



**Black Economic Empowerment and its Impact on Wealth Creation in the New
South Africa.**

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A research project submitted on the to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration

13 November 2008

Abstract

Black Economic Empowerment (BEE) is a transformative government policy of South Africa. It was developed to achieve several key outcomes which include; transferral of wealth and factors of production (capital, land, labour and entrepreneurship) to the previously disadvantaged black population; ensure the development of skills and employment equity; and to facilitate the development of a black middle class. This would manifest through both the transfer through ownership as well as creation of new enterprises by this new black middle class.

A qualitative research method was adopted for this study to gain insights from relevant experts/participants or players in the BEE arena. These participants were beneficiaries, political commentators or financiers of BEE transactions. The research instruments included face-to-face in-depth recorded interviews with questionnaires to obtain the expert's views on the issue of BEE and its impact on Wealth Creation in South Africa.

The results obtained revealed that BEE has had no impact on Wealth Creation for the South African economy. However, individuals often those with political connections have made personal wealth through patronage. The view is that government implement complementary strategies for growth like an Industrial Policy supported by DFIs and other incentives. The ownership element of BEE must be done away with in favour of a focus on enterprise development, Affirmative Action and Skills Development.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of 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. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Andile Caleb Makhunga

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Date

The bourgeoisie, during its rule of scarcely one hundred years, has created more massive and more colossal productive forces than have all the preceding generations together (Marx and Engels, 1848).

The struggle against racism in our country must include the objective of creating a black bourgeoisie... I would like to urge, very strongly, that we abandon our embarrassment about the possibility of the emergence of successful and therefore prosperous black owners of productive property. (Thabo Mbeki, 1999)

Dedication

To my understanding wife Buyisiwe and my precious daughter Banothile MeiShi, I am inspired by your love and I love you.

Acknowledgements

I would like to thank the following people who contributed to this work in one way or another:

- The people of Africa for the endurance and love they show in the face of poverty in a sea of abundance. We shall overcome.
- My supervisor, Dr. Mandla Adonisi for his guidance, support and knowledge, a true professional.
- The participants in this study both for time as well as their knowledge and expertise.
- My mother and father for knowing what is important and sacrificing everything.
- The Clan for being open minded and for sharing their ideas.



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Chapter 1: Introduction

1.1 Background and Historical Context

On 27 April 1994 Nelson Mandela's presidential election crowned the birth of multi-racial democracy in South Africa and the death of apartheid, a remnant of Africa's long history of violent racial oppression (Scharf, 2008). South Africa's freedom was achieved through the peaceful transfer of power from the ruling National Party to the democratically elected African National Congress (ANC).

Apartheid's legacy to the newly democratic South Africa included highly visible income poverty and inequality. Although income poverty was not high by African standards (Seekings, 2007), it was strikingly visible in South Africa since it coexisted with great affluence and inequality correlated with race (Seekings, 2007).

The ability of people to conduct economic activities for their own benefit is central to the underpinning of any credible political process (Mafuna, 2007). Any group dependant on another for its economic sustenance will soon come under the political domination of the latter (Mafuna, 2007).

The development of the diamond fields around Kimberley followed by the discovery of gold on the Witwatersrand in 1886 had a decisive impact on the subsequent

form and structure of the South African economy and, indeed, on the Southern African region. This impact would endure, in many ways, for over 100 years (Innes, 2007). Innes (2007) further stated that with the need to provide cheap labour for the gold, diamond and coal mines that were rapidly being developed came the evolution of the migrant labour and compound systems; black rural cultivators and peasants were forced off their land by the state and into contract labour on the mines. This era of dispossession resulted in the loss of most, if not all, productive assets owned by Africans. Black business was restricted as to the type, area, size and choice of trading partners, and rural people, who had not yet built up productive assets, were heavily disadvantaged by not being able to participate in viable economic activities (Black Economic Empowerment Commission (BEE Com), 2001).

1.2 Historical Imperative and Rationale

Lucas-Bull (2007) observed that a history of white democracy and black exclusion was directly responsible for rapid white capital accumulation and the effective impediment of black capital accumulation. One of the most important aims of the apartheid architecture was to suppress black entrepreneurship, skills acquisition and property ownership in order to defend and support the interests of the white economy (Lucas-Bull, 2007).

To redress the imbalances of the past apartheid regime, the ANC government implemented a Black Economic Empowerment (BEE) Policy in 1994. The advent of BEE in South Africa was designed precisely to improve participation in the economy by a previously marginalised majority. Klemz, Boshoff and Mazibuko (2006) asserted that the goal of the ANC was to alleviate poverty through broad-based economic empowerment policies, in effect redistributing income from the generally wealthier white community to the poorer black township communities.

The core issue was to promote a more balanced, equitable society through the transferral of wealth. Masito (2007) claimed that BEE aimed to balance economic power by giving black people access to, and ownership of, economic factors of production. In the 1990s a plethora of highly public BEE deals were announced. The first wave of BEE deals began in 1993 (Jack, 2007), and in that year Sanlam (via Sankorp) sold its controlling interest in Metropolitan Life (MetLife) to Dr Nthato Motlana's BEE consortium, which became New Africa Investments Limited (Nail). By the end of 1998 – a peak year for the bull run on the JSE – Nail had a market capitalisation of nearly R6 billion (Jack, 2007).

With all this activity in transactions from the time of BEE policy inception, the apparent transfer of wealth occurred at a rapid pace, creating a number of black millionaires overnight.

Masito (2007) explained how, for both Afrikaners and blacks, empowerment meant economic freedom - meaningful participation in and equal access to economic factors of production (land, labour, capital and entrepreneurship).

1.3 Research Objectives

It is important to measure the success of BEE in transferring the economic factors of production to blacks, thus facilitating wealth creation. The challenge to BEE proponents was how to stimulate engagement with the white wealthy classes, persuading them to relinquish the sway they had over productive forces. This paper examines the effectiveness of BEE in its current form in creating wealth by using the factors of production. A comparison is made with the Malaysian New Economy Policy of transferring wealth to indigenous Malaysians, and the resulting economic re-investment from this class. Questions to be answered relate to whether BEE means that the new black wealthy elite will invest in the South African economy or not.

1.4 Research Questions

The following research questions were proposed:

- Has there been a transfer of the control over the factors of production (capital, land, labour and entrepreneurship) to blacks through the implementation of BEE in South Africa?



- Have these factors (capital, land, labour and entrepreneurship) been employed in the production/creation of wealth in South Africa?
- Has the policy of BEE led to transfer of wealth to blacks in South Africa?
- Has the policy of BEE led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?

Chapter 2: Literature Review

2.1 Empowerment

Civilisation identity will become increasingly important in the future, and the world will be shaped, in large measure, by the interactions among seven or eight major civilisations. These include Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American and, possibly, African civilisations. The most important conflicts of the future will occur along the cultural fault lines separating these civilisations from one another (Huntington, 1993). Such major conflicts have occurred before, particularly in Africa when Europeans arrived on the continent.

Huntington (1993) states that differences among civilisations are not only real, they are basic. Civilisations are differentiated from each other by history, language, culture, tradition and, most importantly, religion. People of different civilisations have different views on the relations between God and man, the individual and the group, the citizen and the state, parents and children, and husband and wife. In addition, they have differing views on the relative importance of rights and responsibilities, liberty and authority, and equality and hierarchy. As things currently stand, non-Western civilisations will continue to attempt to acquire the wealth, technology, skills, machines and weapons that are considered part of being

'modern' (Huntington, 1993). They will also attempt to reconcile this modernity with their traditional cultures and values.

The particular challenges of defining some of these civilisations can be explained as unique nation state challenges rooted in the introduction of new civilisations. South Africa is no exception to this, being a torn country with a history of competing civilisations. Huntington (1993) states that in order to redefine its civilisation identity, a torn country has to meet three requirements. Firstly, its political and economic elite have to be generally supportive of and enthusiastic about this move; secondly, its public have to be willing to acquiesce in the redefinition; and thirdly, the dominant groups in the recipient civilisation have to be willing to embrace the conversion. All three of these exist in large part in South Africa.

The state of most African nations' current economic conditions can be traced back to colonialism, and even further back to slavery. The arrival of Europeans meant great changes for Africa - with South Africa being no exception. The state of the relationship between whites and blacks continues to manifest in the South African context in terms of power and resource control.

Power can be identified in several ways, but the South African situation provides a peculiar scenario with one group of antagonists holding different aspects of power

over the other group. Today Africans (previously disadvantaged) have the political power and whites hold the economic power.

2.1.2 Rationale for Empowerment

The idea of enterprise and capital accumulation is central to the idea of a market economy (Lucas-Bull, 2007). This means that engaging in economic activity in order to build, control and own assets is critical to political buy-in. Moreover, it provides a sense of security. For South Africa the challenge is to facilitate sustainable transfer of economic ownership to the political majority without destroying market economy drivers — shareholder capitalism, free enterprise and, in particular, free financial markets (Lucas-Bull, 2007).

South Africa emerged from centuries and decades of colonialism and apartheid when the first democratic elections were held on 27 April 1994. The colonial and apartheid policies resulted in the majority of South Africans being “systematically and purposefully restricted from meaningful participation in the economy” (Department of Trade and Industry (DTI), 2005). The Government’s Report on BEE (DTI, 2005) referred to apartheid’s confining of wealth creation to a racial minority as having resulted in an economic structure that today, in essence, still excludes the vast majority of South Africans.

2.2 Black Economic Empowerment

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. Under apartheid the accumulation process confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today still excludes the vast majority of South Africans.

It is crucial to understand the magnitude of what took place in our past in order to understand why we need to act together as a nation to bring about an economic transformation in the interest of all (DTI, 2005). The new South African government has always had the intention of changing the status quo by either transferring wealth back to the majority (previously oppressed blacks) or facilitating new and innovative methods of creating wealth that will ensure that all South Africans benefit. This programme would be aimed at addressing the inequalities of the past and ensuring that all who live in South Africa are able to share in its prosperity and wealth.

The DTI (2005) asserts that the vision of an economy that meets the needs of the people in a more equitable manner goes back to the Freedom Charter of 1955. This was refined and developed in the contemporary context in the Reconstruction

and Development Programme (RDP) (1994). The need to effect redress in the interests of equity is also embodied in the Constitution of South Africa. Subsequently government has outlined broad economic strategies to transform the economy by 2014, including the Microeconomic Reform Strategy and a range of specific strategies such as the Integrated Manufacturing Strategy and National Research and Development Strategy.

The broader definition of BEE by the BEE Com (2001) argues that “the fundamental crisis in our economy is that black people remain excluded from financial and economic resources” (BEE Com, 2001). The report further asserts that BEE must incorporate comprehensive strategies which are aimed at increasing access to productive assets (factors of production), while simultaneously ensuring the productivity of those assets. BEE should therefore seek to promote new opportunities for and increase the levels of participation of black people in the ownership, management and control of economic activities.

