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BUSINESS ANALYSIS FOR OUTSOURCING TO SOUTH AFRICAN ECONOMY

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ABSTRACT

The purpose of this thesis is to provide a comprehensive report to U.S. companies regarding outsourcing South African labor. Through an analysis of advantages and limitations of South Africa and its labor pool, interviews with professionals in the field, and outside research of the global market, this report will allow corporations to evaluate whether or not South Africa can accommodate their business needs. A few strong points South Africa has to offer are its plentiful natural resources, large and eager workforce, emphasis on building up infrastructure, and current National Development Plan. For U.S. corporations that can establish affordable and secure transportation networks and have patience with the slowly progressing South African economy, outsourcing to South Africa is a strong business decision that will likely reap many benefits.

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Chapter 1

Introduction

A major component of minimizing costs and maximizing production in any company's supply chain is the process of carefully selecting a labor force. The cost of labor is the largest variable cost in a supply chain, especially in outsourcing projects. American companies have been increasingly outsourcing their labor to foreign nations, due to the availability of effective labor for a much lower cost than can be found domestically. In recent years, companies have outsourced labor to countries such as India, Mexico, and Brazil, to name a few. They have chosen these specific locations as labor pools for various reasons. However, more recent conversations about outsourcing have a specific focus on South Africa as a prime candidate.

This thesis will allow companies to make more informed decisions about outsourcing to South Africa. This thesis will highlight many advantageous aspects South Africa and its labor force have to offer, examine a case study that can offer insight into what outsourcing to this country might look like, and discuss potential obstacles that lie ahead. Major obstacles include a lack of infrastructure in South Africa, U.S. trade policies that may serve as an accelerator or a barrier, and the high cost of transporting goods from South Africa, in conjunction with the threat of piracy.

An effective way to speculate the success of an initiative is to examine case studies where similar initiatives have been executed. Although U.S. companies are currently not outsourcing much to South Africa, these companies are outsourcing a tremendous amount of labor to other nations, particularly Mexico. This thesis will examine the efforts of an American company, Mondelez International, Inc. to outsource its labor to Mexico, and navigate the challenges of recruiting and retaining labor in the area. Because Mexico and South Africa share many characteristics, it is possible to draw educated conclusions on the possible outcomes that outsourcing to South Africa may have.

Throughout this thesis, arguments in favor of South Africa as an up-and-coming source of labor, as well as negative factors that companies must consider before investing in the nation will be provided. Major points supporting this country's ability to compete in the same category as India and Mexico, in terms of U.S. outsourcing locations, are its sophisticated economy, abundant natural resources, and new status as a powerful international economy. South Africa has recently been recognized as a major emerging market, as it was added to the BRIC acronym- Brazil, Russia, India, China- that was coined in 2001. In addition to its new status, South Africa has set the bar even higher for its economic goals. In 2011, it implemented the South Africa National Development Plan 2030. This initiative has two main foci: eliminating poverty and reducing inequality in twenty years. With this initiative in place, South Africa is on the right track to creating a much more dynamic economy, as well as an inclusive and more skilled workforce.

At the conclusion, the many advantages of South Africa as an emerging labor pool will be clear. Companies will have a better understanding of whether or not the South African labor force is suitable for their specific business needs. Companies will also be more aware of the certain hurdles that will inevitably be found if the decision to invest in South Africa is made. Ultimately, companies will need to decide if the South African labor force, combined with the given market, will be a source of growth or not. This thesis will be an aid in that decision process.

Chapter 2

Background

As a nation, South Africa has undergone much transformation, especially in the last twenty or so years. In 1910, the country gained its status as an independent dominion within the British Empire. At this point, the initial pangs of segregation between the minority white population and majority black population began. The Land Grant Act in 1913 forced black Africans to live in separate areas than whites and prohibited them to work as sharecroppers. This led to the formation of an organization that evolved into the African National Congress, an activist political party that Nelson Mandela led.

In 1950, the framework for the separation of white and black Africans became law, as the Population Registration Act, a decree that classified all South Africans by race, was passed. Race relations in South Africa grew more severe over the coming years, as Mandela was arrested and imprisoned from 1963 to 1990 for his tireless work to bring unity and justice to the nation.

