

**BLACK EMPOWERMENT IN SOUTH AFRICA: EVALUATING**

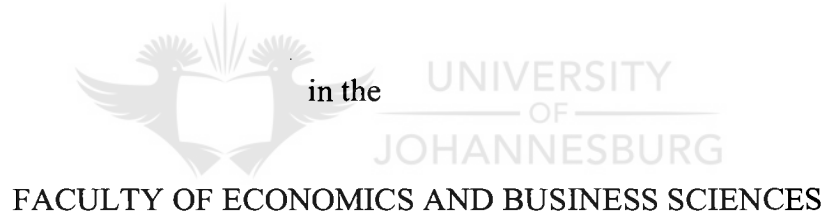
**THE PROGRESS SINCE 1994**

by

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MAGISTER COMMERCII (BUSINESS MANAGEMENT)



of the

RAND AFRIKAANS UNIVERSITY

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OCTOBER 1999

## DECLARATION

I, Molefe Mphuthi, hereby declare that this study project is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety been submitted to any university in order to obtain an academic qualification.

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30 OCTOBER 1999



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## **ABSTRACT**

Black Advancement and Affirmative Action are concepts which became identified with endeavours in South Africa to increase the participation of black people in business and the mainstream economy. In recent years, a more all-encompassing construct, combining the objective and attributes of both Black Advancement and Affirmative Action, has gained popularity. This new construct is Black Economic Empowerment.

Black Economic Empowerment is a concept, which is broadly accepted in principle, but is still controversial in its meaning and practice. This report looks at the commonly, agreed and understood meaning of Black Economic Empowerment. It also examines the role that the government, private sector and labour unions have played and will play in the empowerment process.

The parallels between the Afrikaner empowerment in the fifties and sixties and Black Economic Empowerment and the similarities between Malaysia's empowerment initiatives and South Africa's current situation are examined as an example that encourages the need for Black Economic Empowerment. The study will also look into the need for Affirmative Action, the state of Black Business and its historical development and its contribution to Black Empowerment.

The successes of Black Economic Empowerment are contrasted against the failures, while the report examines the criticisms levelled against Black Economic Empowerment as well as the perception that such a process is open to manipulation.

The findings of the study concluded that Black Economic Empowerment is essential to the economic development of Black people. The responsibility is all encompassing, yet government must be seen to act as the facilitator of the process.

## OPSOMMING

Swart Bemagtiging en Regstellende Aksie (Black Empowerment and Affirmative Action) is begrippe wat in die hedendaagse Suid-Afrika vrylik en algemeen deur baie mense gebruik word. Talle skrywers is van mening dat politici, gemeenskapsleiers en ontwikkelingsinstansies nog weinig vordering gemaak het om die bedoelings, doelwitte en ter sake prosesse van vermeldde begrippe te definieer en onder die knie te kry.

Vanweë die oënskynlike willekeurige en verwarrende gebruik van die begrippe Swart Bemagtiging en Regstellende Aksie deur so baie mense, is dit nodig om hierdie begrippe na te vors, moontlike gemeenskaplikhede en verskille uit te wys en tot 'n slotsom daarvoor te kom.

Die studie het as besondere doelwitte die volgende oogmerke:

- Om vas te stel presies wat bedoel word met die begrippe Swart Bemagtiging en Regstellende Aksie. Nadat hierdie begrippe gedefinieer is, word in besonder gekyk na Afrikaner bemagtiging en die Maleisiese Bemagtigingsgeskiedenis om daaruit sekere belangrike lesse te leer.
- 'n Tweede doelwit is om aan te dui waarom Swart Bemagtiging (in besonder Swart Ekonomiese Bemagtiging) in Suid-Afrika nodig is. In die bespreking word die invloed op Swart Bemagtiging van veral die reëlings en invloede van die Suid-Afrikaanse owerhede vòr 1994; die bydrae van die Swart Sakesektor; die vakunies en die demokratiese regering sedert 1994, aangedui.
- Die derde doelwit van hierdie studie is om die vorderings en mislukkings met Swart Ekonomiese Bemagtiging sedert 1994 vas te stel en te evalueer. Kommentators se kritiek en lofbetuiginge word aangespreek.
- Die studie eindig met 'n samevatting van die belangrikste bevindings, gevolgtrekkings en maak sekere aanbevelings.