Strategies should support individual entrepreneurs as well as social and collective capital. According to this approach, BEE should be viewed within the broad scope of empowerment processes including, among others: job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower black women, skills and management development, education, meaningful ownership, and access to finance for households and for the purposes of conducting business.

BEE must be a people-centred strategy in word and in deed. BEE must impact on the lives of those purposefully and systematically excluded from the economy. It must influence the lives of people from the woman running a spaza shop in an outlying rural area to a worker in a factory in Germiston and the black manager in the corporate head office in Sandton (BEE Com, 2001).

BEE Com (2001) believes that BEE is imperative and must be implemented in a coordinated and integrated manner. For example, accumulation strategies to expand the identified growth sectors will have to go way beyond increasing the size of the current narrow economic base. They must be accompanied by measures to increase access to productive assets for the majority of the population, and appropriate support to ensure sustainable use.

South Africa's competitiveness will not only rest on the extent to which we promote industry, but also on the degree to which we are able to counter inequalities exacerbated through globalisation and simultaneously embark on strategies which enhance the competitiveness of the people. The commission is therefore proposing a broader definition of BEE against which a workable and sustainable BEE programme can be designed and implemented as part of a new Growth Plan for the economy. This definition has been tested in debate, in consultations and in the media, and now has broad support. The BEE Com therefore submits the following as the definition of BEE. BEE is:

- an integrated and coherent socio-economic process;
- located within the context of the country's national transformation programme, namely the RDP;
- aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens; and
- seeking to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.

2.2.1 The Instruments of BEE

2.2.1.1 Government Initiatives

The BEE process will therefore include elements of human resource development, employment equity, enterprise development and preferential procurement as well as investment, ownership and control of enterprises and ultimately control over the economic factors of production.

Since 1994 government has embarked upon a comprehensive programme to provide a legislative framework for the transformation of the economy. New laws have restored rights to land and tenure, prescribed unfair discrimination and introduced specific active measures to overcome distortions in the labour market

as well as providing new economic opportunities to historically disadvantaged persons (DTI, 2005).

Faced with the post-apartheid challenges government came to the conclusion that a policy was required that would address imbalances by transferring wealth from the minority who benefited from apartheid to the majority of the people. Changes began when important pieces of legislation were enacted that addressed specific elements of the broad-based BEE (BBBEE). The new Competition Act was promulgated into law in 1998, one of its core objectives being to increase the numbers of historically disadvantaged persons with an ownership stake in the economy. The second important law introduced in 1998 was the Employment Equity Act, outlawing all forms of unfair discrimination at work and requiring all enterprises employing more than 50 people to take affirmative action to bring about a representative spread of designated groups in all occupations and at all organisational levels within defined time periods.

Also in 1998, government created the National Empowerment Fund (NEF), a trust to hold equity stakes in state-owned enterprises and other private enterprises on behalf of historically disadvantaged persons. The NEF Corporation, established in terms of the NEF Act, 1998, was tasked with managing the trust in order to:

- provide historically disadvantaged persons with the opportunity to, directly and indirectly, acquire shares;

- encourage and promote savings, investment and meaningful economic participation by historically disadvantaged persons; and
- promote and support business ventures pioneered and run by historically disadvantaged persons.

Government has also re-oriented many of its incentives and enterprise support measures to promote BBEE (BBEE Policy document, 2007). The government has achieved this by mobilising its resources residing in agencies under its control, with a total of R2.2 billion allocated to funding BEE initiatives for the 2002/2003 financial year (BBEE Policy document, 2007). This included mobilisation of the financial resources within the Developmental Finance Institutions (DFIs) Ntsika, Khula, and the Development Bank of Southern Africa (DBSA), the Land Bank and the Industrial Development Corporation (IDC). However, government could only do so much to facilitate the process, since economic power still resided with white business; it is white business that essentially had the power to ensure the success of BEE. Also, some of the funding for BEE transactions would have to rely on the innovativeness of the private sector to be able to unlock value and effect proper transformation of the economy.

2.2.1.2 Partnerships and Sector Charters

The government acknowledged in the BBEE Policy document (2007) that “its BEE strategy will not be effective if government acts alone without the support of

the private sector”. As such the report states that government will actively seek the establishment of innovative partnerships with the private sector, built around specific circumstances of different sectors and enterprises. The government identified sector- and enterprise-based charters as one form of such partnerships. BEE will only be achieved when enterprises as part of their overall corporate strategy voluntarily develop clear plans to achieve BEE (BBBEE Policy document, 2007).

One such sector charter is the Financial Sector Charter. The *Government Gazette* (2007) reported that in August 2002 at the National Economic Development and Labour Council (NEDLAC) Financial Sector Summit the financial sector committed itself to the development of a BEE Charter, noting that:

- despite significant progress since the establishment of a democratic government in 1994, South African society remains characterised by racially based income and social services inequalities. This is not only unjust, but inhibits the country’s ability to achieve its full economic potential;
- BEE is a mechanism aimed at addressing inequalities and mobilising the energy of all South Africans. It will contribute towards sustained economic growth, development and social transformation in South Africa;
- inequalities also manifest themselves in the country’s financial sector. A positive and proactive response from the sector through the implementation of BEE will further unlock the sector’s potential, promote its global competitiveness, and enhance its world class status; and

- equally, the financial stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of BEE.

The parties to this Charter committed themselves to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, and contributes to establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

This Financial Sector Charter:

- was voluntarily developed by the sector;
- is a Transformation Charter as contemplated in the BBBEE legislation;
- constitutes a framework and establishes the principle upon which BEE will be implemented in the financial sector;
- represents a partnership programme as outlined in government's Strategy for BBBEE;
- Provided the bases for the sector's engagement with other stakeholders, including government and labour;
- establishes targets and unquantified responsibilities in respect of each principle; and
- outlines processes for implementing the Charter and mechanisms to monitor and report on progress.

The initial publication of the Mining Charter caused controversy in that sector, and subsequently government undertook to work with the various sectors to produce the charters. Sigonyela (2003) reported that “the Department of Minerals and Energy has turned its efforts to marketing the benefits of the Mining Charter to black business. This is after spending most of the last couple of months since its introduction selling it to the investment community, both local and international. The controversy has subsided now, and everyone has accepted the Mining Charter, says Deputy Director Nchankha Moloi. ‘Now it is time to make sure that there are enough entrepreneurs to take up the opportunities,’ he adds.”

The Mining Charter prescribes that a certain percentage of mining assets (depending on their nature) should be in black hands. A leaked draft caused a massive stir on the markets, resulting in billions of rands being wiped off the market cap of mining companies within hours. The jitters seem to have disappeared, with most mining houses no longer being nervous. Minister Phumzile Mlambo-Ngcuka went on a roadshow just after the official release to calm investors. Other industries have since volunteered their empowerment charters without government intervention.

Hence, the partnership between government and industry is premised on the promise by industry to self-regulate and comply with the desires and requirements of government. The role of government also came under scrutiny. It needs to be ready to implement the policies and to regulate and enforce the laws; however, this

is easier when partners are contributing voluntarily. Now that consensus on the need for transformation has been reached, it remains to be seen whether the implementation will be just as successful.

It is the intention of this research to ascertain the opinions of various stakeholders and experts on whether BEE has been successful, specifically in terms of its impact on wealth creation.

2.3 Comparative Empowerment Models

2.3.1 The example of Malaysia

South Africa is not alone in facing the challenges of economic inequality leading to widespread poverty and joblessness. Malaysia, like South Africa a multiracial country, has implemented similar policies. From 1970 to 2000 Malaysia embarked on a plan which managed to drastically reduce the incidence of poverty and lessen income inequality while achieving rapid economic growth and maintaining racial harmony (World Bank Case Study, 2004).

The core policies were the most important: the New Economy Policy, 1970-1990, and National Development Policy (NDP), 1991-2000. Complementing these was Vision 2020, which was formulated in 1991 and projected a vision of Malaysia three decades hence. The two core national policies were based on a philosophy

of growth with equitable distribution (World Bank Case Study, 2004). According to the World Bank, these policies saw national unity as the goal of development, and the two-pronged strategy to achieve it was as follows: (1) the eradication of poverty; and (2) the restructuring of society. This strategy was to be conducted within the context of rapid and continuous economic growth.

Onn (1988) observes that Malaysia is in many ways a unique developing nation. Although blessed with vast natural resources, its population represents a delicate mix of three ethnic groups, the Malays (collectively known as Bumiputeras), Chinese and Indians. The Bumiputeras make up 56% of the population, the Chinese 34% and Indians about 10%. Similar to South Africa's situation, these groups are diverse in both culture and religion.

Through the historical dictates of colonial policies the Chinese have been largely confined to business and trade and the Indians to technical services and plantations, with the majority of Bumiputeras essentially remaining on the land as traditional farmers (Onn, 1989). Upon independence in 1957, Onn (1989) observed that the Malaysian government sought compromise among the various ethnic groups to maintain overall political stability, overcome the challenge of communist insurgency, and pursue economic policies aimed at harnessing the resources of the country to ensure rapid economic growth. This was initially through a largely *laissez faire* economic strategy with emphasis on rural development to eradicate poverty among the Malays, and then a more structured

NEP era in which specific outcome targets were set for achievement of Bumiputera participation and ownership in the corporate sector.

Since the early 1980s Malaysia set its goal not only to be a vibrant, commodity-exporting country but also to acquire an industrial status similar to that of Korea or Taiwan before the end of the 1990s. Like South Africa, Malaysia strived to increase investment flow, diversify its industrial efforts in an attempt to grow the economy, and improve participation across all three ethnic groups. Malaysian economic decisions had to reflect its multi-ethnic environment.

2.3.1.1 Wealth Distribution in Malaysia

Onn (1989) reported that in pre-independent Malaysia one could not emphasise too strongly the dominant position of foreign enterprise in the context of ownership and control of the agricultural, mining, distribution and service sectors. The apex of the distribution system for imports and exports was controlled by the British through their Agency Houses. In the financial sector three important British banks, Chartered Bank, Hong Kong and Shanghai Bank and the Mercantile Bank, dominated the scene. In 1955 these foreign banks controlled almost three-quarters of total deposits, with the indigenous (mainly Chinese) owned banks holding the balance.

On the eve of independence foreign control and ownership of land, distribution channels and services in Malaysia constituted more than 70% of the total value of these assets. Occupational, residential and educational dissimilarities among the three major ethnic groups as well as differences in terms of their access to land and other economic opportunities (and their ability to utilise these opportunities) during British rule translated into inter- and intra-ethnic income differences.

Like South Africa with BEE, Malaysia implemented the NEP to address and redress the inequalities of the past. There are many lessons for the South African government from the example of Malaysia. Since its implementation the NEP has been changed and redesigned to respond directly to the challenges Malaysia faces on a continual basis.

2.4 Wealth

2.4.1 Wealth creation

The sheer breadth of ownership of equities in the United States today has democratised wealth (Davis and Meyer, 2000). Davis and Meyer (2000) further observe that when an economy creates surplus by making something for less than someone is prepared to pay for it; the society somehow gives some share of this surplus to the owner of capital and some to labour. In an economy with abundant

labour and scarce capital, those who owned banks and big businesses began getting the lion's share of the wealth (Davis and Meyer, 2000).

