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An analysis of Black Economic Empowerment (BEE) owned companies'
success stories

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ABSTRACT

Black business community participated in SA economy for survival purposes rather than for prosperity and contribution to its development at large. The rest of the black population formed a labour pool as a race-based lumpenproletariat. It is only in 1993 that BEE was introduced to dramatically reform the economy by including all races.

The aim of the study was to determine BEE owned company success factors given the criticism and challenges faced. A qualitative, exploratory study was undertaken to gain in-depth knowledge from thirteen BEE experts through semi-structured interviews. The respondents were selected by way of purposive and snowball sampling and the highest combined total NAV of the BEE owned companies studied is over R92 Billion.

The study found that at a macro-economic level for economic empowerment to succeed, political, psychological, economic and social powers need to be present. At a micro-economic level access to funding, skills and value creation is instrumental in ensuring BEE ownership succeeded. White corporates also had to be involved to de-racialise the economy. To this effect a model was developed which maps out a blueprint for BEE owned company success. It is the recommendation of the study that BEE-owned companies should continuously innovate to fuel growth.

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KEYWORDS

BEE

Black economic empowerment

BEE owned company success

BEE ownership

ABBREVIATIONS AND ACRONYMS

ABSIP	Black Securities and Investment Professionals
ANC	African National Congress
ANCYL	African National Congress Youth League
BBC	Black Business Council
BEE	Black Economic Empowerment
B-BBEE	Broad-Based Economic Empowerment
BEECOM	Black Economic Empowerment Commission
BMF	Black Management Forum
CAQDAS	Computer Aided Qualitative Data Analysis Software
CEO	Chief Executive Officer
COSATU	Congress of South African Trade Unions
DBSA	Development Bank of Southern Africa
DTI	Department of Trade and Industry
DME	Department of Minerals and Energy
EE	Economic Empowerment
FABCOS	Foundation for African Business Consumer Services
GIBS	Gordon Institute of Business Science
GSDRC	Governance and Social Development Resource Centre
HDSA	Historically Disadvantaged South Africans
ICA	Industrial Coordination Act
IDC	Industrial Development Corporation
ITC	Information Technology and Communication
JCI	Johannesburg Consolidated Investments
JSE	Johannesburg Stock Exchange
LBO	Leveraged Buyouts

MBA	Masters in Business Administration
MERG	Macro-Economic Research Group
MNC	Multi-National Companies
NAIL	New Africa Investments Limited
NAFCOC	National African Federated Chambers of Commerce
NDR	National Democratic Revolution
NEC	National Executive Commission
NEC	National Empowerment Consortium
NEF	National Empowerment Fund
NEP	New Economic Policy
OECD	Organisation for Economic Co-operation and Development
PIC	Public Investment Corporation
PNB	Permodalan Nasionale Berhad
RAIL	Real Africa Investments Limited
RDP	Reconstruction and Development Programme
ROI	Return on Investment
SA	South Africa
SABTA	South African Black Taxi Association
SACP	South African Communist Party
SARB	South African Reserve Bank
SMME	Small Micro-Medium Enterprises
TLC	Transformational Leadership Capability
UDF	United Democratic Front
UK	United Kingdom
US	United States of America

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.

Tabisa Namhla Tshetu

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CHAPTER ONE: INTRODUCTION TO THE RESEARCH PROBLEM

1.1. Introduction to BEE – the beginning of an era

The purpose of this section is to provide a background on BEE so that there is contextual understanding to the research problem.

The Black Economic Empowerment (BEE) phenomenon was introduced in the early 90s by the South African government and private sector to give the previously disadvantaged races (Black, Coloured, Indian) an equal chance to succeed in the country's economy (Krüger, 2011). However, BEE was criticised for only benefitting the elite few as opposed to the masses of previously disadvantaged South Africans. Its implementation was accused of moving from moderate to radical rapidly with a lot of controversy (Tangri & Southall, 2008). This led to the introduction of Broad-Based Economic Empowerment (B-BBEE), which focused on the distribution of wealth across all gender and previously disadvantaged race groups by accommodating already empowered companies through procurement procedures, skills development, enterprise development, shareholding and corporate social investments, amongst others. Focus of this study is on one of the seven elements of B-BBEE; ownership of or equity in business ventures by previously disadvantaged South Africans. For the purpose of this research project, such ownership or equity will be referred to in an abbreviated form as BEE company ownership or BEE owned company.

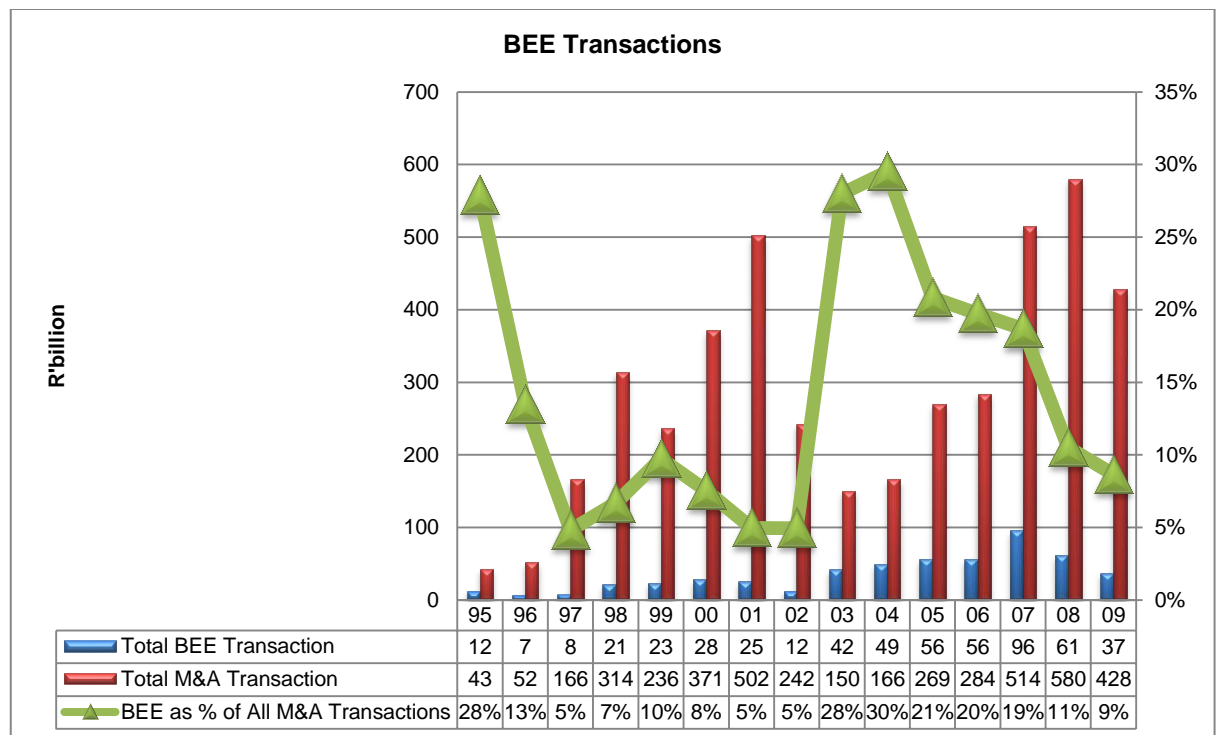
1.1.1. BEE company ownership

The first democratic elections of 1994 in South Africa (SA) saw an end to the apartheid regime and the coming into power of the ruling party, the African National Congress (ANC), to govern the country. However, the economy was still predominantly concentrated in white ownership. It was argued that for transformation to be possible, the black majority would have to own and control a larger percentage of the economy (Hamann, Khagram & Rohan, 2008). As a result, BEE was introduced by the ANC to redress the historic injustice and broaden economic participation (Krüger, 2011). The significant impact of BEE company ownership on SAs' economic growth is illustrated in Figure 1 below. The investments in BEE transactions from 1995 to 2010 in relation to mergers and acquisitions amount to more than R500 billion (Presidency, 2010).

In their study of Exxaro Limited, Fauconnier and Mathur-Helm (2008) stated that BEE transactions have a low success rate, while Sartorius and Botha (2008) claimed that the success of BEE is ambiguous and has been questioned from its inception, as it has led to the increase of the black middle class, but has been criticised for truly benefitting the elite few. Moeletsi Mbeki argued that BEE “strikes the fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians...who have become strong allies of the economic oligarchy” (Mbeki, 2009, p. 61).

Against this background, this study will seek to address issues of success in BEE company ownership as defined in the next section.

Figure 1: BEE transactions



Source: Presidency, 2010

1.2. Definition of problem and purpose

Given the criticism listed above, the researcher aims to establish if in the past 20 years, there have been beacons that have succeeded within BEE company ownership and if so, what the antecedents for successful BEE company ownership are. Fauconnier and Mathur-Helm (2008) saw a need for this kind of study when they stated that they were contributing “...to the literature by attempting to address the gap in BEE dealings, the

challenges and the factors for the achievement of success – which are currently unavailable in the literature” (Fauconnier & Mathur-Helm, 2008, p. 1). Rogoff, Lee and Suh (2004) were of the view that there is not enough literature on the determinants of business success, and factors that are attributes to business success have not been tested. The study therefore aims to contribute to the literature on two fronts; namely BEE and business success.

1.3. Research problem

The research sets out to identify factors, so far unknown, that have led to BEE company ownership success in order to map out a blueprint for successful BEE transactions going forward.

1.4. Research scope

The scope for this research is to determine the criteria for successful BEE company ownership. Focus on specific industries is guided by well-documented transactions in the public domain and the identification of priority sector ambitions (Elibiary, 2010).

The drafting of the Economic Transformation Strategy B-BBEE (BEE Strategy) led to the identification of some key industries as priority sectors for ownership diversification with regard to race. These priority sectors and other industries agreed on targets for BEE company ownership in documents known as sector charters (DTI, 2000).

Although the liquid fuels sector was the first to agree on and draft a sector charter, it was chastised by the Department of Minerals and Energy (DME) for not meeting its targets as a result of some businesses not requiring government contracts. According to the mining charter, by 2007 mines had to be 15% black-owned and 26% black-owned by 2014, regardless of commodity (Tangri & Southall, 2008). The financial services sector had ambitions of meeting 25% minimum black ownership by 2010. Meeting this ambition was facilitated by two large documented empowerment deals, namely the Batho Bonke deal with Absa that involved Tokyo Sexwale and Patrice Motsepe; secondly there was the Standard Bank & Liberty Holdings deal which involved Sakumzi Macozoma and Cyril Ramaphosa (Southall, 2007; Tangri & Southall, 2008).

The Basil Read and Amabubesi deal that arose ahead of the 45% target set by the construction charter, had an interesting turn of events, when one of the BEE partners sold its shares to other BEE partners before the lock-in period was over. The individuals involved in this construction industry deal were Mzilikazi Khumalo, Bulelani Ngcuka and Sango Ntsaluba (Do Rio Doce, 2006). The telecommunications industry is notably interesting due to the mobile network impacting on SA at the same time as BEE being established and penetrating this industry. This penetration took place at the same period New Africa Investments Limited (NAIL) was at its peak and through some of its subsidiaries managed to hold a substantial stake of MTN. The deal took place in the early 90s before the Information, Technology and Communication (ITC) industry was identified as a priority sector.

Given the above, the study will include BEE transactions in some of the following industries; construction, telecommunications, liquid fuels, mining and financial services. The geographical area will be limited to the footprint that the BEE companies have within South Africa, where applicable, comparative cases from countries such as Malaysia will be referred to, simply for illustrative purposes.

1.5. Research rationale

The reason for this research is both personal and academic. As a black female professional South African, it is important for the researcher to understand the logic behind the country's economic future, its challenges, best practices and the influence of legislation on business. Academically, there is a shortage of critical literature on BEE successes. Black business ownership success inspires confidence as it also speaks to the psychological power of empowerment for the black community (Edigheji, 1999); it should therefore be recorded. The most insightful studies are done by Roger Southall with a connection to the politics of BEE and a distinct dearth on success.

1.6. Research objective

The aim of this research is to assess successful BEE owned companies and determine the factors that led to their success, as defined in the objectives below:

- To determine and explore the factors that lead to BEE company ownership success, while others fail.
- Establish the conditions that need to be in place in order for these beacons to succeed.
- Understand the benefits associated with being involved in BEE transactions.

1.7. Research questions

Having stated the research problem and objective, the following research questions will be used to determine the factors that lead to success and the factors that hinder progress.

- What constitutes BEE owned company success?
- What are the antecedents to BEE owned company success?
- Has value been created for all stakeholders involved?

1.8. Research assumptions

Assumptions that were made when going into the research include the following:

- BEE company ownership measures of success could be untested
- Ostensibly BEE efforts are aimed at improving the socio-economic well-being of poor black people
- The responses from the respondents are a true reflection of their experience

1.9. Research limitations

The sample selection, the time frame, literature and researcher bias are identified as the major research limitations experienced during the study, while using the selected research methodology.

The study was conducted using a combination of purposive and snowball sampling from the non-probability technique. It consisted of thirteen respondents; it is therefore not a true reflection of the BEE company ownership population and may not accurately

represent other companies involved in BEE company ownership. The interviews were held with individuals that were available within the Gauteng region and this limited the researcher's access to other key individuals who may have managed to make a success of BEE company ownership. The data was collected over eight weeks which eliminated potential respondents who were not available during that time.

There is a dearth in the availability of peer-reviewed journal articles on the topic of BEE company ownership successes and this placed limitations on the type of literature reviewed by the researcher. The researcher is neither an expert on the topic of BEE company ownership success nor qualified on qualitative interviewing; this may impact the results. However, use of the interview schedule and consultations with the supervisor diluted the limiting effect.

1.10. Research structure

The research project consists of a total of seven chapters including the current chapter. Below is a brief description of the next six chapters and how they fit into the entire project.

Chapter two: The purpose of this chapter is to review theories and literature that is already available in the academic arena on BEE company ownership success. The concepts established and the gaps identified in this chapter will be used to critically review and examine the topic at hand.

Chapter three focuses on the three questions used to test the success factors identified in the literature review.

Chapter four is the research methodology chapter which brings meaning to the manner in which the data was collected and analysed. The chapter will discuss the sample and population; who was chosen to participate in the study and why. It will explain why the researcher chose to use a qualitative rather than a quantitative method. This chapter also seeks to clarify how data was collected and why the method chosen is both valid and reliable. The suitability of the questions asked, the ethical implications and the interview technique will also be explored here.

Chapter five is at the core of the project as it looks at the results that are unique to the topic and the research conducted, bearing in mind the research objectives and research questions that were designed as a consequence to the literature review.

Chapter six discusses the results that were presented in chapter five. In this chapter, the researcher interprets data and addresses the research questions.

Chapter seven offers a conclusion to the study by summarising it and making recommendations for future studies based on the findings.

CHAPTER TWO: THEORY AND LITERATURE REVIEW

2.1. Introduction

This chapter provides the theory base and literature review for the study on Black Economic Empowerment company success stories as presented. The literature review was guided by the research objectives and research questions; it aims to establish the key attributors to BEE company ownership success which will ultimately attempt to sketch a blueprint for BEE company ownership in SA. The literature review is broken into five sections and begins with a brief on the majority population empowerment experience of another country followed by theory on the black business community in SA prior to the first democratic elections. The core of the review begins in the second section as the researcher seeks to discover the meaning of BEE company ownership, its background, logic and treatment by the legislation and the economic hub of the country. The third section focusses on the challenges faced in BEE company ownership that may be seen as impediments to its success. Then, the literature discusses general business success theories, the key factors to achieving it and the impact they have on BEE company ownership. Lastly conclusions on the theory are presented.

2.2. Lessons from Malaysia

Similar to South Africa's BEE policy, Malaysia used the New Economic Policy (NEP) to redress the economic imbalances created by colonialism. NEP was implemented in 1970 and set a target of accelerating company share ownership in 1970 from 2.4% to 30% by 1990 for the Bumiputera or Malay, the majority demographic population in Malaysia (Mandla, 2006; Sanchez, 2011). The targeted equity ratio for all the racial groups in Malaysia was broken down to 30% for the Bumiputera, 40% for the Non-Bumiputera, (mainly Chinese people) and 30% for all foreign nationals (Searle, 1999).

Based on the Industrial Coordination Act (ICA) of 1975, government bought foreign entities to promote equity restructuring. The Permodalan Nasional Berhad (PNB) was used as a trust agency to increase the equity held by the Malay by buying shares of well-performing companies (Gomez & Jomo, 1999). South Africa's National Empowerment Fund (NEF) served a similar purpose for BEE. By 1990, listed share

ownership for the Bumiputera was 19.3%, 10.7% short of the NEP target as illustrated in Table 1.

Table 1: Ownership of share capital of Malaysia limited companies, 1970-1990

RACE	1970	1990
Bumiputera	2.4%	19.3%
Non- Bumiputera	34.2%	55.3%
Foreigners	63.4%	25.4%

Source: Gomez & Jomo (1999, p. 251) Malaysia's Political Economy

These figures show the significant drop in foreign ownership and equal increase of ownership among Non-Bumiputera, far more prominent than the increase in equity among the Bumiputera. Mandla (2006) argued that Malaysia created new business opportunities as opposed to South Africa's BEE approach that focuses on the previously disadvantaged acquiring equity in existing companies or businesses merging with non-BEE business. There is little evidence of this in the available literature; however, this statement raises the importance of creating new opportunities for successful businesses. Opportunities and innovation as a topic is addressed in a separate section in this chapter.

In the next section, the researcher discusses the limitations in the economic participation by the majority population in SA and how this probably created similar imbalances as those found in Malaysia which led to the NEP.

2.3. Pre-1993 Black business community

The black business community in South Africa was not established after the 1994 elections, but has existed for centuries. There are, however, differences in the paths of those who managed their businesses under the apartheid regime and those who emerged as a result of democracy (Randall, 1996). This section seeks to discuss the three major Pre-1993 black business experiences and their influence on the formation of BEE.

The Bantustans created in the 1960s, were the hub in which most black businesses were built, however the conditions were unpropitious. The black businessman could only engage in trading stores, petrol stations and other retail avenues that focused on

daily essentials and which had previously been owned by white capital (Southall, 2014). They were far from major markets and therefore prospects of growth and financing were non-existent, partnerships and property ownerships were not allowed. Lastly, they were seen to be in cahoots with the apartheid government and suffered the most during the liberation uprisings (Randall, 1996). Ponte, Roberts and Van Sittert (2007) and Southall (2014) argued that finance was made available for these businesses through the Development Corporations that were established in each of the homelands by the apartheid government to promote black business and offer some economic substance to the Bantustans.

Second; black business formed structures that were meant to establish a network for black business people, garner support for collective bargaining, remove restrictions and protect the established monopolies in the townships and Bantustans (Southall, 2004, Southall 2014). These structures include the National African Federated Chambers of Commerce (NAFCOC), the Foundation for African Business Consumer Services (FABCOS), the South African Black Taxi Association (SABTA) and lastly the Black Management Forum (BMF). In 1993, these structures held a meeting with the ANC to assert their needs as part of the negotiations for the post-apartheid economy of SA. The resulting Mopani Memorandum of Understanding called for state funding that was responsive to the needs of black business. Ultimately the BMF became instrumental in formulating the BEE policy (Chabane, Roberts & Goldstein, 2006; Southall, 2014).

The last phase speaks to the cooperation between white capital and black business for the development of the black economy. The Anglo American initiative in 1989, known as Anglo Zimele, is one of the first known white capital initiatives to help develop black businesses and provide the basis for one of the B-BBEE elements. Black-owned companies that are attributed to this initiative include; Mvelaphanda, chaired by Tokyo Sexwale; Johnnic, which had been part of the NAIL group; and African Rainbow Minerals, chaired by Patrice Motsepe (Anglo Zimele & IFC, 2008; Southall 2014). This initiative supports the notion made by Macozoma (2003) that the implementation of BEE was initially shaped by white capital.

Understanding this background is essential, as it informs the need to distinguish between Pre-1993 existing black businesses and BEE-defined company ownership. The next section focuses on the depth of BEE and its origins.

2.4. What is BEE?

2.4.1. Empowerment

Empowerment is about power and the right to act upon available options and possibilities equally (Eyben, Kabeer & Cornwall, 2008). It aims to rectify the historical practice of excluding the majority of people from political and economic power. This is done by transforming society and structures of power. Empowerment faces a “profit-driven development” through improved conditions of life and livelihood (Friedmann, 1992). The World Bank viewed empowerment as a catalyst for authority and control; assets are used as a bargaining tool and without them choices are limited as there is no leverage or options to negotiate better terms (World Bank, 2002).

For people to thrive and empowerment to work, four types of powers are essential. 1) Social power; including economic participation, access to information, knowledge and skills. 2) Political power; the right to inform and have access to decisions that will impact the individual. 3) Psychological power; the sense of self-worth (Friedmann, 1992). 4) Economic Power; access to financial capital, resources that generate income and the freedom to trade (World Bank, 2002). The key difference between Friedmann and the World Bank in defining empowerment is that the World Bank recognised that empowerment is a broad term that is context-related and may include human rights-based definitions. It also noted that economic power is a different and separate attribute from social power with no mention of psychological power. The World Bank definition of empowerment was thus “The expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives” (World Bank, 2002; p. 10).

The purpose and definitions of empowerment, together with the four powers, give rise to an understanding of economic empowerment (EE); which aims to transform social and economic institutions through skills development, capability, control, social participation, independence, self-reliance and access to resources, amongst others (Edigheji, 1999; World Bank, 2002).

2.4.2. Economic empowerment

EE is a right that acknowledges the capacity of individuals’ participation in, contribution to and benefit from growth processes, the benefit should be equal to the value contributed in a manner that respects dignity and allows for fair negotiations. It increases access to assets, opportunities, resources, skills development, services,

information and it promotes the incorporation of disadvantaged races into the economic stream of the country (Sanchez, 2011; OECD, 2011)

Once economic power has been attained, the degree of decision-making is increased from a daily survival approach to one that encompasses life choices, taking risks to earn more income and investment on education and health. Therefore, EE allows for greater control over resources and leads to an increase in social standing (GSDRC, nd). For this to happen harmoniously, institutions and society must be included in the EE plan and restructured accordingly (Sanchez, 2011).

