reach their places of employment.

Many bus companies developed under the system into large and profitable concerns. Restrictions placed under apartheid on the nature and development of Black business meant that these companies were all White-owned. Services that were offered were basic and complaints from commuters regarding low service levels were commonplace.
10.3 THE NEED FOR CHANGE

The radical political changes that have taken place in South Africa since 1994 have had a profound impact on many business entities in the country, particularly those closely associated with the operations of the previous apartheid government. Bus companies are among those affected. Not only are there political imperatives to change for these companies, in that the perceptions of the market regarding their bona fides need to be turned around, but they are also faced with the changing needs of a new government. The transport subsidy system has been under review for some time in an attempt to save costs for government, which has declared its intention eventually to phase out subsidies.

10.4 PUBLIC UTILITY TRANSPORT CORPORATION (PUTCO)

One of the large bus companies that has been operating in South Africa for the past five decades, and arguably the most well-known, is the Public Utility Transport Corporation (Putco), which was formed in 1945.

Putco’s name is inextricably associated with that of the Carleo family, a family of Italian origin whose connection with Black bus transport started as far back as 1934 with Gaetano Carleo’s "one man, one bus" operation serving the route from the Black township of Alexandra to Johannesburg. In 1944 the first government subsidies to bus transport were paid, and in 1945 Putco was formed as an amalgamation of small operators. During this time, the Carleo bus operations were strengthening through mergers with and buyouts of various companies and the formation of new companies. In 1948 the Carleos formed African Bus and Coach to meet their needs for building, rebuilding and refurbishing vehicles for their growing fleet.

Putco was however on a rockier road than the Carleo enterprises and in 1949 was placed under judicial management. However, the company was able to negotiate government funding to remain operational. It weathered the 1957 "one penny" boycott by consumers against a fare increase and started expanding and buying up other bus companies, including some belonging to the Carleos. By 1963 Putco had 422 buses and 1650 employees.
In 1965 the Carleos opened negotiations to sell the rest of their bus operations to Putco, with the intention of concentrating on African Bus and Coach. Between 1968 and 1970 the remaining bus lines owned by the Carleos were sold to Putco; the resulting transport giant had a clear monopoly of Black bus transport.

However, the family was by no means out of the business of bus operations. In a surprising turn of events, Carleo Enterprises was formed in 1970 with the express aim of acquiring Putco, and in 1971 Carleo Enterprises acquired Putco as a subsidiary. By 1983 Putco was the largest privately-owned bus company in the world, running 3440 buses during the peak hour and travelling 156 million kilometres in order to carry 353 million passengers during the year.

However, the company, as one of the most visible aspects of the apartheid policies of social engineering, could not escape the effects of the insistent protests of the Black majority against the system. In 1986 the Durban South operation was closed because of strike action, and in 1990 the Springs and Wynberg depots were also closed. Many buses were torched and burnt and drivers were attacked.

In addition to problems caused by heightened political strife, during the mid-1980s bus transport in South Africa was also hard hit by the phenomenal rise of the so-called "Combi-taxi" or minibus-taxi industry. Running a minibus taxi presented one of the only business opportunities open to Black entrepreneurs under apartheid. Inadequate transportation policy and inefficient systems for regulation and control meant that these informal sector operations experienced a concentrated boom and numbers grew rapidly. Taxis were operated in competition with bus and rail; the latter modes lost significant market share to the newcomer.

Clearly, the days of Black bus transport as it had operated for so many years in South Africa were over. The nature and structure of public transport systems, and particularly bus operations, would have to be rethought radically if they were to survive the political transition and cope with new market dynamics.

Reshaping the company and its operations for the new situation required innovative thinking by Putco's management. An action group was appointed to turn around the
company’s dwindling prospects. Operations were cut back to concentrate on longer
distance (over 20 kilometres) services, staffing levels were shrunk and operational
responsibility decentralised. The new "lean and mean" strategic approach paid off; despite
a decrease in buses, passengers and employees, profits and earnings rose dramatically.

Putco’s turnaround strategy also included an emphasis on its Black economic
empowerment aims. Vic Coetzee, personal assistant to the CEO, Albino Carleo, notes that
"Putco’s market has always been Black, and the fact that it is often perceived in this
market as a White-owned, exploitative company is a source of concern."

Coetzee noted further that 95% of Putco’s employees are Black, and a concern of the
company for a long time has been how to get Blacks involved in the business in a
meaningful way, for example through forming subsidiary companies. Internally, the
highest level of Black employees at the time of writing was that of Strategic Business Unit
(SBU) manager, where two out of five were Black.

10.5 PUTCO AND BLACK/WHITE JOINT VENTURES

Coetzee pointed out that Putco took a strategic decision many years ago to address the
negative perceptions of the company. This was in response to both political and economic
imperatives; increasing political pressure to incorporate a Black element in the company’s
business affairs was anticipated, and there were economic advantages to be gained from
political acceptance by firstly the communities served by the company, and secondly the
trade unions active in the company.

Fleshing out this strategic decision has meant that for some years Putco has been
considering ways of becoming involved in joint ventures of various types with Black
partners. Some have been tried out, with varying degrees of success. This is seen as an
on-going initiative. Various types of involvement with Black operators are seen by Putco
management as part of a progression. Mike Oldham, Managing Director of Putco,
considered that one of the most successful ventures has been through the sub-contracting
avenue; this is through a contract with Telkom in the Witwatersrand.
10.6 THE TELKOM CONTRACT

In 1993 Putco was approached by Telkom (the State-run telephone and telecommunications monopoly) to take over its employee transport. Telkom owned and operated a fleet of some 600 various vehicles to transport its employees at a nominal charge, but Oldham described the situation as "disastrous", and employees were increasingly dissatisfied. Unreliable transport also had a negative effect on productivity.

As before, tickets for passengers are issued by Telkom. However, under the new arrangement passengers now pay more for the service, and employee transport has gone from being almost free to being well subsidised. Decisions of this nature are taken internally by Telkom, and Putco is not involved. Telkom proposes to move the full charge for their transport to the employees over the next few years.

An open-ended approach to planning and developing the transport situation for Telkom was adopted by Putco. The development of the transport plan for Telkom was done on trust, with no formal agreement that defined its terms as a starting point. This made it possible for Putco to shape its operations for Telkom in an innovative fashion, and to try out one potential method of involving Black operators in the business.

10.6.1 Black involvement aims

Putco's aim was to have fifty percent of the transport operations of the contract undertaken by independent, small, Black bus operators. The first sub-contractor was appointed in November 1994. This was Solly Nkosi, an ex-Putco employee who left the company many years ago. A primary objective was to do everything possible to ensure that these sub-contractors succeeded in their involvement.

10.6.2 Operational aspects

Putco is well on its way to achieving its aim. Of the 120 buses on the contract, at the time of writing 48 sub-contracted buses were owned between 13 operators (an average of 3.5 vehicles per operator). Putco does not want more than 7 to 9 buses per operator, or it will defeat the aim of the exercise, which is to empower small Black bus entrepreneurs.
Putco's manager on the project, Bob Blackshaw, has international experience in the design and operation of bus services. There is a full-time monitor from Putco, George McInnes, dedicated to the Telkom contract. There are also two people on the road, responding to any operational problems that may be experienced. This free support service is available to and used by all the sub-contractors as well as the Putco fleet on the contract.

10.6.3 Selection of sub-contractors

Potential sub-contractors go through a rigorous selection procedure, which entails considerable assistance from Putco if the sub-contractor appears to have potential but does not immediately fulfil the requirements for selection. The selection procedure focuses both on the vehicle/s and the operator's business capabilities.