Growing social expectations of higher living standards and improved quality of life have outstripped the ability of national economies to deliver the necessary wealth (Chaharbaghi and Newman, 1997). Chaharbaghi and Newman (1987) further assert that the failure of nations to create new wealth has culminated in a 'blame-game', with all the stakeholders concerned pointing at each other.

In South Africa the BEE end-game is to ensure the final transfer of wealth from whites to blacks, as well as to allow the South African economy and blacks in particular to create new wealth. For results to be achieved a meaningful transfer of the factors of production is required; this will ensure that South Africa has scale with regard to wealth creation. Porter (2005) states that in order to understand an organisation or country one should have a firm grasp of its factor inputs, which include history, economic factors of production, politics, legislation, etc.

The BEE imperative for new wealth is underpinned by the fact that the final 15 years of the apartheid era saw significant redistribution of income from the poor to the rich. Between 1975 and 1991 the income of the poorest 60% of the population dropped by about 35% (Marais, 2001). By 1996 the gulf between rich and poor had grown even more (Marais, 2001). Marais (2001) further states that measured

by the Gini coefficient, South Africa was the third most unequal society in the world in 1996 with a Gini coefficient of 0,584 according to the World Bank.

Nzimande (2007) states that the South African Communist Party (SACP) is of the view that BEE can only be seen to be acceptable if it contributes to the development of the forces of production and transformation benefiting the majority of the citizens.

Innes (2007) identifies the following five outlines required for a successful BBEE policy in transforming the South African economy: “a land reform programme that ensures significant black ownership of productive land in the rural areas, black participation in ownership of the commanding heights of the economy, the development of black professionals and skilled people across all aspects of society, the growth of black-owned small businesses and entrepreneurs and more opportunities provided for workers to acquire a stake in the economy”.

2.4.1.1 Capital

Lucas-Bull (2007) asserts that a fundamental principle of wealth aggregation is that you must have capital to create capital. There are only two ways of achieving this - you must save up or you must have access to credit. However, capital formation (that is, allocating funds to invest in capital growth and increased output) is a central component of economics (Lucas-Bull, 2007). De Soto (2000) observes that in the developing world and former communist countries, assets primarily serve

immediate physical purposes such as houses being used for shelter, parcels of land being tilled, sowed and harvested, and merchandise being bought and sold. He also observed that in the West, however, the same assets lead a parallel life as capital above and beyond the physical world (De Soto, 2000). The result is that 80% of the world is undercapitalised; people cannot draw economic life from their buildings (or any other assets) to generate capital.

Smith (1776) stated that for accumulated assets to become active capital and put additional production into motion they must be fixed and realised in some particular subject. De Soto (2000) says that capital is not the accumulated stock of assets but the potential it holds to deploy new production.

Costa (2006) reports that if all black companies were put together, they would only own 1.2% of the Johannesburg Stock Exchange's total market capitalization (meaning 98.8% of the JSE's ownership was still in white hands). By the same token, ownership of listed shares is only one of the many measures of wealth. However, since South Africa has yet to develop an official measurement, estimates of who owns what percentage of JSE-listed companies are used as a proxy (Sikhakhane, 2006).

During the first phase of BEE in South Africa, ownership of capital and deals coupled with legislation dominated the empowerment space.

2.4.1.2 Land

Marais (2001) traces the systematic and violent segregation between privilege and deprivation in South Africa to the late nineteenth century, when the development of capitalism accelerated rapidly after the beginning of diamond mining in 1867 and gold mining in 1886. Bundy (1979) states that in large parts of the country an economically independent African peasantry survived at the time of the arrival of Europeans. In many cases these societies remained organized within their own social and political systems; in some cases they were militarily powerful enough to inflict bloody defeats on British colonial armies (Marais, 2001). Marais (2001) further states that the economic independence of the African peasantry was gradually removed through a barrage of administrative and punitive measures which transformed this surplus-producing peasantry into a pool of labour for the mines and emergent capitalist agriculture.

In 1913 the Land Act was passed which barred Africans from acquiring land outside 'native reserves' (7.3% of the South African land area) (Marais, 2001). This Act and subsequent legislation, including the Group Areas Act 1951, left the majority of black people owning property under leasehold - and over 86% of the fertile land in South Africa in the hands of white people (Gqubule, 2006).

Today the following is the Mission of the Department of Land Affairs pertaining to the redistribution of land in South Africa:

To develop efficient products, systems and procedures for:

- a more equitable distribution of land;
- addressing the problem of landlessness;
- enhancing household income security, employment and growth throughout the country; and
- contributing to redistributing 30% of the country's agricultural land over 15 years.

These points highlight the government's focus on transferring land ownership back to black people. The question remains, however - what will happen to urban land ownership in the major cities where most of South Africa's economy is based?

2.4.1.3 Labour

The employment as well as the supply of labour depends on the relevant skills. In this section labour has been divided into 'skills' and 'entrepreneurship'. Skills are very dependent on education level and culture. According to Meyer (2007), with a population of 47.4 million people growing at a rate of 2.7% per annum, the absorption rate of the labour force is at a low of 41.7% - i.e. only 4 out of every 10 newcomers to the labour force can be accommodated. Lincoln (1895) wrote that a few men own capital, and that few avoid labour themselves; with their capital they hire or buy others to labour for them. A large majority neither work for others nor have others working for them. Lincoln (1895) further asserted that the prudent, penniless beginner in the world labours for wages awhile, saves a surplus with which to buy tools or land for himself; then labours on his own account for another

while, and at length hires another new beginner to help him. This, say its advocates, is free labour - the just, generous and prosperous system which opens the way for all and gives the hope of improvement of conditions to all.

2.4.1.4 Worker Skills

The importance of workers' skills in any economy can be demonstrated by the difference in wages between skilled and unskilled workers - and the discrepancy is particularly pronounced in South Africa. The median monthly wage for an unskilled production worker in South Africa in 2002 was about \$240 per month. In comparison, an unskilled worker in Poland earns about \$250 per month and an unskilled worker in Brazil about \$167 per month (Clarke *et al.*, 2006). Clarke *et al.* further report that the median monthly wage for a manager in South Africa is about \$1850 per month – more than twice as high as in Poland (\$740 per month) and over three times the rate in Brazil (\$540 per month).

Despite the concerns about skills in the economy, Clarke *et al.* (2006) state that relatively few enterprises have training programmes. With a history of exclusion from the economy and from quality education, the transfer of skills to blacks is a slow process confining blacks to the ranks of suppliers of labour rather than employers.

2.4.1.4 Entrepreneurship

Morrison (2000) proposes that the process of entrepreneurship has its foundation in person and intuition, and society and culture. It is much more holistic than simply an economic function, and represents a composite of the material and immaterial, pragmatic and idealistic.

The question with BEE will be whether the 'new wealthy' have the propensity to start new enterprises and engage with the challenges of growth. Of equal significance for entrepreneurial culture in a given country are the future hopes and aspirations not only of business but of society at large (Morrison, 2000). Morrison (2000) states that at a basic level entrepreneurship is recognised as a highly personalised activity; the entrepreneur is motivated to create a venture which reflects their vision and ambitions, and is prepared to review and reorganize their social environment to make it materialize.

It is vital that black businesses are built in a sustainable manner to ensure that they can contribute significantly to the creation of employment (Petersen, 2007). Jack (2007) states that the third wave of BEE transpires into the starting of new enterprises by black people, who then grow such enterprises through the procurement and enterprise development opportunities arising from BBBEE.

Chapter 3: Research Questions

It is the desire of any country to improve the lives of its population from generation to generation. South Africa is no different, and its government under the ANC has developed policies to achieve precisely this. Whether these policies are successful or not, only time will tell. However, it is important to question and test progress at every stage of the implementation of these policies.

Given that BEE is the policy of redress chosen by the ANC, and given the structure of South African society and the balance of power (both economic and political), it is the intension of this research to test the impact of BEE on wealth creation. The creation of wealth should be the key measure of success for South Africa and its policies.

For the purposes of this study there is no differentiation between BEE as a concept and BBBEE, the latest form of the concept of BEE; therefore BEE is inclusive of BBBEE and all its attributes.

The objectives of this study are concise and are as follows:

- to solicit the opinions of experts and practitioners about the role of BEE in both the transfer and creation of wealth to and by blacks in South Africa;
- to determine whether the policy is succeeding in general in the creation of wealth;

- to determine whether BEE is sustainable in its current form and the role of its beneficiaries in the process of wealth creation; and
- to conclude with a model that describes the process of wealth creation and therefore the attributes that a wealth creation policy (and therefore BEE) should have.

The research questions below were developed to answer and fulfill the objectives outlined above.

Research Question 1:

Has there been a transfer of the control over the factors of production (capital, land, labour and entrepreneurship) to blacks through the implementation of BEE in South Africa?

Research Question 2:

Have these factors (capital, land, labour and entrepreneurship) been employed in the production/creation of wealth in South Africa?

Research Question 3:

Has the policy of BEE led to wealth transfer to blacks in South Africa?



Research Question 4:

Has the policy of BEE led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?

Chapter 4: Research Methodology

4.1 Choice of Methodology

The topic of BEE often appears complex to the public - and also to those experts engaged with the process on a daily basis. Participants also use their knowledge to take advantage of opportunities and to benefit from BEE. BEE often seems controversial, particularly to the white minority who own and control corporate South Africa and therefore the economy, and whose imperative the implementation of BEE is. Perhaps the controversy and confusion stem from the varying views about: (1) the cost of BEE to corporate South Africa; (2) the perceived negative or positive impact on business in South Africa in general; and (3) the impact of BEE on wealth creation (the focus of this study).

Economists will eventually want to answer the question of whether BEE had an impact on wealth creation, development and the economic growth of South Africa. Zikmund (2003, 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”. Usually, exploratory research provides greater understanding of a concept or crystallizes a problem, rather than providing precise measurement or *quantification*

(Zikmund, 2003). Exploratory research has therefore been chosen for the purposes of this study.

The research conducted here is the first step towards gaining a broad understanding of BEE as it relates to the process of wealth creation in the South African context. Zikmund (2003, p.111) states that “the purpose of exploratory research is intertwined with the need for a clear and precise statement of the recognised problem”, and further that “there are three interrelated purposes for exploratory research: (1) diagnosing a situation, (2) screening alternatives, and (3) discovering new ideas.

As stated above, there are many opinions when it comes to the topic of BEE – and so various experts were asked to provide their opinions and views. The most popular qualitative research methods are interviews, observation, and (archival) document studies (Bowen, 2005). This research will help to provide insight into the thoughts and views of both practitioners in this field as well as some of the beneficiaries. Each expert has an opinion about the process as well as the policy in general; their views on a particular area of BEE, i.e. its impact on wealth creation in South Africa, were sought. The varying views would assist us both to lay the groundwork for future research and answer some of the questions about BEE and wealth creation. An interview schedule with a relevant questionnaire was developed and used to collect data from subjects through (Appendix A):

- a) in-depth, open ended interviews - face to face; and

- b) open-ended email discussions and document sharing.