It is essential that buy-in is attained from all stakeholders of EE for it to be successful; otherwise it turns into another reporting exercise. The state has to be the main EE sponsor and use its power to drive, monitor and implement policies such that the positive impact in economic standing is felt at the bottom of the pyramid. Without the state's broad implementation, there is a risk that EE could only benefit those with political connections and access to information and this will further divide citizens and create inequality. The state should also set clear deliverables and timelines in order to measure progress and realign strategy, should the need arise (Sanchez, 2011).

EE's main beneficiaries should be the vulnerable and disadvantaged communities and the focus should be on skills development, creating opportunities and encouraging self-reliance through entrepreneurship (Sanchez, 2011).

With the empowerment concept and the purpose of economic empowerment in mind, the next section discusses the rise of this phenomenon in SA as it relates to the majority population.

2.4.3. Black economic empowerment origins

There is uncertainty as to when the term BEE was first used, but it was before the first democratic elections of 1994. Gqubule (2006), an academic and SA businessman, attributed the term to Joas Mogale, a founding member of FABCOS. Mogale is said to have used the term in 1988 at the FABCOS launch as an association for black business. The term was used in context of the United Democratic Front's (UDF) references to the ideal of a black business community under the apartheid government structures (Southall, 2014).

Macozoma (2003), a politician turned businessman was of the view that BEE was publicly used for the first time at the FABCOS second conference in 1991 by Samuel Motsuenyane. Motsuenyane had laid the foundation for the BEE concept at the NAFCOOC Conference in 1986 by driving a discussion on issues that impeded black business development and stating that “future policy might have to include positive discrimination or affirmative action to be sanctioned in the short term to enable blacks to bridge the economic backlog, which centuries of discriminatory policies have given rise to” (Macozoma, 2003, p. 23; Ponte, Roberts & Van Sittert, 2007).

2.4.3.1. ANC policies and BEE

Prior to the BEE term being established and the 1994 elections, there were ANC policies that eventually gave rise to the legislation of BEE. It is important to explore these and the impact they had on the economic transformation of SA.

The National Democratic Revolution (NDR) is a socialist concept that was introduced to SA by the South African Communist Party (SACP) in 1928 and later adopted by the ANC (ANCYL, 2009). With regard to BEE, the NDR goals included improvement on economic performance and a better life for all (Macozoma, 2003). The latter objective gave rise to one of the Freedom Charter demands in 1955; the role of the Freedom Charter in formulating BEE policies is highly debated. Ponte, Roberts and Van Sittert (2007) argued it is not a core foundation of BEE, while Nattrass (1994) and Chabane, Roberts & Goldstein (2006) believed that some demands, such as “the people shall share in the country’s wealth” and that “the land shall be shared among all those who work it” (People, 1955), led to the formation of BEE. Southall (2004) added that the NDR wanted to drive SA into a mixed economy that will establish a black middle class.

In 1991, the ANC launched the Macro-Economic Research Group (MERG) with the objective of formulating an economic policy that would be used at the negotiating table with the apartheid government (Freund, 2013). Although the final MERG report was distributed in 1993, the ANC published another policy during its tenure called ‘*Ready to Govern*’ which was far more radical (Freund, 2013). The most influential recommendation of the MERG report was the restructuring of the Department of Trade and Industry (DTI), such that it became the government’s spokesperson for BEE (Nattrass, 1994).

The last policy published by the ANC before it came into power was the Reconstruction and Development Programme (RDP); an ANC 1994 election manifesto with focus on economic growth for the black population (Nattrass & Seekings, 2005, p. 346).

2.4.3.2. White corporations' involvement

While the ANC was sharpening its economic policies in the early 90s, white capital was shaping BEE company ownership in an effort to ease black people into the economy without experiencing any form of loss or pain. It is only when former political activists got involved that BEE implementation was examined (Macozoma, 2003).

An example of this theory would be the support of Don Ncube by Anglo American in forming Real Africa Investments Limited (RAIL). Ncube was employed by Anglo American for over 20 years before he became one of its board directors and ventured on his own. As an employee of Anglo American, Ncube was sent abroad to study for a Masters' degree (Randall, 1996; Murray, 2000; Southall, 2014).

Randall (1996) further stated that SA was under growing international pressure and as such began to pursue programmes that would enable blacks to enter main-stream economic structures. Once blacks had gathered enough information and knowledge, they then became potential BEE partners.

2.4.3.3. Empowerment deals – the beginning

The first empowerment deal involved the sale of a 10% stake of Metropolitan by Sanlam to NAIL (chaired by Nthato Motlana, then President Mandela's physician) in 1993. This sale gave rise to the first BEE conglomerate, more than 10 years before the first BEE legislation was introduced (Crotty, 2014). In 1995, NAIL became the first black-owned company to be listed on the Johannesburg Stock Exchange (JSE) (Iheduru, 2004). Also in the insurance industry, the next known empowerment deal was in 1994 between RAIL and Anglo American, with the sale of African Life Insurance for R200m (Southall, 2014). It is in 1996 that BEE company ownership hit one of its most important milestones and became a force to be reckoned with when Anglo American sold a 35% stake of Johnnic to the National Empowerment Consortium (NEC), led by Cyril Ramaphosa, and a majority stake in the mining firm Johannesburg Consolidated Investments (JCI) to Mzilikazi Khumalo.

These transactions were completed at a time known as the first wave of BEE, with much emphasis on employment equity and the development of Small Micro-Medium Enterprises (SMMEs). This tenure of BEE saw individuals with political alliances and networks benefit the most. The second wave of BEE followed in 1999, it mainly saw the BEE strategy formulation, and the third wave of BEE saw the codes and enactment of the act (Duffett, Van der Heever & Bell, 2009).

In 2005, Ernst & Young published a report that considered transactions completed during the three different waves; the report agreed with the Presidency's calculations as demonstrated in Figure 1. The report further stated that there were twenty three BEE transactions in 1995, valued at a total of R12,4 billion, while in 1996, there were forty five BEE transactions valued at a total of R7 billion (Murray, 2000). However, by 2003, 72% of BEE deals involved companies that were seen to be the BEE trailblazers, namely ARM, Mvelaphanda, Shanduka, Safika, Kagiso and Tiso valued at a total of R30 billion with over a third of that amount attributable to an ARM deal (Pressly, 2004; Andreasson, 2006).

Murray (2000) further argued that the upsurge of the BEE conglomerates came as a result of white corporations' unbundling of non-key assets and that the empowerment companies used the same model and structure of acquiring shares in various companies ranging from financial services to tourism, construction, transportation, engineering, manufacturing, information technology (IT), food processing, print and electronic media, and healthcare. The success of these BEE conglomerates did not happen without criticism as it was felt that the key individuals behind them took advantage of their "struggle credentials" to enrich themselves and create 'black chip' companies at the expense of their former "comrades".

2.4.3.4. Black business community intervention

In May 1998, government established the Black Economic Empowerment Commission (BEECOM), as a response to the BMFs' suggestion in 1997 and due to the frustration evoked by the slow advancement of BEE. The purpose of BEECOM was to assess the effect of BEE and recommend how it could be accelerated (Tangri & Southall, 2008). In 2001, BEECOM recommended the promulgation of a 'National Black Economic Empowerment Act', legislation which would provide support, create policy and instruments with which to push the BEE strategy, crucially-set guidelines that would facilitate the de-racialisation of economic activities (Black Economic Empowerment Commission, South Africa, 2001).

In 2003, the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEE Act) was passed. To facilitate Broad-Based Black Economic Empowerment (B-BBEE) implementation, Article two of the B-BBEE Act set seven objectives. The following two objectives are the most relevant for purposes of this study; a) Promoting economic transformation in order to enable meaningful participation of black people in the economy and b) Achieving a substantial change in the racial composition of ownership and management structures.

To calculate and quantify BEE status, government introduced the BEE scorecard. There are seven elements of company transformation in the scorecard and each has been allocated a weighting out of 100 (Sartorius & Botha, 2008). Ownership or equity (20/100) is the element of the BEE scorecard that the researcher will focus on to test BEE company ownership success. Government policies are discussed in detail in the next section.

2.5. The B-BBEE Act, government and codes

The practice of addressing social, racial and economic inequalities of the past is not unique to SA, other countries such as the United States of America (US) and Malaysia have had to set up similar initiatives. In such instances, the government is usually the key driver and regulator of these processes and initiatives (Sanchez, 2011).

The B-BBEE Act is administered by the DTI. However, the objectives that were set to assist with B-BBEE implementation include labour, skills development, rural areas and productive assets which are governed by different departments with empowerment policies specific to them. Additionally, the finance ministry has a duty to ensure the financial stability of the country and its citizens, while industries such as mining, fisheries, liquid fuels, etc. have policies that address empowerment within those sectors (Southall 2014).

Through the DTI, the SA government gazetted Codes of Good Practice of the B-BBEE (codes) in 2007 with seven elements. There have been amendments since 2007, and the latest codes – which were launched in October 2013 – will come into operation in April 2015. The codes are used to demonstrate B-BBEE compliance by companies who seek to do business with government and public entities directly or indirectly through their suppliers or service providers (Elibiary, 2010). The codes are linked to the legislation and are therefore a legal requirement for the state (Arya & Bassi, 2011) and

not necessarily one for private companies. This in turn means that in order to meet the legislative requirements, some government contracts are reserved for black people and as such much of black business ownership is through ‘tenderpreneurship’ or SMMEs that are survivalist businesses (Edigheji, 1999; Elibiary, 2010).

With regard to the private sector, the codes’ position is to guide priority sectors within industries that do not have diversified ownership such as financial services, ICT, mining, petroleum/liquid fuels and construction (Elibiary, 2010). Different industries have taken it upon themselves to participate in consultative processes and endorse the BEE initiative. BEE compliance within some industries is aligned to the Act and has been agreed on through a charter that has been determined by the private companies in those industries (Sanchez, 2011).

The ownership element’s purpose within the codes is to measure effective ownership of entities by black people. Indicators used for the measurement include; voting rights at a maximum of five achievable points; entitlement to economic interests with seven points; and realisation points of the net value in broad-based ownership schemes and employee share ownership programmes as ownership indicators at eight points. Ultimately, the maximum score achievable through the ownership element towards BEE currently is 20 out of 100 and will move to 25 out of 105 total points in 2015 (South African Government, 2007). This is illustrated in Table 2 below.

Table 2: Ownership scorecard

CURRENT OWNERSHIP SCORECARD			PROPOSED OWNERSHIP SCORECARD		
INDICATOR	POINTS	TARGET	INDICATOR	POINTS	TARGET
Voting Rights			Voting Rights		
<ul style="list-style-type: none"> Black People Black Women 	3 points	25%+1 vote	<ul style="list-style-type: none"> Black People Black Women 	4 points	25%+1 vote
	2 points	10%		2 points	10%
Economic Interest			Economic Interest		
<ul style="list-style-type: none"> Black People Black Women Black designated groups/participants/beneficiaries 	4 points	25%	<ul style="list-style-type: none"> Black People Black Women Black designated groups/participants/beneficiaries 	4 points	25%
	2 points	10%		2 points	10%
	1 point	10%		3 points	3%
		2.5%	<ul style="list-style-type: none"> Black new entrants 	2 points	2%
Realisation Points			Realisation Points		
<ul style="list-style-type: none"> Ownership Fulfilment Net Value 	1 point		<ul style="list-style-type: none"> Net Value 	8 points	
	7 points				

Source: Department of Trade and Industry (DTI)

BEE company ownership has most often been seen as an exercise where black business people acquire shares from previously white-owned businesses through financing from white South African or foreign capital. In these instances, the black person becomes a non-executive director who has no executive powers and is a token for government contracts. The ownership element unfortunately also does not address fronting, where shares are held on behalf of individuals who want to conceal their participation or should not benefit from BEE (Edigheji, 1999).

As a result of the past equity acquisition model and financial capital required from, so far, mostly white corporate SA, most black operating companies could not survive unaided, create jobs or develop skills. This gave the incorrect impression that established white companies are the only companies that must comply with BEE, and the black empowerment companies do not have a duty to empower the rest of the disadvantaged population through other elements of BEE such as employment equity, skills development, etc. as detailed in Table 3 below (Edigheji, 1999; Sanchez 2011).

Table 3: B-BBEE generic scorecard

CURRENT SCORECARD			PROPOSED SCORECARD		
ELEMENTS	POINTS	CODE	ELEMENTS	POINTS	CODE
Ownership	20 points	100	Ownership	25 points	100
Management Control	10 points	200	Management Control	15 points	200
Employment Equity	15 points	300	Skills Development	20 points	300
Skills Development	15 points	400	Enterprise Development & Supplier Development	40 points	400
Preferential Procurement	20 points	500	Socio-Economic Development	5 points	500
Enterprise Development	15 points	600			
Socio-Economic Development initiatives	5 points	700			
TOTAL	100 points		TOTAL	105 points	

Source: Department of Trade and Industry (DTI)

Lastly, the DTI has no direct authority over some of its own objectives by virtue of them being administered in different government departments and as such, there may be confusion and potential lack of communication within government across those departments. It is also apparent that BEE is not ascribed to a single programme, but rather a number of policies, programmes and practices within numerous departments and business industries since 1994 (Edigheji, 1999; Southall, 2014). This puts the measurement and analysis of BEE company ownership success in a conundrum, as there is no definitive model or coordinated programme in place to determine the criteria for success, especially with regard to empowered companies.

As discussed above, the scorecard opens itself up to a lot of condemnation due to its implementation method and the different policies and programmes that govern it. The next section discusses the priority sectors and their targets of BEE company ownership.

2.6. Priority sectors

As a result of pressure from black business, previous President Mbeki tasked government to draw up a 'Transformation Charter' that would set BEE benchmarks, timeframes and procedures. The DTI drafted a transformation strategy for B-BBEE in the private sector, which identified sectors that did not have race diversification in their ownership profiles. The sectors identified included; agriculture, mining, energy, textiles, logistics, transportation, automotive, aerospace, information and communication technology, chemicals, petroleum/liquid fuels and media. These sectors became a priority in ensuring microeconomic reform by substantially increasing the number of black people who achieve company ownership and control (DTI, 2000).

It is not surprising that mining, energy and finance were identified as priorities for black empowerment, as they were the key contributors to SA's economy and were in the hands of white capital. As such, these sectors were targeted with a much more aggressive empowerment strategy by the new dispensation. In 2000, SA saw the first charter signed and agreed upon by the petroleum and liquid fuels industries with a target of 25% black ownership by 2014; by 2002, black ownership increased from 5.5% to 14% as a result of the charter. To avoid intervention from the state and considering governments' objectives, some sectors voluntarily drew up their own charters to generate momentum in the BEE process. Below is a brief discussion on the mining and financial sector charters, highlighting their importance in SA's economy (Southall, 2007).

2.6.1. Company/share ownership in the financial sector

The financial services sector in SA is recognised as one of the most sophisticated in the world by the 2013 World Competitive Report and it was selected to become one of the sectors that could help transform SA's economy (Moyo & Rohan, 2006; Hamann, Khagaram & Rohan, 2008). As part of the voluntary process, the financial sector held a summit that resolved to draw up a BEE charter, which was an industry initiative driven by a sector task team. Representation in the task team included the big four banks (ABSA, FNB, Nedbank and Standard bank), black professionals and business,

represented by the Association of Black Securities and Investment Professionals (ABSIP). The Congress of South African Trade Unions (COSATU) saw ABSIP's representation as self-serving and not looking after the interests of the poor class (Hamann, Khagram & Rohan, 2008). The financial sector charter targets were set to be applicable from the beginning of 2004 to December 2014, with the goal of meeting 25% minimum black ownership by 2010. The charter was criticised for transferring power through an equity transfer rather than to encourage transformation through influencing change in the sector (Moyo & Rohan, 2006), although it was clear that an equity transfer may not be counted as factual ownership, until it had been fully transferred.

Large BEE deals that can be attributed to the financial services charter include 10% shares from Standard Bank to consortiums led by Saki Macozoma and Cyril Ramaphosa, while the Absa Bank sale to Barclays (UK) benefitted consortiums led by Tokyo Sexwale and Patrice Motsepe (Southall, 2007).

2.6.2. Ownership and joint ventures in the mining sector

The mining charter focuses on empowering those who were historically disadvantaged South Africans (HDSA) through unfair discrimination policies of the past regime. It was meant to guide the industry towards greater social inclusivity. A former AngloGold CEO saw the mining charter as a positive move due to the fact that it leveraged on 100% of South Africa's population rather than just white males. This emerged, however, only after the charter had been put through serious tests and had led to negative reaction from the JSE. In 2002, a draft charter prepared by government, with no influence from the mining industry, was leaked. This charter had targets of 51% HDSA ownership of mines by 2012. The market reaction led to the formation of a task team that saw the creation of a charter which involved key corporations from the industry (Southall, 2007; Hamann, Khagram & Rohan, 2008). The sector targets were based on a ten-year plan of 26% HDSA ownership by 2014, with a mid-term review that was set for 2009 and an industry commitment of R100 billion in securing finance for HDSA participation.

Although the charters were mostly driven by the industry, they were accused of and criticised for not meeting their own targets or receiving poor service from black-owned companies; the liquid fuels energy sector was particularly singled out for this, even though it was the first sector to draw up its charter. On the other hand, government was criticised for relying on industry charters rather than making black empowerment a legal requirement (Tangri & Southall, 2008). Lastly, the charters were accused of

neglecting the poor and creating an elite pact between black elite and corporate leadership (Hamann, Khagram & Rohan, 2008).

Given the discussion above, the next section highlights the challenges faced by BEE company ownership.

2.7. Criticism and challenges

BEE company ownership has been reduced to disproportional equity-transfers from existing corporate SA, companies that were largely owned and managed by whites, to a small number of black high-profile political figures with the right connections to the ruling party. Unfortunately, BEE company ownership has also been seen as a vehicle that facilitates equity transfers to the key players with little opportunity to anyone else and little innovation from the key players (Tangri & Southall, 2008; Patel & Graham, 2012).

The ruling party's tripartite alliance was very critical of BEE company ownership and its implementation. The SACP and COSATU felt BEE was structured to create a small black elite, while the poor were not benefitting at all from BEE. Black business leaders and organisations such as the BMF and the Black Business Council (BBC) supported this view and felt that BEE company ownership transformation was slow with some industries, boards and management positions still dominated by whites. They were opposed to BEE and saw BEE as a concept manipulated by white entities in the way it treated those who were not willing to participate in the economic transformation. They believed that in this instance, government did not work in black business leaders' favour, as government was anxious that BEE was not imposed on the private sector (Tangri & Southall, 2008).

NAIL, ArmGold and JCI empowerment deals were initially seen as successful and evidence of prospects to come. Unfortunately, this was not so, as assets were sold back to the empowered companies, companies delisted and shares unbundled in some instances due to the funding structure (Mandla, 2006; Tangri & Southall, 2008; Crotty, 2014).

The funding structure of BEE deals was a bone of contention amongst the black business leaders. Most transactions were based on loans, with the white company either financing the deal or facilitating the funds for the transaction on behalf of the BEE owned company. This funding structure was informed by the lack of own capital from

the BEE companies and dictated dependence of the BEE company on the participating company (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). As a result of this funding structure, some of the first BEE companies such as NAIL became vulnerable to the global economic crisis of 1998 and had to sell most of their shares just to stay afloat (Edigheji, 1999).

Due to lack of funding and own capital, BEE companies faced additional challenges such as the allocation of fewer board seats in relation to the equity acquisition, lack of management control and were prone to the dumping of shares and marginally valuable assets by other companies. The market also viewed black management talent as sparse and there were negative domestic market reactions to BEE announcements (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

With regard to foreign investments, there was a concern not to frighten potential investment by ensuring that the empowerment targets were acceptable to foreign companies. BEE was accused of blocking foreign investments, re-racialising the economy and placing SA firms at a disadvantage vis-à-vis global competitors given the amount of energy spent on managing BEE deals (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

BEE-owned companies were also faced with internal cannibalisation or power base concentration through BEE consortium members buying out other consortium members to become sole shareholders, therefore keeping the economy on a narrow managerial and capital base. This is evident in the case where Mzilikazi Khumalo bought out his partners in the Harmony Gold deal; and where HCI bought out its partners in the e.tv licence deal (Tangri & Southall, 2008).

BEE deals did not always create value for stakeholders and were notably expensive. Participating companies had to contend with the fact that assembling a BEE deal is risky and may result in their shares being diluted by the transaction. Depending on the business environment, perceptions and industry, the market did not react positively to the broadcast of some BEE deals. In 1996, JCI and Anglo American concluded a deal that was hailed as a model for empowerment. However, a year later, JCI's stock price decreased and assets were sold back to Anglo American (Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

Lastly, BEE was also negatively associated with the 'fronting' phenomenon, where BEE deals contained a 'deferred ownership' clause, to a future date. In such situations,

there was no exchange of economic ownership, rather the partnership was used for access to more deals and the required licences and typically took the form of 'rent-seeking' (Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

The next section is an examination of the business environment that BEE-owned companies faced and how they could have reacted in order to succeed.

2.8. Business environment

There was anxiety amongst established business with regard to BEE legal requirements and implementation; this was further fuelled by the fall of the stock market due to sector changes such as the draft mining charter. It is at this stage that government realised the need for mutually-acceptable solutions to the BEE challenges. However, some companies, particularly those that are not reliant on government tenders, would not accept BEE without legal pressure, and by 2006, at least 20% of companies still had no plans for BEE implementation (Tangri & Southall, 2008). Change in regulation, fiscal policies, economic conditions and legislation applied to achieve successful BEE implementation are likely to cause an aggressive response, rather than innovation or business creation (Covin & Slevin, 1989).

Hostility poses a threat to performance and success as it is characterised by harshness, intense competition, precarious industry settings, unfavourable conditions, diminishing opportunities, limited customers, overwhelming business climate and potential lack of long-term-control (Covin & Slevin, 1989; Ketchen, Snow & Street, 2004; McGee & Rubach, 2011).

