

International Business Machines Corporation

1801 K St., N.W.
Washington, D.C. 20006
202/833-6000

June 12, 1985

The Honorable Charlie Rose
Chairman
Subcommittee on Office Systems
722 H.O.B. Annex 1
Washington, DC 20515

Dear Chairman Rose:

Enclosed is the information you requested concerning IBM's current business activity in South Africa.

I hope this information is useful and should you require additional data, please contact me.

Sincerely,

C. E. Taylor
Program Director
Government Programs

CET/bjs
Enclosure

District of Columbia

ISS

Subscribed and sworn to before

me this 12th day of

June 1985

Mary Lee West
Notary Public

My Commission Expires 1-1-90

IBM
OPERATIONS
IN
SOUTH AFRICA



IBM has been in business in South Africa since 1952. As of December 31, 1984, the company had 1,914 employees there, mostly engaged in the sales and service of information systems and information products—work calling for high skill levels. Revenues from the South African affiliate are less than 1% of IBM's total annual gross revenues. The percent of IBM South Africa's gross earnings dedicated to our corporate-responsibility programs there is significantly greater than the amount dedicated by IBM operations in any other foreign country in which we do business.

IBM Employment Practices

IBM South Africa gives equal pay for equal work. Its employees work in a nonsegregated environment. Paid vacations, holidays, auto loans, pensions, group life insurance, tuition refund, dental, medical, and hospital coverage are provided for all employees.

IBM continues to increase its black, Asian, and colored employment in South Africa. In 1969, there were 39 blacks, or 4.6% of the IBM work force. Total black, Asian, and colored employment was 6.7%. As of December 31, 1984, there were 286 blacks, or 14.9%, and a total of 421 blacks, Asians and coloreds, or 22%.

Because IBM's operations in South Africa are largely concentrated in sales and technical services rather than manufacturing, many of the jobs require high-level technical skills. The limited number of university-trained blacks (less than .05% of a black population of 20 million) has led IBM to take an active role in support of innovative programs (described on the following pages) designed to increase the number of blacks eligible for professional and technical positions. In addition, in 1984 IBM provided more than 4,200 student days of classroom training to help black IBM employees develop skills for careers in marketing, systems engineering, programming, customer engineering, general business administration, and finance. Today, black IBM employees are working in all these occupations. More than 30% of our black, Asian, and colored employees are in exempt or skilled positions. Twelve of these employees are managers, including six blacks.

Through home loans guaranteed by IBM, black employees can buy, build, and improve their homes. Since the start of the program, 78 employees have built new homes. An additional 88 employees have taken loans to purchase or improve their homes.

Black employees also receive free technical advice on building and improving their homes. IBM has deposited more than a half-million dollars in the black African Bank for housing loans.

In March 1977, IBM became one of the 12 major American corporations to first announce support for a statement of principles (generally known as the Sullivan Principles) directed at ending segregation and promoting fair employment practices at their plants and other facilities in South Africa. IBM's early endorsement of the principles is consistent with the company's basic belief in respect for the individual and with its employment practices in South Africa. IBM is consistently rated in the top category—"making good progress." In 1984, IBM endorsed an amplification of the principles, which encourages U.S. companies to take action on behalf of social change in South Africa.

IBM Contributions to Health and Welfare

IBM South Africa introduced an employee contribution program to combat hunger in rural areas and create self-help projects. Each employee contribution is matched by IBM. The company also donated a personal computer to a clinic at the Crossroads settlement camp near Capetown. This clinic provides medical services for 55,000 black people.

IBM Contributions to Education

Black institutions receive more than 70% of IBM South Africa's contributions, mainly for education and training. The larger contributions are going to:

- "Writing to Read" laboratories at four black teacher-training colleges and 42 black elementary schools. "Writing to Read" is a powerful teaching tool that uses a computer-based system to teach children to read and write. To insure that the laboratories have adequate electricity and space, IBM will provide prefabricated buildings to house them. IBM will eventually supply 250 South African schools with "Writing to Read" labs at a cost of approximately \$10 million, for use by 37,000 black elementary school children per year. Each lab will be equipped to run "Writing to Read" programs, IBM typewriters, and audio-visual equipment.