Swart Bemagtiging, Swart Ekonomiese Bemagtiging en Regstellende Aksie is begrippe wat oor-en-weer en deur baie mense as sinonieme gebruik word. Hierdie

begrippe kan tegnies verskillende menings en inhoud hê maar kom meestal op dieselfde bedoeling neer: om die geïdentifiseerde benadeelde gemeenskappe en/of mense in 'n land in staat te stel om hul agterstande (veral ekonomies) uit te wis deur die volgende aksies: opvoeding en opleiding; werkverskaffing en indiensneming en om eienaarsaandeelhouding in die Suid-Afrikaanse sakesektor te bekom.

Historiese owerheidsmaatreëls en –optredes (onder andere 'n verskeidenheid van wetgewing) het grootliks daartoe bygedra dat veral Swartes, Kleurlinge en Asiërs in Suid-Afrika benadeel is. Die gemanupileerde agterstande van hierdie groepe is dus hoog op die sakelys vir regstelling. Politieke demokrasie is in 1994 in Suid-Afrika daargestel, maar ekonomiese (en ander) regstellings is maar op die vooraand van daadwerklike resultate.

Sekere suksesse is sedert 1994 met Swart Ekonomiese Bemagtiging behaal – net so was daar ook mislukkings. In 1997 toon Segal (1997:15) aan dat die Swartbeheerde sakeondernemings wat op die Johannesburgse Aandelebeurs geregistreer is, beduidend goed vaar. In 1998 was die totale waarde van Swart Ekonomiese Bemagtigingstransaksies in die omgewing van R21 biljoen, in vergelyke met R1,6 biljoen in 1996 (Sowetan 1999:17). New Age Beverages (Pepsi), New Nation en JCI se probleme is enkele voorbeelde van waar Swart Ekonomiese Bemagtiging minder goed gevaar het.

Die studie bevind dat die periode sedert 1994 eintlik te kort is om 'n goeie en geldige bevinding te maak oor die vordering met Swart Bemagtiging. Onder andere word wel aangedui dat die eksploitering van swart sakefigure, ten einde bloot net 'n front van Swart Bemagtiging voor te hou, telkemale voorkom en groot kommer wek.

Swart leierskap is in die ware sin van die woord nodig om Swart Bemagtiging in die sakesektor te verseker. Die sentrale owerheid se rol in ekonomiese welvaartskepping en Swart Bemagtiging moet meer prominensie en aandag geniet. Die rolle en impak van kultuurdominansie in suksesvolle en mislukte sakeondernemings behoort nagevors te word. Verla die invloed van Swart kulture op ondernemingsbestuur moet onder die vergrootglas kom. Daar moet voorgestel word wat die aard en omvang van

blote eienaarskap-bemagtiging is en of dit ook bestuurs- en operasionele-bemagting insluit.



## ACKNOWLEDGEMENTS

The changes taking place in South Africa on the wider political and socio-economic front create fierce new challenges that have to be met by all its citizens.

As an incorrigible optimist it is my firm belief that we have all the makings to be a great economic force in the global dimension.

My sincere thanks to Prof. W. Conradie for sowing the seeds and thought needed to tackle this project. Without his initial support and enthusiasm, this document may never have been born.

I further wish to express my sincere appreciation to the following people:

- Prof. S. Kruger and Mrs. R. Venter for their encouragement during difficult times of the programme. Their encouragement and guidance will go a long way in my life.
- Ms. N. Grant for her patience and understanding for typing this document over and over until the end.
- Mrs. C. Grobler for editing and proof reading.

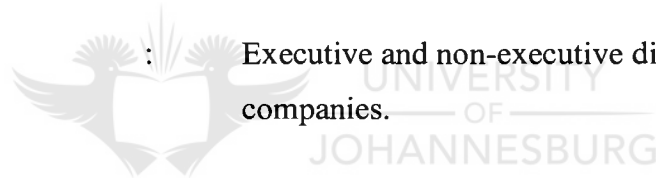
Most of all, I would like to thank God Almighty for giving me life, strength, time and courage throughout this programme.

I would also like to thank my family for their understanding and for being there for me throughout these difficult times and sleepless nights during the programme period.

I dedicate this to my parents: My father, Elias Mphuthi and my mother, Alinah Mphuthi who has passed away.

## GLOSSARY OF TERMS

Blacks	:	Refers to Africans, Coloureds and Indians
Africans	:	Black South Africans
Consolidated empowerment deal	:	An empowerment deal which has existed for a period exceeding 12 months.
Fronting	:	Appointment of black directors for the sole purpose of winning tenders and contracts.
Managers	:	Refers to both directors and managers within companies.
Top management	:	Executive and non-executive directors within companies.
Disadvantaged people	:	Refers to Black people, Coloureds, Indians, women of all colour and disabled people.
Cultural transformation	:	A process which is aimed at changing the existing culture of a company to become more reflective of the values and beliefs of the company's members.