In an aggressive or hostile environment, newcomers are encouraged to behave passively as their limited resources and experience may lead to poor decisions (Covin & Slevin, 1989; McGee & Rubach, 2011). As it is, large competitive firms already battle with hostile environments in a tough economic environment and react to it by creating internal administrative structures and adaptive strategies. The purpose of these structures and strategies is to manage the frequency of reporting and the speed of response to hostility through discipline and authority for strategic repositioning (Covin & Slevin, 1989).

McGee & Rubach (2011) suggested that a pricing strategy may result in outperforming competitors in a hostile environment, as opposed to prior research which recommends customer service, diversification and specialisation as a source of competitive effort. In such an instance, Covin & Slevin (1989) recommended an organic structure with an entrepreneurial strategic posture which focuses on risk-taking, pro-activeness and innovation, an approach they guard against in a benign environment.

Success attributes for new ventures and small firms such as BEE companies in both a hostile environment and benign environment are demonstrated in Table 4 below. Based on the summarised table, BEE companies that used hostile environment strategies in a benign environment were likely to fail and visa-versa. It was essential that BEE companies used relevant attributes to succeed appropriate to the business environment they were faced with.

Table 4: Response to business environment by type

Hostile Environment	Benign Environment
Organic structure	Mechanistic structure
Entrepreneurial strategic posture	Conservative strategic posture
Competitive profile <ul style="list-style-type: none"> • Long-term goals • Risk taking 	Competitive profile <ul style="list-style-type: none"> • Short term goals • Conservative financial management
High product/service prices	Refinement of existing products and services
Awareness of industry trends	Reliance on single customers

Source: Covin & Slevin (1989, p. 83)

The type of environment the BEE companies found themselves in by virtue of the industry they chose to participate in, its regulations, the timing or the economic conditions determined the relevant strategic approach they had to implement in order to succeed. The JSE is examined next in so far as it opens a window into patterns and forms of ownership control in SA.

2.9. Johannesburg Stock Exchange

Black people held 3% of all management positions in the corporate sector in 1990, while they only owned 1% of the total stock value and direct interests in companies listed on the JSE by 1995 (Murray; 2000, Sartorius & Botha, 2008). In 1992, there were

only fifteen black directors of listed companies (Empowerdex Trailblazers, 2012, p1). Since the introduction of B-BBEE, there have been some changes on both the ownership and management control front. In December 2012, the JSE released results of a study on black ownership, which hardly indicated significant change and structural reform in ownership, given the time that had passed. The study was conducted on the Top 100 JSE listed companies as they make up 88% of stock capitalisation. The study revealed that black South Africans held only 9% equity through empowerment stakes and 12% through mandated investments (Seggie, 2012).

By contrast to ownership, there has, however, been a rise in the number of black people who have voting power, decision-making responsibilities and management control in companies that are listed on the JSE, as illustrated in Table 5. Between 2006 and 2012, the number of black directorships increased from 485 to 1046, a 216% increase in a space of six years. These figures include non-executive directorships, which precludes one from executive management control. Executive directorships increased by 190% from 93 to 177 in the same number of years.

These figures demonstrate that there has been a significant increase in directorships, more so in non-executive directorships. See Table 5 below:

Table 5: JSE black directorship analysis (2006-2012)

JSE Black Directorship Analysis (2006 - 2012)											
	2006	2007	2008	2010	2011	2012	% 06-07	% 07-08	% 08-10	% 10-11	% 11-12
Black Directorships	485	620	714	951	1035	1046	28%	53%	33%	9%	10%
Black Executive Directors	93	96	100	157	152	177	3%	64%	57%	-3%	13%
Black Non-Executive Directors	392	509	596	703	883	869	30%	38%	18%	26%	24%

Source: Empowerdex Trailblazers 2012

2.10. Non-financial attributes

Business ownership success does not have a generic definition which can be used and understood internationally and across industries. Planning, management, environmental factors, financial criteria, longevity, human capital and return on investment (ROI) have been used as factors to measure business success. Most recently, the ability to attract investment, availability of resources, entrepreneurial traits through innovation and exploiting available opportunities have been included in the long list of determinants to business success (Rogoff, Lee & Suh, 2004; Walker, 2004). In relation to BEE, company ownership is relevant for as long as it has an influence on

control, strategic decision-making and broader engagement in changing the economic landscape.

Non-financial attributes such as leadership capabilities, exploitation of core competencies and diversification into skills-related business areas could lead to alternate success measures (Rogoff, Lee & Suh, 2004; Walker, 2004). Leadership is the nerve centre within a business institution that ensures a combination of capabilities with the right strategies to have a positive impact on the company's performance. Transformational leadership capability (TLC) is essential for companies to readjust their strategies continually and integrate dynamic capabilities that impact positively on the company's performance (García-Morales, Jiménez-Barrionuevo & Mihi-Ramírez, 2011).

To minimise the effect of self –interested managers who make unprincipled decisions to exploit their personal power at the risk of decreasing shareholder value and creating conflict; corporate governance is suggested. Corporate governance includes integrity which is company leadership behaviour as it relates to the value system, trustworthiness and honesty. It is through good corporate governance that stakeholder interests can be protected and their expectations legitimised; this is done through administrative systems and mechanisms that monitor the structure of rights and responsibilities among the company's' stakeholders (Furrer, 2011).

BEE company ownership is unique in the sense that it not only uses the key principles of business success by virtue of it being a business, but it also has to adhere to strategic entrepreneurial aspects, corporate governance and the association with empowerment. In this regard, issues of social capital and the management thereof are particularly instinctive and it is to this, that we turn to the next section.

2.11. Alliances and networks

BEE was criticised for being a vehicle that only benefits a group of elite individuals who were well connected politically with the ruling party (Tangri & Southall, 2008; Fauconnier & Mathur-Helm, 2008). The 'fab four'; Cyril Ramaphosa – a former ANC General Secretary and chairperson of the BEECOM; Tokyo Sexwale – the first Premier of the Gauteng Province and former Robben Islander; Saki Macozoma – a former ANC National Executive Committee (NEC) member and former Robben Islander; and Patrice Motsepe – whose sisters are married to former NEC members; rose prominently as the black elite due to BEE transactions (Southall, 2007).

As a result of their network and political connections, the 'fab four' became the preferred BEE partners for white corporate South Africa on the basis of equity stakes at advantageous terms and were invited to participate in some of the largest BEE transactions the country has seen, such as the Standard Bank and Absa deals. It became common for large companies and non-BEE entities to include the politically influential in their business transactions (Southall, 2007).

Lester, Hillman, Zardkoohi & Cannella (2008) argued that individuals with political influence were a great resource in reducing the cost of obtaining positive political decisions that influenced industry and as such they were attractive as business partners. For multinational companies (MNC), their benefit was in deriving favour from government by negotiating superior entry conditions (Desbordes & Vauday, 2007).

The knowledge, support, cooperation and relationships built while in the decision-making body such as the NEC or inner circles of the ruling party are, however, likely to diminish over time due to internal changes and dynamics within the ruling party (Lester, Hillman, Zardkoohi & Cannella, 2008). The association with the ruling party may weaken as the timeline for political influence is unclear, limited and is not guaranteed, particularly with changes in political leadership. An example of this would be the case of Saki Macozoma who was a known close ally of former President Thabo Mbeki (Southall, 2007) and a successful BEE businessman. Macozoma managed to remain a successful businessman and retained his company ownership more than six years after the demise and recall of Mbeki.

Baron and Markman (2003) found that people with high levels of social capital have a great chance of accessing people, funds, information, and achieving cooperation and trust. However, social competence becomes more important in determining whether these ties, connections and resources can be used adequately in order to experience success. Social competence tests the effective interaction skills that yield positive results. Baron and Markman (2003) proposed that the higher the social competence, the higher the financial success.

The researcher would like to test the sustainability of BEE company ownership beyond state patronage, established alliances, political networks and the social capital that has assisted them in getting some "BEE heavyweights through the door". Has social competence played a key role in the success achieved to date and was it a conscious strategic decision to utilise this skill?

Once the BEE companies have established themselves as the preferred BEE partners through social, career and political competence, the contribution they make to all stakeholders involved is a key determinant to success. It is to this end that we examine value creation in the next section.

2.12. Value creation

The value potential of BEE deals and linked company growth has three attributes associated with it; pricing, timing and size of equity stake. These attributes are not only important for the BEE partner, but they are also a motivating factor for the empowered participating company and the institution responsible for the financing of the transaction (Fauconnier & Mathur-Helm, 2008; Alessandri, Black & Jackson, 2011).

BEE transaction stakeholders always had to guard against value destruction by avoiding enrichment, entitlement and value appropriation without compensation. Empowered participating companies were at a risk of losing value if the design and implementation of the funding structure was weak. Therefore, the funding structure of BEE transactions should have been managed and implemented by investment bankers to ensure sustainable growth and value creation for both the BEE partners and the empowered participating company (Fauconnier & Mathur-Helm, 2008).

An empowered company pricing equity at a premium and facilitating loans with the knowledge that the BEE partner could not afford the price may have led to value destruction. This process demonstrates lack of honesty, a strategy not applied in good faith and unwillingness to participate in economic reform. It is not likely that empowered companies that participate in BEE as a profiting or a 'box-ticking' exercise derived value from such venture. The relationship with the BEE-owned company then ends up being strained and there is negativity associated with a premium-priced BEE deal, the repayments of the loans also become impossible. It is therefore essential for BEE companies to partner with empowered companies that have solid BEE company ownership strategies in order to create value and avoid leakage. Transactions that were successful and have been sustained through the economic times are those that were concluded at low commodity prices (Fauconnier & Mathur-Helm, 2008; Alessandri, Black & Jackson, 2011).

The equity stake size that the empowered company is willing to part with has a significant impact on the value potential of the transaction, as it is linked to control, voting power and the number of directors the BEE company is allowed to have on the

board of directors. By acquiring less than 20% equity, most BEE companies became investment trusts that added little value to the investments, as they neither had executive control, nor operational involvement in the investment (Southall, 2007; Alessandri, Black & Jackson, 2011).

BEE deals that were concluded in the early to mid-1990s managed to expand and diversify across industries. However, their financiers experienced losses before the decade was over due to equity having been sold at premium and the reselling of shares. The second generation of BEE deals in the late 1990s faced a lot of restructuring and unbundling in order to remain sustainable. By 2003, there was limited funding available for BEE deals and as such investments in empowerment saw a decline. Given these three scenarios, optimum timing is also a key contributor to the value created by BEE transactions (Alessandri, Black & Jackson, 2011).

Growth and value creation is essential for BEE company ownership success, not only to the empowerment company, but all related stakeholders. To qualify this, it is important to determine the impact BEE deals have had on related cash flows.

2.13. Opportunities and innovation

BEE companies had competitive advantage by virtue of legislative and state support. However, if there was no organisational learning, growth, continuous innovation, identification of new opportunities, exploitation of these opportunities for wealth creation and business success, there was a risk of losing previous advantage. To achieve wealth and business success, BEE companies had to combine opportunity-seeking behaviour with advantage-seeking behaviour. Start-up ventures are capable of identifying opportunities, but are usually less effective at exploiting those opportunities (Ireland, Hitt & Sirmon, 2003).

The sale of NAIL's assets and the delisting of ArmGold was a huge blow to the concept of BEE. The association of some BEE companies to leveraged buyouts (LBOs) resulted in their delisting, as they could not sustain themselves through the changing economic conditions (Mandla, 2006). Such disappointments could have been avoided through applying innovation in these ventures. In order to create wealth, develop the economy and encourage corporate growth, BEE companies of the time should have focused on disruptive innovation. Disruptive innovation is a useful strategy to new

ventures while market leaders place their attention on improving services and products (Ireland, Hitt & Sirmon, 2003).

2.14. Literature review summary

The literature review suggests that BEE company ownership success is multifaceted as it mostly considers state intervention (Sanchez, 2011), white corporations involvement (Randall, 1996; Macozoma, 2003) and the impact of historical imbalances on South Africa's economy, more so on the black majority (Krüger, 2011). There is also a global agreement on the effect structured disempowerment has on active economic participation by inhabitants (Friedman, 1992; World Bank 2002).

Previous studies have credited the ANC's post-apartheid policy formulation structures (Nattrass & Seekings 2005, p. 346), the black business community (Ponte, Roberts & Van Sittert, 2007; Tangri & Southall, 2008) and white capital for enabling the first wave of successful BEE transactions (Iheduru, 2004; Duffett, Van der Heever & Bell, 2009).

BEE company ownership has not been without challenges, at large it has been criticised for benefitting an elite few with political credentials and access to the ruling party, alliances and networks appear to be determining success factors for BEE company ownership (Tangri & Southall, 2008; Patel & Graham, 2012). The economic transformation process has been deemed as slow by the labour unions and the black business community (Tangri & Southall, 2008), while lack of capital and the existing funding structure has led to failures, fronting and value destruction (Edigheji, 1999; Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). BEE entrants into the economy also faced some hostility from established corporations within the business environment (Covin & Slevin, 1989; Tangri & Southall, 2008), although some succeeded and competed on equal footing by listing on the JSE (Seggie, 2012). Core non-financial factors such as leadership style (García-Morales, Jiménez-Barrionuevo & Mihi-Ramírez, 2011) were seen as essential to success.

The aim of this chapter was to seek clarity on the definition of BEE company ownership success and the factors that lead to it, such that a model can be put in place. As a result of the literature review, the key constructs required for a company to be considered as successful in BEE company ownership are depicted in Figure 2 below. Figure 2 represents the theories discussed in the chapter, they have been divided into

eight themes and each of the themes has three main factors that have contributed to the theory.

Figure 2: Summary of the literature review



- Economic empowerment is insignificant on its own without social power, economic power, political power and psychological power. The four combined powers allow for individuals to make decisions that influence their current and future states.
- The ANC used the political power attained to create BEE company ownership policies based on the ANC post-apartheid economic policies. Black business influenced the process to make sure economic needs are met and they were represented at the BEECOM.
- The state has facilitated BEE company ownership success through identifying priority sectors, promulgating the Act, setting targets and putting legislative procedures in place.

- The DTI has been the key driver for the BEE company ownership process and has influenced the formation of the sector charters, largely driven by white corporate SA, in recognition of the need for economic transformation.
- The major challenges and criticism faced by BEE-owned companies include the lack of capital and funding structures, perceived re-racialising of the economy and the creation of a rich black middle class.
- For one to succeed in BEE company ownership, these companies need to have a combination of the right connections and alliances. They must be able to leverage off their social, capital and political capital by turning those factors into lucrative BEE deals.
- To create value for all stakeholders involved; the size of the equity has to be significant to guarantee active participation from the BEE partner. The pricing of the equity should be structured such that the BEE partner is not perpetually indebted. The time the deal is to be concluded has an impact on the level of value generated.
- The environment the BEE-owned company operates in should be actively involved in generating momentum. BEE-owned company leaders should also exhibit entrepreneurial traits, skills and leadership qualities that will enable them to continuously innovate and create opportunities that will generate profits.

The next chapter formulates research questions to draw in and fill the gaps presented by the literature view.

CHAPTER THREE: RESEARCH QUESTIONS

3.1. Research problem

The research problem sets to identify factors that have led to BEE company ownership success and map out a blueprint for successful BEE transactions going forward.

3.2. Research questions' purpose

To determine the appropriate research questions and research objectives for this study on BEE company ownership success, the researcher used the information learnt and gathered from the literature review in Chapter two, which contributed immensely to the investigation on the decision-making and actions taken for BEE-owned company success. The research aims to answer the following open-ended questions;

3.3. Research Question 1: What constitutes BEE-owned company success?

This research question seeks to determine the criteria for BEE company ownership success and the indicators for success.

3.4. Research Question 2: What are the antecedents to BEE-owned company success?

Research Question 2 sought to determine the requirements and factors that lead to BEE success and how they were used by the respondents and the impact they had on the company success.

3.5. Research Question 3: Has value been created for all stakeholders involved?

This question seeks to ascertain if there was value accrued or created for stakeholders.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1. Introduction

This chapter discusses the process undertaken to examine in detail the theories that were identified, questioned and learnt during the literature review phase of this study. The research methodology adopted for analysing BEE company ownership success stories was exploratory and qualitative in nature. The methods used to test the theories implemented a combination of ethnographic, phenomenological and hermeneutics research in selecting the sample, designing the interviews, collecting and analysing the data. This combination ensured the respondents were able to relive their experiences in a manner that would allow the author to explore and interpret the BEE ownership phenomenon (Lester, 1999). In all instances, focus was kept on the population of the study as defined.

The author chose qualitative research as it allowed for understanding the topic in a complex and generous manner, an approach that is not offered by quantitative research. Quantitative techniques are dependent on predetermined variables that can be counted, are comparable and precise; this is usually achieved through tests and questionnaires. While the qualitative approach focuses on ordinary events in a natural setting, through the respondents' experiences and own words, this is achieved by way of observations, interviews and written documents. With regard to organisational-related studies, the qualitative approach is especially useful in explaining, interpreting and understanding policies and processes. Qualitative research, however, limits the sample size – especially if the researcher does not have the necessary access required in order to gather the data. It is through the researcher's own social competence that there was entry facilitation and access for this study. The other disadvantages of qualitative research include the inability to generalise as well as make systematic comparisons (Advice, 2000; Patton, 2005; Skinner, Tagg & Holloway, 2000).

4.2. Research design

The data lends itself to a qualitative method by virtue of the research study being exploratory in terms of the research problem and research questions listed in chapter

three (Merriam, 1998). Qualitative techniques use inductive reasoning to deduce, express and clarify the respondents' experiences in a manner that can be understood and interpreted by the researcher for purposes of the study (Ezzedeen & Ritchey, 2009).

To gain familiarity, achieve new insight, discover information and understand a topic, exploratory studies were recommended by Saunders & Lewis (2012). The aim of exploratory research is to uncover information about a subject that has limited understanding in the public domain (Blumberg, Cooper & Schindler, 2005; Saunders & Lewis, 2012). This view was supported by Kothari (2004), as he believed that, through scientific procedures; research finds answers to questions and discovers the hidden truth. Therefore, the richness of the report was arrived at through the depth with which the unknown phenomenon was approached. In order to dig deeper than the surface, qualitative design is recommended to understand the complexities of the situation being studied (Leedy & Ormrod, 2001).

The questionnaire subsection which follows next, details the questions posed to the respondents.

4.2.1. Prompt questions

Literature review conducted in chapter two was used to design the questionnaire and seminal information of each question is explained below.

Research Question 1: What constitutes BEE-owned company success?

1. What challenges did you face (and how did you overcome them)?
2. Please describe what you consider to be BEE success.
3. What are the core non-financial requirements your organisation used to be successful?
4. What leads to failure in BEE companies?

Fauconnier & Mathur-Helm (2008) stated that there is no literature to address challenges and failures in BEE deals, while Rogoff, Lee & Suh (2004) noted the dearth in literature on business success.

Research Question 2: What are the antecedents to BEE-owned company success?

1. How much influence did the business environment have on your success?
2. Was your social capital necessary for you to succeed?
3. Did politics and your political networks influence your BEE transactions?
4. Please explain to me the process of selecting a BEE partner or becoming a BEE partner?
5. How has your company been innovative?

An enabling environment that is free from hostility determines whether a new entrant will succeed or not in a business environment, while political, social or career capital and competence determined the level of influence some individuals had on BEE ownership transactions (Covin & Slevin, 1989; Tangri & Southall, 2008).

Research Question 3: Has value been created for all stakeholders involved?

1. Would the value received from your BEE transactions have been any different if the timing, pricing and equity stake had been different?
2. Is there benefit for non-BEE companies and financing companies to be involved in BEE transactions?
3. How has the state made the BEE journey easier for you?
4. Did you have any voting rights and operational activity in the entities you had a stake in?

The value created for stakeholders was questioned due to lack of capital, funding structures, and equity size received by some BEE-owned companies. As a result of legislation, government was seen as a stakeholder to the BEE ownership process (Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

Where necessary, the prompt questions were moved around based on the role played by the respondent as indicated in Appendix 1 and Appendix 2.

4.3. Scope

The scope for this research was to determine the criteria for successful BEE ownership in companies that are managed and controlled by black people as defined in the B-BBEE Act. The purpose was not to use the generic scorecard to measure success, but rather establish the decision-making and strategy-formulation process for BEE companies to be successful.

4.4. Population

A population is a group of members upon which inferences are made (Cooper & Schindler, 1998; Saunders & Lewis, 2012). The population included BEE-owned companies as defined in the B-BBEE Act, individuals who were involved with such companies, empowered white corporate vendor companies and financial institutions for as long as they were involved in conclusion of BEE transactions.

4.5. Unit of analysis

The unit of analysis is essential to determine the degree and intensity of the research and the objects being researched (Blumberg, Cooper & Schindler, 2005). For purposes of this research, the unit of analysis is BEE-owned companies.

4.6. Sampling

4.6.1. Sampling technique

The chosen sampling technique for purposes of this study was the non-probability technique. Non-probability sampling was appropriate as it allowed the researcher to have control over the selection process. That way, all relevant stakeholders in the sample were selected, randomness reduced and an elite interviewing style implemented (Tansey, 2007).

A combination of purposive and snowball sampling was used from the non-probability technique stream. Purposive sampling selects respondents based on the researcher's

judgment due to their observant, expert and reflective knowledge of the topic (Tongco, 2007, Saunders & Lewis, 2012). With good strategy, the researcher included a pre-defined set of key players within BEE ownership as part of the sample (Tansey, 2007). Purposive sampling was effective due to the insights from knowledgeable experts and limited the bias contributed due to the efficiency and the quality of the data gathered. It is, however, important to note that the results are limited to the interpretation of the population sampled (Tongco, 2007).

Snowball sampling was used to identify other stakeholders in BEE transactions that the researcher did not have access to, but who are known by the first set of the selected sample. Snowball sampling uses a referral method, where the first set of respondents suggests other subjects who may contribute to the research (Tansey 2007). The researcher sought specific BEE ownership cases, where there was an empowered white capital company and/or a financing company involved. In each instance, snowball or referral sampling was used, where the BEE respondent recommended other individuals who were instrumental in structuring a BEE ownership transaction that ultimately became successful (Ezzedeen & Ritchey, 2009).

