

**WHAT IS THE EFFECTIVENESS OF THE SOUTH AFRICAN REVENUE
SERVICES ACCREDITATION SCHEME / PROGRAM ON IMPROVING THE
RATE OF COMPLIANCE AND PROMOTING TRADE FACILITATION?**

by

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Masters In Business Administration**

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- **CONFIDENTIALITY CLAUSE**

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE


Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five (5) years.

Yours sincerely

D. Pethan

- **DECLARATION**

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

Date.....2003/07/31

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- **ABSTRACT**

South Africa's re-integration into the global trading economy and its participation in various trade agreements has resulted in an increase in the number of import and export transactions processed by the South African Revenue Services Customs Division. Importers and Exporters are expanding into new markets and regions, which require them to adhere to the legislative administrative requirements, enforced at the various designated Customs branch offices.

To achieve Customs compliance, it is necessary that importers and exporters make the correct declaration to the SARS and make available the appropriate documentary information to support import and export transactions. Also, increasing pressure from other government authority and government agencies makes it a prerequisite that any goods cleared for either import and export is properly declared taking cognisance of all Acts enforced by the SARS Customs Division.

This research dissertation is aimed at identifying the key factors that impact the SARS Accreditation Scheme / Program to both legitimate and illegitimate traders, it evaluates the benefits of the Accreditation program and determines what actions that are required by the SARS and traders to improve the levels of client service and Customs enforcement by the SARS Customs Division.

Based on the analysis, the discrepancy between the current service expectation of the SARS Accreditation Scheme and service delivery by the SARS Customs Division urgently needs to be reviewed in light of Customs enforcement and Customs trade facilitation practices.

TABLE OF CONTENTS

Page

LIST OF FIGURES IN TEXT	ix
-------------------------------	----

CHAPTER 1: INTRODUCTION AND OBJECTIVES OF THE STUDY

1.1	INTRODUCTION	1
1.2	BACKGROUND OF STUDY	2
1.3	PROBLEM STATEMENT	6
1.4	THE IMPORTANCE OF THIS RESEARCH	8
1.5	IMPORTANCE OF THE STUDY	9
1.6	ETHICAL CONSIDERATIONS	9
1.7	DELIMITATIONS	9
1.8	ASSUMPTIONS	10
1.9	REPORT STRUCTURE	10
1.10	RESEARCH DESIGN AND METHODOLOGY	10
1.11	CONCLUSION	13

CHAPTER 2: OVERVIEW OF THEORY

2.1	INTRODUCTION	14
2.2	WHAT IS STRATEGY?	14
2.3	STRATEGY AS PROCESS-CONTENT-CONTEXT	16
	2.3.1 <i>Strategy Process</i>	17
	2.3.2 <i>Strategy Content</i>	17
	2.3.3 <i>Strategy Context</i>	18
2.4	TOOLS AND TECHNIQUES OF STRATEGIC ANALYSIS	18
2.5	ANALYSING THE EXTERNAL ENVIRONMENT	18
	2.5.1 <i>Assessing the General Environment</i>	20
	2.5.2 <i>Analysing the Competitive Environment</i>	22
	2.5.3 <i>Identifying the Competitive Position</i>	27
2.6	ANALYSING THE INTERNAL CAPABILITIES OF AN ORGANIZATION	28
	2.6.1 <i>Auditing the Resources of the Organization</i>	29
	2.6.2 <i>SWOT Analysis</i>	30
	2.6.3 <i>Value Chain Analysis</i>	31

2.6.4	<i>Identifying Core Competencies and Strategic Capabilities</i>	33
2.6.5	<i>Concepts and Methodologies of Best Practices</i>	35
2.7	APPROACHES TO SUSTAINABLE COMPETITIVE ADVANTAGE.....	42
2.7.1	<i>The Positioning Approach</i>	43
2.7.2	<i>A Resource Based Approach</i>	46
2.7.3	<i>Application of Both Models</i>	47
2.8	METHODS AND DIRECTIONS OF CORPORATE STRATEGY DEVELOPMENT	48
2.9	GROUPING OPTIONS INTO STRATEGIC OPTIONS.....	51
2.10	IMPLEMENTATION.....	53
2.10.1	<i>Defining Corporate Culture</i>	55
2.11	GAP ANALYSIS.....	63
2.12	EVALUATING STRATEGIES	64
2.13	IMPLEMENTATION, EVALUATION AND CONTROL	74
2.14	CONCLUSION.....	77

CHAPTER 3: ANALYSIS OF CASE STUDY EVIDENCE

3.1	INTRODUCTION.....	79
3.2	BACKGROUND OF CASE STUDY	79
3.2.1	<i>WCO Trade Facilitation Initiatives and Simplification of Customs Procedures</i>	80
3.2.2	<i>Benefits Of Trade Facilitation</i>	80
3.2.3	<i>The Purpose Of Accreditation</i>	81
3.2.4	<i>The Accreditation Concept</i>	82
3.3	LEADERSHIP PORTFOLIO	84
3.4	SARS MISSION AND VISION	86
3.5	ANALYSIS OF THE ENVIRONMENT	87
3.5.1	<i>Why Trade Reform?</i>	88
3.6	PEST ANALYSIS.....	89
3.6.1	<i>Economic</i>	90
3.6.2	<i>Political</i>	101
3.6.3	<i>Legal</i>	103
3.6.4	<i>Social Issues</i>	113
3.6.5	<i>Technology</i>	114
3.7	COMPETITOR ANALYSIS	116

3.8	INTERNAL ANALYSIS	119
3.8.1	SWOT ANALYSIS	119
3.8.1.1	<i>Strengths</i>	120
3.8.1.2	<i>Weaknesses</i>	123
3.8.1.3	<i>Opportunities</i>	123
3.8.1.4	<i>Threats</i>	126
3.8.2	CORE COMPETENCIES	126
3.9	BEST PRACTICES	132
3.9.1	<i>Philippines</i>	132
3.9.2	<i>Canada</i>	135
3.9.3	<i>Australia</i>	140
3.9.4	<i>United States</i>	142
3.10	CONCLUSION	151

CHAPTER 4: EVALUATION OF SARS PRESENT STRATEGY

4.1	INTRODUCTION	153
4.2	BUSINESS CHALLENGES WITHIN CUSTOMS ENVIRONMENT	155
4.3	ANALYSIS OF CURRENT CUSTOMS ENVIRONMENT	155
4.4	FEATURES OF AN IDEAL CUSTOMS ADMINISTRATION	156
4.5	EVALUATION OF SARS PRESENT STRATEGY.....	159
4.6	GAP ANALYSIS	161
4.7	CONCLUSION	165

CHAPTER 5: RECOMMENDATIONS

5.1	INTRODUCTION	166
5.2	OUTSOURCING	169
5.2.1	<i>Buy Services</i>	170
5.2.2	<i>Transform the Value Equation</i>	170
5.3	STRATEGIC OPTIONS	171
5.4	RECOMMENDATIONS	179
5.5	APPROACHING THE FUTURE	183
5.6	CONCLUSION	184
6.	BIBLIOGRAPHY	190

LIST OF FIGURES IN TEXT

	Page
CHAPTER 1	
1.1 ACCREDITATION PROCESS.....	5
CHAPTER 2	
2.1 THE DIMENSIONS OF STRATEGY	17
2.2 COMPARISON OF THEORIES FOR INDUSTRY ANALYSIS	23
2.3 PORTER'S FIVE FORECES	26
2.4 SWOT ANALYSIS DIAGRAM	31
2.5 VALUE CHAIN	32
2.6 KNOWLEDGE CONTENT OF BEST PRACTICES	40
2.7 THE POSITIONING APPROACH	43
2.8 GENERIC STRATEGIES	45
2.9 GENERIC STRATEGIES AND VALUE CHAIN ACTIVITIES AND LINKAGES	45
2.10 GRANT'S RESOURCE-BASED FRAMEWORK	46
2.11 ANSOFF'S DIRECTIONS OF DEVELOPMENT FRAMEWORK	48
2.12 COMBINING THE METHODS AND DIRECTIONS OF CORPORATE DEVELOPMENT	49
2.13 A REVISED FRAMEWORK FOR DIRECTIONS AND METHODS	51
2.14 GRAND STRATEGY SELECTION MATRIX	52
2.15 MODEL OF GRAND STRATEGY CLUSTERS.....	53
2.16 THE CULTURAL WEB	56
2.17 THE ROLE OF THE PARADIGM IN STRATEGY FORMULATION	57
2.18 THE PROCESS OF PARADIGM CHANGE	58
2.19 THE STAKEHOLDER MAP OR POWER/INTEREST MATRIX	62
2.20 THEORETHICAL MODEL OF GAP ANALYSIS.....	64
2.21 COMPARING TESTS FOR EVALUATING STRATEGIC OPTIONS	65
2.22 A FRAMEWORK FOR EVALUATING STRATEGIES.....	66
2.23 ASSESSING THE SUITABILITY OF A STRATEGY.....	67
2.24 SWOT ANALYSIS: ANALYSIS SUITABILITY OF STRATEGIC OPTIONS.....	70
2.25 ASSESSING THE ACCEPTABILITY OF A STRATEGY	71
2.26 ASSESSING THE FEASIBILITY OF A STRATEGY	73

CHAPTER 3

3.1	THE PEST ANALYSIS	89
3.2	TRENDS IN GDP GROWTH	90
3.3	SUMMARY OF KEY VARIABLES	91
3.4	OPENNESS OF EMERGING ECONOMIES.....	92
3.5	NET FDI INFLOWS – EMERGING MARKET ECONOMIES	93
3.6	REGIONAL GLOBALIZATION COMPARISON 1994 - 1998	94
3.7	AGGREGATE LEVEL OF GLOBALIZATION AND ECONOMIC GROWTH	95
3.8	LEVEL OF GLOBLIZATION IN SOUTH AFRICA	95
3.9	SARS OPERATIONAL STATISTICS	97
3.10	GDP GROWTH RATES	117
3.11	UNEMPLOYMENT RATE	118
3.12	CONSUMER PRICE INDEX	118
3.13	SARS REVENUE COLLECTION TRENDS	121
3.14	PRESSURES ON PERFORMANCE	129
3.15	PRIVATE AND PUBLIC SECTOR PARTNERING	130
3.16	CURRENT AND FUTURE PUBLIC SECTOR TRENDS.....	131
3.17	POLICY IMPLEMENTATION AND WORK PROGRAMME.....	133
3.18	US CUSTOMS TRADE COMPLIANCE AND RISK MANAGEMENT PROCESS	144

CHAPTER 4

4.1	CORNERSTONES OF CHANGE	154
4.2	SUITABILITY	159
4.3	ACCEPTABILITY	160
4.4	FEASIBILITY	160

CHAPTER 5

5.1	GLOBAL TRENDS.....	166
5.2	OUTSOURCING COMMENTARY	169
5.3	COLLABORATIVE GOVERNMENT SERVICES	172
5.4	COLLABORATIVE GOVERNMENT	174

5.5	SCOPE STRATEGIES	176
5.6	ENTERPRISE –WIDE GOVERNMENT VISION AND STRATEGY.....	177

CHAPTER 1

INTRODUCTION AND OBJECTIVES OF THE STUDY

1.1 INTRODUCTION

South Africa comes from a past where several factors came together to create a compliance culture that is less than it should be. These factors include (SARS, 2002:1):

- The economic marginalization and consequent lack of knowledge about tax of a large segment of the population.
- The mindset and practices that took hold when circumventing the imposition of international sanctions.
- The historically limited capacity of the tax and Customs administrations to challenge tax evasion and highly arguable, or even fanciful, tax planning structures and techniques.

South African companies wishing to export their products have been isolated and often overlooked by the rest of the world for a long time, however, all of this has changed in recent years (DNA, 2002:1). An increase in the pace of globalisation and the integration of world markets have brought about an increase in the volume of goods imported and exported by South African business community. The globalisation process has resulted in South African companies expanding into new markets and regions thereby taking advantage of comparative advantages, economies of scale and preferential trade agreements for the purposes of sourcing cheap imports and finding new export opportunities. There are opportunities for local producers who are willing to meet the international demands for service excellence, timeous deliveries and delivering high quality products. To embrace this trade opportunity, local traders (importers and exporters) are required to follow internationally accepted best practices, international laws and approved customs processes and policies.

In an attempt to assist the South African business community to optimise on global trade opportunities and to improve the country's compliance culture and reducing the

tax gap in South Africa, the South African Revenue Service (“SARS”) engaged in transformational initiatives.

1.2 BACKGROUND OF THE STUDY

The SARS is determined to clean up the “Customs Industry” of all misconduct and fraudulent activities that are associated with it. Over the past few years, the SARS has been taking necessary steps to achieve this goal. It is unfortunately still a case whereby SARS’ efforts are still being conducted in an isolated way with each stakeholder only concentrating on their portion of the Customs industry. The SARS recognises though that some clients within the Customs and Excise fraternity are determined to maintain and improve their compliance with the SARS. (SARS, 2001:1).

During February 2000, the SARS introduced its transformation programme “Siyakha” (we are building). This initiative provided the Customs Division with the opportunity to evaluate all processes, identify the processes that are crucial to SARS as well as the industry and to consider the development of an Accredited Client Scheme (“ACS”).

In order to establish the ACS it meant that various aspects in Customs and Excise had to be evaluated with a view to changes, namely:

- The structures, which includes teaming;
- The development of new procedures;
- The development of its technology capabilities; and
- The amendment of the Customs Act and Rules.

The main objective of the ACS is to fundamentally change the relationship between Accredited Clients and the SARS. This means that it will be expected of the Accredited Client to implement and maintain efficient and effective procedures / processes to achieve full compliance with the Customs and Excise Law and procedures. Furthermore, it also places the responsibility on the SARS: Customs and Excise to implement and maintain efficient and effective procedures / processes to

facilitate legitimate trade. A crucial part of this programme is the accreditation model. The accreditation model is benchmarked on an initiative developed by the Australian Customs Authority as well as on existing models practiced in Canada, Sweden and the USA. In South Africa for the implementation of the Accreditation Scheme, a new subsection 64 E was introduced in the Customs and Excise Act No. 91 of 1964 (“the Act”) to allow the Commissioner to confer accredited client status on certain client types and provision was also made for the Commissioner to enter into an agreement with accredited clients.

Accreditation allows SARS to recognize certain client types as “trusted clients”. For the purposes of this research, the client types are defined as:

- Importers;
- Exporters;
- Removers in Bond;
- Warehouse Operators; and
- Clearing & Forwarding Agents.

These are clients who must declare to the SARS that they are legitimate traders and have processes in place to provide high level of compliance with the current SARS legislation, policies, rules and procedures.

The enabling legislation for accreditation allows the Commissioner to grant accredited status to those clients who are registered under the Act and whom meet the defined criteria stated below:

- **Appropriate record of compliance:**

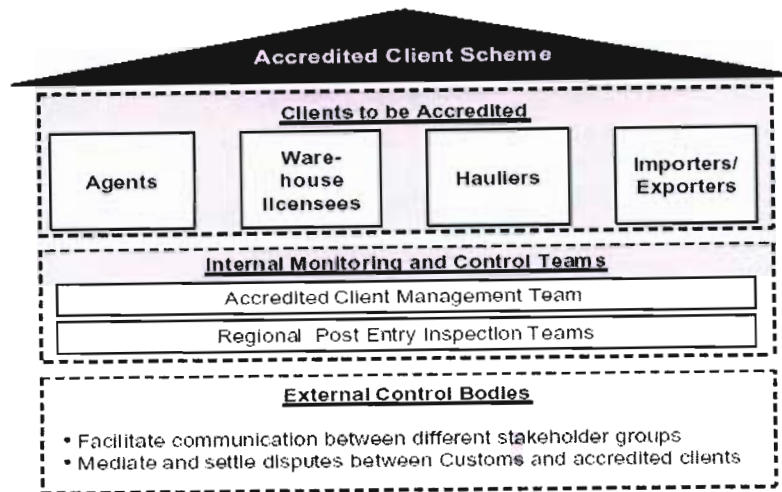
Clients must be able to prove an appropriate record of compliance with Customs and Excise legislation and procedures for a period of five years immediately preceding the application or such lesser period as the Commissioner may allow;

- **Computer system and operational procedures and processes:**
Able to prove that their computer systems and internal procedures and processes will ensure compliance with Customs laws and procedures;
- **Sufficient knowledge:**
Person(s) who will administer the accredited client requirements has sufficient knowledge of Customs laws and procedures to implement and maintain an efficient and effective accredited client compliance system;
- **Financial resources:**
The business must have sufficient financial resources;
- **Agreement:**
Clients must sign an agreement with the Commissioner; and
- **Inspection:**
The Commissioner may conduct an investigation or audit some or all of the above for verification.

In terms of accreditation legislation, the Commissioner of the SARS and an accredited client can enter into an agreement. This agreement binds the accredited client to adhere to the compliance aspects of Customs and Excise Laws and to consult with the SARS on the implementation of appropriate systems when undertaking customs transactions.

Accredited Clients are enterprises that have assessed their history of compliance and are capable of maintaining high quality internal operational processes and computer systems in order to comply with the Customs and Excise laws and procedures. In return this scheme allows the Commissioner through a process of mutual consultation and participation to publish the benefits of being an accredited client. This does not mean that all benefits will materialise with immediate effect to accredited clients but a scheme that is expected to be nurtured to satisfy all the needs of the SARS and the Accredited Client. This process is diagrammatically depicted in Figure 1.1.

Figure: 1.1 – Accreditation Process



Source: SARS Stakeholder Workshop

SARS will, in consultation with accredited clients, offer:

- Simplified procedures – e.g. electronic clearances, paperless environment (no supporting documents);
- Constantly improve Customs processes – this will be on a basis of consultation; and
- Less human intervention in transactions – border passage, removal of goods in bond.

The intended benefits of the ACS is to promote mutual benefits for both parties by encouraging and promoting legitimate trade facilitation amongst accredited clients and to eradicate misconduct and fraudulent activities in the industry.

In particular the research focuses on the factors, which promote and maintain accreditation as recent amendments to legislation detailing accreditation have created some disturbing responses from many client types. Some believe that this is merely a “paper exercise”; whilst a number of others believe that accreditation applies to Clearing & Forwarding agents only. The latter seems to stem from being incorrectly advised. The customs accreditation process has caused a degree of confusion among importers and exporters. One of the main objectives of the accreditation process is to

simplify and thus speed up the processing of documentation for regular imports and exports by Customs. This is being achieved by switching from the traditional paper-based entry system where Customs had to have sight of each and every document pertaining to a consignment, to a paperless (electronic) system.

In terms of electronic processing, Customs will not necessarily wish to see documents for any particular consignment, but will accept that the accredited agent who submitted the entry to them has done so correctly and truthfully in terms of the documents. This trust is backed by a wide-ranging agreement between Customs and the accredited agent. This agreement goes far beyond the traditional relationship between agents and Customs and is backed by substantial guarantees and legal remedies. The major benefit to clients has been the reduction in turn-around times in obtaining Customs releases and thus noticeably shortened transit times for cargo.

Hand in hand with the accreditation process is a general tightening up of Customs regulations and requirements. One of the changes is that goods that are removed in bond (i.e. transported within South Africa without duty having been paid), will only be allowed to move on vehicles specifically approved by Customs for the purpose and will have to move against specific Customs approved manifests. The transporter of the goods has to be registered as an approved “remover in bond”. In practical terms, if an importer sells goods in his bond store to a rebate manufacturer, physical transport of the goods between the seller and buyer will have to be by an approved carrier using an approved vehicle.

This proposal has therefore been compiled to provide some clarity on the important implications for policing accreditation in an endeavour to assist both the SARS and the SARS client types to achieve an accredited client status with the SARS.

1.3 PROBLEM STATEMENT

The SARS Accreditation program is benchmarked from global best practices which require designated client types to adhere to Customs policies and procedures in order to qualify for the benefits of improved trade facilitation measures. The question is, do these companies have the necessary technical support and technological systems that

are required for the attainment of the accredited status and can they perform their duties and obligations as required by the enabling customs legislation, regulations and rules.

Accordingly certain critical issues that give rise to pertinent questions are listed below:

- It is critically important that those who are applying for accreditation not to view this as a “paper exercise” as the ramifications of non-compliance are onerous. Therefore, are business executives adequately informed or knowledgeable about accreditation?
- What attitudes and perceptions do business executives display towards the effect and impact of accreditation on their businesses?
- Are business executives adequately assessing their history of Customs compliance with SARS together with other qualifying criteria?
- Are business executives prepared to voluntarily declare any possible non-compliant or outstanding issues with the SARS?
- What strategies are business executives implementing to facilitate the requirements of accreditation?

In order to address these aforementioned issues, it is important to assess and understand the environment in which the SARS and its accredited clients operate. Thus a strategic analysis will be conducted in order to understand, assess, critically evaluate and to finally implement an appropriate quality assurance program for the SARS accreditation program, which will result in improved trade facilitation measures for both SARS and its client types.

The problem statement therefore is:

What is the effectiveness of the South African Revenue Services Accreditation Scheme / Program on improving the rate of compliance and promoting trade facilitation?

1.4 THE IMPORTANCE OF THIS RESEARCH

The importance of this study is to critically analyse whether the current SARS legislation, policies, rules and procedures enacting accreditation can in fact help the SARS and its clients achieve SARS intended objectives on increasing voluntary compliance and simultaneously facilitating legitimate trade. This research aims to fill the gap in the literature by examining the proposition from both the client type perspective and from a SARS perspective.

- **FROM A CLIENT TYPE PERSPECTIVE**

SARS Clients want a higher level of customs service as:

- They want to improve their just-in-time operations management;
- They want to improve their service deliveries to their customers;
- They want improved predictability on Customs clearance turnaround times;
- They also want a level playing field in terms of duty liability and the effect it has on cost of imported goods as illegitimate traders with a duty evasion objective certainly distorts the level playing field.

- **FROM THE SARS PERSPECTIVE**

Eradicating illegitimate trade whilst simultaneously facilitating legitimate trade compliments the business perspective thus legitimate traders should therefore get accredited and enjoy the benefits of being a SARS trusted client. This will assist the SARS to:

- Stamp out misconduct and fraudulent activities;
- Obtain and maintain a high level of compliance;
- Promote legitimate trade facilitation.

1.5 IMPORTANCE OF THE STUDY

The objectives and importance of this research proposal is:

- To provide an understanding of the challenges facing the SARS in implementing accreditation.
- To support the SARS plans to demonstrate the usefulness of accreditation as practiced in Sweden, Australia, Canada and the United States.
- To understand the accreditation process in each of the aforementioned countries and adopt the best practices
- To develop strategic advantages for SARS in its accreditation implementation.
- Make recommendations that would ensure that the SARS successfully implements the Accreditation process.
- To identify the risk management skills necessary to sustain the benefits of Accreditation to legitimate traders.

1.6 ETHICAL CONSIDERATIONS

Information has been drawn from documents that are of a confidential nature to respective organizations. The researcher has been granted access to such information. However, based on the confidentiality of the matters at hand it is a requirement of the respective organizations not to make public the results of the study. Accordingly the researcher is obliged to grant the confidentiality request.

1.7 DELIMITATIONS

The study is delimited to the KZN area and is also delimited to information obtained from the Durban Chamber of Commerce & Industry, the Deloitte & Touche client types and the South African Freight Forwarders Association members.

1.8 ASSUMPTIONS

It is assumed that the population statistics provided by the South African Freight Forwarders Association is accurate. Further it is assumed that measuring instrument is valid, that the interviewer is well trained, and that the respondents respond truthfully.

1.9 REPORT STRUCTURE

This chapter presented and introduced the objectives of the study and the importance thereof was explained. Further an explanation of the research methodology applied is also stated. Chapter two comprises an in-depth analysis of the strategic models that are required to analyse the SARS and its client types' environment and perspective on accreditation. Chapter three, presents the more dominant qualitative approach to the analysis which had been chosen for this study, as in this type of research one can identify cause and effect relationships more easily and the research is more structured and more controlled. Chapter four focuses on an evaluation of the 'present' strategy being adopted by both sectors, alludes towards a gap analysis and concludes by stating where on the grand strategy matrix both sectors are presently positioned. Chapter five presents the strategic options available and details the recommendations and conclusions based on the findings of the study.

1.10 RESEARCH DESIGN AND METHODOLOGY

- PRESENTATION OF CASE STUDY

As the study is of a qualitative, rather than quantitative nature the approach to the dissertation is one of a case study of the accreditation process in South Africa. The first section of the dissertation will be the case study itself comprising a strategic analysis. In conducting the strategic analysis a review will be done of existing research and studies that have been completed on the accreditation process in South Africa, which will also give an overview of the industry acceptance of the accreditation process in South Africa. Emphasis will be placed on critically evaluating the bench marking process SARS would have adopted to implement the accreditation process. In addition, internal documents and other strategic planning documents of the

sample organizations will be used to evaluate the position of the SARS and the trading community and also to identify patterns that may assist in determining future strategies.

The strategic analysis is followed by identification of possible strategic options for the organization going forward.

- DATA COLLECTION TO IDENTIFY STRATEGIC OPTIONS

The industry analysis developed in chapter three, as well as the internal analysis completed will be used to identify strategic options. To solidify this, interviews were conducted with different role players in the industry. They were unstructured interviews based around the theme of the accreditation process and its impact on the trading community in South Africa and development for the future.

- DATA ANALYSIS TO IDENTIFY STRATEGIC OPTIONS

“Data analysis consists of examining, categorizing, tabulating or otherwise recombining the evidence to address the initial propositions of a study” (Yin 1994). A striking feature of research to build theory from case studies is the frequent overlap of data analysis with data collection (Eisenhardt, 1989).

In sum, overlapping data analysis with data collection not only gives the researcher a head start in analysis but, more importantly, allows researchers to take advantage of flexible data collection. Indeed, a key feature of theory-building case research is the freedom to make adjustments during the data collection process. In this study, adjustments included reviewing more data sources and interviewing previously unknown individuals who were identified during the study as important participants. The interviews were completed and were used identify common themes and options for the future. Interpretations of the interviews were used to glean information about:

- Generally held opinions of the accreditation in South Africa,

- The current position of SARS and trading community with regard to accreditation,
- The competitive forces within the environment,
- External forces affecting the environment,
- Strategies that other customs administrations have employed in preparing for the future.

Thereafter strategic options were identified from the information obtained from the interviews and the strategic analysis.

- EVALUATION OF STRATEGIC OPTIONS

The proposed strategic options were assessed on three criteria: suitability, acceptability and feasibility.

In assessing the suitability of the options numerous methods were employed: life cycle analysis, positioning, value chain analysis, business profile and portfolio analysis. The strategic options were then screened to assess their relative suitability.

The selected strategies were then assessed for acceptability. Acceptability of the options was determined by examining the expected performance outcomes if the strategy is implemented. The performance outcomes were based on analysing return and risk. The feasibility section then evaluated whether or not the organization had the necessary resources and competencies to deliver a strategy. The analysis included a resource deployment analysis.

- SELECTION OF STRATEGY / STRATEGIES

From the literature reviewed, given that the accreditation process is in its early stages in South Africa and that the trading community is still reacting to this, in this instance it is likely that the selection of short-term strategies by the SARS will be as a result of enforced choice. It is also anticipated that, through the analysis of extent of the SARS external environment, opportunities and internal resources that sustainable strategies will be developed. In order to select the strategies, interviews were conducted with

key players in the industry. Discussions also took place as to which are the more desirable ones to implement and it will be decided by the SARS as to how the strategies will be selected.

- DEVELOPMENT OF RECOMMENDATIONS

The selection of strategies is by no means the end of the process and the most crucial stage of implementation of the strategies must then follow. Prior to implementation, an organization must ensure that the appropriate strategy selection was adopted and developed. An appropriate implementation strategy will, therefore, be developed for the strategies selected to ensure that successful implementation could then take place.

1.11 CONCLUSION

At the launch of Siyakha, the Minister of Finance, Trevor Manuel purposefully stated: *“SARS will concentrate more on risk management, less on administration. Its strengthened auditing capacity will enable us to give much better service to traders and taxpayers and importers and exporters, while at the same time targeting non-compliance.”*

“Today’s performance challenges demand outcomes – both financial and non-financial – that must simultaneously benefit customers, shareholders, employees and management.” (Smith, 1999:1). This study will “conclude” whether the current SARS legislation, policies, rules and procedures enacting accreditation can in fact help the SARS and its clients achieve SARS intended objectives on increasing voluntary compliance and simultaneously facilitating legitimate trade. Chapter two presents the theoretical model for the research project.

CHAPTER 2

OVERVIEW OF THEORY

2.1 INTRODUCTION

This chapter introduces the strategic management process. This process involves a set of decisions and actions that result in the design and activation of strategies to achieve the objectives of an organisation. Further this chapter gives a brief overview of the nature, benefits and the need for strategic management. Generally a company can use numerous strategy tools to determine from a strategic perspective the direction it should be pursuing, including the supporting activities necessary to achieve sustainability of the business. This chapter outlines the various strategic tools that can be employed, which are presented in a logical and sequential order. Where applicable a critique of the tool may be given and, in some instances, an adapted model is developed to satisfy the purposes of this study. In developing the model for this chapter consideration has been given to aspects, which are particularly relevant to the industry in question and may not necessarily be used for strategic purposes in other industries. This chapter also goes on to discuss how strategies are selected and evaluated on different criteria.

2.2 WHAT IS STRATEGY?

The search for a single definition of strategy is multifaceted and consequently this chapter explores the question “What is Strategy?” from a variety of perspectives.

- Characteristics and Concepts of Strategy

In their book, “Exploring Corporate Strategy”, Gerry Johnson & Kevan Scholes (1999) approach the question “what is strategy?” by attempting to find characteristics that distinguish strategic decisions from other decisions taken within the organization.

They identify the characteristics of strategic decisions as being about:

- affecting the long term direction of the organization.
- achieving an advantage, frequently over the competition.
- the scope of the organization's activities.
- the matching of an organization to its environment.
- building on an organization's resources and competences.
- the requirement for major resource changes within an organization.
- having an impact on operational decisions across the organization.
- the values and expectations of the organization.

Above all, Johnson & Scholes (1999) acknowledge that strategic decisions are complex, involve a high degree of uncertainty and affect the organization as a whole.

Indeed strategy is a combination of all of these, but cannot operate independently of planning. Mintzberg (1994:12) defined planning as *"a formalised procedure to produce an articulated result, in the form of an integrated system of decisions."*

According to Peter F. Drucker (1997), *"Strategic planning does not deal with future decisions. It deals with the futurity of present decisions. What we have to do today is to be ready for an uncertain tomorrow"*. Strategic planning is defined by Goodstein, Nolan & Pfeiffer (1997) as *"a continuous and systematic process where the guiding members of an organization make decisions about its future, develop the necessary procedures and operations to achieve that future, and determine how success is to be measured."*

To fully understand strategic planning, it is necessary to look at a few key words in the definition:

- Continuous refers to the view that strategic planning must be an ongoing process, not merely an event to produce a plan;
- Systematic recognizes that strategic planning must be a structured and deliberate effort, not something that happens on its own;

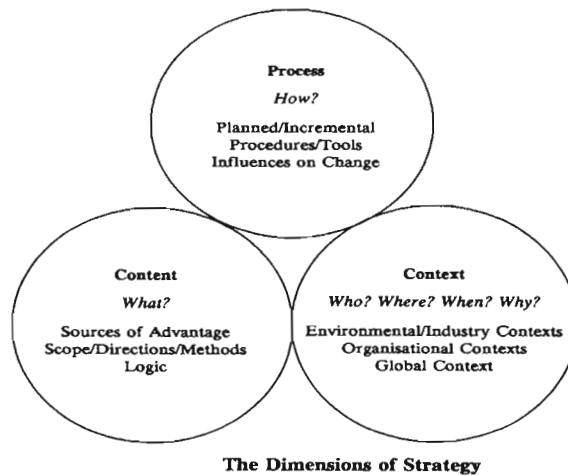
- Process recognizes that one of the benefits of strategic planning is to undertake thinking strategically about the future and how to get there, which is much more than production of a document (e.g., a strategic plan);
- Guiding members identifies not only senior corporate and business unit executives, but also employees. (It also considers stakeholders and customers who may not make these decisions, but who affect the decisions being made).
- Procedures and operations to achieve that future means the full spectrum of actions and activities from aligning the organization behind clear long-term goals to putting in place organizational and personal incentives, allocating resources, and developing the workforce to achieve the desired outcomes; and
- How success is to be measured recognizes that strategic planning must use appropriate measures to determine whether the organization has achieved success (Goodstein, Nolan, & Pfeiffer, 1997).

The rest of this chapter is devoted to the discussion and exploration of the different tools and techniques used in the strategic planning process on an ongoing basis.

2.3 STRATEGY AS PROCESS-CONTENT-CONTEXT

Several definitions and descriptions of the levels of strategy exist, however the focus is upon what it *is*, rather than what it *does*. A number of frameworks are available to help to understand further the nature of strategy as a managerial process. There are two of these popular sets of frameworks namely, analysis-choice-implementation and process-content-context is explored below. However in this study the alternative model of Bob De Wit & Ron Meyer (1998) is discussed. This is the model of the dimensions of strategy: process, content and context. The key features of this framework are illustrated in Figure 2.1.

Figure: 2.1 – The Dimensions Of Strategy



Source: De Wit & Meyer, 1998

2.3.1 STRATEGY PROCESS

The process by which organizations develop strategy - formulating strategies, taking strategic decisions and ensuring strategic change - is a key dimension of strategic management (Wit & Meyer, 1998). In most organizations strategy arises out of a mix of both formal planning and a mix of decisions and actions taken in response to events and organizational pressures. The strategic process refers to how the actions link together or interact with each other as the strategy unfolds against what may be a changing environment (Lynch, 2000:22).

2.3.2 STRATEGY CONTENT

The analysis of strategy content tends to concentrate upon issues of rationality: does the strategy make sense? Many authors caution against the dangers of an over-concentration on such issues as in practice this risks losing the creativity on which success is likely to be built. In essence, their argument reinforces the message that content and process dimensions of strategy cannot be separated. Indeed, a three-dimensional view of strategic management also involves consideration of the context dimension as well. As such the strategic content refers to the main actions of the proposed strategy (Lynch, 2000:22).

2.3.3 STRATEGY CONTEXT

If process is the “how”, and content the “what”, the context can be seen to be the “where, when, who and why” of strategic management. For many organizations, the growing internationalization of the industries and markets is having a significant effect upon their strategy: the impact of the global context cannot be understated. Finally strategic context refers to the environment within which the strategy operates and is developed (Lynch, 2000:22).

2.4 TOOLS AND TECHNIQUES OF STRATEGIC ANALYSIS

The development of strategy within an organization requires the application of a range of tools and techniques and by their nature they tend to be analytical. Many of the techniques are used to assist in the analysis and evaluation of different options while others can assist in identifying problems in changing the organization, designing new structures or assisting in resource allocation and control. Indeed, many of the tools can be used, in slightly different ways, to address many of these different elements. For example, the technique of SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis can be used to assess the external and organizational environments, evaluate strategic options and identify resource gaps. With an overall understanding of strategic management it becomes easier to see what tool can be used where and how.

2.5 ANALYSING THE EXTERNAL ENVIRONMENT

What does the external environment mean? Broadly, the external environment comprises those factors and trends outside the organisation that might have an influence upon an organisation and its future.

The complexity of the external environment faced by different organisations is likely to vary greatly. A global corporation will face many influences, some changing from country to country, such as consumer legislation, whilst others like technological changes are intrinsically more international. In contrast, the influences faced by a local business are likely to be more limited in range and variety, such as the number of

local customers and their buying habits, though perhaps no less critical to the future of the business (Johnson & Scholes, 1999).

- **THE NEED TO MONITOR THE EXTERNAL ENVIRONMENT**

Monitoring and evaluating the external environment is an important issue for organisations because changes in the external environment imply the need to ensure that strategies can meet new circumstances. Does an organization need to undertake environmental analysis? The answer to this is in the affirmative. Three further questions are also worth a moment of reflection:

- Which areas of the environment should be analysed?
- How much information is needed and from where can it be sought?
- What techniques can be used to analyse important factors, trends and events?

- **AN OVERALL APPROACH TO ANALYSING THE EXTERNAL ENVIRONMENT**

Despite the limits to objectivity a systematic approach to external environmental analysis can minimise problems and provide an important contribution to the process of strategy formulation. The implicit assumption of all environmental analysis is that in understanding changes in the external environment, the implications for the strategy of an organisation can be identified and addressed.

The external environment can be considered at three levels:

- The **general environment** affecting all organisations.
- The **competitive environment** affecting all organisations in particular industries or sectors.
- The **competitive position** of individual organisations within a particular industry or sector.

At each of these levels a range of tools and frameworks can help to organise the analysis and point to underlying factors affecting the dynamics and complexity of the

situation. These tools and frameworks are outlined below, but in applying them one must remember (Johnson & Scholes, 1999):

- Take a holistic view – be aware of the interactions between individual factors.
- Adapt what you read to the particular circumstances of the organisation or industry under analysis.
- The most difficult aspect of environment analysis is often that of deciding exactly which factors are the most important.
- New factors and new priorities will arise as the circumstances change.

2.5.1 ASSESSING THE GENERAL ENVIRONMENT

The wide range of potential influences on an organisation and the ways in which they interact, make the job of assessing the general environment particularly difficult. In addition, each organisation will be affected in different ways by changes in the environment. The factors that will have a significant impact upon one organisation will have little effect on another.

- PEST ANALYSIS

PEST analysis (a mnemonic for Political, Economic, Social and Technological factors) is the most frequently used tool to consider the impact of the general environment. It provides a broad framework for considering a wide range of potential factors in order to:

- Summarise the most important influences of the general environment upon a particular organisation.
- Evaluate the potential impact of these influences, both individually and jointly, upon the organisation, whether positive or negative – the opportunities and threats to be faced.

Each of the four headings can be broken down further to suggest more detailed consideration of particular factors and changes that might influence the organisation both currently and in the future. Whilst varying dependent upon the particular context, the list of factors and changes may include:

- **Political** factors and changes – the introduction of specific legislation and regulation such as competition policy, trading standards, financial regulation, planning policies. Changes in the general political climate both domestically and internationally.
- **Economic** factors and changes – patterns and trends in overall economic activity and world trade; movements in exchange rates, interest rates and taxation both within particular countries and internationally; fluctuations in capital markets; broad changes in market demand; industrial trends like increasing industry concentration and increased mergers and acquisitions activity.
- **Social** factors and changes – changes in demographic patterns like the increasing age profile of populations in developing countries; changing social attitudes and tastes such as the way in which people spend their leisure time; patterns of spending on education and health; public concern on issues like the environment, smoking, food safety and HIV/AIDS.
- **Technological** factors and changes – this includes changes to products, processes and supply chains. The importance of information and communications technology with the growth of the Internet is the obvious example, but other trends and changes also need to be evaluated. Trends in the physical environment such as climate change may have significant and unexpected consequences and lead to legislative responses affecting a wide range of industries and activities.