Black entrepreneurs have to come to the table with a bus; they have to be an existing owner/operator. The buses owned by the sub-contractors must go through a comprehensive inspection in Putco's workshop and be brought up to scratch if necessary in order to be awarded the required Certificate of Fitness (CoF). This inspection is done free of charge, but the owner must pay for any repairs that are deemed necessary. The owner is free to have these repairs done anywhere; they can also be done by the workshop if desired at reasonable rates.

Blackshaw described the initial selection process: "The bus has to be reasonable. And then at the same time you are talking to the guy about what he is going to get out of the contract. It is very one-on-one. One or two guys think this is the quickest game they can get rich in. And it comes as a bit of a shock when they find they can't get that wealthy."

On this point, Oldham noted that the business basis of selection is also "a very detailed situation. He has to show what in fact his costs are, if he has got any staff, what he is paying those individuals, whether we agree with that amount that is being paid. So he has to put a mini business plan on the table. If he has not got his business plan, it is done together with him and formalised. He has to comply with a number of very clear steps, particularly (regarding) the staff and bus situation (in order to determine) reliability."
10.6.4 Contractual arrangements and control

Routes are specified in Putco’s contract with Telkom. Telkom pays a kilometre rate directly to Putco, which then pays the sub-contractors a kilometre rate for specific routes which has a margin built in.

Formal contracts come into play in order to define the sub-contracting arrangements. Sub-contracts are given for the same life as Putco’s contract with Telkom and renewable to allow the incumbents to have the right of first refusal. The sub-contracts are operated according to a financial model developed by Putco for this purpose. The model is explained carefully to the entrepreneur. Routes are offered to the entrepreneur according to the model.

The contracts include penalties for non-performance. Non-performance of the sub-contractors has not been a particular problem for Putco, probably because highly efficient communication and tight control systems are applied. Blackshaw described the situation: 

"We have had two sub-contractors who have twice failed to turn up because they ran the bus on a private hire. In both cases I wrote to the sub-contractors telling them if they did it one more time I would take the contract off them. Well, they haven’t done it again yet! But they were most apologetic after they got my letter, which they got the following day. If I caught them doing private hires at the expense of the contract, which we were then picking up, I would nail them.

"We dreaded Christmas last year, but we never had a problem with any of it. Most firms break for the Christmas period but Telkom does not - all they get off is Christmas day and Boxing day, and we were dreading the worst. But everything worked beautifully. We had no problems. Just on those two occasions two of them decided to do a little bit more on the outside, and if they do it (again), they will get nailed. The contract comes first. That is their obligation."

10.6.5 Contractual benefits

Sub-contractors have access to liability insurance at Putco’s very reasonable rates of R268 for substantial cover. Taking this cover is a contractual obligation.
Access to this cover offers a significant saving, as well as greater security to the sub-contractors. Blackshaw noted that when Putco started the contract, the sub-contractors were looking at paying (a massive monthly insurance premium) per bus if they could get it. Most of them would not qualify for it so our brokers dealt with the insurance companies and came back and said we can put it on your policy. So it is a contractual obligation with all the sub-contractors. It is only valid whilst they are working on the Putco routes. That is a condition from our insurance company.

Sub-contractors also have access to fuel at lower rates if they fill their buses at the Putco depots. However, none have used this facility, presumably because of the inconvenience involved. Blackshaw noted that “They have all been offered fuel but none of them have taken it up. In many cases they don’t start anywhere near a Putco depot, or they don’t break near a Putco depot.”

**10.6.6 Administration**

Administration is all done by Putco. Blackshaw noted that "the administration of the contract itself is not particularly time-consuming or complex. Telkom has no access to the sub-contractors, drivers or bus depots or anything, only to myself or George McInnes, so all the flow of information is between two people and out of that we build up the record. The sub-contractor used to give us a monthly invoice, but now we produce an invoice document which shows his income plus all the things we have to deduct like public liability insurance premiums, cellular telephones, and if he uses us for anything that we charge for that is all there. Then he comes in at the end of the month, we have a brief discussion with him and he will sign that document and then he will get paid.

“We take expenses off the top. The document shows what we have done. It is easier for them that way. When we spoke about it in the beginning with all of these guys, all of them dreaded the thought that they would have to then write a cheque for x amount to go and give to an insurance company. So we agreed to deduct it and do it through our system. So when they get the money at the end of the month, that is theirs. All deductions have been made. Where sub-contractors have purchased new buses arrangements can even be made with Putco to deduct the installments from their account and pay them directly to the bank."
"We need a piece of paper that says we have paid you that amount of money, so don't come back and scream at us. With sub-contracting we are going through three stages; we are taking somebody out of the total informal sector into a semi-formal sector and then ultimately into the formal sector. We are on the first step."

Oldham described the assistance given as "support to the sub-contractor in all those things that are not in fact a direct providing of the service. Having this umbrella of support and control, allows the individual to develop and as much as he or she can do, he will do. We don't say he must in fact do certain things through us."

"But we are the main holder of the contract. It is our responsibility, and we are the lender of the last resort. None of our responsibility can be delegated. None of our particular involvement can be delegated. We remain the principal, and in that context we have to make sure that the thing is done properly. But there are two parts to it. We will support the sub-contractor as much as possible, but overall administration - we will control that situation to have no problems. We collect the contract, we collect the particular payment and we distribute it."

10.6.7 Communication

The communication chain is as simple as possible in order to offer an immediate response in the event of problems and to facilitate control. If there is a problem, Telkom contacts either McInnes or Blackshaw, who then contacts the sub-contractor concerned. Telkom may not communicate directly with the sub-contractor, nor vice versa. This is to prevent erroneous or irregular instructions being given to an operator.

There is a cellphone in each bus, as in Putco buses (although all phones are barred so that they are only open between the depot, the bus and the supervisors). Phone costs are paid by the sub-contractor.

10.6.8 Trade union involvement

The successful involvement of the trade unions in the initiative has been key to its success. The unions that are involved with Putco are Transport and General Workers
(TGWU) and Transport and Allied Workers (TAWU). The unions resisted the sub-contracting idea initially; it was perceived as eroding their membership. 120 buses and drivers were to be used for the operation - if 50% was to be subcontracted, the perception was that 60 people would be retrenched. The unions were given assurances that this would not occur.

The venture presented the unions with an interesting set of problems, as there is a conflict of union objectives in the short and long term, and also with regard to the micro and macro aspects of the implications of its success for the unions. Empowering Black business in this way could be seen to be in conflict with the goal of strengthening the unions and increasing their membership.

The issue was overcome by the formation of a committee with union and management representatives to select the entrepreneurs that would participate in the contract. This committee had two main aims:

* to look after the interests of the employees of the Black entrepreneurs (who were not union members)
* to check the bona fides of the entrepreneurs who applied to participate in the contract.

Oldham felt that union acceptance of the initiative is "because they were involved from the beginning, they have an element of control, they monitor the situation, and are part of the decision-making. The element of the sub-contractor paying starvation wages and exploiting the employee is under their control.

"The drivers are paid less than the Putco drivers. The unions wanted them paid the same as Putco, and the same benefits and everything else. We said that is not possible. But if the sub-contractor really puts pressure on that part of his operation the union guys will hear and will oust him. They will see it on the monitoring process, and say "correct the situation or we will take the contract away from you". So they have a very strong lever to control."
"It's a very interesting element of the whole thing. The difference between the centralised union and the grass-root union; the centralised union looking at Black empowerment and the grass-roots having to bear the brunt of the empowerment, so the acceptance there is quite important."