**BLACK EMPOWERMENT IN SOUTH AFRICA: EVALUATING THE PROGRESS  
SINCE 1994**

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## CHAPTER ONE: INTRODUCTION

### 1.1 BACKGROUND

Black Advancement and Affirmative Action are concepts that became identified with endeavours in South Africa to increase the participation of black people in business and the mainstream economy. In recent years, a more all-encompassing construct, combining the objectives and attributes of both Black Advancement and Affirmative Action, has gained popularity. This new construct is Black Economic Empowerment.

A sustainable economic development of the disadvantaged communities of South Africa appears to elude economic development organisation and practitioners. The concept “Black Economic Empowerment” has emerged recently in debates concerned with the economic upliftment of the black population group of South Africa in particular (Browning, 1989: p.5). Although it would appear that the concept is of cardinal importance among politicians, community leaders and economic development institutions, significant progress towards understanding its meaning, objectives and processes has not been made (Mabeta, 1997: p. 3).

The apartheid policies in South Africa have politically, economically and socially marginalised blacks, who form the majority of the country’s inhabitants. The severe laws and other measures which restricted or prohibited the initiative and freedom of the black population have created a dependency syndrome which black people are trying to overcome. It could be argued that apartheid’s undesirable policies “disempowered” more than 70% of the population by denying them an enabling environment (Urban Foundation, 1994: p.4).

The geographic areas reserved for blacks in the apartheid years have a low economic potential and were dependent on the industrialised white urban centres (Nurnberger, 1988: p.123).

Nurnberger states further that South African policies were successful in excluding blacks from competition, while at the same time strong measures were implemented to promote the competitiveness of whites. As a consequence, power and resources were grossly and unevenly distributed between the various population groups in South Africa.

One of the factors of production, which is land, is a very emotive and contentious issue in South Africa today. The Land Act of 1913 and 1936 instituted by General Smuts' government has been one of the most severe laws which the apartheid government has used to disempower black people. Land was re-allocated through the Act in such a way that only a negligible portion was legally available for blacks. The impact of the Land Act was so severe that black aspirations in agriculture were frustrated. The Act "dealt a severe blow to Black Entrepreneurship in farming, by prohibiting sharecroppers on white land, and it hit the most progressive black farmers who had access to a marketing network" (Jones, 1986: p.5).

The following Acts are the most frequently quoted, which were used to restrict the development of black entrepreneurs and the black nation at large:

- The Native Trust and Land Act (No. 18 of 1936)
- The Mixed Marriages Act (No. 55 of 1949)
- The Group Areas Act (No. 41 of 1950)
- The Mines and Workers Act of 1951
- The Bantu Building Workers Act of 1951
- The Bantu Education Act (No. 47 of 1953)

Source: (Leon Louw and Kendal F. 1986, p.40 – 41)

There were also other laws that directly affected business by limiting the nature and scale of business to those that provided necessities in the black urban settlements. Trading was restricted and permitted only in the black residential areas. The establishment of companies and partnerships, black financial institutions, manufacturing industries and wholesale concerns were prohibited. "The relatively underdeveloped status of the Black

Entrepreneurship in South Africa, and its apparent lack of competitiveness, is thus due entirely to the exclusion from opportunities to gain experience, to take risk and compete” (Davies, 1988: p.2).

Since 1994 most of the laws that restricted black people have been repealed, but the inequalities are likely to persist for years to come as it takes time for macro-societal changes to filter through the whole population. Also, an even distribution of wealth is more unlikely to be affected soon as there is little consensus in the country on redistribution options such as nationalisation, privatisation and deregulation (Mabeta, 1991: p. 2 - 3).

Inequalities have existed since mankind. Historically the world has inequalities to the extent that they are common to the majority of people and that people cannot understand them. Therefore, inequalities have become serious a problem of life. The greater the inequalities, the larger the number of people involved and the more serious the problem. Many countries in the world have problems in inequalities based on education, employment, income, race and gender, housing, religion and owning of business.

Each and every country in the world has its own form of inequality and related problems. Solutions to these inequalities come in different forms of programmes. The United States has Affirmative Action as a programme to balance their inequalities, and Malaysia has its own empowerment programme to balance the inequalities. In South Africa, Affirmative Action and Black Economic Empowerment are the solution to these evil inequalities in our nation.