There are many variants to the PEST acronym. Some analysts include the green 'ENVIRONMENT' and form the acronym 'STEEP', while some add 'O' for 'OTHER'. A catchall category for events not easily classified under other headings, forming an acronym 'PESTO' and others include 'LEGAL' and 'ENVIRONMENTAL' to form 'PESTLE'.

The influences identified will often cross between the headings, their position is less important than fact that they appear somewhere in the analysis. It is also important that consideration of particular issues goes beyond the superficial to try and identify the underlying causes of the changes.

2.5.2 ANALYSING THE COMPETITIVE ENVIRONMENT

Whilst the general environment is important, the more immediate environment that surrounds most organisations is the competitive environment. In order to understand how the competitive environment might have an impact upon an organisation it is useful to first examine the dynamics of the competitive system.

During the 1990s, many public services such as health, welfare and education saw the introduction of market-type structures and competition in an attempt to reduce costs and increase efficiency. Similarly, many fashionable trends in business have sought to improve efficiency through increased competition, such as multiple sourcing of supplies, recently re-encouraged by the use of e-commerce; internal competition between business units; the creation of profit and cost centres; and “shadow prices” for internal transactions.

- AN APPROACH TO COMPETITIVE ANALYSIS

Examining the industry environment in which a firm operates is very important as it enables a firm to develop strategies to create opportunities in the industry, whilst protecting itself against the threats of the industry.

As stated in Fahey (1994:17), *“the first and most popular use of industry analysis is to predict the average level of long-term profitability of the competitors in a particular industry.”* However, there are difficulties with conducting industry analysis, the primary one being the actual definition of the industry. For example, in determining the industry for a customs administration, would one just consider compliance, enforcement or trade facilitation? Such questions need to be answered prior to commencing an industry analysis. There are numerous options available to strategists seeking to conduct an industry analysis, some of which are illustrated in Figure 2.2.

Figure: 2.2 – Comparison of Theories for Industry Analysis

	Five Forces	Core Competence	Game Theory	Competing on the Edge
Assumptions	Stable industry structure.	Firm as a bundle of competency.	Industry viewed as dynamic oligopoly.	Industry in rapid, unpredictable change.
Goal	Defensible position	Sustainable advantage	Temporary advantage	Continuous flow of advantages
Performance Driver	Industry structure	Unique firm competencies	Right moves	Ability to change
Strategy	Pick an industry, pick a strategic position, fit the organisation.	Create a vision, build and exploit competencies to realise vision.	Make the “right” competitive and collaborative moves.	Gain the “edges” time pace, shape semi-coherent strategic direction.
Success	Profits	Long-term dominance.	Short-term wins.	Continual revival.

Source: D.M. Laxton (2002)

- Competing on the Edge

In his article “The competitive advantage through “new sciences” on strategic thinking”, Laxton (2002:8) talks about the theory of “competing on the edge, strategy as structured chaos.” The following excerpt is taken from the article:

“from strategist to synthesizer ... in coffee cup terms – role of hiring the right runners and patchers, jogging alongside to cheer, and most important, articulating why everyone is engaged in the frantic task of cup running characterizes businesses in fast-moving, unpredictable marketing. These 3 leadership roles are key to sustaining performance on the edge. ... The intuition behind the edge of chaos is that change occurs when strategies and their related are sufficiently rigid so that change can be organized to happen but not so rigid that it cannot occur.”

As is seen from this excerpt, the main thrust behind the theory is that the industry analysis is an ongoing, dynamic process, where rapid changes are anticipated and catered for and leadership plays a proactive role.

- **Game Theory**

In game theory the *“key defining elements of the game are the players, the actions each can take and when they can take them, what information each has at the time he acts, and the payoffs each receives given the actions that all the players take.”* Saloner, Shepard & Podolny (2002:407). The parallel drawn in the text is that of the different firms (players) in an industry, the strategies (actions) that they follow and when they follow them, what information they have and the results (payoffs) of the strategies for the firm concerned.

- **Core Competence**

“The battle to build world-class competencies is invisible to people who aren’t deliberately looking for it... Building core competencies is more ambitious and different than integrating vertically.” (Hamel & Prahalad, 1990:83). The relevancy of core competence theory in industry analysis is that a firm can review an industry to determine what core competencies it and its competitors have, *which a firm can use to give it a leading edge over competitors. Core competencies “will invariably be unique to the organisation, invisible to competitors and difficult to imitate even then their existence is understood by competitor. ...they endure over time and contribute directly and indirectly to the development of core products, end products and services.”* (Ambrosini, 1998:4 & 5).

According to Hamel and Prahalad (1990:83 & 84) there are three tests which can be applied to identify core competencies in a firm:

- a core competence provides potential access to a wide variety of markets;
- a core competence should make a significant contribution to the perceived customer benefits of the end products;
- a core competence should be difficult for competitors to imitate.

The assumption for this theory focuses more on the individual firm and sees the firm as a bundle of competency.

- **Porter's Five Forces**

According to Porter, whether an industry produces a commodity or a service, or whether it is global or domestic in scope, the level of competition in an industry depends upon the strength of the competitive forces to which it is exposed. These forces, act individually and together to determine the ultimate profit potential of the industry and are a result of the structure (the underlying economics) of the industry. Many of the broad influences identified through PEST analysis have an impact upon organizations through the way in which they affect the underlying competitive structure of the industry.

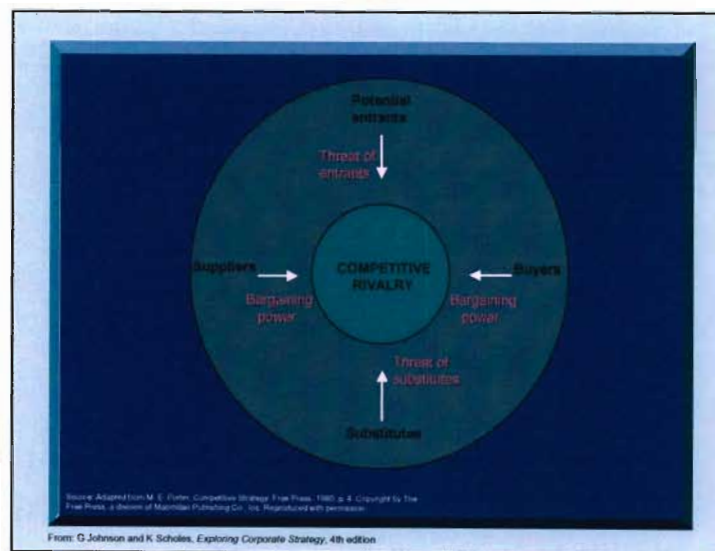
An understanding of the competitive dynamics of an industry requires analysis of the structural factors influencing each of these five forces of competition (Johnson & Scholes 1999) and they are explained and diagrammatically illustrated in Figure 2.3:

- The threat of new entrants coming into the industry. The ability of new competitors to enter the industry will depend upon the existence of barriers to entry – the higher they are, the less likely it is that new competitors will pose a threat. These barriers to entry could come from factors such as large economies of scale, difficulty of access to distribution channels, high capital investment requirements, strong existing brand names, and scarce skills or resources.
- The threat of substitute products or services to those produced by the industry. This threat will be high when customer needs can be met by alternative products or services to those produced within the industry. The relative price-performance of substitutes, the extent of switching costs and the propensity of buyers to use substitutes, will all affect the intensity of this threat.
- The bargaining power of suppliers affects the costs incurred by the industry. If it is hard to switch suppliers because there are few of them or it is expensive to change, or the product supplied is a relatively minor

market for suppliers, then suppliers' bargaining strength will be high and costs will be passed on to the industry.

- The bargaining power of customers or buyers is the mirror image of that exerted by suppliers to an industry. If there are relatively few buyers or they can switch easily between suppliers, then the bargaining position of the industry will be weakened, with pressures to reduce prices or increase the quality of products provided.
- The intensity of rivalry between existing competitors within the industry is determined by the number and size of competitors, the rate of growth of the industry, the risks of creating over-capacity, the similarity of products and services, and the ease with which competitors can leave the industry.

Figure: 2.3 – Porter's Five Forces



Source: Adapted from M.E Porter, Competitive Strategy, Free Press and Johnson & Scholes (1999)

Finally, the actions of the competitors themselves can also change the analysis – the companies within an industry are an active part of the system not mere spectators, in changing their strategies the underlying economics of the forces themselves are changed (Johnson & Scholes 1999). For example, a company may undertake the acquisition of other competitors in order to reduce competition.

2.5.3 IDENTIFYING COMPETITIVE POSITION

In an analysis of competitors and their relationship to the organization, it is useful to analyze some immediate and close competitors (Lynch, 2000:136). The Porter's Five Forces Framework is a good tool to examine the competitive forces of an industry. This analysis falls short of showing how differing organizations choose to compete against each other within the industry. To be suitably equipped to understand how organizations position themselves against each other, two techniques can be used that offer insight into this issue and these are (Johnson & Scholes, 1999):

- **Strategic Group Analysis**

Strategic group analysis can be used to identify the differing ways in which particular groups of companies compete within an industry. Broad surveys of competitive forces are useful in strategic analysis.

The key is to identify key differences between the companies within an industry. Such characteristics might include different approaches to product diversity, geographic coverage, extent of vertical integration, distribution channels, branding, use of technology and research and development spending.

Once the key characteristics have been identified, a strategic group map can plot the differing approaches taken by organisations within an industry. This will then highlight the similarities of approach taken by firms within a particular strategic group and the differences of approach between strategic groups (Johnson & Scholes 1999).

- **Market Segmentation Analysis**

It should be noted that generally people's tastes and needs differ, so not all products and services are likely to meet their requirements. Therefore it is important to identify these different requirements through market segmentation analysis. Companies can change their strategies to suit the

needs of particular groups of customers, so defining a position within the market that is more favourable relative to the forces of competition.

Tools like Strategic Group Analysis and Market Segmentation Analysis allow for a more detailed assessment of the approach taken by an organisation within a particular industry or market sector (Johnson & Scholes, 1999).

The analysis of the external environment is fundamental within the strategy process. It is important to understand the environment to enable one to identify the strategic opportunities and threats that organizations face.

2.6 ANALYSING THE INTERNAL CAPABILITIES OF AN ORGANISATION

The external environment in which an organization operates has a fundamental impact upon its performance. A cursory look across the spectrum of activities an organization is involved in will reveal differences in performance. It is clear that what organizations do, as well as how well they do it, will have a significant impact upon their success or failure.

The focus area in strategy in recent years has been upon the capabilities of the organization to use the resources available to it in order to build success. This has resulted in a range of frameworks and techniques being developed in order to understand and analyze the strategic capabilities of organizations. These frameworks and techniques are explored below.

- THE PURPOSE OF A CAPABILITIES ANALYSIS

Generally organizations have a myriad of strengths and weaknesses, which results in them having different abilities to deal with the threats and opportunities presented by the external environment. In an unpredictable world it is imperative to understand how adequately equipped an organization is to cope with the changes.

The purpose of an internal analysis is to identify and understand the strategic capabilities it possesses. Further, to assess how it would deal with the challenges it faces (Johnson & Scholes, 1999).

A capability analysis is geared towards those factors that will allow an organization to outpace its competitors. This is achieved by:

- Undertaking a resource audit of an organization.
- Using value chain analysis to outline the activities an organization performs and the ways in which it links them together in order to create competences.
- Understanding the potential sources of cost efficiency and value added that could underpin and sustain the strategic capabilities of the organization.
- Using relevant frameworks to identify and analyze the core competences and strategic capabilities of an organization (Johnson & Scholes, 1999).

2.6.1 AUDITING THE RESOURCES OF THE ORGANISATION

The resources available to the organization can be critical to strategic success. If an organization does not have the quantity of resources necessary, or they are not of sufficient quality, then it is unlikely that the organization's strategy will be realized. The resources of the organization go beyond a simplistic list of the factors of production, land, labour and capital, to include the skills possessed within the organization and resources created by previous activities. In auditing the resources of an organization it is also important to consider not only those resources it owns but also those to which it has access. In broad terms, resources can be split into four types (Hall, 2001):

- **Physical** - the buildings, machinery, facilities and equipment used by the organization. Any audit of these resources also needs to consider factors like their age, condition, technological sophistication, capacity and

location.

- **Human** - the people involved within the organization. Any audit needs to extend beyond a headcount to consider factors like education levels, skills mix, skill levels, age profiles and adaptability.
- **Financial** – not just available cash, but the ability of the organization to raise capital, management of working capital (stocks, debtors and creditors) and external financial standing.
- **Intangible** – these include patents, brand names and reputation. They are often more difficult to identify or copy, but as a result potentially more valuable in creating competitive advantage.

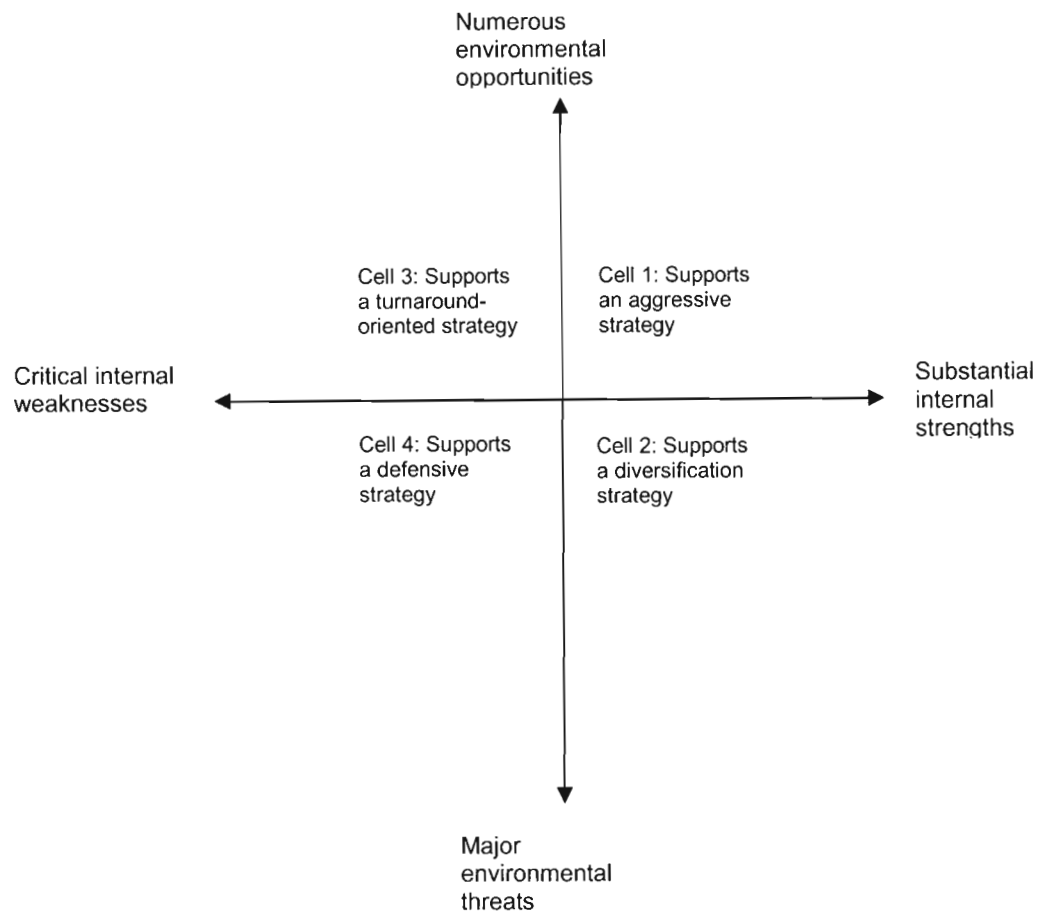
2.6.2 SWOT ANALYSIS

A useful tool that can be used to determine strengths, weaknesses, opportunities and strengths of an organization, is a SWOT matrix. The SWOT analysis is discussed more in depth later in this chapter. A firm should not necessarily pursue the more lucrative opportunities as it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare it to pursue a compelling opportunity.

- **SWOT Analysis Diagram**

The diagram in figure 2.4 illustrates how SWOT analysis builds on the results of a resource-based view analysis of a firm to aid strategic analysis. Key external opportunities and threats are systemically compared with internal resources and competencies, that is, strengths and weaknesses, in a structured approach. The objective is identification of one of the four distinct patterns in the match between a firm's internal resources and external situation.

Figure: 2.4 - SWOT Analysis Diagram



Source: Pearce & Robinson (2000)

2.6.3 VALUE CHAIN ANALYSIS

The value chain links the value of the activities of an organization with its main functional parts (Lynch, 2000:266). It then attempts to make an assessment of the contribution that a part makes to the overall added value of the business.

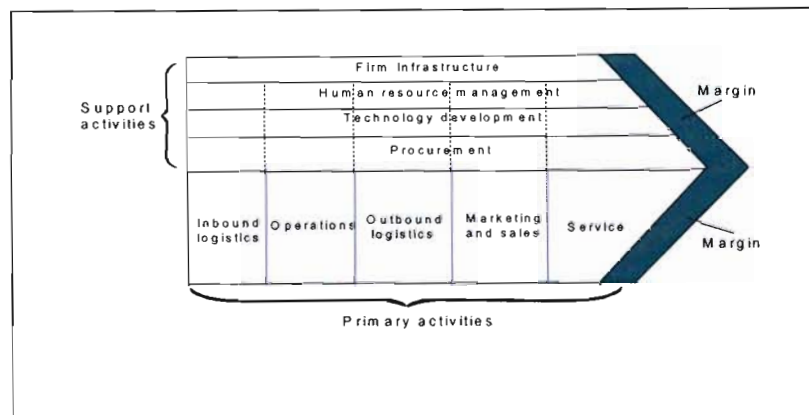
According to Porter (1985) cited in Lynch (2000:266) value chain analysis is:

- i. The added value that each part of the organization contributes to the whole organization; and
- ii. The contribution to the competitive advantage of the whole organization that each of these parts might then make.

- Analyzing Value Chain Activities

Every organization is a collection of activities that can be split into the primary activities and support activities. All these activities can be represented generically through the value chain depicted in Figure 2.5. The particular structure of an organization's value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economics of the activities themselves.

Figure: 2.5 – Value Chain



Source: M.E Porter, Competitive Advantage, Free Press, 1985.

Value activities can be divided into two broad types (Porter, 1985):

- **Primary Activities** - The five primary activities are divided into inbound logistics, operations, outbound logistics, marketing and sales, and service.
- **Support Activities** - primary activities are supported by purchased inputs, technology, human resources and various organization-wide functions. The dotted lines in Figure 2.5 reflect the fact that procurement, technology development and human resource management can be associated with specific primary activities as well as support the entire chain. Firm infrastructure in particular supports the entire chain.

- IDENTIFYING VALUE CHAIN LINKAGES

A key aspect of organizations is the interdependence or linkages between their various activities. Whilst value activities can be viewed as the building blocks of core competences, linkages are vital to the overall building process in two ways (Tampoe, 2000):

- Co-ordination of linked activities such as procurement and assembly can reduce the need for resource inputs.
- Integration of activities can create the opportunity to lower the total cost of the linked activities or increases the value added.

Managing the linkages across the value system is therefore a key management task. Three kinds of linkages can be considered:

- Linkages within the value chain.
- Linkages between the business units of the same organization.
- Linkages between the value chains of different organizations.

2.6.4 IDENTIFYING CORE COMPETENCES AND STRATEGIC CAPABILITIES

Consequently, the overall strategic capabilities built on unique resources and core competences are usually difficult to identify. Whilst the analyses outlined above can dissect the resources and activities of the organization, offering great insight into how it goes about its business, there is still a risk that the central message remains opaque, obscured by the mass of detail. A further range of frameworks and techniques have been developed that can help make things more visible.

- CORE COMPETENCE ANALYSIS

Using the metaphor of a tree, Prahalad & Hamel (1994) have argued that core competences, core products and end products are linked:

- Core competences are the collective learning of the organization, acting as the root system to nourish and sustain and provide stability.
- Core products are the physical embodiments of one or more competences, acting like a tree trunk, the link between core competences and end products. These core products can be exploited by the business units, which are the smaller branches of the tree.
- End products are like leaves because there are many of them and they are the most visible aspects of the corporation, being sold through the business units.

Prahalad & Hamel (1994: 225) went on to argue that as individual business units both use and contribute to core competences they need to be brought more closely together than in the linkages approach. Core competences extend across organizational boundaries, involving many people and functions, so the traditional strategic business unit structure tends to hinder their development. Individual business units tend to focus too narrowly on innovation opportunities close at hand. They may also be unwilling to allow other business units to exploit competences they have developed, particularly if this might mean transferring key staff. Hence the need for the corporate centre to directly manage core competences, taking decisions to benefit the corporation as a whole.

As with the other approaches, the understanding of how synergy is created and managed will have implications for the scope of the corporation, as well as the methods and directions of development. Whilst the range of end products can be extensive, the number of core products, and the core competences on which they are based, is likely to be limited, with strong relationships between them. The consideration of internal developments, potential acquisitions or strategic alliances is likely to focus upon opportunities to acquire new core competences, or enhance or exploit the existing core competences of the corporation.

In his article, Mahen Tampoe (2000) suggests that this breakdown can be achieved using the following steps:

- Analyze the revenue stream to identify products and services that make a significant contribution to the organization's success.
- Taking each product and service:
 - Disassemble them to identify core products and services, and then disassemble these to identify the basic technologies, people skills, processes and strategic assets used.
 - Dissect services to identify core processes or unique talents that confer unique value to the service.
 - Relate products or services to the technical, administrative or institutional sub-systems of the organization.
 - Analyze the sub-systems to find basic technologies, people skills, processes and strategic assets that combine to create the market strength of the core products or services. This is a core competence.
- Test core competences by asking:
 - Do they provide potential access to a wide variety of markets?
 - Do they make a significant contribution to the perceived customer benefits of the end products and services?
 - Are they difficult for competitors to imitate?

2.6.5 CONCEPTS AND METHODOLOGIES OF BEST PRACTICES

One approach to the task of assessing the comparative performance of parts of an organization is benchmarking or best practices. This entails a comparison of practice with other organizations in order to identify areas for improvement. For this study an evaluation of an organization's application of best practices will be explored and accordingly an in-depth analysis of best practices is presented.

Best Practice methodologies are being used in different environments and in different types of settings by highly different organizations for significantly different purposes (Ejesia, 2001:1). On the one end, for example, one may see that Best Practices on production and logistics are being exchanged among suppliers of assembly parts for the aviation industries, in order to benefit from each other and to provide the main customers in the aviation market with optimal logistic services. On the other hand one

may see that historical archives write down what they experience as Best Practices on storing digital records for long periods, to help each other to attack a new and challenging problem.

The meaning of Best Practices in all these cases may be quite different and so is the 'contents' of the Best Practice. What all definitions have however in common is their emphasis on "practice" in contrast to "theory". Furthermore in many cases the practice may not be the "Best": In many cases "Best" means "working" or "proven". Sometimes a "Best Practice" may be the only known way of doing something, although we do not know (theoretically) why. If there is only one way of doing something it automatically is the "Best" (Ejeisa, 2001:1).

In practical businesses striving for the best may be considered an important objective, but for many aspects of a business the saying "good is good enough" applies.

- **THE BEST PRACTICE CONCEPT**

A search for a precise definition of the concept of best practice usually ends in a confusion of competing assertions and statements, each one representing a particular viewpoint resulting from the circumstances and experiences of the author. To appreciate the concept, or notion, of Best Practice it is necessary to absorb these different viewpoints and to develop an understanding of what considerations may lead to improvements in the performance of an organisation (Aesopian, 2001:1).

Understanding Best Practices will involve taking account of the context and applicability of Best Practices identified, but it can never be complete because new Practices will appear for new situations and some of these will be deemed proven and 'best'. Inevitably the label 'best' must always be qualified by the context for application of Best Practices (Aesopian, 2001: 1).

- **BEST PRACTICE DEFINITIONS**

The question "What is Best Practice?" is an intriguing one. Definitions from organisations involved in Best Practice simply prove the difficulty one faces when seeking concrete expressions to describe the concept:

- "Quite simply, Best Practices are the best ways to perform a process. They are the means by which world-class organisations have achieved top performance. They are also a goal for other organisations" (Accenture, Global Best Practices);
- "A practice, method or process may be deemed as a best practice when meeting certain attributes..." (KPMG);
- "Best methods, practices, approaches, solutions and initiatives" (Best Practices Clearinghouse);
- "Best Practices are examples of actions which could be recommended for further applications, whether in a similar or adapted form." (Dubai International Conference on Best Practices");
- "The way in which an enterprise creates a process which leverages skills and resources with appropriate procedures and control to command leadership in a given marketplace". (Gartner Group);
- "A high performance way of achieving business objectives, which solves problems, creates opportunities, and improves business results". (Benchmark Communication).

The definitions above, given by different authors and different organisations show clearly that there is clear that no single and unambiguous definition can be given. To develop one's understanding of the concept it is necessary to explore the characteristics, which may be found in those practices, deemed 'best' and to develop criteria for selection based on the characteristics of the strongest candidates (Ejeisa, 2001:2).

- **THREE CHARACTERISTICS OF BEST PRACTICES**

Most literature defines Best Practices in terms of examples, which may include methods, procedures, skills, crafts, tools and approaches. All have been recognised as being the best in a specific situation. Clearly this is a more practical than scientific way to define Best Practices.

So the focus must be on characteristics of Best Practice. Three can be immediately be distinguished and these are (Ejeisa, 2001:2):

- The first of these is the purpose of a Best Practice. Clearly a Best Practice has to be aimed at providing the best way to perform the operations and activities of an organisation to attain the organisational objectives. Although Best Practices may have the same general purpose there are differences: some are aimed at business processes and others are aimed at methods and techniques and skills and crafts.
- The second characteristic is the content of a Best Practice in terms of knowledge. The content of a Best Practice can vary from codified knowledge to tacit knowledge or a combination of both. For example in a method used for configuration management the content is mainly codified knowledge, while the specific way to deal with organisational change as a result of the introduction of new ICT in an organisation is tacit knowledge (Nonaka & Takeuchi, 1995).
- The last characteristic is the performance achieved by adopting Best Practice. In order to be 'Best' the practice has to be better than others and therefore the performance achieved has to be compared. This means that Best Practices have to be compared (bench-marked) with each other. However, in one context a certain practice may be the best, while in another context another practice may apply. This means that performance is often described in terms of usability of a practice. Identifying Best Practices is then also includes the ability to estimate the possible further use of a certain practice.

- **THE PURPOSE OF BEST PRACTICES**

The term 'Best Practice' must always be used in an organisational context. Within this context, Best Practice makes reference to operations and business processes and, less explicitly, to the necessary skills and crafts, methods or procedures that are used to perform, execute or carry out them.

Best Practice can be divided into two main categories:

- Best Practices which are Business Processes determine the selection of activities which achieve the operating goals of the organisation.

- Best Practice Methods, Techniques, Skills and Crafts support that operation by prescribing how the business processes shall be carried out.

Best Practices aimed at business processes, either core or supportive processes, usually have the most direct impact on the performance of an organization, however for core processes they may be quite specific. Methods, techniques and tools introduced as Best Practices to execute those business processes contribute to that impact, and may be more broadly applicable (Ejeisa, 2001:3).

Skill and Craft 'capabilities' are specific to the behaviour of the employees of an organization, and are related either generally applicable or highly specific for the organization. But, as with most changes to human behaviour, Best Practices which require new skills and crafts will be the most difficult to be implemented in an organization. However this does not mean that Skills and Crafts are less important to an organization than its Business Processes or methods and tools (Ejeisa, 2001:3).

- THE CONTENT OF BEST PRACTICES

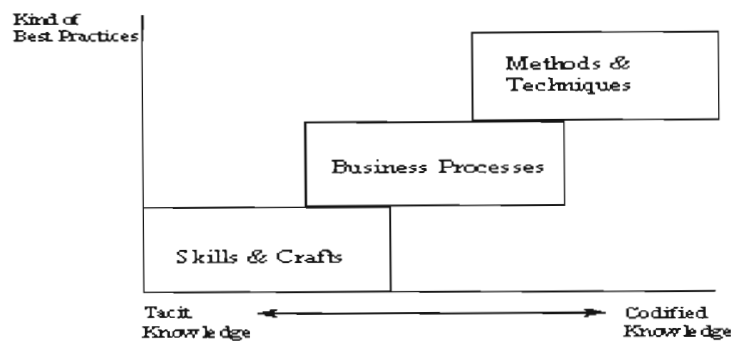
Depending on the purpose of a Best Practice there will be differences in the specific knowledge contained. These differences relate to the three different kinds of Best Practices mentioned previously (see Figure 2.6 below).

- Methods and techniques are made up of codified knowledge. Information about a certain technique for building software modules will be stored in books, schemes or on-line databases.
- Skills and capabilities on the contrary consist mainly of tacit knowledge. This knowledge is personal experience and skills, which are possessed by employees.
- Business process Best Practices can be a combination of both codified and tacit knowledge. These Best Practices do not only describe methods and techniques to best perform certain activities, but also skills and crafts needed for that particular Business Processes (Ejeisa, 2001:4).

As codified knowledge is more easily assimilated and stored, the provision and adoption of Best Practices built from codified knowledge like methods and techniques

is more commonplace. Skills and crafts present greater difficulties and are less easily found and adopted as a Best Practice.

Figure: 2.6 – Knowledge Content Of Best Practices



Source: Aesopian, 2001

- THE PERFORMANCE OF BEST PRACTICES

If the "Practice" is the paradigm, what about the possibility of considering some of them as best? The idea that there is a best way of doing something has not always been present in management theories or for that matter, in much of the actual organization of human endeavours. Organizations, commercial, non-profit or governmental, have tended to evolve their own methods for using technology and handling production and management problems. Many organizations are aware of the fact that there are better or improved ways of doing things. Too few organizations, however have embraced the idea that there is a best way of doing something - a Best Practice -, which, in the real world of application, actually gets better results. This is a concept which leading consultancy firms now regularly promote to their clients.

The implication in the Gartner Group definition of a Best Practice is that, at least in a commercial setting, those organizations, which adopt Best Practices, are better positioned to survive and rise to achieve leadership in the marketplace (Gartner, 2001). It should be noted that Best Practices themselves do not remain static and unchanging.

- SOME MODELS FOR BEST PRACTICE

The main experiences of best practice application to organisations' processes are being gathered by consultancy firms, industrial associations, government institutions and specially established networks or collective initiatives. They are progressively building up a set of procedures, methods and "practices" on Best Practices application and use. Although it is not possible or advisable to categorise them in a very rigid manner, some of them are emerging as models to be followed. To qualify they must satisfy criteria, which include their coverage, rationality of approach and congruity with the concept and purpose of the theory (Ejeisa, 2001:5).

There is danger in the adoption of too strict a model or approach with regard to the best practice theory. The concept of best practice is widely accepted because it is considered more flexible and adaptable than specific methods or doctrines.

If a model for selecting and applying Best Practices is imposed, through popularity or importance of its customer base, the acceptance of the concept will be damaged as its flexibility and adaptability is removed. Therefore, while several models of Best Practices may be presented to illustrate the variety of approaches, no attempt should be made to conclude that a particular theory is better than others (Aesopian, 2001:5).

Pragmatic use of the term best practice reflects current trends in managerial goals: a competitive approach to strategic issues; the need of and, thus, the search for excellence in company's behaviour; and, above all, an emphasis on pragmatism. This means that exerted or practiced knowledge, the knowledge hidden under the successful performance, is to be preferred to theory stemming from scholarship or consultancy (Ejeisa, 2001:5).

In the Best Practice concept there is convergence of a practical focus to the solution of managerial problems (practice, exerted competence, "how-to" approach), the need for excellence (best) in performance and a subjacent need of comparison of one's own behaviour against others. This need for comparison links the concept of Best Practice

to that of benchmarking as a continuous and systematic process of comparing one's own performance indicators with those of the best (Ejeisa, 2001:6).

It seems that there are two almost opposite points of view with regard to the Best Practices concept or, more precisely, to its use. One supports the use of Best Practices as a kind of superior knowledge of an almost universal value. Of course it would be necessary to adapt this knowledge to the specific circumstances of the adapter, but this does not question the superior quality of the best practice and the fact that it would be worth of trying it out. The other viewpoint, although recognising the value of a practice already proved as successful in a particular context, tends to be cautious over accepting that this practice by itself can be useful for another company, in another context (Ejeisa, 2001:6).

Both approaches have supporters and practitioners. It is difficult to justify a position which supports one and excludes the other. The difference is almost of a philosophical nature. Are there universal truths? Are there solutions / approaches which are valid for (almost) every problem whatever its context. Or is the opposite true? Does each situation require a new solution?

2.7 APPROACHES TO SUSTAINABLE COMPETITIVE ADVANTAGE

Thus far a series of models and frameworks have provided insights into the external environment and the strategic capabilities possessed by organizations. Many of these models and frameworks have developed as a consequence of a twenty-year debate over the way in which organizations seek to develop sustainable competitive advantage.

In broad terms, two distinct approaches have emerged from the debate about this central issue within strategy content: the positioning approach and the resource-based approach. Much of the debate has concentrated upon two key questions:

- Is competitive advantage achieved by concentrating on either low cost or differentiation or should a strategy seek to exploit both low cost and differentiation?

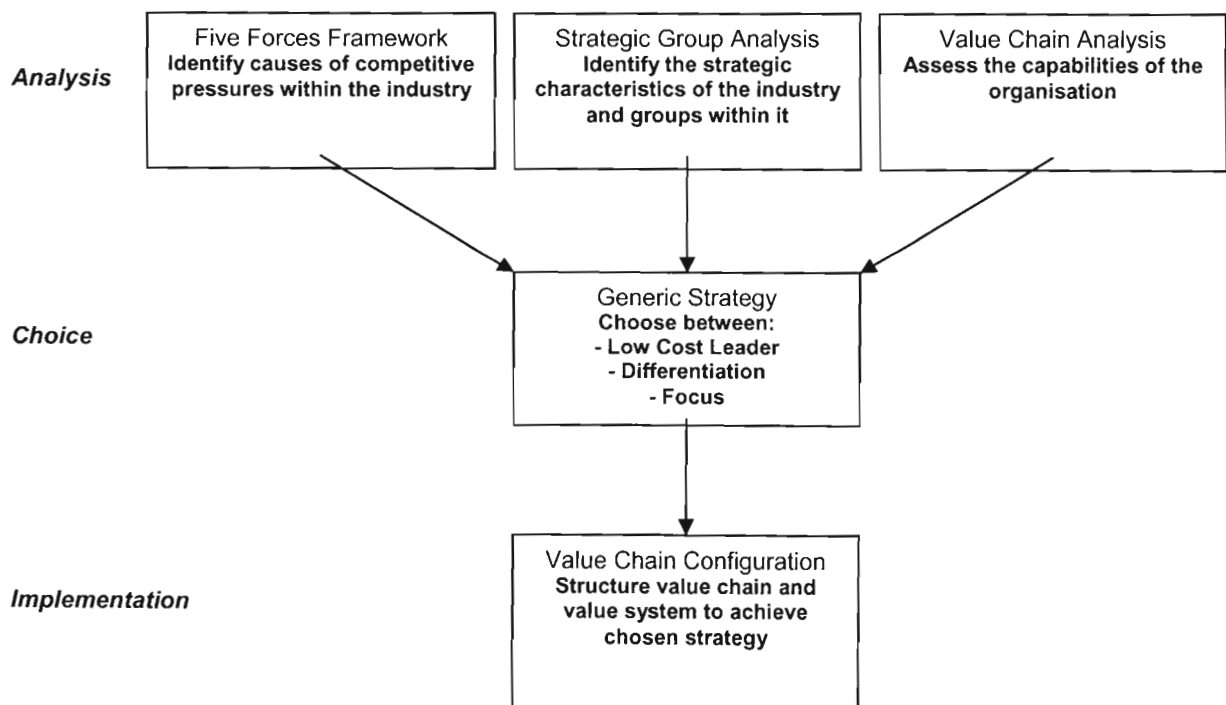
- Does an organization develop strategy to respond to or shape the environment in which it exists – is strategy outside-in or inside-out?

As the primary purpose of the tools of strategic analysis is to help organizations to develop and implement successful strategies, then an understanding of the underlying context in which these models and frameworks can be applied is an important requirement. By exploring the development of these competing approaches to competitive advantage and the debate between them.

2.7.1 THE POSITIONING APPROACH

Michael Porter outlined the main features of his approach in his text *Competitive Advantage* that was first printed in 1985. In this book he brought together a series of tools and models, some of which he had outlined in his earlier work. Although not described by Porter in precisely these terms, the analysis-choice-implementation framework can be used to highlight how the tools and models come together within the positioning approach is illustrated in Figure 2.7.

Figure 2.7 – The Positioning Approach



Source: Johnson & Scholes 1999

The positioning approach commences with an analysis of the external environment where the five forces framework being used to understand where the competitive pressures come from within the industry and strategic group analysis being used to better understand the main strategic characteristics within the industry and identify particular competitor groups. A value chain analysis can also help the organization to understand its existing capabilities (Johnson & Scholes, 1999).

In choosing a strategy the organization needs to consider how it can position itself against the forces of competition within the industry:

- by using its capabilities to provide the best defense against these force(s);
- by influencing the balance of forces so that they favour the organization's strategy; or
- by anticipating shifts in forces and reacting to exploit them quicker than the competition.

Porter (1985) argues that positioning determines whether a firm's profitability is above or below the industry average. A firm that establishes a favourable position can earn high rates of return even if general conditions within the industry are unfavourable and the average profitability of the industry is modest. Positioning depends upon exploiting the sources of competitive advantage that exist as a result of the underlying economic structure of the industry. Competitive advantage can be divided into two types - low cost or differentiation. A further dimension to be considered is the scope of activities over which advantage is to be sought - many segments of the industry or just one or two. Porter (1985) argues that this requires organizations to make a choice between the generic strategies outlined in the diagram below.

Figure: 2.8 – Generic Strategies

		Competitive Advantage	
		Low Cost	Differentiation
Competitive Scope	Broad	Low Cost Leader	Differentiation
	Narrow	Low cost focus	Differentiation focus

Source: Adapted from M E Porter, Competitive Advantage, Free Press, 1985

Finally, the company needs to consider how to implement the chosen strategy. Porter (1985) argues that the activities that the organization undertakes and the ways in which they are linked, as highlighted by the value chain and value system, can all contribute to the strategy if they exploit the sources of cost efficiency or value added available as can be seen in Figure 2.9.