In light of more international attention to the destruction that apartheid was creating, such as the news coverage of many protests and harsh government responses, the government pillars started to crumble. In 1989, South African leader Pieter Botha was pressured to resign, as current President F.W. de Klerk took power and repealed the damning Population Registration Act, as well as several other laws that supported apartheid in the nation. Although equality was, of course, not realized instantly, the end of apartheid marked a huge change in South Africa: a change that has great implications on the South African economy and labor force.

Chapter 3

Case Study: Mondelez International, Inc.

An interview was conducted with the Director of Integrated Supply Chain at Mondelez International, Inc., in order to demonstrate some of the main reasons U.S. companies outsource, the advantages of doing so, and the potential obstacles that are associated with the nature of this project.

The Director explained that Mondelez has established factories in Mexico where its food product is manufactured and then exported back to America. One of the driving factors for Mondelez to have multiple plants in Mexico is cost; wage costs are almost 5 times lower in Mexico than in the U.S. For example, the cost of salary and benefits for one of Mondelez's plants in Mexico is $17,000 annually, whereas the same cost category in its New Jersey plant runs up to $100,000 annually. Due to contracts that Mondelez, and many other U.S. companies have in North America, wages are much higher in this region than in Latin America.

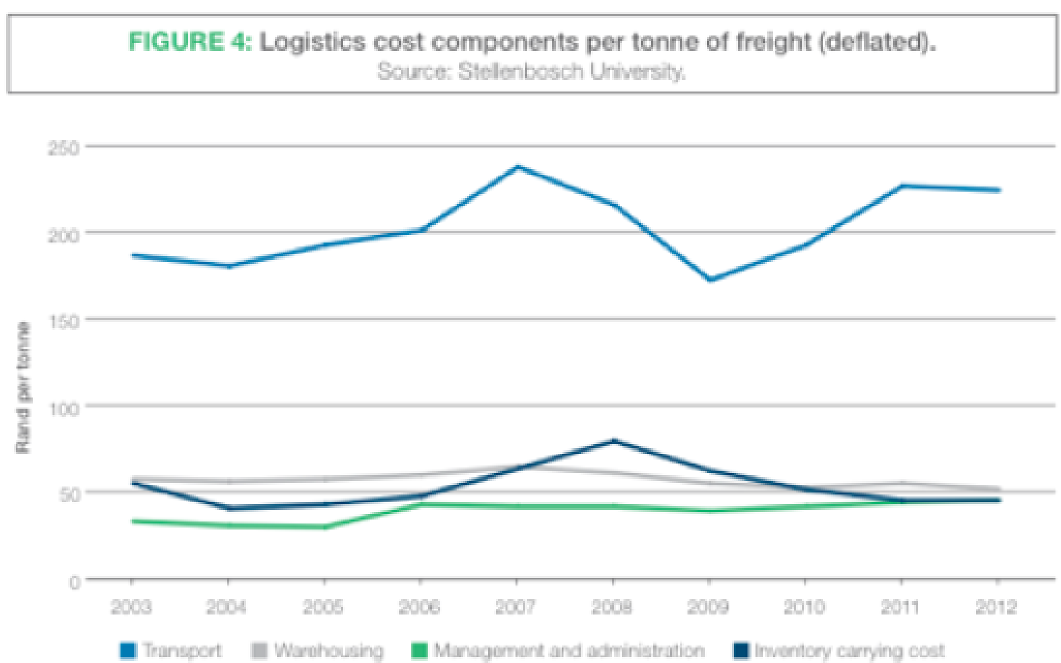
Aside from costs alone, Mondelez has also taken notice of the work ethic in Mexico. The Director said that Mexicans have a "hunger to work" and this type of work ethic is generally not found in the U.S. for the type of jobs these plants require. She noted, "The Mexican people work at least twice as hard, with better attitudes and gratefulness to have a job." She attributed this attitude to Mexicans' absence of a sense of entitlement. The Director correlated the fact that because Americans' salaries are highly inflated, their work ethic and demeanor are vastly different than that of Mexicans. It is reasonable to conclude that the people of South Africa, which is a nation that shares many similarities with Mexico, would have a similar mentality and approach towards the scarcity of work- and appreciation for work- in the nation. Discussions on the unemployed in South Africa prompted a representative from the South African National Planning Commission, in charge of leading the country's National Development Plan, to say, "The first step is to act on the fact that South Africa has millions of able-bodied people who want to work," (National Planning Commission, 2011). There are young people in South Africa who would likely have a strong work ethic, if given a job.