- The IBM video education project, a \$2.7 million contribution to prepare and distribute videotape materials in general science, biology, and mathematics for the benefit of teachers and students in black high schools, with the full cooperation of the Department of Education and Training. More than 250 videocassette lessons, with workbooks, have been developed and distributed to all black non-vocational secondary schools in Soweto and to three teacher-training colleges. Videotape players are also being donated. This project is having a multiplier effect since 42 other companies have become involved in the extension of this program to 70 additional schools throughout South Africa. Copies of the videotapes have been given to a television station in Bophuthatswana, which will broadcast them in black communities.
- The Pace Commercial High School, where IBM has joined with other U.S. businesses through the American Chamber of Commerce in South Africa, to fund a private, coeducational school for 600 students in Soweto. Construction began in June 1980, and the school's first enrollments started in July 1981. The school is also being used for adult education and as a community center. IBM has contributed \$329,000 toward the capital cost of the school, furniture, equipment, and for scholarships.
- The Funda Center Library in Soweto. IBM is contributing more than \$1 million over five years toward the capital and operating costs of a library that will serve the black teacher community and black university students.
- The Molapo Technical Training Center for high school teachers and students in Soweto, where IBM has donated a lab for teaching basic electrical and electronic skills.
- The first postgraduate business center for blacks, established by IBM in 1982, in cooperation with the Graduate School of Business of the University of Witwatersrand. Approximately 30 black graduates attend the yearlong course, which is designed to better prepare them for careers in business and industry.
- Operation Upgrade, the organization that trains black instructors in a special technique for teaching black adults to read and write. IBM has donated equipment and funds.
- Dloko Higher Primary School, a black school near Durban. IBM has helped provide funds for instructors, books, and buildings, and supports evening adult education sessions. This effort was the forerunner of a program called "Adopt-A-School," under which participating companies, including IBM, are helping more than 250 black schools.
- An external scholarship program, under which more than 200 university and high school students received IBM scholarships in 1984. These include teacher-training scholarships.

IBM has cooperated in efforts to bring young, primarily black South Africans to the United States for study and work experience. This has been done through:

- The Institute of International Education, a nonprofit organization that administers a "South African Education Program," to which IBM contributes. Several black students have worked at IBM sites in the United States as part of their academic programs. These sites include Raleigh, North Carolina; Greencastle, Indiana; and Rochester, Minnesota.
- The United States-South African Leadership Exchange Program.
- The Association of International Study in Science, Economics, and Commerce.

IBM Sales and U.S. Trade Restrictions

Government accounts yield a small portion of IBM's revenues in South Africa. IBM computer applications, in both the public and private sectors of South Africa, are those usually found in commerce elsewhere.

It is IBM's policy not to bid for business where it believes its equipment would be used to abridge human rights or for repressive purposes. We know of no case where it is so used. However, it would be misleading to suggest that any manufacturer can control how its products are used. To our knowledge, no IBM equipment or people are involved in the issu-

IBM also has made contributions to other programs and institutions, including:

- The Inanda Seminary near Durban, where the company has donated two 30-person classrooms and facilities for training black secretaries, and where it continues to give scholarships.

ance and monitoring of the passbooks that South African blacks are required by law to possess.

Today, our industry is being guided by technology improvements that enable us to build smaller, more powerful computers for less money. We sell thousands of small computers through an expanding network of internal and external channels. In such a high-volume business, where many computers are sold by third-party dealers, it is increasingly difficult to know who bought the machine or how it is being used. In South Africa, we do not sell to the police, prisons, military, agencies for national security, the Department of Cooperation and Development or the Department of Home Affairs. We require each third-party dealer to sign an agreement to abide by these restrictions.

IBM abides by all U.S. Government export regulations on the sale, shipment, and delivery of data processing and word processing equipment to and within South Africa. The company continually monitors all changes in the regulations and reviews internal operational controls to assure compliance.

IBM and Black Entrepreneurship

IBM South Africa is active in working with and developing black, Asian, and colored enterprises through purchases of services and equipment, deposits in the black African Bank and membership in the National African Chamber of Commerce.

J. F. Akers' Article in The New York Times

John F. Akers, president and chief executive officer of IBM, wrote an article which appeared in *The New York Times* on March 27, 1985, on the opinion-editorial page. Mr. Akers said people who call for companies to withdraw from South Africa overestimate the impact such action would have on the government in that country. He added that those same people "often underestimate how economic activity can generate social change.

"Business people are not social reformers in disguise," he said, "but economic activity does have profound social effects, direct and indirect, that enhance the climate for change."

Mr. Akers said it is no accident that pressure against apartheid often comes from South Africa's white

businesses. "Any business community needs well-educated employees, and all businesses want the largest number of customers possible. Both considerations give business a strong interest in opposing government policies that limit human potential and restrict freedom."

