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BLACK ECONOMIC EMPOWERMENT AND FIRM COMPETITIVENESS

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Abstract

A nation's competitiveness depends on the capacity of the nation's individual firm's operating within various industry clusters to continually innovate and upgrade at a pace faster than firm's in competing nations. The nature and sophistication of local demand is an ingredient to stimulating innovation within local firms. Intense local competition can also lead to an advanced industry cluster, while government policies can also stimulate or stifle competition. The South African government introduced Broad Based Black Economic Empowerment (BBBEE) legislation commonly referred to as BEE as a means to stimulate the participation of the previously sidelined black population in the mainstream economy with the objective of upgrading the size and nature of local demand while reducing poverty and inequality. This study is exploratory in nature and investigates the notion that most black owned companies emerging under the period of this BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition. Insight drawn from the study was used to develop recommendations to key stakeholders.



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DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirement for the degree of Masters in Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

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1.0 INTRODUCTION

1.1 Background

The legacy of apartheid is a legacy of inequality – economic inequality, social inequality, and political inequality – and especially the unequal evolution of South Africa’s political culture (Gibson, 2003). Apartheid systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy. The assets of millions of people were directly and indirectly destroyed and access to skills and to self-employment was racially restricted (DTI, 2003). The wealth accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today, in essence, still excludes the vast majority of South Africans (DTI, 2003). The South African economy faces an economic and social transformation challenge. On the economic front, they need to grow the economy by at least 6% per annum while socially, ensure that the growth proceeds are largely distributed to the societies that apartheid disadvantaged.

The government of South Africa’s strategic response to the socio-economic transformation challenge was through the introduction of the Broad Based Black Economic Empowerment (BBBEE), commonly referred to as BEE (Black Economic Empowerment), as necessary intervention to accelerate the process of increasing black people participation in the mainstream economy. The government states that BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities (DTI, 2003).

However, critics of BEE legislation are of the notion that ***“most black owned companies emerging under the period of BEE legislation will collapse when the***

legislation is removed as they have not been exposed to unprotected competition,” where the government plays no preferential supportive role. Meintjies (2004) article which discusses the criticism leveled against BEE asking if its “elite enrichment or real transformation”. OAVM Organisation and Consultancy (2007) an established company specialized in working for work councils with emphasis on human resource management on their website also state some of the criticism against BEE. Minister Jeff Radebe at the NAFCOOC conference in Mmabatho in the North Western Province speaking on the topic of “Facilitating Black Economic Empowerment” also raised some of the concerns surrounding the process of BEE (Department of Public enterprises, 2003). The criticism leveled against BEE has created the notion this study aims to explore.

Literature review and history on economic development suggests that government intervention in helping a particular group of individuals or sector can only hurt the competitiveness of the companies or individuals that are targeted for support and only create demand for more help. Porter (1996, p. 184) suggests that “governments proper role is as a catalyst and a challenger; it is to encourage-or even push-companies to raise their aspirations and move to higher levels of competitive performance”. Other literature suggests that the higher inequality drives economic growth. The Harrod-Domar Model (1946-1997) predicted greater inequality would lead to higher growth rates. The model arises from the assumption that a larger share of initial income being in the hands of the “rich” (who save and invest) rather than the “poor” (who use income mostly for consumption purposes) would promote capital investment leading to economic growth.

The long term goal of South Africa’s government is to have an economy that is controlled by the majority of the population and the firms owned and controlled by the majority being competitive in order to sustain economic prosperity. The question that the policy makers ponder about is whether the emerging black owned companies emerging under the period of this BEE legislation will collapse when the legislation is removed as they will have built their strategies around the support of BEE legislation.

To achieve this, the study will explore if BEE is being successful in creating black owned firms that can compete in the local market against international firms when (or if) the BEE legislation is removed.

The corporate diversification of most of these black owned firms resulting in the formation of large black owned companies involved in almost all industries of the South African economy is being regarded as a symptom reflecting the lack of competitive insight or skills of the black elite in the business units they have acquired hence they rather take easier opportunities to purchase equity in any other white owned company that is desperate to comply with the BEE legislation. The implications of this to the economy are expressed through the following two pertinent questions;

- i. Are the emerging black owned companies capable of competing post BEE legislation, and
- ii. How is the current form of BEE legislation impacting the future competitiveness ability of these black owned firms and of that of the nation as a whole?

In order to perform a successful study in exploring the notion that *“most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition”*. Using existing literature on the broad subject of economic development and competitiveness, questions were designed to dig deeper into the reasons why this notion exists.

An exploratory qualitative technique was used as it would provide data with depth and detail through direct quotation and careful description of situations, events, interactions and observed behaviors (Labuschagne, 2003). Telephonic interviews, face-to-face interviews, and archival interview documents were used as instruments to collect the data. The grounded theory technique was used to generate codes for repetitive themes in the data. The codes were then used to classify and analyze the data as per categories of the common themes. Insight drawn from the study was used to develop recommendations to key stakeholders.

1.2 Research Problem

The problems that this study seeks to provide answers to as alluded to in the introduction are the concerns that if Black Economic Empowerment is left in its current form might stifle economic growth of South Africa, and in the long-term weaken the competitiveness of South African firms competing against international firms either in local or foreign markets. The two pertinent questions around this problem are;

- i. Are the emerging black owned companies capable of competing post BEE legislation, and
- ii. How is the current form of BEE legislation impacting the future competitiveness ability of these black owned firms and of that of the nation as a whole?

1.3 The Research Questions

The research questions that were designed to explore the notion that says most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition. The questions were as follows;

- 1) Is BBBEE the cause for diversification of black business into unrelated industries rather than focusing own core business growth?
- 2) Black business owners are just opportunistic and not strategic?
- 3) Black business owners are not acquiring operational business skills since they are not involved in the day-to-day operations?
- 4) Black businesses will not survive competitively in foreign markets or when BBBEE is abolished?

- 5) Is BBEE is actually bad for these black owned companies so it should be abolished?

1.4 Research Objectives

The objectives are to establish the merits for the notion that most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition. To assess the validity of the notion the research questions were designed with the objective of establishing the following;

- 1) Is corporate diversification of black owned firms being caused or driven by the BEE legislation?
- 2) Is the corporate diversification opportunistic or part of well crafted strategy?
- 3) Whether empowered black business people are operating at business unit level or corporate level?
- 4) If the empowered black people are acquiring skills at the business unit level and not only corporate level of the firm?
- 5) To establish if there are shortcomings to the current form BEE legislation in developing competitive firms and draw out areas for recommendations for improvement.

The findings from the study were consolidated and discussed in chapter 5 and 6. Chapter 7 draws on the conclusion and the authors recommendations.

2.0 LITERATURE REVIEW

2.1 Overview

This first section of the literature review focuses on key concepts that help give some direction on defining what makes nations competitive and ultimately lead to sustainable economic development. Also this section will try to introduce the debate around the role of the government in making the nation more competitive. The literature review will discuss the following key areas that are pertinent to this study;

- i. Competitiveness and Economic Development of a nation:
- ii. Assess the relationship between Economic Growth and Inequality
- iii. Globalization and its Implications to Economic Development
- iv. The legacy of Apartheid and its implications to Policy Development
- v. The role of Small to Medium enterprises and Entrepreneurship to Economic Growth
- vi. Black Economic Empowerment & Affirmative Action role in Economic Development
- vii. Corporate Diversification Versus Business Unit Strategies in the context of Competitiveness

The literature covered was used in the development of questions to use in the interview schedule to study the notion that *“most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition”*.

2.2 Competitiveness and Economic Development

Porter (1996, p. 184) suggests that “governments proper role is as a catalyst and a challenger; it is to encourage-or even push-companies to raise their aspirations and

move to higher levels of competitive performance”. Development is about transforming the lives of people, not just transforming economies (Stiglitz, 2006).

Porter (1996, p. 160) advocates that the only meaningful concept of competitiveness at the national level is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens (Porter, 1998). The ability to do so depends on the productivity of with which a nation's labour and capital are employed. Productivity is the prime determinant of a nation's long run standard of living; it is the root cause of national per capita income (Porter, 1998).

National prosperity is created, and not inherited. It does not grow out of a country's endowments, its labour pool, its interest rates, or its currency's value, as classical economics insists (Porter, 1998). In the sophisticated industries that form the backbone of any advanced economy, a nation does not inherit but instead creates the most important factors of production such as skilled human resources or a scientific base. Moreover, the stock of factors that a nation enjoys at a particular time is less important than the rate and efficiency with which it creates, upgrades, and deploys them in particular industries (Porter, 1998).

A nation's competitiveness depends on the capacity of its industry to innovate and upgrade (Porter, 1998). Companies gain advantage against world's best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home based suppliers, and demanding local customers (Porter, 1998). National circumstances and context create strong tendencies in how companies are created, organized, and managed as well as what the nature of domestic rivalry will be (Porter, 1998). The presence of strong local rivals is a final, and powerful, stimulus to the creation and persistence of competitive advantage (Porter, 1998).

Home-demand conditions help build competitive advantage when a particular segment is larger and more visible in the domestic market than in the foreign market. The larger market segments in a nation receive the most attention from the nation's companies;

companies' accord smaller or less desirable segments a lower priority (Porter, 1998). A nation's companies gain competitive advantage if domestic buyers are the world's most sophisticated and demanding buyers for the product or service. Sophisticated and demanding buyers provide a window into advanced customer needs; they pressure companies to meet high standards, they prod them to innovate, and to upgrade into more advanced segments (Porter, 1998).

A nation's standard of living depends on the capacity of its companies to achieve high levels of productivity – and to increase productivity over time (Porter, 1998). Sustained Productivity growth requires that an economy continually upgrade itself. Companies within the nation must develop the necessary capabilities to compete in more and more sophisticated industry segments, where productivity is generally high. They must finally develop the capability to compete in entirely new, sophisticated industries (Porter, 1998).

With these broad concepts mainly from Porter (1998) and Stiglitz (2006), the next section will move into drawing the linkages between economic growth and inequality and discuss the debates around the positive or negative relationship between them.

2.3 Linkages between Economic Growth & Inequality

One of the challenges that national government's have is to spur economic growth but at the same time reduce inequality and poverty. There have been debates in the economics of national development about whether there is a "positive" or "negative" relationship between "economic growth" and "Inequality". These debates are quite instrumental in understanding later on in this research the policy position that the South African Government has taken when it comes wealth redistribution and poverty elimination. Further to the arguments that are raised for and against the type of policy intervention, would seek to establish the views that economists have on enterprises that emerge under such policy interventions and their ability to grow beyond the ambits of that policy support.

Prior to the 1980's, prevailing arguments were that higher inequality would lead to higher economic growth. In the 1950's and 1960's, economists such as Kaldor and Simon Kuznets argued that there is a trade-off between reducing inequality and promoting growth (Forbes, 2000). The Harrod-Domar Model (1946-1997) predicted greater inequality would lead to higher growth rates. The model arises from the assumption that a larger share of initial income being in the hands of the "rich" (who save and invest) rather than the "poor" (who use income mostly for consumption purposes). However, the Harrod-Domar Model was repudiated as a growth model forty years ago by its creator, so it's ironic that Domar's growth model became, and continues to be today, the most widely applied growth model in economic history (Easterly, 1997).

Aghion, Caroli and Garcia-Panalosa (1999) state in their article that the conventional textbook approach is that inequality is good for incentives and therefore good for growth, even though *incentive and growth considerations* might (sometimes) be traded off against equity or insurance goals.

Perroti (1992) emphasizes the role of credit constraints. Using the loan-to-value ratio for domestic mortgages as a proxy for credit availability, he finds greater credit availability has a positive and significant effect on the growth rate. Moreover, as the income share of the lowest two quintiles decreases, the impact of credit availability growth increases. Goudie and Ladd (1999) take the argument further on the negative impact of inequality on growth rates. In the context of developing countries, Goudie and Ladd (1999) suggest that the nature of this effect is usually suggested through either of the following two channels;

- i. Credit Market imperfections arising from asymmetric information prevent the poor from taking up productive investment options, particularly relating to human capital. Greater inequality implies greater number of poor and typically credit constrained people, leading to a stifled capital base and low growth.

- ii. A number of political-economy models have been developed in which inequality feeds into the policy portfolio adopted by the incumbent government. This leads to distortionary interventions in the economy, which result in lower growth rates. One suggested dynamic is that, as the median voter's distance from the average capital endowment in the economy increases, there is likely to be more support for a higher tax rate. This serves to reduce incentives for investment in capital, and hence lower growth.

Persson and Tabellini (1994) stated one view that says economic growth is largely determined by the accumulation of capital, and knowledge usable in production. The incentives for such productive accumulation hinge on the ability of individuals to appropriate privately the fruits of their efforts, which in turn crucially hinges on what tax policies and regulatory policies, are adopted. They further argue that in a society where distributional conflict is more important, political decisions are likely to result in policies that allow less private appropriation and therefore less accumulation and less growth.

Taking this argument to the South African context, Department of Trade and Industry (DTI) (2003) states "those societies that are characterized by racially or ethnically defined wealth disparities are not likely to be socially and politically stable". The process of Black Economic Empowerment seeks to accelerate the deracialisation of the South African economy and fast track the re-entry of historically marginalized communities into the mainstream of the economy. The paper goes onto mention that a more equitable economy will benefit all South Africans, individuals and enterprises (DTI, 2003).

South Africa's inequality gap as measured by the Gini Coefficient is 0.6. The Gini coefficient varies between 0 and 1 - the closer to 1, the more unequal a society; the closer to 0, the more equal a society (Human Sciences Research Council, 2004).

These arguments are very helpful as a starting point in understanding the basis of affirmative action policies in developing nations, especially the previously colonized or

minority ruled countries where inequality and poverty are very high and developmental goals are pushing for higher growth. Having established some of the dominant views on economic growth and inequality, we can start forming a basis of understanding to why the South African Government has taken a policy position that aims at redistributing wealth to the marginalized black society. Further on building on some of these arguments or views on economic growth and inequality, we will seek to understand what strategy and growths means at a firm level and in line with the objectives of this research, establish if these black owned firms have any growth strategies beyond capitalizing on the incumbent affirmative policy.

2.4 Globalization and its Implications to Economic Development

Globalization is at the center of many challenges that national governments have especially third world or developing nations. It becomes a very pertinent topic in our research as we need to understand the impact of government's affirmative action on the relationship between South Africa and multinational companies (MNC) who are or trying to invest in South Africa. This section focuses on defining Globalization and understanding its impact to local firms and in the long-term the sustainability of affirmative policies as the country increases its openness in relation to its trading partners.