10.6.9 Acceptability and success

An indication of the success of the initiative is that the turnover of sub-contractors has been zero on the initiative. Many of the sub-contractors have been able to expand their fleets.

A further indication of the acceptability of the initiative is that there is a waiting list for sub-contractors to participate along the same lines in Putco’s tender for Eskom’s transport services. It was stated up-front that 50% of this contract (37 buses) will be operated by independent Black sub-contractors. The word spread informally about the Eskom tender; there was no formal communication directed at attracting potential sub-contractors.

10.7 SUB-CONTRACTORS’ EXPERIENCES

Three sub-contractors from the Telkom contract gave an account of their experience on the contract. All three have extensive prior experience as "informal" transport operators, and their past business history reflects on a personal level to a large extent the nature of public transport and Black business in the field in South Africa over the past decades.

10.7.1 David Lethaga

David Lethaga is 39 years old and a talented linguist who speaks six languages. He lives in the Soweto suburb of Orlando West and is deeply religious, attending church every day. He is also a keen "armchair" sports fan. He attended school until Standard Eight, and managed to complete a further standard privately. He has a passion for big machines such as trucks and buses, and enjoys owning, servicing and operating his own: "When the fleet is in good shape, it is really enjoyable; to own and operate a fleet that has a smart appearance and does the job makes me feel proud and confident."
Lethaga's first formal employment was as a driver for a truck rental firm. His experience in this firm was formative; he progressed to becoming a driver instructor and also underwent formal supervisory training. He left to join another firm as a driving instructor; while there, he obtained certificates in personnel management and industrial relations. His formal work experience was generally positive, largely because of the excellent relationship he had with his first boss, Mr X, a White man. Mr X became Lethaga's mentor and identified his potential early on, stating repeatedly that he did not want him to end in a dead-end job, and constantly motivating him to work towards a career. When Mr X left the firm for another he asked Lethaga to join him in an upgraded supervisory position, which he enjoyed very much. He still keeps contact with Mr X. He is happy on his own and successful, and ascribes much of his success to the mentoring he received.

Lethaga left formal employment because of the pressure of trying to juggle the demands of his formal job with his entrepreneurial transport enterprises. He had bought two minibuses and was running taxi trips from Johannesburg to Venda (undertaken without the necessary permits, i.e., so-called "pirate" operations). He then ran into problems with a long-distance taxi association on the route, and decided to restrict his operations to local routes and join a local association. Eventually he had eight minibuses serving local routes. Pressure from his association to devote his time to his taxi enterprise rather than being an "absent landlord" led to his resignation from formal employment and his establishment as a full-time entrepreneur.

During this time however, the taxi business had shrunk, due to a combination of rising costs and a practically static fares income. He therefore purchased a bus in December 1993 for special hire contracts, running on weekends only. The area was serviced only by older vehicles, so he went for a semi-luxury Mercedes Benz coach, which proved to be very popular — so much so that he purchased a second bus in December 1994 of the same type, running similar operations. (As with his taxi operations, Lethaga's bus services were also pirate operations.)

The taxi association to which he belonged objected to the fact that he was running both taxi and bus services, and he chose to close his taxi operations. He then decided to legalise his bus operations, and applied for a permit for a new acquisition, an ERF semi-luxury coach. Ironically, Putco lodged an objection to his permit application (this is
standard procedure for Putco). He therefore decided to continue his operations without permits.

Lethaga’s contact with Putco came about fortuitously. In December 1995, he was in Durban on a tour and was particularly worried about problems with meeting the instalments on his vehicle. During a break, he was reading the newspaper and noted a picture of Solly Nkosi (the first sub-contractor) and the accompanying story on Putco’s sub-contracting initiative. On his return, he contacted Blackshaw at Putco, was accepted and was able to secure the financing of his bus.

The Putco sub-contract has rescued Lethaga’s business from almost certain collapse and made it possible for him to grow; at the time of the contract, he was ready to give up. He has been able to pay off two of his buses from the steady work provided by the contract.

By 1997, Lethaga had three buses and employed three drivers and one handyman. Both he and his wife work in the business; his wife handles all the bookings and administration. One bus is used on Putco’s Telkom contract. One is used for (unsubsidised) school trips; these are a “headache” but pay a margin that covers some expenses. All three are used for specials over the weekend, such as funerals and weddings, and for tours from Johannesburg to places such as Durban. His strong connection with the community through his church work has been an advantage because it has led to many referrals; most customers for special trips come from referrals.

As a successful entrepreneur, Lethaga likes the fact that he is responsible for, and can take, his own decisions for the business. However, the lack of a guaranteed market is a constant worry, particularly as he still owes the financing house substantial amounts on all his vehicles.

Lethaga considered the selection process to be very fair. "What Putco did for us (the sub-contractors) was the happiest thing - it has made us. Bob Blackshaw and George McInnes have been so co-operative in everything."
It has not been easy for Putco to overcome prejudice from the client towards the subcontracting initiative. The extent of personal interaction involved in selecting a subcontractor was evident in McInnes' description of Lethaga's appointment; "When we wanted to take David on, we had to take the Telkom shop steward physically with us to go and show him the bus at our Devland transfer. They looked over the bus. He has got a beautiful semi-luxury bus. And they were very impressed with it. And only when they accepted it, did we say okay David, there is a contract."

Lethaga’s main concern was whether he would be able meet the contract requirements in the event of a breakdown. However, the extent of support provided by Putco has meant that he has not lost any hours on his contract. This is aided by the fact that communication is very efficient; there is immediate feedback through McInnes if there is a problem. He uses a cell-phone to facilitate communication.

He has learnt a lot about sound administration from the way Putco conducts this aspect of the contract. Putco’s systems provide a useful example, and Lethaga now bills his customers for special trips along similar lines. Although Putco is doing their administrative job for them, sub-contractors have had to get their house in order; for example, he is now a registered tax-payer; his wife keeps the business records, and he employs a private accountant for tax returns and business statements.

In terms of his personal development as a business operator, the experience of the contract has motivated Lethaga to "get up early and plan" and to check the operations of the business constantly - he often monitors the driver’s performance using his private car.

His vision for the future is concerned with the provision of tours for the Black community, using luxury coaches for a high niche market. He would like to upgrade his vehicles, for example by having toilets and TV on board. He feels that he is on the way to achieving his vision with his existing fleet.

10.7.2 Sidwell Nche

Sidwell Nche is 47 years old and lives in the Soweto suburb of Pimville South. Transport is a consuming interest of his; in his infrequent spare time he enjoys swimming. Although
his formal education ended with Standard Six, he is remarkably articulate and a careful and thoughtful speaker. His feels his lack of formal education keenly "I liked education so much as a child, but came from a very poor family and as the oldest, it was my duty to work to support the younger children." One of those siblings is now at university.

Nche’s formal employment was at a building materials company, where he worked for 12 years, eventually reaching the position of supervisor. He enjoyed his time as an employee very much. He had a good relationship with the staff and was trusted by his boss, who was helpful and supportive. He left in 1986 to pursue his entrepreneurial interests. In 1978 Nche had purchased his first minibus and another in 1981 - "transport is in my blood". He concentrated on the Johannesburg - Lesotho route, with much of the market coming from the other modes of bus and train "from behind the bus to behind the train, and the police behind us" (because they were operating without permits). During this period of moonlighting as a taxi operator, Sidwell notes that it was not really a serious concern, but an enjoyable and profitable way of indulging his interest in transport.