In any outsourcing relationship, the government of both nations plays an important role. Mondelez has run into certain issues regarding the nature of its manufacturing. Because Mexico is more accustomed to manufacturing goods like automobiles, rather than food, it was necessary to have a fair amount of negotiation around higher salaries and benefits. Because of Mexicans' relative unfamiliarity with U.S. food production, training of Mexican workers is another major concern. Although U.S. companies definitely need to have a presence in their outsourced locations, the Director, from her extensive experience, suggested that these plants operate as separate entities from the U.S. It is crucially important to have a local presence, including expertise and training, in order for these plants to run smoothly and sustainably.

Another issue mentioned by the Director was transportation costs back into the U.S. The proximity of these two countries is far closer than that of the U.S. and South Africa. Companies that choose to have facilities in South Africa need to be aware of the hindrance that transportation costs may cause on meeting certain service levels.

In Figure 1 below, taken from the 2013 State of Logistics Survey for South Africa, by the Council for Scientific and Industrial Research, the four greatest logistics cost components per ton of freight are represented. The most notable logistics cost for South Africa is that of its transportation cost, denoted by the light blue trend line. While warehousing, management and administration, and inventory carrying costs for South Africa have remained relatively consistent since 2003, transportation costs have seen more fluctuation. They have now somewhat leveled off, yet remain significantly higher than the other logistics cost components. South Africa has a high cost of transportation due to the fact that it is a spatially challenged economy. In 2013, transport costs, which are primarily driven by fuel and wages, accounted for 61.6 percent of South Africa's total logistics costs. However, the nation's transport costs as a percentage of GDP were 7.6 percent. To put that in perspective, transport costs for Angola, which is not spatially challenged and relies on heavy exports of crude oil by sea- not land- were only 1.1 percent of the nation's total logistics cost. U.S. companies need to be aware that not only is transport cost the largest component of South Africa's logistics cost, but also that fuel is the largest component of transport costs. Fuel is a highly volatile cost driver because it is essentially outside of South Africa's control (Nadia Viljoen, 2012).

Figure 1. Logistics Cost Components Per Ton of Freight



Above all, constant communication, patience, and willingness to work through the inevitable challenges that will present themselves, especially towards the beginning of these outsourcing projects, are crucially important. There are many lessons that can be taken from this case study and translated to practical decision-making for interested companies.

Chapter 4

South African Labor Force

For this thesis, the assumption is that the type of workers needed for these outsourced jobs- factory positions and distribution center positions- is low-skilled to semi-skilled laborers. Since 1994, the breakdown of South African workers was as follows: 1.8 million skilled, 4.2 million semi-skilled, and 2.9 million low-skilled. In the past 20 years, the numbers have drastically changed. The current breakdown of South African laborers is as follows: 3.8 million skilled (108 percent increase), 7 million semi-skilled (66 percent increase), and 4.3 million low-skilled (49 percent increase) (Statistics South Africa, 2014).

There have been interesting trends within racial groups in the South African workforce, as well. Since 1994, the number of black African laborers grew by 95 percent to near 11 million. There has also been a small shift in the black African laborers towards more skilled positions. However, there has been a relatively substantial shift- six percentage points- in this racial group towards more semi-skilled employment. On the other hand, the white workforce, since 1994, has seen growth of 19 percentage points in the skilled employment, and decline of 19 percentage points in semi-skilled employment (Statistics South Africa, 2014). Clearly the inequality experienced between racial groups in South Africa for the better part of a century still affects the people, even 20 years after apartheid has ended.

The unemployment rate has risen from 22 percent to 25 percent in the past 20 years, and black Africans comprise 40 percent of the unemployed population. Also, the unemployment rate for black Africans with tertiary education has surprisingly increased by over 10 percent during this time period (Statistics South Africa, 2014).

Based on this information, it appears that black Africans are prime candidates for outsourced labor. This group of people has increased its presence in the South African workforce by 95 percent in the past 20 years, has increased its skills to a position of more semi-skilled labor, and make up the largest percentage of the unemployed population.

Chapter 5

Addressing Limitations

The purpose of this section is to acknowledge that South Africa does, in fact, have barriers that may hinder its ability to accommodate outsourcing needs. It is important that corporations take note of these factors before making outsourcing decisions.