4.6.2. Sample selection

The study targeted black executives and BEE companies that have benefitted from empowerment transactions in order to establish their businesses and actively participate in SA's economy. It was important to ensure the BEE companies selected to participate in the study had a presence in at least one of the priority sectors as defined by the DTI (DTI, 2000; Elibiary, 2010) and had an NAV of over R500 million at least once during their existence. The secondary target consisted of the empowered companies that participated in the BEE transactions as well as the financing firms responsible for the funding. The aim was to discover the strategies and decision-making capabilities that have led to some empowerment transactions succeeding where others did not. The selection of these individuals was merely based on the fact that they were capable of providing the researcher with the necessary information for the research objectives and research questions (Maxwell, 2013).

The respondents needed to have been involved in BEE ownership transactions as defined after 1992. This meant the survivalist or daily essentials trading stores' business model of the 70s and 80s (Randall, 1996; Southall, 2014) was not part of the selection criteria.

The feasibility of access and data collection was considered, and by virtue of their standing, willingness to participate and proximity to other members of the business community. Requests to participate in the study were sent to three respondents the researcher already had access to; the purpose of this exercise was for them to circulate and make an appeal to the potential respondents on the researcher's behalf (Phelps, Fisher & Ellis, 2007; Maxwell 2013), using the informed consent letter as indicated in Appendix 3. This snowballing exercise resulted in the researcher interviewing a total of thirteen respondents out of eighteen solicitations that were made.

Two of the respondents had been described as the other half of the 'fab four', the 'usual suspects' and the most preferred BEE partners due to their political history and access to the ruling power (Southall, 2007); their role in BEE ownership is detailed in chapter two. Another two of the respondents were mentioned in the literature review with regard to a transaction that was unsuccessful as a result of the terms and conditions of the transaction (do Rio Doce, 2006), one of these two respondents is further referred to as a disruptor of BEE in chapter two (Tangri & Southall, 2008).

A black businessman who already operated prior to the new dispensation was also selected due to his role as a successful non-survivalist black businessman in the 80s; this selection was made to ensure a viewpoint that would otherwise not be presented was included (Maxwell, 2013). A respondent whose background is anchored in the black business community through structures such as FABCOS and SABTA as detailed in chapter two is included in the study (Chabane, Roberts & Goldstein, 2006; Southall, 2014). Combined insight was gathered from an individual who had been involved in the BBC, worked for and was sponsored by a white corporate company before they jointly participated in one of the original BEE transactions in SA, as indicated in chapter two (Randall, 1996; Murray, 2000; Southall, 2014).

Lastly, a respondent who was at the helm of a white corporate financial institution during its BEE transaction was selected for his insights into and view of BEE from an empowered-vendor angle (Southall, 2007; Tangri & Southall, 2008). In total, three of the respondents came from the BEE ownership trailblazers who were involved in 72% of BEE deals in 2003 (Pressly, 2004; Andreasson, 2006).

The highest combined total NAV of the BEE owned companies studied is over R92 billion. Detailed information and facts on the respondents is available in Appendix 4 and Table 6 in chapter five.

The selection of these respondents helped with establishing the validity by triangulating the data collected with literature reviewed in chapter two. Meetings were set with all respondents through e-mails, after they had agreed to participate in the study through signing and returning to the researcher the informed-consent letter in Appendix 3.

4.6.3. Sample size

Respondents to the study were based in the Gauteng region; however, their home base is not a limitation due to the fact that their BEE transactions and the companies they are involved in have a national footprint and an impact throughout the country. A total of thirteen in-depth interviews were conducted for this study, for qualitative research to be broad, ideally a sample size of between five and twenty five is suggested by Leedy & Ormrod (2001). Although there were only thirteen respondents from thirteen different organisations included in the study, collectively they have been involved with over twenty two BEE companies either in their current positions or prior. A detailed list of the respondents and their roles within the study is presented in Appendix 4 and Table 6.

4.7. Research instrument/measurement

4.7.1. Interview design

Conducting interviews and interviewing experts is seen as the most usual way of conducting exploratory research and gathering rich empirical data (Ezzedeen & Ritchey, 2009; Saunders & Lewis, 2012).

The semi-structured approach was selected for its flexible yet controlled composition which allowed for a personal approach to each respondent. Due to the nature of the research focusing on different stakeholders within BEE ownership, the interview schedule was flexible and adapted to ensure the best possible response from the respondents, given the role they played in BEE. In essence, the questions were identical yet open-ended and allowed for the general data to be collected from the respondents (Turner, 2010).

Semi-structured interviews usually occur once and are focused around a schedule of prompt questions as indicated by the interview schedule in Appendix 1 and Appendix 2 that are likely to lead to other topic-related questions from the researcher to the

respondents (DiCicco-Bloom & Crabtree, 2006); the probing technique used allowed the new questions to emerge.

Upon respondents agreeing that they will participate in the study, the interview schedule as indicated in Appendix 1 and Appendix 2 was sent to them ahead of the interview, in an effort to save time and give the respondents an opportunity to apply their minds to the questions.

4.7.2. Pre-testing

The interview schedule was pre-tested with an academic who has supervised and published research projects; a businessman who was not available for the in-depth interview, but was happy to preview the research questions; and lastly a fellow MBA colleague. A draft interview schedule was sent via e-mail to the three candidates for their comments on the flow of the questions, ambiguity, accuracy, the order of the questions, whether they address the research objectives and if the sub-questions speak to the research questions.

The feedback received was used in a pilot interview as recommended by Saunders and Lewis (2012). The pilot was conducted in person, using a recording device, taking notes and managing the length of the interview. Additionally, the pilot testing assisted the researcher adapt a research approach, refine and develop research instruments, manage the respondents and the researcher's own expectations, while allowing for reflection on the depth of the research, prior to collecting data (Sampson, 2004; Turner 2010). The candidate selected for the pilot study had the same characteristics as the respondents for the study. To avoid staging from the candidate, he did not know that this was the pilot stage. Observations from the pilot study were used to improve the data collection technique for the report (Wilkie, Peat, Thomas, Hooper & Croft, 2005).

4.7.3. In-depth interviews

The in-depth interview method meant that the sample was much smaller and the arguments were of high quality, reaching the depth of the subject; both text and non-text data was collected where necessary (Ezzedeen & Ritchey, 2009; Saunders & Lewis, 2012).

The interviews were conducted at venues specifically selected by the respondents at a time convenient for them; in most instances the interviews were at the respondents'

offices, where there was little distraction from external forces. One of the interviews was held at the respondent's home upon request. The interviews started with establishing rapport by; (a) explaining the purpose of the interview, (b) addressing ethical issues such as confidentiality, (c) explaining the format of the interview, (d) indicating the duration of the interview, (e) sharing contact details for reference at a later stage, (f) establishing if there was more information required, and lastly (g) requesting permission to record the interview. Rapport is essential in in-depth interviews as it develops trust, cooperation and participation; it also eliminates apprehension (Lester, 1999; DiCicco-Bloom & Crabtree, 2006). Each interview lasted about an hour and the process was conducted over a period of eight weeks (Ezzedeen & Ritchey, 2009; Turner, 2010).

The respondents were given an opportunity to explain, in their own words, the key decisions and strategies undertaken in order to ensure they became BEE success stories, through interviews. Interviews were conducted in a semi-structured manner, allowing for new ways to understand the topic, interjection and suggestions from the respondent while still ensuring there was no ambiguity. The atmosphere was jovial, relaxed and flexible where themes were addressed immediately and experiences described in detail. Due to the fact that the interview schedule was sent ahead of time to the respondents, some questions were pre-empted by the respondents which made the process easier as the researcher gained more insight into what had been bargained. The researcher took detailed notes during the interviews and the recordings were transcribed.

4.8. Data analysis

Qualitative data analysis is highly dependent on the researcher's judgment and intuition when interpreting data, the analysis should therefore be transparent such that the logic behind the interpretation is traceable. This interpretivism paradigm allows for the researcher to examine reality by decoding and describing the meaning of the data supplied by the respondent. Analysing qualitative data also relies on the researcher's reflection, logical inferences, debating reasons and challenging own assumptions, this means that there will be active involvement from the researcher and there is no one objective view (Carcary, 2011).

To ensure accuracy and relevance, the notes taken at the data collection phase were recorded immediately and the recordings were transcribed within 48 hours. Throughout

the data collection and data analysis phases, the reviewing of the interview notes, transcriptions and audio recordings took place on a continuous basis to map out themes and aid comparisons for the next interview.

For transparency, a computer-aided qualitative data analysis software (CAQDAS), known as Atlas.ti was used to systematically transform the data received by developing decision trees and coding text documents, based on the information received during the in-depth interviews (Carcary, 2011). The coding was especially useful in developing themes and linking relationships; i.e. all transcribed data that speaks to the same concept was coded using the same title per coding and then retrieved by browsing for that code to pull out the relevant data. This process led to the organisation of data into families or categories; data comparisons took place, themes were then established and models built (Lester, 1999; Ezzedeen & Ritchey, 2009).

4.9. Reliability and validity

Validity and reliability test the quality of the research design and the trustworthiness of the data received, by using data collection methods and analysis procedures that are likely to produce consistent results in a different setting or time. The interview schedule was used to ensure the process was on track while allowing for probing; and bias was minimised by presenting the results and findings in the words of the respondents (Saunders & Lewis, 2012). The key issue here arises when focus on the tests is left to the end of the study rather than during the study. To avoid this, the iterative nature of qualitative research design becomes effective and the analysis self-corrects through using its basic principles of verification (Morse, Barrett, Mayan, Olson & Spiers, 2008).

Methodological coherence was guaranteed by ensuring that the data being analysed was traced back to the research statement through the use of a consistency matrix as indicated in Appendix 5. Focus was placed on analysing categories that related to the research questions. Secondly, the sample used was appropriate as each individual had extensive knowledge on BEE through ownership, participating in BEE transactions; and at least seven of the respondents were directly or indirectly mentioned in chapter two. Third, the data collection and analysis occurred concurrently as part of the iterative process, as this also ensured that new data could be compared to data that had already been collected (Morse, Barrett, Mayan, Olson & Spiers, 2008; Rolfe, 2006).

4.10. Ethics

Research ethics is described as “The appropriateness of the researcher’s behaviour in relation to the rights of those who become the subject of a research project or who are affected by it” (Saunders & Lewis, 2012, p. 74). As part of the code of ethical practice for research and in keeping with the requirements of doing research, all respondents were informed of the study and gave consent to participate in it (Appendix 4), they were informed that the participation was voluntary and they could pull out at any time. Additionally, permission to record conversation and data was requested while confidentiality was maintained.

CHAPTER FIVE: RESEARCH RESULTS

5.1. Introduction

Chapter five represents and considers the results obtained during the thirteen qualitative in-depth face-to-face interviews conducted and using the data analysis method defined in chapter four. The interviews were conducted with a view to answer the research questions indicated in chapter three and were asked in an open-ended manner, to allow for more information from the respondents. Interview schedules (Appendix 1 and Appendix 2) were developed, based on the recurring themes that appeared in chapter two of the study. The order in which the questions were asked varied according to the responses and there were some follow-up questions dependent on the responses.

5.2. Respondents

The thirteen respondents were deliberately chosen based on their knowledge and experience of BEE ownership. The respondents are senior executives in their respective organisations who have practical experience in forming or participating in BEE company ownership transactions.

The participants were drawn from eleven BEE companies and two financial services companies, eight of the respondents hold chairmanships at their respective companies, four are CEOs and one is a senior executive. A detailed list of the respondents is available in Appendix 4; it is in no particular order.

The interviews were conducted in environments selected by the respondents based on their comfort levels. Ten of the interviews were conducted at the respondents' workplace, two were held at a hotel executive lobby and another was held at the respondent's home. The interviews lasted approximately an hour each, with the shortest interview lasting thirty nine minutes and the longest interview one hour and twenty three minutes.

The first data collection stage of the interview recorded basic information on the respondents and the companies they are representing. The reason behind this stage is detailed below.

- The sector type was recorded to determine if the respondents' core businesses were focused on priority sectors as defined by the DTI.
- The year the organisation was formed enabled the grouping of the respondents into the wave of BEE they were part of. It is important to note that focus of the study was on BEE and not on businesses acquired by some of the respondents prior to BEE. It is, therefore, only in the case where the business transitioned into the BEE era that the year was included. This is not to say, however, that the researcher did not consider the business history of the respondents prior BEE.
- The NAV was used to determine book value or equity of the business and the level of assets under the control of the entity. The total NAV for the BEE owned companies was more than R92 billion
- Further to determining the value of the organisation, it was important to note the staff members employed by the entity.
- The BEE transaction values were recorded to note the significance of BEE transactions to SA's economic growth.
- The highest BEE ownership transaction came to the value of R12 billion, while the combined highest transaction value was over R30 billion.
- R5 000 was the lowest value it took to participate in a BEE ownership transaction and the combined lowest value was just over R183 million.
- As a result of the literature review in chapter two, political history was recorded to determine its influence on BEE transactions' successes. At least four of the respondents have a political history with links to the ruling party.
- As a demographic exercise, the position of the respondent within the organisation was interviewed, this was also to note the level, calibre and importance of the respondents within the broader business circle.
- Lastly, the researcher recorded whether the respondent came from a BEE or white corporate empowered vendor company.

Table 6 below illustrates the variables per respondent as noted above and for comparison purposes.

Table 6: Respondents fact sheet

Fact	1	2	3	4	5	6	7	8	9	10	11	12	thirteen
***Sector type	A,B,C D,G,J	A,C,K,L	A,B,D,K N,O,P,Q	M	F,G,O	A,B,D,F G,HJ,K L,M,P,Q	A,C,D, I,Q,R	A	A	A,B,D,J KM,R	B,H,J,R	A,B,C, D,F,G, K,L N,Q,	A,B,Q
Year organisation formed	1995	2002	2001	1997	2000	1996	1993	1888	1863	1994	1985	1998	1994
**Highest NAV	R4BN	R1BN	R14BN	R33BN	R2.5BN	R5BN	R13BN	n/a	n/a	R10BN	ND	R5BN	R5BN
**Staff Size	12	12	98	12K	50	12		30K	55K	20K	15	1K	4500
**Largest BEE transaction value	R4BN	R 500M	R 12BN	ND	R1,6BN	R2BN	R 232M	R1BN	R4BN	ND	ND	R2BN	R3,5BN
**Smallest BEE transaction value	R1M	R 100K	R 50M	ND	R7M	R120M	R273K	n/a	n/a	ND	R30K	R5K	R5M
Political History	Yes	No	No	No	No	No	Yes	No	No	No	No	Yes	Yes
*Position	CEO	Exec Chair	Chair	Dep Chair	Exec Chair	Chair	CEO	S Exec	CEO	Exec Chair	Chair	Exec Chair	CEO
BEE or Vendor	BEE	BEE	BEE	BEE	BEE	BEE	BEE	Vend or	Vendor	BEE	BEE	BEE	BEE/Vendor
Associated companies BEE	2	1	2	3	1	1	2	n/a	n/a	2	2	1	5

*****Sector Type** **A** = Financial; **B** = Mining; **C** = ICT; **D** = Media; **E** = Agriculture; **F** = Liquid Fuels; **G** = Logistics; **H** = Diversified Services; **I** = Transport; **J** = Manufacturing; **K** = Healthcare; **L** = Property and Construction; **M** = Hotels, Gaming and Entertainment; **N** = Infrastructure; **O** = Energy; **P** = Food; **Q** = Investment Companies; **R** = Other; ***CEO** = Chief Executive Officer; ***Exec** = Executive; ***Chair** = Chairperson; ***S** = Senior; ****K** = Thousand; ****M** = Million; ****BN** = Billion; ****n/a** = Not Applicable; **ND** = Not disclosed

5.3. Data analysis approach

A combination of the induction and the deduction approach to analyse the data was used. The induction angle was adopted to ensure the report is free from any preconceived ideas on measures of success; the purpose was to describe respondents' success experiences. From these experiences, theories were deduced to provide an explanation for the BEE ownership success. It is through this deduction process that themes were created.

Thematic analysis was used to extract the themes salient in the raw data from interviews. CAQDAS assisted in coding the raw data from the interviews, such that it was reduced into meaningful and manageable text in the form of quotations. Secondly, the codes were categorised and organised into themes that summarise the concepts discovered to enhance the meaning and significance of the data being analysed. Thirdly, the themes were grouped into the prompt questions asked as per the interview schedule in Appendix 1 and Appendix 2. The next step was to describe and explore data as per the prompt questions to identify patterns; this step allowed for the researcher's interpretation of the data to be read and understood. The last step was to link the patterns discovered to the research questions that were described in chapter three (Attride-Stirling, 2001).

A content analysis and frequency analysis was conducted to track the number of times a theme was mentioned by respondents in order to determine and identify common themes. This analysis was also used to identify points of discussions that were new or had not been covered in the literature review chapter. To verify the validity and credibility of the data, supporting statements from other respondents were used. The themes and models that emerged from the study are supported by recorded direct quotations from the respondents.

The respondents were broken down into 4 groups based on; (a) whether they were involved with the Black Business Community (BBC) prior to the first known BEE deal in 1993; (b) if their first transactions took place during the first wave of BEE (1993 to 1999); (c) the second wave of BEE (1999 to 2003); or (d) if they were white corporate, vendor, empowered or funders during the BEE transaction they participated in. To establish if there are different views based on the group the respondent fits into, the following code has been used to attribute quotes to respondents; **respondent number: group, company type, company count in the group, political history, gender.**

5.4. Reasons for BEE participation

The first issue was to determine reasons behind BEE ownership participation as a strategy towards becoming successful. To ensure the respondents understood the context of the research and were comfortable with the research questions, the research asked them to explain why they and their organisations decided to participate in BEE. Table 7 depicts the themes that were identified as reasons for entering into BEE ownership; they are listed in order of frequency.

Table 7: Reasons for BEE ownership participation

Rank	Theme	Frequency	Literature Review
1	Redress apartheid economic inequality	11	✓
2	De-racialise the economy	8	✓
2	Unique opportunity	8	✓
3	Legislation	7	✓
4	Expert area	3	✗
5	Involved in ANC post-apartheid economic policy strategy	2	✓
5	Diversifying BEE space	2	✗
5	Improve SA competitiveness	2	✗
5	Consumer power	2	✗
5	Pre-93 black business community	2	✓
6	Purely business	1	✗

Almost all the respondents confirmed that their participation in BEE ownership was to redress the economic inequalities of the past which had been caused as a result of apartheid. The responses were stated as follows:

P2: 1stwaveBEEcompany1_politicianturnedbusinessman.docx *“From a strategic point of view and consulting about how you transform the South African economy”.* This point was stated differently by another responded who felt BEE was part of a much larger programme to address the apartheid legacy.

P6: BBCand1stwaveBEEcompany1_businessman.docx *“As a nation, we do have a well-developed political programme; we do have a well-developed social programme, but we did not have an economic programme to underpin that.”*

This reasoning was combined with white corporates’ involvement when a respondent stated: **P11: BBCand1stwaveBEEcompany2_businessman.docx** *“Apartheid was about exclusion, so we needed to include black people.”* A respondent from a white corporate vendor company agreed with this by stating: **P9: Empowered_vendorcompany1_businessman.docx** *“In a way, we were being self-*

enlightened and defensive. We were proactive; I believe we responded to what we perceived to be the reality of South Africa.”

More than half the respondents felt this was a great opportunity driven by legislation:

P5: 1stwaveBEEcompany3_politicianturnedbusinessman.docx *“Legislation, which has been passed by parliament, aimed at empowering black people, was passed in order to equalise, to provide opportunities.”* The views were encapsulated by **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** when he stated; *“Personally, I believe it is an opportunity for anybody to do a transaction that ordinarily would not have happened.”*

A unique situation was experienced by one of the respondents as a result of their position in an international institution that was involved in assisting developing countries. This experience was relived and told as follows:

P12: 1stwaveBEEcompany1_businesswoman.docx *“In 1990, I managed to get copies of what the ANC was aspiring to do for its people...It became very clear that we could march to the stock exchange and make a difference in our lives, having been given the opportunity to be active in the economic activities in our country.”* Those without political history felt that the BEE ownership needed to be diversified and as such they saw a gap in the market and decided to actively participate. The respondent stated; **P3: 2ndwaveBEEcompany3_businessman.docx** *“The space was predominately occupied by politicians or ex-politicians and we thought the country needed business people to participate in talking to business people.”*

Interestingly, one respondent did not consider his involvement with business to be BEE related, but rather as a black man participating in the economy, like every individual should have an opportunity to do, regardless of race; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *“Because of racism in this country, if you do a commercial transaction and you are black, it is assumed to be BEE. It places restrictions on me as a black individual who just wants to engage in commerce. I have now been categorised that I cannot do business, because if I do it, it has to be BEE or else it should not happen.”*

As denoted in the literature review column in Table 7, items that had not been identified in chapter two as reasons for participating in BEE ownership transactions include the following facts; (a) some respondents were experts in that field, (b) there was a need for the BEE space to include individuals without a political history, (c) BEE would

improve SA's competitiveness, (d) they already held a large portion of the consumers through black business community initiatives or (e) it had nothing to do with being black or BEE, it was an investment opportunity purely based on business principles.

5.5. What constitutes BEE owned company success?

The respondents were asked an open-ended question with full probe or following sub-questions on BEE ownership success and its measurement. The purpose of this question was to establish how each respondent views BEE ownership success and how the performance is assessed in an effort to distinguish it from failed BEE owned companies and non-empowered companies. The importance of this question was confirmed by a reaction from one of the respondents to a discussion on the ability of a black person to succeed in business and the reason behind the study:

P11:BBCand1stwaveBEEcompany2_businessman.docx *"Just a belief, conventional wisdom that black people cannot be in business, a black man is a hewer of water or the carrier of wood, he was not supposed to do maths and science, therefore he was not supposed to add value, he cannot think three dimensionally; therefore they were excluded from the mainstream of the economy."*

5.5.1. What challenges did you face (and how did you overcome them)?

The biggest challenge for most of the respondents was lack of capital and the funding structure. The BEE transactions that took place in the 90s and became known as the first wave BEE relied on the future share price and they bought equity on that basis. However, when the company did not perform as expected or there was an economic crisis, the BEE companies were left with large amounts of debt. Secondly, the BEE companies were expected to raise capital, which they did not have as this was their first proper experience or economic participation.