In 1984 he purchased another vehicle and obtained a contract to transport staff for a large hotel. He formalised his operations, registered as a close corporation and started keeping logbooks; profits increased steadily and he employed a manager. However, when his brother-in-law relieved the manager for a period, it became clear that the enterprise’s income was four times that reported by the manager. Nche then resigned his formal employment in order to take up the reins of his transport business full-time. "I could not sit by and watch people robbing me".

In 1988 Nche purchased his first bus, a new 30-seater Mercedes Benz which he drove himself, and a second in 1990. He became increasingly concerned regarding the worsening road safety record of the taxi industry and sold his taxis, buying another new bus in 1994. In 1995 he applied for an extension of his permits, using a transportation consultant. Putco opposed this, and the consultant suggested that he contact Putco regarding the Telkom contract. He had a meeting with Blackshaw and was appointed as a sub-contractor.

By 1997, Nche had three buses, one being a 60-seater luxury coach. One bus does trips to Lesotho Friday to Monday, and two are on the Telkom contract Monday to Friday. Over
the weekends, these two also take tours to Lesotho. He is an affiliate of the national tourism body, Satour, and also provides tours to Cape Town, Port Elizabeth, East London, Durban and the Northern Province.

He employs five drivers and a secretary, but likes to drive himself at times to show the drivers that he can do it and knows what he is talking about. He is happiest when he is driving himself (which is infrequently), because then he is totally in control. Sidwell's secretary keeps general records of the business, and he employs an accountant for tax returns and business statements.

It gives Nche great satisfaction to know that he is fulfilling his customer's requirements. He only has a "headache" when there are more people than he can accommodate. Capacity problems on holidays and at peak periods are a constant problem for transport operators, and in this regard he worries about "the bad exposure if you have to disappoint people."

He has a strong sense of community responsibility, and "helps with buses to transport mourners for funerals of poor people where possible". That this is appreciated by the community is evidenced by the fact that during riots his buses have always been safe, and he has never had any problems associated with community action.

Nche considered that the selection process was more than fair to the sub-contractors "what is very good is that we were given the option of either fixing what was wrong with the buses ourselves or asking Putco to fix it. Putco has been straight and honest, and has met us more than half-way - we were even invited for lunch!". He noted that sub-contractors need to prove what has happened in the event of an operational problem. "Putco does come to the rescue, but this can take time and therefore there is a lot of worry." He has learnt that preplanning is essential, as is the need to start operations earlier than necessary in order to provide a safety margin for contingencies.

With regard to administration, he stated that "Putco's systems are very helpful, and I am now taking Putco as a mirror - if things are right, it will show in the system." Having seen the value of proper administrative systems, he would employ someone to run similar systems if Putco did not do so.
His personal development as a business operator has also benefitted from his experience on the contract. Nche felt that one of the most important things that he has learnt is that "the contract has taught me to respect time - it is the most important thing in your business and it is not taken seriously by Black business with this idea of African time." Although he noted that this point requires a radical reorientation of thinking and attitude "you get used to it".

Nche would like to run super luxury buses in the future. He was extremely impressed by the standards that can be attained during a recent trip to Malaysia, and would like to see similar operations in South Africa, serving a high income niche. In the meantime, it is essential to base the business on good "bread and butter" work that pays reliably.

10.7.3 Billy Manyala

Billy Manyala is 48 years old and lives in Vosloorus on the East Rand. He is a keen musician, playing bass whenever his busy life allows him to. He comes from a poor family and left school after Standard Eight in order to earn a living.

His formal work experience was overwhelmingly negative. He was employed as a driver by an engineering works from 1969-1979, delivering heavy machinery to the mines. He found the work boring, tedious and a "waste of time"; he was accused of being negligent and was dismissed in 1979. After being dismissed, Manyala entered a period of self-employment. He sold meat (offal) to the residents of Vosloorus hostel, which provided a good living until he was stopped from doing so by the authorities. He continued through a Chinese middleman and was successful enough to enable him to buy a small truck. However, the increasing political violence around the hostel forced him to stop this business.

Fortunately, during this time Manyala had saved enough to buy at first one, and then another, 27-seater Dyna bus. These were used to transport schoolchildren during the week and for special trips over the weekend. He became aware of the Putco contract when a driver from Putco told him about the sub-contracting initiative. He approached Putco via their depot in Boksburg, and was eventually appointed on the contract.
By 1997 he owned five buses, employing three drivers and a handyman. He drives himself at times, and his wife handles all the administration of the business; he also employs a private bookkeeper (who is a friend) to put his accounts in order. Three of the buses are used on the Telkom contract from Monday to Friday and one is used for school work during the week. Two are idle, but one of these is used as a stop-gap where necessary.

Manyala is most content when he knows that his customers are happy. When the fleet is "not in top shape, dirty or something is broken - that makes me very unhappy and worried." He would like to get out of the scholar transport market as he feels it is more trouble than it is worth, a sentiment shared with Lethaga; both say that the schoolchildren cause a lot of damage to the vehicle and are unruly and undisciplined. When the driver intervenes, they complain to their parents.

Manyala offers cut-rate or free services for pensioners and the disabled as a service to the community; for example, he transports pensioners free of charge to supermarkets to do their shopping on pension pay-out day. He noted that it is possible nowadays to provide genuine community services. In politically-volatile pre-1994, the "comrades" were quick to abuse the situation and demand transport free of charge.

He has not had any difficulties so far on the operational side. On the business side, Billy used to invoice Putco under the old system, "but it is easy to forget". The fact that Putco handles all the administration now makes his life easier. The invoices are checked and immediate feedback given if there is a query. Operations are also eased by the fact that communication channels are very good. Although Manyala did not have a cellphone, he intended getting one to facilitate communication still further.

Manyala felt that Putco has designed the sub-contracting in a sensible way. He expressed concern about what would happen to the sub-contractors when the contract ends, but noted that in this case, Putco would be in the same difficulty, and that this was a normal business risk.

The contract has broadened Manyala's business experience enormously, by providing a level of security and simultaneously exposing him to formal ways of operating. Previously, his business was providing hand-to-mouth survival; now he considers aspects such as
long-term planning "I must have a goal every year and operate so as to reach it." In future, Manyala wants to get out of the long-distance market. He aims to consolidate his operations around providing reliable services for the average commuter. He wants to expand his fleet and get a stable contract or a number of stable contracts for commuter services.

10.7.4 Common aspects

Although sub-contracting to Putco, all the sub-contractors' buses are painted in their own distinctive liveries.

All three are members of SABOA (South African Bus Operators Association). This they find very useful, particularly in terms of the information and advice that is offered to members. The fact that they are part of this network gives them access to a broad-based support network. Permit applications will not be opposed by other SABOA operators, as "we are all in the same kraal". Lethaga was particularly concerned about the fact that he (and other sub-contractors) operates without permits; he wants to do things legally in the proper way, and hopes that his increasing formalisation will make this possible.

McInnes noted with regard to the sub-contractor's fears of a sudden stop to the contract that although there is no guarantee on the Telkom contract, "it is too vast for Telkom simply to say "stop". In the past, Telkom used to run cars, buses and other vehicles; they lost on average five minibuses a day to hijackings. An example of the benefits of the contract to Telkom, it represents a massive monthly fuel saving."