Figure: 2.9 – Generic Strategies and Value Chain Activities and Linkages

LOW COST STRATEGY	DIFFERENTIATION STRATEGY
Critical Activities Efficient operations Low cost logistics & distribution Process Design - efficient processes Product Design - easy to make products HRM - good labour supervision	Critical Activities Product design - innovative products Marketing - brand image promotion Service - quality customer service HRM - staff training Operations - quality assurance
Cost Drivers Economies of scale Economies of scope Experience curve Supply costs	Differentiation Drivers Service quality and levels Product features Delivery times Image

Source: Adapted from M E Porter, 1985 and Johnson & Scholes, 1999

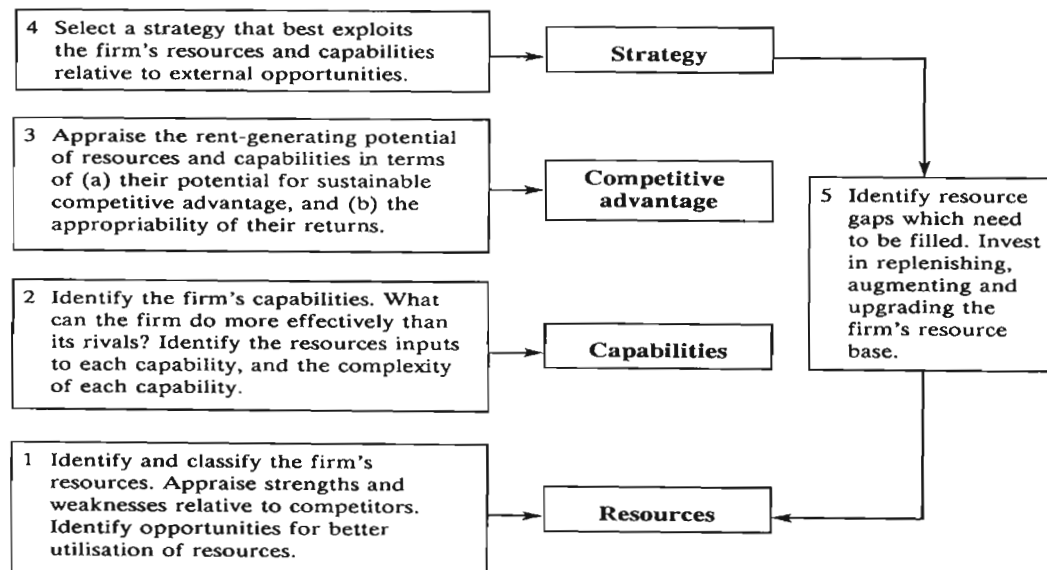
By reconfiguring its value chain and wider value system, a company can concentrate upon the critical activities and linkages that exploit cost drivers or differentiation drivers based upon the sources of advantage. The critical point to recognize here is that there needs to be consistency between all these critical activities and linkages in order to deliver a clear generic strategy. Further, provided that these drivers can resist erosion by the actions of competitors then the chosen strategy is likely to deliver sustainable competitive advantage (Johnson & Scholes, 1999).

Whilst other tools like PEST analysis and market segmentation analysis have not been mentioned as part of the positioning approach, they can also be usefully employed in assessing the conditions of the external environment and potential customer requirements.

2.7.2 A RESOURCE BASED APPROACH

Robert Grant (1997) developed a resource-based framework that can be used for strategy formulation. The outline of this approach is illustrated in Figure 2.10.

Figure: 2.10 – Grant’s Resource-based Framework



Source: Grant, 1997

Taking each of the stages in turn, the range of tools and models that can be utilized are explored below:

- Analyse the Firm's Resources;
- Analyse the Firm's Capabilities; and
- Appraise the Sources of Competitive Advantage.

The final stage of Grant's (1997) framework is to identify ways in which the organization can build on existing resources and capabilities in order to create future advantage. This means developing strategies that address resource gaps by enhancing

current resources and capabilities, or acquiring new ones. As sustaining competitive advantage is critical, firms need to continually search for new ways in which to upgrade their resources and capabilities - finding new sources of cost efficiency or ways to add value. This can mean replacing existing sources of advantage even whilst the firm maintains an advantage over its competitors.

2.7.3 APPLICATION OF BOTH MODELS

Two approaches were explored to the search for sustainable competitive advantage, outlining the elements in each approach and the tools and models that can be used at each stage.

The positioning approach stresses the need for an organization to make a clear choice about its strategy, based on sources of low cost and differentiation advantage, so that it addresses the challenges it faces from the external environment. The resource-based approaches stress the need to build and use the resources and capabilities of the organization so that it can exploit sources of low cost and differentiation advantage in a unique manner. Over the past twenty years a debate has raged over which of these approaches best meets the needs of organizations as they seek to develop successful strategies. The two central questions in this debate have been:

- Are low cost and differentiation mutually exclusive?

Whilst the early debate concentrated upon whether these sources of advantage could be combined, the stress today is upon achieving a unique combination of low cost and differentiation advantage that makes the organization distinct from its competitors either in what it does or how it does it.

- Is the search for competitive advantage outside-in or inside-out?

The positioning approach is often described as outside-in, whilst the resource-based approaches are seen as inside-out. However, this is less about describing the stages of a strategy process and more about the underlying logic of the strategy content – should the strategy be market-driven or capabilities-driven.

Most within the argument now accept that both are important – distinct positioning within the market compared to competitors and the development of capabilities to meet ever-changing market needs are both pre-requisites for sustainable competitive advantage.

2.8 METHODS AND DIRECTIONS OF CORPORATE STRATEGY DEVELOPMENT

Corporate strategy focuses on the strategic decisions involved in trying to manage this complexity. As well as decisions on how to compete in each area, the organization needs to decide in which directions to develop, what methods of development to use, how far to extend the scope of the business and how to create and manage synergies to achieve value as a corporate whole.

- DIRECTIONS OF DEVELOPMENT

The best-known framework for describing alternative directions of development was developed by Igor Ansoff in the 1960s and is still well used today. The framework explores the varying directions that are the result of developing combinations of existing and new products and markets. Figure 2.11 outlines Ansoff's framework, with each of the directions that may be adopted.

Figure: 2.11 – Ansoff's Directions of Development Framework

		PRODUCTS	
		Existing	New
MARKETS	Existing	Develop Current Position Withdrawal Consolidation Market Penetration	Product Development Product Range Extension New Product Range
	New	Market Development Market Extension New Uses Geographic Expansion	Diversification Related - Vertical Integration (Backward/Forward) - Horizontal Integration Unrelated or Conglomerate

Source: Ansoff, Corporate Strategy, 1987:110

Opportunities for an organization to develop frequently come from existing markets served by existing products/services. Consolidation involves the organization protecting and strengthening its current position, whilst market penetration implies an attempt to increase market share. Whilst not strictly about existing products and markets, withdrawal implies a further option for the organization - exiting from existing activities.

- COMBINING DIRECTIONS AND METHODS

Three broad methods of development can be identified:

- Internal development – where the organization seeks to develop using its own resources and capabilities.
- Mergers and acquisitions – where the organization seeks to develop by buying another organization or two organizations combine their assets and activities.
- Strategic alliances – where organizations seek to develop using a range of approaches based on co-operation with other organizations.

Some of the many combinations of direction and method of corporate development are illustrated in Figure 2.12. Reflecting the fact that corporate development can involve changing the scope of an organization by getting out of some activities, as well as growing others, withdrawal is identified as a separate direction of development. Each of these methods is explored in greater detail below.

Figure: 2.12 – Combining the Methods and Directions of Corporate Development

	Internal Development	Mergers & Acquisitions	Strategic Alliances
Withdrawal	Closure of a particular business operation	Disposal, de-merger or management buyout	Licensing of older brands to another manufacturer
Consolidation / Market Penetration	Marketing campaign to maintain/increase market share	Merger with existing competitor in market	Consortia of local councils to create combined fire & rescue service
Product Development	Increased research & development activity	Buy company which has created a new product	Agreement with competitor to jointly develop new product
Market Development	Open sales office in export market	Acquire company in export market	Joint venture between foreign entrant and local company
Diversification	Forward integration into distribution using own vehicles & warehouses	Acquisition of business in unrelated product & market activities	Retailer combines with banker to create telephone banking service

Source: Johnson & Scholes, 1999

- **INCORPORATING CAPABILITIES**

In outlining Ansoff's directions of development framework above, mention was made that an understanding of capabilities was changing the traditional view of the importance of products and markets. Organizations increasingly see themselves in terms of business processes that can help to create value or competitive advantage, implying an additional dimension to the framework (Johnson & Scholes, 1999).

The original Ansoff Matrix sees development directions very much in terms of discrete boxes. However, it is often useful to see them as directional vectors, moving increasingly away from the known (consolidation) to the unknown (unrelated diversification), combining elements of movement in both products and markets. Withdrawal can also be seen as a move in the opposite direction. This can simplify the original matrix into a single dimension (Johnson & Scholes, 1999):

- Moving from withdrawal;
- Through existing developments (consolidation and market penetration);
- To related developments (product and market development to related diversification); and
- Unrelated developments (conglomerate diversification).

It now becomes easier to see developments in business processes along the same scale. As outlined above, the directions of development can be combined with a variety of methods, creating a wide range of development options (Johnson & Scholes, 1999). The framework in Figure 2.13 outlines the range of developments in terms of direction and method.

Figure: 2.13 – A Revised Framework for Directions and Methods

	Mergers &				
METHO	Strategic Alliances				
	Internal Methods				
		Withdraw	Existing	Related	Unrelated
		DIRECTIONS			
		(Products/Markets/Processes)			

Source: Johnson & Scholes, 1999

2.9 GROUPING OPTIONS INTO STRATEGIC OPTIONS

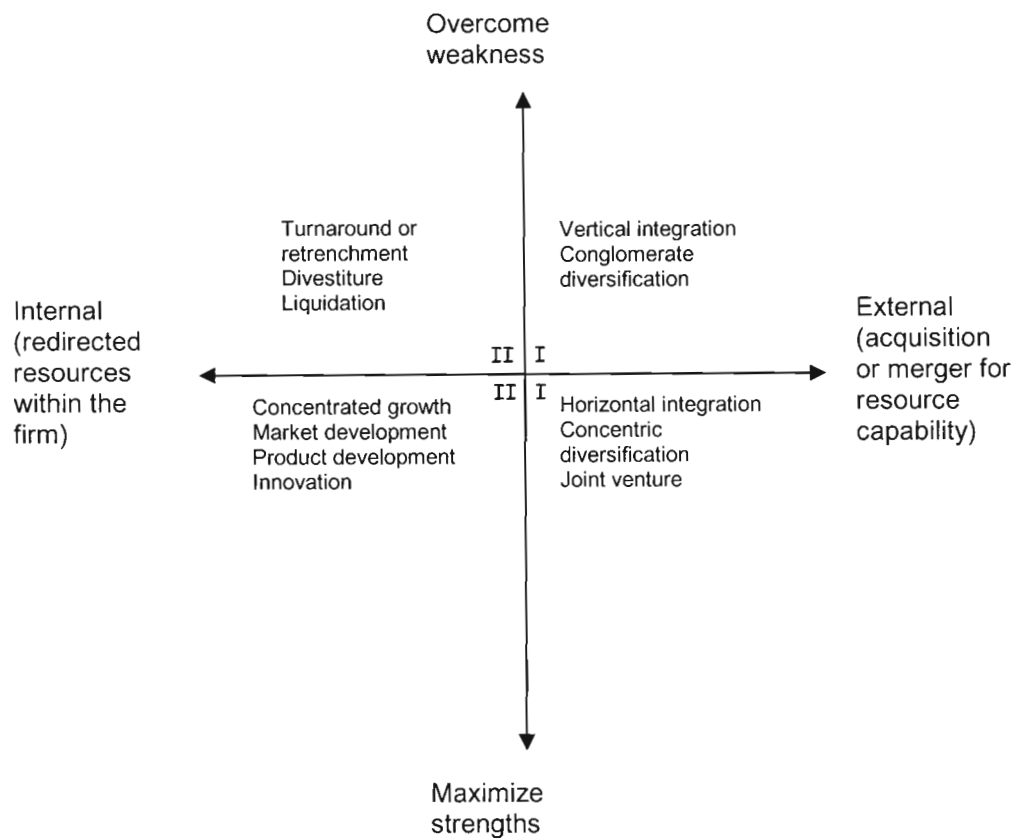
Options about products/markets, resources/capabilities and the method of implementation have to be combined into a much smaller number of strategic options. This may be a bottom-up or top-down process. The bottom-up approach implies linking what might be done in detail into potential strategies that seem to make wider sense. The top-down approach means testing general ideas of future direction against detailed options. In practice, the process is likely to combine top-down and bottom-up thinking.

- GRAND STRATEGY SELECTION

This matrix below is a good guide to assist in the selection of a ‘potential’ grand strategy and is shown as figure 2.14. The basic idea underlying the matrix is that two variables are of central concern in the selection process (Pearce & Robinson 2000:315):

- i). The principle purpose of the grand strategy; and
- ii). The choice of an internal or external emphasis for growth or profitability.

Figure: 2.14 - Grand Strategy Selection Matrix



Source: Pearce & Robinson, 2000

- MODEL OF GRAND STRATEGY CLUSTERS

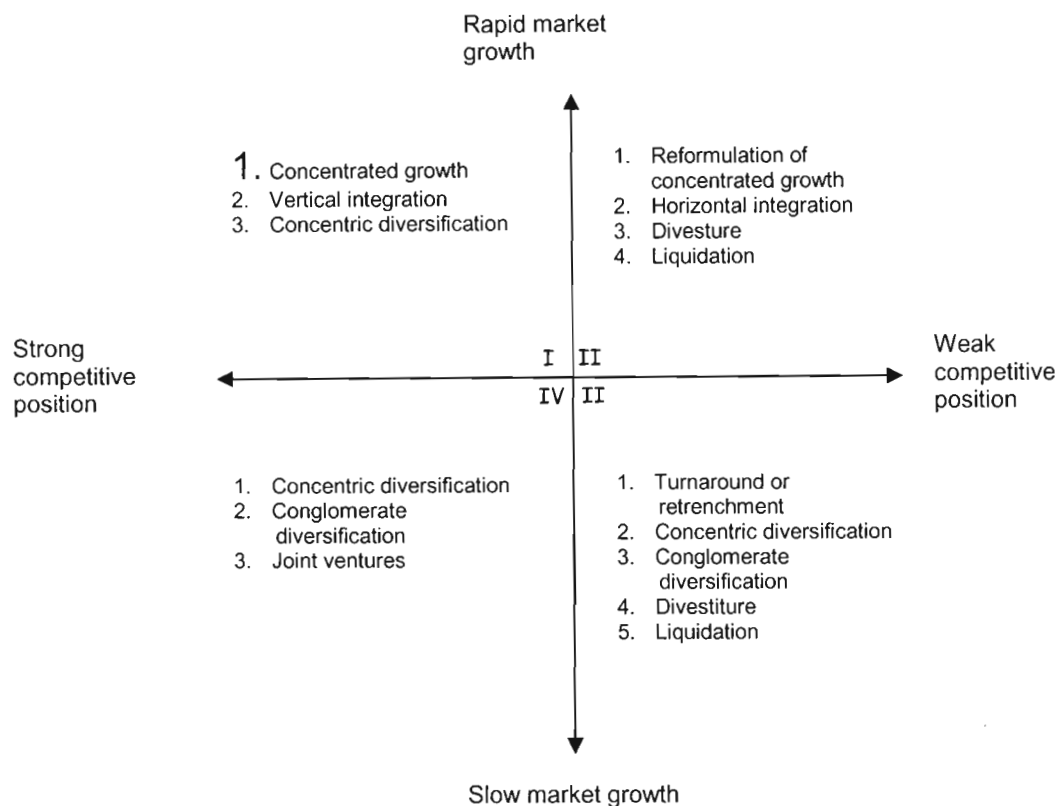
The second guide to selecting a promising grand strategy is shown in figure 2.15. The matrix is based on the idea that the situation of a business is defined in terms of the growth rate of the general market and the firm's competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized in one of four quadrants, which can be stated as (Pearce & Robinson 2000:317):

- I. Strong competitive position in a rapidly growing market;
- II. Weak position in a rapidly growing market;
- III. Weak position in a slow growth market; or

IV. Strong position in a slow-growth market.

Each of these quadrants suggests a set of promising possibilities for the selection of a grand strategy.

Figure: 2.15 - Model of Grand Strategy Clusters



Source: Pearce & Robinson (2000)

The model of grand strategy selection or the model of grand strategy clusters matrices are valuable tools to help organizations evaluate and narrow their choices among alternative grand strategies. It assists in the challenge of how to chart the future and continue to build shareholder value (Pearce & Robinson, 2000:317).

2.10 IMPLEMENTATION

Implementation programmes vary according to the nature of the strategic problems, which the organization faces (Lynch, 2000:758). The two essential causes of variation in implementation programmes are:

- i. The degree of the uncertainty in predicting changes in the environment;
- ii. The size of the strategic change required.

To address the aforementioned issues Lynch (2000:758) suggests that the following questions should be addressed:

- What activities need to be undertaken in order to achieve the agreed objectives?
- What is the timescale for the implementation of these plans?
- How will progress be monitored and controlled?

Lynch (2000:758) further suggests that to turn general strategies into specific implementation plans involves four basic elements should be followed and these are listed below:

- Identification of general strategic objectives;
- Formulation of specific plans;
- Resource allocation and budgeting; and
- Monitoring and control procedures.

A powerful determinant of successful strategy implementation and execution is how well management leads the process. The success of the process is dependent on how management handles different business practices, competitive circumstances, work environments, cultures, policies, compensation incentives, mixes of personalities and organizational histories.

According to Thompson & Strickland (2001:347), *“strategy implementation is based on individual company situations and circumstances, the strategy-implementer’s best judgment and the implementer’s ability to use particular change techniques adeptly”*. In this case study the following factors were deemed to be important and as such are discussed in detail.

2.10.1 DEFINING CORPORATE CULTURE

Corporate culture is a general term that is applied to some of these “soft features” of management. Even to introduce the word “culture” into the discussion makes many managers shudder - often with some justification, since this is often an excuse for posturing. Nevertheless, it has become generally accepted that the experience of those within the organization have an important impact upon the way it functions. Indeed, groups within organizations, and the organizations themselves, can be seen to build up experience over time, affecting the way in which they view the world and the actions they take (Johnson & Scholes, 1999).

Corporate culture can be defined as (Internet 1):

“the set of shared values, beliefs, habits of thought which interact with the structure, politics and policies of the organization to produce a set of behavioural norms.”

As one manager said (Internet 1):

“Culture is something which makes members of an organization behave more like each other than non-members!”

According to Edgar Schein of the Massachusetts’ Institute of Technology, culture is the pattern of basic assumptions, which a given group has invented, discovered or developed in learning to cope with the problems of external adaptation (i.e. business environment) and internal integration (i.e. competitive strengths and weaknesses).

These patterns have worked well enough to be considered valid. Therefore, they have to be taught to new members, as the correct way to perceive, think and feel in relation to those problems. According to Schein:

“Culture is not the overt behaviour or visible artifacts that one might observe if one were to visit the company. It is not even the philosophy or value system which the founder may articulate or write down in various charters: rather it

is the assumptions which lie beyond the values which determine the behaviour patterns and the visible artifacts such as architecture, office layout, dress codes and so on."

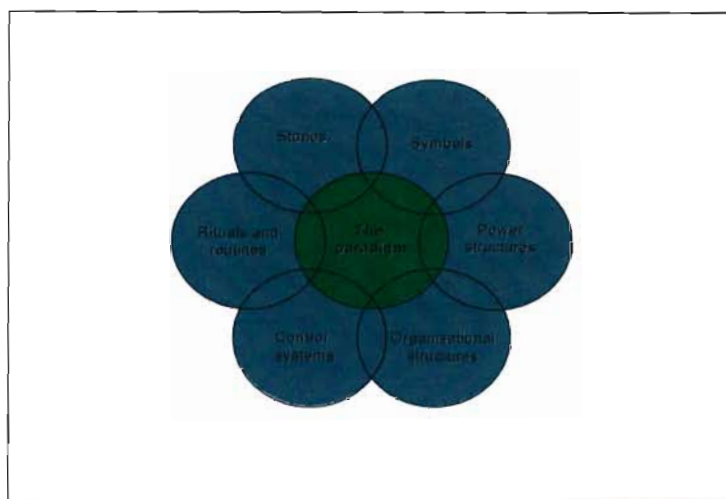
- INFLUENCES ON CULTURE

In trying to understand corporate culture it is worth exploring the influences upon the individuals that make up the organization (Lynch, 2000:318). Often the taken-for-granted assumptions reflect influences upon individuals in terms of what makes them similar to or different from others.

- ANALYSING THE CULTURE OF AN ORGANISATION

In order to understand how the strategic management process will work within an organization, it is clearly important to identify the underlying assumptions, which make up the organization's paradigm. However, by their nature, these assumptions are unlikely to be written down. Gerry Johnson (1992) uses the cultural web framework to highlight those aspects of an organization that are the more visible attributes of this "taken-for-grantedness". By identifying and assessing these components a better picture is likely to emerge of the paradigm at the centre of the cultural web, as illustrated in Figure 2.16.

Figure: 2.16 – The Cultural Web



Source: G Johnson, 1992.

Together these elements of the cultural web reflect and provide an insight into the overall paradigm that drives the day-to-day actions of organizational life. Further, the cultural web highlights the way in which the corporate culture is reflected in both formal and informal elements of the organization. Lying at the centre, the paradigm also tends to preserve and reinforce the key of the cultural web and this has important implications for managing strategic change as will be discussed below (Johnson, 1994).

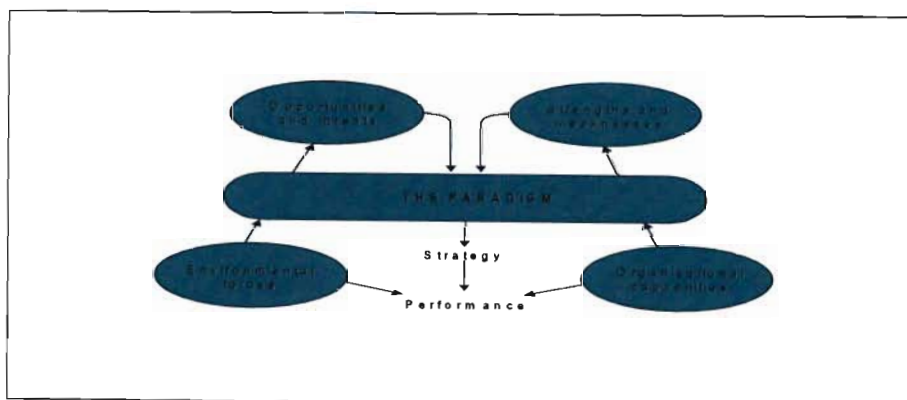
- IMPLICATIONS OF CORPORATE CULTURE

The main concern of this section is to understand the way in which culture can affect strategy, in particular the significance of the paradigm on strategy formulation and the management of strategic change.

i). The Importance of the Paradigm

The paradigm is a way in which those within organizations attempt to deal with complexity, making sense of the world through a series of taken-for-granted assumptions about the way in which things work. In strategic terms this means that the paradigm acts as a filter for understanding the organization and its environment. The implication of this is that external forces and organizational capabilities have an indirect influence on the strategy, whilst potentially having a more direct impact upon the performance of the organization, as illustrated in Figure 2.17 (Johnson & Scholes, 1999).

Figure: 2.17 – The Role of the Paradigm in Strategy Formulation

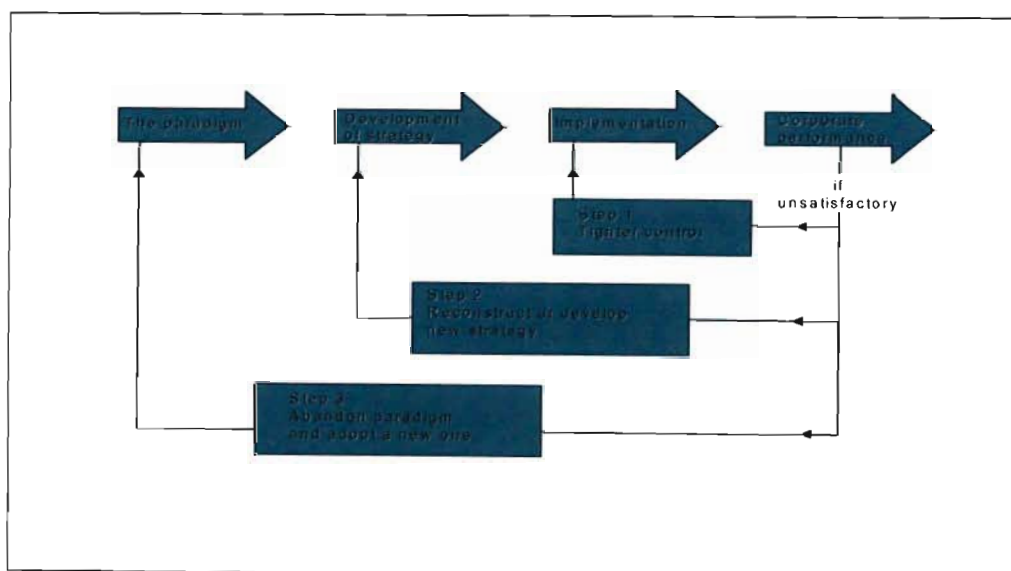


Source: G Johnson & K Scholes, 1999

The illustration shows how the paradigm is central to strategy formulation in most organizations because it determines the way in which the people within organizations believe the “game” of strategy is played (Johnson & Scholes, 1999). The interpretation of organizational strengths, weaknesses, opportunities and threats depends upon the paradigm, as does the development of likely strategies formulated to meet these challenges.

This has implications for the speed of strategic change within an organization. In most cases, when companies face strategic problems implementation processes such as the tightening of controls will be the first things to be altered, on the basis of “right strategy but poor implementation” (Lynch, 2000:926). Only if this tightening of implementation fails to improve performance will new strategies be considered. At this stage, the strategic options identified are likely to be recognizable to those within the organization and consistent with their view of what is realistic. Only if performance continues to worsen is the underlying paradigm likely to be questioned – “does the world really work in the same way any more?” It is at this stage that the paradigm is changed and radically new strategies developed that are consistent with this new “world view” (Johnson & Scholes, 1999). This process is illustrated in Figure 2.18.

Figure: 2.18 – The Process of Paradigm Change



Source: G Johnson & K Scholes, 1999, which was adapted from P. Grinyer & J.C. Spender, 1979

One consequence of the dynamics of this process is strategic drift where the strategy increasingly fails to address the current strategic context. Even successful organizations can maintain existing strategies when more radical change is called for - a situation referred to by Danny Miller as the *Icarus Paradox*, after the mythical Greek character whose success in creating wings led him to fly too near to the sun with feathers held together by wax. In organizational terms, past successes reinforce the circular belief by managers within an organization that their strategies will always be right because they thought of them. As with Icarus, this can lead to a rapid introduction to the physics of meltdown and gravity (Johnson & Scholes, 1999).

ii). Managing Strategic Change

Even if strategic change is recognized as being necessary for the organization, the cultural web points to the complexity of being able to achieve this change in practice. Changes to the organizational structure and control systems, often the main elements identified in a strategic plan, are unlikely to be enough to ensure the change is implemented - the other aspects of the web are also important. Indeed, conflicts between the different aspects of the cultural web are likely to lead to resistance to change.

However, this also suggests that the cultural web can be used as a means of identifying the barriers and levers for change. By re-mapping the cultural web to show the desired new strategy and comparing this with the original web, those elements that support the new strategy and those that might impede its implementation can be identified and addressed.

- EXPECTATIONS AND STAKEHOLDERS

Strategy involves the taking of decisions by those involved in organizations in order to meet desired goals or objectives. There is a generalized assumption that the main goal of the organization is to achieve sustainable competitive advantage. This can be a useful assumption but it is a simplification of reality as it implies that everyone within the organization has the same expectations. In reality, the strategy

development within an organization involves a political process where the competing expectations of differing individuals and groups can have a significant impact upon outcomes.

The rest of this section of the chapter explores the nature of this political process and how the political situation within an organization can be analyzed for its impact upon strategy development.

- Competing Expectations and Stakeholders

Economists assume that profit maximization is the goal of most organizations. However, the people involved with an organization may have different expectations.

Shareholders may want increased profits and dividends, but employees may want job security which, in turn, could conflict with a banker's desire to secure debt repayment, particularly if the discussion turns to cost reduction. Further, many organizations operate in not-for-profit sectors where the profit may be seen as less relevant than other aims, for example a government agency. Even for organizations that aim to maximize profits, the scope of the activities that they undertake is rarely decided by this one measure (Johnson, 1992).

Most organizations have many different people who feel they have an interest in its activities. Stakeholders are individuals or groups of people whose interests are affected by the activities of the business. Most stakeholder groups represent coalitions of interest, and alliances may form, from time to time, between the groups. The growth of international businesses has inevitably widened the group of potential stakeholders. Every organization will have a different set of stakeholders.

- ASSESSING STAKEHOLDER IMPACT

One way of assessing the impact of different stakeholders upon strategy development is through stakeholder mapping. Usually mapping is used to plot the positions of various stakeholder groups in relation to a particular strategy, whether proposed or already implemented.

The relevant constituents for an organization may well vary depending upon the issue under consideration, but it is normally useful to plot all potential stakeholder groups that may have an impact upon the situation (Johnson, 1992). As each stakeholder group involves a coalition of interest, it is sometimes dangerous to assume everyone in the group will react in the same way to a particular issue – in such cases the group should be sub-divided. Conversely, some stakeholder groups may combine forces over a particular issue and this may well affect their impact upon the situation.

The key dimensions of the stakeholder map are the level of interest and extent of power that each stakeholder group can exert.

The level of interest of each stakeholder group is likely to depend upon the extent to which a particular strategy will have an impact upon that group, so it is worth asking “how important is this strategy in terms of its impact upon their expectations?” In addition, the level of interest may be either positive or negative and needs to be recorded on the map – employees may well be opposed to redundancies, whilst the bank welcomes the reduction in overheads (Johnson & Scholes, 1999).

The extent of power that can be exerted by both internal and external stakeholder groups will depend upon the sources of power available to it, which might include (Johnson & Scholes, 1999):

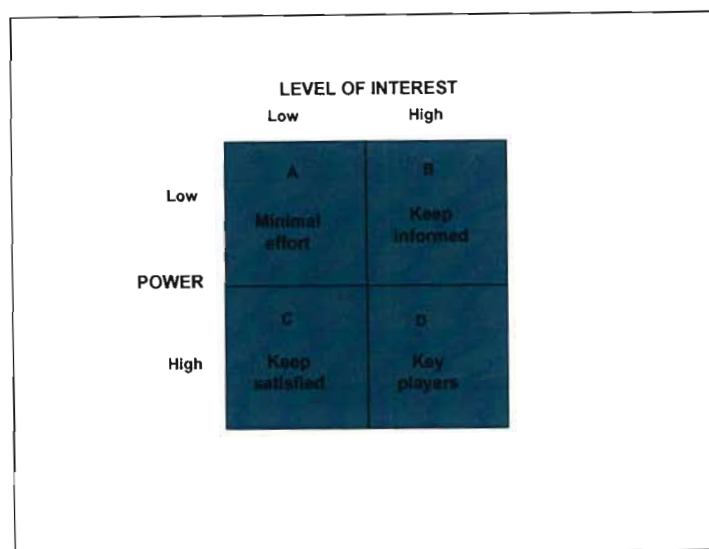
- Position in the hierarchy and/or the decision-making process;
- Control of strategic resources;
- Possession of knowledge, skills or information;
- Involvement in strategy implementation;
- Informal links and networks.

In conducting such an analysis it is also worth identifying the indicators of power that might provide clues as to the importance of particular stakeholders. Some of these indicators might arise from the cultural web analysis – for example, symbols and status within the power and organizational structures. However, other indicators

might include claims upon particular resources or the extent to which the organization depends upon the resources.

Having made an assessment of the level of interest and extent of power of each stakeholder group then these can be plotted upon a stakeholder map or power/interest matrix as shown in Figure 2.19.

Figure: 2.19 – The Stakeholder Map or Power/Interest Matrix



Source: V. Ambrosini, 1998

Once the stakeholders have been plotted on the stakeholder map then consideration needs to be given as to how to manage the political process in order to ensure the specific strategy development. Figure 2.20 suggests a range of tactics depending upon the position of the stakeholder group upon the matrix. However, whilst this may give some broad suggestions it risks limiting the options to a range of passive choices.

Rather than just plotting the existing stakeholder positions, it may well be worth drawing a desired stakeholder map, indicating the most favourable alignment of the groups to ensure the success of the particular development. It may well be possible to affect the positions of particular stakeholder groups on the map by managing the level of interest and extent of power available to them. For example, the opposition of a

particular group might be met with concessions on this issue or another, so moving them leftwards across the map. Similarly, developing new sources of key components may reduce the power of a key supplier.

Ultimately, such an analysis may suggest that a particular strategic development is likely to be politically unacceptable. In such cases the particular strategy may need to be modified or even abandoned - strategy, like politics, is the “art of the possible”.

Strategic decisions take place within the context of organizations made up of individuals and groups so the impact of corporate culture and stakeholders need to be considered as part of a broader view of strategic analysis (Ambrosini, 1998:168).

2.11 GAP ANALYSIS

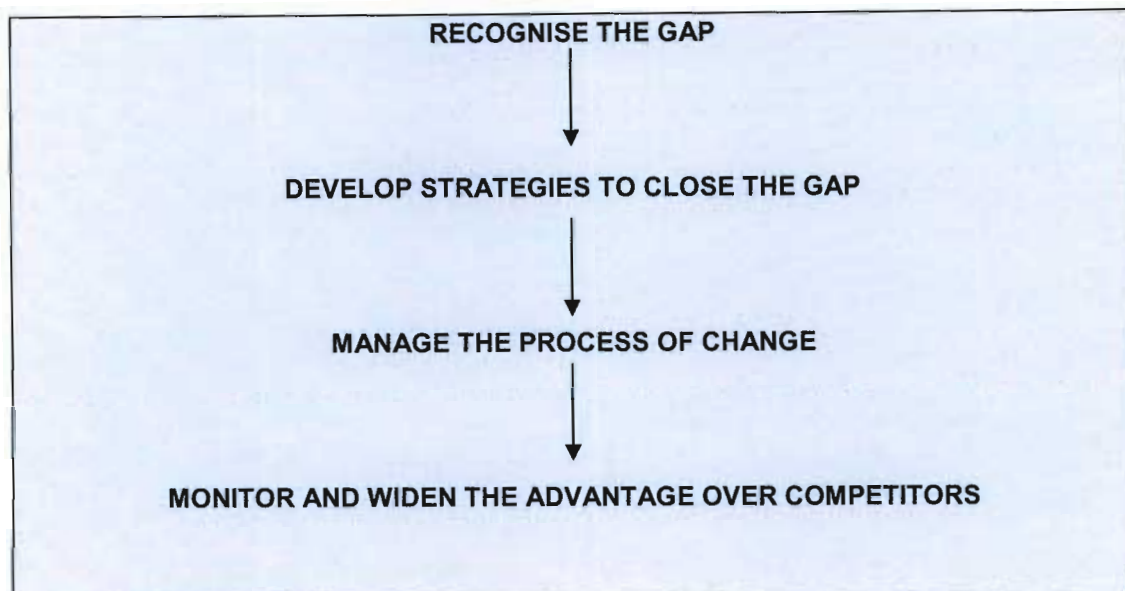
In assessing strategies for the future, managers are usually interested with understanding the motive or incentive for change. This entails the extent to which current strategies (if unchanged) would fall short of meeting the organization’s aspirations or objectives (Ambrosini, 1998:219). Gap analysis can assist a manager to better understand the dynamics of the competitive environment. Further it can assist an organization to reveal its weaknesses and strengths in relation to its competitors (Ambrosini, 1998:220).

Gap analysis is a technique that can be understood in many different ways. The common theme running through all of the definitions of gap analysis is, not surprisingly, the word “gap”. The dictionary defines the word “gap” in a number of ways (Ambrosini, 1998:220):

- As a physical space between things;
- As a period of time when not involved in a particular activity;
- When something is missing that prevents the successful completion of an activity;
- As a great difference between two things, people or ideas.

Recognition of the fact that a gap exists is only one stage in the process. Having recognized that there is a gap, the manager needs to develop strategies that will close the gap, manage the process of the change, and finally, monitor the process to ensure that the same gap does not reappear and, if possible, to open a favourable gap with the competition (Ambrosini, 1998:220). The process of the gap analysis can thus be portrayed diagrammatically in Figure 2.20 (Ambrosini, 1998:220).

Figure: 2.20- Theoretical Model Of “Gap Analysis”



Source: V. Ambrosini, 1998

2.12 EVALUATING STRATEGIES

Having reached this stage there is likely to be a number of strategic options available to a company and these options need to be evaluated. Most organisations follow a more incremental model of strategy development. Never the less, the evaluation of strategic options is an important part of the strategy process, whether largely incremental and implicit or an explicit stage within a formal planning system. However conducted the focus of attention is on the future of the organisation rather than assessing past performance. The primary purpose of this section is to examine how many of the tools, models and frameworks explored throughout this chapter can be used in the assessment and selection of strategic options.

In his article “*The Evaluation of Business Strategy*”, Richard Rumelt in Wit & Meyer (1998) identified the key criteria against which strategic options need to be evaluated as being consistency, consonance, advantage and feasibility. Similarly, in “*Exploring Corporate Strategy*”, Gerry Johnson and Kevan Scholes (1999) identified suitability, feasibility and acceptability as the broad tests to be used. Whilst not identical, there are many similarities between the approaches in terms of the questions that they pose about particular strategic options, as indicated in Figure 2.21 (Wit & Meyer, 1998).

Figure 2.21- Comparing Tests for Evaluating Strategic Options

Johnson & Scholes' Criteria	Rumelt's Criteria
Suitability <ul style="list-style-type: none"> Does the strategy address the circumstances in which the organisation is operating? Is the strategy viable? Does the strategy exploit core competences? 	Consonance <ul style="list-style-type: none"> Does the strategy address the external environment?
	Advantage <ul style="list-style-type: none"> Does the strategy create/maintain competitive advantage in the selected area of activity?
Acceptability <ul style="list-style-type: none"> What are the expected performance outcomes and are they consistent with stakeholder expectations? 	Consistency <ul style="list-style-type: none"> Are goals and policies mutually consistent?
Feasibility <ul style="list-style-type: none"> Has the organisation got the resources and capabilities to deliver the strategy? 	Feasibility <ul style="list-style-type: none"> Can the strategy be attempted within the physical, human and financial resources available?