The BEE companies soon realised they needed to come up with strategies to ensure they would be free from debt, if they wanted to succeed in BEE ownership. The impact of the funding structures as a challenge and how they were addressed is clearly articulated by **P12: 1stwaveBEEcompany1_businesswoman.docx** *"You would have a nice investment, but if it is sitting with SPV structures, it is like warts that are sucking it, when is it going to live and become life and make you live well as a human being? With those warts, they just destroy you. So we decided to clean up those warts and*

*that's when we got the company back.” Funding structures were based on the share price: **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** “In less than two months, the gold price dropped from \$396 an ounce to 340, and there was already a billion rand valuation gap between what we had agreed to pay and the value of the company. It went right down to 257. I lost more than two thirds of my net worth.”*

P1:1stwaveBEEcompany2_politicianturnedbusinessman.docx explains how and why capital became a challenge for BEE owned companies; *“Even though many of the BEE deals were vendor-financed, we still needed to put in some money. Which may be minimal amounts compared to the value of the property you are buying, but still significant amounts from the point of view of a BEE company that does not have the capital base”.*

Capital was less of a challenge for those who felt they were innovative and had expertise they could use to generate income; to them it was about the opportunity to prove themselves such that an investor would want to be involved in their transactions, this is visible in a response from **P7: 2ndwaveBEEcompany2_businessman.docx** *“I am trying to minimise the importance of capital and not trivialise it. When you have a good story to tell and a good plan, capital is a secondary issue, the impact of it being a challenge is minimised. Most of the time, you need to bring a proven proposition for them to basically trust that they can give this thing to somebody else.”* **P8: BBCand2ndwaveBEEcompany2_businessman.docx** echoed this sentiment when he stated; *“For me, honestly capital is the last item on my agenda when I do any business. It is not really a major factor to why people do not succeed in business.”*

Some respondents experienced a level of arrogance from white corporates that did not believe there was any capacity or skill from BEE companies, this resulted in lack of trust from all entities involved and proved to be a big challenge, **P11: BBCand1stwaveBEEcompany2_businessman.docx** *“Blacks were not supposed to be owning businesses; if you did then you must own a little shop and not a company in a proper sense. People could not believe that black people could acquire assets and get out of the mainstream of owning a shop, a shebeen and a funeral undertaker”.*

Entities that did not have a political history felt there was a deliberate effort to hinder their participation in the economic transformation and this resulted in them not being awarded contracts **P3: 2ndwaveBEEcompany3_businessman.docx** *“We were excluded on some transactions, because we did not have access to the headquarters of power, in the long run it translated to value loss and value destruction.”* However,

respondents who had a political history disagreed with this statement and felt BEE was a bane to their economic existence as this history and activity was used against them from both the political, legislative and business front. They also felt there was a need to educate society on the shift in focus; as explained by one respondent; **P5: 1stwaveBEEcompany3_politicianturnedbusinessman.docx** *"We had political challenges. By politics, I am talking about getting society to understand that this was not a rich man's boys club or girls club".*

The use of professional advisory entities was seen as a way to successfully tackle some challenges; this was eloquently stated by a respondent as follows; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"If you do not have somebody and a back-up team that actually can negotiate on your behalf and get you an 'intelligent' deal, you will make a very 'dumb' deal... you need leverage, it could be financial leverage, it could be brand leverage."* To support this statement, a respondent gave a blow-by-blow account of how the business procured the services of an advisory office; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *"I went to Deloitte's forensic audit team and I said 'guys, this is what I am doing, I am the first, I know I am going to get terrible scars. I am going to get arrows in my back. I do not care who says what, as long as we can account even for R100. I want you to walk in there unannounced every three months and conduct a forensic audit, just so that if anything is wrong here, I should be the first to know."*

To ensure his success, one respondent went as far as poaching skilled professionals from another entity and sweetened the deal by remunerating them well and giving them a share of the company; this tactic allowed him to be ahead of the rest and eventually manage to become a vendor and fund other struggling BEE entities as quoted here; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *"They were number one on a seven-year stretch, so I went to them and I said, I will increase your salaries by 50%, I will also give you – amongst yourselves as a team – 10% of this business, but if you accept this offer, you must walk out and come and establish a business with me."* Understanding the business environment, the skills required to sustain and maintain an upward trajectory was used to address challenges in this instance.

Table 8 depicts the themes that were identified as challenges in BEE ownership, they are ranked in order of frequency.

Table 8: Challenges

Rank	Theme	Frequency	Literature Review
1	Capital	8	✓
1	Funding structure	8	✓
2	Perceived black incapacity	6	✓
3	Exclusion due to political inferiority	2	✓

Table 9 lists strategies adopted by the companies to address the challenges they faced, they are listed in order of frequency

Table 9: Addressing challenges

Rank	Theme	Frequency	Literature Review
1	Gain understanding of business and opportunities	13	✗
2	Identify investment opportunities that can be harvested	8	✗
3	Revise funding structure	7	✗
4	Use of social capital	5	✓
5	Professional advisory support structures	4	✓
5	Invest in skills & expertise	4	✗
6	Generate capital internally	3	✗
6	Use of personal equity	3	✗
7	Lobbying	2	✓
8	Funding from established BEE company	1	✗
8	Operational involvement	1	✗
8	Relaxed lending rules	1	✗

The literature reviewed is highly critical of BEE-owned companies, yet it does not have recommendations or suggestions as to how the challenges they face can be addressed. The literature review in column in Table 9 illustrates this point and notes that of the twelve themes established, only three were mentioned in chapter two.

5.5.2. Please describe what you consider to be BEE success

All respondents were asked to describe, in their own words, factors they consider to be key to BEE company ownership success. A range of attributes was presented and broken into themes, the outcome of the results is summarised in Table 10 below, in order of frequency. The Literature review column proves the point made by Fauconnier and Mathur-Helm (2008), Sartorius and Botha (2008), when they stated that there is dearth in the literature with regard to the success or failure factors and challenges faced by BEE-owned companies. Of the eleven items identified in Table 10 below, five of them were not identified as success factors in the literature review covered.

Table 10: BEE ownership success factors

Rank	Theme	Frequency	Literature Review
1	Own capital base	12	X
2	Value Creation	11	✓
3	Growth	9	✓
4	Development and use of skills	4	✓
4	Supporting start-up BEE	4	X
4	Transforming established companies	4	✓
4	Entrepreneurial skills	4	✓
5	Identifiable rich black individuals	2	X
5	Social responsibility	2	X
6	Full use of BEE interventions	1	✓
6	Women empowerment	1	X

5.5.3. What are the core non-financial requirements your organisation used to be successful?

The importance of this question was confirmed by a respondent who felt it was necessary to have ground rules at the infancy of the entity. He stated; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *“Whether you are a company or a burial society, you need a proper constitution, a proper reason for existence that is very clear and uncluttered, so that you are clear this is what we are about.”* To support this view, a respondent shared bitter experiences in the absence of these measures: **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *“I spent so much time on managing relationships. Where that group is fighting, because they want this, because they think that they have been side-lined and because of this and that, it was such a headache. People lose the ability to focus on value, focus on real things, they are fighting over who becomes a director, who earns which fees...”*

Table 11 below lists the themes that came up as important in frequency order; only the theme on sustainable entity brand was included in the chapter two literature review covered.

Table 11: Core non-financial requirements

Rank	Theme	Frequency	Literature Review
1	Corporate Governance	13	✓
2	Expert skills	8	✓
3	Sustainable entity brand	7	X

5.5.4. What leads to failure in BEE companies?

To clearly distinguish between success and failure factors, this question was asked.

Issues that lead to failure were succinctly explained by one of the respondents in the following statement; **P7: 2ndwaveBEEcompany2_businessman.docx** *"It is nonsensical for companies to say they are empowering people if it is unpayable or with a long-term payment; this is how we end up with these phantom BEE structures, because you are dealing with sophisticated companies that deal with a businessman who is wet behind the ears in terms of his negotiation, fund raising and corporate finance structuring. All this makes it possible for big business/big corporates to tick a box, but in actual fact there is no ownership."* Individual benefit and conspicuous consumption were also seen as key contributors to potential business failure. **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** went as far as blaming it on ostentatious behaviour by stating; *"I think some of us got lost into the glory of 'we own this' and 'we own that', whereas the economic reality was not necessarily that. If you are buying dumb, you are going to get the consequences of buying dumb"*.

One of the respondents linked failure to the amount of time it takes to build an institution, its reputation and sustainability over a long period by stating; **P10: Empowered_vendorcompany2_businessman.docx** *"As a country, we have tried to create new institutions and perhaps we have tried to do that too easily and forgotten what it takes to create institutions; institutional capacity invariably evolves over time."* The failure associated with the culture of quick money in BEE was endorsed with this statement; **P12: 1stwaveBEEcompany1_businesswoman.docx** *"It does not take two weeks, but if you come with a short minded 'I want to be rich tomorrow', then you will definitely fail, because this thing is not about short-term solutions"*.

Lack of value creation and of government links were alluded to as being failure factors, with dependency on race: **P11: BBCand1stwaveBEEcompany2_businessman.docx** *"Pigmentation is the issue instead of wealth creation, they are selling their blackness, and they are selling the fact that 'I am a transmission to the government, I am there to open doors for you'".* When asked to describe corruption in detail, this was the response: **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"When you take a contract from government that you know you cannot execute – that the government official knows you cannot execute, you take that...sometimes it is so brazen; taking on work that you are unable to do and you know this, and the person giving you the work knows you are not capable of doing it..."*

It was felt that being creative, innovative and entrepreneurial lacked in the BEE ownership space: **P11: BBCand1stwaveBEEcompany2_businessman.docx** *"We*

are not entrepreneurial. Entrepreneurship is having an idea that we can develop, that we can now make goods and services that are sellable and marketable and exportable to generate foreign revenue.”

Table 12 below lists the themes identified under this prompt question in order of frequency

Table 12: Failure factors

Rank	Theme	Frequency	Literature Review
1	Insincerity	13	✓
2	Business ineptness	2	✓
2	Lack of entrepreneurship	2	✓

Table 12 clearly illustrates that insincerity is the most common reason for BEE companies to fail. This insincerity is experienced through misalignment of expectations between stakeholders, vendors, funders, white corporates and the BEE-owned companies, the BEE companies’ reliance on being black in order to acquire business and the beauty parade process of selecting BEE partners by the white corporates. The funding structures which destructed value as well as the fronting and corruption associated with the demise of some BEE companies were also noted as reasons for failure.

5.6. What are the antecedents to BEE-owned company success?

Having established success and failure factors, the next natural step for the research was to determine the background that allows for these factors to develop or perish. Secondly, there was a need to add to the academic literature as it had been identified by Fauconnier and Mathur-Helm (2008) that there was little literature on the success of BEE-owned companies.

5.6.1. How much influence did the business environment have on your success?

This question brought about mixed feelings from the respondents; there were both positive and negative results; some used the BEE status by taking advantage of the circumstances and the opportunities that lay before them. This is visible in the following response; **P3: 2ndwaveBEEcompany3_businessman.docx** *“We were established as*

*a BEE company and we sold that idea, because the environment was conducive.” The enabling environment appears to have been in the immediate sector, business at large and the state as indicated here; **P7: 2ndwaveBEEcompany2_businessman.docx** “All I wanted was an opportunity to participate and be given an opportunity by the environment, and the environment for me is both the logistic environment, the regulated environment and the environment of business at play.”*

However, it was felt that the state had sold out the black business community and some white corporates got involved with BEE begrudgingly and as such found ways to frustrate the process; **P6: BBCand1stwaveBEEcompany1_businessman.docx** “We should have had quotas, because it would have been prescribed. That is why we continue to have these various alterations of BEE codes and white established businesses spend a lot of time and money to circumvent and avoid them by looking for technicalities and/or employ experts to ensure that if they have to; they are going to do the bare minimum or else they are going to bring in all sorts of schemes ranging from fronting to some very strange ways, not recognising that it is very much in their interest, that we have economic empowerment.” This line of thinking is, however, disputed by a respondent from a white corporate company; **P9: Empowered_vendorcompany1_businessman.docx** “There was pressure on big companies to say ‘what are you doing to help create and build a new SA’, big business had a responsibility. When you have been in business for 150 years, you have to ensure that you are relevant to society, we were responding to societal pressures.”

Further to that, a respondent felt hostility existed from government and BEE structures: **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** “It is a hostile environment; you have one controversy after another. I took a decision to be a businessman and I do not want somebody to pigeon-hole me to be an empowerment player. I am a businessman, I make investment decisions, I take opportunities, quite often very opportunistically and at a right time, I have to sell and take a profit. In fact, all the things I have done, had I been white, I would have been described as the smartest businessman in South Africa.”

5.6.2. Was your social capital necessary for you to succeed?

This question brought about a unique situation where a first-wave BEE company funded a second-wave BEE company, the respondent perceived this not only as a success factor, but as a relationship and future partnership-building exercise, he stated **P3: 2ndwaveBEEcompany3_businessman.docx** “They had maturity of foresight...

they realised the more you get people who think like you in this space, the more you will be able to jointly participate maybe in some transaction. There might be common battles to fight, like it happens in every business". Another view was that reputation, career capital and competence are built over a long period of time and as paths cross and common interests are discovered, individuals tend to rely on those they know for business partnerships: **P10: Empowered_vendorcompany2_businessman.docx** *"Within politics, economics, government and business, the level of knowing one another, networking, mutual respect is there. As a result of that, you will also find greater mobility between the sectors."*

5.6.3. Did politics and your political networks influence your BEE transactions?

This question elicited a lot of emotion from the respondents with contradictory views, the political camp felt the entire situation was misunderstood and as such they do not owe their success to political history, while those who were involved with BEE from an entrepreneurial background were of a different view as stated by this respondent; **P6: BBCand1stwaveBEEcompany1_businessman.docx** *"Ownership ended up with people that could not demonstrate economic or business prowess. We have recycled politicians to be business people, bringing them through the ceiling to be owners. What was lacking was entrepreneurship, which is what should have brought in the value-add in the economic activity. The value-add that was brought in by the politicians was political patronage and you can put a price to it. There was, in my view, a certain level of insincerity."* A respondent from a white corporate agreed with this in his response when he stated; **P10: Empowered_vendorcompany2_businessman.docx** *"BEE was just seen as a route for wealth acquisitions by politically-connected players, who did not know enough about the business to add value to it and who could not unlock their political networks either, because the political side became sceptical of people trading on their political relationships in businesses."*

This was disputed by respondents with a political background, when they explained their experiences; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"The ANC in my time, never said this one and not that one. The critical thing was your relationship in the marketplace."* When pushed further, based on literature review evidence, the respondent added; *"Some people did deals with politicians due to their political clout, but 1st tier companies know that thing does not work, it actually creates more problems"*. Another respondent with political history experienced sabotage from

their political fronts as a result of fear from their compatriots; **P5: 1stwaveBEEcompany3_politicianturnedbusinessman.docx** *“There were a lot of blockages by people from your own party who were in government, because they think you will succeed, you were going to get money in the private sector, that will make you powerful within the party, therefore it was within their interest to block you”.*

A respondent felt there was no way of succeeding without current access to political power; **P8: BBCand2ndwaveBEEcompany2_businessman.docx** *“I am happy I started my business during apartheid in the 80s, prior to the new South Africa, otherwise I had no chance in this new dispensation.”* A respondent who had felt targeted, initially viewed the politicians who have now become business people as hypocrites, by stating; **P11: BBCand1stwaveBEEcompany2_businessman.docx** *“Unfortunately the people who came with a political view saw this as being part of capitalism and being a sell-out, I was perceived in that sense...Selective amnesia; now the people who criticised it are actually benefitting from it, supreme irony.”*

5.6.4. Please explain to me the process of selecting a BEE partner or becoming a BEE partner?

The process of selecting a BEE partner or becoming the preferred BEE partner does not seem to have a specific science to it, there were those who relied on their career capital and competence, expert skills and reputation, as stated by this respondent; **2ndwaveBEEcompany3_businessman.docx** *“We just want to do business with you, you can take the blackness for free, we just want to get into business with you.”*

There was also some negativity associated with this process, some felt the process was engineered for those who had access to political power, with little consideration for entrepreneurs; **P10: Empowered_vendorcompany2_businessman.docx** *“There was a group of black entrepreneurs invariably organised under NAFCOC, BMF and FABCOS. When the wave of BEE came through, these people were left by the wayside, because they did not have political credentials.”* Another selection process that was highly criticised was the ‘beauty parade’, where BEE-owned companies were made to present to white corporates without any prior relationship or due diligence performed. This resulted in a lopsided partnership as explained by this respondent; **P3: 2ndwaveBEEcompany3_businessman.docx** *“In the pure introduction phase, people would always say ‘this is my BEE partner’, you were never a business partner, you were never an investor, you were a BEE partner and a BEE partner had a particular*

corner or where he is expected to sit when he/she must speak and that type of thing, so it has actually been very sad – that was the case in earlier years”.

Some, however, did rely on business synergy, value-add and reputation, as stated here; **P9: Empowered_vendorcompany1_businessman.docx** *“Our board debated at length as to what is the right split before we got into who to include.... It was important that we helped create a number of successful black businesses”.*

5.6.5. How has your company been innovative?

The responses to this question were eloquently articulated by the following statement; **P3: 2ndwaveBEEcompany3_businessman.docx** *“People who have been smart have understood that BEE must only be a catalyst, it must be used to ignite something in their own organisation, they have used those balance sheets, they have created by generating new businesses that are not necessarily BEE businesses, for sustainability.”* However, there was a different view that BEE-owned companies have not utilised the opportunities to create, instead there is still a dependency on old structures and institutions where BEE-owned companies just buy an equity stake; **P11: BBCand1stwaveBEEcompany2_businessman.docx** *“We are investing money into what already existed during apartheid, we are not innovative, we are not initiating, and we are not starting things.”*

A respondent saw a gap created by lack of capital and weak funding structures, he used financial innovation to create income and became a BEE participant and a BEE financier; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *“I never went into any empowerment with anybody. I took an opportunity to fund these guys who were in an empowerment deal. I was the financier, I approached the bank and gave them 10.9 million shares in a scrip-lending arrangement. So they kept these shares in a safe and they lent me their shares and I sold them, took the profit and went for the hills.”*

5.7. Has value been created for all stakeholders involved?

As stated in chapter two, value creation is one of the key measures of success as it motivates the BEE-owned company and the empowered vendor company to guard against value destruction and ensure sustainable growth (Fauconnier & Mathur-Helm, 2008; Alessandri, Black & Jackson, 2011). The importance of this question was

highlighted by a respondent's understanding of it, as stated below. **P11: BBCand1stwaveBEEcompany2_businessman.docx** *"It should not just be because they are black; it should be because they are black AND they can add value, because at the end of the day, economic growth knows no colour."*

5.7.1. Would the value received from your BEE transactions have been any different if the timing, pricing and equity stake had been different?

The view of most respondents was that early movers – defined as first-wave BEE-owned companies – managed to benefit on assets, largely from the conglomerates' focus on essential services and as such, timing worked to their favour; **P11: BBCand1stwaveBEEcompany2_businessman.docx** *"That is why you will see that the earlier businesses came from big companies that were shedding off that which was no longer core business for them."* The variable was not limited to BEE waves only, industry lifespans also had a role to play as explained by this respondent; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"It also depends on industries and cycles; if you did your mining deal at the top of the mining boom, the resources boom, then of course you were going to find that the value is going to go down, it had nothing to do with being BEE or not being BEE"*.

Pricing and funding structures brought about two different views, where the BEE-owned companies felt pricing has contributed to the destruction of value, especially during the first wave of BEE, it is only after the debt had been paid, refinanced or assets sold that BEE companies received value from the transaction. This respondent explains the impact of pricing on value; **P3: 2ndwaveBEEcompany3_businessman.docx** *"Pricing has been the biggest killer of BEE value and BEE transactions, a number of businesses have been so over-valued. Add to this thing that there is an element which has been an albatross called the lock-in period!"* In addition, the discounts that most BEE transactions were bought under, did not seem to make a difference as the assets were overvalued to start with; **P4: 2ndwaveBEEcompany1_businessman.docx** *"The discounts that people always refer to when you juxtapose those to the kind of structures and the expensive nature of the credit enhancements or the capital that you did not have, it more than wipes out, It is still more expensive than if you did not get the discount and had the capital to do it."* This view was, however, disputed by a financier and vendor company: **P9: Empowered_vendorcompany1_businessman.docx** *"In almost every BEE scheme, you are buying shares financed with debts, you are borrowing money; you are borrowing, because most of the schemes, if the thing is under water, you do not have*

to repay the debt, you will walk away, so it is quite a favourable loan." The point above does not consider the reasons behind BEE ownership participation.

