

South Africa

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 survey reveals that privately held businesses (PHBs) in most economies remain optimistic about their countries prospects for the year ahead. PHBs in South Africa are marginally more optimistic about 2008 (+75 percent) than they were about 2007 (+74 percent). For the fifth consecutive year, India tops the league table as the most optimistic economy at +95 percent with the Philippines joining them at the top for the first time (also +95 percent). Japan is still at the bottom this year with a balance of -49 percent.

The South African economy

Having grown at over five percent on average between 2004 and 2006, growth slowed slightly to 4.9 per cent in 2007, following slower consumption, due to monetary tightening. Inflation rose sharply to 6.5 percent in 2007, due principally to oil and food price rises as household indebtedness reached 77 percent of disposable income.

Construction - boosted by projects such as the 2010 FIFA World Cup and the Gautrain rapid rail line - and services - including real estate, finance and business services - expanded strongly in 2007. The manufacturing sector grew by 4.1 percent in 2007, but many manufacturers are facing capacity constraints due to insufficient investment in production capacity, presenting good investment opportunities for local enterprises. Investment in the main source of exports, mining, grew by 20.9 percent in 2007 although this actually translated into a 0.3 percent decline in sector output, as gold and diamond production continues to decrease.



Business expectations/revenue

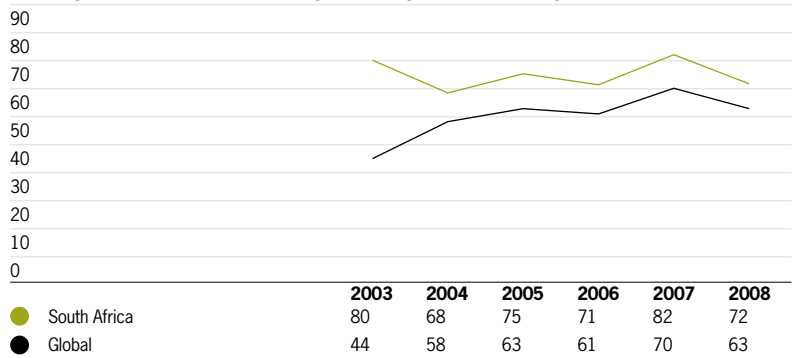
- PHBs in South Africa are less optimistic about their revenue prospects in 2008 (+72 percent) compared to 2007 (+82 percent).
- However, their levels of optimism regarding revenue performance remain above the global average (+63 percent).
- The level of optimism regarding exports (+25 percent) is above the global average (+18 percent), and is up from +22 percent in 2007.

Employment

- Expected employment growth in South Africa has fallen from +53 percent in 2007 to +43 percent in 2008.
- Businesses globally remain less optimistic with regard to employment growth in 2008 (+33 percent) than PHBs in South Africa.
- Actual reported employment growth in South Africa (+50 percent) was slightly lower than expected in 2007.

Figure 1: Revenue expectations for South Africa and the global average 2003-2008

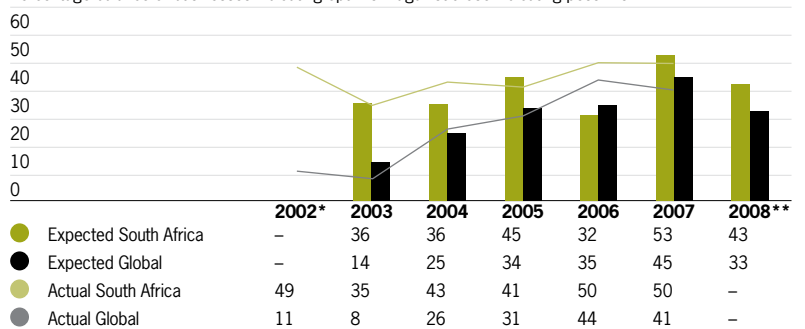
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