Source: Johnson & Scholes, 1999 and Wit & Meyer, 1998.

To the criteria identified above can also be added the following questions:

- **Attractiveness** – does the strategy look attractive in terms of financial returns and the timescale required for delivery?
- **Vulnerability** – what are the risks involved in following the strategy and how significant are they?
- **Validity** – are the assumptions made about the strategy reasonable and justifiable given the context?
- **Achievability** – what is the likelihood of success for the strategy given conditions within the external environment? (Johnson & Scholes, 1999)

All these questions can be combined under the three broad criteria of suitability, acceptability and feasibility, but to find answers to the questions involved in assessing and selecting particular options requires the application of relevant tools, models and frameworks. In Figure 2.22, revised lists of the questions implied by each of the broad sets of criteria are linked to relevant strategy tools.

Figure 2.22 - A Framework for Evaluating Strategies – Questions and Tools

Criteria & Questions	Tools, Models & Techniques
Suitability <ul style="list-style-type: none"> Does the strategy address the external environment? Is the strategy viable and achievable given conditions within the environment? Does the strategy build upon or exploit the strategic capabilities of the organisation? Does the strategy create/exploit synergy across the organisation? Does the strategy fit with the current corporate culture of the organisation? Does the strategy create/maintain competitive advantage? 	<ul style="list-style-type: none"> - - SWOT analysis - PEST analysis - Five forces framework - Strategic group analysis - Market segmentation analysis - Resource analysis - Value chain analysis - Core competences analysis - Activity mapping - Cultural web mapping - Generic strategy identification - Synergy analysis – portfolio; linkages; core competences; management styles - Sources of competitive advantage appraisal
Acceptability <ul style="list-style-type: none"> What are the expected outcomes of the strategy and are they consistent with stakeholder expectations? Does the strategy look attractive in terms of financial returns and the timescale required for delivery? What are the risks involved in following the strategy and how significant are they? 	<ul style="list-style-type: none"> - - Stakeholder mapping - Profitability analyses – return on capital employed; payback period & net present value of discounted cash flows - Risk analyses – financial ratio projections; sensitivity analysis & simulations
Feasibility <ul style="list-style-type: none"> Has the organisation got the resources and capabilities to deliver the strategy? What gaps in resources and capabilities need addressing in order to ensure success? 	<ul style="list-style-type: none"> - - Resource analysis - Value chain analysis - Core competences analysis - Activity mapping - Resource and capability gap identification - Cultural web re-mapping - Stakeholder re-mapping

Source: Johnson & Scholes, 1999

Some of the tools and techniques identified in Figure 2.22 can be used to provide input into addressing the questions under more than one set of criteria. This does imply that the analyses need to be undertaken repeatedly, just that their results have application in more than one area. The following sections explore each of the criteria in more detail, reviewing the questions and how the tools, models and techniques can be applied.

- SUITABILITY

The assessment of the suitability of a particular strategy is concerned with the logic or rationale on which it is based and how the proposed strategy creates and/or maintains competitive advantage. This can be broken down further to assess the extent to which the strategy addresses the challenges of the external environment, is based upon or enhances the resources and capabilities of the organisation, builds or exploits synergies and is consistent with its corporate culture.

It is not unusual for discussions about suitability to stress the importance of fit between the elements outlined above. However, the more important point is that the assessment needs to ask if the strategy makes sense and to identify where there are gaps that need to be confronted – which links into the assessment of feasibility. Using these elements a range of criteria can be articulated as implied by the questions outlined in Figure 2.23. In some cases a simple “yes/no” test will be sufficient, but if a range of options are under consideration then an assessment of the extent to which each criterion is met or surpassed might be required.

Figure 2.23 – Assessing the Suitability of a Strategy

The assessment of the **suitability** of a strategy depends upon answers to these questions:

- *Does the strategy address the external environment?*
- *Is the strategy viable and achievable given conditions within the environment?*
- *Does the strategy build upon or exploit the strategic capabilities of the organisation?*
- *Does the strategy create/exploit synergy across the organisation?*
- *Does the strategy fit with the current corporate culture of the organisation?*
- *Does the strategy create/maintain competitive advantage?*

An environmental analysis is the starting point for assessing whether suggested strategies meet the criteria related to the external environment. The tools and frameworks previously outlined, like PEST analysis, the five forces framework, strategic group analysis and market segmentation analysis may be employed, as appropriate, to identify the main external pressures.

Resource and capabilities analysis underpins the evaluation of the criterion related to capabilities. The tools and frameworks discussed in internal analysis, including resource audit, value chain analysis, core competences analysis and activity mapping may all provide useful insights into the extent to which any strategic option meets the test indicated.

In many organisations, any new strategic option needs to be evaluated within a multi-business context. The creation and management of synergy can provide a major contribution to the organisation as a whole. The range of frameworks and models that may prove useful in this assessment include portfolio matrices, linkages and core competences analysis, the identification of management styles and the parenting matrix. The use of some or all of these tools can help assess the extent to which any new strategy (an acquisition for example) is consistent with, relies upon or can enhance existing synergies within the organisation (Johnson & Scholes, 1999).

Any test of suitability of a particular strategic option needs to consider the extent to which it is consistent with the existing corporate culture of the organisation. Mapping the cultural web allows for a more explicit assessment of how the proposed option may be interpreted and possibly resisted by those within the organisation (Johnson & Scholes, 1999). However, this need not be a passive assessment – the new strategy may well aim to change key aspects of the cultural web as discussed previously in this chapter.

The evaluation of suitability of a new strategy also needs to identify and appraise the sources of advantage on which it is based, in terms of cost efficiency and added value. This can be done by considering its classification within the generic strategies framework and/or assessing the sustainability of the sources of advantage and appropriability of returns.

- **SWOT ANALYSIS**

SWOT analysis was introduced earlier in this chapter as a means of summarising how an organisation's capabilities (strengths & weaknesses) matched with the challenges of the external environment (opportunities & threats). This is a simple framework for

listing the key points of a largely intuitive analysis. However, the technique can be extended to provide a more rigorous analysis of the current strategy of an organisation and to evaluate the suitability of a range of strategic options.

In their article *Strengths, weaknesses, opportunities and threats (SWOT) analysis* Tony Jacobs, Jill Shepherd and Gerry Johnson show how a simple scoring scheme can be used to assess the impact of each environmental change upon the existing strengths and weaknesses of an organisation. This can provide an evaluation of the current strategy and highlight areas for action in terms of building on strengths or rectifying weaknesses (Ambrosini, 1998:122).

They then go further to extend their scoring technique to the screening of strategic options. Within the context of the assessment of the suitability of a range of strategic options, this adaptation of the technique can provide a useful way of bringing together and summarising the outcomes from the many analyses outlined above (Ambrosini, 1998:122).

This approach works by systematically evaluating the impact of each environmental change as identified from the environmental analysis on the range of possible alternative strategic options. The other analyses can be used to identify the strengths and weaknesses and assess the effects of each option upon them. Using a simple scoring system (such as +3 to -3) to indicate the intensity of the impact, scores can be attributed to each element for each strategic option. Finally, the results from the assessment of each strategic option can be summarised on a combined matrix. By aggregating the scores the organisation will be able to see (Ambrosini, 1998:226):

- Which strategies capitalise on environmental changes, build on strengths and overcome weaknesses, and which do not.
- Which strategy or strategies, in relation to others, are likely to offer the best way forward?

An example of this more approach as it could apply to a pharmaceutical company is illustrated in Figure 2.24 (Ambrosini, 1998:127).

Figure: 2.24– SWOT Analysis: Analysing Suitability of Strategic Options

Strategy A – Impact analysis of forming alliances with biotech companies					
Environmental Changes (Opportunities & threats)	Increasing industry globalisation	Entrance of new technologies	Health care rationing	New diseases & resistance to antibiotics	Total - Strength or Weakness (+/-)
Strengths					
Large sales force	0	+1	+1	0	+2
Leading research facilities	0	+2	-2	+2	+2
Global recognition of main product	0	-1	+1	+1	+1
Weaknesses					
No competences in biotech or genetics	+3	+1	-1	+2	+5
No new products in line	+1	+1	-1	-1	0
Over-reliance on main product	0	+1	+1	0	+2
Environmental Impact Scores	+4	+5	-1	+4	



Suitability of all strategic options identified in impact analyses											
Strategy	External Changes		Strengths					Weaknesses			Sum
	Increased globalisation	Entry of new technology	Health care rationing	New diseases & antibiotic resistance	Large sales force	Leading research facilities	Global recognition of main product	No comps. in biotech or genetics	No new products in line	Over-reliance on main product	
Option A Alliances	+4	+5	-1	+4	+2	+2	+1	+5	0	+2	+24
Option B Global Research	+3	+2	+1	+1	0	+2	+3	-1	+2	-3	+10
Option C Own Biotech. Capability	0	+3	+2	+2	-1	+2	0	-1	+3	-1	+9
Option D Improve on past strengths	0	-1	+3	-3	0	+1	+1	0	0	0	+1

Source: Adapted from A Jacobs, J Shepherd & G Johnson, "SWOT Analysis" in V. Ambrosini, 1998

A point of caution: whilst the approach uses scores, a process of qualitative judgements so spurious accuracy should not be attributed to the outcomes, the main purpose is to arrive them at present an assessment about the suitability of each option.

- ACCEPTABILITY

The assessment of the acceptability of a strategy involves consideration of the anticipated rewards relative to the goals of the organisation. The goals of the organisation are likely to be a reflection of the expectations of its key stakeholder groups (Johnson & Scholes, 1999). Anticipated rewards reflect the possible returns of the strategy relative to the risks incurred. In defining the criteria for acceptability consideration should be given to the questions outlined in Figure 2.25.

Figure 2.25 – Assessing the Acceptability of a Strategy

The assessment of the **acceptability** of a strategy depends upon answers to these questions:

- *What are the expected outcomes of the strategy and are they consistent with stakeholder expectations?*
- *Does the strategy look attractive in terms of financial returns and the timescale required for delivery?*
- *What are the risks involved in following the strategy and how significant are they?*

Source: Johnson & Scholes, 1999

In assessing stakeholder expectations and their likely reaction to any particular strategy, stakeholder mapping can be of considerable assistance. This technique, allows for an assessment of the relative importance of different stakeholder groups and implicitly their expectations. The framework can highlight the alignment of different stakeholders in response to a particular strategy, so providing an assessment of its likely acceptability. However, it can also be used to proactively manage the relationships with stakeholders to improve the acceptability of such a strategy (Johnson & Scholes, 1999).

The assessment of the acceptability of the returns from a particular strategy is frequently defined in terms of financial measures and the timescale needed to achieve them. Organisations often set “hurdle rates” for the return on capital employed of potential strategic options, rejecting those where the projections fail to jump the hurdle. Another measure used is the payback period, which provides an assessment of the timescale required to recover any investment by comparing this with other options

under consideration and/or a general timescale limit (e.g. less than two years) applied across the organisation (Johnson & Scholes, 1999). More sophisticated assessment of the returns can be made using discounted cash flow techniques, particularly the net present value of the option(s) under consideration. Only options with positive net present values after using a suitable discount rate (normally linked to the organisation's cost of capital) will meet the criteria for acceptability. Net present values can also be used to rank and adjudicate between a range of possible options (Johnson & Scholes, 1999).

As well as assessing the returns from particular strategies, the risks inherent in the strategy need to be considered for acceptability. Again, a range of financial measures can be used. Break-even analysis assesses the volume of business needed to ensure that the particular option covers its investment and acceptability will be based on an assessment of the likelihood of this volume being met and the consequences of falling short. The consequences of adopting a particular strategy upon projections for the liquidity (short-term financial solvency) and gearing (long-term capital structure) ratios of the organisation also provide measures of the riskiness of a strategy (Johnson & Scholes, 1999).

The acceptability of risk can also be assessed through sensitivity analysis, which allows for the evaluation of "what if" questions about the key assumptions underpinning the projections for a particular strategy.

- FEASIBILITY

Assessing the feasibility of strategic options involves considering whether the organisation has the resources and capabilities to successfully implement the strategy. Frequently this leads to an analysis of the tangible resources of the organisation, finance in particular, but a wider consideration of all resources and capabilities should not be ignored.

As well as assessing the feasibility of current resources and capabilities to meet the needs of particular strategies, the gaps need to be identified and an assessment made

of the ability of the organisation to address these issues. These criteria are highlighted by the questions in Figure 2.26.

Figure: 2.26 – Assessing the Feasibility of a Strategy

The assessment of the **feasibility** of a strategy depends upon answers to these questions:

- *Has the organisation got the resources and capabilities to deliver the strategy?*
- *What gaps in resources and capabilities need addressing in order to ensure success?*

Source: Johnson & Scholes, 1999

An assessment of the financial feasibility of a particular strategy can be made using funds flow analysis. However, a broader assessment, particularly of strategic capabilities built on core competences and unique resources is important.

The tools and techniques of resource and capability analysis discussed above, such as resource audit, value chain analysis, core competence analysis and activity mapping, can all contribute to this broader assessment of feasibility.

Richard Rumelt in Wit & Meyer (1998) points to several questions that can provide a critical focus in this area:

- Has the organisation demonstrated that it possesses the problem solving abilities and/or special capabilities required by the strategy?
- Has the organisation demonstrated the degree of co-ordination and integration necessary to carry out the strategy?
- Does the strategy challenge and motivate key personnel and is it acceptable to those who must lend their support?

The third of these questions highlights the importance of those within the organisation to the feasibility of pursuing particular strategies. Their impact may be experienced through both the cultural and political contexts of the organisation. Consequently, the use of cultural web re-mapping and stakeholder re-mapping may offer insights into the feasibility of a particular strategy, by pointing to the extent of change required.

Finally, all these analyses may lead to the identification of resource and capability gaps. Any assessment of feasibility will need to assess the ability of particular strategies to bridge these gaps.

Accordingly there are particular criteria available to evaluate potential strategic options developed within an organisation. Whilst there are a range of possible criteria that can be identified, many can be consolidated into three broad categories (Johnson & Scholes, 1999):

- Suitability – an assessment of the underlying rationale or logic of the potential strategy.
- Acceptability – an assessment of risks and returns of a potential strategy relative to the goals of the organisation.
- Feasibility – an assessment of the resources and capabilities needed to achieve the potential strategy.

2.13 IMPLEMENTATION, EVALUATION AND CONTROL

Translating direction into action is the step that makes strategic direction live, breathe, and move the organization. The process of planning for implementation is truly the bottom-up phase of the classic top-down, bottom-up model.

This active participation in the planning process of employees at all levels, along with some measure of employee participation in the setting of strategic direction helps garner the best ideas of the workforce and helped create buy-in to the organization's direction.

- THE ROLE OF BUDGET IN PLANNING

For most people, talking about implementation immediately raises the specter of the budget process, without which the grandest of plans could never be implemented. "Budget is the cost of strategy"; reminding one that strategies cost money, and budgeting is a very real part of implementing the strategy of an organization.

- **BUILDING ORGANIZATIONAL CAPACITY**

Organizational capacity is centered on people and processes. It is the focus that is moving or has moved organizations to use a team approach for problem solving or strategy setting at the business unit level and below.

Organizational capacity concerns the commitment of people to an organizational ideal as a necessary ingredient of success. Focus on capacity forces companies to consider staff capabilities, and that the staff have necessary knowledge, skills, and tools for success.

Finally, it is this focus on organizational capacity that is supporting a new or continued emphasis on process management as a way of ensuring that inefficient and ineffective processes do not get in the way of the drive to success.

- **PERFORMANCE EVALUATION AND REPORTING**

“If you don't keep score, you're only practicing”, Vince Lombardi, American Football Coach and Motivator.

While there are vast similarities between strategic planning activities within the public and private sectors, there are significant differences prevalent between performance measurements used by the two sectors for evaluating the performance of their planning processes. For private sector organizations its first-order metrics is focused on sales, profit margins, market share and cost. Usually increased, or at least stable, performance in these key areas is paramount to organizational survival. Managers who performed well with respect to these metrics are rewarded, if not are fired.

The quandary for the government is that, with few exceptions, it does not sell products, generate profits, or compete in a formal marketplace. Therefore, the government is generally unable to use fully the private sector's first-order metrics to plan and evaluate its performance.

The good news, however, is that the private sector does not rely solely on the aforementioned metrics to plan and evaluate performance. The private sector uses an array of performance metrics to assess performance and planning processes. Accordingly each government department and agency must address the challenge of developing its own specific performance metrics.

- **PERFORMANCE ASSESSMENT**

Implied within every stage of the planning process is the ability to determine progress made toward the goals or targets set. This assessment ability is a monitoring function that simply tracks activities. It may be as simple as a to do list or as complicated as a plan of action with milestones. Also implied within the planning process is the ability to measure effectiveness of the actions taken in the conduct of the organization's business.

- **SELECTING THE TOOLS TO ASSESS PERFORMANCE**

Companies to measure their organizations' performance use a variety of tools, techniques and methodologies. A majority of the private and public organizations employ benchmarking as a tool to support the measurement of their own performance, their competitors' performance, and the best-in-class performance. Several of the best-in-class organizations have in place or are in the process of implementing evaluation schemes that moved from strictly financial measures to a more balanced assessment methodology. The balanced scorecard measures organizational performance across a number of perspectives: financial, customers, internal business processes, and learning and growth. This balanced scorecard approach can be defined as a set of measures which employs a family of indicators for measuring performance across the organization that can be used to identify resources needed to achieve results desired.

- **FRAMEWORK FOR SUCCESS**

Successful leadership requires the time, effort and personal abilities of chief executives, but the creation of a framework for success. Successful organizations recognize the importance not only of senior executive leadership, but of creating and

sustaining an organizational leadership system that facilitates, develops, and rewards leaders at all levels of the organization. Leaders in successful organizations are effective in aligning their organizations behind the clear, long-term goals, strategies, objectives, and measures that the organization embraced. The best organizations were structured and operated to encourage participation and innovation by all employees, regardless of level.

To achieve a successful strategic planning process, top management are increasingly using a variety of enabling technologies and other tools, such as scenario planning and war games, to support the planning process and to anticipate alternative futures to ensure customers' needs and expectations are fully addressed. It must be stressed that to be successful as an organization, employees must fully participate in the process, make decisions and be held accountable for results. The culture has changed from one of entitlement to personal accountability. Top management must communicate that cultural shift to employees, while at the same time demonstrating the employees' value to the organization.

2.14 CONCLUSION

Managers conceive and implement strategy in the context of organisational history, environmental complexity and uncertainty, and prior individual experiences. Despite having to tackle emergent, short-term operational challenges, they must also take time to consider strategic management questions about the long-term direction, growth and profitability of the organisation. Fundamental questions arise from concerns and issues relating to corporate mission and governance and how the organisation should develop: growth through self-reliance or via acquisitions; diversification, multi-business portfolios and internationalisation; the role of alliances and the management of knowledge specific to the firm, for example. Managers also have to implement and apply processes of business planning and decision-making, appropriate forms of organisational structure, culture, leadership style and initiatives for constructive change.

In chapter 3 the case study is presented and one begins to appreciate the challenges and dilemmas that senior managers face in designing and implementing strategy.

Looking into the future, strategies often seem much less obvious than they do in retrospect. Leaders who articulate a clear vision of the future may sound convincing, but how can others test the robustness of what they propose? Paradoxes and opposing viewpoints characterise the task of the strategist.

CHAPTER 3

ANALYSIS OF CASE STUDY EVIDENCE

3.1 INTRODUCTION

The merging of historical distinct and separate national markets into one huge global market place is attributed to the tastes and preferences, distribution channels and culturally embedded value systems of consumers in different nations converging on a global norm to create a global market. For the global acceptance of consumer and industrial products worldwide, companies must customize its marketing strategies; the product features and operating practices to best match the conditions in a country (Hill, 2002).

The SARS needs to take cognisance of the facts that substantial impediments in the processing of import and export transactions still make it difficult for firms to achieve optimal utilization of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between counties, barriers to foreign direct investment, transportation costs and issues associated with economic and political risk.

This chapter explores the macro-environment and the micro-environment affecting the SARS and presents such evidence and results of the exploration.

3.2 BACKGROUND OF CASE STUDY

South African businesses must be sensitive to the differences in cultures, political systems, economic systems, legal systems, environmental issues and levels of economic development of the their target markets and adopt the appropriate policies and strategies for coping with these differences successfully. South African businesses must also deal with government restrictions on international trade and Customs rules, policies and processes by finding ways to work within limits imposed by specific governmental interventions.

Current trends suggest that the world is moving rapidly toward a global economic system that is more favourable for the practice of international business. Within this changing landscape, Customs Administrations are pursuing new strategies and initiatives that promote compliance and trade facilitation. These are explored in more detail below:

3.2.1 WCO Trade Facilitation Initiatives and Simplification of Customs Procedures

Trade facilitation is one of the key factors for economic development of nations and links into the national agenda for social well-being, poverty reduction and economic development of countries and their citizens (WCO, 2002).

In the context of the international trade environment Customs plays a critical role not only in meeting the goals of the governments but also in ensuring effective controls that secure revenue, compliance with national laws, security and protection of society. The efficiency and effectiveness of Customs procedures has a significant influence on the economic competitiveness of nations and in the growth of international trade and the development of the global marketplace. In a highly competitive world environment, international trade and investment will flow toward efficient, supportive and facilitative locations. At the same time it will rapidly ebb away from locations, which are perceived by business as bureaucratic and synonymous with high costs. Customs systems and processes must not be allowed to serve or be perceived as a barrier to international trade and growth (WCO, 2002).

3.2.2 Benefits of Trade Facilitation

Trade facilitation initiatives benefit both the business community and governments. The business community benefits by obtaining enhanced competitiveness in national and international markets due to reduction in delays and costs, which are achieved with predictable and efficient movement of goods across borders (WCO, 2002). National administrations are able to utilize modern procedures to enhance controls, ensure proper collection of revenues due and at the same time contribute to the economic development through increased trade and encouragement of foreign investment.

A significant number of WCO Members are developing and the least developed countries for who efficient controls and better trade facilitation will result in increase in revenues accruing to their Governments. These revenues contribute significantly to the programmes aimed at increasing the social and economic well being of their citizens (WCO, 2002).

In this context, the work done by the WCO links into commitments made by the international community to help least-developed countries secure beneficial and meaningful integration into the multilateral trading system and global economy. The WCO has indicated its willingness to participate as a development partner with other international institutions in capacity building through technical assistance activities for enhancing the role of trade in developing countries by assisting in removing procedural and institutional bottlenecks within Customs Administrations that increase transaction costs (WCO, 2002).

3.2.3 The Purpose Of An Accreditation Scheme

Accredited Clients are enterprises that have assessed their history of compliance and are capable of maintaining high quality internal operational processes and computer systems in order to comply with the Customs and Excise laws and procedures. In return this scheme allows the Commissioner through a process of mutual consultation and participation to publish the benefits of being an accredited client. The below-mentioned areas of concern have led to the implementation of the accreditation scheme (SARS, 2002).

- Increased Workloads

There is insufficient staff, old systems and old operational processes. Thus there is a need for the SARS Customs Division to effectively manage workloads and effectively achieve trade compliance. Accordingly there is a need to apply information technology, re-design operational processes and re-design operational initiatives (SARS, 2002).

- **Future Direction**

SARS Customs must coordinate and share its future direction with all role players / stakeholders in order to (SARS, 2002):

- Improve compliance;
- Improve enforcement;
- Share information; and
- Manage workloads.

- **Role Player / Stakeholder Interest**

The SARS needs to adapt to the needs and interests of all role players / stakeholders. These include (SARS, 2002):

- Importers, exporters, agents, etc.;
- Specific industries - textiles, electronics, etc.; and
- Trade groups (Agreements - AGOA, Rules of Origin, Zimbabwe, etc).

3.2.4 The Accreditation Concept

The main objective of the ACS is to fundamentally change the relationship between Accredited Clients and the SARS. This means that it will be expected of the Accredited Client to implement and maintain efficient and effective procedures / processes to achieve full compliance with the Customs and Excise Law and procedures (SARS, 2002). Furthermore, it also places the responsibility on the SARS: Customs and Excise to implement and maintain efficient and effective procedures / processes to facilitate legitimate trade. The ensuing points highlight the expectations of all role-players in the industry.

- **What do SARS want to achieve with Accreditation?**

- Identify the compliant / trusted clients;

- Reduce the checking of volumes of paper based clearances by re-deploying personnel from administrative to enforcement processes;
- Change emphasis from administrative processes to risk management of clearances to more physical control / enforcement;
- Place more responsibility on the client (self assessment of operational processes and computer systems);
- Share information - Client to inform SARS of any fraudulent activities; and SARS to share information regarding possible operational / systems changes;
- Optimize processes - shorter cycles and electronic processing;
- Create benefits for “Accredited” Clients (SARS, 2002).

- **What is in it for Clients?**

- More responsibility - self assessment;
- Operational processes; and Computer systems;
- Clients will be informed of possible future changes in Operational processes and Systems/ electronic interactions;
- Shorter processing times;
- Electronic processing of customs documents; and
- Less human interactions / inspections (SARS, 2002).

- **Clients / Non accredited Clients**

- Relationships between Customs and Accredited clients will be based on trust;
- Processes will be shorter, electronic processing, less inspections and less human interaction for Accredited clients;
- Operational and system assessment by Clients; and
- Higher focus on fraud (SARS, 2002).

➤ **Accredited Client Types For Phase 1**

Accreditation allows SARS to recognize certain client types as “trusted clients”. For the purposes of this research, the client types are defined as:

- Importers;
- Exporters;
- Removers in Bond;
- Warehouse Operators; and
- Clearing & Forwarding Agents.

➤ **Accredited Client Application Process**

The following briefly sets out the process to be followed to attain accredited status (SARS, 2002):

- a) Client applies on prescribed form;
- b) Accredited Client Management Team (ACMT) to arrange pre-approval inspection, evaluate inspection report, evaluate application and inform client in writing of the approval of the application;
- c) Client and SARS: Customs signs Agreement;
- d) Client operates as Accredited Client;
- e) Annual inspections will be conducted; and
- f) ACMT will measure compliance.

3.3 LEADERSHIP PORTFOLIO

The National Treasury, as custodian of the nation's finances, ensures effective and prudent budgeting, within the framework of sustainable policies. This role requires it to work with line departments, helping them to jointly meet government's goals through policy choices and trade-offs in the budgeting and financial management processes. The challenge is to meet the country's operational and development goals while keeping the finances sound and sustainable. As an emerging economy with so much potential, operating in the complex global economy, South Africa faces major

challenges. It needs to create jobs and opportunities that enable its people to overcome the burdens of poverty. It must enhance economic growth, providing the means to respond to people's basic needs and it must do all of this within its resource constraints (NTAR, 2001/2002).

For this reason, National Treasury has carefully positioned Government's fiscal and policy approach since 1994 to build confidence in the South African economy, create incentives for investors and taxpayers, and to address the very real needs of the population. It continues its efforts to ensure Government uses its resources well and with accountability. The Public Finance Management Act established a framework that benchmarks public management at new levels, setting and enforcing high standards, and making government more accountable and transparent. On-going tax relief – as made possible by the fiscal approach and the vastly improved efficiency of the South African Revenue Service – should increase the economic momentum. Capacity building therefore remains a priority. But by striking a balance between prudent financial management, the need to expand fiscally in priority areas, the need to strengthen institutional capacity and stimulating the economy through the right incentives, one could go far, building on the basis already created. The National Treasury is proud of its achievements, but not complacent about them. It continues to work very hard at positioning itself for the tasks and challenges at hand, and to streamline the path for departments, provinces and municipalities that together must get South Africa there (National Treasury Annual Report, 2001/2002).

The vision and mission of the National Treasury is encapsulated below:

➤ **Vision**

The National Treasury aims to promote economic development, good governance, social progress and rising living standards through accountable, economic, efficient, equitable and sustainable management of public finance.

➤ **Mission and objectives**

- Advance economic growth and income redistribution;

- Prepare a sound and sustainable National Budget and equitable division of resources between the three spheres of Government;
- Equitably and efficiently raise fiscal revenue while enhancing the efficiency and competitiveness of the South African economy;
- Manage Government's financial assets and liabilities soundly; and
- Promote transparency and enforce effective financial management.

➤ **Values**

- Account to the nation through public and parliamentary processes;
- Discharge responsibilities professionally and with humility;
- Adhere to the highest standards of financial management and fiscal discipline;
- Deliver excellent service through teamwork, sound planning and enthusiastic and committed implementation, striving to improve performance;
- Respect staff and invest in them as a valued asset;
- Act transparently, with integrity, respect, fairness and objectivity; and
- Honour the faith of the South African public.

3.4 SARS MISSION AND VISION

The SARS follows the leadership of the National Treasury in performing its mandate and that mandate is discussed more in detail below. The South African Revenue Service Act No. 34 of 1997 gives the entity the following authority to perform the following tasks:

➤ **Mandate**

- Collect all revenues that are due;
- Ensure maximum compliance with the legislation;
- Provide a customs service that will maximize revenue collection;
- Protect our borders as well as facilitate trade.

➤ **Vision**

SARS vision is: *“To provide an excellent service in a transparent environment ensuring optimum collection of revenues.”*

➤ **Mission**

SARS is an organization that achieves:

- An optimization of revenue yield;
- Compliance with the law;
- High standard of a client service that is equitable, transparent and related to the needs of clients;
- Cost efficiency;
- Public protection in accordance with Government policy;
- Provision of reliable statistics; and
- Advice to Government on tax matters.

3.5 ANALYSIS OF THE ENVIRONMENT

“SARS operates in a dynamic and changing environment. It is therefore driven by imperatives designed to better place the organization in a position to effectively implement Government policies and programmes”.

The environmental scan includes the following components:

- Internal analysis of the firm;
- Analysis of the firm's industry (task environment); and
- External macro environment (PEST analysis).

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis. An industry analysis can be performed using a framework developed by Michael Porter.

The South African government and the Department of Trade and Industry (DTI) in

particular, have embarked on a policy framework in order to ensure that the South African economy becomes competitive. In an increasingly traded global economy, it is recognized that national economic welfare will be enhanced by both greater efficiency, brought about by liberalization, and the need to enhance South Africa's exports in the world economy.

3.5.1 Why Trade Reform?

The South African economy has undergone a gradual process of trade reform in the last two decades; trade reform is necessary in order to ensure that the economy becomes more efficient. At the most basic level, trade reform is seen as the key to efficient resource allocation. Indeed, a growing body of literature shows that trade reform is more important in terms of its distributional effects than it is directly on growth; the main reason for this being that resources get re-allocated from one sector to another as the economy is opened up to international competition.

A useful starting point would be to place the parameters of South Africa's trade regime in perspective in order to precisely determine the level and configuration of protection currently prevailing in the economy (Frankel, 2000). More important is the development of a rigorous approach to the analysis of the impact of trade policy reform so far on the following aspects of South Africa's economy: the overall macro-economy; labour markets; export behaviour; and economic growth.

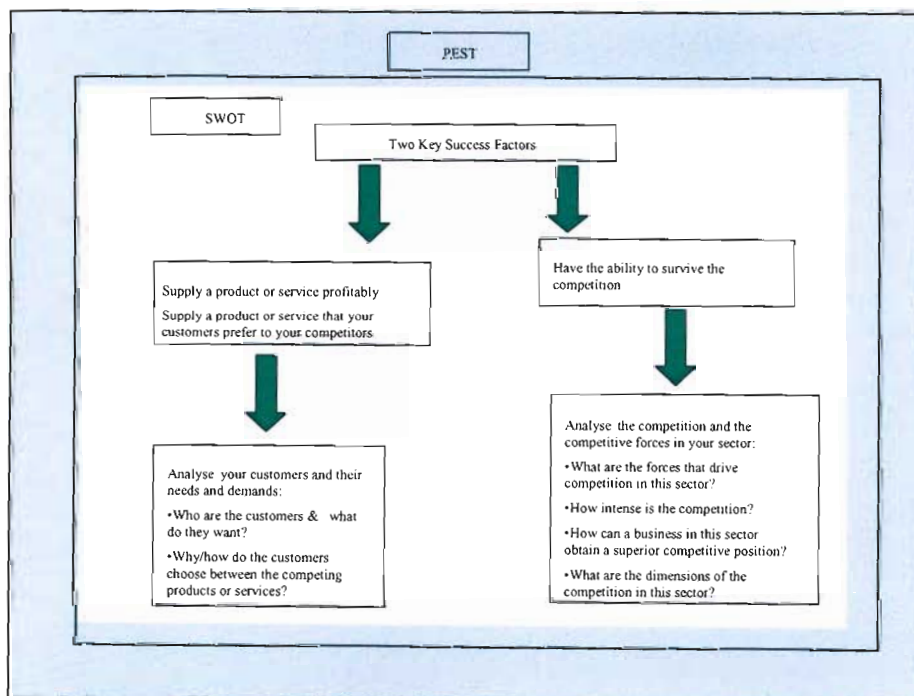
The basic logic behind trade liberalization is as follows: reduction of import protection reduces the anti-export bias and enables resources to flow from poorly competitive sectors to sectors with a comparative advantage. Is this happening in the South African economy? To what extent is this efficiency and allocative effect dependent on other factors such as transport logistics, the mobility of labour market and other factors? Moreover, the impact of trade liberalisation on the economy remains a contentious issue (Hemmer, 2001). Although there is no easily identifiable impact, what is clear is that the rationale for liberalisation is based on the fact that major inefficiencies exist in the economy and trade reform, along with a series of accompanying measures, can play a critical role in spurring growth, albeit indirectly.

The following PEST analysis explores how SARS mandate promotes or hinders economic growth in South Africa.

3.6 PEST ANALYSIS

The external environment plays a critical role in shaping the destinies of entire industries as well as those of individual businesses. The most basic tenet is to adjust the strategy to reflect the environment in which it operates. A properly used environmental analysis can help ensure organizational success as well as help to frame a better strategy. The international component of the operating environment comprises all factors related to the international implications of organizational operations. Significant aspects of the international component include the laws, political practices, culture and economic environment that prevail in the foreign country/ies with which / in which the firm does business. In order to undertake this, it is imperative that an understanding of the external environment (PEST) and the internal environment (SWOT) that SARS operates in be clearly analysed, which is reflected in figure 3.1.

Figure: 3.1 – PEST Analysis



Source: Adapted from Business Times, 2002.

3.6.1 ECONOMIC

The economic component indicates how the resources are distributed and used. The GNP, corporate profits, inflation rates, productivity, employment rates, balance of payments, interest rates, tax rates, consumer income, debt and spending are examples of these factors.

South Africa is classified as an upper middle-income developing country and GDP (at market prices) at the end of 2000 was worth R874 billion, in current prices. Real GDP has grown annually by approximately 2.6% between 1995-2000 and figure 3.2 sets this out (Econometrix, 2003).

Figure: 3.2 – Trends in GDP growth

	1995	1996	1997	1998	1999	2000
GDP at market prices (current prices)	548,100	618,417	683,744	735,086	795,575	873,637
Percentage growth in real GDP at market prices	3.1	4.2	2.5	0.7	1.9	3.1

Source: South Africa Reserve Bank - Quarterly Bulletin March 2001

Growth in the inequality between the discretionary spending available to the poor as opposed to the wealthier sections of South African society, which had increased sharply in recent years, and is poised to narrow over the next 18 months because of a slowdown in the rate of growth of spending on cell-phones, gambling and fuel on the one hand and a levelling off of the previously declining trend of interest rates on the other hand (Econometrix, 2003).

Tax charges announced earlier this year are also more favourable to the poor. As a consequence, growth in consumption of durable and semi-durable goods is likely to drop to below that of non-durable goods through 2003 (Econometrix, 2003).

Even though inflation is likely to continue its decline, there is little interest rate relief because of the government's commitment to meeting its 3 to 6% target for CPIX in 2003, which target is likely to be only just attained. Nevertheless, the prospect of

lower short term interest rates down the line is likely to keep long term interest rates in a shallow downward trend throughout the forecast period.

These inflows, together with a healthy current account of the balance of payments and declining inflation, should enable the real exchange rate of the Rand to appreciate slightly. The Rand would rise even more were it not for the Reserve Bank's commitment to reduce the net open position on its forward book (Econometrix, 2003).

In the longer run the economy can only lift its growth rate to levels, which can reverse the rising trend of unemployment once certain key impediments to growth are adequately addressed. These include crime, AIDS, the low level of savings and investment, especially in infrastructure, the inadequate and inappropriate skills profile, the relative absence of a small business and entrepreneurial ethos and the perception amongst foreign investors of Southern Africa as an isolated, small market in a politically troubled region (Econometrix, 2003). Figure 3.3 reflects the trends in the South African economy.

Figure: 3.3 – Summary of Key Variables

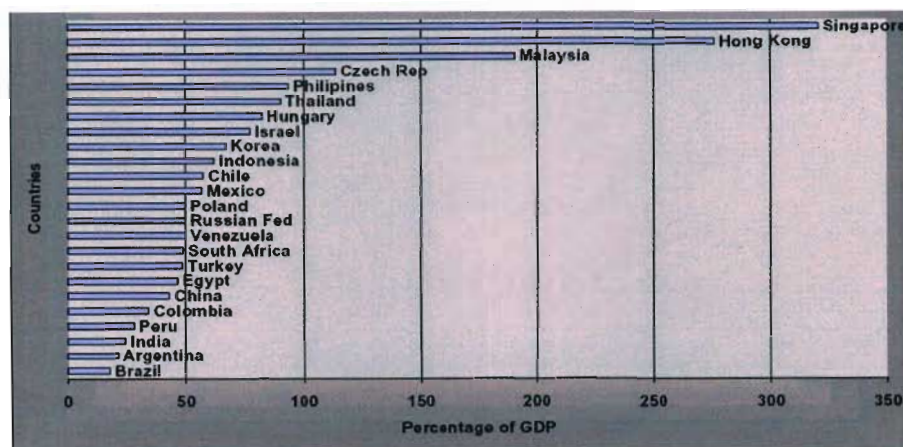
	2000	2001	2002	2003	2004
GOLD PRICE (\$/oz)	277	281	287	278	268
G7 REAL GDP GROWTH	3.9	1.8	1.9	2.6	3.4
S.A. REAL GDP GROWTH (%)	3.1	2.9	2.5	3.4	4.1
GROSS DOMESTIC EXPENDITURE (%)	2.7	3.0	2.4	3.4	4.4
PRIVATE CONSUMPTION GROWTH (%)	3.2	2.8	2.3	2.9	4.0
FIXED INVESTMENT GROWTH (%)	1.3	3.9	3.4	6.2	9.1
RAND / DOLLAR EXCHANGE RATE	6.99	7.97	8.00	8.16	8.78
RAND / EURO EXCHANGE RATE	6.43	7.22	8.54	8.97	9.22
CPI INFLATION RATE (%)	5.3	6.6	4.9	4.0	4.4

Source: SAE0, 2001

- **Globalization, emerging markets and South Africa**

The economic leaders among developing countries are generally seen as the emerging market economies. This is a group of 24 countries as reflected in figure 3.4.