Infrastructure

As a continent, Africa is severely lacking in the infrastructure department. One of its biggest problems is its power supply crisis. The World Bank estimated that Africa's infrastructure spending needs are $93 billion, far surpassing previous estimates of $39 billion from organizations, such as The Commission for Africa (Foster & Briceño-Garmendia, 2010). In the past 15 years, China has taken large initiatives to develop infrastructure in Africa. Due to the plentiful natural resources this region has to offer, China has tried to capitalize on the potential economic gains it needs to revitalize its slowing economy.

South Africa can be separated from other African countries in that it is one of the most developed markets in its region, with the second largest Gross Domestic Product (GDP) (BusinessTech, 2014). The nation also scored well in logistics performance and logistics competence, in a study conducted by the World Bank in 2007 that takes into account factors such as the efficiency of customs, the ease of arranging international shipments, and among others, the ability to trace shipments (Foster & Briceño-Garmendia, 2010).

Although it has an elevated status within the region, South Africa is not quite as far along compared to other global leaders. It has five percent of kilometers of roadways as the U.S. does, nine percent the length of track in railways as the U.S., and less than four percent of the number of airports as the U.S. (Foster & Briceño-Garmendia, 2010). Thankfully, the nation has recognized its infrastructure needs and in 2012 adopted the National Infrastructure Plan. The plan entails a spending budget of 827 billion rand in the course of three years, in an effort to transform the economic landscape, generate jobs, and allow for more reliable delivery (South Africa Government, 2013). Its accomplishments are already being realized in the nation. Companies and the government are investing large sums of money into projects like an international undersea cable, building new dams and steel pipelines, and among many others initiatives, laying hundreds of kilometers of electricity transmission lines.

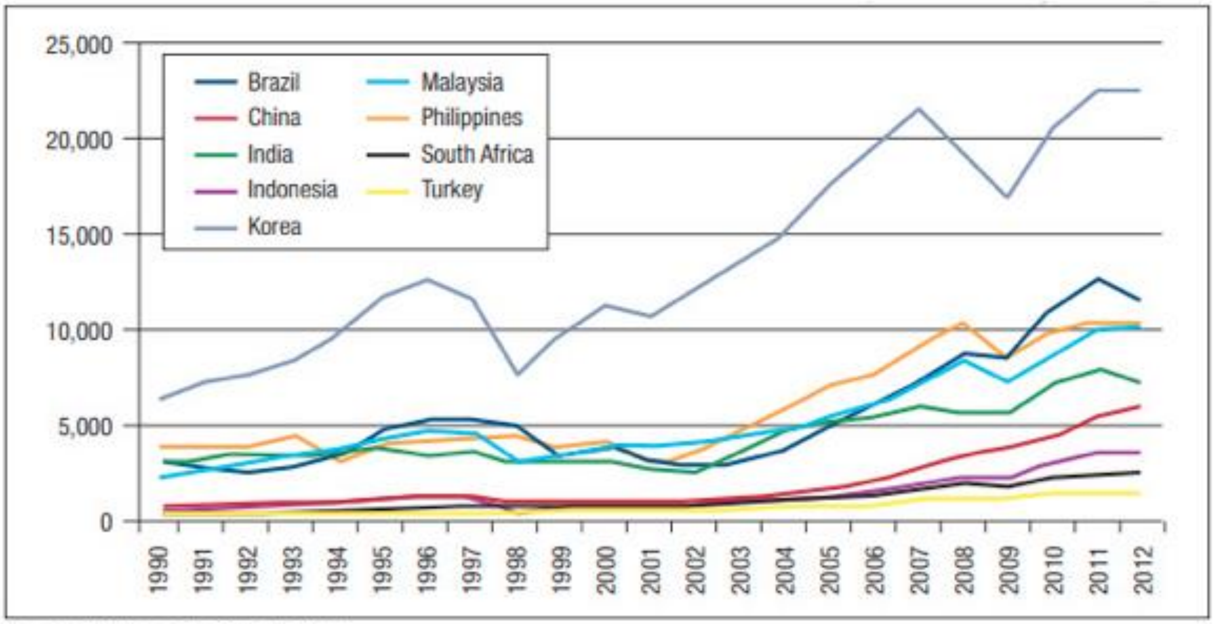
Additionally, in the next 24-30 months, South Africa has plans to build up its gas import infrastructure for power (Paul Burkhardt, 2015). Eskom Holdings SOC Ltd., a state-owned power corporation that supplies more than 95 percent of the power to South Africa, is currently having trouble meeting the nation's power demand. It is spending $1 billion per month on more expensive diesel fuel, in order to run peak-use turbines around the clock. Too frequent power outages are causing problems for individuals, as well as businesses, and certainly pose a threat to future factories or distribution centers. The government is working tirelessly to improve Eskom's financial state and ability to keep up with demand (David Lipton 2015). Currently, people are looking into the South African Karoo region due to its potential shale gas reserves, with estimates reaching 390 trillion cubic feet of this natural resource (Paul Burkhardt, 2015).