Wolf (2005) defines Globalization is the integration of economic activities, across borders, through markets. This means that globalization tends to erode or bypass the previous boundaries defined as national boundaries in which trade barriers were imposed, closing the national economies. National economies economic activities used to operate in isolation and competition was largely internal within these boundaries. Wolf's definition also expresses that the economic integration of these previously closed economies aided by markets i.e. stock market, foreign currency markets. Wolf (2005) also states that globalization is a phenomenon by which economic agents in any given part of the world are much more affected by events elsewhere in the world

than before. This statement also supports his definition of integration of economic activities across borders.

The key to understanding globalization is to define the underlying drivers or the causes. Many economists agree on the drivers of globalization although some single out technology as the main driver. Wolf (2005) wrote in his paper that “technology determinism is exaggerated. But the driving forces are technological and policy changes”. The resultant of this change has led to falling costs of transport and communication and greater reliance on market forces. Thus as distance becomes less of an issue and communication increases, globalization takes its toll faster.

Gray (2002) states that globalization comes about as a result of the elimination of technical obstacles to worldwide production and not as a consequence of policies such as market deregulation or political development such as the fall of Communism which is almost in contrary to Wolf who claims it is a combination and says the driving forces are regulatory competition, Internal representation and moral reform. These views contradict themselves in the sense of causality of globalization.

Globalization has worked for other countries and not for others and the difference has been in how countries have implemented policies aimed either at reaping benefits or defending their fundamentals as a society. Stiglitz (2006) discusses nations that have been successful and not. He puts a strong argument that for globalization to work for a country, there need to be high levels of property security. This will give rise to foreign direct investments cash inflows as the market can readily invest and keep investment in country. He gives examples of Poland & Slovenia who joined Europe which had a legal framework that reassured investors and the consequently accessed a huge market combined with their low wages and highly educated workforce had distinctive advantage. In contrast, Russia’s privatization failed as property insecurity was high and led to massive disinvestment and profit retention outside Russia. He also states development is about transforming lives of people not just economies and also is

achieved using a right mix of government policies and market forces as opposed to only one force.

Desai (2000) states that Globalization is a result of human actions and not human design. He says “globalization is a result of a wave of innovations and a compulsion to restore profitability on the part of many capitalists. A self organizing process not designed by anyone but as an incessant seeking for profits in gale of creative destruction. In other words, globalization is a result of a mix of human designs with a particular intent but through the interactions of these designs as each capitalist design tries to optimize its objective, a totally different result comes out.

With the understanding of globalization and its impact, the question that we raise is what strategies are the black owned firms have to participate in the long-term in more globalized economy where affirmative action policies don't matter?

2.5 Legacy of Apartheid

Every country has a unique history and this history is very important in understanding certain economic policies that a government might enforce. The case in context, South Africa, has a very unique history of apartheid which is argued to have created the massive inequality gap as measured by the Gini coefficient of 0.6. In this section we delve briefly into what apartheid is believed to have created in South Africa.

The legacy of apartheid is a legacy of inequality – economic inequality, social inequality, and political inequality – and especially the unequal evolution of South Africa's political culture (Gibson, 2003). Department of Trade and Industry (DTI) (2003) published the government's strategy for Black Economic Empowerment. The article states that apartheid systematically and purposefully restricted the majority of South Africans from Meaningful participation in the economy. The assets of millions of people were directly and indirectly destroyed and access to skills and to self-employment was racially restricted (DTI, 2003).

The accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today, in essence, still excludes the vast majority of South Africans (DTI, 2003)

A job reservation policy was reinforced by a vastly inferior education system and this had devastating effects on skills and the positions that the majority of workers obtained in the labour market (DTI, 2003). Only a small minority gained access to higher education. Technological and professional careers were made less attainable by chronic inadequacies in the teaching of mathematics and sciences in black schools. Millions of South Africans had been particularly poorly equipped for a modernizing industrial and commercial economy (DTI, 2003).

When the economy adjusted in the 1990's to re-enter the global markets and became more competitive the harsh reality has the displacement of these same poorly equipped black workers (DTI, 2003). This has had a severe distorting effect on income distribution, the levels of effective demand for goods and services in the economy and the ability of displaced and retrenched workers to generate self employment (DTI, 2003).

While much has been achieved, the extent to which the majority of black people participate meaningfully in our economy remains far too limited and it is necessary to introduce a coherent and focused strategy for broad-based black economic empowerment (DTI, 2003). It is with this history of what apartheid caused to the majority of black people that we seek to understand what the South African government seeks to redress or what the detractors to the affirmative action policy believe should not be specifically targeted for government intervention as they argue about the negative relationship between economic growth and inequality.

2.6 The role of Small Black Business & Middle Class to Economic Growth

The middle class plays a very important role in the economic development of most nations and it is argued that the income share that this majority or the middle class has will normally have an impact on policy formulation. In this literature review, we seek to develop some basic understanding of the role of the middle class in a developing economy and essentially, understand the government's policy towards creating this middle class with a higher income share.

A middle class consensus is defined as a high share of income for the middle class and a low degree of ethnic divisions (Easterly, 2000). A higher share of income for the middle class and lower ethnic divisions are associated with higher growth, as well as with more education, better health, better infrastructure, better economic policies, less political instability, less civil war and ethnic minorities at risk, more social "modernization" and more democracy (Easterly, 2000).

A large theoretical literature also links small middle class – or other measures of inequality – to low growth and low human capital accumulation (Easterly, 2000). Galor and Zeira (1993) postulate that the poor are "liquidity-constrained" from accumulating human capital; higher inequality implies a greater share of the population will be liquidity constrained and thus the society accumulates less human capital.

The other views that pertinent to this discussion is the view that some economists hold with regards to the entrepreneurial agility of smaller firms being start up by the middle class. Mainstream economists increasingly accept that the fundamental force behind sustained improvement in the standard of living of market economies is *creative destruction*, as described by Schumpeter (1934). In the process of *creative destruction*, the continual emergence of "creative" new ideas underlies the sustained growth of capitalist economies. The ongoing "destruction" of firms that fail to innovate is the less attractive, but essential, aspect of economic growth (Acs and Audretsch, 1991; and Audretsch, 1995) (Acs *et. al.* 1996).

Most giant corporations that dominate the landscape of the emerging global economy began as small businesses (Acs, Morck, Shaver, and Yeung, 1996). Acs *et. al.* (1996) also raise an important question surrounding the innovation ability of small companies. In their article they state that “the employees of a large firm are part of a team. Any innovation belongs to the firm, or at best to the team. This diffusion of *property rights*, along with bureaucratic inertia and other problems characteristic of large firms, dampen potential innovators’ incentives to be creative. Thus, we argue that smaller firms are better at creating radical innovations because they better protect the innovator’s property rights (National Academy of Engineering, 1995).”

These discussions around the middle class consensus and the innovation ability of small corporations which largely stem from middle class start ups is also central to our research in understanding the black owned firms ability innovate and further contribute to the government’s economic development target of developing the middle class consensus.

2.7 Black Economic Empowerment

The policy environment in each country is likely to be of great importance to the actual effects of growth on inequality (Goudie and Ladd, 1999). The existence of a middle class consensus also affects the choice of economic policies. Societies with a middle class consensus will choose policies to promote growth, while societies polarized by class and ethnic group will opt for redistributive policies (Easterly, 2000). South Africa’s middle class share of income is very low

In this section our aim is to get a deeper understanding of the South African Government’s affirmative action policy they have enacted with the aim of redistributing the economic wealth, reducing inequality, creating a middle class consensus and in the long-term set the economy on a more sustainable growth trajectory.

The extent, or effectiveness, of transfers in a well targeted welfare system will feed directly into whether inequality improves or worsens (Goudie and Ladd, 1999). Goudie and Ladd (1999) further argue that an open economy may lead not only to higher growth rates; if exported goods are labour intensive then income distribution may also improve. If exported goods are capital intensive, then the effect on distribution may be negative. Goudie and Ladd (1999) state that there seems to be a consensus surrounding the relationship between growth, inequality and poverty. They deduct the following;

- Economic growth reduces absolute poverty, to a degree depending on how equitable the distribution of income in a society is.
- Economic growth has no predictable impact on inequality in developing countries.

The level of equity in a society is the determinant of growth (Goudie and Ladd, 1999).

Developing these arguments and going to the South African context, the systematic dispossession of black people that has defined South Africa for so long requires an equally systematic response from government in order to achieve redress, particularly in the context of globalization and the need for accelerated economic growth to eradicate poverty in our country. Since 1994 the government has taken many steps to transform the economy and has set the foundation for a focused strategy of broad-based black economic empowerment (DTI, 2003).

DTI (2003) states, “Since 1994 government has embarked upon a comprehensive programme to provide a legislative framework for the transformation of our economy. New laws have restored rights to land and tenure; have proscribed unfair discrimination; and introduced specific active measures to overcome the distortions in the labour market as well provide new economic opportunities to historically disadvantaged persons.” Some of the legislation introduced includes: The Promotion of Equality and Prevention of Unfair Discrimination Act, Extension of Security of Tenure Act, Restitution of land Rights Act, Employment equity Act, National Empowerment

Fund Act, Competition Act, Telecommunications Act, Preferential Procurement Policy Framework Act, and the Minerals and Petroleum Development Act (DTI, 2003).

These publications lead us into the discussion of the black empowerment policies that the government crafted in order to fast track the transformation of the South African economy with the aim of reducing inequality and poverty. The first bill crafted and presented to parliament was called the Black Economic Empowerment (BEE) Bill which was later amended and enacted as the Broad-Based Black Economic Empowerment (BBBEE) act of 2003. DTI (2003) states the following as the policy objectives of South African Government's Black Economic Empowerment (BEE) strategy;

- i. A substantial increase in the number of black people who have **ownership and control** of existing and new enterprises.
- ii. A substantial increase in the number of black people who have **ownership and control** of existing and new enterprises in the priority sectors of the economy that government has identified in its microeconomic reform strategy.
- iii. A significant increase in the number of new **black enterprises, black-empowered enterprises and black-engendered enterprises**.
- iv. A significant increase in number of black people in **executive and senior management** of enterprises.
- v. An increasing proportion of the ownership and management of economic activities vested in **community and broad-based enterprises** (such as trade unions, employee trusts, and other collective enterprises) and **cooperatives**.
- vi. Increased ownership of land and other productive assets, improved access to infrastructure, increased acquisition of skills, and increased participation in productive economic activities in **under-developed areas** including 13 nodal areas identified in the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme.
- vii. Accelerated and shared **economic growth**.
- viii. Increased **income levels** of black persons and a reduction of income inequalities between and within race groups.

BBBEE is a program launched by the South African government to redress the inequalities of Apartheid by giving previously disadvantaged groups (black Africans, Coloureds and Indians) economic opportunities previously not available to them. It includes measures such as employment equity, skills development, targets for ownership, management and preferential procurement (DTI, 2003).

The government states that BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (DTI, 2003). Black Economic Empowerment is a process of assisting and educating previously disadvantaged individuals to enable them to contribute to the economy (EMEX BEE Management system, 2007).

Black Economic Empowerment Commission (2003) stated that BEE is an integral part of South Africa's transformation process, encouraging the redistribution of wealth and opportunities to previously disadvantaged communities and individuals, including blacks, women and people with disabilities. Government Gazette (2004) states that Broad-Based Black Economic Empowerment (BBBEE) Act of 2003's objectives are;

- i. To promote the achievement of the constitutional right to equality.
- ii. Increasing broad-based and effective participation of black people in the economy to promote higher growth rate and more equitable income distribution.

The BEE process will therefore include elements of human resource development, employment equity, enterprise development, preferential procurement, as well as investment, ownership and control of enterprises and economic assets (DTI, 2003). BEE in South Africa has commenced and is growing in volume and in substance. The growing economic pressure from client to supplier for a BEE scorecard is increasing the commitment to a sustainable BEE initiative (EMEX BEE Management system, 2007).

The government has also reoriented many of its incentives and enterprise support measures to promote black economic empowerment. Included in this support are offerings of the DTI and its various agencies, including Ntsika, Khula and the industrial Development Corporation (IDC). In the 2002/3 financial year, total government support to BEE enterprises amounted to R2.2bn (DTI, 2003).

Having developed a basic understanding of the BBEE policy, we move into the next section where we discuss arguments that support or are against affirmative action policies similar to the BBEE policy implemented in South Africa.

It is important to note that in the South African Context, affirmative action speaks to employment equity while Black Economic Empowerment speaks to equity transfer of white owned companies. Our main interest in this study is Black Economic Empowerment (BEE). However it is also critical that we define affirmative action as some of the recommendations of findings might refer to it

2.8 Affirmative Action

Affirmative action is an important and controversial policy used to combat differences between groups in earnings and employment (Coate and Loury, 1993). Affirmative action is a proactive, conscious effort to redress the disadvantages of the past and to increase the representation of marginalized groups of the population in leadership positions in organizations (Visagie, 1999). It is based on artificial affirmative action to create a workforce that is more demographically representative on all levels (Visagie, 1999).

Hays and Reeves (1984) state clearly that affirmative action therefore “prohibits discrimination” and must include “equal employment opportunities for all”. Klinger (1980) refers to “necessary steps in order to hire and upgrade a larger number of

minority group persons”. The concept affirmative action was used by writers (Fisher, 1995; Mafuna, 1993,; Coldwell, 1995) positively to describe a dynamic compensatory process whereby corrective measures and efforts are introduced to include victims and targets of previous discrimination and deprivation (Visagie, 1999).

Advocates for affirmative action say that preferential policies break down negative views about minority (previously excluded) workers by allowing them to demonstrate their capabilities (Coate and Loury, 1993). Economists share the view that one cannot depend only on market forces to solve the problem of discrimination (Visagie, 1999). Economists are of the opinion that discrimination is not a purely subjective phenomenon characteristic of a person’s preference, but a structural characteristic of a community which influences the normal functioning of the market in which SMME’s function (Visagie, 1999).

Critics say that affirmative action forces employers to lower standards, with the consequence that subsequent poor performance by preferred workers will only reinforce negative prejudices (Visagie, 1999). Visagie (1999) states the following as the arguments in favour and against affirmative action. Arguments in favour include;

- i. A policy of affirmative action could help create a diverse and inclusive workplace which could be morally and economically beneficial; for an organization.
- ii. Affirmative action counteracts discrimination.
- iii. Affirmative action compensates for damages caused by discrimination and apartheid.
- iv. Affirmative action diminishes the shortage of schooled workers and is a practical way of providing for the shortage of management skills and schooled labour.