Figure 3.4 – Openness of Emerging Economies



Source: Loots, E. (2001)

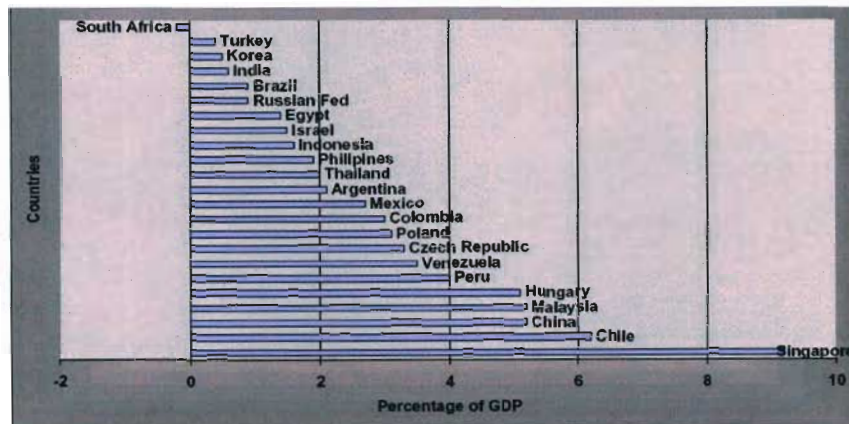
Emerging market economies have, since the early 1990s played a more important role in the world economy (Kearney, 2000). During the 1980s and 1990s these economies achieved higher economic growth rates than did developed and developing countries.

Emerging market economies averaged real economic growth rates of 4 percent and 4.1 percent respectively during the 1980s and 1990s, in comparison with average rates of 3.4 percent and 3.3 percent for developing countries and 3.2 percent and 2.5 percent on average for the world economy (World Bank, 2000c:295). Emerging economies' exports contribute 23 percent to world exports and 92 percent of exports from developing countries (World Bank, 2000c:303,304).

Emerging markets are highly active on the international trade scene, they are also the recipients of 92 percent of all FDI inflows to developing countries (UNCTAD, 2000:283-287).

Almost all the portfolio flows to developing countries are also directed at emerging economies since their financial markets are more developed than those of the remaining developing countries as can be seen in figure 3.5. As has already been stated, these flows are very volatile and subject to emerging market crisis.

Figure: 3.5 - Net FDI inflows - Emerging market economies



Source: Loots, E. (2001)

Two questions can be raised regarding emerging markets and globalization. The first question is to what extent these economies participate in the process of globalization, and secondly, how does South Africa compare with these countries?

In order to answer these questions, globalization needs first to be quantified. In the preceding discussion it was pointed out that the process of economic globalization manifests itself in three forms: the increase in international trade, international financial flows and international investment flows. To measure the participation of emerging markets in globalization, the proxies for the above indicators would be as follows (Knor, 2000):

- Trade (exports plus imports) will be used as proxy for the participation in international trade. This figure could serve as an indicator of the openness of the economies of the various emerging markets.
- As a measure of the participation in international financial flows, total net portfolio investment (equity and bonds) will be used.
- The indicator or proxy to be used for international investment will be total net FDI inflows.

These special features or characteristics of globalization will be expressed as a percentage of the real GDP of these countries. This will simplify the comparison

between countries and regions. These measures of globalization for the period 1994 to 1998 for the different emerging market regions are presented in figure 3.6.

Figure 3.6: Regional globalization comparison, 1994-1998 (as a percentage of GDP)

Region	Trade	Net FDI Inflows	Net portfolio Inflows
All emerging markets ¹⁾	82.6	2.8	1.8
Asia	129.7	3.3	2.3
Latin America	37.9	3.2	1.7
Eastern Europe	74.0	3.1	1.5
Other ²⁾	57.4	1.1	1.0
South Africa	49.0	-0.2	2.8

Sources: World Bank, 2000b

From figure 3.6 is evident that international trade is the main driver of the globalization process in emerging market economies. The average openness for this group of countries is approximately 83 percent of GDP, with the emerging markets in Asia as the top scorer at approximately 130 percent. Latin America as a region is at the bottom of the list with an approximate openness level of 38 percent. The Asian economies are bearing the fruit of their respective export drives of the past 20 to 30 years. The Latin American case is indicative of its long history of inward industrialization.

Figure 3.4 shows the ranking of the openness of the individual emerging market economies. Singapore, Hong Kong, Malaysia and the Czech Republic are the most open economies amongst the emerging economies. Although countries like Brazil and Argentina liberalized their trade, this has not been reflected in their exports. These two countries are, with India and Peru, the least open of all emerging economies. South Africa is ranked 16th out of 24 countries with openness levels similar to countries such as Turkey and Venezuela. On the FDI scene, the countries in Asia, Latin America and Eastern European regions are the major recipients (see figure 3.4). It is evident that regional links are important for FDI from source countries. Approximately 75 percent of FDI inflows to Asia come from countries within the region (Loots, 2002).

In comparison with other emerging economies, South Africa seems to be a moderate globalizer (Loots, 2002). South Africa re-entered the international economic arena at a stage when the forces of globalization – specifically for emerging market economies – became more prominent. It is therefore imperative to establish what the impact of globalization is on the South African economy. Figure 3.7 looks at South Africa and its level of globalization.

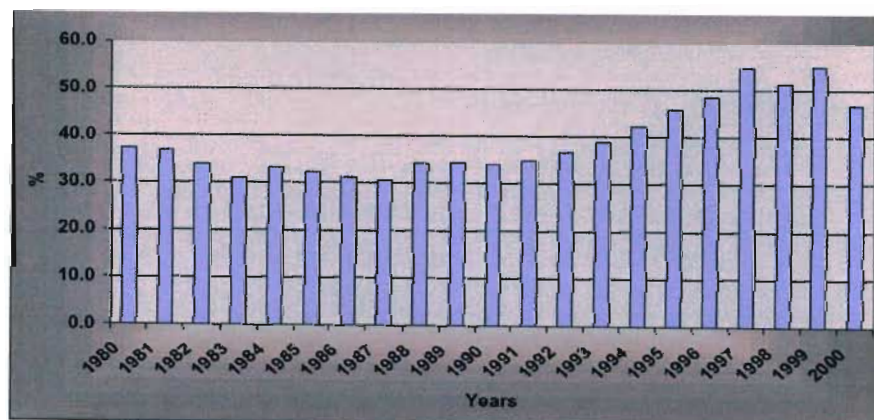
Figure: 3.7 - Aggregate level of globalization and economic growth, 1994 -1998

Country	Rank	Globalisation	Economic growth	Classification
Singapore	1	329.4	7.3	4.0% Strong Globalisers
Hong Kong	2	276.2	2.8	
Malaysia	3	199.0	5.5	
Czech Republic	4	117.6	2.0	
Philippines	5	98.9	3.9	
Thailand	6	94.3	2.5	
Hungary	7	90.5	3.1	
Israel	8	78.6	4.7	
Korea	9	70.1	4.6	
Indonesia	10	65.7	3.0	2.8% Moderate Globalisers
Chile	10	65.7	6.9	
Mexico	11	61.4	3.0	
Poland	12	54.1	5.9	
Venezuela	13	54.0	1.3	
Russian Federation	14	52.2	-4.8	
South Africa	15	51.6	2.7	
Turkey	16	49.9	3.8	5.3% Passive Globalisers
China	17	49.0	9.9	
Egypt	18	49.0	4.9	
Colombia	19	38.8	3.3	
Peru	20	33.8	6.0	
Argentina	21	26.1	4.1	
India	22	24.9	6.9	
Brazil	23	19.2	3.2	
Average		85.4	4.0	

Source: Calculated from World Bank, 2000 b.

The level of globalization in the South African economy for the period 1980 to 2000 is shown in Figure 3.8.

Figure 3.8 – Level of Globalization in South Africa



Source: Loots, E. (2001)

From the figure 3.8 it is evident that, after a period of stagnation during the 1980s, South Africa started to participate in the global economy from 1992. The minor declines in the globalization trend in 1998 are due to a major FDI outflow and the 2000 decline due to large portfolio outflows. In general a fairly strong correlation exists between the level of globalization and economic growth for the period 1990-2000. As South Africa re-entered the international economy in 1990, a number of South African companies expanded to become TNC's. The gradual relaxation of exchange control also permitted companies and individuals to invest a large proportion of funds abroad (Smith, 2001).

From the preceding discussion of the process of globalization it is evident that this phenomenon is more complex in nature than was originally thought. The concept of globalization is a very wide one and can include the fields of economics, politics, society and culture. However, the driving forces behind economic globalization include the reduction in transport and communication costs, technological advancement and the liberalization of trade and investment. Economic globalization therefore manifests itself in the increasing involvement of nations in international trade, finance and investment. Although advances in world trade and FDI attract attention, the liberalization of financial markets has expanded at spectacular rates. However, judging from the world economic growth during the past three decades, the process of globalization is a very uneven process with a relatively small number of countries benefiting from this process (Loots, 2002).

- **Role of Customs in Trade Facilitation**

Customs is a mandatory element in the movement of goods across borders and the procedures applied to these goods significantly influence the role of national industry in international trade and their contribution to national economy. Effective and efficient clearance of goods increases the participation of national industry in the global marketplace and contributes significantly to the economic competitiveness of nations, encourages investment and development of industry and increases the participation of small and medium enterprises in international trade (WCO, 2002). Figure 3.9 gives a glimpse of the trading activity in South Africa at a point in time.

Figure: 3.9 – SARS Operational Statistics

OPERATIONAL STATISTICS

The following tables highlight the growing volumes of trade in 1999 and 2000.

Total value of imports and exports fiscal years:

JANUARY 1999 to DECEMBER 1999		JANUARY 2000 to DECEMBER 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R146 328 304 395	R165 645 022 029	R186 476 474 495	R210 512 684 657

Total number of transactions:

1999		2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
1 433 994	1 129 307	1 462 611	1 152 884

Total value of SADC imports and exports calendar year 2000

IMPORTS	EXPORTS
R2 184 581 755	R24 107 849 185

Total value of European Union imports and exports calendar year 2000

IMPORTS	EXPORTS
R67 166 176 382	R57 934 546 342

Source: SARS, 2001

Modern trading practices make it essential for administrations to provide simple, predictable and efficient Customs procedures for the clearance of goods and movement of people while simultaneously tackling increasingly complicated national and international requirements to ensure compliance with national laws, international agreements and meeting security challenges (WCO, 2002). In the current international business environment simple, predictable and cost-effective formalities for cross border movement of goods has been gaining increased focus since this has become central to increasing economic growth through national participation in international trade. The volumes of goods that move across borders have increased exponentially due to changes in the international trading environment stemming from the global integration of modern production and delivery systems as well as from new forms of electronic commerce (WCO, 2002).

Global efforts in the last decade to enhance transparency in international trade and reduction of tariff barriers have had significant results. Attention of governments and other agencies is now focused on non-tariff barriers and their impact on national economies and trade (WCO, 2002).

- **Attractiveness of the Global Market**

The implications for exporters is the overall attractiveness of a country as a market for the long-term benefits of doing business in that country against the likely costs and risks associated with the political system, economic and legal environment (Hill, 2002). Thus the monetary benefits associated with size and the purchasing power of that market and the sophistication of the country's infrastructure and supporting business must be taken into consideration when deciding to import and export. Generally the cost and risks associated with importing and exporting are typically lower in economically advanced and politically stable democratic countries.

Barriers to international trade that underlie the move towards globalisation of free trade of goods, services and capital may take the form of high tariffs (Specific tariffs and Ad valorem tariffs) on imports of manufactured goods. These tariff barriers is seen as protecting domestic industries from foreign competition, however advanced industrial nations have committed to themselves to removing trade barriers for the free flow of goods, services and capital between nations (Hill, 2002).

This goal was enshrined in the General Agreement on Tariff and Trade (GATT) treaty. The Uruguay Round of negotiations completed in December 1993 further reduced trade barriers that extended GATT to cover enhanced protection for patents, trademarks and copyrights (Hill, 2002).

The World Trade Organisation (WTO) was founded in 1994 to police the world trading system established by GATT. The WTO arbitrates trade disputes between 120 countries that are signatories to the GATT. The WTO can issue rulings instructing member countries to change trade policies that violate GATT regulations.

Should there be a refusal by violating countries to comply with the rulings, the WTO allows other countries to impose appropriate trade sanctions on such transgressors. WTO promoting free trade in place of protectionism (Hill, 2002).

- **Linking into international initiatives through co-operation with other organizations and business partners**

Current international focus on trade facilitation issues consequent to its inclusion in the WTO's Doha Ministerial Declaration had increased the awareness of its role in contributing to economic prosperity through trade competitiveness.

The WCO has noted the complimentary nature of its activities with that of the WTO. To this end the WCO works closely with other intergovernmental organizations such as the WTO, World Bank, UNCTAD, UNECE, and others as well as with organizations such as the ICC and others that represent business interests in developing its Conventions, instruments and programmes to simplify and standardize Customs practices (WCO, 2003).

- **Export Processing Zones**

A central feature of the World Bank strategy is export-led growth to replace inward looking development strategies. Policies of import substitution are increasingly replaced by export promotion and South Africa is following this global pattern. It is in this context that the establishment of Export Processing Zones ("EPZ's") is being undertaken (Deloitte & Touche, 2002).

Such EPZ's are not a new phenomenon as they date back to the 1960s when they were introduced in developing countries as part of export oriented industrialisation strategies to make countries more internationally competitive (Deloitte & Touche, 2002).

- **Economic Benefits of Exports to a Company**

Strengthening and supporting the organization - Exports provides an opportunity for a company to move into a nation that is currently unreserved by its rivals, however those rivals are sure to follow their competitors gain and advantage. The globalisation of firms provides an opportunity for firms to source goods and services from locations

around the globe and to take advantage of national differences to improve cost and quality of production thus competing more effectively (Deloitte & Touche, 2002).

Stimulates research and innovation, thereby enhancing its ability to share in the development and supply of goods to meet its objective and international requirements - Exports provide an opportunity for companies to gain exposure to best-demonstrated practices in the global world. This encourages research and development work on technological developments in communications, information processing and production techniques. The developments in these areas may be used to improve or enhance local products and bring about efficiencies in operational techniques (Deloitte & Touche, 2002).

South African exporters will be able to use this international exposure to promote and improve the research and technological capabilities in local strategic industries.

Stimulation of productivity, exports and economic growth - Exports provide opportunity for companies to gain access into alternative markets as the domestic companies supplying same goods saturate local environment. Exports provide companies an alternative market in the international environment to sell its goods and services. This stimulates the companies' productive capacities to meet export volumes. The foreign earnings can be used to improve business performance or alternatively reward employees. This will have a positive net effect on the economy as a whole as companies will develop the expertise to develop a strong position at the buyers end and to further develops this special relationship to produce specific products for export markets (Deloitte & Touche, 2002).

Globally focused, exports enables companies to acquire advanced knowledge and experience which will allow the industry to price its products realistically and enter into strategic business relationships - South African Exporters need to take cognizance of the fact that the Product, Price and Performance of the export commodity in the global market will contribute to attaining an effective export pricing strategy and future recurring business opportunities. South African exporters must give attention to detail to the following criteria in order to be effective in this regard (Deloitte & Touche, 2002):

- International accepted quality standards and after sales services;
- Technical details of the product;
- The design, packaging and layout;
- Environmental friendly factors; and
- Continuity of suppliers and delivery schedules.

Exports give companies the opportunity to display their capability to successfully address commercialisation from both technical and other business aspects -

Exports build a positive vision for companies to build capacity and employ new technologies for the future for the success of their business. This requires that these ideas move rapidly to the market to encourage growth, create new jobs and strengthen company performance. These technology initiatives are likely to strengthen manufacturing bases, expand employee involvement and create greater participation of employees. Companies will therefore strive to continuously to improve their product and process technology, increase Research and Development investments, provide accredited training, and forge better relationships with suppliers and customers. This encourages faster turnaround times in delivering products to the international market (Deloitte & Touche, 2002).

3.6.2 POLITICAL

The political component are those elements related to governmental affairs e.g. type of government in existence, governmental attitude towards various industries, lobbying efforts by interest groups, progress towards the passage of laws, platform of political parties and sometimes predispositions of certain candidates. The direction and stability of political factors is a major consideration for potential investors in formulating potential market entry strategies. Political constraints are placed on industries very often through government regulations.

➤ **Southern African Leaders sign new Customs Deal**

In early 2003, leaders of the five-country Southern African Customs Union (SACU) signed an Accord in Gaborone, Botswana to simplify customs tariffs and allow shared

decision-making. This follows an agreement reached late last year on trade issues within SACU, which links South Africa, Botswana, Lesotho, Namibia and Swaziland in a common customs body. Presidents Festus Mogae of Botswana, Sam Nujoma of Namibia, Thabo Mbeki of South Africa, Lesotho Prime Minister Phakalitha Mosisili and King Mswati III of Swaziland signed the deal (Nampa, 2003).

Mbeki said the accord should act as a development model to the rest of the continent, (Nampa, 2003), *"The agreement that we have just signed is very important,"* he said at a media briefing after the signing ceremony. *"It will give the less developed countries the power to impose particular tariffs so that their industries would not be strangled by ones."* Mogae described the agreement as *"an appropriate vehicle for southern Africa's future of sustained economic growth and development"*. He added: *"One of the challenges facing SACU is to encourage the development of the less advanced members of the customs union and the diversification of their economies."*

"This agreement will indeed strengthen the cohesion of the longest-existing customs union in the world, by involving all member states in key decision-making processes," a statement from the Namibian Finance Ministry, (Nampa, 2003).

➤ **International Affairs – US Customs Partnership with Africa**

A major concern of the United States is the diversity of criminal activity originating from the African countries that pose a significant threat to U.S. borders. The U.S. Customs Service, in partnership with other U.S. government agencies, continues to support the efforts of African governments through training and resources to combat transactional crime. The goals and benefits (USC, 2001):

- Enhance interdiction capabilities through training and assistance programs with the ultimate aim of dismantling the Major criminal organizations and illicit activities operating within the region;
- Deter the proliferation of small arms which pose a major threat to development, political and economic stability, civil liberties and human lives;

- Assist African nations in improving their air navigation services, aviation safety and airport security;
- Improve the process, procedures and performance of the agencies responsible for inspecting cargo and persons at the border; and
- Provide training to combat illegal textile transshipments.

➤ **New international Convention to facilitate mutual assistance between the world's Customs administrations is adopted by WCO Council**

Directors General of Customs from around the world attending the annual WCO Council meeting in Brussels in 2002 adopted a new international Convention on Mutual Administrative Assistance by Customs Administrations. This follows a year of intensive multi-lateral discussions within the framework of the WCO's Task Force on Supply Chain Security and Facilitation of international trade that was established last June as a response to requests by G8 and the International Maritime Organization concerning the possibility of international trade consignments being used to deliver weapons of mass destruction (WCO, 2002).

In this respect the new Convention specifically provides for the exchange of information in advance of the shipment of goods and mutual cooperation that may involve modern forms of customs investigative techniques. It will also assist Customs administrations to co-operate with respect to concerning cross-border crime, revenue fraud and economic security. In doing so it will provide a legal basis for the exchange of information and mechanisms for dealing with requests for assistance between Contracting Parties (WCO, 2003).

3.6.3 LEGAL

The legal component, which consists of legislations that has been passed and that need to be passed. It comprises of all those laws that prescribe rules that members of society need to follow.

➤ **Bilateral and Multilateral Trade Agreements**

The lowering of barriers to international trade enables importers and exporters to gain access to world markets, rather than a single country, as their market.

In the spirit of global reconciliation some countries have entered into preferential trade agreements with South Africa. These trade agreements provides an opportunity for South African companies to import and export their goods at a competitive price under the below mentioned trade agreements. Thus local South African companies can compete favourably with other international companies manufacturing and exporting similar products (Deloitte & Touche, 2002).

To qualify for the maximum benefits under the trade agreements, requires South African importers and exporters to strictly adhere to the “Rules of Origin” compliance criteria in the respective agreements.

- **SA/EU Free Trade Agreement**

The establishment of the free trade area will strengthen the relationship between South Africa and Europe as preferred trading partners. This agreement allows for South African products to gain access to the European market and also for European products to gain access to the South African market on improved terms. This agreement will increase investment flows between the countries. Trade between South Africa and the European Union is estimated to be at least 18 billion Euros a year (Deloitte & Touche, 2002).

- **SADC**

The Southern African Development Community (“SADC”) Protocol on Trade, signed in August 1996, was entered into force on 25 January 2000 after ratification by two-thirds of the signatory Member States (Deloitte & Touche, 2002). The Amendment Protocol on Trade was adopted by the SADC Summit of Heads of State and entered into force on 7 August 2000. This Amendment Protocol consolidated all the recent

negotiations that were aimed at reviewing and strengthening some of the provisions of the 1996 Protocol. It incorporates (Deloitte & Touche, 2002):

- The revised rules of origin.
- A regulation on mutual assistance and cooperation in Customs matters.
- The new dispute settlement mechanism and the arrangements for market access and cooperation in the sugar sector.
- Provision is also made for the CMT to amend existing Annexes of the Protocol and include new Annexes. This will allow for flexibility when implementing the Protocol.

- **AGOA**

The African Growth and Opportunity Act (“AGOA”) came into law on May 18, 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets in their respective country (Deloitte & Touche, 2002).

AGOA provides reforming African countries with the most liberal access to the United States of America’s market. This market is available to any country or region with which the United States does not have a Free Trade Agreement. It supports U.S. business by encouraging reform of Africa’s economic and commercial regimes, which will build stronger markets and more effective partners for U.S. firms (Deloitte & Touche, 2002).

The AGOA builds on existing U.S. programs designed to increase trade and investment between the United States and developing countries. AGOA expands benefits available under the Generalized System of Preferences (“GSP”) program (Deloitte & Touche, 2002).

➤ **Voluntary Export Restraint**

This is a quota imposed by the exporting country, on request by the importing country's government. This is an alternative to the importing country imposition severe punitive tariffs or import quotas. This is extensively published in the South African List of Prohibited and Restricted Exports (Hill, 2002).

➤ **Anti-dumping and Countervailing Policies**

South African importers need to be warned that this is an area that is gaining increasing awareness in terms of South Africa levelling the playing fields to protect its local businesses. When a company imports goods from a foreign market at below the cost of production or when selling goods locally, which are well below the fair market value, this is regarded as dumping. Anti-dumping policies is designed to punish firms that engage in dumping (Hill, 2002). An investigation is undertaken by the International Trade and Administration Commission previously referred to as the Board of Tariff and Trade and special tariffs are imposed on such imports (Hill, 2002).

➤ **Organisation for Economic Co-operation and Development (OECD)**

In this forum the relevant international and regional intergovernmental institutions mobilizes its participatory resources to deal with complex trade policy and trade competitiveness issues. This institution provides a mechanism where countries collaborate in formulating and implementing trade development strategies. This provides an opportunity for developing countries to strengthen trade policies that will enable developing countries to increase the volume in exports and to diversify export products in foreign markets (Hill, 2002).

➤ **Paris Convention for the Protection of Intellectual Property**

There are 96 signatories to this international agreement to protect intellectual property rights. This allows governments to ensure that intellectual property rights are protected and the law is enforced (Hill, 2002).

➤ **Product Safety Laws**

Some countries enforce product safety laws, which sets certain safety standards to which products must adhere. These laws are designed to hold companies and its members responsible when a product causes injury, death or damage. This may lead to both criminal and civil liability (Hill, 2002).

➤ **WCO Instruments and Programmes - Customs Procedures and Trade Facilitation (The Revised Kyoto Convention)**

The International Convention on the Simplification and Harmonization of Customs procedures (Kyoto Convention) entered into force in 1974 and was revised and updated to ensure that it meets the current demands of governments and international trade. The WCO Council adopted the revised Kyoto Convention in June 1999 as the blueprint for modern and efficient Customs procedures in the 21st century (WCO, 2003).

Once implemented widely, it will provide international commerce with the predictability and efficiency that modern trade requires. Chief among the new governing principles of the Kyoto Convention is the commitment by Customs administrations to provide transparency and predictability for all those involved in aspects of international trade (WCO, 2003).

The revised Kyoto Convention promotes trade facilitation and effective controls through its legal provisions that detail the application of simple yet efficient procedures. The revised Convention also contains new and obligatory rules for its application, which all Contracting Parties must accept without reservation. The key elements within the revised Kyoto Convention to be applied by modern Customs administrations are (WCO, 2003):

- the use of pre-arrival information to drive programmes of selectivity;

- risk management techniques (including risk assessment and selectivity of controls);
- the maximum use of automated systems;
- co-ordinated interventions with other agencies;
- making information on Customs requirements, laws, rules and regulations easily available;
- providing a system of appeals in Customs matters; and
- formal consultative relationships with the trade.

➤ **Supply Chain Security**

Purpose - International traders are aware of the legal responsibilities and requirements of Customs and other competent authorities and accept their consequent interventions in trade operations. Both Customs and trade recognize that co-operative programmes can go beyond legal obligations to reach mutually beneficial, jointly developed and accepted objectives, in order to achieve supply chain security and enhance facilitation (CCC, 2003).

Objectives - In pursuing the main purpose of the co-operative agreements, a number of objectives emerged. The co-operative agreements should (CCC, 2003):

- i). Be based upon an integrated supply chain management approach.
- ii). Be documented and contain verifiable processes.
- iii). Serve as the foundation for further development of effective and efficient supply chain management.
- iv). Include an effective means of providing measurable facilitation for international trade.

Roles & Responsibilities Of Partners - Customs and business partners should seek to jointly improve the security of the international trade supply chain. Customs Administrations are responsible for enforcing national and international laws. Within the context of supply chain security, this responsibility extends to the following (CCC, 2003):

- (a) Controls and interventions should be based upon the principles of risk management.
- (b) Consultations with trade on supply chain security, including where possible, feedback on business performance/compliance.
- (c) A system whereby trader co-operation is recognized, and where appropriate, a mechanism for rewarding such co-operation is established.
- (d) The efficient use of existing commercial systems.

All economic operators (i.e. manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors) should be responsible for maintaining a reasonable degree of control over the goods and information in their care to protect against illegal activities in the trade supply chain. Within the context of supply chain security, business responsibilities include (CCC, 2003):

- (a) Ensuring security management arrangements are established within the company.
- (b) Working with other economic operators/business partners involved in the supply chain to improve overall security and facilitation standards, and where possible include equivalent security provisions as a condition of contract, for contractors/suppliers providing services.

Recommended Components Of Partnership Agreements - National partnership agreements should be based upon the existing WCO Memorandum of Understanding (MOU) approach, enhanced and strengthened to cover specific security and facilitation purposes (CCC, 2003). For each sector of the supply chain, as a minimum, partnership agreements should address basic security standards and potential business benefits. Conditions and/or Undertakings that may be required, as essential elements of such agreements should be developed taking into account existing security initiatives and programs (CCC, 2003).

1. Basic Procedural Security Measures: The following procedural measures are designed to protect against the unauthorized entry into or removal of goods from the supply chain (CCC, 2003).

- (a) The recorded and verifiable introduction of goods into the supply chain.
- (b) The recorded and verifiable removal of goods from the supply chain.
- (c) The security of goods at all points throughout the supply chain, from introduction to removal.
- (d) The proper identification, recording and documentation of goods, and safeguarding the access to and integrity of the information.
- (e) The appropriate use and verification of seals.
- (f) Procedures for notifying Customs and other law enforcement agencies in cases where discrepancies, anomalies or illegal activities are detected or suspected. Customs should assist business in identifying these.

2. Basic Physical Security Measures - Security measures for the international trade supply chain must extend beyond the goods themselves. Security should include the locations where those goods pass through and to the conveyances that carry them. Physical security measures for these areas should include (CCC, 2003):

- (a) The use of secure premises and practices.
- (b) The use of access control points and the identification of all employees, visitors, and contractors.
- (c) Where appropriate and feasible, the segregation and marking of all international, domestic, and dangerous goods.
- (d) The security of conveyances.

3. Basic Employee Security Measures - Within the bounds of national legislation, all persons that deal directly with the supply chain, or have connection with it, should be subject to (CCC, 2003):

- (a) Employee screening.
- (b) Periodic background checks.
- (c) Application verifications.
- (d) Participation in security awareness and training programs.

4. Other Security Measures - In addition, partners in the agreement should (CCC, 2003):

- (a) Implement security awareness and training programs, jointly wherever possible.
- (b) Encourage active participation in supply chain security.

5. Consultation - Policy and strategy decisions on trade consultation should be negotiated and managed at the national level. However, national strategy should provide a mechanism for Customs/business consultation at the local level. Such consultations at individual port/airport level create a valuable network of personal contacts, beneficial to both trade and Customs (CCC, 2003).

The most basic form of co-operation is the establishment of a regular consultation procedure between Customs and representatives of trade interests based in that country. This can take place at national, local and individual level. At the international level, the WCO will continue as a principal forum on security and facilitation for consultation between Customs administrations, business and other international bodies (CCC, 2003).

In many countries there are national trade associations representing the parties involved in international trade. If there are no such associations, often several large organizations exist which cover the majority of international transactions. Consultations with these associations or organizations will bring together representatives of the major organizations involved in international trade on whom Customs procedures and concerns impact. These may include (CCC, 2003):

- (a) Manufacturers
- (b) Importers
- (c) Exporters
- (d) Agents and Brokers
- (e) Carriers
- (f) Consolidators
- (g) Intermediaries

- (h) Ports and Airports
- (i) Terminal Operators
- (j) Integrated Operators
- (k) Warehouse Operators
- (l) Distributors

The aim of such consultation is to (CCC, 2003):

- (a) Establish Customs and trade priorities, aims and objectives.
- (b) Provide a better understanding of business requirements and procedures, and a mechanism for informing the partners of changes in such requirements/priorities.
- (c) Provide the opportunity to facilitate the movement, release and clearance of “low risk” consignments.
- (d) Agree specific trade benefits to be derived from participation in supply chain security.
- (e) Promote increased co-operation between Customs and trade.
- (f) Promote programmes aimed at improving Customs and trade risk assessment capability.
- (g) Provide the opportunity to contribute to new systems and procedures.
- (h) Provide a forum where business objectives can be discussed and where problems and concerns can be resolved.
- (i) Establish a network of contacts between Customs and trade, including where appropriate designated points of contact.

➤ **Authorized Trader Concept**

Through implementation and use of a risk management programme, Customs can determine which goods and which traders are generally in compliance with Customs law and thus pose a low risk for control purposes. These traders can then be approved for special or “fast track” procedures that require little intervention by Customs for the release and clearance of their goods. Such traders are referred to as “authorized persons” as noted in the revised Kyoto Convention (WCO, 2003).

Special procedures are beneficial for both Customs and the trade. They facilitate the movement of goods, encourage compliance with Customs rules and enable more effective use of resources. They also promote the modern concept of a partnership between Customs, and all other parties engaged in an international trade transaction. Customs should consult regularly with the various parties involved to ensure that once special procedures have been introduced, the optimum benefits are realized for all the trade partners, including Customs (WCO, 2003).

The criteria and conditions for this authorization should be developed by Customs through the consultative process with the trading community. Any trader can apply for approval to use the special procedures. Once Customs agrees that a trader meets the criteria that have been identified as necessary to ensure the trader's compliance with Customs law, they will authorize the trader (WCO, 2003). The authorization will indicate the obligations of the authorized person concerning the use of a special procedure.

Authorization arrangements could be extended, with benefit to both security and facilitation, by the concept of an Authorized Supply Chain, in which participants in an international trade transaction have been approved by Customs as observing specified standards in the secure handling of goods and relevant information (WCO, 2003). Consignments passing from origin to destination entirely within a chain of authorized operators would benefit from integrated simplified procedures, based on standard control data.

Bringing such a concept into practical operation would require a set of agreed standards and facilities for effecting and monitoring authorizations as well as mutual recognition of all these arrangements (WCO, 2003).

Efforts by trade interests to meet such criteria on a voluntary basis can be encouraged, if they are recognized as authorized by another administration. WCO Members should pursue negotiations in order to allow the mutual recognition of authorized traders (WCO, 2003).

➤ **Partnership**

To the extent that Customs can rely on its partners in the trade community to evaluate and address threats to their own supply chains, the risk confronting Customs is reduced. Therefore, companies that demonstrate a verifiable willingness to enhance supply chain security will benefit. Minimizing risk in this way helps Customs in performing their security functions, and in facilitating legitimate trade (WCO, 2003).

3.6.4 SOCIAL ISSUES

The social component describes factors / characteristics of the society in which the organisation exists. Literacy rates, educational levels, customs beliefs, values, lifestyle, age, geographic distribution, and mobility of a population are part of the social environment. Changes in this aspect are inevitable.

Sometimes differing practices of human rights violation, relaxed labour, relaxed environmental regulation and corruption in some countries needs to be taken into account when deciding to export. The decision not to export to such countries displays the commitment of sovereign nations voicing their objections to practices that infringes on ethical issues and it is a form of displaying unity of strength against unacceptable practices.

3.6.5 TECHNOLOGY

The technological component includes new approaches to producing goods and services, new procedures as well as new equipment.

Accelerating technology change is outpacing government acquisition. At the start of the new millennium, e-Government's rapid rise to global prominence coincides with an unprecedented acceleration of technological evolution (Deloitte, 2002). Where, not long ago, mainframe systems gave way to client/server architecture, portals, wireless devices and remote application hosting are now the new vanguard of innovation. Just as each new generation of technology appears more quickly, its predecessors fall more rapidly into obsolescence (Deloitte, 2002). Thus, governments locked into

drawn-out procurement cycles and inflexible partnering agreements stand to lose when it comes to having sound options for the future (Deloitte, 2002).

The public sector recognizes that its constituents have experienced ease of information access within the private sector, and now constituents are demanding the same type service from governments. At the same time, tight IT budgets have forced governments to develop more efficient processes to lower costs and to more effectively provide services or face competition from the private sector. In addition, technical vulnerability has raised new security concerns (Deloitte, 2002). Governance structures, portals, personalization, single sign-on, business process reengineering, organizational change and integration tools can provide capabilities that answer emerging challenges, but putting these to use requires creative responses to resource limits (Deloitte, 2002).

- **Trends in public sector investments**

There are six trends that are driving public sector investments (Deloitte, 2002):

- i. Greater demand for services: For most governments worldwide, the number of constituents are growing rapidly and services capability must expand to match this growth.
- ii. Push towards greater connectivity: New capabilities are creating a push to connect government systems directly to citizens, employees and vendors.
- iii. Improved public service through technology: Opportunities are now available to integrate data and processes, while reducing costs and improving services. The use of technology to facilitate public service has grown tremendously. Greater technical aspects of service in the public sector are growing, with delivery of mobile computing, distributed education (“e-learning”) and research capability.
- iv. Increased collaboration with the private sector: Often developed through experiences with the private sector, constituent expectations are growing and must be met:
 - Citizens are demanding greater access, including online availability and around the-clock service.

- Constituents express the need for easier-to-use interfaces and more context driven experiences.
 - Where governments allow it, there is a growing option of privatization that must be addressed.
- v. Need for economic development: Technology has reduced the advantage geographic location and firms are leaving major cities in search of cheaper estate. Thus, there is an increased need within specific localities to attract retain businesses and residents.
- vi. Enhanced security requirements: Of course, governments have always been charged with maintaining security, and both political unrest and new technologies have heightened concerns in this area. Public sector officials have an increased interest in using information technology (IT) to help assure public safety, and they are more focused than ever on protecting IT systems in the face of new threats (often from other technologies).

- **Moving forward: Five necessary capabilities**

Analyses reveal five capabilities that seem to be required as the public sector moves forward: ease-of-use, efficiency, personalization, security and accessibility (Deloitte, 2002). Each of these capabilities, there are specific technologies or clusters of technologies that promise to make a difference in the mid-term.

3.7 COMPETITOR ANALYSIS

"The state of competition in an industry is a composite of the five competitive forces" – Michael Porter.

As global trade expands, nations are becoming increasingly dependent on each other for important goods and services. Globalization can significantly boost economic growth but not all developing countries are equally engaged in globalization or benefiting from it as they have been rather slow in integrating with the world economy.

For exporting countries, the main benefit is the increased access of their producers to larger international markets and this results in stronger competition in world markets.

➤ Economic Performance

The positive contribution of exports to South Africa's economic performance is envisaged to allow the South African government to negotiate (Deloitte & Touche, 2002):

- Decrease Company Taxes
- Reduce Personal Taxes
- Reduce Regulation
- Reduce Spending
- Bring Business to SA
- Provide better social benefits

➤ Economic Variables

- Economic indicators paint a challenge to the South African.
- Real Growth Rate (GDP) is slowing down.
- Per Capita (GDP) is still far below R 36 000.00 per annum.
- Unemployment Rate is ever increasing (Deloitte & Touche, 2002).