Knowledgeable people were selected on the basis of their experience with the topic, social/political position, past participation in and benefit from the process. The purpose of interviewing these experts was to establish opinions on the subject as well as trends, not to establish conclusive evidence (Zikmund, 2003).

4.2 Population, Sample Size and Sampling

To be able to ascertain the prevailing opinions about the subject of BEE and in particular its impact on wealth creation, it was important to choose a sample of experts spanning the length and breadth of the process of implementation. Social commentators are just as important.

Subjects were chosen on the basis of their political standing, past participation in or facilitation of BEE deals, and/or current involvement within BEE. The experts used for this research are listed below, and their profiles are provided in Chapter 5:

1. Litha Nkombisa, CEO: Barloworld Motor Retail
2. Ciko Thomas, Executive Director - Marketing: Barloworld Motor
3. Mncane Mthunzi, Managing Director: Black Management Forum
4. Dr Blade Nzimande, General Secretary: SACP and ANC Executive member
5. Lumkile Mondi, Chief Economist: IDC
6. Khumo Shuenyane, Executive - Corporate Finance: MTN Holding Ltd

4.3 Research Instruments and Data Collection Methods

A qualitative exploratory research technique was used as the main methodology to conduct this study. Using an interview schedule and guideline the following ways of gathering data were used:

1. face-to-face interviews;
2. email correspondence to supplement points made during interviews; and
3. telephonic clarification of positions and assertions.

Most of the participants were known to the researcher, with the exception of three: Mncane Mthunzi, Dr Blade Nzimande and Lumkile Mondli. This made the process relatively easy and open. It also provided an opportunity for the participant to share their opinions openly and to supply additional documentation on their thoughts to supplement and emphasise positions. I had flexible access to the participants; however, more experts were approached for the interview, and a number were ultimately unable to provide the time to conduct the interview. Rich and broad data were obtained, as well as specific thoughts and assertions from the participants.

4.3.1 Process of Data Analysis

The analysis of interview transcripts were based on an inductive approach informed by the themes based on the research questions. Bowen (2005) asserts

that inductive analysis means that the patterns, themes and categories of analysis come from the data. The research questions became the themes of analysis, and all responses from participants were able to be inserted into these themes after being discussed and recorded in the process of capturing the data. Patterns, themes and categories emerge out the data rather than being imposed on them prior to data collection and analysis (Patton, 1980).

After it was clear that themes had emerged out of the data, grounded theory was used to derive and develop the “grounded theory” or additional themes within the phenomenon. Dougherty (2002) states that grounded theory is particularly well-suited to situations where there is no formal model from which an hypothesis can be drawn. In this case the research is exploratory and therefore theories are underdeveloped. Grounded theory addresses this situation (Dougherty, 2002). After the data were clustered around the research questions (based on the questionnaire in Appendix A), codes were developed to assist with clustering the data from the interview responses.

4.4 Research Limitations

The study of BEE in general requires the full engagement of all stakeholders in the process - white business, black business, government and the general population at large. The focus of this study was to gauge the opinions of players in the field from an exploratory point of view, but specific to the impact of BEE on wealth

creation in South Africa. Different stakeholders surely hold varying views on the subject, depending on where they stand in the BEE value chain.

Two of the participants have been direct beneficiaries of BEE - but not to the extent of the more public politically connected beneficiaries. (The research would have been enhanced in terms of data richness had these players been involved in the research.) Another finding from the research process is the reluctance of white business to discuss BEE, particularly where the question is around wealth. No participants from this group were obtained. The group ended up being too homogenous, consisting of black man only. The views of women were therefore missing from the data; availability proved to be a problem, with two women asked for interviews cancelling at the last minute. Other participants who had agreed to participate later cancelled, and the sample for this research ending up being cut from a possible twelve participants to the final seven.

A more heterogeneous sample of participants would have benefited the study. Also, the structure of the one-on-one interviews could be revisited. Perhaps a panel or focus group to spark debate and the sharing of positions would enhance the answers given to the questions and stimulate thoughts.

Chapter 5: Results

In this chapter the results from the primary data collected from the interviews conducted are reported on. Reporting of the results is themed under the research questions described in Chapter 3. This ensures that the questions from this research are answered, even though the interview questionnaires asked deeper and specific questions to ensure that participants could expand on their answers as far as possible.

5.1 Interview Structure

Upon requesting an interview with the participants, the proposal was sent through and they were asked to familiarise themselves with it prior to the interview. Most of the participants did not have the time to peruse the proposals in detail, but they were in the main able to go through the themes as well as to look at the research questions proposed. Therefore most of the participants had the opportunity to apply their minds to the questions before the interviews were held.

The research questions are matched with the questionnaire questions in Appendix A. This was done in order to organise the answers and provide a synopsis of responses to the research questions that emanating from the more detailed questionnaire schedule.

5.2.1 Codes and Coding

As explained in Chapter 4, grounding theory was applied to cluster the themed data that emerged from the interviews. Codes were created based on the themes that emerged from the interviews. The codes applied to particular discussion points that emerged from the questions on the questionnaire questions as a result of the conversations stimulated by them. The results of the interviews were transcribed using these codes.

The tables below show the list of research questions together with the question numbers from the questionnaire that applied to each.

Table 1: Research Questions and the Question Numbers from the Questionnaire

NO.	RESEARCH QUESTION	APP. 1
1.	Has there been a transfer of the control over the factors of production (capital, land, labour) to blacks through the implementation of BEE in South Africa?	1,2
2.	Have these factors (capital, land, labour) been employed in the production/creation of wealth in South Africa?	3,4
3.	Has the policy of BEE led to wealth transfer to blacks in South Africa?	5,6,7



4.	Has the policy of BEE led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?	8,9
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Table 2: Themes and their Matching Codes.

<u>Black Economic Empowerment</u>	<u>BEE</u>	<u>1.0</u>
BEE	BEE-AA	1.1
Beneficiaries	BEE-BEN	1.2
Objectives	BEE-OBJ	1.3
Policy	BEE-POL	1.4
Process	BEE-PRO	1.5
Transfer	BEE-TRA	1.6
<u>Economic empowerment</u>	<u>ECEM</u>	<u>2.0</u>
Access	ECEM-ACC	2.1
Address	ECEM -ADR	2.2
Control	ECEM-CON	2.3
Groups	ECEM -GRP	2.4
Power	ECEM -PWR	2.5
Ownership	ECEM –OWN	2.6
<u>Skills, talent and knowledge</u>	<u>STK</u>	<u>3.0</u>
Entrepreneurship	STK-ENT	3.1
Exposure	STK-EXS	3.2



Experience	STK-EXP	3.3
Management	STK-MAN	3.4
<u>Political</u>	<u>POL</u>	<u>4.0</u>
Connections	POL-CON	4.1
Influence	POL-INF	4.2
Oversight	POL-OVS	4.3
Patronage	POL-PAT	4.4
Support	POL-SUP	4.5
<u>Factors of production</u>	<u>FOP</u>	<u>5.0</u>
Capital	FOP-CAP	5.1
Employed	FOP-EMP	5.2
Entrepreneurship	FOP-ENT	5.3
Labour	FOP-LAB	5.4
Land	FOP-LAN	5.5
White capital	FOP-WHC	5.6
Transfer	FOP-TRA	5.7
Ownership	FOP-OWN	5.8
<u>Wealth</u>	<u>WEA</u>	<u>6.0</u>
Consumption	WEA-CON	6.1
Creation	WEA-CRE	6.2
Distribution	WEA-DIS	6.3
Transfer	WEA-TRA	6.4



<u>Characteristics</u>	<u>CHR</u>	<u>7.0</u>
Creation	CHR-CRT	7.1
Consumption	CHR-CON	7.2
Employment	CHR-EMP	7.3
Equity	CHR-EQY	7.4
Opportunity	CHR-OPP	7.5
Success	CHR-SUC	7.6

5.3 Profile of Interview Participants

A brief profile of each of the participants who took part in this study appears below.

Table 3: Brief Profile of Interview Participants

No.	NAME	Brief Profile
1.	Mncane Mthunzi	Managing Director: BMF; a sought-after commentator on BEE and matters of economic empowerment Mncane is an accountant by trade.

2.	Litha Nkombisa	Chief Executive: Barloworld Motor Retail, a division of Barloworld Ltd, one of the industrial companies on the JSE. Litha has vast experience in the motor industry as well as banking through both BMW and Nedbank Corporate where he was responsible for BEE. He became an owner of the first 100% black-owned BMW and VW dealership in South Africa.
3.	Ciko Thomas	Executive Director: Marketing for Barloworld Motor Holdings; includes Avis, a division of Barloworld Ltd, one of the industrial companies listed on the JSE. Ciko has vast experience in marketing. He began his career at Uni-Lever and SAB and then moved to ABSA. He became an owner of the first 100% black-owned BMW and VW dealership in South Africa. Ciko is a sought-after and prominent speaker on BEE and empowerment in South Africa.
4.	Lumkile Mondi	Chief Economist: IDC, and a frequent commentator on the South African economy as well as a contributor to the BEE debate.
5.	Dr Blade Nzimande	General Secretary of the SACP and an ANC National Executive Member. He is a well-known critic of BEE and a former MP in Nelson Mandela's government.

6.	Khumo Shuenyane	Executive: Corporate Finance, for mergers and acquisition for MTN Holdings. Khumo is a Chartered Accountant who worked in Investec's investment banking business for 13 years. When he left he was in charge of private equity with a special focus on BEE deals.
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5.4 Responses to Research Questions

The results from each of the interviews are transcribed and presented here for each of the research questions matched with questionnaire question numbers, as discussed above.

5.4.1 Has there been a transfer of the control over the factors of production (capital, land, labour and entrepreneurship) to blacks through the implementation of BEE in South Africa?

This research question was designed to first ascertain the participant's view of what constitutes empowerment as well as to answer the question of whether blacks have indeed been empowered through the policy of BEE. This was done by interrogating what the elements of wealth creation are - and whether BEE has these elements.

THEME CODE: ECEM-OWN; ECME-GRP; POL-SUP

Mncane Mthunzi

“I think when levers of power are transferred and those who control levers of power which generate capital and wealth for them, this constitutes genuine empowerment. This versus mere participation in existing capital and also ownership of productive power is also critical to empowerment. This talks to the ownership of capital element of BEE, which really is a ticket to the game and is key to transformation, because it gives you control over the levers of productive power. Those who control it are those who are economically empowered.