All three sub-contractors expressed concern that sub-contractors from other provinces are using the opportunity of the contract to do additional work in the contract areas, and are thus encroaching on local markets; all have been affected to some extent. They were of the opinion that Putco should regionalise the sub-contracting initiative. Nche recommended that "If I were Putco I would first see that all small operators in Gauteng have got the job before I could employ the other people from other provinces." Lethaga stated that "The buses from those provinces from outside - they have now taken over the long-distance side of my own (particularly) the burial societies and church people. They are taking the groups. I used to do all the Shenge church - they took all of those. I would
say they have already shrunk 75% of my business. They are cutting into the cake that was big enough for me."

The radical change manifested in the initiative was felt strongly by the sub-contractors. Nche expressed his sense of radical change, stating that he never expected that Putco, with its previous history, would be doing something of this kind. However, "Putco is giving respect to us. We are in a very good relationship of working - working conditions are fair, and definitely we feel at home with Putco. And if this could happen to be life, really, it would be a history."

Lethaga voiced his appreciation for Putco's hands-on approach "They really take up the concept of Black economic empowerment and they are just doing it. You don't talk about empowerment when you don't give something, if you just talk and talk until the end of the day, but do nothing about it. No, they tackled it, they took it up."

Manyala noted that "The image is changing dramatically. It is not the apartheid buses any more - not at all. We are (now) the voice of Putco in the townships".
CHAPTER 10A
ANALYSIS OF CASE STUDY:
PUTCO AND SUB-CONTRACTORS (TELKOM CONTRACT)

The analysis of the Putco - Telkom contract has been done in terms of the model application outlined in Figure 4.2.

10A.1 TYPE OF JOINT VENTURE

In terms of the joint venture continuum outlined in Figure 5.1, this initiative falls into the category of sub-contracting - specifically, it is an example of assisted sub-contracting.

The difference between sub-contracting and assisted sub-contracting is in the level of support given by the main contractor to the sub-contractor. Under traditional sub-contracting, there is little or no support given by the main contractor. Part of the contract is let out in turn to the sub-contractor/s in order for the main contractor to achieve the following:

* save time, and/or
* expand resources, and/or
* increase capacity.

Sub-contractors are contractually liable for full performance on the element of the contract for which they are responsible. Achieving performance is the sole concern of the sub-contractor.

In South Africa however, sub-contracting is beginning to be used for different aims. Specifically, it is being used as a means for expanding penetration of the Black business into markets traditionally served by White contractors. Sub-contracting is used as a policy instrument to achieve this. For example, many government contracts specify that a certain percentage of the contract must be undertaken by Black sub-contractors.
Where this is the case, and where a lack of business ability hampers the performance of the sub-contractor, assistance needs to be given by the main contractor to the sub-contractor in order to ensure that the contract conditions are met. This is particularly the case where sub-contractor involvement is monitored by the client to prevent lip-service being paid to the concept.

In the case of the Putco/Telkom contract, considerable assistance is being given to the sub-contractors, not to meet the demands of the client, but to ensure that strategic aims and objectives set by Putco are met. Sub-contracting a certain percentage of the contract was not a condition of the client (indeed, the client expressed certain reservations regarding performance if this was done), but was undertaken as an initiative by Putco to meet the company’s wider strategic goals.

10A.2 SELECT PARTNERS

Careful attention was given to the selection of partners for this initiative. Black entrepreneurs had to meet certain basic criteria before being considered, the two most important being:

* asset worth: prospective sub-contractors had to own a suitable vehicle in good condition

* previous experience: prospective sub-contractors had to have previous experience in operating bus services and had to prove this by submitting a business plan.

If these base conditions were met inadequately, assistance was given by Putco to the applicant to meet the required standards. For example, the vehicle was examined at the Putco workshop; if it did not meet requirements, the applicant was given the opportunity of rectifying the shortcomings. This could be done either through the Putco workshop at competitive rates, or elsewhere. The vehicle would then be re-submitted for testing; if it failed again, the application was rejected.
Similarly, if the business plan requested by Putco did not measure up to expectations, assistance was given by Putco to the applicant to prepare a plan that met the requirements of formal planning. If, during this process, it became evident that the applicant would not be able to meet operational requirements, the application was rejected.

Giving careful attention to the selection of partners in this way gave Putco considerable assurance that the sub-contractors would be able to handle operational matters, provide a reliable service and interact dependably with Putco.

**10A.3 DEFINE EXPECTATIONS**

Putco was careful to define its expectations to the sub-contractors through firstly, the selection process and secondly, the contract. In the process of selection and of drawing up the contracts, expectations held by the sub-contractors were also clarified.

Operational expectations were specified in the selection process largely through the insistence that sub-contractors had to own a bus of an acceptable standard, as well as being specified precisely in the contract in terms of routes and associated kilometres that had to be served, and penalties that would be exacted for non-performance. The financial expectations of the sub-contractors were also dealt with in the contract in terms of rates that would be paid for specified kilometres.

A formal definition of expectations of this nature is useful in restricting the influence of attitudes on the working relationship. Naturally, persons with a generally positive attitude towards the initiative can be favoured in the selection process. In addition however, negative attitudes can arise through unrealistic expectations that are not satisfied; very often, unrealistic expectations are caused by a failure to define clearly what can be expected by and from the parties to an agreement.
10A.4 DEFINE EXPERIENCE AND EXPOSURE

Various assumptions were made by Putco with regard to the experience and exposure to business practices of the sub-contractors in designing the sub-contracting initiative. These included:

* operational experience and some degree of asset value was assumed; this would be manifest in the ownership of a suitable bus and further defined in the contract

* inadequate administrative abilities were assumed; Putco assumed responsibility for all administration

* "internal" managerial expertise, ie that of the sub-contractor in running his or her enterprise, was not considered to be a relevant factor; this would be reflected in the sub-contractor's performance according to contract specifications.

In this regard, Putco assumed full responsibility as the main contractor for the management of the contract and thus of the sub-contractors.

Capabilities were thus defined during the selection procedure and constantly "affirmed" through the operation of the sub-contractors according to the contract specifications.

10A.5 DEFINE AREAS OF RESPONSIBILITY

The areas of responsibility for the sub-contractors were precisely defined and controlled and were restricted to the operation of their contracted routes, as defined in the contract. Sub-contractors had no managerial responsibility within the main contract; the management of their individual enterprises was left to them, although indirectly, assistance was given in this area by Putco assuming full responsibility for their administration with respect to the sub-contract.

Sub-contractors were fully responsible for their performance on their defined routes. If requested, operational assistance was provided (and charged for) by Putco.
The area of ownership was outside the scope of the sub-contract. In this regard, it should be noted that Putco’s approach was to consider the various types of joint venture as forming a continuum, from employment to full joint ownership. Assisted sub-contracting, such as that applied in the Telkom contract, would fall partway on the continuum. On its own, such a sub-contract fulfilled valuable strategic objectives, but was also hoped to give sub-contractors experience and exposure to formal business expectations that would better prepare them for other forms of joint ventures.

10A.6 FOCUSED PROGRAMMES

10A.6.1 Mentorship

Although not formally charged with mentoring the sub-contractors, the Putco personnel in charge of the sub-contracting element of the main contract developed strong and personal working relationships with the sub-contractors. Regular "get togethers" of sub-contractors also serve to strengthen the bond.

10A.6.2 Training

Putco has placed their in-house training facilities at the disposal of the sub-contractors; they are also notified of and invited to relevant in-house training courses that are conducted for Putco personnel.