The main takeaways from this section are the following: South Africa does have an infrastructure issue, it is cognizant of this issue, and it is taking many proactive steps to combat this issue. Development of infrastructure has a strong link to overall economic development.

Inequality

Since the fall of apartheid in 1994, South Africa has been working to reduce inequality: global inequality in income, wealth, social and physical infrastructure, and among others areas, human capital (Haroon, Cassim, & Hirsch, 2014). Currently, 39 percent of South Africa's population lives below the poverty line of 418 Rand (National Planning Commission, 2011). This troubling statistic has a direct correlation with the effects of inequality, ranging from the quality of education offered to black Africans to the negative social stigmas attached to this population group. Figure 2 below demonstrates the GDP per capita levels in a sample of emerging markets. South Africa- denoted by the black line- has continuously had the second lowest level of GDP per capita, right above Turkey.

Figure 2. GDP Per Capita Levels in Emerging Markets



Source: IMF Economic Outlook 2014

This inequality has also seriously affected the nation's unemployment rate. The current unemployment rate in South Africa is 24.3 percent. Although this is an alarming figure, the upside is that this rate has now decreased in three consecutive quarters, and is the lowest it has been in a year (Trading Economics, 2015). The country should not expect to gain growth through a growing population, and in turn, a rising consumer market and labor market. The population is only steadily increasing by about 0.6 percent each year (Haroon, Cassim, & Hirsch, 2014). Instead, the nation is looking to invest in human capital as a means of lowering its unemployment rate and boosting its GDP: a strategy many Asian countries have successfully employed. South Africa's education system, especially its secondary education and vocational schools, is not up to speed with where it needs to be. In fact, South Africans in the 8th grade are between 26 and 28 percentage points below the global average for math and science scores

(Haroon, Cassim, & Hirsch, 2014). Since 1994, it has been difficult to integrate black Africans into previously all-white schools. On the other hand, Indians and other colored people have been able to make a smoother transition into these schools (Julian Cobbin, 2015). As a result, black Africans, which represent the vast majority of the South African population, are still not receiving proper levels of education. Because this is a key area that needs to be given more emphasis, South Africa's National Development Plan, which will be further discussed, has included higher quality of education for all as one of its main objectives.

Piracy

In recent years, Africa's maritime security has been a pressing matter, as piracy has run rampant, especially on the coasts of nations, such as Somalia and Mozambique. In 2013, there was the highest amount of recorded pirate attacks on the West African coastline (Rebecca Davis, 2013). Currently, pirates are holding 589 people hostage at sea. Although South Africa has not been directly involved in such attacks, it is certainly invested in the issue. The maritime sector is vastly important to South Africa, as almost 25 percent of total imports to Africa are fuel: a commodity that, as aforementioned, has been troubling the nation. Attacks to one African country, even if not to South Africa, have direct impacts to the South African economy and way of life. In order to prevent ships traveling to and from South Africa from becoming victim to these pirate attacks, an increase in maritime security- and with that, additional costs- is necessary. These costs will impact the South African consumers, as the bill to keep the African waters safe amounts to R100 billion, annually (Rebecca Davis, 2013).

South Africa has already taken a lot of the pressure off of the horn of Africa, the eastern coast of Africa, near Ethiopia and Somalia. Transnet, a state-owned rail and ports utility, has redirected many shipment routes of goods traveling from Asia to the Americas. The common route for this trip was through the Mediterranean Sea, but due to piracy issues in this area, it is safer to take the longer route around South Africa. In doing so, Transnet has increased the capacity of Port Elizabeth, a city in southern South Africa, to 2.2 million, 20-foot-equivalent-units in order to accommodate the anticipated shipments (Andre Van Vuuren, 2015). The company has spent 2 billion rand in taking on this project.

Cultural Differences

Although South Africa's business norms are not drastically different than those of the U.S., it is still important to take note of such business practices before becoming involved in these relationships (Expatica, 2011).

Differences

Business meetings:

Generally, South Africans do not prefer to get 'straight to business': a mentality to which many Americans are accustomed. South Africans use the first business meeting as an opportunity to get to know each other and form a greater level of trust, especially when dealing with foreigners.