Arguments against affirmative action ((Visagie, 1999) are as follows;

- i. Affirmative action decreases efficiency because standards are lowered.
- ii. Affirmative action decreases productivity. Productivity is the relationship between the output which is earned and the capital and/or labour used as input in the process.

- iii. With affirmative action, appointments are not made on the basis of merit but on the basis of skin colour.
- iv. Affirmative action creates racial tension, since people are made aware of race and colour.

Coate and Loury (1993) raised an interesting question concerning affirmative action regarding whether the labour-market gains it brings to minorities can continue without it becoming a permanent fixture in the labour market without becoming a permanent fixture in the labour market. The other interesting point raised by those in favour of affirmative action is that the previously advantaged society (elite) under both high inequality and high ethnic diversity, they fear that democracy will redistribute resources away from themselves to a new majority coalition (Easterly, 2000).

The reason that affirmative action may sometimes fail is simple (Coate and Loury, 1993). If employers continue to hold onto negative views about a group of workers then, to comply with the affirmative action mandate, they must lower the standard for assigning these workers to the jobs within the firm. Lowering the standard may reduce investment incentives, however, because the favored workers see themselves as likely to succeed without acquiring the relevant skills (Coate and Loury, 1993).

Some critics also added that affirmative action generally results in a laid back culture within the targeted group as they become accustomed to lower acceptance level into any activity i.e. into education or starting up new business. A case in point was the Malaysian Education policy implemented by the NEP party which was regarded as a very controversial point in Malaysian history. Wikipedia (2007) states that “Bumiputras were accorded quotas for admission to public universities. Most Bumiputras opted to enter a one year matriculation programme, which is considered by some to be less intensive than a two year *Sijil Tinggi Pelajaran Malaysia* (STPM) or Malaysian High Certificate of Education which is equivalent to the British- A- Levels. Thus fuelling to the debate about capacity of the targeted group by an affirmative action policy to compete or participate in an economy without these supportive instruments.

Hu (2007) provocative summary on his website also suggests that affirmative in pursuit of equal numbers will lead people to realize that simply increasing the number of underachieving minorities such as blacks does nothing to fix differences in ability. Liao Y-sing's article "Call to Abandon Affirmative Action in Malaysia" writes that "discontent is growing as years of affirmative action have left a trail of failed Malay tycoons and struggling Malay-managed conglomerates (Maxwell, 2007). Maxwell (2007) uses Y-sing's article to raise the question "how much more proof do we need that, as in the case of South Africa, affirmative action and BEE only will benefit the smallest section of our population?" Again this raises the issue around these companies from the targeted group if they have the ability to compete and execute a business strategy that will see their businesses grow into other global markets where they will have no affirmative action policy to support them.

The democratic election of 1994 ended apartheid, an evil political system based on a repugnant ideology. But like the East Germans who still have "a wall in their heads," the legacy of apartheid persists among South Africans and continues to threaten the democratic transition (Gibson, 2003). Most South African small, medium and micro enterprises do not provide an environment in which black men and women can grow and develop according to merit (Human, 1993).

2.9 Corporate Diversification Strategy Versus Business unit Strategies

With these arguments for and against BEE and affirmative action, we move from the national level and start focusing on strategy at the firm level, in particular the black owned firms that have just started and have benefited from the governments affirmative action. This section moves into defining strategy with particular focus on differentiating between strategy for corporate diversification and strategy for

competitiveness (Business Unit Strategies). These definitions will help us in formulating a guideline in assessing these black owned firms strategy.

Porter (1996) in a Harvard business review argues that competitive strategy is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a unique mix of value." In short, Porter argues that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. At the business unit level, firms develop differentiated strategic postures by allocating resources in different ways across functional areas (Fombrum and Shanely, 1990).

Mintzberg (1994), in his book wrote, "strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products are using a 'high-end' strategy. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets".

Andrews (1987) presents a lengthy definition of strategy in his book in which he writes, "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.

Andrews (1987) also draws the important distinction between "corporate strategy," which determines the businesses in which a company will compete, and "business strategy," which defines the basis of competition for a given business. Thus, he also anticipated "position" as a form of strategy. This definition suggests that the competitiveness of a firm is designed and executed at business unit level. Porter

Strategy renders choices about what not to do as important as choices about what to do (Porter, 1998). Deciding which target group of customers, varieties, and needs the

company should serve is fundamental to developing strategy but so is deciding not to serve other customers or needs and not to offer certain features or services.

Porter (1998, 117) states the following; a diversified company has two levels of strategy: business unit (or competitive) strategy and corporate (or company wide) strategy. Competitive strategy concerns how to create competitive advantage in each of the businesses in which a company competes. Corporate strategy concerns two different questions: What businesses the corporation should be in and how the corporate office should manage the array of business units. Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts”.

Porter (1998, p.121) advocates that competition occurs at the business unit level. He goes on to say that “diversified companies do not compete; only their business units do. Successful corporate strategy must grow out of and reinforce competitive strategy.”

The other key question that this study wants to establish is whether the emerging black elite and firms are involved in crafting competitive strategies for the individual business unit they own or they simply operate at corporate level strategies. This is a key point in a transforming South Africa as you the country runs the risk of only transferring ownership while transfer of skills that will in the future be required of them to sustain the competitive edge their business units is not happening. The assumption here is that with lack of involvement in the day-to-day operations, the new black elite they are not involved at the competitive level of the business. The implications of this are that when BEE legislation is removed, how competitive will be the firms owned or lead by the new black elite will be able to compete with international firms even in the domestic market.

Another key question is to establish the nature of the strategic intent of these firms. There are arguments that strategic intent is what shapes the long term success of firms. Companies that have risen to global leadership over the past 20 years invariably began with ambitions that were out of all proportion to their resources and capabilities (Hamel and Prahalad, 1989). Strategic intent envisions a desired leadership position

and establishes the criterion the organization will use to chart its progress (Hamel and Prahalad, 1989).

Strategic Intent is stable overtime; it provides consistency to short-term action, while leaving room for reinterpretation as new opportunities emerge (Hamel and Prahalad, 1989). While strategic intent is clear about ends, it is flexible as to means – leaves room for improvisation. Strategic intent implies a sizeable stretch for an organization. Current capabilities and resources will not suffice. This forces the organization to be more inventive, to make the most of limited resources (Hamel and Prahalad, 1989). Traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates a misfit between resources and ambitions. Top management then challenges the organization to close the gap by systematically building new advantages (Hamel and Prahalad, 1989).

It is in line with these definitions that the study aimed to determine the dominant strategies at play within the black owned companies and assess the future competitiveness of black owned companies without BEE legislation support. The next chapter defines precisely the research questions that will explored.

3.0 RESEARCH QUESTIONS

3.1 Research Questions

The research questions were designed with the aim to extract the underlying issues that could be supporting the arguments for the notion that most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition. It is also important to state that although there are five questions which might raise the concern that the study might lose focus; the questions are actually designed in a way that continues to build arguments around one central theme. Broader definitions of the questions are discussed under each question in the next sections.

1.1 Is BBEE the cause for diversification of black business into unrelated industries rather than focusing own core business growth?

Following an analysis of some of the big black owned company portfolio's to prove the diversification of the firms at corporate level of, this research question's aim was to establish whether the BEE legislation is *"the cause"* or *"the catalyst"* of the corporate diversification of most black owned companies.

1.2 Black business owners are just opportunistic and not strategic?

This research question's aim was to establish if there is any structure and strategy to the corporate diversification trend within the black owned companies or the selection of the target acquisitions is purely random and opportunistic.

1.3 Black business owners are not acquiring operational business skills since they are not involved in the day-to-day operations?

This question builds on what Porter (1999, p. 121) described as the facts about diversification. He states that “competition occurs at the business unit level; only their business units do”. The question assumed that the experience and skills of crafting successful competitive strategy reside at the business unit level. Thus limited involvement of the empowered black middle class and elite at the business unit level will result in these skills for competitive strategy development and execution not being transferred to the black people. Hence the research question’s aims was to establish if there is a consistent proof of lack of involvement of black company owners at the business unit level, running day-to-day operations.

1.4 Black businesses will not survive competitively in foreign markets or when BBBEE is abolished?

This question builds on the previous question of competitive strategy skills transfer to the empowered black owners. The research question’s aim was to establish if these companies will be able to compete in an environment where the black owned companies are not protected or supported by a government policy by continually innovating and upgrading their competitive strategies for the individual business units.

1.5 Is BBBEE is actually bad for these black owned companies so it should be abolished?

This research question’s aim was to establish if BEE legislation has been successful or will be a failure in terms of promoting the emergence of competitive black owned firms and if not, what should be the direction the policy makers take on the legislation.

The next chapter will discuss the research methodology and techniques used to generate data for this study.

4.0 RESEARCH METHODOLOGY

4.1 Choice of Methodology

There is increasing belief that if Black Economic Empowerment is left in its current form might stifle economic growth of South Africa, and in the long-term weaken the competitiveness of South African firms competing against international firms either in local or foreign markets. The objectives of this study were to establish the reasons why the notion that says *“most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition”*.

Exploratory research methodology was chosen as the preferred methodology. Zikmund (2002, p. 110) states that “exploratory research is a useful preliminary step that helps ensure that a more rigorous, more conclusive future study will not begin with an inadequate understanding of the nature of the management problem.” The exploratory research seeks to provide a greater understanding of why black owned firms are largely diversifying locally instead of pursuing focused business strategies and seek growth in economies outside South Africa where there is no BEE policies.

There are three interrelated purposes for exploratory research: (1) diagnosing a situation, (2) screening alternatives, and (3) discovering new ideas (Zikmund, 2002, p. 111). As this research is a first step in understanding the nature of the companies formed in an economic environment with BEE policy, this method will provide qualitative data generated by diagnosing the current situation in South African black owned companies. The most popular qualitative research methods are interviews, observation, and (archival) document studies (Bowen, 2005). An Interview Schedule was designed and was used to conduct the following qualitative methods of data collection;

- a) In-dept, open ended interviews – Face to face and Telephonic,

- b) Open ended email responses, and
- c) Archival interviews with certain matching question constructs were retrieved and used also.

The data from *open-ended interviews* consist of direct quotations from people about their experiences, opinions, feelings and knowledge (Labuschagne, 2003). The method that was used in this exploratory research was open-ended interviews that were either conducted through face to face discussion, held telephonically or through questionnaire responses.

It is important to state at this stage that this research was not a quantitative research which would try to measure the extent of the phenomenon being investigated. At this stage, the exploratory research methodology was chosen with the aim to provide a diagnosis of the current trend of diversification strategies within black owned companies in this economic policy environment of BEE. On deciding whether the research should be qualitative, it was equally important to understand the major differences it has with quantitative research.

As a rule, quantitative research is mainly concerned with the degree in which the phenomena possess certain properties, states and characters, and similarities, differences and causal relations that exist within and between these (Labuschagne, 2003). It is usually based on theoretical or empirical considerations and quantifying phenomena. The advantage of the quantitative approach is that it measures, for example, the reactions of a great many people to a limited set of questions, thus facilitating comparison and statistical aggregation of the data. This gives a broad generalisable set of findings (Labuschagne, 2003). Qualitative research on the other hand, is mainly concerned with the properties, the state and the character (i.e., the nature, of phenomena) (Labuschagne, 2003). Qualitative methods typically produce a wealth of detailed data about a much smaller number of people or cases.

Qualitative data provide depth and detail through direct quotation and careful description of situations, events, interactions and observed behaviors (Labuschagne, 2003). Quantitative research methods are primarily intended to test theory; the researcher works deductively and is outcome oriented. Qualitative researchers on the other hand, are concerned with the meaning of the phenomena and the lived experiences, which is not a readily observable process (Labuschagne, 2003). Qualitative and quantitative methodologies are not antithetic or divergent; rather they focus on the different dimensions of the same phenomenon. Sometimes, these dimensions may appear to be confluent: but even in these instances, where they apparently diverge, the underlying unity may become visible on deeper penetration (O'Neill, 2004).

There are generally four categories of exploratory research methods: (1) Experience surveys, (2) Secondary data analysis, (3) Case Studies, and (4) pilot studies (Zikmund, 2002, p.114). Experience survey technique is in which individuals who are knowledgeable about a particular research problem are surveyed (Zikmund, 2002). This research will only use experience survey technique to generate the qualitative data. The experience survey technique involved discussions with knowledgeable people both inside and outside the company, which may be regarded as nothing more than conversations around the topic in question (Zikmund, 2002).

Knowledgeable people were selected for their ability to articulate information based on what they are either pursuing as a growth strategy as part of the black owned companies senior executives. The purpose of interviewing such experts was to help formulate the problem and clarify the concepts rather than develop conclusive evidence (Zikmund, 2002).

4.2 Unit of Analysis

To define the unit of analysis, we need to define clearly the following;

- i. The type of firms being investigated in which the phenomenon the theory proposes is being tested on.
- ii. Define the symptoms that support the notion being investigated
- iii. Define the problem based on the symptoms, and
- iv. The true problem.

The type of firms being investigated are black owned companies as per our definition of black owned companies in the literature review (chapter 2). The symptoms that are supporting the notion *“most black owned companies emerging under the period of BEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition”*. The true problem that this study aims to provide clarity on is whether these black owned companies actually have the capacity to grow and compete in the local market against foreign or international companies if or when BEE legislation is removed.

With this understanding of the problem and typical firms to be interviewed, the unit of analysis can be better defined. The units of analysis for this project are the custodians “corporate strategy” of black owned firms, researchers in the field of BEE, black entrepreneurs who have experienced the support or lack thereof, of the BEE legislation.

4.3 Population, Sample Size and Sampling

To analyze if indeed the emerging black owned companies are diversifying, we took a sample of five large black owned companies was taken out of population of Black Owned Companies and the range of businesses in their portfolio’s were analyzed to check for corporate diversification. The sample was chosen based on the publicity or availability of their recent acquisitions in the public domain and if they have been involved in any acquisition or equity purchase within the last five years. The sample includes the following black owned firms;

- 1) Mvelaphanda Group (Pty) Ltd
- 2) Shanduka Group (Pty) Ltd
- 3) Amabubesi Investment Holdings
- 4) Pamodzi Investment Holdings
- 5) Wiphold Group (Pty) Ltd

4.4 Research Instruments & Data Collection Methods

As stated in the earlier sections, the methodology used was a qualitative exploratory research technique. Using the interview schedule (refer to table 5.3 of chapter 5), data was collected using the methods:

- a) Face-to-face interviews
- b) Telephonic interviews
- c) Questionnaire responses via email were
- d) Archival documents retrieved on interviews done with similar question constructs.