Figure 2: Employment history of South Africa and the global average 2002-2008

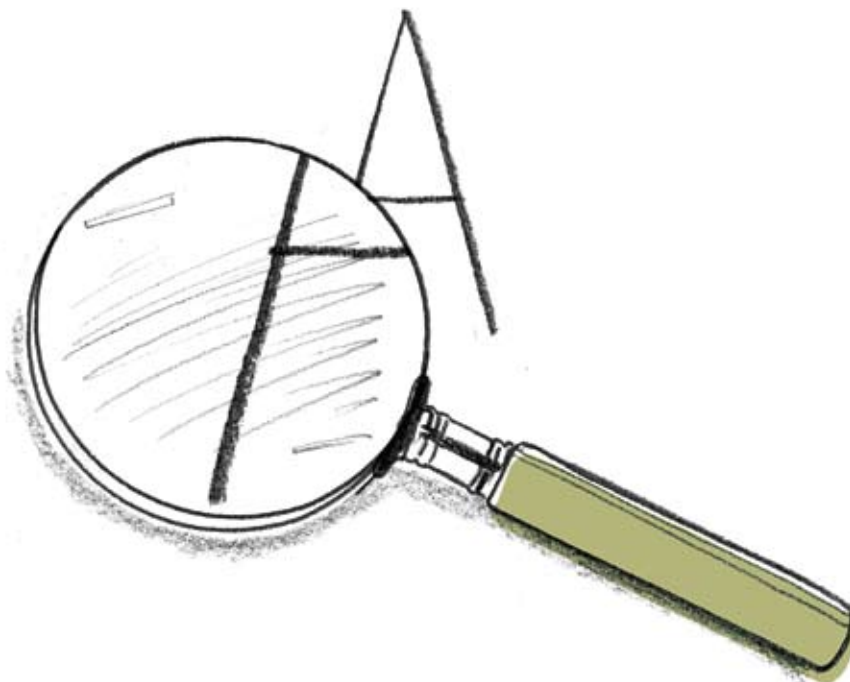
Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

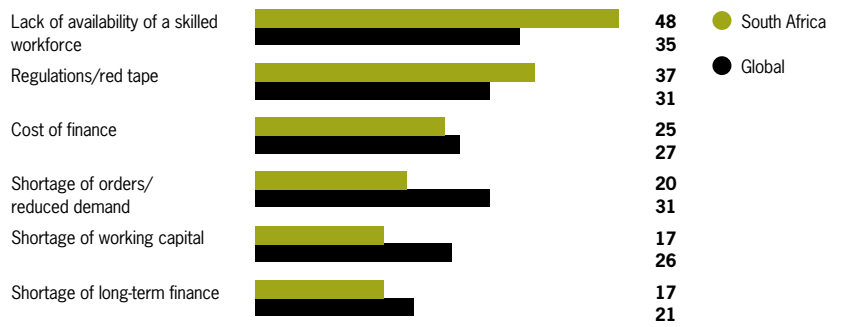
- The availability of a skilled workforce is the constraint restricting expansion cited most by businesses both in South Africa (48 percent) and globally (35 percent).
- Regulations/red tape is cited by 37 percent of PHBs in South Africa, compared to 31 percent of businesses globally.
- Shortage of orders/reduced demand is viewed as a constraint restricting expansion by almost one third of businesses globally, compared to one fifth of PHBs in South Africa.

Emerging markets

- The most important factors for PHBs in South Africa when determining whether to invest internationally are the market's regulatory environment and the quality of the international distributor (both 62 percent).
- The proportion of PHBs in South Africa which export (46 percent) is up four per cent from 2007.
- 42 percent of PHBs in South Africa import, which is above the global average of 39 percent.
- 54 percent of PHBs in South Africa see their main competition coming locally. This is above the global business average of 36 percent.

Figure 3: Largest constraint on growth for South African businesses compared to the global average

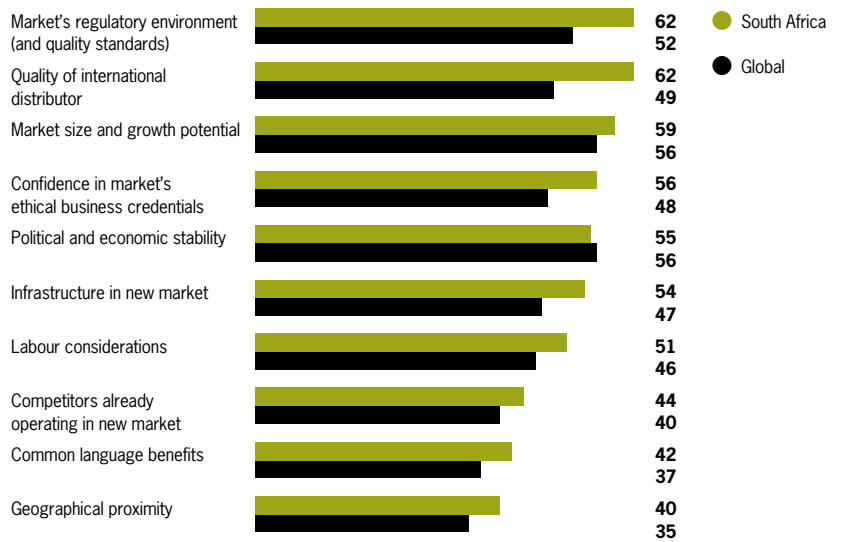
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Competitiveness

- PHBs in South Africa see their greatest source of competitive advantage as product service quality (73 percent), as is true of businesses globally.
- 70 percent of PHBs in South Africa see ethical business practices as a source of competitive advantage, which is above the global business average of 58 percent.
- 55 percent of businesses globally cite workforce skills as a source of competitive advantage, compared to 39 percent of PHBs in South Africa.