Shut-down periods:

From the time period of mid-December to mid-January, mostly all businesses are shut down in South Africa. Much like the Chinese New Year, it is best to assume business matters will not be addressed during this time period.

Gender inequality:

There is a greater degree of gender inequality in South Africa than in the U.S. In the South African business world, women are generally considered inferior to men; however, a woman is able to assert herself through her achievements and knowledge. Also, it is considered offensive to use the term ‘miss’ when speaking to a woman, if one does not actually know this person’s marital status.

Similarities

The workday:

South African office hours are a similar 9:00 am-5:00 pm structure as seen in America. South Africans, by in large, do not work on the weekends, either.

Business attire:

Men wear suits and ties, and if they are not wearing a jacket, they usually are wearing long sleeves. Women generally wear dresses or skirts, as opposed to pantsuits. South Africans err on the side of more conservative dress for business endeavors.

Language:

A translator will not be necessary when doing business in South Africa because the vast majority of people speak English as a second language.

General behavior:

Eye contact during conversation, active listening, and showing respect to one’s elders are very important. Pointing a finger at someone is considered quite rude.

Chapter 6

Advantages of Outsourcing to South Africa

This section will discuss the various reasons South Africa is a promising location to outsource labor.

National Development Plan 2030

With the effects of apartheid slowly but surely dissipating, South Africa is on a very serious mission to develop, focusing on several different areas of growth. One of the main ways the nation is going about doing so is through its strategic initiative launched in November 2011. This initiative is called the National Development Plan 2030 (NDP), and its two main goals are to eliminate poverty and reduce inequality by 2030 (PricewaterhouseCoopers, 2013).

The South African National Planning Commission, which is spearheading this initiative, is comprised of 26 individuals appointed by the President and is not affiliated with the government. This decision to exist as a separate entity was strategic because it allows the commission to be honest about issues that need to be addressed and not be at the mercy of the government (National Planning Commission, 2011). This commission recognizes that decades of damage to the nation cannot be completely reversed in the course of 20 years; however, the purpose is to lay the proper foundation for positive development. The NDP aims to attack three main issues plaguing the nation: poverty, inequality, and unemployment. The mission is to grow the economy in a faster and more inclusive way, without racism or sexism that has been prevalent in past years, and still today (PricewaterhouseCoopers, 2013).

It is recognized that South Africa's economy, much like the economies of other nations, will only continue to become more globalized. Analysts from PricewaterhouseCoopers (PwC) have concluded, "In our view, tomorrow's public body will need to act quite differently; more like a living organism, adapting to change, creating prototypes and evolving to address society's needs as they develop," (PricewaterhouseCoopers, 2013).

As a way to address society's needs as they develop, the NDP is focusing on increasing South Africa's exports. South Africa is heavily invested in manufacturing, and hopes to expand this part of its economy. Currently, its annual imports far exceed that of its exports. There is a large demand and supply imbalance in South Africa, and in order to meet demand, the nation is forced to heavily import manufactured and consumer goods. Currently, short-term foreign capital investment is servicing the nation's debt, caused by the large deficit of the trade account. In order to close this gap on its own, without so much reliance on foreign capital, South Africa's NDP has a focus on ramping up production output. In addition to meeting its own populations' needs with increased production, South Africa will also be able to balance its trade account by exporting more goods to the global market. This represents an opportunity for foreign nations to take advantage of South Africa's economic plans and build facilities, using South African labor (Nadia Viljoen, 2010).

Trade Policies

Trade policies between nations can either serve as a barrier or an accelerator. The trade policies in place between the United States and South Africa are ones that promote not only trade, but also support and financial aid to South Africa as it develops as an emerging global market. Since the fall of apartheid in South Africa in 1994, the U.S. has been much more invested in building up this nation; in fact, the U.S. is now considered a strategic partner of South

Africa, in the areas of health, security and trade (U.S. Department of State, 2014). This partnership is a result of South Africa's stable government and sound fiscal policies (Inbound Logistics, 2015). Additionally, there is a bilateral tax treaty in place, which eliminates double taxation. A major U.S. goal in terms of South Africa's growth is making the nation a more reliable and stable one: one that can lead the rest of the region in a positive direction. In 2014, U.S. exports to South Africa totaled $6386.9 (million), which was the largest of exports into the region, and U.S. imports from South Africa totaled $8307.6 (million), which was the second largest of imports from the region, after Nigeria. Somewhat of a concern, these two figures are down from 2013 trade data, as U.S. exports to South Africa were $7,292.7 (million) and imports were $8465.3 (million) (U.S. Census Bureau, 2015).