The advantages of the instruments used were that there were less time consuming and cheaper to administer than other methods and yet they gave more insight into a topic. The variety of data collection methods was due the preferred mode of interview by the respondents. The three data collection methods offered flexibility as access to some of the respondents was proving to be difficult. The face to face and telephonic interviews provided rich data that painted a broader picture while also highlighting issues that did not come out of the email responses.

4.5 Process of Data Analysis

The analysis of interview transcripts and field notes was based on an inductive approach geared to identifying patterns in the data by means of thematic codes.

Inductive analysis means that the patterns, themes, and categories of analysis come from the data (Bowen, 2005); they emerge out of data rather than being imposed on them prior to data collection and analysis (Patton, 1980). I used the grounded theory method in my study to derive and develop the “grounded theory” or “themes” within the phenomenon I was studying. Grounded theory is particularly well-suited to situations where there is not a formal model from which hypotheses can be drawn. It addresses the problem of theories that are underdeveloped (Dougherty, 2002). Codes were developed to assist with clustering the data from the interviews.

To see the codes developed, please refer to Table 5.2 in chapter 5.

4.6 Research Limitations

In terms of the design, methods and findings, the study had also some limitations. The first limitation it had was the bias of the responses. As most of the interviewed people were all from one race, the black African people, with almost an identical historical experience, their responses sometime tended to be defensive to the suggestion of that BEE should be abolished and objectivity was reduced. The other limitation was inherent in the open ended interviews where some of the points made during conversation did not seem to have same profound meaning when transcribing the notes made. This could have been also as a result of the researcher’s limited ability. Although there was richness in the data collected, sometimes the responses seemed to far removed from the central issue of competitiveness in discussion.

With the email questionnaire responses, the answers seemed to be well thought out diplomatic answers which again raised the “bias” concern. Telephonic interviews also had limitations, the interviewee seemed not to have enough time although these were pre-scheduled and agreed to. The answers seemed very rushed and also the tone and the literal meaning of the words used seemed not to match also suggesting that the

answers could be to some extent manipulated as the questionnaires had also been sent in advance before the conversation to ensure the respondent is prepared.

Focus groups with participants from all sectors of the economy would have been a more powerful technique. However, with more clarity on the issues underlying the notion under study, focus groups will provide more focus and insight into the highlighted findings.

5.0 RESULTS

This chapter deals with the results of the primary data collected during the interview process. This data will be used to discuss the questions raised in Chapter Three.

5.1 Business Portfolios of Some of the Black Owned Companies

The table below shows a summary of some of the big empowerment companies and the industries they are invested in.

Table 1: Industry investments by Black owned Companies

| INDUSTRY | BLACK OWNED COMPANY | | | | |
|--------------|---------------------|----------|---------|-----------|---------|
| | Mvelaphanda | Shanduka | Wiphold | Amabubesi | Pamodzi |
| Resources | Green | Red | Yellow | White | Magenta |
| Construction | Green | White | Yellow | Maroon | Magenta |
| Property | Green | Red | Yellow | Maroon | Magenta |
| Industrial | Green | Red | Yellow | Maroon | Magenta |
| Telecoms/IT | White | Red | Yellow | Maroon | Magenta |
| Energy | Green | Red | Yellow | White | Magenta |
| Media | Green | White | White | White | Magenta |
| Healthcare | Green | White | White | White | White |
| FMCG | White | Red | Yellow | Maroon | Magenta |
| Financial | Green | Red | Yellow | Maroon | Magenta |
| Services | Green | White | Yellow | Maroon | Magenta |
| Logistics | Green | White | White | White | White |
| Tourism | White | White | Yellow | White | White |

1.6 Codes and Coding

As mentioned in chapter 3, using the grounded theory, codes were created based on themes that were emerging through the interview process. These codes were used to transcribe the notes from the interviews and allocate the discussions threads to topics

answering or giving views on similar variables. Below is a list of codes that were used in transcribing the interview notes.

Table 2: Variables and Codes

| | | |
|--|-------------------|-------------------|
| <u>Broad Based Black Economic Empowerment</u> | <u>BEE</u> | <u>1.0</u> |
| Objectives | BEE-OBJ | 1.1 |
| Policy | BEE-POL | 1.2 |
| BEE | BEE-AA | 1.3 |
| Black business Owners | BEE-OWN | 1.4 |
| Black Owned Companies (Businesses) | BEE-COM | 1.5 |
| <u>Strategy</u> | <u>STR</u> | <u>2.0</u> |
| Objectives | STR-OBJ | 2.1 |
| Acquisitions | STR-ACQ | 2.2 |
| Entry | STR-ENT | 2.3 |
| Diversification | STR-DIV | 2.4 |
| Corporate | STR-COR | 2.5 |
| Business | STR-BU | 2.6 |
| Operational | STR-OPS | 2.7 |
| Competitiveness | STR-CPT | 2.8 |
| Sustainability | STR-STB | 2.9 |
| Global | STR-GLB | 3.0 |
| <u>Company Ownership</u> | <u>CO</u> | <u>3.0</u> |
| Equity | STR-EQI | 3.1 |
| Shareholder | STR-SHH | 3.2 |
| <u>Skills and Knowledge</u> | <u>SK</u> | <u>4.0</u> |
| Acquisition | SK-AQU | 4.1 |
| Transfer | SK-TRF | 4.2 |
| Managing day-to-day Operations | SK-MGO | 4.3 |
| Entrepreneurial | SK-ENT | 4.4 |
| <u>Financial</u> | <u>FN</u> | <u>5.0</u> |
| Policy | FN-POL | 5.1 |



| | | |
|------------------------------------|-------------------|-------------------|
| Institutions | FN-INS | 5.2 |
| Grants | FN-GRA | 5.3 |
| Debt | FN-DBT | 5.4 |
| Loans | FN-LNS | 5.5 |
| Credit Approval System | FN-CAS | 5.6 |
| Poor | FN-POR | 5.7 |
| Elite (Rich) | FN-EL | 5.8 |
| Economic Growth | FN-ECG | 5.9 |
| <u>Political</u> | <u>POL</u> | <u>6.0</u> |
| Networks (Connections) | POL-NET | 6.1 |
| Influence | POL-INF | 6.2 |
| <u>Racial</u> | <u>RAC</u> | <u>7.0</u> |
| Black (Black, Indians & Coloureds) | RAC-BLK | 7.1 |
| White | RAC-WHT | 7.2 |
| African | RAC-AFR | 7.3 |
| Apartheid | RAC-APR | 7.4 |
| <u>Characteristics</u> | <u>CHR</u> | <u>8.0</u> |
| Greed | CHR-GRD | 8.1 |
| Dependency | CHR-DPY | 8.2 |
| Opportunistic | CHR-OPT | 8.3 |

5.2 Interview Schedule

An interview schedule was designed and sent out to the intended interviewees a few days before the interview. This enabled them prepare and bring more insight into the discussion.

As discussed in the methodology, the research questions were limited to five questions and variables within a question were limited to a maximum of three in order to increase clarity and focus to interviewees when responding to the open-ended questions. The

table below shows the interview schedule and the variables that the research question was seeking to establish a relationship.

Table 3: Interview Schedule

| NO. | RESEARCH QUESTION | VARIABLES |
|------------|---|--------------------|
| 1. | Is BBBEE the cause for diversification of black business into unrelated industries rather than focusing own core business growth? | BEE-POL STR-DIV |
| 2. | Black business owners are just opportunistic and not entrepreneurial? | CHR-OPT SK-ENT |
| 3. | Black business owners are not acquiring operational business skills since they are not involved in the day-to-day operations? | SK-ACQ SK-MGO |
| 4. | Black businesses will not survive competitively in foreign markets or when BBBEE is abolished? | BEE-COM STR-CPT |
| 5. | Is BBBEE is actually bad for these black owned companies so it should be abolished? | BEE-POL CHR-DPY |

5.3 Interviewee Profiles

Table 4: List of Interviewed Persons

| No. | NAME | BRIEF INTRODUCTION |
|------------|----------------|--|
| 1 | Vusi Mavimbela | Executive Director for Business strategy and Africa expansion for Mvelaphanda Group which is regarded as one of the richest black owned companies (Mining Weekly, 2006). Vusi has been at the centre of the deals, acquisitions, mergers and partnerships that Mvelaphanda has been pursuing as the head |



| | | |
|---|----------------------|---|
| | | of strategy. |
| 2 | Mlungisi Hlongwane | Businessman and politician who have been involved in number of BEE deals and understands the policy from an ANC perspective. He talks about BEE from both policy and business perspective. |
| 3 | Gugu Molo | CEO of Iman-Africa, Ex-CEO of Umgeni Water, Non-Executive Director RMB. As an entrepreneur and a senior citizen, has experience and views on BEE. She uses her insight and experience to articulate her views on BEE and its impact on competitiveness. |
| 4 | Charles Moyo | Managing Director of Lenong Marketing. Has had a hand on experience in dealing with BEE and preferential procurement as an entrepreneur in the petrochemical and aviation sectors. |
| 5 | Nathaniel Ramosthela | Managing Director of Mboga Foods CC. Talks of his personal views on how BEE has helped or impeded the growth of his company from an entrepreneurial perspective. |
| 6 | Dr. Mandla Adonisi | A Senior Lecturer at the Gordon Institute of Business Science and lectures in the field of Organizational Development and Strategy. He uses his personal insight gained through research articles and interactions with the BEE companies to express his views. |
| 7 | Joe Khumalo | Managing Director of Senzile Resources which focuses on beneficiation and marketing of natural resources. He uses personal experience to relate to BEE and its impact on competitiveness of firms. |
| 8 | Raymond Chimhandamba | Commercial Manager at SAB's appletiser division. He uses his personal experience as an entrepreneur in the property management space to express his views on BEE. |
| 9 | Amon Khosa | Senior Quality Manager at Alcatel-Lucent involved in the managing of service level agreements and also an MBA student at GIBS researching on BEE. |

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| 10 | Mzi Khumalo | Businessman and former politician. His name has been at the centre of many debates around BEE's usual suspects. Owns Metallon Investments. An archival document was used. |
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Table 5.4: List of Interviewed Persons

5.4 Responses to Research Questions

In this section, the results from the transcribed notes for each research question are written down and sentences and discussions are allocated to under specific question as per the coding system used.

5.4.1 Is Black Economic Empowerment Policy (BEE-POL) the cause for diversification (STR-DIV) of black business into unrelated industries rather than focusing own core business growth?

Following an analysis of some of the big black owned company portfolio's to prove the diversification of the firms at corporate level of, this research question's aim was to establish whether the BEE legislation is "the cause" or "the catalyst" of the corporate diversification of most black owned companies.

The following were comments and arguments as presented by the interviewees:

Vusi Mavimbela: "It is largely and generally true for emerging black owned companies, however it is not only limited to black owned companies as suggested by the question but it is a natural progression of most entrepreneurial companies irregardless of race of owner. Many companies start up by investing in various business opportunities as they search for businesses that will be able to give them better returns in the future. There are examples of many white owned companies that have started in the same way as we see in the black owned companies and have remained like that for decades. Clear examples are Barloworld and Bidvest only to

mention a few who have followed the same pattern of growth that we see emerging in these BEE companies.”

Mlungisi Hlongwane: “How does any company start? You invest in many opportunities and watch them grow and once there is more clarity on which ones are the performers and non-performers, you go through a process of weeding out non-performers and heavily investing in performers.” So there is nothing wrong with the diversification trend we see in BEE companies because it’s the natural approach to entrepreneurship. At start-up, focusing on one thing is dangerous, whether you are white or black. It’s purely a simple entrepreneurial decision to spread risk and it has nothing to do with BEE or BEE. BEE only gives the “previously disadvantaged” an edge in accessing these various opportunities they would have never had a chance to access. For one to focus you would have tested success in that product. If one was to study the underlying shareholders of all listed companies on the Johannesburg Stock Exchange (JSE) are not focused in one business but they are diversified. Why are black people not viewed as investors or shareholders in the same light as white shareholders? Businesses are focused and shareholders are not.”

Gugu Moloi: “Black entrepreneurs are forced by circumstances to invest as individuals in diverse businesses. Problem with black entrepreneurs is that they don’t have that cushion to protect them if they were focused in one sector so they need to hedge their bets. This characteristic is evident in the companies they own. That’s why they buy everything even things they have no passion in and the challenge is that they are not acquiring skills in those companies. The other cause for the diversification is that the black shareholders do not get involved in running the companies they acquire, which makes it very easy for them to diversify their portfolios as they have more time on their hands and all they focus on is assessing other opportunities in very different sectors to the current businesses they own.”

Nathaniel Ramothela: “BEE has created greed and this greed is fuelling the diversification and corruption we see today. People are just buying anything because

BEE allows them to do so. The policy has very good intentions but its being abused by a certain few from both the white and black businesses. Diversification is just symptomatic of the flaws with the implementation of BEE although I would fairly agree that diversification is also partially due to the need for companies to spread risk as they don't how to make the individual businesses to work.”

Charles Moyo: “BEE legislation plays a huge role in making these opportunities available to black business people hence you will naturally find that most the black entrepreneurs are rushing to grab as many of these opportunities they can as a first phase to entering the mainstream economy. However, a big part of strategy is taking advantage of existing opportunities. I would argue that there is quite a bit of strategy involved in taking advantage of an existing opportunity having assessed the length of time that these opportunities will be profitable to one's company. These opportunities can very well be termed the company's short - medium term strategy, which is what we are seeing as the emerging trend amongst black owned companies.”

“This diversification is a normal progression of events in any capitalist economy and it has been so for as long as capitalism has been in place. It has nothing to do with BBBEE but what might be correct is that BBBEE has assisted BBBEE companies seeking to diversify. After Diversification, we often hear of companies going through rationalization phases, disposing of non-core assets or business. The notion or assertion that BEE companies diversify into unrelated business ventures only within the local South African economy is not entirely true. Companies like SASOL have BEE partners who also have to think and act globally courtesy of SASOL' international portfolio that they are partners to. They will go through a phase of unbundling, restructuring and rationalization. Barloworld took how many years before restructuring?”

Joe Khumalo: “The main goal of BEE is to ensure a broad distribution of wealth across all South Africans who were previously disadvantaged by the apartheid regime.

The fact that BEE has been legislated has helped accelerate the rate at which black businessmen and women are entering into equity partnerships and Management buyouts of previously white dominated and run businesses. This fact makes it easier for those black business people to diversify into businesses that are unrelated to their areas of expertise simply because the white owned companies are compelled to comply with government legislation. The truth of the matter however is that in the overall scheme of things in South Africa, only a few individuals and companies have the financial backup to enter into equity and partnerships we are reading about on a daily basis in our media. In my opinion the greed for personal gain and wealth is the driving force behind the diversification we read about everyday.”