10A.6.3 Communication

The sub-contracting element is characterised by strong communication and immediate feedback, supported by encouragement for the use of communications technology such as cellular phones. This element has been strengthened by shortening the communications chain; only the Putco managers involved in the sub-contract may communicate with the sub-contracts and vice versa. This eliminates confusion and the introduction of personal demands from the client that may make the smooth operation of the contract difficult.
10A.6.4 Performance criteria

Performance criteria are defined clearly in the contract and serve as a primary control mechanism for the operation of the sub-contractors.

10A.6.5 Time frames

The sub-contractors have no input to the strategic element of the definition of objectives within a certain time which forms part of the structure of the main contract; rather, they form a tool for the achievement of such objectives. As such, the time frames for the sub-contracting element are defined in the contract, and form part of the performance criteria.

It should be noted that the sub-contractors interviewed noted that the emphasis on working within time frames, even in the operational sense, was largely a new experience for them, and one which they found valuable in terms of their individual development as entrepreneurs.

10A.6.6 Additional elements

In addition to the elements outlined above, Putco has offered additional assistance to the sub-contractors through:

* arranging passenger liability insurance at favourable rates
* offering access to cheaper fuel at their depots.

10A.7 CONCLUSION

The application of the assisted sub-contracting option by Putco in its contract with Telkom, has provided a solid basis for the Black entrepreneurs in the bus industry who are participating in the venture to:

* consolidate their operations
In addition, Putco has been able to fulfil important strategic objectives related to their repositioning.

The application of Figure 4.2 reveals that in terms of the model application for the development of Black/White joint ventures, only the element of ownership is missing. This indicates that the option as applied forms a good basis for extension along the continuum towards full joint ventures involving ownership.

One factor that may retard such extension is paradoxically, the success of this option as applied. It is experienced by the sub-contractors as an extremely comfortable way of working. Systems are provided and operated on their behalf; provided they fulfil the terms of the contract, they are assured of defined earnings.

However, it should be noted in this regard that extension along the continuum towards full joint ventures naturally involves a higher degree of risk-taking on the part of those involved in such ventures. Preparedness to assume a higher degree of risk and involvement is largely a matter of personal "style", commitment and ability to function well in high-risk circumstances. Not all entrepreneurs will wish to extend themselves fully, some will wish to do so but will not possess the necessary personality, commitment and abilities, and others will be able to do so and succeed. Entrepreneurs and their potential joint venture partners should not be forced into a level of risk to which they are not suited, but should be able to position themselves along the continuum where they are both challenged and able to achieve.

Given the need to redress the imbalances in the business environment, there should continue to be a place for assisted sub-contracting in the South African context. There will continue to be a need for some time to come to ensure that the assistance given under such ventures is appropriate and bears the needed results.

The key success factors of the Putco-Telkom sub-contracting option include the following:

- the contract itself. This defines the needed parameters for the success of the
venture and binds the partners into an agreement to achieve agreement performance. Agreeing the parameters and performance criteria in this fashion beforehand results in a clear mutual understanding of the expectations of the parties of each other and provides a firm basis for operations.

- the careful attention given to planning of the venture before commencing and the inclusion of trade union involvement in the initiative.

- the extent of the assistance given and the personalisation of the venture through the Putco personnel charged specifically and solely with managing the venture. Naturally, the choice of persons such as these is important to the success of the venture. They must possess the characteristics and abilities that will facilitate the smooth operation of the venture.

- careful control over the venture; for example, the restriction of communication regarding operations to being between the Putco managers of the venture and the sub-contractors and immediate response to problems.

The success of this venture has led to the formation of a 50/50 joint venture between Putco and certain of the sub-contractors from the Telkom contract in order to tender for subsidised bus services in the Lekoa-Vaal region of Gauteng province. This would be an assisted joint venture, with Putco offering access to additional vehicles and finance at very favourable rates. The proposed joint venture thus represents a further move along the continuum. At the time of writing the various tenders received were being considered by the Gauteng Tender Board.

It is clear from the analysis that the success of the venture is an indication of the validity of the model.
CHAPTER ELEVEN
FINDINGS AND RECOMMENDATIONS

11.1 INTRODUCTION

The political history of South Africa, especially that of the apartheid years, has had a profound effect on the structuring and functioning of business in the country. For many decades business functioned on racial lines and Black and White business developed along different paths.

Political prejudice towards White business during these years meant that it is now in general highly developed and functions in the formal sector with access to financial and infrastructural support. Black business on the other hand generally functions on the periphery of the formal sector, is informal in its operations, struggles for access to support mechanisms and is largely subsistence-based.

The structural inequities between Black and White business have had a profound impact on the South African economy, and given that the majority of population is Black, can be expected to depress the prospects for future growth if they are not resolved. Along with the economic imperative to address this situation, there is an urgent political imperative to do so. The 1994 elections introduced a democratic government committed to redressing past inequities, in the business environment no less than in any other sphere of life in South Africa. Policies and legislation have been formulated to this end, and their impact is being felt in the business environment.

There is thus both a political and an economic imperative to bridge the gaps that have arisen between Black and White business and to bring them together. Ways of doing this need to be put into practice in such a manner that the results benefit both. Joint ventures provide one mechanism for bridging this gap.

11.2 BLACK/WHITE JOINT VENTURES

The study has proposed Black/White joint ventures as a means of addressing the structural inequities in the business environment in South Africa.
Increasing pressure is being brought to bear on established, White-dominated business, through government initiatives aimed at redressing imbalances. Tenders for government contracts generally stipulate that some form of Black involvement in this type of enterprise is a pre-requisite for consideration.

However, the history of Black/White relationships has meant that these initiatives are likely to face more than their fair share of problems. In addition to the problems that are a normal facet of business life, Black/White joint ventures must cope with problems that will arise in attempting to bridge the many divides that have been created between Black and White experiences over the past decades.

Joint ventures are complex undertakings which can compensate for one partner's relative weakness through the other's relative strength, in the process allowing the parties to develop strengths with lessened risks.

Joint ventures require a co-operative management approach. In a successful joint venture, the whole is more than the sum of its individual parts. On the other hand, in an unsuccessful venture, the whole can be considerably less than that which could be achieved separately by its component parts.

11.2.1 A continuum approach

Within the South African context, it is useful to expand the concept of joint ventures to incorporate initiatives along a continuum ranging from extensions to employment to full joint ventures.

Various policy initiatives have been implemented by government that are directed around stimulating the participation of Black business in the formal sector and the expansion of industries previously dominated by established White business. The continuum approach makes it possible to consider the implications of initiatives of this sort.

Ventures may be placed and remain at any stage along the continuum, or may progress along it, depending on the nature and objectives of the particular venture.
11.3 A MODEL FOR BLACK/WHITE JOINT VENTURES

A model has been developed through the study for the formulation, structuring and operating of Black/White joint ventures that takes into account the factors that are likely to impact on these ventures and affect their success potential. The model is directed towards the creation and operation of enterprises that are able to overcome the crippling legacy of apartheid, through bridging the many gaps between Black and White business-related expertise, experience and exposure.

The process of applying the model in practice in Black/White joint ventures is directed towards achieving results that are not excessively prejudiced by the socio-economic history of the parties to the venture.

Business operates on the cutting edge where policy and practice meet. The application of the model must therefore be informed by a thorough understanding of its components as they are present in each venture. However, the usefulness of the model to business in practice will naturally be in its application.

The study therefore distinguishes between the components of the model (see Figure 4.1) and its application in practice (see Figure 4.2). The application must be informed by a careful consideration of the components as they apply to a particular venture.