Corporate social responsibility (CSR)

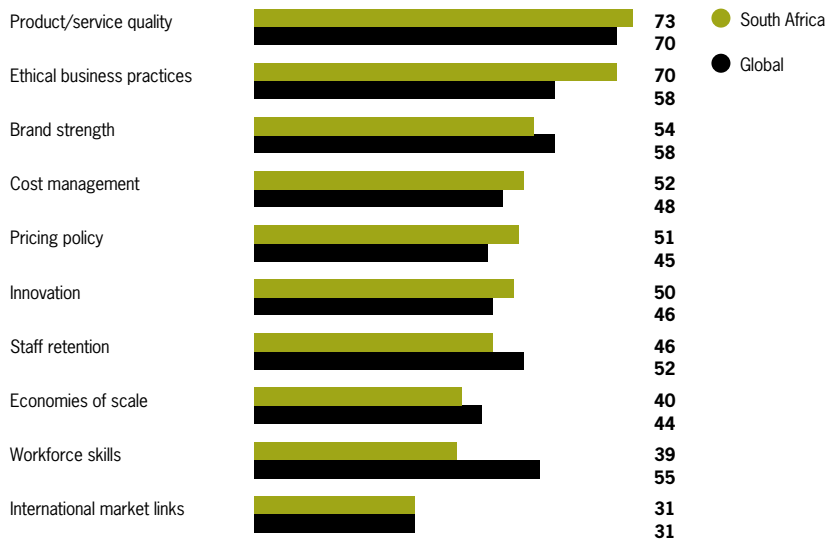
- Cost management is viewed as the biggest driver towards more ethical practices by PHBs in South Africa (74 percent).
- 90 percent of PHBs in South Africa actively promoted diversity/equality at work in the past year, compared to 64 percent of all businesses.
- 59 percent of PHBs in South Africa have incorporated their policies in to a written CSR document, which is slightly above the global average (56 percent).

Recruitment and retention

- The balance of PHBs in South Africa are more focused on retention than one year ago (74 percent). This is above the global business average (59 percent).
- 68 percent of PHBs in South Africa ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention. This is above the global average of 64 percent.
- Cited by 61 percent of PHBs in South Africa, an increase in operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 82 percent of PHBs in South Africa significantly more to pay their staff than it was 12 months ago. This is well above the global average (63 percent).

Figure 5: Main sources of competitive advantage for South African businesses compared to the global average

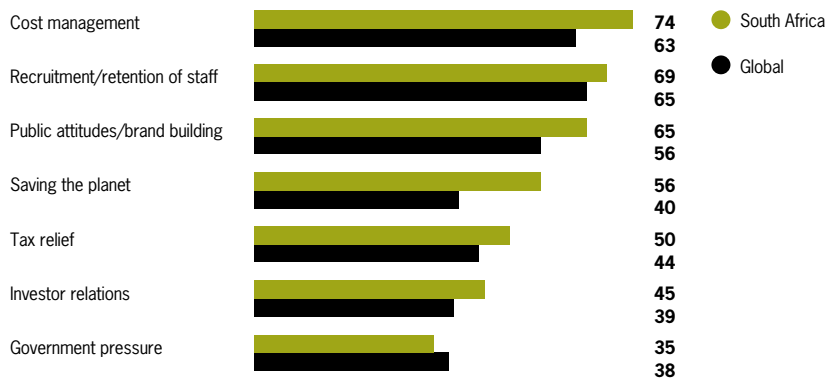
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for South African businesses compared to the global average

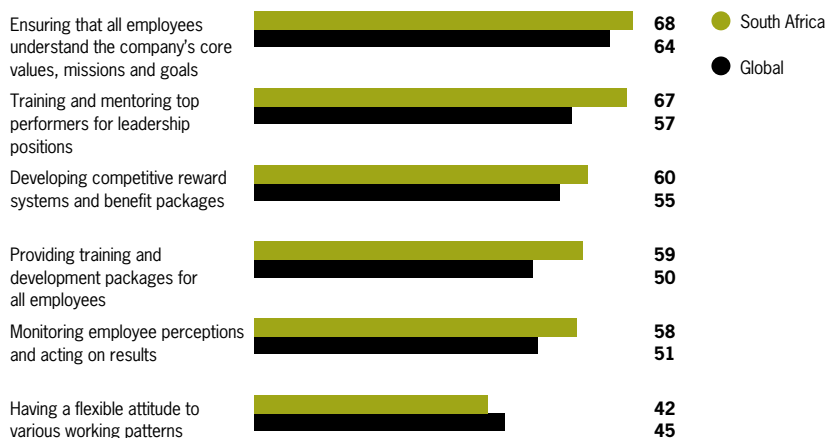
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



Source: Grant Thornton IBR 2008

Figure 7: Usage of recruitment and retention tools for South African businesses compared to the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Crime

- 72 percent of PHBs report that their staff or families of staff have been affected by contact crimes including road rage, housebreakings and hijackings. (84 percent in 2007)
- 32 percent of respondents have seriously considered leaving South Africa permanently. 82 percent blamed the high crime rate.
- Employers also experience the impact of crime. 80 percent report incurring increased costs for security. Other factors include decreased motivation and productivity of staff and the loss of staff and customers.
- Gauteng recorded the highest percentage (82 percent) of businesses whose staff and their families have been victims of crime. Kwa-Zulu Natal recorded 75 percent, the Eastern Cape 66 percent and Western Cape 62 percent.