“Basic requirements for wealth creation - you need skill and/or talent. Lastly, sponsorship or willingness for other people to create space for you to participate and to give you guidance to achieve your goals is important. It can be sponsorship in a sense of people having an interest in you and wanting you to succeed, and therefore allowing space for you to participate, because empowerment in South Africa is skewed and is only by invitation. I cannot today go to Tiger Brands and say I want to be their BEE partner, it is up to Tiger Brands to choose if they want to have BEE and with whom they will go into that business. Therefore owners of capital control who come into the game, in terms of wealth creation you must have an appeal for people to think that you have value to add - therefore you have support to flourish. These are the key elements of wealth creation in the South African context, in my view.”

Litha Nkombisa

“Empowerment in this context means that the available assets or businesses should be transferred to the majority of the previously disadvantaged black population in the main. However, at the moment this is not happening but the intent of empowerment is to transfer these assets and in a sense ownership and therefore empower the new owners. These assets are then used as capital to be employed in the generation of income and therefore create value for the new owners.

“BEE as a concept actually creates economic surplus or economic profit. This means that the supply and demand of all the inputs in BEE are not in equilibrium. As long as this surplus or economic profit resides there, players are going to rush until it is used up, and this equation will be back in equilibrium. If one looks at the first wave of empowerment, the first players took full advantage of this surplus and created wealth for themselves. This is because they were anointed by the people on the other side. Because they were few, the surplus was excessive, but in reality this surplus will disappear once the usual suspects have gone into all sectors of the economy. In a sense they will use up their political surplus and this might allow new players in.”

Ciko Thomas

“Specifically, economic empowerment for me often addresses members of groups that socio-economic discrimination processes have excluded from decision-making

processes. Example of tools you use to exclude people are discrimination based on disability, race (as you find in South Africa), ethnicity, religion (as in Malaysia where the ethnic Bumiputera were discriminated against), as well as gender. So, let's understand that economic empowerment addresses members of groups that have been excluded historically from the decision-making processes.

“The process of wealth creating assumes that there is an asset that is churning wealth already. So firstly you need to create enterprise to be able to apportion and grow that asset using debt as a lever. So, yes, you do need the factors of production, capital, land, labour, etc., but the second thing that you need is an enabling environment for wealth creation, because you can have a totalitarian regime where you have land but are unable to use it as productive capital. Also, people capital and enterprise is critical; you need economic incentive to all sectors - individuals as well as firms.”

Lumkile Mondi

“The history of capitalism in South Africa is intertwined with the discovery of gold in 1886. In South Africa blacks were excluded from the resource because of discrimination, whereas blacks had most of the property rights at the time. Black entrepreneurs were therefore always on the back foot and were seen as a source of cheap labour and were proletarianised. This in essence was the beginning of a process of disempowering of Africans in the context of having been conquered and then marginalised; this has led South Africa to the imperative of economic

empowerment of those sections of society. Essentially this is an attempt to reverse that process of disempowerment.

“So, the issue of economic empowerment is not new in our history, but depended on who was master. The black regime of 1994 had an imperative to deliver economic emancipation but had no power because the society had no unity. The black struggle was around political emancipation and had had no economic framework. Therefore, economic empowerment of blacks was going to be delivered through patronage.

“In the process of wealth creation there are three things that are critical in my view. Firstly, there has to be an environment that allows an entrepreneurial environment and incentivises the process of wealth creation. Empowerment has killed black initiative because of racial-based policies. Secondly, in South Africa we are living a false capitalism; what is required is the massive urbanisation of the economy where there is focus on developing the urban area, this creates opportunity for entrepreneurship. Thirdly, from a Marxist point of view, land is critical because it creates tension by sharpening the factors of production in this by making sure that capitalism brings innovation and safe working conditions. As a result this forces innovation in agriculture and shifts the resources from agriculture to industrial. Workers are attracted to the industrial sector as well as services sector. South Africa should focus on industrialisation and forget about land reform.”

Dr Blade Nzimande

“Economic empowerment should be something that must provide means of sustainable livelihood for the overwhelming majority of our people. And this does not necessarily mean not de-racialising the economy. This implies that we must focus on creating jobs and other opportunities like small, medium and micro enterprises (SMMEs), cooperatives and entrepreneurship. Economic empowerment also means we must harness the factors of production such that they begin to address poverty based on employment and skills development, which are vital elements in ensuring economic empowerment.

“In terms of wealth creation, BEE is not contributing to building the productive capacity of the economy. Our position is that we need to change the current accumulation path of wealth. In the Tripartite Alliance (ANC, COSATU and SACP) we have now finally agreed that South Africa needs an Industrial Policy which is essential to development and wealth creation. In this regard institutions like the IDC and other developmental finance institutions, e.g. the Land Bank and DBSA, should play a role in where BEE is located, rather than being dominated by shareholding.”

Khumo Shuenyane

“If you’ve been successful in economic empowerment, you’ve put people in a situation where they have the means to meaningfully and successfully and independently create wealth. This mean you are not relying on the support of

others or somebody else's business or shares and therefore you are able to make all the decisions required in order to do what you need.

“People who have created wealth under BEE have made capital through luck. There are people who have got their businesses and are entrepreneurs. You must therefore control the cash flows, use these to support and create new businesses. These are the basics of capital.”

5.4.2 Have these factors (capital, land, labour and entrepreneurship) been employed in the production/creation of wealth in South Africa?

This question is designed to solicit the participant's views on BEE and will help us answer the question of whether BEE has a role in wealth creation - and if so, can we then say it is intended as a tool for wealth creation. It also looks at whether BEE is successful as a policy for wealth creation through the employment of the factors of production.

THEME CODE: WEA-CRE; ECEM-OWN; FOP-ENT; FOP-CAP

Mncane Mthunzi

“Yes BEE is a wealth creation tool. However, the majority of South Africans have been excluded from the mainstream economy. BEE's intention other than a social responsibility is to change people's lives for the better. If it is done with a sense of ticking a box it becomes a mockery and not with a clear sense for wealth creation,

like for instance helping take someone from LSM 2 or 3 to 10. It is really a stepping stone for people to create wealth on their own. So BEE is a start or incubation which helps you to create your own wealth, to give you the platform.

“In terms of facilitating the process of wealth creation, it has been a mixed bag. As we stand there has been R200 billion worth of transactions; this is a large number and it is encouraging. We also know people who did not have anything but have leveraged on BEE and now have something. The effectiveness of it has not reached as many people as desired. It has not got enough pace, but there is a need to create more players. The sooner we use business acumen as a ticket to the game the better. At the moment companies are looking for political connections and this is stifling the process of wealth creation because the BEE participants are not contributing to the growth of the businesses. Therefore, BEE is limited in its role to create wealth because of the quality of the beneficiaries.”

Litha Nkombisa

“As a tool for wealth creation, BEE has been distorted as entrepreneurship. However, entrepreneurship and doing a BEE deal is not the same thing. The role of a BEE should be to encourage entrepreneurship and this will help in helping to grow the cake, and therefore create wealth. However, as a policy BEE has created wealth for individuals, but this has not been deep enough in terms of the overall economy.”

Ciko Thomas

“BEE philosophically seeks to address the issue of participation, but the debate has been mainly about reallocating white capital. However, looking at entrepreneurship, which requires an enabling environment, and this model of enterprising is essentially what the American model is. In South Africa the model of entrepreneurship has been understood as the slicing up of an existing cake in the form of white capital. This has been a distortion of the intent of BEE; it has not encouraged the creation of wealth and enterprise activity. South Africa has benefited from the neo-liberal policies and its sweetheart status in the world. This was an opportunity for all economic players to grow the economy by including blacks as well as creating wealth.”

Lumkile Mondi

“In the main there has been very little wealth creation through BEE, but there has been a transfer of wealth from the state to individuals, which has made some people wealthy (e.g. sale of Telkom shares to the public, etc.). This meant that through patronage state assets were being transferred through politicians. The state has also created wealth through the development of industry, like MTN which the state started through Transnet and subsequently transferred to black private business as an opportunity because it was an infant industry. Where BEE has worked in the area of expanding opportunities to blacks is in the area of employment equity, and this has meant that blacks are able to acquire the skills

and advance. This helps blacks to be ready to go out on their own in the future; this should be the focus of BEE.

“In its current form BEE has not created wealth; we must not look at the current beneficiaries as they acquired wealth through political patronage. This is called clientelism in South America.”

Dr Blade Nzimande

“BEE has not had a role in wealth creation, and is not necessarily intended to be such a tool in my view. The issue with the South African economy is that we inherited a colonial economy and we have not transformed its key feature. An industrial policy would have been instrumental to transform the economy by using incentives and a stick. We should have set conditions like having policy and legislation on prescribed assets like the apartheid regime. A portion of money invested in the banking sector should go to infrastructure and the development of new industries like beneficiating, and especially building productive capacity for domestic consumption.

“BEE has not been successful in facilitating the process of wealth creation. Outside of the context of an industrial policy, BEE is not facilitating the processes of wealth creation. We have been manipulating macro-economic indicators hoping that will trickle down into the main economy.”

Khumo Shuenyane

“In my view, people just hope that BEE is a wealth creation mechanism. But from experience, the more we move into the BEE space, no one will create capital but people will make money nonetheless. This is because money acquired through BEE has been lazy capital in the sense that it is not being employed in new and risky enterprise.

“BEE has not in essence facilitated the process of wealth creation, just wealth transfer. Managers, on the other hand, have made money compared to shareholders. Managers have paid themselves huge salaries and bonuses, but in the end shareholders have been left with less or no value because of share price fluctuations. So in essence managers, who are sometimes white, have been able to suck money out the system that is BEE.”

5.4.3 Has the policy of BEE led to wealth transfer to blacks in South Africa?

Within the context of BEE is it important to ascertain whether it has led to the transfer as well as the creation of wealth by beneficiaries. This question speaks to the prospect of the employment of the factors of production once acquired.

THEME CODE: BEE-BEN; WEA-CON; WEA-CRE; FOF-WHC; POL-OVS

Mncane Mthunzi

“There is no model per se for blacks to create wealth, but obviously BEE is a means of transference of wealth to the previously disadvantaged. But to a limited extent one can say that there has been some movement in that direction; however, government is not showing leadership and decisiveness in giving guidance to ensure that the process succeeds. For example, the government has failed on its promise to set up a BEE Council by legislation which is to be headed by the President to offer guidance to the BEE process. As a result, of the people that have benefited from BEE, only a handful have reinvested in other enterprises; most have failed to leverage the newly acquired assets in the process of wealth creation.

“Some of the critical elements of wealth creation through BEE are capital and skill. If you have the necessary skills then you are able to action your ideas, put together a business plan and convince others to part with capital, and thus take the risk on your skill to unlock value.

“Ensuring that we move the debate forward, there are two key changes and engagements that need to occur:

- a) Government needs to show seriousness around empowerment of its own people. Development finance institutions (DFIs) need to be more engaged and are critical in ensuring the availability of capital; they must not apply stringent bank type rules and conditions. This will ensure that SMMEs flourish through this backing and will employ more people and thus expand

the social security net. Therefore talent with the right mindset will receive backing and will be able to take risks on their ideas and can flourish.