Figure: 3.10 – GDP Growth Rates

Year	Nominal GDP (Million)	Real Growth Rate (GDP)	Nominal GDP per Capita Rand
1995	R 548 100	3.1	R 13 920
1996	R 617 954	4.3	R 15 368
1997	R 685 730	2.6	R 16 699
1998	R 739 504	0.8	R 17 634
1999	R 802 840	2.1	R 18 746
2000	R 887 795	3.4	R 20 323
2001	R 975 196	2.2	R 21 889

Source: Deloitte & Touche, 2002

Figure: 3.11 – Unemployment Rate

Year	Unemployment Rate
1997	21%
1998	25.2%
1999	23.3%
Feb 2000	27.7%
Sept 2000	25.8%
Feb 2001	26.4%
Sept 2001	29.5%

Source: Deloitte & Touche, 2002

Figure 3.12 - Consumer Price Index

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
1994	64,0 +10,0	64,2 +9,9	64,6 +9,1	65,0 +6,9	65,4 +7,2	65,8 +7,3	66,8 +8,1	67,8 +9,2	68,6 +10,1	68,9 +9,7	69,1 +9,9	69,3 +9,8	66,6 +8,8
1995	70,2 +9,7	70,5 +9,8	71,3 +10,4	72,2 +11,1	72,5 +10,9	72,4 +10,0	72,8 +9,0	73,0 +7,7	73,1 +6,6	73,3 +6,4	73,5 +6,4	74,1 +6,9	72,4 +8,7
1996	75,0 +6,8	75,1 +6,5	75,7 +6,2	76,2 +5,5	76,7 +5,8	77,4 +6,9	78,0 +7,1	78,4 +7,4	79,2 +8,3	79,9 +9,0	80,2 +9,1	81,0 +9,3	77,7 +7,3
1997	82,0 +9,3	82,5 +9,9	83,0 +9,6	83,7 +9,8	84,0 +9,5	84,2 +8,8	85,1 +9,1	85,2 +8,7	85,6 +8,1	86,0 +7,6	85,7 +6,9	86,0 +6,2	84,4 +8,6
1998	86,7 +5,7	86,9 +5,3	87,5 +5,4	87,9 +5,0	88,3 +5,1	88,6 +5,2	90,7 +6,6	91,7 +7,6	93,3 +9,0	93,7 +9,0	93,7 +9,3	93,7 +9,0	90,2 +6,9
1999	94,4 +8,9	94,4 +8,6	94,4 +7,9	94,6 +7,6	94,5 +7,0	95,0 +7,2	95,1 +4,9	94,7 +3,3	95,1 +1,9	95,3 +1,7	95,5 +1,9	95,8 +2,2	94,9 +5,2
2000	96,9 +2,6	96,6 +2,3	97,6 +3,4	98,9 +4,5	99,3 +5,1	99,9 +5,2	100,8 +6,0	101,2 +6,9	101,7 +6,9	102,0 +7,0	102,2 +7,0	102,5 +7,0	100,0 +5,4
2001	103,8 +7,1	104,1 +7,8	104,8 +7,4	105,3 +6,5	105,7 +6,4	106,2 +6,3	106,1 +5,3	105,9 +4,6	106,2 +4,4	106,1 +4,0	106,6 +4,3	107,2 +4,6	105,7 +5,7

Source: Deloitte & Touche, 2002

➤ THE ROLE OF CUSTOMS IN THE PRESENT SCENARIO

The present scenario for Customs shows an unstoppable development of electronic commerce and e-business, both in its “business-to-consumer” form and, mainly, in its business-to-business modality (WCO, 2003). The set of transactions and procedures ruling production, commercial, logistics, administrative and financial activities is mainly based on the widespread use of ICT. The availability of adequate “trade facilitations” is therefore a pillar of foreign trade and international competitiveness within all companies and countries. In such a framework, the competitive benefits offered by the information technology become ever more important (WCO, 2003).

The increasing liberalization of trade leads to a pressing demand for simplification and harmonization of customs procedures and policies by economic traders (WCO, 2003). The liberalization of trade and the computerization of customs operations form the main elements of a “virtuous circle” in the development of national economies and global trade at the same time (WCO, 2003).

In the light of the above, customs administrations can no longer delay reviewing the role and organization model of customs. Reshaping the present customs procedures to meet the needs of online exchange of information is not enough in itself, as the adjustment to a continuously evolving environment involves not only Customs. This becomes clear when one thinks that customs clearance calls for co-operation with other agencies and administrations in charge of surveillance and controls on currency, health, veterinary issues, police activities and agricultural policy (WCO, 2003). Hence, if one of the parties in the exchange of information on goods circulation breaks the computerized chain, most of the underlying benefits are jeopardized. Therefore, the “single window” approach is included again, in a more or less obvious way, in every transnational project, such as E-EUROPE (WCO, 2003).

Customs administrations will have to combine different needs and to foresee the co-operation of several agencies and administrations in order to adjust the existing facilities and procedures to a fully computerized scenario. Despite its leading role, technology innovation should be accompanied by the re-engineering of service processes, of the related relevant activities and also by the subsequent provisions necessary to support all agencies and administrations involved (WCO, 2003).

3.8 INTERNAL ANALYSIS

A scan of the internal and external environment is an important part of the strategic planning process. The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

The introduction of far-reaching tax reforms and the increased integration of the national economy into the international trading system have dramatically changed the

landscape in which the SARS operates. During the year 2000, SARS implemented significant reforms in revenue collection and customs administration. In part, this was to deal effectively with weaknesses and operational inefficiency in the organization. More importantly, it was to better place the organization in a position to implement effectively policies and programmes introduced by the Government, specifically the National Treasury and the Department of Trade and Industry.

The reforms were driven by the need to modernize the organization taking account of a rapidly changing economic and policy environment, both internationally and domestically. Although there is still a great deal to be done, solid and measurable progress has been achieved.

The SARS Transformation Programme is by far the most radical and ambitious change strategy in the history of revenue administration in South Africa. Key elements of the strategy are process re-engineering; concentration of scarce resources; service delivery and risk responsiveness in all areas of SARS business.

3.8.1 SWOT ANALYSIS

A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis.

3.8.1.1 STRENGTHS

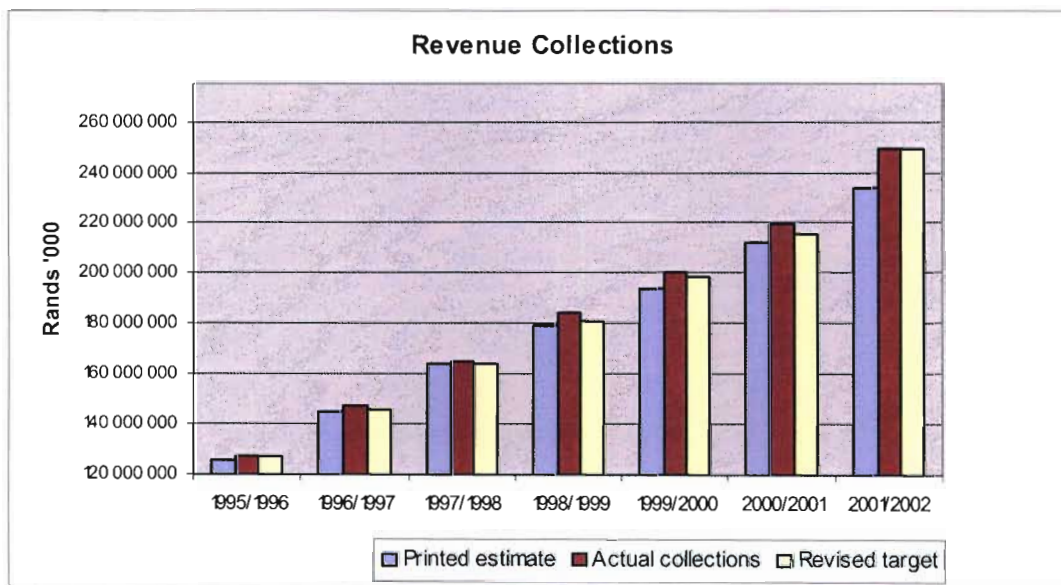
Revenue collection by SARS amounted to R219, 6 billion in 2000/01, exceeding the revised revenue target of R215, 5 billion by R4, 1 billion, and the printed target of R212, 2 billion by R7, 4 billion. The effect was to bring down the budget deficit to 1,9 percent, reducing the levels of borrowing and cost of servicing the national debt (SARS, 2002).

Revenue collected from taxes on international trade and transactions has increased at an annual average rate of 13,2 percent between 1997/98 and 2000/1. This growth in revenue is accounted for by the country's increasing integration into the international trading system and significant improvements in customs administration (SARS, 2002).

➤ Customs Duty

In 2000/01 customs duty collected amounted to R7, 844 billion, which is R1, 544 billion higher than the printed estimate. The value of imports increased in 2000/01 by 28,8 percent as opposed to a growth of 3,3 percent in the previous year (SARS, 2002). The duty collections correlate with the growth in the value of imports. Customs duty collections benefited from the depreciation of the Rand against the currencies of other major trading partners (SARS, 2002). Figure 3.13 reflects the phenomenal revenue collections of the SARS.

Figure 3.13 – SARS Revenue Collection Trends



Source: Deloitte Budget Supplement, 2003

➤ Customs Quality Management Systems

The division has also embarked on the implementation of a Quality Management System. This will ensure that all key processes and procedures are properly defined and documented and that they are standardized throughout the country and also conform to international best practices. It is envisaged that full implementation will prepare the division for ISO 9000 certification (SARS, 2002).

➤ **Strategic Relationships / Partnerships**

There has been a dramatic improvement in relationships with the business community and organized labour in recent years (SARS, 2002). This is the result of better communication and the invitation of these key stakeholders to customs workshops in the past two years. The division also consulted all business stakeholders to capture their expectations of a world-class customs organization in November 2000. The views of business and labour were taken into account in building the SARS Customs strategic plan. Other meetings have been with individual organizations including (SARS, 2002):

- South African Association of Freight Forwarders (SAAFF);
- Road Freight Association;
- Customs Law Enforcement Task Group (CLETG);
- South African Chamber of Business (SACOB);
- Clothing Federation (Clofed);
- Textile Federation (Texfed);
- South African Clothing and Textile Workers Union (SACTWU).

This has resulted in a closer Customs / Business and Customs / Labour Partnerships. Co-operation with government departments whose mandates have a direct impact on customs administration was also improved. Despite many hitches the regular contacts with the Border Police Division of the South African Police have been maintained. There has also been closer co-operation with the Department of Trade and Industry in the development of trade policy, especially its translation into administration, and therefore customs policy (SARS, 2002).

SARS actively participated in the meetings of all the SACU, SADC, and WCO taking place in the region. It also took the initiative to organize the Regional Heads of Customs Administration Summit attended by nine countries in November 2000 (SARS, 2002). This has laid a firm basis for regional co-operation in customs administration that is critical for the successful implementation of regional and bilateral trade agreements. SARS and the Zambia Revenue Authority were also

appointed as the regional representatives in the Ad Hoc Committee on the Reform of the World Customs Organization structures (SARS, 2002).

3.8.1.2 WEAKNESSES

Growing backlogs in the processing of transactions, staff training, policy development, and border infrastructure, including staff accommodation, office space, amenities, and equipment.... This effectively conceptualizes the environment under which Customs has had to meet its objectives in recent times. The SARS landscape has since changed rapidly with taxpayer, government, management and internal user needs becoming more sophisticated. The SARS IT environment, although stable, does not have the strength and maturity necessary to provide the kind of on-line, real time service that is required by key stakeholders (SARS, 2001).

The SARS Technical Services Division (TSD) is addressing some risks that were identified along the way and these areas have formed the basis for change. These are listed as, lengthy applications development life cycle, inadequate management controls, skills shortage and a deficient permanent management group. Certain IT infrastructure, applications and strategies are outdated and do not support SARS's immediate business requirements (SARS, 2002).

3.8.1.3 OPPORTUNITIES

The implementation of free trade agreements is increasing the complexity of administering the country's trading regime. This means that our organization must proceed apace with reforms in customs administration in order to facilitate trade efficiently, while continuing to collect revenue effectively (SARS, 2001).

➤ Proposed Changes

In terms of the changes SARS will establish centralized processing, compliance and service centres; while there will also be wide-ranging changes affecting Customs. Audit, collections and criminal investigation activities will be concentrated in Compliance Centres, allowing SARS to best use scarce resources and expertise and,

more importantly, be able to develop a more integrated view of taxpayers (SARS, 2002).

Far-reaching changes are planned for Customs. An automated cargo manifest system is being developed which will enable SARS to provide an electronic manifest acquittal facility resulting in faster processing of entries submitted and reducing paper administrative work (SARS, 2002). More importantly, it will enable SARS to improve risk based targeting and eliminate unnecessary interventions.

The specifications of the system have been completed and enhancements are being developed. A system to automate the control on goods removed in transit/bond, and including real-time electronic acquittal and security re-instatement at approved places of exit within specified time frames is also being developed (SARS, 2002). Policy changes will be introduced to require road hauliers to license, lodge securities and adhere to specific exit points and acquittal times. By implementing these changes SARS will be able to exert more effective control of in-transit cargo (SARS, 2002).

A Warehouse Inventory Management System is being developed which will result in a perpetual inventory system that will provide information on goods and duties within bonded warehouses (SARS, 2002). This will effectively reduce the time staff needs to spend on inspections, allowing SARS to focus on enforcement.

SARS introduced an Accredited Client Scheme, which provides for the accreditation of importers, exporters, agents, road hauliers and bonded warehouses. Criteria will be set and SARS believes clients who comply will enjoy improved service. The system, however, will also allow SARS to eradicate unscrupulous operators (SARS, 2002). A centralized registration and licensing system will be introduced which will improve registration and licensing criteria and allow for electronic submission of application forms (SARS, 2002). An electronic system for refunding duties will be developed which will benefit operators through faster turn-around times on the issuing of refund claims and will also reduce the risk of duplicate claims to SARS (SARS, 2002).

➤ **People Impact**

Introducing a team-based approach to work has supported all these changes, shifting the emphasis from administrative control to enforcement. Work teams throughout the organization necessitated a change in organization structure and composition (SARS, 2002). Teaming offers increased development opportunities to employees and strengthens the performance capacity of the organization. By introducing the concept of work teams SARS believes it will enhance internal capacity, achieve greater success in enforcement and create more meaningful jobs for employees (SARS, 2002).

➤ **Partnership**

SARS recognizes that it cannot achieve its aims without forming strategic partnerships and alliances with key agencies and interest groups such as trade unions, organized business, professional associations, other government departments and international revenue and customs administrations (SARS, 2002). The continued collaboration and healthy interaction between SARS's policy departments and those of fraternal government institutions such as the National Treasury and Trade and Industry, will support the transformation in a more fundamental way. The strategic plan for SARS is geared towards promoting these relationships in a mutually beneficial way. Partnering with technology service providers is important to developing leading edge business solutions for SARS (SARS, 2002). Opportunities for partnering with Indian software houses, accredited tax agent, skills brokers and academic and training institutions, among others, are currently being pursued by SARS (SARS, 2002).

➤ **Internal Controls and Good Governance**

Management has introduced and will continue to introduce robust internal control mechanisms to root out mismanagement and corruption while ensuring that appropriate structures and systems are in place and operating effectively.

3.8.1.4 THREATS

In many countries, rapid growth and surges in containerized trade are resulting in severe congestion in marine terminals. This congestion can cause inefficiencies in the processing and control of containers and is often responded to by relaxing / expediting customs inspections in an attempt to clear backlogged cargo. These circumstances create additional opportunities for unauthorized access to idle or misplaced cargo and inspire cursory examinations of shipping documentation thus providing non-compliant clients with substantial opportunities at relatively low risk.

In customs administrations, the measures taken have focused, among others on combating commercial fraud, smuggling and the global trafficking of illicit drugs and other dangerous substances. The SARS landscape has since changed rapidly with taxpayer, government, management and internal user needs becoming more sophisticated. The SARS IT environment, although stable, does not have the strength and maturity necessary to provide the kind of on-line, real time service that is required by key stakeholders.

Some transport analysts have identified South Africa's ports as the 'weakest link' in the overall logistic chain. There have been ongoing complaints about deep-seated lack of competitiveness resulting in high costs and slow turnaround at key harbours. Indeed there is overwhelming consensus that the extensive public investment in port infrastructure does not provide an adequate return to port users and taxpayers. Some observers even argue that the problems at the ports could jeopardize South Africa's emerging position as a trading nation – in fact around half of domestic activity is now traded. Coupled to these problems customs has also exacerbated problems by delays inspections and examinations due to the lack of non-intrusive inspection devices (Barrett, 2003).

3.8.2 CORE COMPETENCES

Risk is part of life and one learns to deal with it from an early age. For governments, minimizing risk exposure is more important than ever to project success, considering

the stakes on the table and the uncertainty of the public sector environment. Executives are charged with undertaking increasingly diverse, complex and expensive initiatives such as e-Government and homeland security initiatives (Deloitte, 2002). The public and politicians alike demand high levels of performance and have equally high expectations of returns. There is little tolerance of errors and the hemorrhaging of public money on policy and service failures and this has to be achieved against the backdrop of fewer resources. Too often, government projects with high degrees of complexity and grand price tags fail to deliver promised results (Deloitte, 2002).

The causes can be numerous, ranging from ill-conceived strategy to sudden cuts in funding to under performing partners. To meet the demands of today's environment, governments are taking as many risks in terms of purchasing decisions as the private sector. Historically, governments tend to be regarded as more trustworthy than the private sector—they are seen as reliable, as the protectors. But in recent years, due to greater education and less deference, this has largely collapsed and the public's trust in government can no longer be guaranteed. Still, as society has become more volatile, people look to government for assurance (Deloitte, 2002).

It's a difficult balancing act. On the one hand governments have to expose themselves to risks in delivering on demands through the prism of today's complex world, but on the other hand have to be seen as stable to maintain public and market confidences. In concert with shorter planning horizons, governments that develop sound risk identification frameworks can leverage uncertainty rather than run from it (Deloitte, 2002).

Key focus areas include (Deloitte, 2002):

- Establishing realistic business cases for all initiatives;
- Dedicating competent management staff with strict eyes on task completion; and
- Constructing relationships with project partners to distribute risk.

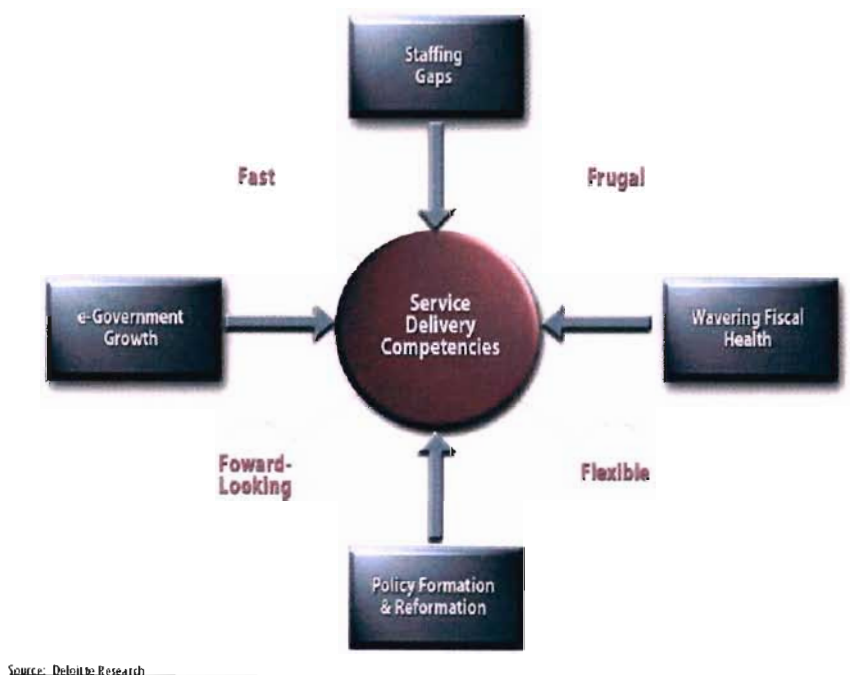
“Effective management of a wide range of risks is essential both for the delivery of improved public services and for the achievement of the Government’s wider goals. Government is concerned with managing risks to the public (including public health, social, environmental and safety risks) and also risks to the delivery of specific objectives and programmes (including financial, operational and technological risks).” — U.K. Prime Minister Tony Blair, announcing a review of government’s management of risk, July 2001.

Most governments have a vision of where they want to be tomorrow. They see the promises of improved customer service, more efficient business processes and lower costs of operation waiting at the finish line of technology and reengineering projects that often take years to complete. Too often, however, governments find disappointment in the form of massive cost overruns, project failure and generally unmet expectations (Deloitte, 2002). These are common occurrences in online services, ERP and electronic procurement initiatives. It’s not that long-term planning is now inappropriate—just that economies, labour pools, technologies and the policy environment are so volatile that governments must significantly shorten their planning horizons to stay on top of the earth shifting rapidly beneath them. The strategic focus needs to be on establishing a series of short, discrete tasks that have a high probability of resulting in victories for the organization; victories defined by measurable benefits accruing to customers and governments (Deloitte, 2002).

In e-Government, for example, the best candidates are found in converting paper-based processes to electronic processes with related development of public key infrastructure (PKI). Amid all the hype, IT managers are finding these projects to be the easiest to implement and most rewarding in terms of immediately identifiable payback. With a strategy that stresses value and a structure to increase speed, governments can build portfolios of wins that maximize the returns on both economic and political investments. At the same time, governments must be more flexible to cope with modern business circumstances that change on a moment’s notice. Budget shortfalls, security breaches and technical breakthroughs are just a few examples of disruptions to the status quo that can dramatically affect performance (Deloitte, 2002).

Governments must be ready to confront and resolve hardships as well as to capitalize on fast-forming opportunities. While governments do not operate in the same global competitive environment as the private sector, they are not immune to the far broader technological and policy shifts taking place as the network economy expands. Governments will have to operate in the same innovation and skills space frequented by other sectors of the economy, and therefore will need to adapt to a constantly changing environment (Deloitte, 2002). Figure 3.14 set out the pressure on government performance.

Figure: 3.14 - Pressures On Performance



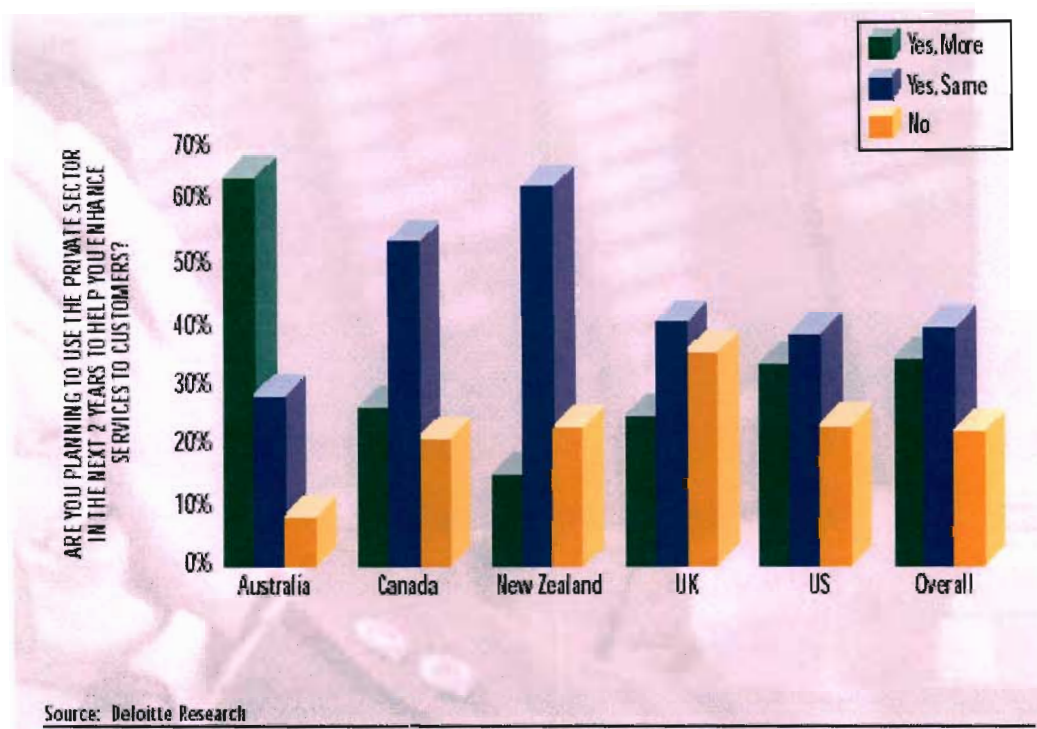
Source: Deloitte Research, 2002

With so much change happening every day, it's almost unfair that government executives still have a central responsibility to ensure that their organizations provide the highest level of service possible to external and internal customers. That means being equipped with the competencies to deliver (Deloitte, 2002): The best people, the best business processes, the best technology. It also means that governments need a modern system to acquire and manage them.

Today, government executives know that they don't have all of the money or people to create and nurture all of the competencies they need, so their basic instinct is to retain their core competencies and migrate the rest to private sector partners, either through limited contracting, outsourcing or privatization (Deloitte, 2002).

The trend is global and appears to be continuing upward and this is reflected in figure 3.15 (Deloitte, 2002).

Figure: 3.15 - Private and Public sector partnering



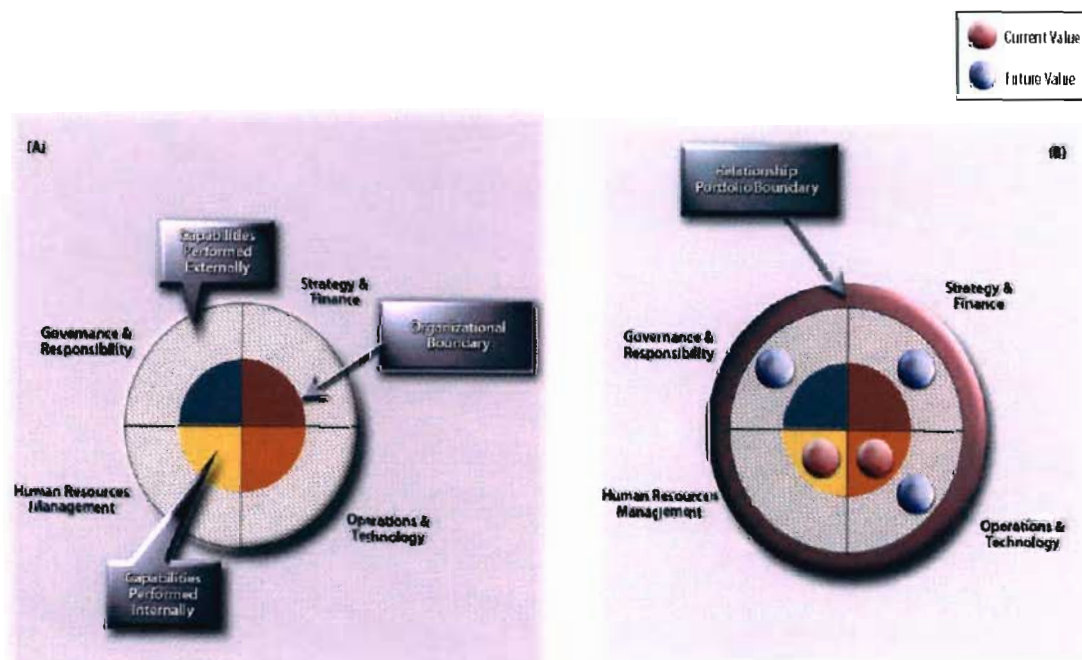
Source: Deloitte Research, 2002

Consider the rise of outsourcing alone: Gartner Group estimates that 80 percent of U.S. governments will increase outsourcing for the near future (Deloitte, 2002). In Europe, central and local governments combined are projected to have increased expenditures on operations and IT-outsourcing by 43 percent from 1998 through 2003; and in Australia, the public sector accounts for more than 40 percent of the nationwide \$2.5 billion outsourcing market, which is projected to grow to over \$5 billion by 2004 (Deloitte, 2002).

The best approach is for a government to be able to meet a variety of current and future strategic goals without locking it into unnecessarily rigid procedures. This model enables an organization to define its core competencies, shape its investment priorities, build a stable of valuable partners, and make better-informed partnering decisions to deliver on service mandates more efficiently and effectively (Deloitte, 2002).

The following diagram shows a possible model that can be followed by the public sector once it has defined its core competencies.

Figure 3.16 – Current and Future Public Sector trends



Source: Deloitte Research

Source: Deloitte Research, 2002

Over time, governments that adopt an outsourcing approach will be not only more prepared for quick shifts in policy, but also strongly positioned to use turbulence in technology, funding, and the market of providers to their advantage.

3.9 BEST PRACTICES

Customs administrations on a global level are facing or have faced challenges similar to those that the SARS is facing. Major strides have been taken to benchmark the SARS challenges against those of developed or developing countries.

Visits have been made to countries such as the UK, Canada, USA and the UAE to bring back ideas for possible implementation. Customs are also making use of experts from international administrations in an advisory capacity with a view to speeding up the Customs reform and modernization process.

For this project the cargo processing methodology of the Philippines, Canada, Australia and the United States are presented. It presents the reasons for each of these countries pursuing revised cargo processing procedures and the benefits thereof. This aspect of the project will assist the research in the ensuing chapter to establish the shortcomings of the South African Customs cargo processing implementation process.

3.9.1 PHILIPPINES

Customs procedures were originally designed to cope with slow moving traffic before the introduction of containerization and the growth of airfreight. Importers / manufacturers now seek to keep stock levels to a minimum to reduce capital investment and to allow for rapidly changing customer requirements.

The manual process of customs examination of documents and goods for both imports and exports inevitably took time leading to a delay in the clearance of goods. A critical examination of current procedures can often lead to simplification and the speedier clearance of consignments, which is to the advantage of both customs and the trading community. But inevitably progress on simplification and automation has proceeded differently in member countries, which means there is a lack of uniformity in the way in which national customs operate systems of cargo processing (Asean, 2003).

To promote trade facilitation, simplicity and uniformity for the processing of cargo the Philippines uses the model in figure 3.17 (Asean, 2003).

Figure: 3.17 - Policy Implementation and Work Programme

Short Term Objectives:	<p>Give priority attention to simplification of existing systems so as to:</p> <ul style="list-style-type: none"> • reduce the resource commitment for customs • allow for simpler and speedier clearance of goods • provide a basis for future automation by: • simplifying the existing cargo clearance procedures and reducing documentary requirements to the barest essentials necessary for an effective customs enforcement; • using selectivity and risk analysis to target resources at main danger areas thus allowing legitimate trade quicker clearance; • integrating international best practices into the overall standard operating procedures in the cargo clearance system, namely advance clearance (pre clearance), tentative release, post clearance audit, EDI.
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Sub-Element 1:
The simplification process

Strategy 1:	<p>An examination of existing practice in ASEAN countries</p> <p>As most ASEAN countries have either undertaken the simplification process or are in the process of doing so there is a need to undertake a comprehensive review to identify the present position. Such a review will also take account of the progress of automation and provide the basis for planned progress towards a harmonised approach to cargo clearance in ASEAN countries.</p>
Activity 1:	<p>Engage a consultant to undertake a series of in-depth national level studies of cargo procedures in all ASEAN countries. The studies will be made on a 9-X basis. The studies should examine existing cargo clearance procedures to identify the non-essential elements, unnecessary or excess documents and time-consuming processes that serve to lengthen the clearance process but do not significantly improve customs enforcement. The studies should also review the operation of the Green Lane for CEPT products, the extent to which simplified facilities (e.g. pre-clearance, tentative release) are provided and level of conformity to international standards and conventions. The studies should take into account of past compilation of customs procedures particularly the ASEAN Handbook on Customs Procedures.</p> <p>Output : A report reviewing existing practice with recommendations on the future development of simplifying existing systems</p>
Activity 2:	<p>ECCM to review and endorse recommendations of report</p> <p>Output : Endorsed recommendations</p>

Strategy 2: Initiating the simplification process in individual countries

Activity 1:	<p>Invite private sector to a joint study group of the existing procedures</p> <p>Output : Formation of joint working party</p>
Activity 2:	<p>Identify and flowchart existing customs system. This should be obtained as an output from Activity 1 of Strategy 1.</p> <p>Output : Flowchart recording system</p>
Activity 3:	<p>Invite private sector to undertake a parallel study of their associated procedures</p>

Activity 4:	Output : Flowchart of private sector system Comparison of customs and private sector flowcharts to identify discrepancies and areas of difficulty and delay
Activity 5:	Output : Agreed flowchart and list of problem areas Develop simplified system based on the joint study and recommendations from the review at Activity 1/Strategy 1, to eliminate delay, duplication and unnecessary activity
Activity 6:	Output : Agreed simplified system Implementation of simplified systems
Activity 7:	Output : Simplified system in operation Review operation of simplified system after six months
Output : Amended simplified system in operation	
Strategy 3:	Integration of international best practices. Consider more modern clearance systems in order to speed up clearance, a number of trade facilitating measures have been developed both regionally and worldwide such as pre-entry, tentative clearance, period entry etc to cover regular importations by reputable importers. Consideration should be given in ASEAN countries to the introduction of such systems in order to assist trade development within the region.
Activity 1:	Engage a consultant (or seek technical assistance from the WCO) to study how these measures have been implemented in other countries (both within and outside the region), taking into account the revised provisions of the Kyoto Convention on the simplification and harmonization of customs procedures.
Output : Recommendations from study/technical assistance from the WCO	
Activity 2:	Hold regional workshop to consider appropriateness of such systems
Output : Workshop recommendations	
Activity 3:	ECCM to consider recommendations from the Workshop
Output : Adopted measures	
Activity 4:	Implementation of agreed measures
Output : Implementation plans by respective member countries	
Activity 5:	National customs to discuss systems with trade representatives
Output : Implementation of agreed systems leading to speedier clearance times	
Strategy 4:	ASEAN countries to introduce system to monitor standards In order to be able to manage customs resources effectively and implement selectivity checks, it is essential to have information on the quality and quantity of work performed by customs. In addition customs and the trade should set performance standards e.g. clearance times, error rates. The national level studies at Strategy 1 would include a component that looks into performance monitoring and standards currently practised in each member country.
Activity 1:	Conduct a study, using expert consultant from WCO on monitoring mechanisms implemented in other countries and those recommended by WCO (this study could be undertaken simultaneously with that on risk management proposed in Sub-element 2) and identify key customs procedures, and make recommendations for the introduction of appropriate monitoring systems, for consideration by Member Countries.
Output : Recommendations on the introduction of monitoring monitoring mechanisms on key customs procedures at the National level.	
Activity 2:	Discussion at ECCM and adoption of recommendations
Output : Adopted recommendations	
Activity 3:	Compile relevant performance standards, e.g. clearance times, error rates, etc set by international and regional countries, for Member Countries information.
Output : Report on performance standards set by international and regional countries, for distribution to Member Countries.	
Activity 4:	Member Countries to establish performance standards for customs clearance at the National level
Output : Performance standards for customs clearance at the National level.	
Activity 5:	Member Countries to implement monitoring systems at a National level.
Output : Implementation of monitoring systems at the National level.	

Sub-Element 2: Selectivity criteria for cargo clearance	
	<p>Strategy ASEAN Member Countries to introduce system of selective checking Historically customs staff have undertaken a high percentage of documentary and physical checking of imported cargo. This is expensive in terms of customs and trade resources as well as delaying clearance. The modern approach is based on selectivity utilising risk management to direct resources to the main dangers.</p> <p>Activity 1: Engage a consultant to study how other countries have successfully introduced risk management in cargo processing (linked with study on monitoring standards in Sub Element 1, Strategy 3) and to draft a manual on selective checking for consideration by ASEAN countries. This study should be coordinated with the national studies undertaken in Sub-element 1 in reviewing the status of use of selective checking in respective ASEAN countries.</p> <p>Output : Recommendations on how selective checking could be implemented in each member country.</p> <p>Activity 2: Conduct a workshop to discuss and make recommendations on how selective checking and risk management could be implemented in each ASEAN country. The workshop should include external participation from countries identified in the study as models, and also take into account WCO's recommendations on customs control and risk management. The report produced under Activity 1 should serve as inputs to the workshop.</p> <p>Output : Recommendations on the implementation of selective checking in each member country</p> <p>Activity 3: Based on the report and workshop, to develop a manual on risk management/selective checking, covering risk analysis methodology, selectivity criteria, parameters for value and classification and monitoring mechanism to assess effectiveness of selection criteria.</p> <p>Output : Manual to guide member countries in the implementation of selective checking</p> <p>Activity 4: Training of trainers on risk management/selectivity based on manual</p> <p>Output : Trained officers</p> <p>Activity 5: Implementation of risk management in each country</p> <p>Output : Established systems</p>
Sub-Element 3: Development of a common Green Lane for ASEAN traffic	
	<p>Strategy Introduce common Green Lane system for ASEAN products (GLCP) In those countries that have not already automated cargo clearance the provision of fast lane clearance for goods entitled to CEPT in order to facilitate this trade. For countries already on automation, to look into expanding and improving the GLCP.</p> <p>Activity 1: Conduct national level studies on the implementation of the GLCP and ways of expanding the facility to include all ASEAN products where applicable. This is to be done in conjunction with the detailed national studies on cargo processing under sub-element 1.</p> <p>Output : Recommendations on the GLCP in all member countries</p> <p>Activity 2: Discuss with the private sector on ways to improve the GLCP to promote intra-ASEAN trade. Discuss with the private sector on ways to improve the GLCP to promote intra-ASEAN trade.</p> <p>Output : Agreed measures for improvement of the GLCP</p> <p>Activity 3: Implement improvements to the GLCP</p> <p>Output : Implementation plan by respective member countries</p>

3.9.2 CANADA

The Canada Customs and Revenue Agency (CCRA) has a mandate to implement and administer Canadian laws that govern international trade and travel. Canada's objective is to prevent inadmissible people and goods from entering Canada and to streamline the cross-border movement of the legitimate, low-risk trade and travel that

is the lifeblood of Canada's economy (CCRA, 2003). Canada's goal is to maintain high standards of compliance and focus its resources where it will have the most impact on improving compliance (CCRA, 2003).

Canada, believes in the fundamental principle of voluntary compliance: most people will obey laws if they understand them, if these laws are reasonable and have intrinsic value to society, and if there are meaningful consequences for failing to comply with these laws. But there are also people who do not comply with the law, whether intentionally or unintentionally. Either way, the actions of these people can have a major impact on the overall health and safety of Canadians, as well as the economy (CCRA, 2003).

Compliance is a shared responsibility and investment. Canada believes that its clients will make this investment, since the benefits they will derive from Canada's new way of doing business will make compliance a sound business decision (CCRA, 2003). There should be fewer examinations and audits for clients who comply, which will ultimately improve service for traders and travellers and translate into increased speed and certainty and reduced costs (CCRA, 2003).

➤ **The Canada Customs and Revenue Agency**

Compliance is the key to their success in fulfilling their mandate. The first major step towards its goal is to achieve a comprehensive, integrated, ongoing customs compliance improvement plan, which will focus on compliance initiatives on areas that provide the most benefit to Canadians (CCRA, 2003).

In a global economy, the speed and certainty of crossing the border and importing and exporting goods are vital to maintain the competitiveness of Canadian business and tourism (CCRA, 2003). Compliant traders and travellers will benefit from streamlined processing, a strong incentive to establish and maintain a good performance record with the CCRA. As well, importers who invest in compliance and meet the requirements will be eligible to participate in the Customs Self-Assessment program (CCRA, 2003). Those who qualify will benefit from streamlined clearance, accounting and payment processes. Similarly, travellers who qualify will be able to

participate in a variety of permit programs that will make crossing the border more convenient. As volumes of trade and travel steadily rise, so will the need for expedited processing (CCRA, 2003).