It was also established that for value to be created, the size of the equity stake does matter; **P9: Empowered_vendorcompany1_businessman.docx** *"It has to be big enough, and the percentage depends on the size of the company; but if the percentage ends up being so small anyway, then maybe it is not worth it, rather do other things."*

5.7.2. Is there benefit for non-BEE companies and financing companies to be involved in BEE transactions?

The most popular view stated by respondents was that as BEE companies, they brought in transformation which ordinarily would have taken longer or not happened for their partners. This view was appreciated and alluded to by a respondent from a vendor company; **P9: Empowered_vendorcompany1_businessman.docx** *"Things like transforming the nature of your workforce or racial demographics or gender demographics of your workforce are probably, in the long-term far more important."* But a BEE owned company respondent felt this was not the case and disputed this by saying; **P3: 2ndwaveBEEcompany3_businessman.docx** *"Big business entered the BEE space less for transformation and less for recognition of what had happened in the past, but as business people and being opportunist. They wanted access to power, that was all!"* His view was that it was a calculated move and there was support for his view; **P6: BBCand1stwaveBEEcompany1_businessman.docx** *"Established white businesses were insincere, because they just wanted the easiest, quickest and safest way and where they could give the least. You have the shares, you have the directorship, you have had the photo shoot, the business goes under, you are leveraged, they have ticked the box, they have empowered you despite the fact that it did not work out. They are still in the same position they would have been anyway, they still have the shares, the shares are back to them."*

It was felt by some respondents that there was money in financing BEE deals, such that one respondent decided to become a financier of other empowerment companies; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *"The people who make more money in BEE transactions are the banks. I made money on the transactions I did, I always position myself as a financier. I came in and did exactly what the banks did, I did everything that any banks would do with those shares that they were not supposed to pledge, sell or whatever like that."*

Diversity in the corporates' decision-making was seen as a benefit for the vendor companies, more than generating profit and sourcing business; this view was articulated by a respondent from a vendor company when he confirmed their outlook by stating; **P9: Empowered_vendorcompany1_businessman.docx** *"We never relied on the strategic partners to go and find us business. We did not see this as part of their roles, we wanted their views, we wanted their input, and we wanted their insight on the board as a stream of direction."* A respondent from another vendor company brought in a different view, when he insinuated the corporates' future plans were considered in their BEE involvement; **P10: Empowered_vendorcompany2_businessman.docx** *"You have to think not only of existing enterprises that you are supporting, but what are the enterprises today that are emerging that will form a nucleus of the corporates of the future. And if you are able to provide support to them very early on in their life cycle, you position yourself to continue to expand your own business as you give support to them as they go through the phases of evolution."*

Financial benefit was not very popular and other themes took precedence over it as detailed in Table 13 below. A respondent confirmed this with the following assertion; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"If their objective was to raise money, put it in the company, grow the company and that happens, then they have achieved their objective, if it was an exit strategy, they've achieved their objectives, so that is value creation for them and value creation is not only in rands and cents...it is unlocking opportunities"*.

As illustrated in Table 13 below, the two items available in literature review relate to transformation and the inclusion of different races to the economy of SA in an effort to redress the inequalities of the past.

Table 13: Non-BEE companies benefit

Rank	Theme	Frequency	Literature Review
1	Transformation	5	✓
2	Diversity in decision-making	4	✗
2	De-racialisation of the economy	4	✓
3	Exit strategy	3	✗
4	Profit generation	1	✗
4	Future income	1	✗

5.7.3. How has the state made the BEE journey easier for you?

Legislation was overwhelmingly the key contribution by the state to BEE as viewed by the respondents. This appeared to be sufficient support towards BEE ownership success as stated here; **P2: 1stwaveBEEcompany1_politicianturnedbusinessman.docx** *"Part of the advantage of BEE legislation is that it opens up possibilities for black people. It does not tell them what to do; it opens up opportunities for black people in a number of ways."* The opportunity the legislation provided was clearly articulated by this respondent; **P7: 2ndwaveBEEcompany2_businessman.docx** *"I did not have to take the empowered company out of their thinking, 'saying you can give me 10%' NO! It was legislation and there was a time-frame that said this thing has to be fully paid up in 10 years and then on top of that there was a profiling in certain theory for black entrepreneurs. All I needed to do was to put myself in front of the company and impress upon them that the group that I am leading is the right group for them"*.

A different view was that corporate SA would not have willingly shared the wealth of the country, if there was no legislation; **P4: 2ndwaveBEEcompany1_businessman.docx** *"The state's influence in the environment has certainly overall been positive. Had there not been those kinds of policy imperatives or interventions in the form of the charters or any legislation that we have, I do not believe South African business would have voluntarily chosen to transform."* This sentiment was shared by other respondents and is supported by this statement; **P3: 2ndwaveBEEcompany3_businessman.docx** *"Without the state and without legislation in this country, I do not think that big business or white business, whichever way you want to call it, would have voluntarily said it is a very good thing to do...so without the state, without government's intervention, there is no way BEE could have taken off at all"*.

Two respondents went as far as mentioning specific individuals within government who had assisted them in their BEE journey by providing the necessary support and guidance required to succeed. This respondent captures both views; **P5: 1stwaveBEEcompany3_politicianturnedbusinessman.docx** *"Phumzile Ngcuka was a watch dog over all of us, making sure that we all adhere, there was Sandile Nongxina, he was like a rock to make sure that there is adherence, but some of them played a role so much so that, when you have difficulties with financial institutions, because all that we had was a paper, they actually would bring financial institutions put you together with them and then convince those people that it is important to assist"*.

There were voices of criticism as well as of recommendations on how the state involvement and processes could be improved. The first criticism was on the development agencies and the lack of efficiency; **P6: BBCand1stwaveBEEcompany1_businessman.docx** *"There are processes that I think fly in the face of what they are about. They are supposed to be called development finance agencies, but my experience is they have been lethargic, they have been more difficult than commercial banks."* Secondly, it was felt that the DTI is out of its depth in trying to manage BEE processes when in fact it does not have much control over the stakeholders; **P10: Empowered_vendorcompany2_businessman.docx** *"The DTI is the ministry that is responsible for the broader economy; now it does not follow that departments are always aligned, so misalignment at the level of government translates into instances of uncertainty, opportunity for arbitrage in the market. This is how a reactive distance of proximity arises and a trust deficit develops."* The last one was on what needs to be improved to ensure that all previously disadvantaged communities can have access to BEE company ownership; **P12: 1stwaveBEEcompany1_businesswoman.docx** *"For BEE, the policies have to be refined. The implementation and the monitoring has to be sharpened more, because indeed we have succeeded."*

5.7.4. Did you have any voting rights and operational activity in the entities you had a stake in?

The importance of this question is based on the Empowerdex review and analysis of JSE listed BEE companies between the years 2006 and 2012, as indicated in Table 5 of chapter two. The observations made were that there has been a significant increase in voting power and decision-making responsibilities since the introduction of the scorecard (Murray, 2000; Sartorius & Botha, 2008; Empowerdex Trailblazers, 2012, p1; Seggie, 2012). Secondly, it was indicated by Edigheji (1999) that the ownership element does not address the fronting issue where shares are falsely held by BEE beneficiaries.

It was this respondent who captured the essence of this question from a BEE participant point of view; **P3: 2ndwaveBEEcompany3_businessman.docx** *"It has taken us longer to realise that it is not a favour, we must ask to sit at the table, to be on the table and to participate in decision making... we now insist on a person from our company to be part of that company, usually in the area of finance, because we think 'yes, boards are okay for you to participate, but decisions are taken on a day-to-day*

basis". This response emphasised the importance of understanding operational activities in an investment. However, it was felt that rights associated with a transaction cannot be separated and the issue of capital and funding structures was touched on by this respondent; **P4: 2ndwaveBEEcompany1_businessman.docx** *"They were offering only the bare minimum and typically it was in consortium form, so you would not have received that whole 26% to start with. Secondly, you were being funded and so, as you know debt covenant and all kinds of things come with funding, they do not enable you to exercise all the rights, you maybe have certain voting rights but no economic rights in any way and where a company did credit enhancements, they would put their own restrictions on your ability to influence decisions, because they have money on the line themselves".*

Some felt the absence of economic rights does not equal incapacity when it comes to influencing the company direction, regardless of the equity size. This was illustrated as follows; **P5: 1stwaveBEEcompany3_politicianturnedbusinessman.docx** *"When you have minority stakes, legislation will protect you, because people cannot just shake you out. They have to realise that there are certain things, which are in the legislation; the way they should employ people, the way they should take care of the people, the community around the industry where we are... you have a stronger voice to remind people of what is in legislation in terms of empowerment ..."* To substantiate this point, a respondent made it clear that it is expected of BEE-owned companies to understand and contribute to the business and industry they are in, in order to be successful and this is not only limited to their perceived access to power. The relevant quote follows; **P7: 2ndwaveBEEcompany2_businessman.docx** *"This fixation with BEE companies wanting to proclaim to themselves the status of being strategists and opening government doors is actually more of an affront to our skills set than anything else, because you cannot be a strategist if you really are not in tune with the business model, if you are not hands-on and you really do not understand the business, content knowledge and skin in the game is important. It could be an intellectual contribution, it could be helping the company with its own culture of operation."*

5.8. Results conclusion

This concludes the results chapter relating to the three research questions on BEE-owned companies' success stories as explained in chapter three. The first area of focus was the description of success within the BEE ownership space. The results

zoned in on the reasons for participating in BEE transactions, these included the concept of de-racialising the economy and taking advantage of investment opportunities that were now available to all. The respondents outlined the challenges and failures they had faced and the process of circumventing these in order to ensure success.

The second area, also based on the research questions, comprised the factors necessary within the business environment in order for BEE ownership to be successful. It is in this area that the results focused more on the business environment, the respondents' history, their alliances and selection processes. A lot of the results focused on personal experiences within the BEE space.

The final area focused on value creation, which had started emerging from the first set of results when the first research question was asked. This emphasised the point of value in business. However, it became increasingly clear that value does not necessarily have to be measured in monetary terms; there are other factors that make transactions worthwhile and have an indirect impact on the longevity of the transaction.

Chapter six will analyse and scrutinise the results within the context of the literature review.

CHAPTER SIX: DISCUSSION OF RESULTS

6.1. Introduction

The purpose of this chapter is to analyse, interpret and discuss the research results in the preceding chapter. The next most important input into this chapter is the literature review conducted in chapter two which helped set the research problem in chapter one and pose the research questions in chapter three. The results attained in chapter five will be discussed in detail, compared to the literature review and summarised per research question.

To reiterate, the purpose of this study was to identify factors, so far unknown, that have led to BEE-owned company success in order to map out a blueprint for successful BEE transactions going forward.

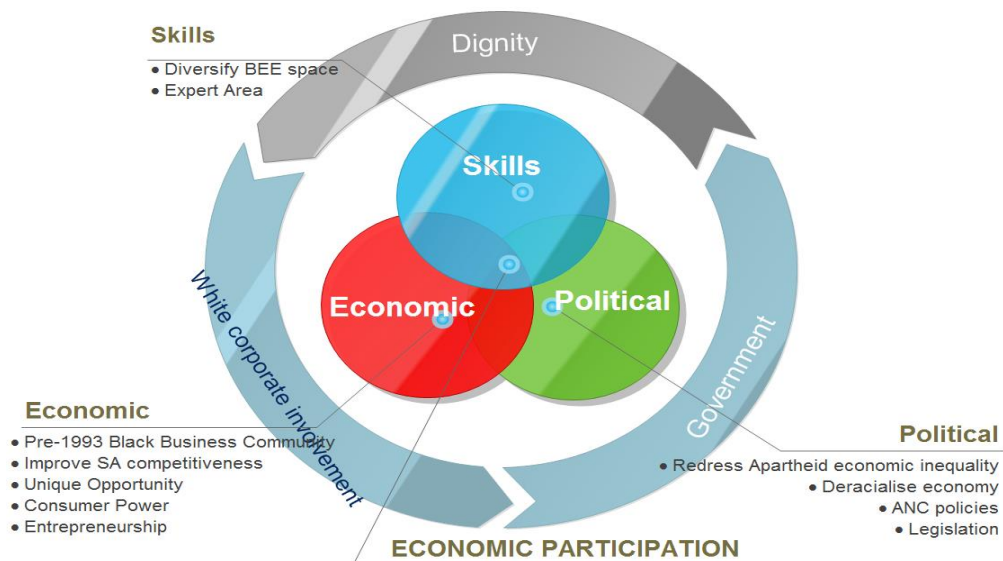
6.2. Discussion on BEE participation

It is not practical to talk about BEE ownership without understanding the reasons behind it. The literature review undertaken in chapter two offers a myriad of reasons. There are eleven themes that were identified as reasons for participating in BEE and they are illustrated in Table 7. Figure 3 has been designed in light of these themes. The themes have been grouped into the top three factors that drove the respondents to participate in BEE ownership.

The results indicate that the major reason for participating in BEE company ownership was to redress economic inequalities of the past, a view strongly supported by the literature review. It is Krüger (2011) who stated that the ANC introduced BEE to ensure that the injustices of the past have been rectified and economic participation broadened. Economic transformation encouraged at least eight of the respondents to participate in the economy by taking up ownership of BEE companies. Hamann, Khagaram and Rohan (2008) argued that transformation would only be possible, once the economy has been de-racialised and the black majority owns and controls a large percentage of the economy. Research found that economic participation meant being involved in the major industries in SA as opposed to industries that were considered to be secondary as articulated by this respondent, in an effort to distinguish his company success from the others **P7: 2ndwaveBEEcompany2_businessman.docx**

“Personally, I despise this thing of being confined to typical BEE procurement type deals; ‘I am just going to focus on training, catering and events management’. I am not being disparaging to entrepreneurs who do those things very well, but what I hate is being boxed in and confined to that kind of space. I want to be in the mainstream of business.”

Figure 3: Reasons for BEE participation



The ANC had economic policies prior to winning the first democratic elections; at least two of the thirteen respondents were privy to these policies and saw first-hand the ANC economic plans and strategy. To support this, one respondent stated **P2: 1stwaveBEEcompany1_politicianturnedbusinessman.docx** *“I worked for the ANC doing economic policy work and I also worked in the deputy president’s office and IDC; responsible for economic policy”*. In all instances, this is at the time the ANC was drafting the RDP policy, which focused on economic growth for the black population (Nattrass & Seekings, 2005).

The last theme under the political factor is the legislation; the BEE Act was recommended by BEECOM to facilitate the de-racialisation of economic activities (Black Economic Empowerment Commission, South Africa, 2001). As a result of legislation, government was seen as a stakeholder to the BEE ownership process (Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). Through its codes which demonstrate BEE compliance and are a legal requirement of the state (Elibiary, 2010; Arya & Bassi, 2011), respondents felt the environment had enabled them to participate in the economy, while the industries they were involved with aligned their charters with

the Act (Sanchez, 2011). Government is seen as the main sponsor of BEE by using its policies and powers to drive and monitor the implementation of BEE (Sanchez, 2011).

The second factor has the most (five) themes drawn from the eleven identified themes in the results. Research found that the key driver for participating in BEE was so that they can be involved in business and they saw an opportune moment to be involved. The respondents acknowledged that the changing political tide and the BEE phenomenon brought about unique business opportunities that would ordinarily not have happened for black South Africans, and they used this to their advantage. Empowerment is about gaining power and the right to act upon available options and possibilities equally (Eyben, Kabeer & Cornwall, 2008). To achieve wealth and business success, BEE-owned companies had to combine opportunity-seeking behaviour with advantage-seeking behaviour (Ireland, Hitt & Sirmon, 2003).

Research indicates that those who were part of the BBC prior to 1993 had consumer power, but were far from major markets, could not receive adequate financial support and were not allowed partnerships and other privileges. They decided to use this power and pressure white corporates into involving them in the economy (Southall, 2014) as explained here **P6: BBCand1stwaveBEEcompany1_businessman.docx** *"FABCOS had consumer power, our view was at the end of the day, black business people are consumers, they are not producers by and large."* In 1993, BBC negotiated their position in the post-apartheid economy of SA with the ANC and ultimately became instrumental in the formation of the BEE policy (Chabane, Roberts & Goldstein, 2006; Southall, 2014). They realised consumer power gave them a type of authority and control and used it as a bargaining tool (World Bank 2002). In 1986, FABCOS had already envisioned a future policy that will include positive discrimination to enable blacks to bridge the economic backlog (Macozoma, 2003; Ponte, Roberts & Van Sittert, 2007).

Contrary to the belief that the amount of energy spent on managing BEE deals would place SA firms at a disadvantage vis-à-vis global competitors (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011), the research indicates that participating in BEE was to help SA become an economic global player as articulated here **P2: 1stwaveBEEcompany1_politicianturnedbusinessman.docx** *"I did a lot of work on why nations are competitive; I did a lot work on industrial structure of various economies. One of my key involvements was around economic strategy and how*

South Africa will become competitive post- apartheid. What are the things we need to do for South Africa to become competitive in the world economy?"

To conclude on the economy-driven themes, it is important to recognise that the economy was primarily in white hands and BEE would have been hard to achieve without their involvement. A respondent explained the process as follows; **P6: BBCand1stwaveBEEcompany1_businessman.docx** *"You get wealth by inheritance, stealing it or earning it. There was no value in trying to go and grab, but there was value in letting the white South Africans who were controlling and owning all the economic activities understand that they have a duty to ensure that you bring black people into the economic mainstream."* It is in such instances that white capital started shaping BEE company ownership in an effort to ease black people into the economy without experiencing any form of loss or pain (Macozoma, 2003). And there was growing international pressure for white corporates to pursue programmes that would enable blacks to enter mainstream economic structures (Randall, 1996).

Lastly, some respondents were involved with BEE, because they had the technical knowledge, skills and were experts in the areas they decided to focus on and diversified the BEE space with skills as opposed to what the politicians had to offer. A respondent stated **P7: 2ndwaveBEEcompany2_businessman.docx** *"We did not just rock up in the board room with great suits and claiming to have big cheque books or big contacts in the presidential office or with some minister. We did not do any of that, we proved ourselves on the ground and I think that for me, it is not just key to success, but also key to any black man's dignity, that is what it is about."*

6.3. Conclusion on BEE participation

For people to thrive and empowerment to work, they need access to information, knowledge and skills, these are variables that make up social power which is a key power for empowerment. Secondly, the respondents linked the ability to use skills to a psychological power which provides a sense of self-worth (Friedmann, 1992). Economic empowerment acknowledges an individual's contribution to the growth process in a manner that respects dignity and allows for fair negotiations (Sanchez, 2011; OECD, 2011). The literature assumes that skills, knowledge and information are brought to the table by empowerment, but the research indicates that the necessary skills and knowledge to participate in the economy existed in some pockets of the black

society, but due to apartheid, the skills could not be utilised. However, Rogoff, Lee and Suh (2004) and Walker (2004) recognised that exploitation of core competencies and diversification into skills-related business areas could lead to alternate success measures.

6.4. Discussion on the determinants of BEE-owned company success

6.4.1. BEE-owned company challenges

The outcome of the first prompted sub-question under this research question is captured in Tables 8 and 9. The research found that the most common challenges in BEE-owned companies included lack of capital, the funding structures, perceived black incapacity and exclusion due to political inferiority.

Owing to years of not controlling, owning and managing the wealth of the country, the black majority did not have the necessary resources to fully utilise the economic empowerment opportunity. The research found that lack of capital resulted in BEE participants being caught up in complicated funding structures that created indebtedness without leading to equity ownership. This finding is consistent with the literature where it was stated that lack of capital created dependence of the BEE-owned company to the vendor company (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011) as they could not operate un-aided (Edigheji, 1999; Sanchez 2011). The World Bank (2002) added that access to financial capital and resources which generate income are economic power variables that contribute to the four powers of economic empowerment. Therefore, without financial capital, there cannot be economic empowerment.

The treatment of this challenge varies, but the research recognised the unanimous agreement on gaining an understanding of the business environment and opportunities available before investing; this was done through consulting work on expert areas. The purpose was to ensure investments are in areas that can be harvested at a later stage to create a capital base. Research also found that some respondents had fulltime employment while their business partners worked in the BEE-owned company full time; this resulted in the sharing of salaries and use of personal equity in order to generate capital internally. On the other hand, the vendors and finance companies revised the funding structures or in some instances relaxed lending rules by decreasing the

minimum amount required to obtain equity. McGee and Rubach (2011) suggested that a pricing strategy may result in outperforming competitors in a hostile environment.

Interestingly, some BEE-owned companies became financiers to those that were struggling, without understanding the background of these transactions, literature attributed this to consortium buyouts (Tangri & Southall, 2008) and research found that was not the case, but rather a typical finance deal, the only difference being that it was from a BEE-owned company. The use of professional support advisory structures such as bankers were found to have assisted in addressing the capital and funding structures challenges and this ensured sustainable growth and value creation for both the BEE partners and the empowered participating company (Fauconnier & Mathur-Helm, 2008).

With regard to the perceived black incapacity, a respondent's experience was documented as follows **P7: 2ndwaveBEEcompany2_businessman.docx** *"The big empowered white company owners had lack of confidence that was attached to skin, there was a thing about lack of confidence in terms of skin colour. Firstly they did not know what we knew, secondly they had been successful despite themselves, so when you tell them you can do what they do better, they find that absolutely difficult, so that attitude was one of the biggest barriers or challenge for me."* This experience was consistent with the literature review when domestic markets reacted negatively to BEE announcements as a result of sparse black management talent (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). Respondents dealt with this through lobbying, use of legislation and investment in skills and expertise. This response was no different from those who felt they were being disadvantaged as a result of political inferiority. The political inferiority in business is consistent with a finding in the study by Lester, Hillman, Zarkoohi & Cannella (2008) who stated individuals with political influence were more attractive as business partners.

6.4.2. Success factors

Table 10 lists the eleven themes identified as BEE company ownership success factors in the study. The literature is only consistent with six of these themes, two of the themes are mentioned in chapter two from a critical viewpoint or as a challenge without considering the success factor angle. One theme is not mentioned at all and two are in the literature review by virtue being part of the legislated BEE codes and not due to extensive writing as BEE success factors.

The most common theme as a success factor was BEE company capital base; this is consistent with lack of capital and weak funding structures being identified as a challenge in 6.4.1. It follows that having an own capital base with an independent productive asset base under the BEE company control would be seen as a success factor. The ability to have skin in the game when making an investment such that the BEE-owned company can use its own equity as collateral in a transaction without relying on external funding was seen as a huge achievement. Capital base allows for the BEE-owned company to become a controlling shareholder and use its voting rights as identified in the BEE scorecard under the ownership element (South African Government, 2007). Own capital was never identified as a success factor in literature review, but lack of it was deemed as a challenge and the relationship between the financing companies, funding structures, capital and white corporates was highly criticised (Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011).

The research found that value creation was the second most important success factor. At least three of the sampled BEE companies were identified as the one half of the top six BEE trailblazers in a study by Ernst & Young in 2005. The study established that the BEE trailblazers were participants in BEE transactions valued at a total of R30 billion in 2003, when in 1995 the total BEE transactions were valued at R12.4 billion, an increase of more than 50% in less than eight years. The investments in BEE transactions from 1995 to 2010 in relation to mergers and acquisitions amounted to more than R500 billion (Presidency, 2010). This growth signifies the importance of value creation as a BEE success factor finding and empowerment as a profit driven development (Friedmann, 1992). Factors that impact value creation and company-linked growth (Fauconnier & Mathur-Helm, 2008; Alessandri, Black & Jackson, 2011) will be discussed further under the value creation research question.