- b) Corporate South Africa needs to declare and show willingness to change; i.e. be a willing partner and be a socially responsible citizen. The ‘rent a black’ mentality is killing the good intentions of BEE and Employment Equity (EE) which focuses on merit whereby the best people should get access to opportunities.”

Litha Nkombisa

“In the case of BEE and the creation of new wealth, the only example I have is that of Patrice Motsepe, who acquired marginal mines and renewed them with Harmony and made sure that they are productive and created new jobs and capital in the process. In fact, most of the other beneficiaries of BEE have used their wealth to acquire stakes in existing businesses on the JSE. In many cases they have bought out existing white shareholders, thus making them even wealthier. Most beneficiaries are not interested in the risk that comes with starting a new business.

“I would like to advance a few points in stating my point on BEE and wealth creation:

- a) BEE does not need to be a passive investment; investors must somehow grow the asset and get their hands dirty.

- b) BEE needs to move beyond a few individuals right now and not later to have a broader impact. Also, it is important to note that there is a difference between growth and distribution. The current BEE structure is about the latter.
- c) BEE must spawn new ventures and encourage entrepreneurship through incentives for new enterprises by blacks. Also, the owners of capital remain white and therefore are not emotionally invested in the long-term sustainability of the BEE enterprises.”

Ciko Thomas

“In answering this question, we have to take into consideration that BEE is essentially not new; there are other models like Malaysia’s NEP and other places like Russia where a transfer of assets had to occur after democratisation. So in this sense BEE is achieving its goal, albeit to a minor extent because it has not benefited the majority. However, I can state categorically that there is no robust black-driven venture capitalism in South Africa. Although most of these players have acquired an important element in the process of wealth creation, which is capital, they have not used this capital to buy labour, or land to bring to bear the factors of production in order to expand their wealth and ultimately that of South Africa.

“For success, I would say that BEE as a socio-economic outcome is an absolute non-negotiable – irrespective of the journey we undertake. However, we need to

bring together all the elements and move the discourse from white capital reallocation to blacks and reinforcing BEE with new pivotal points like: social development; entrepreneurship; white capital; and government involvement, through ensuring the great state experiment succeeds.

“In closing, I would like to point out that in its current form BEE has benefited white capitalists through the provision of services in structuring these deals, as well as allocation shares to white employees.”

Lumkile Mondi

“No, the blacks who have benefited from BEE have not engaged in the process of wealth creation. People generally do not follow up on ideas by employing and risking capital. In fact, BEE has made more white millionaires than was intended. I say we should scrap BEE as it is and focus on affirmative action. This is the most critical element for wealth creation through BEE; it is to equip blacks with skills to succeed.

“What needs to happen for us to sharpen BEE to have an impact on wealth creation in South Africa is that blacks must be treated the same as whites in business ownership. Having said that, it is important that we keep affirmative action to give people the right exposure, and for them to build credibility based on performance. This will be the platform people need to launch their own businesses.”

Dr Blade Nzimande

“The process of wealth creation by blacks out of BEE is rather inconsequential, and they are as a group very small in number. So therefore it is unrealistic to expect a significant amount of activity in this process. Also, incentivising the economy, as articulated in earlier answers, would force certain outcomes in terms of investment and employment of capital. The DFIs should take a leading role as well as other state-owned enterprises in the process of investments in new enterprises and projects. So in essence, what we are saying is that Metrorail not Gautrain should be the priority.

“Government should rather focus on an Industrial Policy instead of BEE, this is how Europe was built as well as the Asian tigers - and in this way wealth accrues to all participants instead of transferring dormant capital from white capitalists. So in our view government intervention through its institutions is the missing element. State-owned enterprises must be sustainable rather than profitable.

“For BEE to have an impact, we cannot separate it from other strategies, but we need to broaden it. The apartheid regime used to have the Cooperatives Bank Act which ensured that institutions for poor Afrikaners (like the burial society AVBOB) were born. We have to look at the economy as one but with two poles, not looking at the so-called two economies. BEE needs to expand as a model to become broad-based and focus on land and agrarian farming. Shares must be tied to

investment in agriculture and rural development by focusing on food production where the surplus is sold for income and profit.”

Khumo Shuenyane

“Blacks who have benefited from BEE have not begun a process of wealth creation - at least, not as much as you would like. This has become rather a huge consumption thing, with people taking expensive trips overseas and buying several homes, etc. In the process of wealth creation the critical element in my view is the risk-taking part. With BEE, people are putting in nothing. So in essence you are incentivised to put nothing in many things and hope one is in the money. There is no real money required; you are just managing downside risks.

“In the final analysis, for BEE to have the desired impact on wealth creation, you need support for people to create businesses and find ways to help black entrepreneurs; this will create jobs at SMME level and therefore produce something. In the current model you are just relying on a dividend, we are not entrepreneurial as we are. On the other hand, whites are able to access capital and expand their enterprises while blacks stagnate. Even some people who claim to be in the information and communication technologies sector - all they do is win tenders and supply existing products to government or whomever because they are black.”

5.4.4 Has the policy of BEE led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?

At this juncture it was important to find out views on whether BEE will influence the process of wealth creation - important for any economic policy. Having ascertained that, equally important is how will this manifest and through whom.

THEME CODES: BEE-OBJ; BEE-AA; STK-ENT; POL-PAT

Mncane Mthunzi

“To a large extent BEE is the best tool available in order to be able to deal with the past injustices. It is easy to follow, it is measurable, and there is clear guidance and all the players have bought into it. So it will remain a necessary framework tool and approach to deal with past inequalities. So it will remain influential in the process of wealth creation. Maybe the current implementation is not the best model to achieve this.

“So, BEE is still valid even though so far it has only benefited a few players. To move it forward we need to target enterprise development and new players who are smart and talented. We should equip them with the capacity to execute. Also, we must consistently ask the question ‘what is it that we are trying to do with BEE?’ To ensure that it is successful the government must play a role, like enforcement as well as a BEE ombudsman to vet the transactions; it should also write ground

rules of engagement and dictate who should benefit, based on merit not patronage.”

Litha Nkombisa

“For BEE to create wealth, the focus should move from share price to underlying asset performance. So when a BEE player buys into an existing asset, the growth of the asset must perform superior to normal growth. Looking at the share price performance in a transaction is futile because it does not give you the ability to amortise your funding.

“We can change the impact of BEE on wealth creation by deepening the number of players participating instead of having the same people taking the cream of the transactions. This does not necessarily mean BBEE but inclusive in terms of a target base of beneficiaries.”

Ciko Thomas

“In my view BEE will be effective in influencing wealth creation only if we take the four elements I spoke about above into consideration. Through this process the impact will be more socio-economic and then we can focus on getting wealth through new enterprise creation for the country.

“Once again, we must be careful who ultimately benefits from BEE. As an example, in some of the great BEE stories and companies there is always a white person

attached to the black BEE beneficiary who also benefits massively. Blacks need to play in the entire value chain that makes a BEE deal happen, like advisory services.”

Lumkile Mondli

“Unfortunately, in answering this question of to what extent BEE will influence wealth creation, it has not done much but has rather created a culture of dependence and entitlement. In summary, I would describe BEE in its current form as a policy of consumption maximisation not of wealth creation.

“BEE of the future should focus on empowering the individuals through giving them the necessary business experience supported by the policy of Employment Equity (EE) and this will allow these new players to build the necessary business relationships and therefore access to opportunities. This is how BEE will and should manifest in the future on individual empowerment.”

Dr Blade Nzimande

“In our view, BEE has had a minimal impact on wealth creation. There has also been a prostitution of BEE; for example, this ‘once empowered, always empowered’ adage, which means this policy, is not sustainable and is short term to give white business access to government contracts. In the main it remains a policy of wealth consumption rather than wealth creation.

“For us to be able know the future of BEE we need to have a 10-year review, whereby we identify the bottlenecks and encourage a change of direction where we invest in productive capacity. The current model of political patronage and easy money through political connections with the state should be done away with. You can’t be counting membership during the day and profits at night.”

Khumo Shuenyane

“As I said before, BEE has only encouraged the culture of excessive consumption because of how easy the money has come. There is no incentive to risks. The landscape will have to change in the sense that we need to focus on enterprise development and encourage an entrepreneurial class willing to invest time into building an enterprise rather than share handouts. This should be the next phase of BEE, and this is how we will create real wealth.”

Chapter 6: Discussion of Results

6.1 Introduction

Results from the research are discussed and analysed in this chapter, around the four research questions that were proposed. An attempt to show insight into the findings will be made by linking the themes of the discussions with some of the literature presented in Chapter 2 or subsequent sources. The research questions are used as the major headings of the discussion. A link with the participants' responses is also made and explored.

6.2 Has there been a transfer of the control over the factors of production (capital, land, labour and entrepreneurship) to blacks through the implementation of BEE in South Africa?

6.2.1 Findings and Analysis

In responding to the questions posed regarding economic empowerment and what it constitutes, it is fair to say that the respondents had a consensus view. This is particularly true within the context of South Africa and its history of exclusion of blacks from opportunities. Lucas-Bull (2007) collaborates when she asserts that “one of the most important aims of the apartheid architecture was to suppress black entrepreneurship, skill acquisition and property ownership in order to defend

and support the interests of the white economy”. Therefore the need for redress of the past status quo seemed quite clear in the minds of the respondents. The DTI (2005) reported that the accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities, resulting in an economic structure that still excludes the vast majority of South Africans.

Economic empowerment as a tool for redressing the past is supported by the respondents. Ciko Thomas stated that “specifically empowerment for me often addresses members of groups that socio-economic discrimination processes have excluded from decision-making processes”, and Litha Nkombisa supported this view: “empowerment in this context means that the available assets or businesses should be transferred to the majority of the previously disadvantaged black population in the main”.

The imperative for the economic empowerment of blacks was quite obvious as soon as South Africa had held its first democratic elections in 1994. The consensus from the group is that this represents a transfer of some form of power. Klemz, Boshoff and Mazibuko (2006) support this view by stating that the goal of the ANC is to alleviate poverty through broad-based economic empowerment policies, and in effect to redistribute income from the wealthier white community to the poorer black township communities. Mncane Mthunzi concurs with this: “I think the levers of power are transferred and those who control levers of power which generate

capital and wealth for them, this constitutes genuine empowerment”. Dr Blade Nzimande’s view was that “Economic Empowerment should be something that must provide means of sustainable livelihood for the overwhelming majority of our people. Economic Empowerment also means we must harness the factors of production such that they begin to address poverty based on employment and skills development, which are vital elements in ensuring economic empowerment”.

Ciko Thomas had an interesting point in observing that while you need the factors of production, capital, land, labour, etc., you also need an enabling environment for wealth creation - because you can have a totalitarian regime where you have land but are unable to use it as productive capital, as is the current situation in Zimbabwe. Lumkile Mondi added to this by saying there has to be an environment that allows entrepreneurial environment and incentivises the process of wealth creation. In this regard Dr Blade Nzimande would like to see institutions like the IDC and other DFIs playing a role in where BEE is located rather than being dominated by shareholding.