Investment in compliance today reduces the costs of enforcement to the Canadian taxpayer tomorrow, in terms of resources, facilities, technology, and equipment (CCRA, 2003). A high degree of voluntary compliance means that an even greater number of resources are available to focus on critical areas that are important to individual Canadians and paramount in sustaining confidence in Canadian industry (CCRA, 2003).

➤ **Trade data integrity**

Compliance with respect to the admissibility of goods is extremely important. However, what is not always fully appreciated is the importance of compliance in reporting complete and accurate trade data. Compliance with trade data requirements is essential in protecting Canadian business and maintaining a level playing field, both key elements for competitiveness (CCRA, 2003). This is especially true in an environment of free trade agreements and electronic commerce (CCRA, 2003).

Accuracy is a major factor in maintaining the integrity of its machine-released admissibility decisions, which are steadily increasing. It allows CCRA to identify high-risk shipments that could jeopardize confidence in Canadian industry, such as a shipment of tainted meat (CCRA, 2003). Accurate and complete trade data reporting directly affects traders: the more confidence it has in the accuracy of data, the less likely it is to intervene in low-risk import and export trade (CCRA, 2003).

Accurate trade data are also a key ingredient for the proper running of its economy and informed decision-making by business and the Government. Accurate trade data are the source of trade statistics, which have international implications. Trade statistics influence Canada's balance of trade figures, which, in turn, affect the bank rate and the value of the Canadian dollar in international currency markets. These indicators are significant factors in influencing business investment decisions and marketing strategies (CCRA, 2003). Trade statistics are also used by the Government

when negotiating trade agreements, which are extremely important to the growth and prosperity of the Canadian economy (CCRA, 2003).

➤ **International agreements and harmonization**

Because of the important role international trade agreements play in ensuring the success of Canada's economy, the Government has given high priority to agreements in its overall trade agenda (CCRA, 2003). As a result, it continues to attempt to gain access to and secure markets. With a population of just 30 million and 1 in 3 jobs dependent on exports, Canada needs international markets to sustain its economy and promote growth. Canada's good standing on the international scene in honouring trade agreements and its ability to gain access to regional trade membership both depend largely on ensuring the compliance of trade-related programs such as origin and valuation (CCRA, 2003). For example, regional trade partners want to be certain that it does not give the benefits of trade agreements to countries not entitled to them. Again, in a global market, compliance integrity is a marketing tool for the Government, Canadian trade negotiations, and Canadian export and import business interests. It is also a critical factor in the work it is doing to promote harmonization and standardization of customs processes among G7 countries, and especially in the work it is doing under the Canada-U.S. Accord on the Shared Border to further improve the efficiency of trade and travel (CCRA, 2003).

➤ **The nature of non-compliance**

Where non-compliance occurs, it may be unintentional or deliberate. Unintentional non-compliance can happen through a lack of knowledge, a lack of care, or simply because clients have a different interpretation of the law (CCRA, 2003). Non-compliance may also be inadvertent when people and goods arrive at the border unknowingly carrying contagious diseases that threaten health, tainted products that threaten industry, or pests that endanger the environment. These are some of the higher- and unknown-risk areas upon which we would like to focus in strengthening our protection mandate (CCRA, 2003).

In contrast, there are those who will find deliberate ways to circumvent the law, because of the potential for monetary gain or because the goods they are bringing into

Canada are restricted or prohibited by law (CCRA, 2003). These people reason that the benefits outweigh the risk of getting caught. They play the "catch me if you can" game, manipulating the system to their advantage (CCRA, 2003). Disregard for the law can also occur when businesses do not correctly classify goods when trading in a duty-free environment, since they believe there is no direct financial benefit in doing so. This kind of behaviour may contravene civil law, but it may also be fraudulent and criminal. Along with such fraud, cross-border movement of contraband (e.g., illicit drugs and weapons) and inadmissible people (e.g., terrorists and other criminals, or illegal immigrants) are criminal offences, posing a serious threat to Canadians and their economy (CCRA, 2003).

➤ **Non-compliance will be costly**

Apart from deliberate non-compliance, factors such as deterrents, incentives, reasonableness, complexity, ease, and cost all have an effect on the level of voluntary compliance. As the CCRA gets to know its clients better, it found these factors had a different effect on small and large businesses, among industry sectors, and on various segments of the travelling public. Its compliance strategy takes into account the differing characteristics and economic realities of its clients and is reinforced by meaningful incentives and deterrents (CCRA, 2003).

Where possible it is trying to reduce the cost of compliance and to make it easier and more convenient for clients to comply (CCRA, 2003). The CCRA has adopted a process of formalizing and strengthening its client services program to provide consistent, fair and equitable service to all its clients. In terms of incentives, compliant traders and travellers will enjoy the real benefits of streamlined processing. In terms of deterrents, continuing non-compliance and lack of due care will increase the probability of a trader or traveller being considered higher risk (CCRA, 2003).

Those in the higher-risk category can expect increased examinations, with the potential for significant and graduated civil penalties. This does not mean that it will be doing more examinations at the border; it means that the CCRA will be more focussed (CCRA, 2003).

Non-compliance will be measured through random and targeted examinations, desk reviews, and full and partial on-site customs audits to identify areas of significant risk and assess the type of response required (CCRA, 2003). Moving its customs approach from a transactional, shipment-by-shipment environment to an audit environment gives it a much better sense of the nature and severity of compliance risk across customs programs (CCRA, 2003). A combination of options equips it to intensify processing in areas of higher- and unknown-risk for the CCRA and other Government departments. These areas include duty and tax evasion, permits, quotas, health and safety threats, environmental threats, criminal activity, and terrorism (CCRA, 2003).

➤ **Administrative Monetary Penalty System (AMPS)**

In the past, its sanctions regime was limited and inflexible. The benefit of warnings was only available to travelers (CCRA, 2003). Monetary penalties were insufficient and the regime relied too heavily on seizure action and ascertained forfeiture. The implementation of AMPS has assisted in modernizing its sanctions regime to make it fair and more effective (CCRA, 2003). Through a penalty system that begins with a warning, AMPS will impose monetary penalties in proportion to the type, frequency, and severity of infraction. While seizure and criminal prosecution may be used for fraudulent activity, the CCRA will still assess duties and taxes owing and, if appropriate, impose penalties on those who fail to comply (CCRA, 2003).

The important difference in our modernized sanctions regime is that it will affect the bottom line of non-compliers, which will be of concern to corporate financial management (CCRA, 2003). Broken compliance agreements will have a negative effect on performance records, and result in the withdrawal of privileges and increased targeting for examinations. In the case of criminal activity, such as fraud and smuggling, the CCRA will continue to proceed with criminal prosecution. In short, non-compliance will not pay, it will result in significant costs (CCRA, 2003).

3.9.3 AUSTRALIA

The Australian Government also introduced an accreditation program which will provide importers with a number of financial benefits and will allow importers and exporters easier, more efficient means by which to have their import and export cargo

consignments acquitted by Customs (E&Y, 2002). Applicants will achieve accreditation by having a commencement audit by a registered auditor. On completion of the audit, applicants will enter into contracts with Customs to be called Import Information Agreements and Export Information Agreements (E&Y, 2002). After gaining accreditation status, importers and exporters will be able to communicate information and to obtain release of cargo from Customs via a Request for Cargo Release ('RCR'). This RCR will allow goods to be released into home consumption immediately with the communication of minimum amounts of information at the time of importation. More detailed information is to be provided in periodic (monthly) declarations (E&Y, 2002).

➤ **Benefits of Accreditation**

The expected benefits of the accreditation program can be summarized as follows (E&Y, 2002):

- Faster access and virtually no time to clear goods through the provision of minimal information.
- Reduced costs from Customs user charges.
- More efficient document processing can be developed at lower costs by only having to lodge a monthly aggregated return rather than on the shipment-by-shipment entry basis, which is now the case.
- The ability to net-off duty drawbacks and refunds against the monthly duty payment requirements.
- Cash flow benefits could accrue from 30-day payment of customs duties (and GST when not deferred).

In other words, Customs user charges could increase for those companies that are not accredited (E&Y, 2002). Without taking any other savings from accreditation into account, for an importer with 700 to 800 or more shipments per year there is a clear saving on Customs charges alone. However, for many businesses other commercial

benefits of accreditation relating to the ease of handling cargo often far outweigh the strict financial benefits (E&Y, 2002).

➤ **How to become Accredited**

An independent 'commencement audit' must be conducted by an independent auditor registered under section 1280 of the Corporations Law. The audit must be conducted in accordance with Australian Auditing Standards (E&Y, 2002). The audit must assess the importer or exporter's systems and processes against the standards established in the Customs' own business rules, and confirm whether the business has (E&Y, 2002):

- the ability to communicate import & export information to Customs electronically;
- a history of providing accurate and timely import & export information to Customs, the Australian Taxation Office, the Australian Bureau of Statistics, the Australian Quarantine & Inspection Service and other permit issuing agencies over the previous 12 months;
- systems that will ensure that their good compliance record will continue; and
- access to electronic systems capable of creating and/or recreating information relating to the importing and/or exporting of goods.

It is imperative therefore that businesses start to look at customs systems and processes now to ensure a 12 month compliance history can be demonstrated prior to the scheme commencing (E&Y, 2002). If for example, businesses wait two to three months and cannot demonstrate 12 months solid compliance, entry into the new scheme is deferred two to three months or more until satisfactory 12 months compliance can be shown (E&Y, 2002).

3.9.4 UNITED STATES

The U.S. Customs Service has established a Risk Management Process to best allocate available resources to priorities. Operating this way is a necessity for U.S. Customs, because, with limited resources and dynamic growth in trade, the number of

potential violations will continue to out pace the number of Customs employees. This greater volume combined with increased trade complexity makes its deployment of resources vitally important (Braga, 2001).

Increase in land, sea, and air traffic entering the U.S. is steadily increasing and outpacing the growth of Customs resources. With approximately 20,000 personnel located at more than 300 ports of entry, and, annually, more than 480 million passengers and close to \$1 trillion in imports cross U.S. borders, Customs has reorganized to establish a system focused enforcement utilizing methodologies geared to maximizing port effectiveness and integrating core operational processes.

To confront these changes, Customs established a Trade Compliance and Risk Management Process. In the imports, for example, this includes every activity related to trade from pre-import analysis through cargo arrival, examination, release, investigation, revenue collection, liquidation, and archiving of trade data.

There is a changing on the focus from transactions to accounts; it's to say, not in the import itself, a focus in industries and a compliance measurement and assessment action, and a continuous feedback process. Focusing in the account, not in the imports, and using the risk management, the U.S. Customs can use more efficiently its resources.

This is the genesis of the U.S. Customs Service Risk Management Process for trade. The U.S. Customs Risk Management Process for trade consists of four key steps, which are analyzed briefly (Braga, 2001) and it is diagrammatically represented in figure 3.18:

Figure: 3.18 – The U.S. Customs Trade Compliance and Risk Management Process



Source: Braga, 2001

- 1st Step - Collect Data and Information

Proper risk management requires a systematic approach to collecting data. Risks cannot be assessed or managed until data is collected and the risks can be identified and described (Braga, 2001). The collection methods must be statistically valid. If the data is sound, it serves as a strong foundation for accurate analysis, but if that data is faulty, it can seriously undermine its ability to obtain positive results. The collection of data and information related to the Trade Compliance Process is the first step in the Customs Risk management process. Through the collection of data, Customs can begin to identify which importers are most likely to be non-compliant and the probable nature of their non-compliance. Proper use of this knowledge will assist in effectively distribution of the resources. Through this collection, Customs is able to establish base lines, comprehend its universe of trade imports and maintain a historical perspective of trade patterns (Braga, 2001).

In others words, in this first step, Customs is attempting to identify any potential risk in the Trade Compliance Process, isolating it. The key to risk identification is to systematically review the entire process. Risks cannot be assessed or managed until they are identified and described in an understandable way (Braga, 2001).

Customs has several mechanisms in place to identify risks in the importation of trade. The Compliance Measurement and Compliance Assessment of the traders, importers, and brokers, as a part of the Integrated Trade Measurement System is the center of this first step. In order to efficiently measure and assess the compliance, it is important to use the Account Management, based in national criteria (Braga, 2001).

- **2nd Step - Analyze and Assess Risk**

The next step is to analyze the data and determine the likelihood of noncompliance. After collecting the data, the next step is to analyze the data and determine the likelihood of non-compliance (Braga, 2001). Analyzing historical data and trends, and applying definitions of significance and materiality, allow Customs to narrow its focus on areas of the greatest potential risk, and for that employee specialization of knowledge and experience are very important. After this analysis, some level of risk can be assessed. This part of the Risk Management process has evolved rapidly in recent times and the Customs Risk Management Team is working to increase the sophistication and accuracy of Customs risk assessment (Braga, 2001). Customs also knows the compliance rate for various industries, specific commodities, and certain importers. Analyzing these historical data and trends, and applying definitions of significance and materiality, allow Customs to narrow its focus on two areas of the greatest potential risk. The components of the Analyze and Assess Risk step include (Braga, 2001):

a) Automatic Tools:

Automated tools are in place to help one analyze data and assess risk. These tools can identify trends and lessons from past experiences, as well as point its high-risk areas and payoffs (Braga, 2001). Use of analytical tools to determine the areas of greatest risk, and the scope of the problem in those areas. More than that, automated tools allow employees to identify and assess potential compliance problem areas, it is to say, to identify major players in the alleged problem area. This includes importers, manufacturers, brokers, countries and ports. Some of the tools also allow users to perform verifications or reviews of specific transactions within the problem area.

Above there are some others benefits of the use of automated tools to support the Risk Management Process (Braga, 2001):

- o Establishment of cargo compliance and discrepancy rates - It helps to identify trade compliance risk areas and to assess the effectiveness of cargo exam targeting;
- o Generation of trend analyses – It provides an overview of the activity for passengers, commodities, importers, brokers, manufacturers, shippers and countries, that allows Customs to invest more time to potential violations;

b) Definitions of Significance and Materiality:

Acknowledging that all violations were not of equal importance must narrow the focus of Customs. Customs must developed significance definitions for violations discovered while examining and reviewing transactions and materiality definitions. Once data points to a compliance problem, Customs conducts further analysis to determine the scope or magnitude of the problem. Facts taken into consideration include, but are not limited to (Braga, 2001):

- Number of ports impacted;
- Value and volume represented;
- Portion of industry impacted;
- Laws and regulations that may be violated;
- Commercial issues involved, entries impacted, loss of revenue;
- If the non-compliance represents a possible pattern of non-compliance.

In this subject, it has two main steps: Compliance Measurement Significance Definitions and Compliance Assessment Materiality Definitions (Braga, 2001):

- o Compliance Measurement Significance Definitions – All violations, no matter their seriousness, discovered during a cargo examination or entry summary review are recorded and addressed appropriately. Then definitions are applied which measure the violation's "significance".

- o Compliance Assessment Materiality Definitions – Compliance Assessment include the use of statistical testing of transactions to determine if importers have internal control systems that produce accurate and complete Customs information. Based upon the results of the testing of these individual transactions, a compliance rate is computed for each of the major areas covered. Compliance rates are also computed to measure the number of times sampled transactions are correct. If any compliance rate is below 95 percent, the cause and effect of the poor compliance is analyzed to determine what plausible corrective action is necessary for the importer to achieve compliance.

c) Compliance Risk Categories:

After the step of identification of significance and materiality, it achieved the definition of the Compliance Risk Categories. For each, one there will be a specific action of the Customs (Braga, 2001):

- o High compliance, Good Internal Control Systems – Low Risk, therefore minimal Compliance Measurement exams – The importer passed the assessment with above a 95 percent compliance result, and also demonstrated reasonable care in administering its business practices. This company poses low risk to achieving trade compliance goals.
- o High Compliance, Suspect Internal Control System – Moderate Risk, and average number of Compliance Measurement exams – The importer passed the assessment above a 95 percent compliance result, however, did not demonstrate reasonable care in administering its business practices. This company poses moderate risk to achieving trade compliance goals.
- o Low Compliance – High Risk and a significant number of Compliance Measurement exams – The importer failed the assessment, with a score below 95 percent, and did not show reasonable care in administering its business practices. This company poses high risk to achieving trade compliance goals.

d) Enforcement Evaluation Team:

The Enforcement Evaluation Team is a group that has as a mission to ensure uniformity of enforcement actions across ports, and to ensure Customs' enforcement resources have the greatest effect. The Impact Levels (high, medium and low impact) are used to guide Customs enforcement decisions (Braga, 2001).

e) Account Management Evaluation:

An Account profile is created. It allows the Account manager to begin narrowing his or her focus with the company to address crucial compliance problem. It's mostly used when there is no Compliance Assessment (Braga, 2001). Without a Compliance Assessment, a specific Compliance Risk Category is not assigned, but by creating and analyzing an Account Profile, areas where the Customs and the account (importer, for example) should focus resources become apparent (Braga, 2001).

- 3rd Step - Prescribe Action

Data collection and analysis alone do not constitute a fully developed risk management system. After you have collected the necessary data, and the risk analysis is complete, action may be needed to reduce risk and to increase compliance. Once a potential risk has been identified and analyzed, it is time to design the appropriate action and dedicate necessary resources (Braga, 2001).

Some remedies must be implemented to reduce risk and increase compliance, but it's imperative to say that Customs designs these performance measures linked to national goals and objectives (Braga, 2001). In developing measures, comprehensive indicators, those that show a ratio of expected results to actual results, are preferred, as opposed to indicators that only show work completed.

Prescribing action involves two distinct actions (Braga, 2001):

- o Identifying the cause of the risk, such as an importer's lack of knowledge, complex trade laws, or willful disregard for importer laws and regulation;
- o Designing an action and assigning resources to address that risk or selecting and implementing an appropriate response. This step requires two distinct actions: identifying the cause of the risk, such as an importer's lack of knowledge, complex trade laws, or willful disregard for import laws; and designing an action and assigning resources to address that risk.

Over the last few years, Customs has developed a variety of tools to actively address high-risk areas (Braga, 2001). These tools span a range of activities from instituting laws and regulations creating a voluntary compliance system to aggressive enforcement to address some of the most grievous non-compliance (Braga, 2001). Involvement of skilled personnel and managers that control the resources is crucial here. Each of these tools feeds into the overall Customs mission to maximize trade compliance through a balanced program of Informed Compliance, and Enforcement Compliance (targeted enforcement actions). Within the Trade Compliance Process, these are the primary and complementary components. However, Informed Compliance and Enforced Compliance must be used together. The coordination of these efforts is crucial (Braga, 2001).

Informed, voluntary compliance is the preferable approach to trade compliance. But, when determining which approach to take, the nature, scope and impact of noncompliance are evaluated in the context of the involved account's overall compliance history (Braga, 2001). Informed compliance actions, such as intervention, education and counseling of the account are employed by Customs to address instances of non-compliance when an account has demonstrated a failure to apply reasonable care. Informed Compliance is a prescribed action in the Risk Management Process that is a win-win situation. Educating importers increases voluntary compliance and this allows it to release the goods in a timely manner (Braga, 2001).

Enforcement actions such as seizure and investigation are reserved for those instances of violations, fraud, or repetitive violations that could not be solved through informed

compliance (Braga, 2001). Some examples of Enforced Compliance are investigation, seizure, arrest, penalty and exclusion from some Customs Programs. It is important to point out that, sometimes, the traditional Customs responses to a non-compliance situation are not the best (Braga, 2001). In these cases, the Enforcement Evaluation Teams can act to make an early determination of the nature, extent and impact of instances of non-compliance; select the Customs response best suited to remedy the problem; and follow-up on that action to ensure the non-compliance problem is solved. It is the function of the Enforcement Evaluation Teams to ensure that significant discrepancies and possible violations are treated uniformly on a national and account wide basis (Braga, 2001).

- **4th Step - Track and Report**

All the results of the remedies, informed or enforced compliance, are compiled and reported back into the Trade Compliance and Risk Management Process for monitoring the account and for future action. Ensuring that actions are implemented and reporting their results are critical to the cycle of identifying and eliminating future risk (Braga, 2001).

So, once a prescribed action has been implemented, results must be tracked and documented. This process ensures that successes can be repeated and that personal knowledge becomes shared knowledge. It is vital to stress out that this feedback can occur at any of the described steps, not only in this last one (Braga, 2001). All the information and knowledge gained in the process are fed back into it, causing a change in a risk priority, leading to new Compliance Measurement and Assessment, new accounts analyzed and new remedies recommended. Risk is never absolutely known and changes with time. Therefore, results and experiences must be continuously fed back into the process to increase knowledge and better predict future risk. Above there are some of the several reporting mechanisms that Customs employs in this step (Braga, 2001):

- o Trade Compliance and Enforcement Plan – It is the annual plan for the Trade Compliance and Risk Management process. It must have an effective evaluation by the end.

- o Report to Congress on Trade Compliance – The Customs Modernization Act requires this report, which purpose is to provide an objective assessment and measurement of compliance with United States trade laws and regulations. It is very useful not only for the U.S. Congress but also for the U.S. Customs itself.
- o Account Management – Account managers must track their accounts' compliance progress to ensure compliance problems are resolved, measuring the account's progress. Account Managers meet regularly with their accounts to ensure implementation of Account Actions Plans and track compliance progress. These meetings are important to share some information about the successes and the failures of the accounts. Follow-up Verifications – They are conducted to determine if the corrective actions were fully implemented and effective in correcting the deficiencies identified during the Compliance Assessment. Compliance Assessment Teams conduct follow-up verifications with companies to ensure Compliance Improvement Plans were effectively implemented. As one can see in the Figure 3.18, these plans and reports have to be done, in order to give for the Trade Compliance and Risk Management process a strong mechanism of feedback, that will allow make it be a dynamic process. An agenda with formal meetings and reviews, where experiences can be openly shared and discussed, provides and opportunity for all the Customs employees and the accounts to find the optimum approach to a certain problem, improving the compliance and reducing the risk.

3.10 CONCLUSION

Customs administrations around the world play a vitally important role in the implementation of a range of critically important government policies and contribute to the achievement of a number of national development objectives. In addition, as Customs is often the first window through which the rest of the world views a country it does much to shape the perceptions of the key individuals and organizations involved in making important trade and foreign investment decisions.

Without an efficient and effective national Customs administration, governments will not be able to meet their policy objectives in respect to revenue collection, trade facilitation, trade statistics, and the protection of society from a range of social and national security concerns. Contribution to national development is potentially enormous and can make a significant difference to the lives of many impoverished people throughout the world. As such, well-designed and targeted capacity building investments focused on improving the efficiency and effectiveness of Customs administrations can deliver significant dividends for governments and donors alike and allow developing countries to take advantage of the many development opportunities provided by the expanding global trading system.

Government officials are already focused on the “digital divide”, but the complexity of technology may create even more inequities, unnecessarily locking out older, less educated and less technically savvy citizens. If governments hope to reach a broader constituency, to encourage self-help and to appeal to a diverse range of people and businesses, it will need to meet people half way with tools that are more intuitive, provide more guidance, and offer more diverse modes of interaction. Not only will this make direct connection more feasible, it also provides efficiencies by allowing more self-help and reducing the need for training. These elements are necessary if a government is to meet the needs of its current constituency and grow customer base.

Unfortunately, to date at least, many capacity building initiatives in Customs have failed to meet their desired objectives. This strategy reflects the views of the international Customs community and presents a case for a more focused, co-ordinated and well-resourced approach to undertaking capacity building in the Customs administrations of developing and least-developed countries. Accordingly chapter four takes an in-depth analysis of SARS present accreditation and trade facilitation strategies and further critically evaluates such strategies.

CHAPTER 4

EVALUATION OF THE SARS PRESENT STRATEGY

4.1 INTRODUCTION

“Customs Administrations play a vital role in the growth of international trade and the development of the global marketplace. The efficiency and effectiveness of Customs procedures can significantly influence the economic competitiveness of nations. In a highly competitive world environment, international trade and investment will flow toward efficient, supportive and facilitative locations. At the same time it will rapidly ebb away from locations, which are perceived by business as bureaucratic and synonymous with high costs. Customs systems and processes must not be allowed to serve or be perceived as a barrier to international trade and growth. Modern production and delivery systems, linked with the dramatic potential of new forms of electronic commerce, make swift and predictable Customs clearance an important prerequisite for national prosperity (WCO, 2002).”

Across the global landscape, citizens and businesses demand faster and more personalized service (IBM, 2002:1). They expect transparent, open communications with government officials and real-time decision-making. Integrated service and virtual communications - from anywhere, to anywhere - are becoming the norm. These changes warrant integration of processes, data and organizations. Customs employees need the information, training, skills and assets to perform in-depth analysis and respond to complex questions. Knowledge now represents an essential asset (IBM, 2002:1). Tax departments should take advantage of technology, as it enables new transformation opportunities. Shortened economic cycles further complicate this environment as budget surpluses can quickly change to deficits - and consequently, shift priorities for a revenue department. This emerging social, political, technical and economic landscape will affect the level at which taxpayers comply with existing tax laws and practices, and will ultimately affect revenue collection. To encourage compliance and ensure revenue collection in this new environment, tax departments need to address the following four trends (IBM, 2002:1):

- Encourage voluntary compliance through knowledge;
- Become customer-centric;
- Integrate throughout government departments;
- Collaborate seamlessly with the private sector (IBM, 2002:1).

The ability of SARS to move from its current decision-making and service-delivery framework to one built upon these cornerstones indicated in figure 4.1 will dictate in large part how it will evolve and mature.

Figure: 4.1 – Cornerstones of Change

From		To	
Process centrality	Focused on internally driven service-delivery improvements, constrained by strict organizational structures, roles and regulations	Customer centrality	Priority placed on establishing mutually beneficial relationships between customers and governments; customers are the hub of all activity—with everything designed around them
Isolated data collection	Data collected multiple times from the same constituent; information stored in segregated databases—often unknown or inaccessible by other resources who need it	Knowledge focus	Information captured, integrated, analyzed and routinely converted into knowledge for improved policy decisions and government services
Geographic or functional bias	Limited incentive to coordinate—or even cooperate—with other agencies; service delivery tightly linked to brick-and-mortar structures	Government integration	High degree of integration between agencies and levels of government in order to facilitate seamless—often virtual—decision making and service delivery
Government-led service delivery	Public sector stronghold on service delivery characterized by long decision-making time-frames and paper-based processes	Private sector involvement	Private sector heavily involved in decision making and delivery of services using leading-edge technology—in the form of outsourcing, strategic relationships and performance-based partnerships

Source: IBM, 2002

To address these trends, committed leaders and sponsors within customs administrations must actively redesign business processes, develop a knowledge-based culture and invest in an intelligent technology infrastructure. It is against this background that the researcher seeks to understand the appropriateness of the SARS present strategy.

4.2 BUSINESS CHALLENGES WITHIN THE CUSTOMS ENVIRONMENT

From the analysis conducted in Chapter 3, it is evident that the SARS faces a number of challenges in its operating environment both internally and externally. Severe limits in Customs capacity with regard to both people and processes, is a critical issue for the SARS Customs. This impacts negatively on the implementation of its client accreditation scheme strategy, which would result in improved customs compliance. The adverse effects of the constraints in capacity and the challenges in its operating environment impacts on:

- National security and community protection;
- Revenue leakage and fraud;
- A reduction in foreign investment;
- Increased costs which are ultimately borne by the community;
- The maintenance of barriers to international trade and economic growth;
- A reduction in public trust and confidence in government institutions;
- A reduction in the level of trust and co-operation between Customs administrations and other government agencies;
- A reduction in the level of voluntary compliance with Customs laws and regulations; and
- Low staff morale and “esprit de corps”.

4.3 ANALYSIS OF CURRENT CUSTOMS ENVIRONMENT

The present scenario shows an unstoppable progressive SARS Customs division to align itself to the mandate given by the National Treasury and to align itself to the WCO strategy plan. The processing of Customs documentation, administrative and financial activities is mainly based on the widespread use of the Customs Automated Processing of Entries (“CAPE”) and the Electronic Data Interchange (“EDI”) capabilities. SARS is currently implementing the Manifest Acquittal System. It would seem that the current framework offered by the SARS information technology is ever becoming more important for the SARS Customs division to offer efficient competitive benefits to trade.

The increasing liberalization demands simplification and harmonization of customs procedures and policies. Further, the liberalization of trade and the computerization of customs operations form the main elements of a “virtuous circle” in the development of national economies and global trade at the same time.

In the light of the above, the SARS can no longer delay reviewing the role and organization model of customs. Reshaping present customs procedures to meet the needs of online exchange of information is not enough in itself, as the adjustment to a continuously evolving environment involves not only Customs but also other government departments. This becomes clear when one thinks that customs clearance calls for co-operation with other agencies and administrations in charge of surveillance and controls on currency, health, veterinary issues, police activities and agricultural policy. Hence, if one of the parties in the exchange of information on goods circulation breaks the computerized chain, most of the underlying benefits are jeopardized.

The SARS will have to combine different needs and to foresee the co-operation of several agencies and administrations in order to adjust the existing facilities and procedures to a fully computerized scenario.

4.4 FEATURES ON AN IDEAL CUSTOMS ADMINISTRATION

The need has arisen for the SARS to develop strategies that would reform and modernize the SARS in order to create an ideal Customs administration. This process will require the SARS to implement new business approaches to support all agencies and administrations involved in order for the SARS to create an ideal Customs administration that requires:

- Re-engineering of business processes to improve turn-around times, quality of service and to reduce administration costs.
- New business architecture, which concentrates scarce resources.
- The development of an integrated e-business strategy.
- Enhanced integrated multi-skilled work teams.

The development of an ideal customs administration involves the following processes:

- **Customs Services**

Within the area of customs reform and modernization the SARS must invest considerable resources towards customs reform in the areas of legislative and administrative reform, technical and infrastructure upgrading, and personnel training. These initiatives must seek to reduce non-tariff cost to trade and transport, and to reduce smuggling and corruption at border crossings. The following list the various categories for attention:

- Customs will administer efficiently and effectively International / Regional agreements;
- Enter into Memoranda of Understandings with Industry;
- Ensure effective cargo control:
 - Manifest acquittal
 - Clearance processing
 - Imports
 - Exports
 - Transit
 - Warehouse control
 - Inventory management
 - Effective licensing and cancellation criteria
 - Risk based auditing

- **Greater demand for services**

For most Customs administrations, governments worldwide, the number of constituents is growing rapidly and services capability must expand to match this growth.

- **Push towards greater connectivity**

New capabilities are creating a push to connect government systems directly to citizens, employees and vendors.

- **Improved public service through technology**

Opportunities are now available to integrate data and processes, while reducing costs and improving services. The use of technology to facilitate customs processing has grown tremendously. Greater technical aspects of service in the public sector are growing, with delivery of mobile computing, distributed education (“e-learning”) and research capability.

- **Increased collaboration with the private sector**

Often developed through experiences with the private sector, constituent expectations are growing and must be met. Citizens are demanding greater access, including online availability and around the-clock service. Constituents express the need for easier-to-use interfaces and more context driven experiences. Where governments allow it, there is a growing option of privatization that must be addressed.

- **Need for economic development**

Technology has reduced the advantage of geographic location and firms are leaving major cities in search of cheaper real estate. Thus, there is an increased need within specific localities to attract and retain businesses and residents.

- **Enhanced security requirements**

Of course, governments have always been charged with maintaining security, and both political unrest and new technologies have heightened concerns in this area. Public sector officials have an increased interest in using information technology (IT) to help assure public safety, and they are more focused than ever on protecting IT systems in the face of new threats (often from other technologies).

4.5 EVALUATION OF SARS PRESENT STRATEGY

From the overall data presented, the analysis thus supports a contention that the SARS has adopted a *defensive or turnaround orientated strategy*. With reference to the SWOT analysis diagram it would seem that SARS is positioned in Cell 3. This positioning is for an organization with numerous environmental opportunities and critical internal weaknesses. It is evident that SARS is aggressively attempting to optimise on environmental opportunities and overcome its internal weakness. This strategy will be tested in terms of success criteria of suitability, acceptability and feasibility.

Figure: 4.2 - Suitability

The assessment of the **suitability** of a strategy depends upon answers to these questions:

- ***Does the strategy address the external environment?***

SARS present resource impediments from inadequate skills, technology and funding perspective results in a misaligned strategy to optimise on opportunities in the environment.

- ***Is the strategy viable and achievable given conditions within the environment?***

SARS needs the knowledge and technical know how of the private sector and therefore should not be concentrating on developing internal technological strengths in order to keep pace with technological developments. SARS does not have the funding to pursue a strategy of this nature as its funding is directly linked to the health of the economy.

- ***Does the strategy build upon or exploit the strategic capabilities of the organisation?***

SARS strength seems to be visible policing or detection of non-compliance and it is not a technology service provider or knowledge management hub.

- ***Does the strategy create / maintain competitive advantage?***

SARS inability to provide the necessary infrastructure for accreditation or have the resources to ensure client compliance, begs the question whether it is able to encourage or hinder trade facilitation.

Figure: 4.3 – Acceptability

The assessment of the **acceptability** of a strategy depends upon answers to these questions:

- *What are the expected outcomes of the strategy and are they consistent with stakeholder expectations?*

In terms of accreditation, the accredited clients of SARS anticipated a quicker turnaround time for clearances of goods, which would have resulted in monetary benefits, which would have effectively lowered the cost of business. A year later and there is no indication of the immediate benefits of accreditation. From a SARS perspective, there has not been a strong impetus to audit accredited clients to determine the levels of compliance

Figure: 4.4 – Feasibility

The assessment of the **feasibility** of a strategy depends upon answers to these questions:

- *Has the organisation got the resources and capabilities to deliver the strategy?*

Central to overall compliance is developing a knowledge-based culture. Information and the knowledge it provides is the foundation for performing audits, identifying those who are non-compliant and improving process efficiencies. SARS must cultivate knowledge through tools, incentives and integrated processes. Providing the tools and predictive models for auditors to forecast, find, assess and learn from non-compliance will enhance overall compliance figures. SARS does not have the funding for such an exercise nor does it have the skills to develop such mainframes however it does need access to such information without having to develop and maintaining the infrastructure.

- *What gaps in resources and capabilities need addressing in order to ensure success?*

The private sector offers skills and assets desired by SARS. Facing increased budget pressures, loss of skilled resources, limited time to implement solutions and increased strategic focus on core activities, SARS need to examine how private-sector companies can help administer and manage processes and assets. Third-party service-delivery models and outsourcing non-core activities allows SARS to reallocate resources to other value-added activities such as improving customer relationships, increasing audit staff, developing knowledge and increasing service efficiency.

4.6 GAP ANALYSIS

The assessment of the status quo of the SARS Customs risk management and trade facilitation initiatives does not yet contain a complete collection of reform initiatives by the SARS. For this research project conclusions that have been drawn should be taken on the basis of being indicative rather than definitive. The analysis focused primarily on the qualitative data obtained from various sources within and external to the SARS with specific information incorporated where appropriate.

- **Customs Intelligence Services**

The reform of customs intelligence services may be one significant gap within the international efforts of trade facilitation versus informed customs enforcement. The preliminary information obtained suggests that the SARS to date identified no international projects aimed specifically at the reform of customs intelligence services. The researcher, however, encountered vague references to some Suspicious Activity databases and SARS interaction with the Regional Intelligence Liaison Office (RILO). This gap, of course, may have more to do with the nature of this sector than with an absence of projects, or it may stem from the fact that SARS is sensitive about disclosing its strategies in this area. Clearly, more research is required in this area to determine the precise extent of the SARS international involvement in the reform of customs intelligence services. In addition to the potential importance of intelligence services in the fight against organized crime, this issue also has more resonance post-September 11, since intelligence gathering and the sharing of intelligence on international level vis-à-vis terrorist activities will undoubtedly be given higher priority.

- **General Conclusions**

One of the most striking conclusions to be drawn from this research is the overall lack of coordination among the SARS and agencies within the area of informed enforcement. Perhaps more problematic, however, is the lack of coordination among the various customs offices and enforcement agencies. Even where information sharing does take place, it rarely extends to the level of coordination. Unlike other

developed Customs administrations, the SARS seem to have not yet taken the lead in actively coordinating international assistance and local assistance with the private sector when it comes to informed enforcement. The ultimate result is that local and international resources devoted to border security enhancement and reform are not used as efficiently or as effectively as possible. While most customs administrations seem to be aware of this issue, and have taken steps to implement capacity building programs to bring about better enforcement and trade facilitation, the reluctance of the SARS tends to prevent real progress towards more coherent and complementary interventions in particular areas of trade facilitation.

Along similar lines, there also appears to be a need for greater coordination and linkage across the logistics supply chain in tackling organized crime on a global wide level which will inevitably depend to a large degree on the success of initiatives aimed at strengthening border guarding capacities.

One possible key macro-level gap relates to weaknesses within the public administrations. Much of the criticism of public administrations comes from what one would expect progress on security reform, which has been hampered by ongoing public administration problems.

The other issue, which has, clear implications for follow through and sustainability of customs trade facilitation programs is the Customs legislative reform. Little effort is expended to review the Customs legislation in order to ascertain its relevance to the present trading conditions.

Similar issues were also identified with regard to training initiatives. There is a plethora of such initiatives in the customs enforcement program, many of which are short term in nature, and in general it appears that little concrete follow up is done in order to assess the impact or effectiveness of such training, or the degree to which they contribute to broader trade facilitation reform goals. It is suggested that more could be done to ensure that skills and knowledge gained by customs officers participating in training courses.

More concretely in terms of gaps analysis, it appears that much more could be done by outsourcing to local and international service providers in terms of supporting an active role in customs enforcement and trade facilitation reform. A preliminary analysis indicates that a relatively small proportion of service providers act as interlocutors or as watchdogs – in the process of customs enforcement reform. In some areas, notably border police reform programmes initiated to either contribute to, or monitor the effectiveness of, customs reform processes. Beyond these general considerations, of course, real and significant differences exist among the various customs administrations in terms of customs capacity building to interdict and eradicate customs non-compliance.

From the above assessment it appears that within SARS there is a clear gap between its current market position and its proposed vision, which is stated in chapter three. Accordingly the analysis suggests that SARS should be positioned in quadrant one of the Grand Strategy Selection Matrix, this will support a *Conglomerate Diversification strategy*.

SARS is a key player in the global supply chain of trade facilitation and risk management. The client accreditation scheme is a means to facilitating SADC region and the SACU in the area of border guarding and border management. It provides the roadmap for the region in terms of customs reform and must commit considerable resources to border guarding issues particularly in the areas of administrative reorganization and infrastructure support (both provision of equipment and rehabilitation of facilities). There are significant gaps in initiatives related to customs border policing; these gaps may lie more in the area of border personnel training and infrastructure. While some general specific training initiatives for customs border officers already exist, there may also be more room for training initiatives for customs border officers in the area of counter-trafficking (in drugs, trade marks, intellectual property, patents, and in weapons).