Edigheji (1999) and Sanchez (2011) were of the view that most black operating companies could not develop skills; however, a finding of the research was that developing and using expert skills was a BEE success factor and this is supported by literature that views skills development as a key aspect to transforming economic institutions to such an extent that it is included in the B-BBEE codes (B-BBEE; Friedmann, 1992; World Bank, 2002; OECD, 2011; Southall 2014).

The support of start-up BEE companies or investment in other BEE companies was not mentioned at all in the literature review. The research found that there was a relationship between the BEE companies either in consortium format, investment on

others or being financed by others. This is a result of not receiving adequate funding from established banks or the terms of the finance being stringent and impractical. Entrepreneurship, on the other hand, was supported by the literature when it was stated that signs of entrepreneurship, through innovation and exploiting available opportunities, are determinants to business success (Rogoff, Lee & Suh, 2004; Walker, 2004).

Empowerment aims to rectify the historical practice of excluding the majority of people from economic power through transforming society and structures of power (Friedman, 1992). This literature finding is congruent with the research as the ability to transform the white corporates, the BEE companies had an equity stake in, was seen as a success factor. Women empowerment and social responsibility were not identified as success factors in the literature review, even though they are included in the ownership scorecard, with woman voting rights and economic interest gaining entities two points respectively and Black designated groups/participants/beneficiaries gaining entities one point per instant. The full use of the legislation includes the ability to recognise the legal standing BEE holds and that it has created an environment for the creation of sector charters which are consistent with the Act (DTI, 2000; Elibiary, 2010).

The literature has extensively criticised BEE company ownership as an equity transfer vehicle that has benefitted an elite few with political credentials and at the very most created a small unproductive wealthy black class by neglecting the poor (Southall, 2007; Hamann, Khagram & Rohan, 2008; Fauconnier & Mathur-Helm, 2008; Sartorius & Botha, 2008; Tangri & Southall, 2008; Mbeki, 2009, Patel & Graham, 2012). Research disagreed with this view and was supported by a statement from a respondent as follows **P3: 2ndwaveBEEcompany3_businessman.docx** *"This is not a panacea for all the problems of SA, they are too big, too deep and we cannot look up to BEE to solve all the problems of the country. Anybody who cares to do a deeper study will realise that, this misnomer that there are lots of rich black people is a farce! It is a total farce! Because some are rich on paper, it is just a certificate on the wall. If you just look at other communities in SA and look at the wealth they have, you will realise this mentioning of one or two people is a diversion in my view! That is what it is and I think we should concentrate on the major purpose of continuing to create people like that."*

6.4.3. The core non-financial requirements for success

Table 11 illustrates the results to this prompt question. Research found there were three key non-financial attributes for BEE companies to succeed. These were identified through the negative experience some respondents had when they were not in place; it was through learning that some were implemented. The themes were corporate governance, expert skills and a sustainable brand. In some instances, they were intrinsic in the basic value system of the respondents such that they became the key foundation of the company as stated by one of the respondents **P4: 2ndwaveBEEcompany1_businessman.docx** *"We had a very similar value system."*

Corporate governance was alluded to by all the respondents when they mentioned leadership, integrity, regulation, constitution and a shared value system. This finding is consistent with the literature review on non-financial attributes to success; García-Morales, Jiménez-Barrionuevo and Mihi-Ramírez (2011) saw leadership as the nerve centre of a company that uses the right combination of strategies in order to impact the company performance positively. The management of stakeholder expectations, trustworthiness, monitoring of roles, responsibilities are some of the attributes identified in the research and were alluded to as integrity and the management of roles, responsibilities and stakeholders in the literature by Furrer (2011).

The exploitation of core competencies and diversification into skills-related business areas (Rogoff, Lee & Suh, 2004; Walker, 2004) was explained as follows by one of the respondents; **P4: 2ndwaveBEEcompany1_businessman.docx** *"We positioned ourselves as professional entities, black investment professional outfits."* The same respondent attributed success to sustainable branding by saying; *"We positioned ourselves with the entities, not being associated with particular individuals, but the brands growing on their own, created credible brands that people want to partner with rather than the individuals, and that the brands could and the institutions could really transcend the founders in many ways."* This statement was supported by a respondent stating; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *"We have always had a view that the company must survive its founders, it must be bigger than its founders. And it must have its own logic and its own brand."*

6.4.4. Failure factors

The results on the factors that lead to failure in BEE-owned companies are reflected in Table 12.

All the factors identified are consistent with the literature review in chapter two. Insincerity includes the 'selling of blackness' by BEE companies as opposed to creating value and using skills when participating in an empowerment transaction. For this variable to lead to failure, it is dependent on the BEE partner selection process undertaken by white corporates, known as 'the beauty parade', where BEE partners are selected on the basis of being black and to gain BEE points, in terms of the BEE legislation, rather than for reasons of synergy and congruency in business. The selling of blackness and the beauty parade phenomenon lead to a misalignment of expectations by both parties, as the BEE-owned company is either expected to open government doors the owners have no access to or become silent partners. The white corporates are expected to deliver benefits such as board seats and financial returns in a short space of time in exchange for access. The literature attributes this to corruption and fronting as there was no exchange of economic ownership; rather the partnership was used for access to more deals and the required licences and typically took the form of 'rent-seeking' (Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). The above factors, however, were not experienced by the sample, but were understood by the sample as reasons that led to the failure of some of the BEE companies that were in competition with them.

Funding structures that ultimately led to value destruction were also attributed to insincerity, especially when the equity was sold at a premium with impossible repayment terms due to the length of the loan, the interest rates and the sale being associated to a future high and unguaranteed share price. This process demonstrates lack of honesty, a strategy not applied in good faith and unwillingness to participate in economic reform. It is not likely that empowered companies that participate in BEE as a profiting or a 'box-ticking' exercise derived value from such venture (Fauconnier & Mathur-Helm, 2008; Alessandri, Black & Jackson, 2011).

The last failure factors identified in the research include business ineptness and lack of entrepreneurship. Mbeki (2009) argued that BEE will lead to the decay of black entrepreneurship and focus on creating a wealthy black class. The research found that there was more focus on buying what already existed and less on creating new ventures. It was found that the early movers also lacked the ability to speculate when it came to share prices and often found themselves on the wrong side of the market. Lastly, there appears to have been an expectation that wealth and riches will come fast and the companies were not given adequate time to mature before the money was spent.

6.5. Conclusion to the determinants of BEE owned company success

The ability to generate capital or structure funding that can create value appears to be the most important determinant of BEE company ownership success. Without capital it is essential for the BEE company to; (a) rely on skills that will lead to innovation and the identification of profit-generating opportunities; (b) have a proven track record either through social or career capital; (c) and the sense to utilise advisory support structures in order to understand the business environment and available opportunities better. For the institution to be sustainable in the long term, corporate governance and transformation are key elements of BEE company ownership success.

6.6. Discussion on the antecedents to BEE-owned company success

There is a dearth in literature on the antecedents to BEE company ownership success. The researcher used the literature available covering the criticisms and challenges of BEE to formulate prompt questions on what are perceived to be the reasons some BEE companies succeed and others fail. The purpose of this section is to determine if the research results in section 5.6 complement the literature on business environment, social, career or political capital and competence, and the level of innovation within the BEE-owned company.

6.6.1. How much influence did the business environment have on your success?

The research found there were four different types of experiences, some of them were not so positive.

Firstly, a comparison was made between the current BEE business environment and the environment during the apartheid regime. The common issue between both environments was that they were more conducive to big corporates rather than small companies. This was attributed to SA's past focus on industrialisation and conglomeration as a result of economic sanctions and BEE companies adopting that style. BEE benefitted from the conglomeration when white corporates started shedding assets which were non-core to the business and that allowed the BEE partners to participate in the process and make the decisions with them (Randall, 1996; Murray, 2000; Anglo Zimele & IFC, 2008; Southall, 2014). This finding supports Macozoma's (2003) theory that white corporates initiated BEE, as the alternatives were too ghastly

to contemplate, but it contradicts the notion that the first wave of BEE was centred on the development of SMMEs (Duffett, Van der Heever & Bell, 2009).

The diversification in the number of sectors and industries the respective BEE companies sampled were involved in, as illustrated in Table 6, supports the BEE conglomeration theory. This is not without criticism however, the BEE companies were accused of creating 'black chip' companies at the expense of the poor masses, 'black chip' is a term they found derogatory as it undermined their business efforts by comparing them to white corporate blue chip companies (Murray, 2000).

Secondly, the BEE companies were at the receiving end of grudge buys by white corporates as they participated for compliance, legislative or regulatory reasons only. The BEE companies were then plugged into structures that already existed without their input in order for the white corporates to be compliant. This finding is consistent with the literature that states a change in legislation is likely to elicit an unwelcome response (Covin & Slevin, 1989). Tangri and Southall (2008) also noted that by 2006 at least 20% of white corporates had no plans for BEE and would not accept it without legal pressure.

A third finding, also supported by literature, comprises the changing policies or procurement processes within white corporates designed to frustrate the BEE process. Research found this to be hostile, as it posed a threat to performance and success by ensuring that the BEE companies behaved passively toward the corporate companies' internal administrative structures and adaptive strategies (Covin & Slevin, 1989; Ketchen, Snow & Street, 2004; McGee & Rubach, 2011).

Lastly, the combined pressure from the SA legislation and the international environment created opportunities for both BEE companies and white corporates which ensured they were relevant to the needs of the country, and this ultimately led to positive experiences for some (Randall, 1996).

6.6.2. Was your social capital necessary for you to succeed?

The finding to this prompt question is best described in a quotation from this respondent; **P13: 1stwaveBEEcompany4_politicianturnedbusinessman.docx** *"To be successful in business, you do not become very successful because you are very smart. You become successful because of opportunities that other people bring to you."*

The context in which social capital was used varied based on need; it was, however, mostly useful in the following instances; (1) generating capital and raising funds from family and friends when a business opportunity arose, (2) recruiting employees that had the expert skills required for the business venture, (3) selecting business partners within the BEE space, (4) being selected as a BEE partner by a white corporate, (5) sourcing professional advice to structure a deal. Reputation only came into play once the companies were established into known brands based on their delivery. **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *“Social capital is always necessary, that is why companies have a reputation management team, in a BEE start-up company the reputation of the funders and the principals initially is what attracts people to do deals with that company, but at a certain point you begin to notice that the deal flow is not because of the principals, the deal flow is because the company can do this job or would be a good partner because of observations or hearsay.”*

Baron and Markman (2003) found that people with high levels of social capital have a great chance of accessing people, funds, information, and achieving cooperation and trust. Social competence tests and determines if the ties, connections and resources are effective enough to yield positive results.

6.6.3. Did politics and your political networks influence your BEE transactions?

In his study, Southall (2007) found that it was common for white corporates to include the politically influential in their business transactions. The reason behind this practise is the power these individuals have on political decisions that influence industry (Lester, Hillman, Zardkoohi & Cannella, 2008). As a result; the ‘fab four’ became the preferred BEE partners due to their standing in the NEC of the ANC (Southall 2007). Sanchez (2011) explained that EE has the potential to only benefit the politically connected if there is no access to information for the rest of the population, and there are no clear deliverables with timelines that can be measured. BEE has been widely criticised of only benefitting capitalists disguised as ANC politicians (Tangri & Southall, 2008; Fauconnier & Mathur-Helm, 2008; Mbeki, 2009; Patel & Graham, 2012).

The research questions the methods and sample used to conclude that the politically connected were the biggest beneficiaries of BEE ownership, based on its results as detailed on Table 6. Four out of thirteen respondents (31%) have ANC credentials and their BEE companies’ combined highest NAV is R27 billion in comparison to the total

highest NAV of R92.5 billion in the study. This amounts to 29% of the total highest NAV, almost proportional to the respondents with political history sample size. However, if you consider the fact that one respondent did not disclose their NAV and two NAVs were not relevant for purposes of the study, you realise that the politically connected represent 40% of the study in relation to NAV purposes only, but their NAV is 29%, 11% less than their representation in the study. Therefore, the findings are not congruent with the literature, purely based on NAV of the sample.

Seven respondents from BEE companies were in agreement with the literature review; this is based on the approach they used to be part of BEE ownership without having political connections and using political networks. However, their agreement does not explain how they managed to succeed with BEE company ownership and not having political alliances and networks.

The politically connected were at pains to explain they did not use their political network as a stepping board and that it worked against them in most instances. This could be because they were no longer part of the inner circles of the ruling party and as such, their powers had diminished (Lester, Hillman, Zardkoohi & Cannella, 2008).

6.6.4. BEE selection process

The research found that social capital and career capital were the most helpful methods in becoming a BEE partner or determining a BEE partner, contrary to the literature review that the selection method was based on an effective political network (Southall 2007).

Career capital was mostly based on white corporates' shedding of non-key assets and choosing employees, former employees or even board directors as BEE partners. Another method that worked well is reputation, value add and business synergy, all variables based on mutual respect. The negative method which led to failure and not success was the 'box-ticking' scientific process of selecting a partner, known as a 'beauty parade'; this was done by white corporates for legislative, regulatory and compliance purposes. It was named the beauty parade as the respondents felt it was impractical and could not be used to determine synergy between entities in a 20 minute slot allocated to potential BEE partners presentation as was the practice.

6.6.5. How has your company been innovative?

Research found that innovation was mostly related to generating capital and revising funding structures in order to grow the business and create profit. Secondly, there was an innovation effort from at least four respondents who applied different ideas and processes to their operations, after having identified a gap for consumer products or services to be created or improved. The innovations resulted in the commercialisation of the improved creation and revenue was generated from that, and they were identified as BEE partners by successful white corporates. Literature describes these scenarios as disruptive innovation, a useful strategy for new ventures to succeed in a business environment (Ireland, Hitt & Sirmon, 2003). A respondent explained their disruption as follows **P7: 2ndwaveBEEcompany2_businessman.docx** *“Our company is actually the epitome of disruption in the industry, because we are involved in so many first areas that no other black company or in fact no other private sector business has operated in, we would go in there as a novice player and will operate efficiently”*.

There was, however, an instance where it was felt the speed of innovation stemming from BEE companies is slow and that the focus is mostly on purchasing and managing businesses that already exist, without additional improvements or new initiatives to their operations. Literature viewed this finding as equity transfers from white corporate SA, to BEE companies with little innovation (Tangri & Southall, 2008; Patel & Graham, 2012). This practice was also adopted by some sector charters and heavily criticised (Moyo & Rohan, 2006).

6.7. Conclusion on the antecedents to BEE-owned company success

An enabling environment which comprised of a state-sponsored legislation and willingness from white corporates to shed off assets, equity and comply with the legislation is a key attributor to BEE company ownership success. Secondly, reputation from alliances and networks based on social competence, work ethic and career competence provide an opportunity for BEE ventures to soar. Lastly, in order to sustain the success, disruptive innovation that makes use of the opportunities and advantages presented by both legislation and the business environment needs to be adopted as a company strategy.

6.8. Discussion on stakeholder value creation

Value creation was identified as the second most popular BEE success factor under the research question; ‘What constitutes BEE-owned company success?’ in chapter five. The reaction by respondents to this research question signifies the importance of both the monetary and non-monetary benefits associated with BEE value to stakeholders. The prompt questions below expand on the findings of the study.

6.8.1. Timing, pricing and equity

The respondents found the question rather academic and unrealistic. They took it for granted that these three factors change everything and are the key determinants to BEE ownership success.

It was not only the wave or year BEE ownership transactions were entered into, but the commodity cycle and the economic cycle were also seen as timing factors that impacted the value. The most popular view was related to the advantage experienced by BEE first-movers when assets were being shed off by white corporates. This first-mover advantage was negatively associated with stringent funding structures, which most of the second wave of BEE participants did not encounter, as they had learnt from the first wave. In their study, Alessandri, Black & Jackson (2011) agreed that timing impacted funding and pricing such that there were losses experienced due to equity having been sold at a premium, and the BEE companies becoming vulnerable to the economic crisis as a result (Edigheji, 1999).

Where literature falls short is on the condescending treatment experienced by BEE companies from white corporates in the early years of BEE ownership, as well as the demise of the pre-1993 black business community in the wake of BEE ownership.

6.8.2. Benefit for non-BEE companies and financing companies

Transforming society and structures of power was identified as key component for empowerment to succeed by Friedmann (1992). Research found that BEE-owned companies fast tracked and enabled the implementation of other B-BBEE scorecard elements at their white corporates partners. This was done through ensuring that there were social responsibility programmes in place, staff recruitment policies and procurement of service providers represented the country’s demographics. Transformation goes together with the diversified thinking and decision-making at

board level as a result of a different view from members that represent the majority population. The diversified views led to the generation of income from a new avenue while, at the same time, creating future income for the finance companies.

This view is different from literature where BEE is stated as not benefitting the masses (Tangri & Southall, 2008), but it is supported by Hamann, Khagram and Rohan (2008) when they noted that for transformation to be possible, the black majority would have to own and control the economy of the state, which will then lead to the de-racialisation of the economy, another popular finding of the study.

The research found that finance companies or banks were the most likely to benefit from a BEE transaction even when the BEE transactions did not succeed as a result of their business models.

An interesting concept that was not included in the literature, but found in the research is that of an exit strategy as explained by this respondent; **P1: 1stwaveBEEcompany2_politicianturnedbusinessman.docx** *“As a white person, you build a business, you are now too old to operate and thinking ‘what am I going to do with this thing’? You can sell it to a competitor or you can do a BEE deal, where you know there would be growth and longevity.”*

6.8.3. How has the state made the BEE journey easier for you?

The South African government – through its legislation, various departments and especially the DTI – was loudly applauded for creating an environment that allowed for BEE owned companies to succeed. This finding is supported by Sanchez (2011) when he identified the state as the main EE sponsor that sets deliverables and timelines in order to measure progress. The study found that, without the state intervention, the de-racialisation of the economy would have either taken longer or not happened at all, and there would not have been an opportunity for blacks to actively participate in the economy of the country.

The applause was not without criticism though; there was still some displeasure when it came to the slow speed of transformation as a result of BEE targets as opposed to quotas. The state was condemned for encouraging industry to manage their economic transformation charters and not making BEE a legal requirement (Tangri & Southall, 2008). Surprisingly research also found that subsequent to their success, some BEE companies were frustrated by the state and ruling party, which had initially supported

BEE. It almost felt as though there should have been a limit to BEE company owners' wealth acquisition or success. This frustration was experienced through state organs such as South African Revenue Services (SARS) inflating tax obligations which were later reversed by the court of law and the South African Reserve Bank (SARB) freezing bank accounts as a result of the relationship between SARS and SARB. Another strong criticism of the state was the manner in which the government development agencies, such as the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), the Public Investment Corporation (PIC) and the NEF managed the advancement of BEE ownership.

It was suggested that in order for economic transformation to be fully achieved, the state should address loopholes that allowed for corruption, fronting, avoidance and value destruction (Edigheji, 1999; Southall, 2007; Tangri & Southall, 2008; Alessandri, Black & Jackson, 2011). In agreement with Edigheji (1999) and Southall (2014), the study found that the DTI was not in full control of the BEE policies and objectives. This lack of control created a distance between the policy writers, managers and implementers and led to misaligned expectations with regard to BEE ownership.

6.8.4. Voting rights and operational activity

The study found that voting rights were linked to the equity size and stake the BEE company had, provided those rights could be exercised and there were no debt covenants or credit enhancements associated with them as a result of a funding structure. BEE-owned companies could exert their influence through becoming members of board committees and ensuring their companies were well represented in the finance and procurement departments.

It is in the course of operational activity that all stakeholders experienced benefit in a BEE transaction. In instances where there were no economic or voting rights, the BEE-owned companies ensured they could use the legislation to influence the operational activities of the company. Through effective use of voting rights, skills set, knowledge and operational activity, it was found that there was no need for BEE-owned companies to present themselves as vehicles for access to government tenders or political power benefit.

6.9. Conclusion on stakeholder value creation

Value created for stakeholders in BEE transactions is not only limited to financial magnitude, but is also based on the objective or intent of the relationship and transaction. Diversification, operational activity and transformation are examples of value received by BEE stakeholders in a successful interaction. This is made possible through an enabling environment created by the state as the key sponsor to EE. To meet the objectives and conclude a successful transaction, the timing of the transaction should consider the environment, consumer demand, the economic and commodity cycle. The size of the equity should enable the stakeholders to effectively and operational participate in the management of the business, while the pricing of the stake should allow for stakeholders to receive economic benefit.

The next chapter concludes on the research findings and makes recommendations on future studies.

CHAPTER SEVEN: CONCLUSION AND RECOMMENDATIONS

7.1. Introduction

The key findings, main conclusions and new knowledge on the success of BEE-owned companies are presented in this chapter. These are based on theories, practices, experiences and observations that have been established and discovered through this study. Firstly, a matrix that consists of constructs identified per EE power is reflected in Figure 4; secondly, a BEE ownership success model conceptualised from the findings of the study is presented in Figure 5. Lastly, recommendations are made to those who are likely to benefit from the study, namely future research scholars on the topic of BEE, policy makers such as the DTI, and business individuals involved in BEE ownership as well as the BBC.

7.2. BEE power matrix

An enabling environment that creates an atmosphere which allows for individuals to identify opportunities and can contribute to the economy is essential for the success of BEE ownership. Competencies at the level of enabling environment include; 1) social power, 2) economic power, 3) political power and 4) psychological power (Friedmann, 1992; World Bank, 2002). These four powers ensure the success of economic empowerment. The cause and effect relation between powers as per the constructs identified in the study is illustrated in Figure 4.

Social power gives the owner the ability to influence behaviour of other individuals, especially if there is access to information, knowledge and skills. With regard to BEE ownership, the identified constructs that make up the social power include; 1) skills and expertise, 2) consumer power, 3) alliances and networks in the form of social and career capital and competence 4) and lastly professional support structures. Turning social and career capital to social and career competence, respectively, leads to opportunities that are likely to yield positive results. Where necessary, the use of support structures – especially where the BEE owned companies did not have expertise – led to business opportunities and the ability to diversify and transform the organisations they were involved with.