Khumo Shuenyane stated tongue-in-cheek that people who have created wealth under BEE have “made capital through luck”. He says the basics of capital are to control the cash flows and use these to support and create new businesses.

The author observed a number of themes that emerged within this particular interview series, and which are widely supported by literature.

Relating to the issue of economic empowerment, the respondents seemed to agree that because of its history, South Africa has an imperative to implement a process of empowerment through various means:

- a) A process of transfer of economic power to the previously disadvantaged groups must be implemented. This represents, in the consensus opinion, a transfer of power, wealth, capital and opportunity to these groups. As Huntington (1993) states, in terms of a clash of civilisations, that as things stand non-Western civilisations will continue to attempt to acquire the wealth, technology, skills, machines and weapons that are part of being modern. So too will blacks in South Africa attempt to acquire skills, capital and opportunity in a bid to come up to a level playing field with their white counterparts.

However, the process will not occur on its own. The government must intervene and give the process momentum by mobilising its resources and institutions. The respondents have no problem with the fact that this responsibility lies with the political authorities. The DTI (2005) is confluent with these sentiments, in stating that “new laws have restored rights to land and tenure; have prescribed unfair discrimination; and introduced specific measures to overcome the distortions in the labour market as well as provide new economic opportunities to historically disadvantaged persons”.

- b) The imperative of economic empowerment has presented South Africa with a golden opportunity to come up with a policy of wealth creation. Since 1994 this has been presented in various forms, first as the RDP and later as BEE. The DTI (2005) supports this process, stating that under apartheid the accumulation process confined the creation of wealth to a racial minority and imposed underdevelopment of black communities.

Lucas-Bull (2007), states that enterprise and capital accumulation are central to a market economy. This means engaging in economic activity in order to build, control and own assets is critical to political buy-in. BEE Com (2001) supports this view of transformative policies, saying they must be accompanied by measures to increase access to productive assets (factors of production) for the majority of the population and appropriate support to ensure sustainable use.

6.2.2 Summary

The transformation agenda that South Africa has embarked on for the past 15 years has manifested in a policy of economic empowerment in the form of BEE. BEE seeks to transfer the factors of production to blacks, at the same time bringing the South African government's resources to bear on this process of transformation. The essence of what emerged from the respondents to this research is that this policy must seek to transfer capital, land, develop skill (labour) and encourage an environment of entrepreneurship. Therefore, BEE is designed

to transfer the factors of production. Whether this has been successful or not will emerge from the consolidated conclusions in Chapter 7.

6.3 Have these factors (capital, land, labour and entrepreneurship) been employed in the production/creation of wealth in South Africa?

6.3.1 Findings and Analysis

The respondents expressed an array of views here, and seemed reluctant to commit to a definitive answer. Mncane Mthunzi stated with a level of confidence that BEE is a wealth creation tool - a stepping stone for people to create wealth on their own. Litha Nkombisa observed that BEE has been distorted as entrepreneurship - that the role of BEE is to encourage entrepreneurship and this will help grow the cake. Morrison (2000) also focuses on entrepreneurship by concluding that of equal significance for entrepreneurial culture are the future hopes and aspirations not only of business but of society at large in a given country. The entrepreneur is motivated to create a venture which reflects their vision and ambitions, and is prepared to review and reorganise their social environment to make it materialise (Morrison, 2000).

The views of some of the respondents were in direct contradiction with this notion, particularly when assessing BEE's ability to create wealth in its current form.

Lumkile Mondi felt that in the main there had been very little wealth creation through BEE, but that there had been a transfer of wealth from the state to individuals (which made some people wealthy). Ciko Thomas observed that BEE philosophically seeks to address the issue of participation, but the debate has been mainly about reallocating white capital. He says this has been a distortion of the intent of BEE; it has not encouraged the creation of wealth and enterprise activity.

Khumo Shuenyane stated categorically that “people just hope that BEE is a wealth creation mechanism” - because money acquired through BEE has been “lazy capital in the sense that it is not being employed in new and risky enterprise”. Jack (2007) confirms this contradiction when he states that the third wave of BEE transpires into the starting of new enterprises by black people who then grow such enterprises through the procurement and enterprise development opportunities arising from BBBEE. Dr Blade Nzimande collaborates with this view by observing that BEE has not had a role in wealth creation and is not necessarily intended to be such a tool.

There seems to be a degree of scepticism from the respondents about BEE’s effectiveness in creating wealth. Lumkile Mondi said that BEE in its current form has not created wealth, and that we must not look at the current beneficiaries since they acquired wealth through political patronage. Dr Blade Nzimande concurs with this view, adding that outside of the context of an Industrial Policy, BEE is not facilitating the process of wealth creation. Khumo Shuenyane says BEE has not

facilitated the process of wealth creation, just wealth transfer. Mncane Mthunzi thinks it is a mixed bag – pointing out the R200 billion worth of BEE transactions to date, but adding that it has not reached as many people as desired. He concurs with Lumkile Mondi on the issue of political patronage, stating that companies are looking for political connections and that this is stifling the process of wealth creation because the BEE participants are not contributing to the growth of the businesses.

The author has observed that while the respondents agree that BEE as a tool is well equipped to create wealth, they suggest that the current focus of BEE is derailing significant progress. There is a need to sharpen the tool by focusing on other elements. The respondents agree that this has meant that an opportunity is being missed in terms of wealth creation. As a result of its current implementation path, BEE is not positioned for wealth creation but perhaps merely for wealth transfer. There are good examples of this, with Jack (2007) reporting that in 1993 Sanlam via Sankorp sold its controlling interest in Metropolitan Life to Dr Nthato Motlana's New Africa Investments Limited. Also, in 2008 R25 billion of Sasol shares were sold at a discount to blacks through BEE - in effect a transfer of wealth from the existing Sasol shareholders to the new BEE shareholders.

The respondents accept BEE as the tool to drive the process of wealth creation but have dismissed its effectiveness. There are two points to take out of this discussion:

- (a) BEE Com (2001) believes that BEE is imperative and must be implemented in a coordinated and integrated manner. (For example, accumulation strategies to expand the identified growth sectors will have to go way beyond increasing the size of the current narrow economic base.) Just like the respondents there is anticipation of a tool for wealth creation that should go beyond wealth transfer. The consensus is that BEE is well placed to be effective in achieving its stated goals, but that more needs to be done to sharpen the tool.
- (b) BEE Com (2001), in proposing a broader definition of BEE against which a workable and sustainable BEE programme can be designed and implemented as part of a new Growth Plan for the economy, state that the policy needs to ensure a broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity. The respondents in this study also seemed to lament the narrow scope of BEE, particularly with regard to number of people who have benefited and their place in society. Simply put, as a wealth creation tool BEE is not broad enough to be effective.

6.3.2 Summary

The policy of BEE as a transformational wealth creation tool designed to help expand the South African economy is, in principle, the correct policy. However, its

implementation has been found wanting and has rendered it ineffective in performing the task of wealth creation. This is true even though a few politically connected individuals have benefited and have acquired personal wealth. A new focus on empowerment of the individual as well as a broadening of the impact is suggested if BEE is going to be effective in creating wealth.

6.4 Has the policy of BEE led to wealth transfer to blacks in South Africa?

6.4.1 Findings and Analysis

Mncane Mthunzi observed that there is no actual model for blacks to create wealth, but obviously BEE is a means of transference of wealth to the previously disadvantaged. He noted, however, that government is not showing leadership and decisiveness in giving guidance and ensuring that the process succeeds. Litha Nkombisa could only come up with one example of someone who had managed to create new wealth (Patrice Motsepe who acquired marginal and closed mines from Anglo American and worked with Harmony to bring them back to productivity, creating new jobs and capital in the process). Mafuna (2007) supports the transference imperative of BEE, stating that the ability of people to conduct economic activities for their own benefit is central to underpinning any credible political process. In this sense BEE is serving its purpose.

However, Dr Blade Nzimande dismisses the process of wealth creation by blacks out of BEE as inconsequential, because these blacks are a small group, while Khumo Shuenyane sees it as a “huge consumption thing” with people taking expensive trips overseas and so on. Lumkile Mondi went as far as saying BEE should be scrapped and that the focus should be on affirmative action to equip blacks with skills to succeed and therefore be able to create wealth. So he too observed that BEE needs to be sharpened to have an impact on wealth creation.

There seems to be a common understanding from the respondents that BEE has not created wealth for the country because its beneficiaries are few. Although it is clear that the BEE beneficiaries have been successful in at least acquiring wealth for themselves, in the context of the larger population it is clear that BEE has been limited in its success. The respondents are uniformly concurring with Lucas-Bull (2007) when she says the challenge for South Africa is to facilitate a sustainable transfer of economic ownership to the political majority without destroying that which drives a market economy, shareholder capitalism and free enterprise, particularly free markets.

In terms of control of wealth and ownership, Costa (2006) stated that if all black companies were put together, they only owned 1.2% of the JSE's total market capitalisation (with 98.8% still in white hands). Innes (2007) identified five requirements for a successful BBEE policy in transforming the South African economy: a land reform programme that ensures significant black ownership of

productive land in the rural areas, black participation in ownership of the commanding heights of the economy, the development of black professionals and skilled people across all aspects of society, the growth of black-owned small businesses and entrepreneurs, and more opportunities for workers to acquire a stake in the economy.

Khumo Shuenyane's closing point on this question summed up the respondent's concurrence with Innes (2007) that for BEE to have the desired impact on wealth creation, you need to support people to create businesses and find ways to help black entrepreneurs, which will create jobs at SMME level.

The two most important points to take out of the discussion of this question are that:

- a) BEE has been effective in transferring some wealth to a fraction of blacks who were at the right place at the right time. However, the overriding theme is its limited impact because it is not broad enough to have the critical mass required to impact on the broader economy instead of enriching the chosen few.
- b) There is consensus that for the policy to be effective the capacity of the individual active in the economy is critical. It has been observed that skill, knowledge and the spirit of entrepreneurship are key contributors to individuals being able to create wealth through enterprise. The role of government has been highlighted as particularly important in providing this

environment for entrepreneurs to flourish and create wealth. Clarke *et al.* (2006) agree, stating that despite the concerns about skills in the economy, relatively few enterprises had training programmes. With a history of exclusion from the economy and quality education, the transfer of skills to the black populace is a slow process, confining them to the ranks of suppliers of labour rather than employers.

6.4.2 Summary

Despite good intentions of government and other stakeholders, BEE has not led to the transfer of wealth to blacks in South Africa on any significant scale. Only a few blacks have benefited from BEE as a result of political patronage and other factors. The overriding theme from the respondents is that there is a need to expand the policy and fully implement its other attributes, such as skills development and affirmative action. The big challenge for policy makers is how to change course now without upsetting the momentum - and keeping the private sector motivated to carry out this transformation imperative that South Africa has within its sights.