Amon Khosa: “Diversification is another source of diversifying risk while building a balance sheet. So although to some extent the statement is true, I believe this a common trend in any business. They also have bigger balance sheets hence it’s easier for them to access finance and debt and participate in the many deals.”

5.4.2 Black business owners (BEE-OWN) are just opportunistic (CHR-OPT) and not strategic (SK-ENT)?

This research question’s aim was to establish if there is any structure and strategy to the corporate diversification trend within the black owned companies or the selection of the target acquisitions is purely random and opportunistic.

The following were comments and arguments as presented by the interviewees:

Gugu Moloi: “People are being opportunistic and not chasing core business. It’s very clear from the trend we see in the news. They just wait for anything substantial to come onto the market and snatch it as quickly and cheaply as possible. There is no consistency in the purchases so one cannot say there is an underlying focused

strategy. I don't think opportunism is strategic or sustainable. BEE is aiding to this large scale opportunism and the long-term sustainability of the economy is at risk."

Mlungisi Hlongwane: "To a great extent there is opportunism which is being also driven by the white owned companies who are maliciously looking for only compliance so you end up having some black people being fronted. However, our expectations should be moderated. Most of the developed nations like the US and countries in Europe took at least a hundred to transform. Our democracy but ours is only thirteen years only and so it's too early to condemn the BEE policy or any other transformation policy. The opportunism we see is a phase that should be expected during the socio-economic transformation."

Nathaniel Ramothela: More than half of these big BEE players are opportunistic and don't care about the business details but they pride themselves that they own big businesses. BEE policy and the increasing government tenders are creating this opportunism and corruption at the highest level. Our small businesses at the bottom cannot even access these opportunities but they all go to the same people with the same networks and government contacts.

Charles Moyo: "BEE is all about giving equal opportunities to capable competent black businesses. This does not mean there were no capable black business people in South Africa pre-BEE. Richard Maponya and a whole host of other successful black people have been in existence way before BEE came into play. For me, BEE is a "by the way" issue. I look at my business purely from a business perspective. I look at the market in terms of who the customers are, their expectations, their needs etc, who the competitors are what the competitions are doing (amongst other things) and I come up with the relevant strategies to take the company forward. Key amongst white owned company ideals is access to political contacts. So I generally agree that there is great opportunism in the deals we see but I would argue, the small businesses like ours are not accessing many of these opportunities. We have to compete for survival. One good example that to some extent that showed that the black elite are not interested in

creating wealth but want quick deals was forestry opportunity or tender were a white owned company was looking for a BEE partner. No black company was interested in waiting for twenty seven years before receiving the first earnings as it takes twenty seven years to harvest the trees. There is no long-term view; they want anything that sweats profits tomorrow.”

Joe Khumalo: “I believe the mergers and acquisitions are opportunistic and strategy plays a little part in the decision making process. This is evident in BEE companies that are involved in multiple companies and forming different divisions in order to facilitate equity and partnership deals. The net result is that only a few companies or individuals end up controlling a large number of companies under a disguise. BEE is legislated and white owned companies are forced to comply. Criteria being used to enforce compliance are equity ownership, management employment equity, skills development, preferential procurement etc. With all the above mentioned criteria thrust upon white owned and run companies, and their existence being threatened they are forced to engage with BEE companies in order to survive. So it is obvious that no strategy will be applied in getting these equity partners. It is merely an opportunity that arises for BEE partners and it is snapped up by the financially strong BEE organizations.”

Amon Khosa: “Most BEE companies leverage aggressively own network to access opportunities in any sector. BEE companies also position themselves through networks as the go between private and public partnerships. This has been successful in bridging private to public sector, but that’s were massive corruption is happening.”

Raymond Chimhandamba: ‘I think a lot of BEE companies are diversifying based on opportunity rather than on strategy because a lot of the big corporate, when seeking partnerships, are basing their decisions more on "who is the consortium rather than who is in this business..." As a result most partnerships are based on decisions such as "can't you put something together and partner with us on..." What the corporate are looking for it seems is more political clout in the partnerships than anything else. As a

result the partnerships that we have seen are pretty opportunistic rather than strategic, with the main players on the BEE side being former ANC government officials. And also it the same old same old usual suspects.”

5.4.3 Black business owners (BEE-OWN) are not acquiring operational business skills (SK-ACQ) since they are not involved in the day-to-day operations (SK-MGO)?

This question explores if there is any skills transfer to the black owners from the businesses they own or if they are removed from running the businesses on a day-to-day basis.

Mlungisi Hlongwane: “The shareholders are not involved in the day-day running of the operations. BEE companies offer no organic growth value addition. The BBE elite do not understand most of the businesses they own. Most of them are involved only at equity level and are very much removed from running the operations which is where skills acquisition actually happens. So there is no skills transfer but a rush to become shareholders amongst the emerging black middle class. The risk we face a country is that South African citizens are not acquiring skills as they are rushing to only position themselves at a shareholder level and the danger we have is that if something happens to the country, we might see an economy held at ransom as all the skills will still be in the hands of the minority which is very mobile.”

Gugu Moloi: “Unlike the Afrikaner empowerment, which built institutions were Afrikaner’s got preferential employment (BEE) which forced Afrikaner’s to acquire skills and avoid the shareholder rush we have a created monster that focus on individual wealth than institutions that train and afford larger groups of previously disadvantaged societies. Institutional memory will continue to reside with the white minority and we are exposed as a nation. These BEE companies should focus on a few things or core

business in order to acquire core skills and be able to compete in foreign markets. Black business people are not putting any building blocks on what they buy to ensure they acquire skills.

Also there is no evidence which suggests that these black owners are building capacity and resources (skills) for their specific business for them to be sustainable in future. No black people are involved in running the large companies i.e. mining houses, Sasol etc but they are involved only at equity and corporate level thus we have so many black faces at the non-executive director level. The best you see in organizations are black people occupying soft positions such as Human Resources and Communication or Public Relations Director positions which the whites use as their leverage to gain access to government networks. At the level of small black businesses, they even can't retain any black skills as you are competing with these large blue-chip or listed companies which offer stock options and equity. So I don't agree that there is any skills transfer in all the BEE frenzy we see."

Dr. Mandla Adonisi: "These companies are just acquiring anything they can get their hands on but they are doing nothing to learn the business. Clearly there is no evidence that suggest the new black elite are acquiring any business or operational skills. They all become silent partners and they spend more time on acquisitions or looking for the next big BEE deal."

Nathaniel Ramosthela: "Big BEE players are not in business to understand business. They have no loyalty or passion in what their businesses do. Real business people and entrepreneurs focus, acquire knowledge and skills, and pay school fees to get their businesses running. Foreigners are the only people having the patience to come and run the businesses and acquire skills. These foreigners are very mobile and might one day just all decide to leave. We are better-off locking in these foreign professionals with some golden handcuffs as they will probably represent a larger skills pool since most South Africans are just chasing BEE deals and equity but they add no value after

the transaction. BEE policy lacks the incentives that forces black people to be hands on.”

Charles Moyo: “The fact that BEE candidates do not run the companies on a day-to-day basis makes it very easy for them to diversify their portfolios. The trade-off is between skills learning and diversification. This is also fuelled by the fact that many of the white companies are in a rush to satisfy their compliance targets and the white companies prefer these black shareholders who are not to be involved in the day-to-day operations. This is win-win for both in the short-term as it allows the same few black owners to participate in as many deals as possible and on the other side allow the white owned companies retain full operational control. The Companies are quite happy to list them as directors on paper and not have them involved in the day to day running of the companies. One could say the black people are being used as “front”.”

Amon Khosa: “BEE companies actually don’t understand the businesses of the companies they own. They can have a very interesting bar room chat but it’s very fickle. Their focus is on how much equity they own in whatever industry.”

5.4.4 Black businesses (BEE-COM) will not survive competitively (STR-CPT) in global markets where there is no BBEE (BEE-POL) or when BBEE is abolished in South Africa?

This question builds on the previous question of competitive strategy skills transfer to the empowered black owners. The research question’s aim was to establish if these companies will be able to compete in an environment where the black owned companies are not protected or supported by a government policy by continually innovating and upgrading their competitive strategies for the individual business units.

Joe Khumalo: “I believe BEE companies can only begin to grow in markets where there is no BEE when they become fully integrated into the organizations they are involved with currently. This integration means that they become involved in the day to day running of the business and they hold key decision making positions. This will allow them to be part of the strategic decision making process in the organizations. This participation will enable the BEE Company to thrive in the competitive global markets we exist in today. Without fully integrating into the various businesses, they will never acquire skills and knowledge that will enable them to re-design their businesses in a way that they can compete with anyone from any country. Thus I don’t believe they will survive, you are mostly likely to see a spate of black owned companies unbundling or restructuring.

Contrary, the smaller entrepreneurs who are actually based in their organizations have to succeed the hard way. Access to resources like finance, skilled employees and markets is challenging as most of the time they are unknown and don’t have a credit history. This experience is the ingredient to long term success or competitiveness of these companies despite BEE act which has really failed at that entry level to support the small entrepreneurial black owned company.”

Dr. Mandla Adonisi: “BEE is like a “crutch”. If BEE act was to be removed we would see a massive collapse of these BEE companies as they have a very fickle understanding of what they own. The heart of strategy lays in the current actions they are taking to acquire skills, knowledge that will help in building their organizations that can meet the markets future needs, thus to deliver a more competitive product or service. There is nothing we can see in these organizations that suggests they are building intellectual capacity to manage these businesses at the business or operations level. So my view is these businesses will collapse or will be restructured as the black owners don’t have in-dept knowledge on how to drive competitiveness at that level purely because they are sitting on the peripherals of these businesses.”

Gugu Moloi: “BEE companies will not survive simply because they have learnt no hard skills in what they own. They have no requisite skills in most of what they own.

Their best bet is to remain as equity investors in some multi-nationals but the risk with this is equity is liquid and can be moved out of this country overnight so South Africa is more at risk than the individuals because when BEE act goes. They will sell all equity in these companies and invest in multinationals in other countries. I don't believe they can compete at that business level which involves things such as choosing markets, selecting products, designing proposition for specific market needs, improving productivity, gaining grassroots market intelligence, and selecting technologies. BEE owners are not operating at that level of detail which is key to competitiveness."

Mzi Khumalo: "Look at Implants: more than half of its value is in Zimbabwe ... We are currently in Angola investing serious money and I still see that when we go to institutions, including those quasi-government ones, if you say, 'guys, here is an opportunity in Angola, here is an opportunity in Congo', people think you have been smoking something green. And at the moment the outlook for the investment community in South Africa is so negative. People are clamoring to go to London or Australia and wherever, but nobody wants to touch Zimbabwe. Look at how much money we have made in Zimbabwe. In less than three years we have made over R1 billion."

Charles Moyo: "In the long run those BEE candidates that might have learnt a thing or two during their stint at companies like SASOL will use that knowledge to position their own companies on the global stage. But notion that the black owned companies will not survive in the face of globalization is not necessarily true or at least generalisable. There is enough evidence to show that black run companies can be serious global players. The mobile phone company MTN is one such example. Under the leadership of Phuthuma Nhleko the company has grown from just being a South African company to being the largest mobile phone company in Africa. MTN has even gone into and prospered in markets are perceived as risky as Iran due to their political instability both nationally and internationally. Soccer is big business in South Africa and the majority of the profitable soccer teams are owned and run by black business people."

For those companies where the black owners haven't learnt anything, yes they will struggle. Most of the so called BEE usual suspects have so much going around them that they would not have time to attend to and add tangible value to the companies they are involved with even if they wanted. But still, there are a lot of small black businesses that actually add value, who have to go through difficult vetting processes to win orders. After BEE legislation has been done away with, these bulky diverse portfolios will be unbundled one way or the other. BEE companies will go through the "rationalization", "down sizing", "right sizing" and "disposal" of what will be their non-core business. This also when white owned companies will now start to assess and evaluate who their BEE partners are and what it is that they contribute to their business. This is the time when value add will be more important than the color black.

The sustainability of one's business portfolio cannot be condensed into the presence of BEE legislation or its lack thereof. Size and the nature of deals that the black company is currently involved in will have some bearing in the future sustainability of the company. Many white people are generally not interested in doing business with black companies. If the legislation goes then those whites will also bid farewell to whatever black business they were dealing with. I would therefore say that yes some business will be lost but that does not mean my strategies and everything else about my business is not geared towards sustainability. Those white people that have established relations with black businesses solely on the business value derived from this relationship will maintain that symbiotic relationship."

Amon Khosa: "BEE companies likely to be unstable if BEE is removed. We are likely to see massive unbundling of portfolios, and at business unit level these companies will not be able to compete with international firms who are more immersed in focused business unit strategies rather than corporate growth strategies. I am not saying the black owners will get broke. They are covered, they will just sell everything back into the hands of the multinationals and they will redeploy their cash back into other markets as single investors. What I mean is that it's the country that will lose because

all that capital might flight to other countries or regions and the driver to that will be they can't be as productive as their competitors from across the borders so they will just invest in them than try to compete with them. If the government can understand that, they will revamp the BEE policy to focus at the right things.”

5.4.5 BBEE (BEE-POL) is actually bad for these black own business so it should be removed?

This research question's aim was to establish if BEE legislation has been successful or will be a failure in terms of promoting the emergence of competitive black owned firms and if not, what should be the direction the policy makers take on the legislation.

Joe Khumalo: “My company No! We are getting better business expansion opportunities in other African countries. The criteria used in other African countries is based on the knowledge and experience a company brings and the execution of the project. Proper due diligence is carried out and contracts are awarded without prejudice or favoritism. The focus in other African countries is production and creating wealth for the country. We find that in South Africa there are only a few BEE companies that are being given preferential treatment to all opportunities. So if your shareholder is not one of the usual BEE suspects, through supplier vetting the white owned companies does ensure you will not get any contract or deal.”

Mlungisi Hlongwane: “Black Jewell is driving consumer demand and yet the white owned companies still complain about BEE. Examples are retail, automobile, fmcg etc and this demand benefits the entire economy not just the blacks. Statistical reporting of Gini-coefficient is statistically manipulated to show increasing inequality amongst the black when prior to 1994, the rural population was not being picked up in the numbers. There are more informal settlements due to an open and free country. So we see more rural people coming to the cities. At least we can count them now.