11.4 FINDINGS FROM CASE STUDIES

Case studies of Black/White joint ventures were investigated and analysed in terms of the application of the model to determine whether the model was relevant in practice and whether its use would make a contribution to increasing the success potential of ventures such as these.

The investigation and analysis of the case studies illustrated the relevance of the model. In all cases, the success or failure of the venture that was investigated could be ascribed to the way in which the presence of various elements identified as being components of the model had been accommodated in practice within the venture.
The analysis of the case studies gives detailed findings regarding the causes of success or failure in each case. An outline of specific aspects of particular interest in each case, and the salient factors with respect to each venture follows.

11.4.1 Thabong Service Station (Chapter 7)

Both parties to this venture were keen to bring together their respective strengths to create an enterprise that would benefit from both the Black partner’s access to the market and the White partner’s high level of expertise in formal business. However, the enthusiasm of the parties was not sufficient to counteract the problems that were experienced. Initial planning was inadequate, and the contract that was drawn up between the parties did not cover the operations of the venture in sufficient detail.

A lack of understanding of formal business practices by the Black partner, coupled with inadequate and ineffectual control procedures, and the fact that the White partner operated from a distance, meant that the venture also fell victim to opportunistic practices by certain of the people involved from both parties.

In addition, the modus operandi of the Black partner in terms of the taxi industry culture made it difficult for the venture’s structures to operate. If the implications of the industry culture in terms of its impact on the venture had been fully understood at the inception, plans could have been made to accommodate it in such a way that the venture’s progress was not prejudiced to the extent that it was.

At the time of writing the venture was facing dissolution. Very few of the elements of the model were applied in the venture; both parties confirmed that if it had been applied from its inception, performance and potential would have been significantly enhanced.

11.4.2 HCV tree-felling sub-contract (Chapter 8)

This case clearly indicated that its initial assumption that a Black/White venture would not need special treatment was incorrect. When Black and White business is brought together, synergy needs to be achieved between different types and levels of exposure, expertise, formalisation and capacity. This is unlikely to happen effectively without special
intervention or consideration.

In terms of the joint venture continuum, a straight sub-contract was used, and the conventions applying to the traditional relationship between main and sub-contractor were also applied in this venture. This caused a number of problems. It is unlikely that straight sub-contracting will succeed as a Black/White venture unless the sub-contractor is selected carefully or is in a regular sub-contracting relationship with the main contractor.

A standard contract was used, which again was a cause of problems in terms of unclear expectations.

The lessons that were learnt through this early experiment in Black/White ventures, undertaken in response to anticipated political pressure in this regard, remain valid. They have been instrumental in changing some practices with regard to sub-contracting in the construction industry, where sub-contracting to Black contractors has become a requirement for State contracts.

The experiences on this venture indicate the relevance of the model, as well as of the continuum approach.

11.4.3 Power Road Welkom (Chapter 9)

The partners to this venture came together out of expediency, shaped by political circumstance, which not only determined the selection of partners, but also shaped their attitudes to each other. This venture was a "shotgun marriage", after which constructive personal relationships were not formed between the parties. This made it extremely difficult, if not impossible, to develop the understanding of where each came from in terms of their background and how this had shaped their approaches to the venture, that would have transformed it into a stable and lasting union.

Despite an inauspicious start, both parties were keen to make a success; however, the enterprise never achieved the essential character of a joint venture. It never attained its own identity - a "them and us" approach by the two partners was evident early on in the venture and became more pronounced as it progressed.
Undoubtedly this was a reflection of the political tensions of the time of its inception. The parties were unable to overcome their polarisation, despite the obvious advantages to both in doing so. The potential advantages remained throughout the venture, but the extent of the divergence was such that the partners were never able to realise them.

The taxi industry at the time, represented by the Black partner, was caught up in internal problems and power plays that affected the venture profoundly and increased the polarisation further, eventually leading to the demise of the venture.

Both parties agreed that had the model been applied, the venture would have had a far better chance of success than that forecast by its inauspicious start and problem-filled period of operation.

**11.4.4 Putco and sub-contractors: Telkom contract (Chapter 10)**

This highly successful venture into assisted sub-contracting continues to operate and to achieve its objectives. Putco is re-positioning itself with its Black market and the Black bus industry and in the process has assisted in empowering a number of Black bus operators.

The success of the venture is attributable to a number of key factors incorporated in the model. These include; careful planning in accordance with strategic objectives, operating according to a clear and agreed contract, the use of dedicated personnel, good communications and immediate feedback on problems and stringent control measures.

Internally, the assistance of the unions represented in Putco in planning and managing the venture has smoothed its path significantly.

Basing joint ventures on a solid foundation that increase their chances of success naturally makes further development possible, which may include continuing the relationship further along the continuum. This venture provides an example of this. The success of their sub-contracting initiative has made it possible for Putco to enter into an assisted joint venture relationship with certain of their Telkom sub-contractors.
At the time of writing, Putco and a group of the sub-contractors had formed a 50/50 joint venture that tendered for government-subsidised bus services in the Lekoa-Vaal region of Gauteng province. Putco is offering assistance in the form of (for example) access to preferential finance rates and the purchase of vehicles at favourable prices.

The relationship has therefore moved along the continuum; this has been made possible because of the solid foundation provided by the experiences of both Putco and the sub-contractors in this venture.

11.5 FINDINGS: COMPONENTS OF THE MODEL

Black/White joint ventures are no different from any other enterprise in that their basic aim is to be profitable and for investment to bear returns. For this to happen within the context of these ventures, it is clear that a different emphasis needs to be placed on the planning of the enterprise.

The case studies have shown that all the components of the model are relevant and should all be given careful consideration in the planning of a venture, forming a vital background and framework for planning the venture.

Each joint venture is a unique and specific initiative. The nature of the individual venture will determine the relative emphasis of the various components. The extent to which a particular component is likely to influence a venture must be identified. The impact of this influence on the success potential of the venture must also be considered.

The application of the model must be informed by careful consideration of the components as they are present in each venture.

11.6 RECOMMENDATIONS: APPLICATION OF THE MODEL

As noted, the importance of the model to business is in its application in practice. The process of applying the model is the key to success in Black/White joint ventures.
Analysis of the case studies has shown that the application of the model can be improved by adding and stressing certain aspects. These are:

1.16.1 Orientation

Black and White business practices have developed along separate paths and operations are often illustrative of this. White business in general is formalised, with access to support systems and informed management. Black business is often based in, or has originated in the informal sector with little access to support and inadequate exposure to the expectations of established business practice.

The parties to the venture should take time to acquaint themselves with each other's backgrounds and operating practices. A period of orientation, which should involve participation in or (at least) observation of each other's business circumstances, should be undertaken to this end. This will provide valuable input into the definition of experience and exposure.

Where the parties bring different elements to the venture that together will form a viable enterprise, each party should familiarise itself with that which is brought to the table by the other. For example, the Black party may bring access to the Black market through its own dealings with that market. In such an instance, the White party should take time to accompany the Black party in some of its dealings with the market. Similarly, if the White party brings (for example) access to finance or specialised expertise into the venture, the Black party should observe the process and negotiations through which this access is achieved.

South African circumstances mean that partners to a Black/White joint venture may in fact have less in common than do partners to a venture that crosses international boundaries. It is essential that the partners get to know each other, including their customary and acceptable practices. Bridging this gap should start as soon as possible in the venture. Methods of doing so will be more effective if they are informed by an awareness of each others ways of doing things.
11.6.2 Development of a detailed contract

A key element in the success of a Black/White joint venture is a common understanding of what the parties expect of each other, as well as what each party expects the venture to achieve.