Under the African Growth and Opportunity Act (AGOA), South Africa is actually eligible for 'preferential trade benefits' from the U.S. In 2013 the AGOA forum was held, gathering U.S. delegates, 24 African ministers, and regional organizations, like the African Union. Important groundwork for the future of the U.S. and Africa was laid out (U.S. Chamber of Commerce, 2012). Because the U.S. and South Africa are members of many of the same international organizations, such as the World Trade Organization, the United Nations, G-20, the World Bank, and the International Monetary Fund, they have many of the same goals and agree on many critical issues. This allows for much more ease of successful business relationships between the two nations.

Natural Resources

South Africa is a nation rich in natural resources. Such include diamonds, iron ore, platinum, manganese, chromium, copper, uranium, silver, beryllium, titanium, natural gas, and gold, of which South Africa is the largest producer in the world. Currently, mining and coal are huge parts of the economy; however, manufacturing continues to be the sector that employs the most people and produces the largest proportion of GDP. Some of the most prominent manufactured goods in South Africa are food processing, textiles, metals, and more recently, chemicals. Approximately a quarter of all manufactured goods are exported (Julian Cobbing, 2015). South Africa has relied on foreign investment in order to drive its manufacturing sector and it will continue to rely- probably even more heavily in the future- on foreign capital.

There is evidence that South Africa’s natural resources are likely to boost its ability to be a dominant industrial nation. In the 2013 report on Africa, the continent’s future was discussed in terms of how policies that encourage commodity-based industrialization will be essential in Africa’s growth. It is beneficial to reference Malaysia in this scenario. Malaysia allocated many resources towards building up its industrial sector, and as a result, it transformed into a high-income and diverse manufacturer. Of course, many development plans and a shift in the structure of the economy were needed in order to see the levels of success Malaysia has seen; however, this case proves that it can be done.

Africa, particularly South Africa, has the potential to use its natural resources to further drive industrial growth and attract foreign investment. CNN writers Carlos Lopes and Tony Elumelu suggest, “A supportive policy and investment framework is essential to attract long-term investors. Policies to build local capacity and address inequality are essential,” Lopes & Elumelu, 2013). As previously discussed, South Africa’s government is very much aligned with U.S. government, in terms of the nations’ trade policies. Additionally, through the National Development Plan, South Africa has goals encompassing building up infrastructure and reducing inequality, and these goals are already making significant headway. Based on the tools already in place, along with plans that the National Development Plan outlines, South Africa will be able to attract long-term investors, and, in turn, drive industrial growth.

South Africa's Stability

Many African countries are notoriously plagued by corruption in their governments and other institutions, as well as a myriad of other serious issues that have limit their abilities to succeed economically. Based on 2013 U.S. Marine Corps data, South Africa has been ranked 101 out of 159 countries, with the first rank being the most likely future 'flashpoint', or location of extreme instability and conflict, and the 159th rank being the least likely future flashpoint. The factors used to analyze the 159 nations are: Governance, Demographics, Energy, Water, Religion, Corruption, Diseases, Education, Gender, and Economics. In Table 1, the numerical ranks for three of the 159 nations are displayed, to provide a frame of reference for South Africa's overall 101st standing (CET0, 2013).

Table 1. Flashpoint Factors and Numerical Ranks for Given Nations

Country	Corruption	Disease	Education	Gender	Demo-graphics	Energy	Governance Double Weighted	Economics Double Weighted	Religion	Water	Total	Normal
69. China	0.22	0.00	0.26	0.34	0.34	0.36	0.89	0.20	0.55	0.23	4.47	0.53
101. South Africa	0.18	0.04	0.34	00.31	0.50	0.00	0.53	0.20	0.44	0.31	3.58	0.42
138. United States	0.11	0.00	0.17	0.13	0.30	0.05	0.44	0.14	0.44	0.34	2.71	0.32

Some of the more notable factors for the scope of this thesis are corruption, governance, disease, energy and economics. Both governance and economics are double weighted because these are the top two causes for conflict, and must be given extra attention. The relatively low levels of corruption bode well for South Africa's ability to maintain successful business ventures with foreign nations. There were three factors that were considered in this category: Corrupt Perception Index, Control of Corruption, and Rule of Law. This takes into account the state's ability to collect taxes, and generally maintain control. The frequently noticed connection is between a state's lack of control and the rise of organized crime. Corruption can be, "expected to reduce economic growth by lowering the quality of public infrastructure and services, decreasing tax revenue and cause talented people to engage in 'rent-seeking- rather than productive activities," (CET0, 2013). Corruption in nations deters wealthier nations from investing in them or wanting to do any sort of business with them. South Africa is on the much lower end of this spectrum.