BEE cannot be abandoned, it is a political imperative. The white will simply deny black people access to opportunities. You cannot have the majority being poor and do nothing to integrate them into the economy. Change is never small. It takes longer time, and there is moaning and groaning from the society that is excluded from the preferential treatment. You have to pragmatic and understand that you cannot empower an entire economy at the same time. You have to choose layers and approach empowerment to those layers differently. There are hardly as many rich black people in South Africa than whites and clearly there is a negative view of rich black people as opposed to rich white people. In fact the negativity towards black people goes to even suggest that the black elite should now empower the remaining black people because they have enough money. That is missing out the point. The rich black people form less than a fraction of the rich white peoples net income share. We need to raise the stakes even higher and work on the policy to ensure that it drives empowerment at the levels below the poverty line. That's were government has to put focus. Government must look again internally at institutions that are supposed to be facilitating entrepreneurship. We need a bolder approach to our monetary policies and take serious note of the impact of financial legislations at the start-up entrepreneur level. Big BEE companies can maneuver around any of the financial hurdles.

Also one has to understand that there are levels of empowerment. You cannot be BEE forever. Tokyo is empowered already. Also people have to understand that being black it doesn't mean you represent a thousand people every time you invest. There has to be a clear distinction between a shareholder and a company. Most comments seem to treat black people as groups and not as single investors. That raises the question, are we referring to black persons as a company or a shareholder?"

Gugu Moloi: "BEE overall has not delivered what it was intended to deliver. The size of successful black people is very insignificant compared to the numbers that still sit in poverty. Financial Instruments at legislation level not designed to incentive more risk taking by banks. Hence Financial Policy not aligned to BEE act. We are busy chasing inflation and budget surpluses and tax surpluses as if we are a first world country with

low poverty and unemployment. Chinese Banks are bolder in taking financial risks and more conservative on financial return expectations. Institutions are forgetting their roles. IDC is posting profits yet there are so many entrepreneurs struggling to access finance. The institutions that have been developed with aim to promote and support entrepreneurship at the lowest level of the society are adopting a commercial bank behavior, which defeats the purpose of their existence.

BEE act needs a fundamental top-down restructuring. Top end should focus on deal structures and bottom end should focus on alleviating the constraints associated with accessing grants and debt finance. BEE should continue for at least the next fifty years. It needs restructuring to increase new BEE entrants. More than 80% of countries wealth still in the hands of the minorities. Removal of BEE will not force white companies to engage black owned suppliers. White owned companies are only seeking to compliance hence I argue BEE should not be removed until approximately 80% of business to business transactions are black on black like other African countries that are emerging. We should also remember that BEE was proposed or introduced by the white owned businesses that feared that Mandela's government would nationalize their companies. So they even proposed 25% as acceptable limit. This should be raised to more than 50%. The 25% as an acceptable limit is not pushing these white companies to include black owners or managers at the executive and senior management level.

If look at were the majority of the poor reside, BEE has done nothing for them. BEE failed them as it undervalued the single thing they own, which is Land. Government needs to devise instruments under BEE act that will re-direct business focus to these vast lands that our rural people are sitting on. If the land accrues value, then the poor rural people where the majority sit will start finding new entry into the mainstream of the economy. As a country, we have undervalued the property value in the rural areas. Land system is wrong.”

Vusi Mavimbela: “For how long can you be BEE? What is BEE? Maybe that’s where we should start. Mvela can’t claim discounts since it’s owned by black people. It is regarded a well established company or simply an empowered company. Johncomm deal where shareholders refused to sell shares to Mvela and Shanduka at a discounted price. Mvela went ahead and purchased non-discounted shares at fair market premium like any other company would have. When we went into the empowerment deal with Group Five partnering with Illima, it was already being debated that Mvela is already empowered so why should they purchase equity at a discount?”

BEE is actually becoming an impediment to the large BEE companies as companies will not sell to you unless you bring a hundred people to share in the proceeds. So why should one guy sweat and only get 15% of the rewards and share the rest with people who have contributed nothing? This was one of the underlying drivers to the equity sale of Mvela Resources. It’s more difficult to negotiate purchases when you are large. For the white companies negotiating any purchase they are not expected to bring on board a hundred people. This is where it’s naturally forcing large black owned companies to start looking outward. We are looking at rebuilding the group in new markets where total value can be extracted with minimal redistribution effects i.e. Nigeria markets, Zimbabwe, Angola.

BEE is critical for smaller, starting up black owned companies as it gives them an edge into accessing some opportunities they wouldn’t have had a chance to prior to the introduction of BEE policy. The value of BEE follows a normal “S” curve with BEE becoming an inhibitor as the company becomes large.

How long should BEE last? Middle class and the population below that level will direct policy decision. Majority of the population still poor and there is no way we can remove the BEE policy. Experts say that BEE policy will normally last 10 years. I still believe it will or should be around for at least another decade. What should be focused on is

how the policy can be modified to increase the speed at which we are moving the majority into the mainstream of the economy.”

Mzi Khumalo: “I think this country needs empowerment, particularly because we have chosen a capitalist society as a socio-economic model through which we are going to develop and grow. We therefore need an entrepreneurial culture and entrepreneurs. Because the chorus now is: 'Don't allow the usual suspects to be in every deal'. That doesn't bother me because no one wants to have me as their empowerment partner anyway. But I worry about the other guys who are keen. You have to constantly grow. Now it seems every white-owned business, everybody else, is allowed to grow, except black people; they are just not allowed to grow. The attitude is, 'you have had enough, let other people come in'. I'll give you an example. If I went to Anglo today and I wanted to buy a business, and I'm not talking about being an empowerment partner, I'm just saying: 'Can I buy this business from you?', they would say: 'How broad-based is your consortium?' and I would say it's just me and the management. Then they would say: 'Ah well, are we going to get empowerment credits for this deal?' instead of saying: 'Yes we'll sell you this business; show us the colour of your money. Now if some Jewish guy walked in and asked the same thing, they would just deal with him. To me, it's just discrimination. You know what they say: the more things change, the more they stay the same. If you're black, you either have to be rich together, or poor together. You can't be allowed, as a black person, to be rich while others are poor. Yet we see it in the Afrikaner community. And there are rich and poor Jews and rich and poor English people. The South African white community is like that. And I can tell you that in America today, less than 3 percent of the population are millionaires. Here, people are saying that we are trying to ensure that the whole of society are millionaires. I think its outlook needs to change. The South African parastatals, as well as the quasi-government institutions, have to start by having a positive outlook for investment in this country. At the moment I suppose that's why the government has said it's going to invest billions on infrastructure because no one in this country invests in infrastructure. No one has been prepared to invest.”

Nathaniel Ramothela: “BEE only benefiting politicians and its networks as white companies rush for access to government tenders. BEE is actually supporting politicians and their networks not small business ideas. Ordinary people, who happen to be the majority have very good ideas but have no political connections. BEE owners spend time on the golf course and bragging about deals yet us the smaller entrepreneurs we are hustling to keep our businesses in the game. The successful black elite should play a role model in the society. Set up incubators where they can develop other black entrepreneurs and advice them on how to get started. I have a saying that says, “don’t respect a millionaire; respect the person who got them there.

BEE intention is good but it’s badly crafted or implemented as it is building corruption, greed, and opportunism. There is no financial assistance for small or new black companies in the form of large overdrafts. Government grants are pathetic. My business got only R100, 000 grant after two years of waiting and yet the business turns over R3million. R100,000 is nothing and it took too long. Banking system is misaligned with the BEE challenges in South Africa. They are making it more difficult for the small entrepreneurs. You need a lot of money to access debt or finance.

The White people have made these moguls they are now complaining about. Most of these back owners behave as if they are in control of the companies they have equity in, yet they are being put up as a display for the government. One day you will find many “black man crying at a white man’s funeral”. We need a government that will fight to transform the economic system so that it’s accessible to all people willing to participate in the economy and remove or amend the BEE policy to such that it targets the real areas where poverty resides. Now the focus is ownership. How many of the rural folks can actually own Old Mutual? If somehow through a fake consortium, what will they learn or actually recover from that? BEE is poorly implemented and its targeting redistribution at the wrong end. Implementation was supposed to be focused right where the need is. Small people can’t access money and resources in government because they are ordinary people with no connections or networks. It’s really

disheartening to see the country we fought for being redistributed to the connected few.”

Charles Moyo: “BEE Legislation has played and will continue to play a pivotal role in the advancement of existing and the creation of new BEE companies. This legislation provides a point of entry for the bulk of BEE players and does not provide the necessary strategic and tactical inputs that will translate into long term competitiveness that in turn leads to long term sustainability. BEE is supposed to make doing business a lot easier but that does not necessarily happen. Individuals in large corporate companies can be stumbling blocks to my business because they will deliberately sideline me in the face of the value that I propose to add to their business. They will require financials worth millions when they will not even give me business worth R200,000 annually. In cases where the companies and their employees are serious about engaging the services of BEE, the legislation does help in getting one into business and sustaining them in the very same business.

BEE legislation should not be scrapped. The legislation would do with a few amendments. They should consider limiting the number of deals certain individuals can get involved in courtesy of their political clout. Measures must also be put in place to ensure that the big BEE players play an effective supporting role to up and coming BEE candidates. They should have a score card that monitors and polices the big BEE players to ensure that they support new black businesses. The white companies are interested in only the big black names and yet they complain. They want the network but don't ask about the value the black guys bring. Role of black elite should be community projects to mentor aspiring black people. The sad part about BEE is how black people in the senior positions will rather give a white man business instead of a black man. I had an encounter with one of the large Petrochemical Company in South Africa. The procurement manager (black) still prefers the white supplier even if his products are more expensive and identical to mine.”

Joe Khumalo: “I think it should be scrapped and business must be left to carry on business as usual. I think the longer it runs the more damage is done, so it must be scrapped now in order to level the playing fields. At the moment us the smaller black owned companies we are at a disadvantage to the large black owned companies. If your company does not have their name, you will simply not get anything. So maybe without BEE policy it might be better for the start-up entrepreneurs to compete for the same business with some of these large black owned companies but again, its challenge because white owned companies will simply close doors to any black man since they still control the majority of the companies. It’s a real challenge or catch-22. The policy needs some serious reshaping for it to work were its needed, right down at the poor level were entrepreneurs really need support and not to focus on the one billion rand deals only.”

Amon Khosa: “BEE hasn’t been a real success, it has largely been a disappointment to the majority of black people but I don’t think removing it will solve anything. I do believe it’s a learning process, so the government need to reevaluate it and make necessary amendments to make sure the policy actually solves the problem it was intended for. It’s largely focused at company ownership and forgot the majority who are in poverty. Giving them five percent of company when they can’t read or right is not economic transformation. They need to build it bottom up not top down.

At policy level they also need to ensure supporting institutions are aligned to what BEE policy aims to achieve. Many ideas are even failing to just get ears from institutions like IDC, DBSA, or the Khula’s of this world. These institutes are now chasing profits and are working like banks. For the small black entrepreneurs, many funders are not prepared to fund them. They are just unknown for the banks to want anything to do with them. Hence we keep seeing the usual faces in any deal. Financial policies and credit acts are the devil behind eminent gap emerging amongst black people. The richer you are, the more likely you are to get funding and the poor remain cash-constrained.”

Raymond Chimhandamba: “BEE should have an end day or else it will become an outright discrimination. BEE should have horizon and cannot be left to run into oblivion. The reason for this being the generations to come will have come of the same base it would not be understood why 25 years after independence we still have preferential treatment. The only challenge is the BEE is not solving the problem of skills so I don’t know how long will the country keep justifying it. At some point, kids born today might still not have the skills, so will we keep BEE for them? BEE needs to focus on skills acquisition and not on company ownership. Managed well BEE should not be an impediment to growth.”

6.0 DISCUSSION OF RESULTS

This chapter's aim is to discuss the results from chapter 5 of the five research questions that were explored. This will involve discussing the main findings from each question, establishing if there are any divergent views on the subject and if so, accounting for the differences. The findings will also be linked to the literature review and any previous research done to see if there is any consistency between the theory and the findings.

6.1 Is BBBEE the cause for diversification of black business into unrelated industries rather than focusing own core business growth?

Following an analysis of some of the big black owned company portfolios in chapter 5 to prove the diversification of the firms at corporate level of, this research question's aim was to establish whether the BEE legislation is "*the cause*" or "*the catalyst*" of the corporate diversification of most black owned companies.

6.1.1 Findings & Discussion

The most common view amongst the interviewees was against the notion that BEE policy is the reason why black owned companies are diversifying. They argue that diversification of companies is a natural phenomenon in a capitalist economy that has just emerged from a war or colonization and the BEE policy is not the cause for the diversification. They say that BEE policy has acted as a catalyst to these black owned firms that are seeking diversification as a strategy. Guillen (2001) stated that diversified business groups operating in a collection of unrelated activities are typical of the

capitalist countries that industrialized after World War II. As people start up new companies, they diversify even outside the horizontal or vertical lines of current businesses into totally new industries. The arguments against BEE being the cause were supported by the following two reasons;

- a) The need to diversify risk as the new entrepreneurs or black companies are not sure what will generate sustainable profits in the long-term so they hedge their investments and once clarity on performance is achieved, the poor performers will be weeded out through processes of unbundling or rationalization.
- b) The second argument is that the economy is still young and the black owned companies have not amassed enough skills in specific industries hence they need to assess different sectors and once they have confidence in the skill sets for a particular sector, you will also see the same process of rationalization or disposal of businesses they have don't have the skills to be competitive. Matsusaka's (2001) model also implied that diversified firms migrate across industries and eventually exit their original business when they find a good match for their organizational capabilities. An interesting quote was that "for one to focus on a single business line you should have tested the success of that product and you have gained the confidence that you can make money from the operations."

However, there seems to be a view that supports the notion that BEE policy is the underlying cause to the diversification of black owned companies into unrelated industries. Nathaniel Ramothela argument was probably the most compelling and insightful; he argues that the flaws in the implementation of the policy has created an opportunity gap for few greedy and corrupt black elite resulting in their black owned companies diversifying into unrelated industries as they grab any opportunity. This view is supported by Guillen (2001) in which his article states that economists believe that diversified business groups can only exist in the absence of a well functioning market. In the South African case, the poorly crafted and implemented BEE policy as suggested by Ramothela is the reason we see these black owned conglomerates emerging. On one side you have the desperate white owned companies that seek BEE

partners but on the other side you have very few black people being able to raise the capital. Since BEE policy has not being supported by suitable financial instruments for the majority of the black entrepreneurs to access capital to participate in the acquisitions of equity in the white companies, you naturally have a constraint or shortage of black partners. The result of this shortage is that the very few black elite who have networks and capital will end up being called upon by the virtually all white owned companies to participate in almost all equity deals. Thus BEE policy being a failure at design and implementation has caused the diversification of these few black owned companies as there are not many black people who can access finance and take up some of the opportunities.