All joint ventures are based on a contract of some sort. At times this contract will merely note the bare framework of what will be undertaken. Where the parties to the venture have an implicit common understanding by virtue of a shared background and exposure, this may well suffice as a framework for the initiative.

However, where the parties have differing experiences of and exposure to business, they are also likely to have dissimilar (and even contrary) ideas of what is expected of them as well as what they anticipate will transpire from the venture.

A contract should therefore be developed between the parties that goes beyond the legalities of the venture’s establishment. This document should cover, in as much detail as possible, all the elements of the venture and specify the role of each party in each element. Common understanding between the parties of all the elements covered in the document must be reached.

The process of developing a document of this nature will entail a full and shared exploration of the details of formulating, designing and implementing the venture. During this process, the parties will expose to each other their expertise, expectations, capabilities and their attitudes towards the venture and its objectives. In the process of developing the document, misunderstandings and potential clashes will be aired and can be cleared. Plans can be made to accommodate aspects that may originally not have been seen as needing attention.

A contract of this sort between the parties should of course be developed as part of the initial negotiations for the venture. Although it represents a considerable outlay in terms of time, this is an investment that is guaranteed to bear positive rewards in terms of a smoother path for the venture.
It is extremely important that the document is structured and written in as user-friendly a manner as possible, and that simple, clear language is used throughout. Standard "legalese" should be avoided. When structuring the document, legal aspects relating to (for example) share aspects, could be attached as appendixes, rather than incorporated in the body of the text, where they may be confusing.

A document of this nature will provide an agreed framework for the modus operandi of the venture, and as such, a solid working foundation. It will form in effect a "manual" for the venture that can be referred to where necessary.

11.6.3 Appropriate technology

Technology can be used to good effect to bridge gaps in exposure and to create a shared understanding of business processes. The way in which information is produced can either be a source of confusion or of clarity.

Financial information in particular, can be produced in a variety of forms. Traditional spreadsheet-type information is likely to be confusing to someone who is not familiar with the conventions of accounting information, and thus unable to extract the information that is relevant to the issue at hand from the array of information that is provided as a matter of course. In this type of situation, programmes to extract specific information on a particular issue should be used so that attention can be given to individual issues without the "background noise" factor intruding.

Technology can also be utilised to good effect with regard to the manner in which information is produced. Graphic interfaces should be used wherever possible to produce information in an easily-understood format. Information must not only be understandable, but also accessible to both parties in a format that enables a common understanding of content to be reached.

The explosion of technology in recent years has meant that there is a constant flow of new products and applications designed to make life easier in a variety of ways, particularly within business. The possible application of technology within the enterprise in order to shorten the time needed to bridge the gaps between the partners should receive
regular attention.

11.6.4 Dedicated personnel

Bringing together two parties with divergent backgrounds and exposure in a venture to achieve specific aims within a time frame is a difficult process. It is unlikely to be successful unless particular attention is brought to bear on the process through which the parties work with other in pursuit of the common aim. This process will need special attention in order to ensure that the venture is not prejudiced by divergent understandings and ways of working, but that these are harnessed to the benefit of the enterprise.

This is no easy task, and it is highly unlikely that it will be able to be accommodated within the normal run of things in the venture. Giving special attention to facilitating the smooth running of the enterprise through the services of personnel dedicated to doing this, is likely to increase the success potential of the venture significantly.

A common and understandable mistake is to assume that problems that may arise within the venture through the divergent nature of the parties, can be overcome by the parties themselves. This will be true in some instances. In others however, if problems of occur because of the different ways of doing things of the parties, this may cause strain between them.

Determining and predicting where problems are likely to occur, and putting plans in place to obviate these, can save the venture a considerable amount of time. This process in itself is time-consuming and should thus be undertaken by personnel either within the venture, or outside it, that are charged specifically with this task.

The facilitators will need to possess special qualities; exceptional communication and negotiation skills, sensitivity and a good organisational abilities are essential. Very small enterprises are likely to feel the cost of external expertise of this nature keenly; if after consideration of the benefits it is decided not to acquire external expertise, it is vital that these skills are present within the venture and are exercised with commitment.
Figure 11.1
MODEL APPLICATION (FINAL)
Although to some extent parties from different backgrounds will ease into a constructive modus operandi over time given sufficient commitment, this period can be shortened considerably through skilled facilitation.

The use of dedicated personnel, either internal or external, to facilitate the smooth running of the venture is an additional cost that should be borne by the venture as an essential investment in its future success, as it is an aspect that will increase the success potential of the enterprise.

11.7 APPLICATION OF THE MODEL (FINAL)

An outline of the final application of the model, incorporating the elements described above, is given in Figure 11.1.

11.8 CONCLUSION

South Africa has experienced radical changes in its political circumstances since 1994, which are being matched on the economic front. The business environment has altered drastically, and business practice needs to change accordingly.

Established business enterprises in the country are facing increasing political pressure to redress the structural inequalities in the business environment. Coupled with this is the economic necessity of extending wealth-creating business activity to Black enterprises that have been disadvantaged through policy, legislation and practice over past decades.

Unless structural divisions are breached and the business base broadened, the growth in the economy that is needed to fuel a positive future for the country will not take place.

As with the structure of the business environment, business practice has been shaped over decades of policy, particularly during the apartheid years, that was prejudiced towards White business and against Black business.
This history has resulted in an environment where White and Black business enterprises often have very different spheres of operation and modus operandi, and thus are likely to experience many difficulties when brought together.

Business operates on the cutting edge where policy and practice meet; in giving shape to the economic practicalities of policy, enterprises can in turn play a critical role in determining the nature and pace of change.

Given the nature of business in South Africa in terms of its structure and operations, and the political and economic imperatives to address the imbalances and inequities caused by past policies and practices, ways of bringing Black and White business closer together must be explored. Well-structured and responsibly-run joint ventures provide one way of doing this.

Black/White joint ventures form one way of redressing the structural inequities in the South African business environment and of bridging the gaps that have arisen between Black and White business over past decades. For these ventures to succeed, they must be able to overcome the many problems that they will face, caused by the nature of past Black/White interaction.

The model developed through the study to this end is useful in contributing to the success potential of Black/White joint ventures. It offers a practical method of ensuring that the venture is able to breach the divisions between the partners caused by the country's history. This was confirmed when the model was tested against practice in the cases investigated in depth through the study. Each case displayed different manifestations of Black/White business relationships. The model proved to be relevant to all the cases studied.

The situation where political pressure is being brought to bear on business to form joint ventures between Black and White enterprises, coupled with the divergent nature of the previous development of business in the country, has led to the term "joint venture" being expanded in the study to accommodate various forms of these arrangements within the South African context along a continuum ranging from employment-related possibilities to a full joint venture between fully-independent partners. This includes ventures that are
initiated through government attempts to stimulate the development of Black business and its participation in the formal economy.

The model is applicable over the continuum of Black/White joint ventures outlined in the study.

Through the application of the model in the design, formulation and implementation of a Black/White joint venture, elements can be stressed that will assist the partners to bridge gaps between them to the benefit of the enterprise. Successful ventures of this nature will hasten the process of normalising business in the country. They will assist in redressing structural inequalities in the business environment, bridging gaps between Black and White business, and in broadening the base of participation in the formal economy. The study thus makes a valuable contribution to advancing knowledge and improving business practice.
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