6.5 Has the policy of BEE led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?

6.5.1 Findings and Analysis

Smith (1776) stated that for accumulated assets to become active capital and put additional production into motion, they must be fixed and realised in some particular subject. Litha Nkombisa supported this view, stating that for BEE to create wealth the focus should move from share price to underlying asset performance. Lumkile Mondi said BEE has not done much but has rather created a culture of dependence and entitlement. He summed up BEE in its current form as policy of 'consumption maximisation' and not of wealth creation. Khumo Shuenyane concurred that BEE has only encouraged a culture of excessive consumption because of how easily the money came.

Dr Blade Nzimande proposed that perhaps a 10-year review of BEE as a policy for wealth creation and transformation should be on the cards, which would help identify bottlenecks and encourage a change in direction. Mncane Mthunzi advocates for more government involvement and even the appointment of an ombudsman to vet the transactions; write ground rules of engagement and dictate who should benefit, based on merit and not patronage.

The researcher observed from the respondents' answers to this question that:

- a) The current beneficiaries of BEE are not concerned with the re-employment of capital acquired through BEE, and as such there is no wealth creation through BEE. Tools are needed to measure the performance of these deals.
- b) The advent of BEE has meant that much of the responsibility to carry out the programme lies with the (largely white) private sector - so the slicing up of white capital is the key obsession of BEE at the moment. Anything beyond capital accumulation is not of great concern to the current beneficiaries; there is an unwillingness to reinvest the capital into new enterprises.

6.5.2 Summary

The current focus of BEE on share price performance has come under the spotlight as we seek to examine the knock-on effect in terms of the behaviour of BEE beneficiaries regarding use of the factors of production to create wealth. It has been previously acknowledged that the small number of beneficiaries has had minimal impact. The key and critical factor of production that resonated with the participants is the acquisition and subsequent deployment of capital. The fitness of labour and the individual to carry out what is necessary was also identified as critical to success.

Chapter 7: Conclusion

7.1 Introduction

The developed and underdeveloped parts of the present capitalist section of the world have been in continuous contact for four and a half centuries, with Western Europe and Africa having a relationship which ensured the transfer of wealth from Africa to Europe. “The contention here is that over that period Africa helped to develop Western Europe in the same proportion as Western Europe helped to underdevelop Africa” (Rodney, 1982, p. 75).

South Africa’s history is such that given the legacy of apartheid and after the installation of the first democratically elected government, the work of reconstruction, redistribution and reallocation of wealth had to begin. This task of transformation has its roots in antiquity, since the interaction between Africa and Western Europe became one of conquest. This was noted by Lumkile Mondi as part of his response around economic empowerment.

Mbeki (2007) explains the transformation equation as follows: parliamentary democracy + globalisation + BEE = transformation. During the negotiations at Codesa II, Mbeki (2007) observed that to avoid what Mandela wanted to implement (the break-up of the Minerals-Energy Complex (MEC)), the economic oligarchy at Codesa II offered BEE. The BEE model, Mbeki explains, had been developed over many years since 1977 by South African moguls Harry Oppenheimer and Anton

Rupert. BEE entailed wealth redistribution from the economic oligarchs to the black upper-middle class. Mbeki (2007) continues to state that an important but secondary effect of this voluntary wealth redistribution was the emergence of the new class of unproductive, rich black politicians and ex-politicians who have become the key political allies of the economic oligarchy in preserving the MEC.

7.2 Research Methodology

To conduct this research five research questions (outlined in Chapter 3) were developed to interrogate the question of whether the policy of BEE has impacted on wealth creation for South Africa. These questions were supported by the literature review and particularly by government policy statements relating to the intent and process of BEE.

A questionnaire was developed to look deeper into the issues, starting at the point of understanding economic empowerment and cascading down to the factors of production, their transfer, and ultimately their employment in the process of wealth creation. The key players in this equation are the blacks who have benefited from this process of empowerment.

This study is exploratory in nature, as detailed in Chapter 4. The interviews were conducted face to face, recorded and transcribed immediately. The Dictaphone and the researcher's notes were used as the primary tools for data collection. After the discussion and analysis of the data collected, themes emerged from the

answers to the four research questions, and therefore the grounded theory technique was used to develop codes for the emergent themes in the data. These codes provided an easy tool for classification and analysis of the data.

7.3 Research Limitations

One of the major constraints in this research project is the fact that BEE is a government policy, and as such the motivation, intent and process for implementation is rooted in government pronouncement and documentation. However, there is an emerging body of work that has been used to support the literature review as far as possible. Until a review and large quantitative studies are commissioned and executed, it is hard to predict how the development of this topic might go forward.

The interview respondents brought good experience and observations to the results. They include BEE beneficiaries (Ciko Thomas and Litha Nkombisa) and financiers (Khumo Shuenyane and Litha Nkombisa), a politician (Dr Blade Nzimande), an economist (Lumkile Mondli) and Mthunzi Mncane, who manages the Black Management Forum.

The homogeneity of the sample might be seen as a limitation when race and gender are looked at. Efforts were made to interview whites, women, and members of the white business class, but most of these interviews were cancelled at the last minute. An interview was conducted with Mr Thami Ngwenya, a Deputy Director-

General at the DTI, but the questionnaire was returned after the results had already been analysed.

7.4 Findings

Key findings from this research are as follows.

- The transfer of the factors of production through the policy of BEE and the process of economic empowerment has been minimal. Only those with political connections have been invited to take part. While some transfer has occurred, this has not been broad enough due the limitations of BEE as a policy.
- Black beneficiaries of BEE are not willing to pay the costs of entrepreneurship - they want white business and government to pay those costs and therefore to have less risk themselves. This means they have no propensity to employ the capital or assets acquired through BEE to start new ventures.
- BEE has not been successful in transferring wealth to blacks from whites; instead, even more whites still benefit from BEE at the expense of blacks. As long as one has political connections, there are opportunities to accumulate personal wealth. White capital remains the target of BEE since it has not been able to transfer enough to blacks.
- As a wealth creation tool BEE has failed, mainly because transfer of the factors of production has not been broad enough, and also because the few who have acquired these (e.g. capital, land and some skills) are not

entrepreneurial enough. This class prefers to consume the wealth acquired through BEE rather than risking it in new enterprises.

7.4.1 Summary

As it stands, BEE is a policy that is geared correctly towards achieving the goals of transferring the factors of production and creating wealth. However, the structure through which it is being implemented is not conducive to broadening its impact, because implementation is exercised through patronage. White business has been complicit in this because it benefits from having government connections and therefore protection.

7.5 Recommendations

The recommendations from this study based on the author's observations and analysis of the data are as follows:

1. BEE needs to be monitored and therefore its impact on wealth creation and the growth of the South African economy understood. Government needs to make good on its promise to form a BEE Council chaired by the President. This brings accountability for success of this policy back to the highest office in the land.
2. There needs to be a review of the principles that led to formation of the BEE policy. The government must ensure that unintended consequences (such

as the enrichment of a few) are dealt with. This review should take place as a matter of urgency.

3. BEE should be refocused on skills development to empower the individual. Also, government should focus on delivering higher-quality education to ensure that the people who benefit from affirmative action have the capacity to learn fast and can move out of formal employment to start their own enterprises and thus help grow the productive capacity of South Africa.
4. It is government's responsibility to create an environment where entrepreneurship is successful and incentivised. Government institutions must be mobilised and geared 100% towards supporting BEE implementation, particularly small black enterprises.
5. A policy for development of industry and enterprise should be enacted in conjunction with BEE. An Industrial Policy should be focused on incentivising investment in equipment, research and development as well as innovation. This will ensure employment on a large scale as well as skills development in technology and manufacturing.
6. Most of the elements of BEE should be incentivised for superior implementation, either through tax incentives or rebates. This should include incentives for companies that do BEE deals with new players.
7. Finally, government and industry can create an opportunity to focus on these things as well as developing new industries and re-engineering the old BEE policy by scrapping the ownership element of BEE and reinforcing enterprise development and employment equity.

7.6 Future Research

Further research on this interesting and yet controversial topic is proposed, to cover the following areas:

- A qualitative study to show the impact of BEE on the GDP of South Africa since its inception.
- A study to compare China's development of its manufacturing sector from a mainly agricultural economy, and possible lessons for South Africa.
- A study to compare lessons for South Africa from other countries which have implemented similar policies of redistribution of wealth, e.g. Malaysia and Russia.
- A study to look at possible impact on the South African economy and its GDP growth in the absence of BEE.

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Appendices:

Appendix A:

Interview Guide

1. Introduction

- Andile Makhunga, Gordon Institute of Business Science MBA research
- Purpose of study
 - Has there been a transfer of the control over the factors of production (Capital, Land, Labour) to blacks through the implementation of Black Economic Empowerment in South Africa?
 - Have these factors (Capital, Land, Labour) been employed in the production/creation of wealth in South Africa?
 - Has the policy of Black Economic Empowerment led to wealth transfer to blacks in South Africa?
 - Has the policy of Black Economic Empowerment led to new wealth creation in the South African economy after the acquisition of the factors of production by blacks?
- Explain BEE and Wealth Creation definition as adopted for this research.
- Explain anonymity if required.

- Explain process of data collection and analysis and how many other respondents were/will be interviewed.

2. Collect Demographic Information

- Name
- Life stage information
- Race
- Qualifications
- Name of company
- BEE experience or expertise

3. Closing Comments

- Please give me a summary of your general feelings and thoughts about BEE.
- If you had the opportunity how would you structure the BEE or Wealth Creation process in South Africa?
- Where do you think the opportunity for wealth creation lies in South Africa?

4. Sharing of Previous Comments

- Share own personal experiences and observations in an attempt to gain a deeper level of trust and sharing e.g. Wealth Creation Model.

5. Thank Respondent

- Send email to thank respondent for their time.

- Create opportunity for further sharing or referral if possible and/or required.

6. Notes

- Body Language and emotional state.

Questionnaire for MBA Research

Black Economic Empowerment and its impact on Wealth Creation in South Africa.



GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

The information gathered from this questionnaire will be used for analysis in a research report investigating the impact of Black Economic Empowerment (“BEE”) on Wealth Creation in South Africa.

For the purposes of this study black people include male and female African, Coloured and Indian people who are citizens of the Republic of South Africa.

The results of the survey will be used for research purposes only. All responses will be treated as strictly confidential.

A. Respondent Details

Name of Respondent: _____

Name of Organisation: _____

Current Position: _____



B. Questions

1. What in your view constitutes Economic Empowerment?



2. In your view what are the basic requirements in the process of wealth creation?



3. What are your views on BEE in South Africa and its role in the process of wealth creation?

Is BEE intended to be a wealth creation tool? Please explain.



5. In your view is there a process of new wealth creation by Blacks who benefited from BEE?



6. In your view, what are the critical elements of wealth creation through BEE? E.g. transfer and employment of Capital, Land/Property and labour. Please explain.



7. In your view, what has happened or needs to happen for BEE to have an impact on Wealth Creation in South Africa? Please explain.



8. In your view to what extent will BEE influence the process of wealth creation?



9. In your view, what will be BEE's contribution to wealth creation in SA
and how and through whom will this manifest?

Thank you for your participation.