To illustrate his point that American companies do challenge discrimination head-on, Mr. Akers quoted from a recent speech by Jack F. Clarke, managing director of IBM South Africa, who said: "The laws affecting the right of a person to sell his labor must be abolished...Laws which force a person working in a first world environment at the office to return to the deprivations of a third world climate at night must be changed."

Mr. Akers pointed out that IBM could leave South Africa with "very little financial sacrifice," but said the company is convinced that "the right thing to do is to remain and redouble our efforts to advance social equality." He urged other foreign companies with operations in South Africa to do the same and to honor the principles set forth and recently amplified by the Rev. Leon Sullivan, which call for businesses to actively work for change in South Africa. Mr. Akers said: "Only a truly international corporate effort can make a difference."

International Business Machines Corporation
Corporate Headquarters
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April 1985

THE JOURNAL OF BUSINESS
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Think
The IBM magazine



**South Africa. How IBM
works to achieve both
business success and social
responsibility there.**

The art of the possible

Practicing it in South Africa is the road to business success as well as social progress.

For a decade, American companies with facilities in South Africa have been embattled on two fronts. At home they face accusations that their presence supports a white minority government dedicated to apartheid, a program that rigidly enforces the separation of South Africans by color and race. In South Africa, they are often hampered by a bureaucracy wedded to the status quo.

The business community here largely agrees on an imperative that cuts across racial, political and economic ground: In the longer term, the economy's success, if not its survival, is possible only with better training and education of blacks, along with improved living conditions and their equal treatment as employees.

It is this hard economic fact, more than altruism, that prompts so many of the influential business and civic leaders of all colors here to support peaceable attempts at broadening the sharing of material and political privilege.

The leader of the Zulu nation, Chief Gatsha Buthelezi, recently told an American business representative:

"Working in industry gives the black

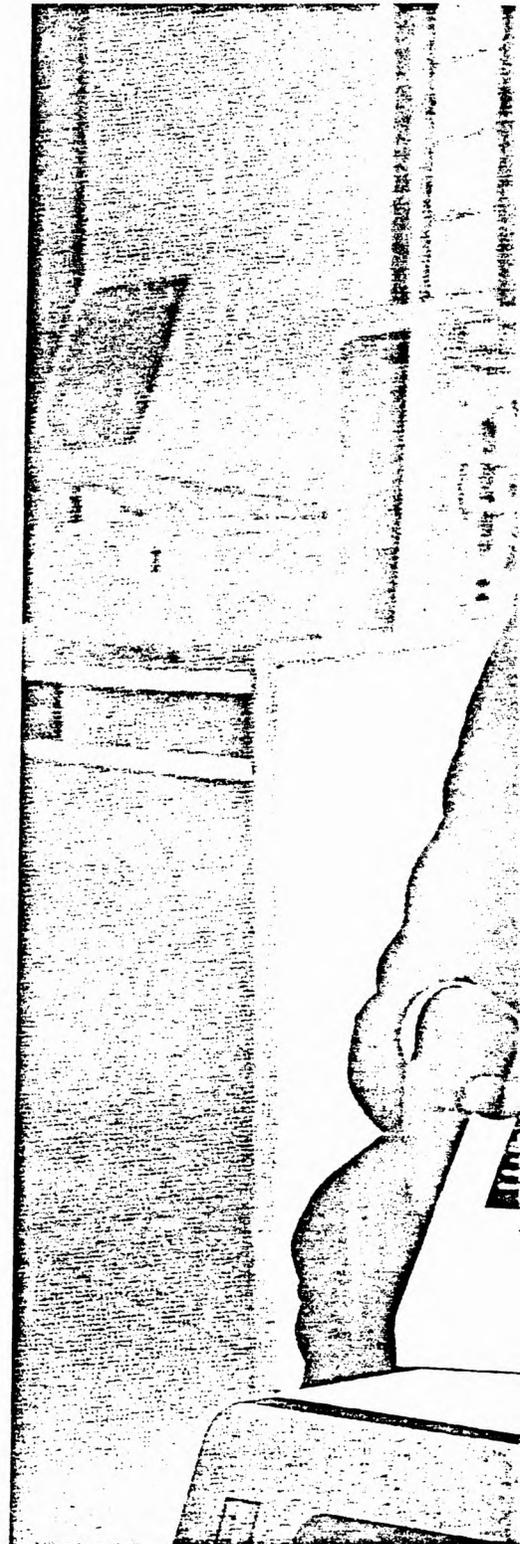
man the training and experience he will need to assume his rightful place in our country—just as he did in yours."