Another interesting argument raised by Ms Gugu Moloï and Charles Moyo was that the structure of the equity deals at participation level of these black shareholders is probably aiding to the diversification. They argue that these black shareholders (including management of the BEE company) are not involved in the day-to-day operations of the businesses they purchase hence they have more time to focus on finding new investment opportunities. They say these shareholders (and their managers) have to remain busy so they go and buy more companies to keep themselves in the limelight. This interesting soft view is supported by Ahimud and Lev (1981) who state that managers engage in conglomerate mergers in order to reduce their risk of unemployment. Now if one was to analyze these companies, one would notice that the shareholders are not usually involved in the deals but a group of managers employed to manage their businesses are at the front of this M&A (Mergers & Acquisitions) activity. The argument and theory raised by Moloï *et al* and Ahimud *et al* respectively raises an interesting question that needs to be researched further. Are the manager's within these black controlled the drivers to the M&A frenzy in the black diversified companies because they face unemployment risk if they don't look busy?

The authors view is that the point of divergence between the arguments of Ramosthela (supporting the notion) and Hlongwane *et al* (against the notion) is whether BEE is a cause or a catalyst but both arguments agree that BEE has had an impact. My

conclusion to the arguments would be that BEE has speeded up the process of diversification of a “few black owned companies” since the policy and financial instruments have created an artificial shortage of black entrepreneurs with capital to access these BEE deals. Hence the situation of a few black elite and the many desperate white companies has resulted in large scale diversification of the few large black owned companies as the white companies have no other alternatives. The policy has to be amended and supported by right instruments to alleviate this development.

6.2 Black business owners are just opportunistic and not strategic?

This research question’s aim was to establish if there is any structure and strategy to the corporate diversification trend within the black owned companies or the selection of the target acquisitions is purely random and opportunistic.

6.2.1 Findings & Discussion

The arguments presented from the interviews generally agree with the notion that the M&A deals being done by BEE companies are opportunistic and not strategic. The reasons for this view being that the patterns of the acquisitions do not seem to follow any particular sector but ranges across unrelated industries. The examples that one could use is the recent scramble for Johncomm (Media) following other acquisitions in mining resources (Goldfields, Northam Platinum), Information Technology (Lambat Traffic Solutions), financial services (ABSA), construction (Group 5) and healthcare (Life Health Care) that Mvelaphanda Group has done between 2004 and 2006. This haphazard acquisition pattern is eminent in other BEE companies like Metallon, Shanduka, Wiphold and Amabubesi to mention just a few.

Those who agree point to the following reasons why they believe the diversification is opportunistic;

- a) The network circle of the black elite is still small and consequently all opportunities will be shared amongst the few. Thus irregardless of the type of industry the opportunity exists in, the few in the network will share the diverse range of opportunities. If the number of people in the network grows substantially and there is specialization of skills, the view suggests that these opportunities will start falling into the hands of those who actually can add value to the opportunity and not to who has the biggest wallet.
- b) White owned companies desperate to comply with the BEE legislation are also approaching these black owned companies. They select their BEE partners based on network, access to government, and access to capital while skills and alignment of business focus are not important. This results in the Elite being opportunistic in the sense that they purchase businesses that might not have been part of the acquisition plan.

The supporters for this view do also suggest that this trend is not sustainable over the long horizon; hence these companies will also be unbundled and sold to competitors who can turn a profit more productively.

The critics to the notion that BEE companies are opportunistic not strategic start of by advocating that the South African democracy is still young and the process of transformation is still its early phases. Charles Moyo puts forward a case arguing that for one to take an opportunity and make a profit from it needs some element of strategy to it. He goes further to quote Richard Maponya, a successful black entrepreneur even before BEE came into act. He uses Maponya to ask if there was no BEE, what would they have called his success. Another prominent example is Pamodzi Investment holdings. Pamodzi was setup in the 80's by Ndaba Sithole. He clearly had no opportunity but had hustle through a system that excluded black businessman from participating in the mainstream economy. The critics go on to ask a provocative question, why is it if a black takes an opportunity it's not regarded as being strategic or clever? They argue that such stereotype statements about black people being opportunistic and not strategic reflect how deep racial connotations are embedded in business.

Charles Moyo raises an interesting angle to this debate by raising two issues;

- a) The difference between the attitudes of white companies towards “Small BEE” and “Large BEE.
- b) The attitude of black senior managers towards smaller black owned companies.

He first argues that without BEE policies, most white organizations would preferentially not afford black companies an opportunity to do business with them. Now since there is an act and the white companies are rushing to comply, in selecting the businesses they want to partner or do business with, they only choose the black companies with big names behind them. The smaller BEE as they are not in the news headline’s they are exposed more stringent measures before they are even awarded a small contract. He talks of his experience with one of the large petrochemicals who required financials worth millions and yet they would not even give him a business worth R200,000.

The second argument he uses is that it is quite disheartening to see that as a small black owned company you get a raw deal from black managers within the white owned companies. He alludes this to the inferiority complex that most black people still have. Black managers in white companies would regard doing business with a black company as high risk as black companies would produce inferior goods or services. He argues that as small black company if you want to do business with a white owned company you stand a better chance if you deal with a white manager as the chances of getting an opportunity via a black manager are slimmer. This raises an interesting question that can be further researched; why do black managers in senior positions tend to prefer to deal with white owned companies as suppliers and even further to that, why most black owned companies prefer to have white managers in senior positions.

6.3 Black business owners are not acquiring operational business since they are not involved in the day-to-day operations?

This question builds on what Porter (1999, p. 121) described as the facts about diversification. He states that “competition occurs at the business unit level; only their business units do”. The question assumed that the experience and skills of crafting successful competitive strategy reside at the business unit level. Thus limited involvement of the empowered black middle class and elite at the business unit level will result in these skills for competitive strategy development and execution not being transferred to the black people. Hence the research question’s aims was to establish if there is a consistent proof of lack of involvement of black company owners at the business unit level, running day-to-day operations.

6.3.1 Findings & Discussion

The shared view amongst the interviewees is that black owners of most of the BEE companies are removed from the operations and are only involved at corporate level of the businesses they own as they occupy non-executive directorship positions resulting in them being involved at corporate level and not at business level where the hard skills are entrenched. With this thinking, proponents of this argument even conclude with the suggestion that the BEE elite do not understand most of the businesses they own and offer no organic growth value addition. The underlying reasons to this argument are;

- a) The process of acquiring companies offers a very specific skill set in corporate finance but after the acquisition, the real value is extracted from operations being able to deliver the productivity gains.
- b) The second reason follows on from the first reason. They argue that processes involved in turning around operations, making a business profitable in a competitive market and even growing the market share, involves hard skills that will be useful in sustaining a competitive edge in a global environment. Being far removed from these processes results in less skills transfer.

Ramothela and Hlongwane even go further to raise a thought provoking statement for South Africa. They say with the emerging trend of every Black South African citizen rushing to become a shareholder in many business and not being involved at levels where hard skill are acquired, South Africa is exposed to what they term a “skills coup”. They argue that most of the positions where skills of running businesses competitively can be learnt are occupied by the white minority and foreigners. They go on to allude to the notion that if something disastrous happens to South Africa, there could be a massive exodus of these skills as foreigners and white minority are very nomadic. This situation will leave South Africa with a large pool of black elite that owns everything but can’t make those businesses competitive. Thus, they conclude that with this “shareholder (gold) rush”, South Africa is exposed to a “skills coup d’état”.

Gugu Moloi added to this argument by comparing BEE to Afrikaner empowerment under apartheid. She argues the Afrikaner’s empowerment policy was not aimed individual wealth but was aimed at creating institutions which would preferentially employ Afrikaner’s. This resulted in institutional memory being created and Afrikaners acquiring hard business skills. These institutions created employment opportunities in numbers for the Afrikaner population, and the consequence of this was that the majority of Afrikaners acquired hard skills and some became entrepreneurs. The current form of Black economic empowerment is focusing on creating a pool of rich black elite people. The flaw in its approach is that it’s not building institutional memory and skills in the majority population. It has left all responsibilities of skills transfer to BEE which is also a failure in most organizations as they are still struggling to even meet a low target of 25% in top management. The 25% compliance is being filled in with soft positions such as Human Resources, Public Relations and Communications positions while the key roles like Operations, Sales, Production, Finance, Strategy and Engineering are still being occupied by the white minority.

The critics to the notion suggesting that BEE companies are not acquiring any skills since they are not involved in the day-to-day operations start of by pausing the

argument of the “shareholder” versus the “company”. They argue that the discussions around BEE always seem to cluster black people into a company and not regard them in singular as an investor or shareholder. They say shareholders or investors in singular forms are diversified and companies are focused and immersed into the day-to-day management of operations. Mzi Khumalo and Hlongwane’s comments are most interesting regarding this view. They argue that black people when required to invest have to always bring behind them a number of black people so that the deal is regarded broad based. If they don’t have a large number of black people participating in the deal, they lose the opportunity. To the contrary, white investors are not subjected to similar treatment. They can invest in singular. This raises a very interesting discussion around the following questions; Do investment houses need to acquire any operational skills in the firms they own? Why are black owned companies being judged on their non-involvement in day-to-day operations when they are investment houses not operational companies?

The author finds this argument of the “investor” versus the “company” insightful and pertinent to how one assess these new black owned companies. The question would then be;

- a) Are these black owned companies’ investment houses or conglomerates?
- b) What kind of skills do investment houses need to acquire? Operational skills or corporate finance skills?
- c) Are they acquiring these skills in their current businesses?

6.4 Black businesses will not survive competitively in global markets where there is no BBEE or when BBEE is abolished in South Africa?

This question builds on the previous question of competitive strategy skills transfer to the empowered black owners. The research question’s aim was to establish if these

companies will be able to compete in an environment where the black owned companies are not protected or supported by a government policy by continually innovating and upgrading their competitive strategies for the individual business units.

6.4.1 Findings & Discussion

The general consensus within the theory and findings is that in order to sustain competitiveness of a business unit, you need leadership to have grasp of dynamics at the operational level. Joe Khumalo, Gugu Moloï and Dr Mandla Adonisi argue that the competitiveness of a business is embedded in the skills of the management and leadership of the business. This is consistent with Barney (1991) who argues that the source of sustained competitive advantage lays in the firm's level of resource (skills) endowment. Joe Khumalo *et al* argue that as long as the black owners of these emerging diversified BEE companies are not fully integrated into the operations of the individual businesses, they are not well equipped to participate in the strategic planning process of either taking their businesses offshore or even worse, designing a strategic response to international competition in local market. Dr Mandla Adonisi uses an interesting metaphor. He likens BEE policy to a "crutch", and using to describe what will happen to the black owned companies when BEE is removed. The proponents of this argument conclude to say when the "crutch" is removed; these companies will not have the capacity to compete as they will no longer enjoy the support they had previously. They predict a series of unbundling, rationalization or closures when this happens.

Ms Gugu Moloï further suggests that the best chance these black owned companies have if they are to participate in international markets is to remain at an equity level without controlling stake and become purely an investment house. She suggests that by doing so, they become permanently removed from running businesses they have equity in. This argument is consistent with the question that Hlongwane raised around black companies being evaluated wrongly as they might be investment houses and not conglomerates. This introduces the rationale that when BEE is removed, you are likely

to see a spate of unbundling, disposals and restructuring of these diversified BEE companies. This raises the question of who actually loses when BEE is removed and these companies go through unbundling. Is it the black companies or South Africa? The challenge that South Africa as country will at that time is to minimize the risk of capital flight as these black elite reallocate their funds to other international companies that would be able to post sustainable profits through competitiveness. Coate and Lorry (1993) also were concerned with the ability of the labour-market gains BEE brings to minorities can continue without it becoming a permanent fixture in the labour market without becoming a permanent fixture in the labour market.

Charles Moyo argues convincingly that “the sustainability of one’s business portfolio cannot be condensed into the presence of BEE legislation or its lack thereof. Size and the nature of deals that the black company is currently involved in will have some bearing in the future sustainability of the company.” This argument is augmented by the Ramothela case for differentiation between the “large BEE” and “small BEE” companies. He argues that the level of involvement of black shareholders in large BEE companies is different to the level of involvement of the small BEE companies. The directors and shareholders of the small BEE companies are at the heart of the operations of their business and sometimes they are so immersed in the detail that they don’t have time for corporate strategic planning. They spend more 90% of their time planning and executing competitive tactics at the lowest level, which is not the case in large BEE companies. Ramothela and Moyo add to the debate by saying that yes, the large BEE companies will be unstable but that statement is not true for the smaller black owned companies. The smaller black owned companies will be able to compete and defend their existing businesses as they have succeeded despite BEE policy being designed to assist them. The case of the “large BEE” versus “small BEE” company in debating competitiveness of black owned companies is very insightful.

Charles Moyo further argues with compelling evidence that large Black Managed companies will be competitive after BEE policy is removed. He quotes examples of MTN which is run by a black person, Phuthuma Nhleko being a global giant and even

succeeding in markets that have been perceived risky by the successful multi-nationals. However critics to this argument say that the argument of Phuthuma is invalid as MTN is not a black owned company. The more valid discussion would be the ability of Black Executives to manage large corporate successfully through a growth phase of the organization. However Charles Moyo brings in the example of Mzi Khumalo's Metallon that has been able to go into Zimbabwe and be competitive enough to extract a US\$1billion in 3 years under very tough economic environment.

He agrees on the prediction that there will be rationalization and unbundling but argues that this is not an unusual phenomenon when a country changes certain economic policies. The markets will adjust and the individual firms in the market will restructure in a way that repositions them competitively. The question should rather sit with the management, if they have the skills and experience to restructure and renew their businesses before the policy changes or is removed. Barr, Stimpert, and Huff (1992) also state that organizational renewal requires that a firm's top managers make timely adjustments in their mental models following significant changes in the environment. This adjustment can be likened to South African firms restructuring after the abolishment of apartheid. During apartheid, firms locally had to vertically integrate in order to guarantee supply of raw materials and products to the market but when sanctions and apartheid were removed, they had to reevaluate what the optimal value chain would look like. This involved unbundling and in some instances, these processes are still happening. The examples of Mittal unbundling iron ore mining operations and investing further iron and steel production. Guillen (2001) also states that the diversified business groups can only exist in the absence of a well functioning market. Once the market system is free and functioning well, these diversified companies will be restructured.