Having consumer power influences entrepreneurship, innovation and opportunity by virtue of recognising a gap to service or creating a product for consumers. The commercialisation of the innovative product or service leads to value creation in the form of profit. An opportunity to gainfully apply skills and expertise gives the owner a sense of self-worth while, at the same time, possessing those skills and expertise lead to value creation and profit-generating opportunities.

Political power is the right to inform and have access to decisions that will impact the individual and it has the following constructs; 1) enabling policies, 2) enabling legislation, 3) a de-racialised economy, 4) inequality redress and 5) lastly, diversity and transformation. Political power has been influenced by economic power through the white corporates' involvement in black EE; this has led to a de-racialised economy and the redressing of economic inequality. The presence of enabling policies, an enabling legislation and a de-racialised economy allows individuals to gainfully utilise economic opportunities that they did not have access to in the past. Secondly, a de-racialised economy leads to competitiveness on a national and global scale, while increasing the rate of economic development. The first four constructs within political power have directly influenced the last construct and resulted in the transformation and diversification of white corporates. Still within the same power base, transformation and diversity has resulted in operational activity by the BEE company owners in areas where they hold equity, leading to value creation and profit generation.

Economic power leads to economic participation by black individuals in a manner that respects dignity. The economic power interdependency on other powers has been largely explained, its constructs were identified as; 1) white corporates' involvement, 2) competitiveness, 3) opportunity, 4) entrepreneurship, 5) innovation, 6) profit generation, 7) capital and funding, 8) value creation, 9) corporate governance and 10) lastly, sustainable brands. Within this power, access to capital and funding leads to identification of opportunities, while corporate governance leads to a sustainable brand and the sustainable brand contributes towards long-term value creation.

Psychological power is the sense of self-worth and speaks to the dignity of an individual, its constructs which have been discussed include operational involvement, diversity and transformation.

The matrix in Figure 4 ultimately explains the relationship between the factors that have led to BEE ownership success and assists in mapping the BEE-owned company success blueprint.

Figure 4: Economic Empowerment power matrix

		ECONOMIC EMPOWERMENT POWER MATRIX																							
Legend		CONSTRUCT	CONSTRUCT	SP: Consumers	SP: Skills and Expertise	SP: Alliances and Networks	SP: Support Structures	EP: White Corporates	EP: Competitiveness	EP: Opportunity	EP: Entrepreneurship	EP: Innovation	EP: Profit Generation	EP: Capital & Funding	EP: Value Creation	EP: Corporate Governance	EP: Sustainable Brand	PoP: Enabling Policies	PoP: Enabling Legislation	PoP: Deracialised Economy	PoP: Inequality Redress	PoP: Transformation and Diversity	PP: Self-worth	PP: Dignity	PP: Operational Activity
□	X axis caused. Y axis effect			SP: Consumers	●						□	□	□	□	□		□								
◆	Y axis caused. X axis effect	SP: Skills and Expertise		●					□		□		□										□		
●	Not Applicable	SP: Alliances and Networks			●				□																
SP	Social Power	SP: Support Structures				●			□													□			
EP	Economic Power	EP: White Corporates					●																		
PoP	Political Power	EP: Competitiveness						●												◆					
PP	Psychological Power	EP: Opportunity							●										◆	◆	◆				
		EP: Entrepreneurship									●														
		EP: Innovation								□	□	●	□												
		EP: Profit Generation							◆	◆	◆	●	●												
		EP: Capital & Funding							□		◆	◆	●	●											
		EP: Value Creation		◆					◆	◆	◆			●	□										
		EP: Corporate Governance													●										
		EP: Sustainable Brand													□		●								
		PoP: Enabling Policies																●							
		PoP: Enabling Legislation																	●						
		PoP: Deracialised Economy					◆													●					
		PoP: Inequality Redress					◆														●				
		PoP: Transformation and Diversity																		□	□	●			□
		PP: Self-worth																					●		
		PP: Dignity					◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆							●	
		PP: Operational Activity											□		□										●

7.3. Main findings

For BEE ownership to succeed, the study has found that certain competencies that determine the 'rules of the game' need to be in place at a macro-economic level. These competencies are the four powers that make up economic empowerment as defined by Friedmann (1992) and the World Bank (2002). This finding is based on the observations made and experiences shared by the respondents with regard to factors that have led to and those that have inhibited the success of BEE company ownership. The pre-1993 black business community experienced a ceiling in their business and economic growth endeavours due to the fact that they did not possess all four powers that inform EE and as a result were not as successful as their white counterparts.

The need for social power, economic power, political power and psychological power is the major reason the respondents were involved in BEE ownership. At a macro-economic level, economic empowerment and its success were entered into in response to a need for the de-racialisation of the economy by; 1) involving white corporates and providing an equal economic opportunity to black business people, 2) using acquired skills and expertise to explore these opportunities, 3) practising entrepreneurship and 4) utilising the government policies and legislation which allowed for this practise.

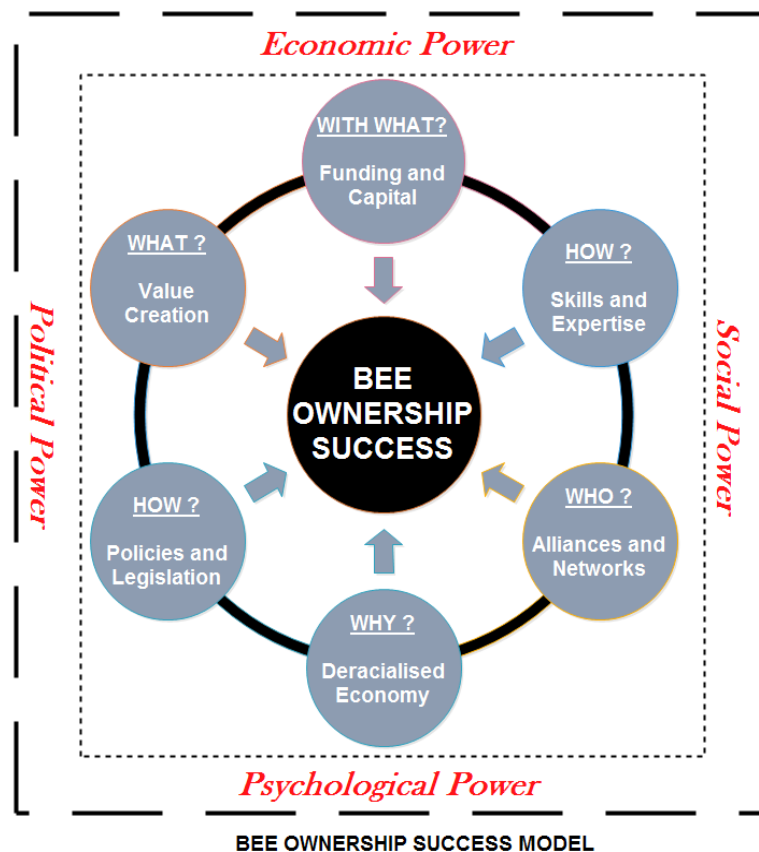
At a micro-economic level, BEE ownership success is constituted through having access to adequate funding and the ability to use skills, expertise and support structures in order to gain an understanding of the business environment so that investment opportunities that can be harvested will be identified. Corporate governance is also a key factor for BEE ownership success, especially if there is a desire for longevity.

The major antecedent for BEE ownership success is the ability to convert existing alliances and networks into partnerships that can yield economic benefit and growth. This conversion can be applied while exploiting the government policies and legislation that have allowed for the BEE business environment to exist.

The combined use of the determinants of and the antecedents to BEE ownership success can lead to benefits for all stakeholders involved in the form of value creation that includes financial benefit and non-financial objectives of the relationship.

Figure 5 graphically represents the main findings of this study as explained above.

Figure 5: BEE ownership success model



7.4. Recommendations for BEE-owned companies

As a result of the responses to the research questions, the insights and findings to this study illustrate that innovation and the creation of new services and products is undervalued and there is little focus on it. Innovation and creation did exist in small pockets of the respondents sampled, but it was not used effectively to generate income. Respondents who placed emphasis on new ideas did not have the impediments associated with lack of capital and funding due to their value proposition. It is therefore recommended that innovation is popularised through frequent organisational innovation activities that can be executed and that it should be considered as a competition differentiator that can fuel growth.

It is also recommended that BEE-owned companies should exercise their voting and management control rights to eliminate the insincerity, greed and unethical behaviour associated with BEE ownership. This can be achieved by shifting focus to the depth of skills development received and transferred at their companies to produce intellectual capital that will not rely on BEE to acquire wealth and contribute to the economy.

Of the thirteen respondents, only three had a footprint beyond SA, this speaks to the sustainable brand that assists in achieving growth beyond the alliances and networks associated with their principals or founders. It is a recommendation of this study that BEE-owned companies explore the continent and global markets to truly extricate themselves from the SA legislation and prove that their contribution to the economy is valid in any corner of the globe.

Lastly, the matrix of this study in Figure 6 is an important tool that can be used to practise the relationships between BEE success factors.

7.5. Recommendations for policy makers

The following recommendations are directed to the South African government and more especially to the DTI; these could also be beneficial to the industry leaders and the black business community.

Government and the DTI need to integrate BEE plans and communicate them well to key stakeholders such as civil society and the private sector. This will ensure that the distance between BEE key stakeholders is eliminated. The longevity, contribution to the economy and sustainability of BEE-owned companies that have received funding from the government's development agencies should be measured to determine if a new strategy is required. The legislation should consider the impact labour laws have on small companies and the persistently high level of unemployment rate in the country.

Although it may appear to be a little ahead of time and invalid considering the widening inequality gap, it may be worth considering an exit strategy for BEE, such that, as a country, we do not find ourselves relying on an ongoing legislation and policies that have become irrelevant. At the same time, BEE targets and timelines may need to be reviewed to ensure that objectives have been met.

7.6. Recommendations for future studies

As a result of the dearth in literature for BEE ownership success and in line with the exploratory nature of this study several future research areas have been identified and are recommended as follows;

- The impact of BEE on the demise or rise of the pre-1993 black business community
- The impact of BEE on psychological power and the performance of BEE-owned companies as a result of this power.
- How policymakers and BEE-owned companies are developing their exit strategy for a time when BEE is no longer relevant.
- The performance and future of white corporates that have not participated in the economic transformation of the country through utilising legislation and policies with respect to BEE ownership.
- A performance comparison of BEE-owned companies that succeed as a result of perceived political networks and those without those ties.

7.7. Concluding remarks

In chapter one of the study, the researcher stated that the purpose was to determine the criteria for successful BEE company ownership; this was due to the dearth in literature on the topic as explained. Appendix 6 is knowledge added to literature, which is a compilation of the constructs discovered during the study that were not covered by literature. The purpose of recording these successes is to inspire confidence to future business leaders and give them an opportunity to understand the logic behind the country's economic future, its challenges, best practices and the influence of legislation on business.

Figure 4 and Figure 5 include practical tools that can be implemented to ensure the success of BEE-owned companies. The success of these companies should ensure that they meet their own objectives of entering into BEE ownership such as de-racialising the economy and addressing inequality by creating jobs and spreading wealth to the masses, broadening the tax base and creating a sustainable and growing economy.

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APPENDICES

APPENDIX 1: Interview schedule – BEE companies



An analysis of Black Economic Empowerment ownership companies success stories

Interview Schedule

Stage 1: Etiquette

1. Establish Rapport
2. Explain Purpose of Interview
3. Motivate why the interview is necessary
4. Explain ethical obligations of interviewer
5. Explain interview duration
6. Request permission to record (electronic and notes)
7. Signing of informed consent letter

Stage 2: Record basic information

1. Name of the participant:
2. Date of interview:
3. Time of interview:
4. Name of organisation:
5. Number of employees:
6. Core business:
7. Year organisation was established:
8. Position in the organisation:
9. Highest NAV of organisation:
10. Largest BEE transaction value:
11. Smallest BEE transaction value:

Stage 3: Understanding

Prior to determining BEE success, the research aims to establish reasons for participating in BEE transactions

Stage 4: Prompt questions

Research Question 1: What constitutes BEE owned company success?

1. What challenges did you face (and how did you overcome them)?
2. Please describe what you consider to be BEE success
3. What are the core non-financial requirements your organisation used to be successful?
4. What leads to failure in BEE companies?

Research Question 2: What are the antecedents to BEE owned company success?

1. How much influence did the business environment have on your success?
2. Was your social capital necessary for you to succeed?
3. Did politics and your political networks influence your BEE transactions?
4. Please explain to me the process of selecting a BEE partner or becoming a BEE partner?
5. How has your company been innovative?

Research Question 3: Has value been created for all stakeholders involved?

1. Would the value received from your BEE transactions been any different if the timing, pricing and equity stake had been different?
2. Is there benefit for non-BEE companies and financing companies to be involved in BEE transactions?
3. How has the state made the BEE journey easier for you?
4. Did you have any voting rights and operational activity in the entities you had a stake?

Stage 4: Closing

Thank respondent for their time

Ask for questions

Share and explain circulation of final outcome of study

APPENDIX 2: Interview schedule – vendor and finance companies



An analysis of Black Economic Empowerment ownership companies success stories

Stage 1: Etiquette

1. Establish Rapport
2. Explain Purpose of Interview
3. Motivate why the interview is necessary
4. Explain ethical obligations of interviewer
5. Explain interview duration
6. Request permission to record (electronic and notes)
7. Signing of informed consent letter

Stage 2: Record basic information

1. Name of the participant:
2. Date of interview:
3. Time of interview:
4. Name of organisation:
5. Position in the organisation:
6. Duration in that position:
7. BEE transaction value:

Stage 3: Understanding

Prior to determining BEE success, the research aims to establish reasons for participating in BEE transactions

Stage 4: Prompt questions

Research Question 1: What constitutes BEE-owned company success?

1. What challenges did you face (and how did you overcome them)?
2. What criteria do you use to select a BEE company to fund?
3. How is the funding structure of BEE transactions managed?
4. Please describe what you consider to be BEE success

Research Question 2: What are the antecedents to BEE-owned company success?

1. How much influence did the business environment have on your success?
2. Was your social capital necessary for your transactions to succeed?
3. Did politics and your political networks influence your BEE transactions?
4. How has the state made the BEE journey easier for you?
5. What leads to failure in BEE companies?

Research Question 3: Has value been created for all stakeholders involved?

1. Would the value received from your BEE transactions been any different if the timing, pricing and equity stake had been different?
2. Is there benefit for non-BEE companies and financing companies to be involved in BEE transactions?
3. Did you have any voting rights and operational activity in the entities you had a stake?

Stage 5: Closing

Thank respondent for their time

Ask for questions

Share and explain circulation of final outcome of study

APPENDIX 3: Informed consent letter

Gordon Institute of Business Science University of Pretoria

Date

Dear

I am completing my second and final year of the Masters in Business Administration (MBA) at the Gordon Institute of Business Science (Gibs), University of Pretoria. In order to pass the MBA, I have to successfully complete a research project. My research project is on Black Economic Empowerment (BEE) company ownership success; I am trying to find the antecedents to BEE success. My interest on the subject is based on the fact that most literature available is rather critical and I wondered if there were to be a blueprint on BEE successful company ownership, what would it look like?

I hope you are able to help by allowing me to interview you .The interview will require about 1-2 hours of your time and will help me understand how you and your company have contributed to BEE company ownership success. I have attached a copy of the interview prompt questions for your convenience. I would appreciate it if we could arrange for the interview to take place between 15/07/14 -31/08/14 inclusive, we can also arrange for a telephonic or skype interview, should the need arise.

The interview will be conducted wherever you prefer, within Johannesburg, and will be recorded, however steps as per the university guidelines will be taken to protect your confidentiality and anonymity. **Your participation is voluntary and you can withdraw at any time without penalty.** If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher: Namhla Tshetu

Email: Namhla.Tshetu@gmail.com

Phone: 082 562 5735

Supervisor: André Vermaak

Email: Andrepv@mweb.co.za

Phone: 083 308 0235

I have read the above information regarding the research project on BEE company ownership success and I give consent to participate in this study.

Respondent Signature

Date

Namhla Tshetu Signature

Date

APPENDIX 4: List of respondents

Respondent	Short Resume
Moss Ngoasheng	Political Activist; Ex Robben Island prisoner; Former Economic Advisor to President Mbeki, Former Member of ANC Economic Policy Unit, Deputy Chairman of Safika Holdings
Mfundo Nkuhlu	Managing Director for Corporate Banking at Nedbank Corporate
Sango Ntsaluba	Founding Member of SizweNtsalubaGobodo VSP; Former Director Neotel, Non-Executive Director – Barloworld, Link Market Services, Basil Read, Digicore; Executive Chairman and CEO Amabubesi
Nkululeko Sowazi	Co-Founder and Chairperson of Kagiso Tiso Holdings Proprietary Limited; Chairmanships Idwala, Home Loan Guarantee Company and the Financial Markets Trust, Litha Healthcare Group. Director of Trident Steel, Grindrod, BAEL Actom, Clidet, Eris, MSG Africa, AECI.
Jacko Maree	Former CEO Standard Bank Group
Don Ncube	Co- Founder and Executive Chair RAIL; Chair; Lungisa, Cincinnati Mine Machines, Oceana, Real Africa Corp Services; Director; Gold fields, Lifecare, Afrisun, Afrox Healthcare, Rand Africa Fin, Ocfish, Sun International
Tokyo Sexwale	Political Activist; Ex Robben Island prisoner; Former ANC NEC member; Chairman Mvelaphanda; Non-Executive Director BARCLAYS AFRICA GRP LTD
Sakumzi Macozoma	Political Activist; Ex Robben Island prisoner; Former ANC NEC member; BEECOM member; Former CEO NAIL; Chairmanships - Stanlib, Safika Holdings, Liberty Holdings, Business Trust; Deputy Chairmanships - Standard Bank Group, Volkswagen SA; President - Business Leadership South Africa,
Jabu Mabuza	President – BUSA, Chairman – Telkom, CASA, The Marketing Federation of South Africa, Mpumalanga Development Corporation, South African Tourism; Deputy Chair & CEO – Tsogo Sun; Director, Southern Sun, Hosken, Marconi SA Thabong, Ampleray, Eglin, Kuncedzana , Lexshell, Motema, Nexor, FEDEX
Mkhuseli Faku	Group Managing Director Calulo Investment Holdings; Chairman Total Petroleum Renaissance, Fuel Franchise Fund, African Mineral & Petroleum, African Energy Services; Non-Executive Director GRINDROD LIMITED; Deputy Chair African Minerals & Energy Forum; Director World Petroleum Congress
Herman Mashaba	Co-Founder; Black Like Me, Chairman; Leswikeng, Phatsima, Maropeng, Director; Riverside Auto Body, JHI Real Estate, Widney Transport Components, Aerosud Holdings The IQ Business Group, Edcon, SMS Cellular Services; Tulca, P G Group
Salukazi Dakiwe - Hlongwane	Executive Chair & Nozala Investments (Pty) Ltd, CEO, EQSTRA HOLDINGS LIMITED, Director MultiChoice Africa (Pty) Limited; THE DON GROUP LIMITED, Enviroserv Holdings Ltd, Woodlands Dairy (Pty) Ltd, Afripack (Pty) Ltd, Tsebo Outsourcing Group (Pty) Ltd, Synergy Freight International (Pty) Ltd and Natal Rubber Compounds (Pty) Ltd
Mzilikazi Khumalo	Political Activist; Ex Robben Island prisoner Chairman - Capital Alliance Holdings (1995 - 1998); Chairman - JCI Ltd (? - 1998); Owner - Mawenzi Asset; Management; Owner and chairman - Metallon Resources

Appendix 5: Consistency Matrix

Research Questions	Literature Review	Data Collection Tool	Analysis
Research Question 1: What constitutes BEE-owned company success?	Rogoff, Lee, & Suh, 2004; Walker, 2004; Fauconnier & Mathur-Helm, 2008; Sartorius & Botha 2008; Empowerdex; García-Morales, Jiménez-Barrionuevo, & Mihi-Ramírez, 2011	Review of text data and unstructured interviews with field experts.	Narrative Inquiry and Content Analysis
Research Question 2: What are the antecedents to BEE-owned company success?	Covin & Slevin, 1989; Baron & Markman, 2003; Southall, 2007; Desbordes & Vauday, 2007; Tangri & Southall, 2008; Lester, Hillman, Zardkoohi, & Cannella, 2008; Ketchen, Snow, & Street, 2004;	Face to Face unstructured elite interviews with BEE success stories	Narrative Inquiry and Frequency Analysis
Research Question 3: Has value been created for all stakeholders involved?	Southall, 2007; Fauconnier & Mathur-Helm, 2008; Alessandri, Black, & Jackson, 2011	Unstructured interviews with field experts. Review of JSE listing	Narrative Inquiry, Frequency Analysis and Content Analysis

Appendix 6: Contribution to knowledge

Research Area	Theme
Reasons for BEE ownership participation	Expert area
Reasons for BEE ownership participation	Diversifying BEE space
Reasons for BEE ownership participation	Improve SA competitiveness
Reasons for BEE ownership participation	Consumer power
Reasons for BEE ownership participation	Purely business
Addressing challenges	Gain understanding of business and opportunities
Addressing challenges	Identify investment opportunities that can be harvested
Addressing challenges	Revise funding structure
Addressing challenges	Invest in skills & expertise
Addressing challenges	Generate capital internally
Addressing challenges	Use of personal equity
Addressing challenges	Funding from established BEE company
Addressing challenges	Operational involvement
Addressing challenges	Relaxed lending rules
BEE ownership success factors	Own capital base
BEE ownership success factors	Supporting start-up BEE
BEE ownership success factors	Identifiable rich black individuals
BEE ownership success factors	Social responsibility
BEE ownership success factors	Women empowerment
Core non-financial requirements	Sustainable entity brand
Non-BEE companies benefit	Transformation
Non-BEE companies benefit	Diversity in decision-making
Non-BEE companies benefit	De-racialisation of the economy
Non-BEE companies benefit	Exit strategy
Non-BEE companies benefit	Profit generation
Non-BEE companies benefit	Future income