Michael Corke is headmaster of St. Barnabas, one of the few multiracial private schools in South Africa. Of its 300 students, 90 percent are nonwhite, several of them supported by IBM scholarships. (In all, IBM dispenses scholarships to 160 nonwhites.)

"The first real cracks in the wall of apartheid will be in education and employment," Corke has stated. "It is simply in the nation's own enlightened self-interest. There aren't enough whites around to meet the needs of commerce and industry for qualified professionals."

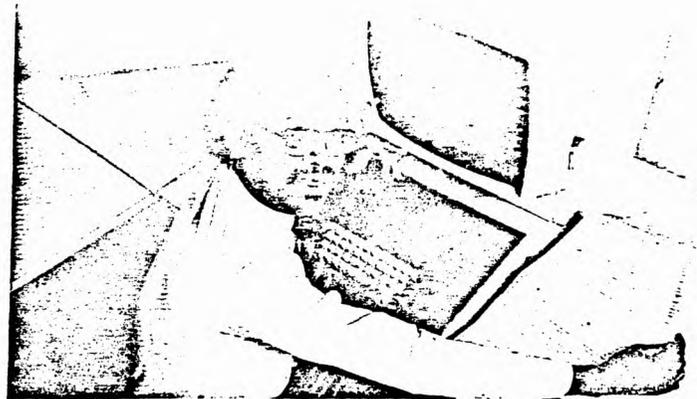
The imperative remains, though the last two years have been trying ones of economic recession, which has slowed growth, earning rates, hiring and career opportunity. The longest drought in living memory has placed additional burdens on the economy. For the first time, South Africa has become an importer of grain rather than an exporter.

Private lobbying petitions to government in behalf of black development



Khaya Ngqula, left, dealer support specialist, and Reginald Moss, associate marketing rep, with a 3279 terminal keyboard.

Lucas Sebobe is a shift manager at IBM's information center in Rosebank, a Johannesburg suburb.



have mounted over the past six years, led principally by American firms and such liberal South African companies as the Anglo American Corporation. For the first time in decades, the government is spending more on education than on defense, and has voted more money for black education and training.

But such steps remain inadequate, mainly because of the poor quality of black teacher training, and the continuing, rapid increase in the number of pupils. This is why IBM has chosen to make aid to black education the lion's share of its contributions here. Over the past six years, that aid has amounted to several million dollars.

At 33 black high schools in Soweto, Durban, Cape Town and Port Elizabeth, 255 videotaped lessons in mathematics, physical science and biology, produced by IBM, are shown on TV

screens. The lessons have been taught to thousands of blacks, teachers and students alike.

IBM supplies the TVs and videocassettes, as well as, in some instances, portable generators to power the equipment at schools lacking electricity. These teaching aids are also being employed at six teacher training facilities. Allocating \$2.7 million to the project, IBM has influenced 42 organizations to equip 70 other schools similarly. Educational TV is also in the works.

English is the primary business language here. Since 1979, parents have been able to select education for their children, from the fifth grade, in either English or Afrikaans. But thousands of blacks aspiring to business careers still find the need to communicate in English, often the equivalent of a foreign language, a barrier to success.

To help compensate for such educational inadequacies, IBM gives nearly \$400,000 each year to a postgraduate business center at the University of the Witwatersrand in Johannesburg. The grant sponsors a year-long personal development program for more than two dozen degree-holding blacks. To help overcome additional obstacles posed by the disciplines of a professional business environment long denied blacks, the program also orients the students to futures in commerce and industry.

The Urban Foundation, a coalition of business and civic leaders, black and white, was formed after the 1976 Soweto riots to improve black conditions.

One of the Foundation's projects is a Soweto campus, known as FUNDA, to serve black teachers, students, cultural and community groups. The library is fully sponsored by IBM at a cost of more

IBM in South Africa. What's right also works.

Founded in 1952, IBM's South African sales and service organization grew steadily into the company of nearly 1,800 people it is today, as hard-working and professional as any to be found. Beginning with the social upheavals of the 1960s, its management also had to learn how to become expert in matters of social responsibility. Today, IBM South Africa spends nearly three times as much of its yearly gross earnings on corporate responsibility as the company's worldwide average.

IBM's strict compliance with U.S. government restrictions on trade with South Africa has been assured by continual company review over the years. Though it is difficult for any manufacturer to control the uses of its products, IBM's policy is not to bid for business anywhere in the world where it believes its equipment would be used for repressive purposes.