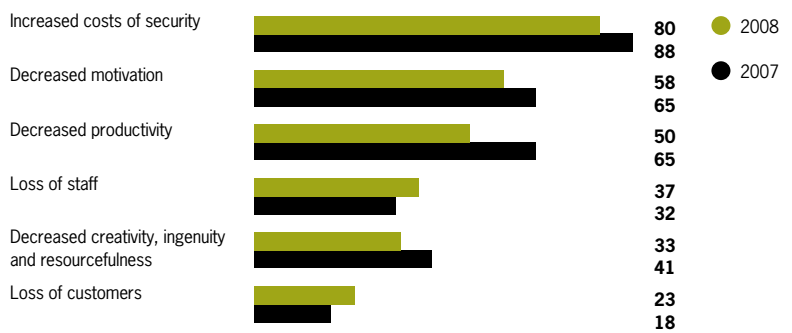
BEE

- 59 percent of businesses stated that Black Economic Empowerment (BEE) is an important issue in terms of winning new business. (70 percent in 2007)
- 69 percent of the construction industry, 68 percent of the services industry, 53 percent of the retail sector and 52 percent of the manufacturing sector believe that BEE contributes to the attraction of new business.
- Skills development and employment equity were ranked as the most important elements of the broad-based BEE scorecard.
- BEE strategies being implemented by businesses include developing people internally (84 percent) and the fast tracking of key employees (68 percent).

Employment growth index

- Grant Thornton's Employment Growth Index (EGI) reflected a 6 percent year-on-year growth in employment.
- This signifies a one percentage point drop from the 2007 EGI which reflected a 7 percent growth. In 2006, South Africa's EGI showed a 3 percent growth in employment.
- 58 percent of PHBs increased their staff complement over the past 12 months. This is 4 percentage points down from 2007. The global average for employee growth is 54 percent.
- 9 percent of respondents reported a decrease in employment. Globally, 13 percent of respondents reduced their staff complement.

Figure 8: The financial impact of crime on business
Elements showing the impact of crime on the bottom line



Source: Grant Thornton IBR 2008

Figure 9: BEE strategies being employed by South African businesses
Elements of the BB-BEE scorecard being implemented by South African businesses



Source: Grant Thornton IBR 2008

Figure 10: South Africa vs Global employment 2008
How does South Africa compare to the global employment growth?



Source: Grant Thornton IBR 2008

Outlook for the South African economy

Real GDP growth is forecast to slow to 3.9 percent in 2008, owing to power shortages, high interest rates and global economic volatility. However, investment is expected to grow by 11 percent on average between 2007 and 2010 – underpinned by preparations for the World Cup – which will see growth pick up again to 4.4 percent in 2009.

Inflation is forecast to average 8.2 percent in 2008, owing to continued food and oil price pressures, edging back into the higher end of the target band of three to six per cent in 2009. A weaker rand, as well as high gold and platinum prices, will see exports further stabilise in 2008. However, the trade deficit is forecast to rise to -3.6 percent in 2008 and -4.4 percent in 2009 respectively, as high levels of consumer spending and fixed capital investment, as well as rising oil prices, drive up the import bill.

The demand for action

An effective corporate social responsibility strategy is increasingly becoming a requirement rather than an option. Businesses must continue to adopt ethical business practices quickly and efficiently to secure skilled workers and contracts with large multinational businesses.

Within any economic phase, finding and keeping the right talent is a challenge. Privately held businesses must ensure they have systems in place for finding and indentifying people with the desired skills. A strong employer brand coupled with visibility of opportunity can serve as powerful vehicles to strengthen this quest.

With regard to taxation issues, there is a clear message to governments worldwide that for privately held businesses, tax is a central factor in determining their long-term investment priorities. A key message of this research is that privately held business needs to make the concerns more widely heard and that governments must listen and act accordingly.

The next 12 months are likely to be the most demanding that privately held businesses have faced in decades. Demand is set to ease further while increases in commodity prices are going to squeeze margins. Businesses adopting a strong strategic approach into and out of the downturn will be stars of the future.

Those failing to plan, or not responding effectively, face a very difficult future.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and 6-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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