Accordingly the proposed diversification strategy must be able to support the WCO 2003 / 2004 – 2005 / 2006 Strategic Plan. This requires that all member Customs administrations including the SARS to contribute to:

- Globalization, and continued growth and development of international trade;
- Increased international competition for direct foreign investment;
- Increased workload of Customs services and government expectations, with budget and human resource allocations which are often static or sometimes decreasing;
- Heightened international awareness of the costs associated with complying with inefficient and outdated border formalities;
- Increased investment by the private sector in modern logistics, inventory control, manufacturing and information systems, and a resultant increase in expectations for prompter and more predictable Customs processing of imports and exports;
- Increased use of new information and communication technologies;
- Greater policy and procedural requirements directly associated with meeting international commitments and standards;
- Proliferation of regional trading agreements which significantly increase the complexity of administering border formalities and controls;
- Heightened awareness of the need for Customs administrations to strengthen border controls to protect society from a range of social and national security concerns, including international terrorism, transnational organized crime, drug trafficking and revenue fraud, while ensuring continued improvements in trade facilitation;
- Increased realization of the importance of Customs as a key vehicle for economic growth and social development, and the resultant need for governments and donor organizations to invest in sustainable capacity building activities;
- Increased awareness of the implementation of good governance and sound integrity within Customs services; and
- Changes in organizational arrangements reflecting changes in government priorities.

More importantly the diversification strategy must be able to support the SARS strategic goals in order to perform / execute SARS mandate:

- Implementing Government's new tax policies and exceeding the revenue collection targets;
- Improved service delivery;
- Fostering tax compliance and morality;
- Protecting the South African economy;
- Facilitating trade;
- Promoting Southern African integration and co-operation; and
- Ensuring organizational transformation.

4.7 CONCLUSION

It is clear that both the internal and external environment of the SARS is in a state of flux. The results of the research indicate that the SARS should focus on a strategy that allows the organization to acquire external resource to eliminate internal weaknesses thereby facilitating a passageway to allow the organization to more effectively pursue market opportunity.

Thus chapter five highlights the strategic options available to the SARS for a *Conglomerate Diversification Strategy* and it explores in depth the most viable strategic options.

CHAPTER 5

RECOMMENDATIONS

5.1 INTRODUCTION

While chapter four dealt with and explored in depth the problems and challenges for the SARS, this chapter deals specifically with the strategic options available to an organization like the SARS. The strategic options are presented and discussed and recommendations are highlighted.

The SARS is in an environment of expanded globalization of trade, increased focus on supply chain and the need for efficient and secure movement of goods across international boundaries. Some of the global trends and competing complexities of the SARS and the commercial environment are presented below.

Figure: 5.1 – Global Trends

Global Trends	
International Customs Agencies	Commercial Trade
<ul style="list-style-type: none">➤ Rapid expansion of global trade➤ Movement toward global trade harmonization➤ Focus on global threat of terrorism➤ Modernized Customs business processes and technology infrastructure➤ Replacement of antiquated technology systems➤ Focus on increased revenue collections and economic development	<ul style="list-style-type: none">➤ Reduced inventory shrinkage➤ Incorporate Customs processes into global supply chain➤ Respond to global secure cargo requirements➤ Focus on taking cost out of trade management systems➤ Optimize supply chain predictability/visibility➤ Minimize duties, tariffs, and fees➤ Increase accuracy at estimating landed costs➤ Accelerate movement of cargo across borders

Source: GTMC, 2003

Accordingly this chapter will discuss the aspects of an effective trade compliance and risk management process that is required by the SARS Client Accreditation Program / Scheme to meet its strategic objectives of:

- **Trade facilitation**

Harmonization of customs procedures, extended application of simplified procedures, establishment of a system for application of simplified procedures based on post-clearance audits and other customs control measures that involve comprehensible and uniform criteria in order to facilitate trade and ensure fair competition (Latvia, 2002). Customs not only has to protect the state economical border but also to facilitate enhancement of the external trade. The growth of the state external trade turnover depends on how convenient and profitable for the trade it is to execute international transactions. It is determined by a number of different factors, one of which is customs procedures. The Customs service has to develop and implement working methods that would facilitate trade by simplifying procedures and decreasing the time and costs necessary for customs clearance; if necessary, pilot projects can be carried out in the early stages (Latvia, 2002). One of the ways to achieve this goal is co-operation with those members of the trade that are willing to fulfill their responsibilities to the state by paying the taxes determined by the legislation. Therefore it is essential to provide them with the necessary information (Latvia, 2002).

- **Administration of customs duties and revenue**

To ensure maximum effectiveness and integrity of revenue collection and administration by implementing appropriate procedures for revenue collection and accounting. The provision of state budget revenue and guaranteeing of financial stability is the task that has always attracted particular attention from the government (Latvia, 2002).

SARS customs collects more than 90 percent of all the revenues in the state budget and no changes of this pattern are envisaged in the coming years. The SARS - Customs as a candidate country, has to develop a customs payments administration strategy, that would ensure the precise accounting of revenue from customs payments, distribute them to local and future SACU and SADC customs revenue, facilitate transfer and reporting, and provide an audit trail.

For an effective implementation of such strategy it is necessary to establish systems, structures and policies that comply with the trade block requirements.

- **Customs control**

To develop transparent and effective customs control activities in order to protect the financial, commercial, social, cultural and environmental interests of the society (Latvia, 2002). Such objective can be achieved by establishing systematic, comprehensive and flexible customs control systems that would be consequently applied. However, for this purpose there is a necessity to ensure the legal basis to provide customs with rights to perform control of persons, goods, vehicles, documents and commercial registers on borders and inland. Modern customs control can not be achieved without risk analysis, selectivity and post-clearance audit, however, all of these functions can not ensure effective control if customs operates only by itself. Successful results are possible only by co-operation between different institutions that are working on the border, by increasing mutual understanding between customs and trade, as well as maintaining good co-operation with customs services of other states. For the performance of control functions the appropriate equipment, provisions and IT solutions are necessary (Latvia, 2002).

In terms of the prevailing environmental conditions and the available resource capabilities of the SARS the following options are available to the SARS in terms of the grand strategy selection matrix – *Concentric Diversification*. Grand strategies involving diversification represent distinctive departures from an organization's existing base operations (Pearce & Robinson, 2000). Accordingly concentric diversification involves the acquisition of businesses that are related to the acquiring firm in terms of new technology, markets or products. The ideal concentric diversification occurs when the combined organization profits increase the strengths and opportunities and decreases the weaknesses and exposure to risk (Pearce & Robinson, 2000:265).

5.2 OUTSOURCING

When comparing the SARS to general public sector management environment, it is evident around the world that governments are divesting themselves of many traditional functions and migrating them to the private sector (Deloitte & Touche, 2002). The common mode of thinking is that government executives want to focus on their core competencies and use private sector partners to fill in the gaps. Given that traditional partnering approaches are growing obsolete and given governments' desire to operate more efficiently as the nature of service delivery is changing and technology are evolving at an unprecedented rate.

Figure: 5.2 – Outsourcing Commentary

Myth	Reality
<p>The traditional approach to partnering will help governments maintain high service levels today and in the future.</p> <p><i>Because getting the job done today is all that matters, governments only need to determine their "core competencies," then divest themselves of the rest.</i></p>	<p>Turbulence in the public sector managerial environment makes the traditional approach to partnering obsolete.</p> <p><i>Partnering will still be a vital managerial option, but it is just one tactic. Governments need a more complete strategy for generating maximum value from their partners and their core competencies.</i></p>
Impact	
<p>With a Relationship Portfolio¹ approach helping them to link partnering with strategy, governments will achieve the flexibility to cope with uncertainty in a fast changing environment. The result will be an organization that always has the competencies to provide world-class customer service.</p>	

Source: Deloitte & Touche, 2002

These are turbulent times for public sector management. Across the globe and at every level of government, executives are faced with an unprecedented amount of upheaval to their established routines (Deloitte & Touche, 2002). Budgets are cut and reset, projects are cancelled while others are started and legislatures seem more active than ever in responding to political, social and economic crises. With so much change happening every day, it's almost unfair that government executives still have a central responsibility to ensure that their organizations provide the highest level of service possible to external and internal customers (Deloitte & Touche, 2002). That means

being equipped with the competencies to deliver: The best people, the best business processes, the best technology. It also means that governments need a modern system to acquire and manage them (Deloitte & Touche, 2002). Today, executives know that they don't have all of the money or people to create and nurture all of the competencies they need, so their basic instinct is to retain their core competencies and migrate the rest to private sector partners, either through limited contracting, outsourcing or privatization. The following methods may be used to achieve outsourcing (Deloitte & Touche, 2002).

5.2.1 BUY SERVICES

As part of their transformational efforts, some government executives buy services rather than buying capacity. These executives (Accenture, 2002):

- Change their own mindset from controlling functions to buying services;
- Shift fixed assets to private firms so government costs can come from recurring funds, not allocated capital;
- Track performance metrics for every service, whether it is performed in-house or by an outsource provider.

While many government agencies outsource some processes, executives who are transforming their organizations by buying services rather than capacity are set apart because they use this approach broadly and strategically. They are not crafting deals; they're orchestrating an active environment of deal making that stimulates healthy competition and continuous improvement (Accenture, 2002).

5.2.2 TRANSFORM THE VALUE EQUATION

When a government organization needs a radical improvement in performance, some executives transform the value equation. They do this in three ways (Accenture, 2002):

- They outsource critical processes to transform the organizations - to radically change an organization's performance; some executives

outsource functions and processes that are essential to the mission in the long-term, strategic commitment.

- They create new business models - In this scenario, government executives break out of traditional thinking to turn costs into investments and generate new sources of revenue.
- They drive economic development – using creative ways.

5.3 STRATEGIC OPTIONS

The following options are seen to be feasible, suitable and acceptable to the SARS in achieving its strategic objectives and seem to be viable strategic options for the SARS.

In order for the SARS to overcome the new challenges of successfully implementing its client accreditation program there is a need to reform and modernize the Customs Trade Compliance and Risk Management Process. These tools will need to develop for the SARS Customs to achieve success in facing new challenges of informed customs enforcement.

Governments are addressing these challenges through a variety of approaches. For example, private-sector partnerships and outsourcing arrangements in information technology (IT), payroll and human resources relieve some operational cost burdens. Enterprise resource planning (ERP) software packages, that integrate back-office operations, are widely utilized and customer relationship management (CRM) software blends customer and market data across access channels (IBM, 2002). However, the dynamic nature of security threats, economic changes and customer needs dictates that governments do more than invest in technology.

There are four different dimensions (see Figure 5.3) that governments must address as they evaluate their options for outsourcing is (IBM, 2002):

- Drivers for collaboration - What are the high-priority issues that we want to address?

- Segment strategies - What are the different segments that we want to address and on which processes and services do we collaborate within these segments?
- Scope strategies - What strategic model will we use throughout collaboration, and how do we extend processes and services with other departments, levels and jurisdictions?
- Implementation strategies -What enablers are needed to implement segment strategies?

Figure: 5.3 - Collaborative Government Services

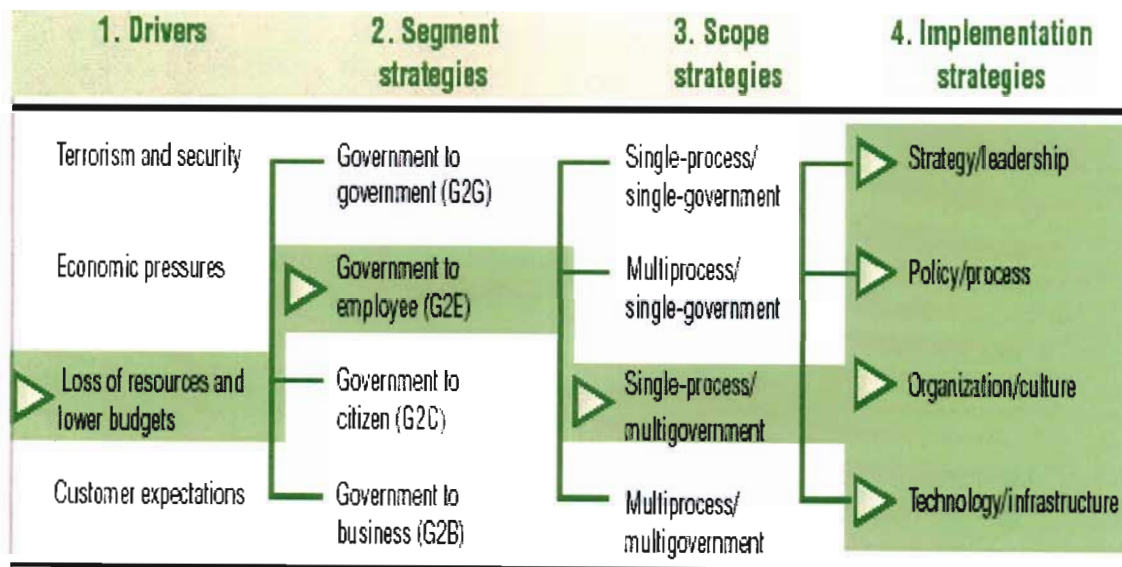


Figure 1. Collaboration decision-making approach.
Source: IBM Institute for Business Value analysis.

• Segment strategies

To address these issues, collaboration efforts must overcome a fundamental barrier: government silos. A siloed operating and technology environment creates a complex web of interactions among departments that routinely deliver similar services to the same customers. This environment results in (IBM, 2002):

- Processes that do not stretch across departments;

- Policies and rules developed to ease administrative burdens of a single department -not promote customer convenience across the enterprise;
- A culture of isolation and protecting turf;
- Closed technology infrastructures that fail to enable common long decision making time frames, inefficient services and limited time for knowledge creation.

Emerging segment approaches shatter siloed operating environments by reorganizing services from a holistic understanding of customer needs that span traditional organizational boundaries. Multiple organizations join together to address common issues. A “few-to-many” relationship structure emerges with a common management system or coordinating agents chartered to link department strategic plans.

Policies and processes develop from in-depth discussions with customers. Turf battles recede as departments recognize that they are part of a larger government enterprise. An enterprise emerges that extends beyond jurisdictions and levels, to provide services the way that a customer wants them—not the way that the government wants them.

Governments have begun to implement segment approaches by organizing services from four perspectives (see Figure 5.4) (IBM 2002):

- Government to government (G2G);
- Government to employee (G2E);
- Government to citizen (G2C); and
- Government to business (G2B).

Based on research conducted by the IBM Institute for Business Value, the following recommendations can help address common issues faced by government. Specific services for each segment can then be developed to support customer needs.

Figure: 5.4 - Collaborative Government



Figure 2. Segment approaches.
Source: IBM Institute for Business Value analysis.

➤ Collaborative government-to-business services

The economic strains faced by many governments highlight the need to invest in G2B services that reduce business costs and stimulate economic development. G2B initiatives provide the basis to stimulate economic growth by attracting commerce and easing the burden of interacting with government.

- **Integrate processes to start and manage a business**

Similar to citizens, business services fall along a life cycle. Processes to start, expand, manage and close a business require interactions that slice across departments, jurisdictions and levels. To enable seamless interactions, governments need to link key processes (for example, register businesses, check for compliance history, establish tax status, and so on) across jurisdictions and levels. Reducing the initial burden on starting and managing a business provides long-term benefits. A CIO for a large U.S. county sums up the importance of reducing the burden of interactions (IBM, 2002), “*Enabling services without wasteful time and process makes business more efficient and*

increases profitability [and] their ability to deliver services. It improves the community as a place and makes it more attractive to businesses to move there.”

- **Provide common services across industries**

The global marketplace fosters increased so-called *co-opetition*, in which businesses within the same industry partner and compete simultaneously (IBM, 2002). Governments can support co-opetition efforts by jointly delivering common services across industries (for example, workforce training and financial reporting). This reduces internal operating costs and provides an additional forum for businesses to share knowledge (IBM, 2002).

- **Partner with the private sector to deliver services**

Public-private partnerships receive mixed reviews. The cultural differences and incompatible infrastructures present concrete challenges. To succeed, strategic relationships must remain in effect through election cycles. Leaders need to address the rigid policies that restrict procurement customization and increasingly accept flexible “request for proposals” or implementation contracts (IBM, 2002). With partnership cultures established, outsourcing arrangements will spread increasingly beyond managing IT and other back-office processes—like payroll, financials, benefits, and so on—to core service areas.

- **Scope strategies**

With an understanding of the key issues and segment services, leaders need to decide on the scope of their collaboration initiatives. The scope of collaboration depends on a variety of factors, including the funding available, a timeline for implementation and the existing collaboration culture. Organizations that have not collaborated on large-scale projects, such as cross-enterprise resource package implementations or CRM services may consider beginning with lower-risk projects that do not attempt

collaboration across jurisdictional boundaries. Quick, high profile collaboration efforts will provide the momentum and skills to attempt higher-risk efforts. The segment services range from (IBM, 2002):

- *Low risk* - integrate the same process across a single jurisdiction: For example integrate recruiting and hiring across all departments within a city government;
- *Moderate risk* - link the same process across levels or jurisdictions: For example, link the grants process across central, regional and local government and private sector organizations;
- *High risk* - integrate related processes across multiple levels or jurisdictions: For example, promote regional economic development (see Figure 5.5).

Figure: 5.5 – Scope Strategies

		Scope strategies			
		Single-issue/ single-government*	Single-issue/ multigovernment**	Multi-issue/ single-government	Multi-issue/ multigovernment
Risk-level		Low	Moderate-high	Moderate	High
Primary challenges		<ul style="list-style-type: none"> • Prioritizing processes to integrate • Cultural barriers 	<ul style="list-style-type: none"> • Establishing standards • Data-sharing rules • Committing funding 	<ul style="list-style-type: none"> • Gaining sponsorship from leaders • Turf battles 	<ul style="list-style-type: none"> • Long-term implementation • Significant cultural change
Examples	G2G	<ul style="list-style-type: none"> • Managing budgets/finances/assets/procurement 	<ul style="list-style-type: none"> • Applying/receiving grants • Emergency response 	<ul style="list-style-type: none"> • Arresting and processing an individual 	<ul style="list-style-type: none"> • Promoting economic development • Ensuring national security
	G2E	<ul style="list-style-type: none"> • Resolving issues 	<ul style="list-style-type: none"> • Sharing leading practices/intellectual capital 	<ul style="list-style-type: none"> • Recruiting, hiring and initiating employees • Career development 	<ul style="list-style-type: none"> • Workforce planning • Skills assessment, education and training
	G2C	<ul style="list-style-type: none"> • Registering/renewing licenses/permits • Public meetings 	<ul style="list-style-type: none"> • Searching for information • Voting • Paying income taxes 	<ul style="list-style-type: none"> • Changing of address/moving home 	<ul style="list-style-type: none"> • Providing healthcare
	G2B	<ul style="list-style-type: none"> • Reporting/filing 	<ul style="list-style-type: none"> • Paying taxes (corporate, sales, and so on) 	<ul style="list-style-type: none"> • Starting a business 	<ul style="list-style-type: none"> • International expansion/trade

* Single-government = one jurisdiction – inter-department (for example, Province of Ontario).
 ** Multigovernment = across jurisdictions or levels (for example, Provinces of Ontario and Quebec or Province of Ontario and Canadian Federal Government).

Figure 3: Scope strategies.
Source: IBM Institute for Business Value analysis.

➤ Implementation Strategies

Governments will choose unique paths for collaboration. Different drivers and customer needs will lead to different models. However, throughout collaboration,

leaders need to focus on a core set of enabling activities. Develop a holistic view of customer needs across the enterprise Collaboration begins by understanding the customer from a holistic view. Narrowly defined functional views perpetuate siloed government (IBM, 2002). Citizens do not often know (or care) which government department provides the service. Organizing information about common customer needs provides the linchpin to help bring organizations together. Create cross-department planning approaches Collaboration does not just begin with the central leaders. Department heads for social, tax and license areas need to recognize they can all fall victims to fraud (IBM, 2002). Health, education, transportation and recreation leads need to engage jointly in economic development. An enterprise strategic planning model (see Figure 5.6) establishes a superordinate vision and goals. Leaders can then develop specific, issue-based strategies for cross-department concerns (for example, security, economic development, back-office management and knowledge retention) (IBM, 2002).

Figure 5.6 – Enterprise-wide government vision and strategy

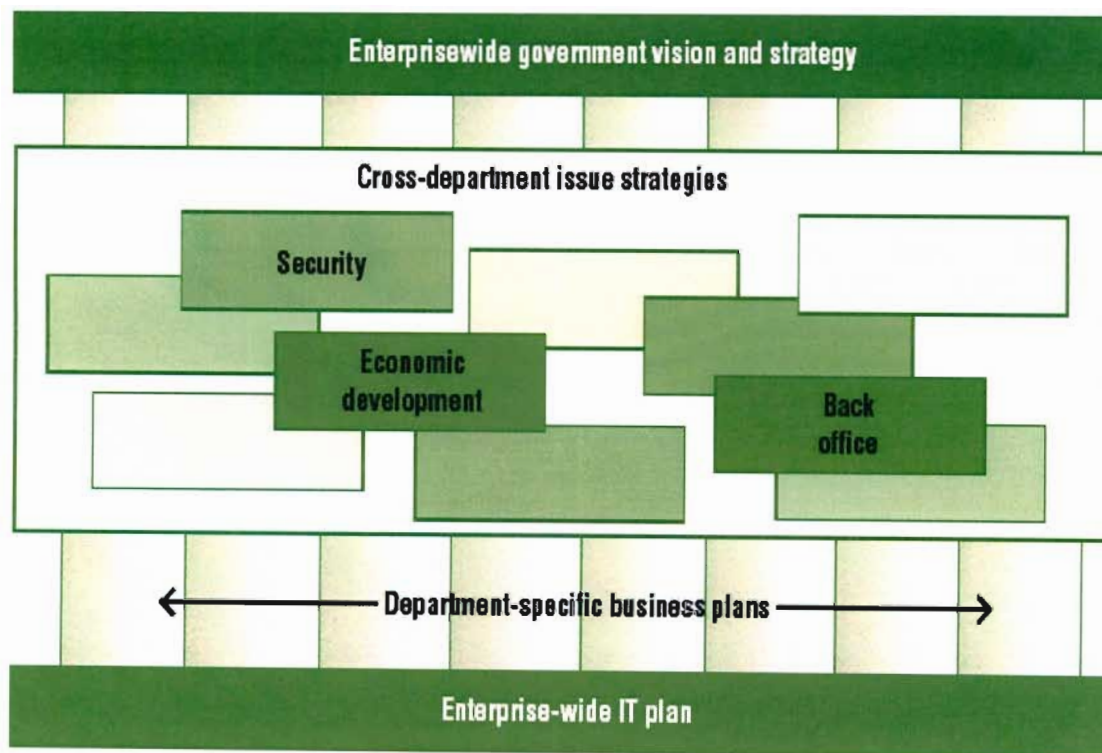


Figure 4. Enterprise strategic planning.
Source: IBM Institute for Business Value analysis.

➤ **Create enterprise wide strategic business cases**

Leaders stewarding collaborative efforts must have authority and a mandate to act. In an environment of intense budget pressures, business cases provide the necessary support. Previously, a booming economy and e-government hype led to limited internal investment hurdles. The era of blind investment is over. Collaboration efforts offer new approaches. Stakeholders will be skeptical.

Strategic business cases with detailed return on investment (ROI) calculations will prioritize funding and promote buy-in. Integrate access channels - beyond enterprise portals Integrating access channels, beyond enterprise portals, helps enable customers to access information and services how they want. Integrated channels should obscure operational processes. Customers should not have to deal with different interfaces or even know that they are working with different departments. Presenting one face to customers serves as a cornerstone to a segment approach. Make collaboration the underlying framework for policies and rules. Make collaboration the underlying framework for policies and rules Segment models dramatically alter existing organization frameworks. To facilitate new relations among organizations, policies and rules must change.

Restrictive policies that hinder data exchange need examination. Government must evaluate whether data collection, storage, distribution and analysis rules that prevent seamless and safeguarded interactions remain valid. Establish management charters to support collaborative mission. Turf battles need to end. Enterprise governments do not have rigid organization borders. Conversion begins at the top. Leaders and organizations must establish a management charter, objectives, and an organization structure that supports the collaboration mission. Roles and responsibilities among collaborating departments need to be clear. Leaders must continuously show visible sponsorship through frequent communications.

Increased emphasis on establishing and maintaining Enterprise IT Architectures (IBM, 2002). An Enterprise IT Architecture (EA) provides the foundation for collaboration efforts. Reliable, flexible and scalable EA's provide the technical infrastructure necessary to allow data flow and communications between departments.

Effective integration of IT systems also relies on the widespread use of common languages and widely accepted standards. Government's ability to improve service delivery to other governments, employees, citizens and businesses is directly attached to government's ability to effectively collaborate across organization, processes and IT systems (IBM, 2002).

5.4 RECOMMENDATIONS

To address these emerging trends, the SARS faces social, economic and operational challenges. SARS cannot choose their customers; they must ensure that every taxpayer has access, regardless of whether or not they use the latest technology. SARS needs to address the existing "digital divide" that separates those with Internet access from those without access, to ensure the success it wishes to achieve through the initiative. SARS also needs to ensure that they are not perceived as controlling too much information. Discussions of integrated and shared databases must correspond with policies that show customs/tax departments do not unlawfully use consolidated information against citizens. Imbedded in this issue is the overall role of data privacy, security and ownership. SARS must also determine how they will reduce cost structures and increase its compliance levels thorough accreditation. For this to be achieved the SARS must continue to pursue the options of outsourcing the accreditation audit functions to the private sector or partnering with the private sector.

The SARS needs four catalysts to address the aforementioned emerging environment: committed leadership, transformed processes, a knowledge-based organization and an intelligent infrastructure. These are the critical success factors for the SARS transformation.

5.4.1 Leadership commitment and sponsorship

Leadership and sponsorship are the most-critical factors for transformation. Frank Lanza, of the California Franchise Tax Board, contends that strong leadership throughout the organization is necessary to modernize and transform revenue departments in the next decade (IBM, 2002).

Leaders must develop a vision for the organization, understand technology, tax policy and administration, and affect change within the organization. An integrated strategy, that spells out the key organization objectives and is supported by a detailed business case, provides the foundation for transformation (IBM, 2002).

Leaders should not underestimate the cultural shift required to address the emerging trends. They must actively garner the support of key stakeholders by developing change-readiness plans and keep stakeholders apprised of progress by adhering to a communication program. New management systems with specific performance incentives will gauge real progress. Leaders must place a strategic focus on the acquisition and re-use of information by investing in tools that integrate processes for managing, analyzing and using data.

Citizens will also play a leadership role in modernizing the SARS. As public expectations and computer pervasiveness increases, government leaders should integrate those expectations into everyday operations and the future vision. The most-effective government leaders should stay abreast of technological and business process trends to accommodate the evolving needs of their constituents (IBM, 2002).

5.4.2 Transform business processes

The success of new service-delivery and compliance models rests on the transformation of business processes (IBM, 2002). Automation of existing processes with technology will not provide ongoing convenience, efficiency and personalization benefits. To become a more functionally customer centric organization, the SARS needs to redesign their processes based on in-depth customer needs assessments and standard business rules. Complex public issues require collective input and joint decision-making from citizens, businesses, communities and each level of government. In response, revenue departments need to allow stakeholders - whether centralized or local - to come together to address a particular issue. Hierarchical decision-making approaches will not survive in an environment where everyone has access and the skills to apply information. To achieve desired speed and integration, the SARS can adopt flexible processes and trust employees to act on decisions

quickly. The SARS – Customs department can phase out strict step-by-step processes and rules-based enforcement practices.

SARS and generally all government departments face intense competition for scarce resources. Minimizing the burden of government interactions and improving processing can attract businesses and improve overall citizen processing (IBM, 2002). Revenue departments can aid this process by increasingly investigating outsourcing non-core activities.

Process design needs to focus on functions that enable the management, analysis and usage of information across discrete activities. Knowledge is created by ensuring that the right data is reaching the right people, who are supported by robust tools and technologies. Once created, this knowledge must be integrated into the service and compliance programs, and be supported by performance-measurement processes to establish and track objectives.

5.4.3 Knowledge-based culture

With the arrival of the Internet era, information is quickly emerging as the lifeblood of organizations. People rely on instant exchange of information to perform all aspects of work. This transformation can increasingly shift an organization's strength from physical assets to experiences and insights—in other words, knowledge. Accordingly, the SARS needs to establish a knowledge-based organization that educate and provide incentives for employees to analyze, share and use information. To do this, they need a culture where controlling information does not equal power, where command and control structures are less common, and where shared information becomes commonplace.

The SARS can facilitate a knowledge culture by making key tactical changes. They can create a management system that reduces structural barriers, promote new roles and responsibilities, encourage behavioral modifications, and provide rewards based on performance and gauge real progress. The SARS also needs to actively recruit, develop and retain skilled employees. Marketing SARS - Customs as a challenging workplace is key to this effort. Departments need to develop and manage education

programs. Training must focus on developing analytical skills and link to long-term career-development programs. Change-management programs must exist throughout the transformation. Managers must effectively tell employees what the change means to them.

5.4.4 Intelligent infrastructure

To enable the future scenarios, the SARS must actively create a flexible, reliable and scalable intelligent technology infrastructure, which seamlessly links servers, software and storage systems, letting data flow across it all. It permits and can even encourage communication, operational efficiency and growth among government departments and private sector organizations.

An integrated, intelligent infrastructure can break down information silos, enable existing systems to work together, allow rapid deployment of component solutions, establish a platform that can handle succeeding waves of technology, provide a more-uniform and security-rich technical environment, and enable synergy among old and new applications and data.

The design and construction of a reliable infrastructure is no longer solely an IT issue and it is considered a vital management issue. Senior elected officials, department leaders as well as CIO's must support the transformational changes for the IT changes to be effective. The performance of the infrastructure will receive unprecedented visibility. If IT fails, transformation efforts fail, too. This is an important that should be noted with reference to the accreditation programme.

For the SARS an increased reliance on sharing information requires an IT strategy that begins with an assessment of business and IT capability requirements. This strategy identifies key initiatives and establishes the implementation schedule and it can define security-rich, scalable, reliable and flexible technology architecture. Key elements of this strategy can include decisions about systems management, security, storage, data and transaction services, and enabling legacy applications for the Web.

The building blocks for this infrastructure include language standards, such as extensible Markup Language (XML), and open source platforms. An open, scalable and flexible platform allows customers to access discrete data (rules, demographics, industries, and economic conditions), suppliers to understand emerging needs and partners to seamlessly link into processes. For example, standards for financial data representation, such as Financial eXtensible Markup Language (FXML), allow private-sector entities to provide tax information to the government in a standard format (IBM, 2002). After the information is shared with the government, electronic data interchange (EDI) based transmissions between financial institutions and departments transmit the necessary funds. Additionally, customized templates, such as Taxable extensible Markup Language (TaXML) can extract financial data to the appropriate fields on a tax form to simplify data entry (IBM, 2002).

An intelligent architecture would help enable the SARS to incorporate next-generation technologies. Deep computing would allow the SARS to create pattern recognition and predictive algorithms to detect and prevent fraud. SARS would then identify data that fall outside defined parameters (for example, if income rises 100 percent in one year) (IBM, 2002). The same advances could generate and distribute tax ID numbers using a machine-learning algorithm to analyze, categorize and route e-mail requests. Wireless platforms will enable access anywhere. Business intelligence (BI) tools can match an entrepreneur with a lender after analyzing necessary criteria. Content and document management will streamline information processing (IBM, 2002).

5.5 APPROACHING THE FUTURE

The SARS's future will continue to ensure tax compliance. It will meet compliance goals by enhancing voluntary compliance with knowledge, becoming customer centric, collaborating with the private sector and integrating across government. However, SARS presently have many options in how they transform core processes, organizations and technology to address these trends. To understand the transformational challenges, the SARS needs to address some difficult questions:

- Who actually owns the tax data: the citizen, the SARS or another department that uses these data?
- What policies are needed for data encryption and user authentication?
- How can a security-rich environment be maintained without infringing on civil liberties?
- How does a company in the private sector ensure the privacy of data, faced with increased pressure to integrate services?
- How can customer needs be continuously tracked?
- What investments should be made in building a scalable, integrated information infrastructure when faced with near-term budget challenges and service-delivery needs?
- What communities of interest will emerge concerning tax issues?
- How will private-sector organizations integrate to ease the burden on administering tax / customs services?
- How can access channels and processes be integrated with companies in the private sector?
- What sort of organization and people are needed to support a knowledge culture?
- What steps have to be taken to ease the burden of paying taxes / customs to attract businesses?

5.6 CONCLUSION

For some customs and revenue departments, the answers to aforementioned questions are clear. For others, the answers and the transformation path is not so obvious. The South African economy's post apartheid re-integration into the globalization process has led to an extraordinary increase in the international flow of people, goods, capital and information. These radical changes have shaped the role of the South African government's National Treasury and the role of its Customs administrations towards reform and modernization as would be expected when compared to the responsibilities of developed modern efficient Customs operation that would contribute to domestic priorities, facilitate trade and address complex international issues.

The South African government and business expect that the SARS Customs division to not jeopardize the prosperity of the nation by driving away business and investment. Accordingly, effective collaboration between SARS and business will have positive results from making a series of strategic and tactical decisions, which will impact (Latvia, 2002):

- **Legislation**

To establish a persistent and comprehensive legal system that would ensure uniform application of customs legal acts, strengthen customs powers and, in an understandable way, would clarify the rights and obligations of customers, trade and society.

- **Trade Facilitation**

The modern customs service has to be established in order to assist both customs and trade to apply legal acts correctly. A customs service that is based on up-to-date management and monitoring methods and extensive distribution of information must be created. For achievement of such a result the trade has to be involved in throughout the preparation and implementation of laws and secondary legal acts. Mutual and common understanding has to be achieved in daily work on control and document processing technological processes. Therefore, in order to improve the co-operation between customs and trade the following goals are set as priorities:

- **Management and Organization**

Allocation and utilization of the budget funds has to be strongly controlled and all levels of customs managers have to take a responsibility. Effectiveness of the customs service will be increased by an appropriate human resources policy and training methods, resulting in highly professional and well awarded employees. The work efficiency will also increase as a result of improvements in the management planning system and in determining precise work performance criteria. The performance of any large organization improves if the responsibility

is delegated down to the level that is effective and efficient. Customs strategy envisages optimization of the allocated budget management, determining responsibility for each provincial customs office on revenue, expenses and achievements.

- **Customs Control**

It is important to facilitate participation of the trade in the detection of offences, and to discriminate between formal offences and those that arise due to mistakes or are connected with unfair activities. Using analysis of available information it is possible to detect the priorities, forms and methods of customs control in relation to different groups of goods, types of business and customs procedures.

- **Revenue Collection**

Corresponding legal provisions should be developed and introduced to provide effective and safe operation and maintenance of the payments system. To develop and introduce safe accounting systems and procedures to ensure centralized accountings of the collected taxes are that are divided into separate types and accounts as prescribed (Latvia, 2002):

- to ensure registration of all accounted customs payments provided in laws;
- to ensure identification of settled payments and unsettled customs payments;
- to prepare regular payment balances and the provision of monthly and quarterly reports, thus ensuring the information and possibilities to transfer payments to corresponding accounts within the date of payment;
- to be able to follow the flow of customs payments balances and debts online.
- to develop and arrange customs payment account systems which are clear, convenient and concise for the authorities performing control and audit;

- to ensure maintenance of the customs payments account system by trained personnel;
- to develop appropriate archiving and storing facilities for documents, to provide possibilities for storing and availability of documents.
- to organize supervision of a payment account system to ensure that all activities performed for payment system maintenance are safe and effective. To develop separate rules and principles for regulation of the supervision.
- to decrease potential risks in all customs payment systems and to develop procedures of operation and measures for reduction of risk.
- to co-operate and identify requirements for potential participants of the customs payment account system if it can relevantly influence operation of payment system.

- **Resources**

The main items are connected with the provision of human and financial resources. There is a need to ensure an adequate number of highly qualified customs officials and to determine precisely the financial resources required to fulfill customs tasks. It is also necessary to assess the needs for technical equipment and to control the effectiveness of its use. There is a need to carry out regular inventory checks of the equipment and to develop a system for obtaining information on every equipment unit location and the responsible user. The National Treasury and SARS management should realistically plan the finances required for the customs service.

- **Prevention of corruption**

South African society has a right to expect an honest, objective attitude and professional action from customs officials. It is important that customs officers observe highest principles of behaviour and honesty in communication with individuals, entrepreneurs and personnel from other state institutions. It can be achieved simultaneously with the increase of salaries. One of the undertakings for corruption prevention in customs is implementation of comprehensive code of

ethics and conduct where the standards of customs workers are set out in practical and clear terms. SARS should develop a code of ethics strictly following the model of World Customs Organization and implement. It will allow personnel to avoid situations of conflict of interest and will provide high standards of management and discipline in work.

- **Information Technologies**

It is particularly important to provide the use of advanced technologies for data transfer and storage in the declaration of goods, accounting of customs payments and supporting customs control. At the same time there is a need to provide highly professional project management, corresponding quality control and security developments in the area of customs IT. There is also a need to investigate the possibility of the use of IT in the private sector as much as possible. The use of IT in customs work should result in the successful accomplishment of customs functions, taking into account a constant growth in external trade and transit, the use of electronic documents and the amount of electronic trade.

- **Training**

Well-educated and qualified personnel are essential for customs work to be effective, and customs officers are civil servants in accordance with the Law on Civil Service. Civil servants have to improve their qualifications regularly.

- **Co-operation**

The administration of customs provisions is possible only with a precondition that there is a close co-operation with different state enforcement agencies, customs administrations of other states, international organizations and society.

The client accreditation programme / scheme must be seen in the context of a mechanism that would enable the SARS to implement the various WCO conventions, trade agreements, customs legislation and other Acts it administers. In this context the client accreditation scheme is a trade facilitation measure, which can only be

successful in informed compliance, should the SARS and business further develop their respective relationship. Thus both SARS and business needs to exploit opportunities, develop business processes, technology and technical know to bring about better trade facilitation and improved compliance.

In the South African scenario the increasingly importance of international trade and economic competitiveness impacts the SARS Customs division role in the development and modernization of Customs procedures. As stated previously it is thus expected in this environment that the SARS to be more effective in the protection of the economy and to encourage the economic growth through the development and implementation of suitable trade facilitation programs.

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