IBM was among the first 12 compa-

nies in South Africa to subscribe to The Sullivan Principles. This business code, drawn up by the Rev. Leon Sullivan of Philadelphia, a black Baptist minister, civil rights leader and General Motors Corporation director, requires that American businesses in South Africa:

- Treat equally all employees, of whatever color, in pay, use of facilities, and career opportunities.
- Make special efforts to improve the quality of employees' lives outside the work environment—in housing, transportation, schooling, recreation and health.

Participating companies report that their expenditures in those areas increased from \$1.8 million in 1978 to \$48.7 million in 1983, in constant 1983 dollars.

Year after year, IBM South Africa has achieved the highest ranking in voluntary compliance with the Sullivan

Principles. Those marks are issued by Arthur D. Little Inc., a Cambridge, Mass., consulting firm retained by the Sullivan signatories to evaluate the companies' progress.

The 1983 reports show that the American signatories or endorsers of the Principles employ 71 percent of all those who work for the 350 U.S.-based companies in South Africa. The Sullivan signatories, according to the reports, have given \$78.5 million to black education, health, welfare and training in entrepreneurship.

The companies issuing Sullivan progress reports in 1983 employ 66,175 people: 28,684 blacks, 24,732 whites, 10,665 "coloreds," of mixed racial origins, and 2,094 Asians. Of those companies, the audit rated 29 as "making good progress," 38 as "making progress," 32 as "needs to become more active," and nine which did not pass basic requirements.

than \$1 million.

IBM's encouragement of its employees to "adopt a school" is everywhere in evidence. Volunteer employee teams of all races sponsor grade schools in black urban areas, with IBM funds selectively used on improvement projects.

The pride of American business in South Africa is PACE College, a commercial high school in Soweto, the black urban township near Johannesburg. It was proposed by IBM in 1978 and adopted by the American Chamber of Commerce here—an organization of 275 companies, of which 90 are South African. PACE is maintained by 250 companies today, with IBM's donations amounting to nearly \$350,000. The education being offered its 500 students (600 next year) is at a level judged equal to that of any high school in South Africa, including white. Last February, a

new wing of PACE was dedicated by IBM President John Akers.

Not all are scholarship students. If parents can afford the tuition, they pay. Rex Pennington, the school's headmaster, who spent his career in teaching "the privileged white," as he puts it, said he had never witnessed such student motivation.

"Strict disciplining has been quite unnecessary," he says. "All I have to do is tell a student not trying his or her best that I shall discuss the matter with the parents. The parents see the school as the surest gateway to a good future for their children. They have absolutely no tolerance for a child not making the most of this opportunity."

In 1978, IBM was already pioneering in guaranteeing housing loans to its black employees through a black bank. Thirty-five attractive, electrified

homes, equipped with modern appliances and plumbing, had been remodeled by IBM employees. There are more than 80 such homes, and, thanks to the Urban Foundation and other private sector organizations, thousands of similar black homes in black urban areas.

As the State came to accept it could not meet housing demands, it encouraged the further participation of the private sector. Last year, for example, the government agreed to subsidize 500,000 rented homes in black areas to their occupants at affordable prices, and to direct the capital to community services.

More streets are being paved, etc. More sewage, water and electricity lines are going in. Playgrounds, theaters and supermarkets sprang up among the still dreary acres.



Left: John Magill, IBM South Africa's manager of public affairs, stands with Arthur Sebudi, an IBM Scholarship student at the University of Witwatersrand in Johannesburg. IBM South Africa annually awards 160 scholarships to nonwhites.

Above: At the same university, black graduate students spend a year studying for business careers begun by IBM, the program of which has enlarged as other companies become sponsors.

dardized housing.

Along with conceding the permanency of the blacks in the urban areas, Pretoria (administrative seat of government in South Africa) has repealed the laws that reserved skilled jobs for whites and now recognizes black trade unions.

IBM's policy of equal pay to all employees for equal work predated the business codes much of the business community here lives by today.

In 1978, nonwhites were already nearly 17 percent of the company's 1,443 employees (177 black). Now they are 21 percent, including 270 blacks, of a company larger by 350 people. A five-year plan is shooting for an even larger nonwhite percentage. Nearly 32 percent of the nonwhites are now in exempt, or skilled, positions, including 11 managers.

In part because IBM spends hundreds of thousands of dollars on black education, scholarships and training, nearly 90 percent of IBM's 270 black employees have the U.S. equivalent of a high school diploma, with 37 percent holding university degrees.