6.5 BBEE is actually bad for these black own business so it should be removed?

This research question's aim was to establish if BEE legislation has been successful or will be a failure in terms of promoting the emergence of competitive black owned firms and if not, what should be the direction the policy makers take on the legislation.

6.5.1 Findings & Discussion

Mlungisi Hlongwane starts by arguing that BEE has been a success but there are opportunities for improvement as this is a learning process, which also supported by Amon Khosa. Hlongwane uses the example of the black Jewell being the underlying driver economic growth through increased middle income spending power. He argues that this spending power has transcended into huge revenue growth rates for both the government (through income tax and value added tax) and the private sectors (through sales) in sectors like automotive, retail and consumer goods. Thus for the economy, BEE has been a success and has added to the economic growth prospects of the country as the size of the market has grown. However, Hlongwane and Khosa do also mention that the success of BEE has to be analyzed at different levels of the society.

Vusi Mavimbela, Charles Moyo, and Nathaniel Ramosthela argue that BEE success cannot be aggregated. It has to be analyzed at different levels of empowerment. Mavimbela starts of by arguing that BEE is actually an impediment to growth in the local market for the big black owned businesses for the reasons argued in earlier sections that these companies have challenges in taking new opportunities as a single entity but are required to bring in a large diversified group of black people to participate in the deal. Mavimbela and Mzi Khumalo argue this has a dilutionary impact on returns of the deal which they would have worked on as an individual entity. They argue that white owned investment companies have the luxury to invest in singular thereby reaping all rewards in transaction. So these large black owned companies are being

forced to reinvest their profits in new markets rather than investing locally as they stand to harvest more returns from their investments.

Nathaniel Ramothela, Charles Moyo and Joe Khumalo argue that BEE has been bad for the smaller black owned companies. Their reasons to this are;

- a) Small businesses managers generally are ordinary people with no political connections and usually don't make headline news hence the white owned companies see no value in doing business with them as they selectively need the black elite that can give political clout.
- b) Small business have no access to finance hence entering and surviving in business at that level when white companies have stringent vendor assessment processes when assessing the small black company.

Ramothela proceeds to state that BEE has only created greed and corruption especially in the government structures as white businesses use the black elite to access public spending. Politicians are regarded as the people who have benefited the most through this BEE policy and not the intended small black businessman trying to enter or grow to in the economy. However, Ramothela does not believe that removing BEE policy is the solution. He suggests it requires amendments in such a way that it focuses where the need is (new black entrepreneurs) and not corporate equity ownership. The financial legislations at the moment are stifling any new black entrepreneurs so they also require alignment to BEE policy at the right level.

Gugu Molozi starts by saying BEE has overall disappointed the majority of South Africans. She proposes that BEE needs a fundamental top down restructuring and minimize support or empowerment at large company level and put focus on supporting industries that build institutional memory in Black South Africans. She even proposes that the 25% level should be raised to at least 50% black management over a shorter time horizon. She acknowledges that removing it will not solve the problem but BEE needs to be refocused to assist where the poverty actually sits and giving people equity in companies is not a sustainable solution to the poverty in South Africa. People need institutions where they can learn skills and help themselves in future.

Raymond Chimhandamba brings in the argument about a horizon for BEE policy. He argues that BEE policy should be in existence for only a duration equivalent to a generation for instance 25 years. He argues that there are kids that being born today who will need to compete on equal footing. That generation cannot retain BEE as a justification of preferential treatment to the black people. Provocatively he argues that if we cannot at least get a majority over the poverty line in 25 years, then how do we expect to solve it in 50 years. Free market forces must be left to reign in at some point in time to ensure South Africa doesn't loose out in the long-term on competitiveness by creating a large population that depends on government policy to compete locally with international companies.

With these interesting insights into Black Economic Empowerment and Competitiveness, we can move into the conclusion chapter to summarize the author's findings and views.

7.0 Conclusion

7.1 Black Economic Empowerment & Firm Competitiveness

The legacy of apartheid is a legacy of inequality – economic inequality, social inequality, and political inequality – and especially the unequal evolution of South Africa’s political culture (Gibson, 2003). Apartheid systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy. The assets of millions of people were directly and indirectly destroyed and access to skills and to self-employment was racially restricted (DTI, 2003). The wealth accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today, in essence, still excludes the vast majority of South Africans (DTI, 2003)

The government of South Africa then introduced the Broad Based Black Economic Empowerment (BBBEE or BEE) as necessary intervention to accelerate the process of increasing black people participation in the mainstream economy. The government states that BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities (DTI, 2003).

A government intervention on a “free market system” creates an artificial economic system in which the existing firms in the nation take a strategic position in order to survive. In South Africa, the challenge the nation faces with such an intervention is the future competitiveness of the firms created under the umbrella of BEE when the legislation is abolished. Literature suggests that firms that enjoyed protection normally struggle to renew themselves when the protection is removed as internal resources of

the firm were not geared to compete without government support. Black owned South African firms under BEE policy enjoy such protection as the policy gives them easier access to customers and suppliers. Thus the question is, are the black owned companies engaging enough at the competitive level of a business unit in order to acquire knowledge and skills that will use when the BEE legislation is abolished.

The assumption that this study takes is that competitive advantage of a firm is embedded at business unit level and not at corporate level. Porter (1996, p. 121) states that “diversified companies do not compete; only their business units do.” Thus the research questions are designed to explore the level at which the emerging black elite and black owned companies are immersed into the detail at the business unit level as the important learning and strategic insight in an industry lays at that level.

7.2 Research Methodology

Five research questions were designed to explore the underlying views around the notion that “most black owned companies emerging under the period of this BBBEE legislation will collapse when the legislation is removed as they have not been exposed to unprotected competition”. The questions were generated from the literature review as tabled in the consistency matrix.

Table 3: Interview Schedule in chapter 5 lists the questions that were used in the interview question and highlights underlying themes or variables relationship it was trying draw out of the open-ended questions.

Table 7.2: Interview schedule and Objectives

An exploratory qualitative technique was used as it would provide data with depth and detail through direct quotation and careful description of situations, events, interactions and observed behaviors (Labuschagne, 2003). Telephonic interviews, face-to-face

interviews, and archival interview documents were used as instruments to collect the data. The grounded theory technique was used to generate codes for repetitive themes in the data. The codes were then used to classify and analyze the data as per categories of the common themes.

The major limitation of the research design was that the units of analysis were essentially black business people who have interacted with the BEE legislation either in their personal ventures or career experience. This has a potential of not picking up a general bias within the data as all subjects have an almost similar historical background. In future, it is suggested that focus groups with participants from of sectors of the society being involved.

7.3 Findings

The summary of the findings or the study are as follows;

- 1) The diversification of black owned companies into unrelated industries is caused by the BEE legislation but rather, accelerated by the legislation. However, most of the corporate diversification are generally opportunistic and not part of a strategy.
- 2) Most emerging black owned companies actually operate as an investment group similar to pension fund managers although they claim that they are industrial conglomerates. This results in most of the senior black managers and owners of the diversified company operating at the corporate level of the organization and not being immersed in the day-to-day operations of the business where the competitiveness of the individual business units is executed and designed.
- 3) BEE legislation has impacted black companies differently depending on the size of the company. Access to finance or debt being the root cause behind the

differences. Small black owned companies or aspiring black entrepreneurs are not gaining critical mass as their balance sheets remain too small and risky for the prevailing financial instruments to support them. This in turn leaves the large BEE companies with enough capital and political connections to participate in the transfer of ownership of the white owned companies. This is potentially aiding to the increasing inequality amongst the black population.

- 4) The future competitiveness of the business units under black owned companies will be low when the legislation is removed as the individual business units will be under leadership that has not acquired skills at the business unit level.
- 5) South Africa's "real skills" void is being increased as most emerging black middle class and elite are jumping the experience curve as they rush to become shareholders and sit on boards as non-executive directors who actually have little to offer at the competitiveness level.

Summarily, BEE legislation in its current form might in the long run affect competitiveness of the nation negatively as skills transfer and investment at the business unit level of the emerging black owned companies is not happening. It might also accelerate the increasing inequality amongst the black population and fuel a class struggle or the struggle between the socialist reformers and capitalist reformers as the majority of the black population will have not benefited from BEE legislation.

7.4 Recommendations

The author's recommendations are around the refocusing of the BEE legislation. The BEE legislation cannot be abolished within the next ten years but needs some fundamental restructuring. It needs to put emphasis or focus on the following;

- 1) Small entrepreneurs still starting up and not only on equity ownership of white owned companies.

- 2) BEE or Employment equity targets should be increased and the time horizon shortened as they are too slack and run the risk of spanning over an indefinite horizon. Penalties need to be enforced otherwise the process of integrating blacks into mainstream economy will take forever.
- 3) Targets should be set for the black owned companies to install at least an equivalent proportion to the equity purchased of black managers into the operations of the businesses they acquire.
- 4) Rural development projects which create employment opportunities in the rural areas underdeveloped sectors of the economy for the rural people should get highest tax breaks or incentives. Without this, institutions where rural people can go and work while acquiring skills will never be created and those sectors shall forever remain under developed.
- 5) Projects that increase the value of land in the rural sectors of the country should also get tax incentives. This will transfer wealth back into the rural people as their land regains the value it lost over the last decades.
- 6) In addition to the above the government will need to align all other policy instruments especially around access to finance to be much bolder and take more risks with new entrepreneurs in funding small projects not equity deals. Currently financial instruments and banking policies designed for developed economies not developing nations.
- 7) The government needs to re look at the performance criteria of institutes developed to assist black entrepreneurs.
- 8) The governments need to have a target end date otherwise BEE will create a dependency amongst black people while becoming an impediment for increasing Foreign Direct Investment from multi-nationals.

7.5 Future Research

The author proposes that further research the following areas would assist formulating amendments required for BEE legislation to still achieve socio-economic

transformation without impacting negatively the future competitiveness of the companies formed the umbrella of Black Economic Empowerment. The areas should at least cover the following;

- 1) The relationship between small black owned companies and black managers in senior management positions of white owned companies.
- 2) Typical vetting process within organizations for the small black company.
- 3) The differences between an industrial conglomerate and a diversified investment house.
- 4) The average process of accessing finance for the small black company or entrepreneur and the common reasons for failure to access the finance.
- 5) The differences or similarities between the white elite and black elite.

8.0 References

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APPENDIX A: CONSISTENCY MATRIX

Table 5: Consistency Matrix

| RESEARCH QUESTIONS | LITERATURE REVIEW | DATA COLLECTION TOOL | ANALYSIS |
|---|--|--------------------------------------|--------------------|
| Q1. Is BBBEE the cause for diversification of black business into unrelated industries rather than focusing own core business growth? | Porter, 1996 Andrews, 1987 Mintzberg, 1994 Prahalad and Hamel, 1989 | Interviews, Email and Archival | Grounded Theory |
| Q2. Black business owners are just opportunistic and not strategic? | Prahalad and Hamel, 1989 | Interviews, Email and Archival | Grounded Theory |
| Q3. Black business owners are not acquiring operational business since they are not involved in the day-to-day operations? | Porter, 1996 | Interviews, Email and Archival | Grounded Theory |
| Q4. Black businesses will not survive competitively in global markets where there is no BBBEE or when BBBEE is abolished in South Africa? | Porter, 1996 Stiglitz, 2006 Michael, 1998 | Interviews, Email and Archival | Grounded Theory |
| Q5. BBBEE is actually bad for these black own business so it should be removed? | Visagie, 1999 Meintjies, 2004 | Interviews, Email and Archival | Grounded Theory |



APPENDIX B: THE BEE SCORECARD

Table 6: BEE Scorecard

The BEE scorecard

| Core component of BEE | Indicators | Conversion Factor | Raw Score | Weighting | Total Score |
|---|---|-------------------|-----------|-----------|-------------|
| Direct empowerment score | | | | | |
| Equity Ownership | % share of economic benefits | 2 | | 20% | |
| Management | % black persons in executive management and/ or executive board and board committees | 2 | | 10% | |
| Human resource development and employment equity score | | | | | |
| Employment equity | Weighted employment equity analysis | 2 | | 10% | |
| Skills development | Skills development expenditure as a proportion of total payroll | 2 | | 20% | |
| Indirect empowerment score | | | | | |
| Preferential procurement | Procurement from black-owned and empowered enterprises as a proportion of total procurement | 20 | | 20% | |
| Enterprise development | Investment in black-owned and empowered enterprises as a proportion of total assets | 20 | | 10% | |
| Residual 10% | | | | | |
| To be determined by sector/ enterprise | | | | 10% | |
| Total Score out of 100% | | | | | |

Source: DTI 2003: *A Strategy for Broad-Based Black Economic Empowerment*

APPENDIX C: KEY DEFINITIONS

“**Black people**” is a generic term which means Africans, Coloureds and Indians (Government Gazette, 2004).

Black Empowered Enterprise is one that is at least 25.1% owned by black people and where there is substantial management control. Ownership refers to economic interests. Management refers to executive directors. This is whether the black enterprise has control or not (DTI, 2003).

Black Enterprise is one that is 50.1% owned by black people and where there is substantial management control. Ownership refers to the economic interest while management refers to the membership of any board or similar governing body of the enterprise (DTI, 2003).

Broad Based Black Economic Empowerment (BBBEE or BEE) is defined by the South African Government as the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies. This term is used interchangeably with the abbreviation BEE (Black Economic Empowerment).

Community or Broad-Based Enterprise has an empowerment shareholder who represents a broad base of members such as a local community or where the benefits support a target group for example black women, people living with disabilities, the youth and workers. Shares are held via direct equity, non-profit organizations and trusts. Benefits from the shareholding should in a measurable sense be directed towards the upliftment of the community, through job creation, welfare, skills development, entrepreneurship and human rights. At the same time, directors and management of groups should significantly comprise black people. These arrangements are appropriate in situations where the activities or operations of an enterprise or industry directly impact on a community or are located in a community, or may benefit a community. Notable examples would be large industrial

projects, mining and tourism. Other instances, which do assist in broadening the shareholder base, would be employee share ownership schemes; these are a viable empowerment shareholder option. In this and other circumstances, these arrangements should not detract from the ability of shareholder to exercise significant influence or control over the operations of the business (DTI, 2003)

Co-operative or Collective enterprise is an autonomous association of persons who voluntarily join together to meet their economic, social and cultural needs and aspirations through the formation of a jointly owned enterprise and democratically controlled enterprise (DTI, 2003).

Middle Class Consensus is defined as a high share of income for the middle class and a low degree of ethnic divisions (Easterly, 2000)