Governance encompasses much more than just government, which encapsulates certain institutions, such as legislative, judicial, and executive branches. Governance, on the other hand, measures a nation's political stability and absence of violence, as well as its government effectiveness, regulatory quality, and political rights and civil liberties. It refers to the powers that affect human security. South Africa's score in this category is 0.53, which is significantly less than China's 0.89, and in the general vicinity of America's 0.44 score (CET0, 2013). A generally good score in this category implies that this nation is stable enough to promote the conditions that are crucial for economic growth. Additionally, a nation that practices good governance is generally able to be flexible and adaptive to its changing population's needs in order to develop.

The data collected in this study both challenges and reinforces that an abundant supply of natural resources gives nations an advantage. South Africa has the best possible rank in the energy category, with a 0.00. While oil is a natural resource, and there is a correlation between oil dependent economies and the likelihood that conflict will affect this nation, South Africa does not fall under this classification. Oil is such a valuable economy; thus, it has actually been an obstacle to political stability. However, South Africa is rich in many other natural resources, besides oil. It is not considered at risk of being in a state of energy-related conflict (CET0, 2013). This also supports its ability to host a successful outsourcing relationship.

The final important factor in the study of a nation's risk for instability and conflict is that of economics. Economics may very well be the most significant cause of armed conflicts. The findings demonstrate that when a society has the luxury of having a relatively strong economy, the people are much less likely to engage in armed conflict. A nation with an economic growth rate of 5 percent is on average 40 percent safer than a nation that has an economic decline rate of

5 percent. There is also a strong correlation between per capita income and the risk of civil conflict, with lower per capita incomes experiencing much higher rates of conflict (CET0, 2013). Also, if a nation has a great deal of its GDP tied up in agricultural activities, it is at a higher risk for conflict. The increasing need for economies to transfer from agricultural-based to industrial/service-based is evidenced in this study. As previously noted, South Africa's economy is primarily manufacturing and coal mining-based.

Chapter 7

Conclusion

South Africa is unique, especially in terms of what this nation has to offer to the global economy. As a new addition to 'BRICS', South Africa is an emerging market that should not be overlooked in its ability to be a major player for outsourcing projects. With its democratic government that has aligned its trade policies with those of America and has set a mission to achieve a more developed and inclusive economy by 2030, South Africa is well on its way to being an even bigger, more competitive player in the global market.

This nation does have barriers to its ability to successfully manage outsourced work: such barriers include its lack of infrastructure and infrastructure that is poorly positioned, still pertinent levels of inequality that touch many areas of life, high cost of transportation and threat of piracy, as well as certain cultural differences from those of the Western world. However, each of these setbacks are currently being counteracted by strong efforts in part of the South African government and other activist groups. The fact that the country is well aware of its problems, and is being proactive, implementing measures to lessen the severity or even eliminate these issues, is a positive sign.

U.S. companies must use the information presented in this thesis, as well as outside research that would specifically pertain to the given company, to decide whether or not an outsourcing project would be a smart move. There are many tradeoffs involved in this decision, as in any other major business decision. While there is a plethora of young, able-bodied South Africans fit and willing to work in manufacturing facilities and distribution centers, there is also a large amount of inequality in the nation that could present issues in the quality of work performed. While the land and wages required of South Africans would be significantly cheaper than these costs in America, the cost of transportation, in which security against piracy is included, has potential to be very steep. While South Africa has a great deal of natural resources, the nation’s unkempt- and lack of- infrastructure may outweigh the benefits of a company’s investment.

The bottom line is that companies need to decide what is important to them. They need to be aware of the challenges that investment in South Africa may present. Additionally, they need to keep up-to-date information on the progress that this nation is making with its National Development Plan, as well as key other areas of growth. Because the nation is on its way to being a major force in the global landscape, it may be wise for companies to invest in the nation sooner, rather than later.

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