Marketing problems for IBM employees of all races resemble those elsewhere, in most ways. Mike Nguyuzza, a marketing rep, when asked what it meant for a black to be selling to white customers in Johannesburg, gives an answer that might be heard anywhere in IBM these days. His problems, he says, have mostly to do with the ability of discount stores to buy IBM products at volume discount and undersell him.

Is any prejudice evident against doing business with a black IBMer?

"Of course," replies Khaya Ngqula, another black marketing rep who spent

a year of training in the States. "About five percent of those I call on seem not to like me. But in the States, I realized that in any branch office a marketing rep is going to meet five percent of the public which doesn't like him—maybe because he's Irish, Polish, Italian, or the way he looks or talks. You live with it."

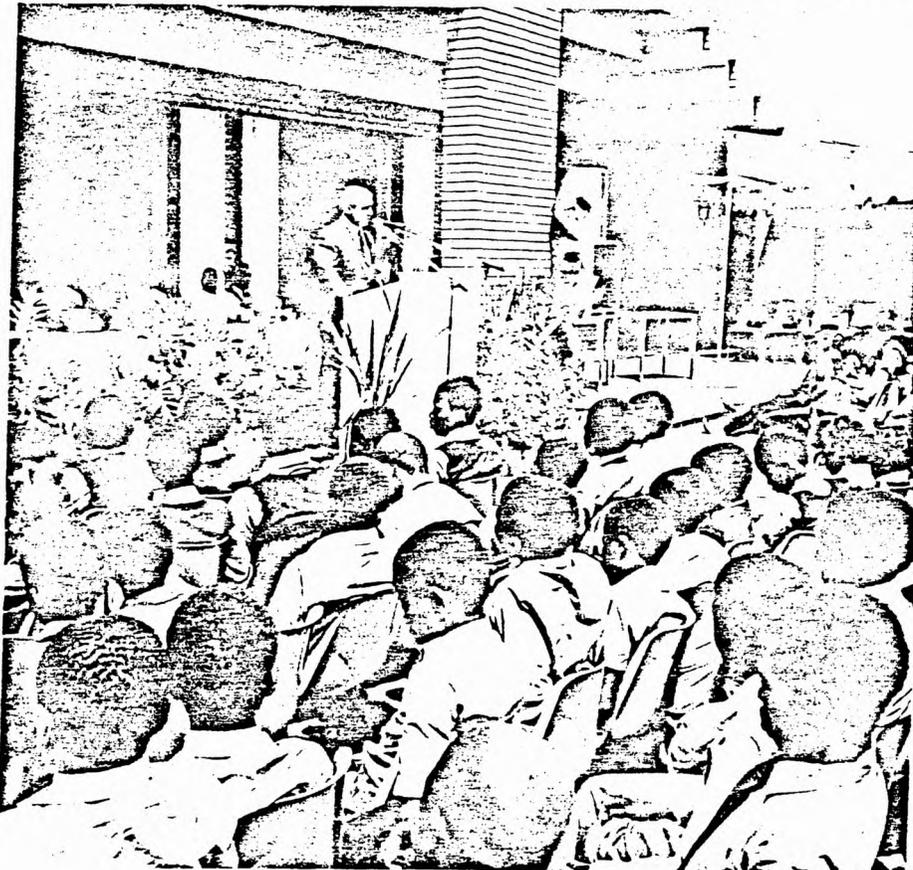
Does American criticism of South Africa help the thousands here working toward a fairer distribution of political power and wealth? Many urban black leaders reply with a qualified yes.

Dr. Nthato Motlana, with a medical degree from the University of the Witwatersrand, organized black doctors to improve health services in African townships and to raise funds for African medical scholarships. As the chairman of The Committee of Ten in Soweto, his counsel is sought by everybody from his neighbors to visiting U.S. senators.

"Change cannot take place in a stable society," he says. "I have no belief that the present government will share power with the blacks. What will happen here will be an internal matter, and not the result of any outside country or organization. But such change requires the kind of instability—an unacceptance of the status quo—that world opinion can help foster."

Are foreign businesses contributing to that kind of instability, or shoring up the status quo?

Dr. Motlana shrugs and smiles. "They don't and cannot contribute toward the kind of instability that will lead to structural change, but as long as the present state of things exists, I believe we are better off with them than without. If American companies withdraw, for example, others will take their place—foreign companies with no tradition of social responsibility at all." ■



Earlier this year, IBM President John Akers dedicated a new wing of PACE Commercial College, a black high school in Soweto, to which IBM has given nearly \$350,000.



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