The Sullivan Code of Principles applicable to United States corporations present in South Africa gave rise to Affirmative Action programmes in South Africa as far back as the 1970s (Thomas, 1996: p.6). This strategy was accelerated during the early 1990s in the light of socio-economic and political change in the country. Affirmative action has been seen as a means of correcting historical injustices and as an attempt to work from there to create a level playing field where everyone can compete, based upon equal access to

education, training and other opportunities formerly restricted to the white minority population.

In South Africa Affirmative Action has become a politicised practice and a query as to whether somebody is for or against affirmative action is heavily loaded with assumptions about personal and political values and beliefs. However, whatever their views, there is no doubt that well-constructed programmes of Affirmative Action are a necessary strategy in creating the diversity needed in South African organisations at senior levels for national and global competitive advantage. 'It is at these levels that diversity ensures a range of responses and ideas critical to addressing markets, new and different to the ones known during the isolated apartheid era (Thomas, 1996: p.6-7).

## **1.2 PROBLEM STATEMENT**

The enfranchising of blacks and the election of new government in 1994 have ushered in an era of black political empowerment. This has resulted to a great extent in the passing of political power, the management and control of the political process from white to black hands. This political empowerment has not been matched by a similar economic empowerment.

In the light of inequalities of education, housing, levels of income, race and gender, there is a great sense of having been dispossessed and systematically deprived of opportunities to participate fully in the country's economic activities by the black community (Sithole, 1997: p. 17). This means the current economic dispensation is believed to be inequitable, unfair and unjust. This is proved by the glaring differences in the conditions and standards of living, education, housing, levels of income, race and gender, employment and the ownership of business between white and black citizens of this country. Because of this failure to improve the equal distribution of income and material wealth of the disadvantaged majority, blacks perpetuate the view that the current economic model serves only the interest of the white minority. Therefore, the economic function will continue to be associated with racial domination.

Big business and government's failure to enable black people to participate and acquire a real stake in the economy will result in blacks questioning the merits of the market-based economic model and its ability to bring improvement in their standard of living. If the current economic ownership, control and management structures prevail, calls for government intervention in the running of the economy and government of business enterprises will increase. "Black political empowerment may be tantalisingly close, but unless it is matched by economic empowerment, disaster awaits the new democracy" (Ryan, 1994: p. 35). Ryan's view was echoed by Hlongwane (1995: p.15) from NAFCOOC when he said: "the transformation of the political arena will not mean anything without economic transformation". An understanding that the impoverished masses in South Africa should be the primary beneficiaries of the process was necessary, as was a collaborative strategy between government, labour, the private sector and non-governmental organisations (Pieterse, 1999: p. 10).

Due to the socio-economic and inequality problems of the disadvantaged population of South Africa, effective and enduring solutions to these problems are long overdue. Black Economic Empowerment promises to provide solutions to the inequalities facing the disadvantaged population. However, the phrase lacks clarity and there is very little common understanding of its meaning. The primary focus of the study is to find a commonly understood, accepted and collective meaning of Black Economic Empowerment.

### **1.3 OBJECTIVES OF THE STUDY**

The concept "Black Economic Empowerment" has raised anxieties amongst other stakeholders in the South African economy due to the political connotations associated with the word "empowerment". Just like Affirmative Action or Advancement of Blacks in corporations, this concept might be perceived to be threatening to other key players such as established white business and certain public institutions whose co-operation is needed to facilitate the process of empowerment. It appears, however, that the phrase has gained some acceptance because business representatives and certain



political groupings now frequently use it, even though there is no clarity as yet as to what the term actually means. Therefore, the key objectives of the study are to find answers to the following questions.

### **1.3.1 What is meant by the concept Black Empowerment?**

The term means different things to different people and can be all things to all men (Browning, 1989: p. 17). In 1994 blacks were politically empowered when they won the first democratic elections in South Africa. The other form of empowerment that is needed is economic empowerment. Other writers use economic empowerment, equal opportunity, black advancement and Affirmative Action.

It should be understood that the process of economic empowerment is merely complementary to the political process. It is not a substitute for or an alternative to political empowerment. Therefore, the study seeks to find a commonly understood meaning of Black Economic Empowerment.

### **1.3.2 Why is Black Empowerment important in South Africa?**

The apartheid policies in South Africa have politically, economically and socially marginalised blacks, who form the majority of the country's inhabitants. The severe laws and other measures which restricted or prohibited the initiative and freedom of the black population have created a dependency syndrome which black people are trying to overcome.

This study examines the reasons why black people were not empowered, using the success of the Malaysian Empowerment as an example that encourages the need for Black Empowerment in South Africa. Through the enactment of restrictive and prohibitive laws, black entrepreneurs were marginalised and restricted to the informal sector. The study looks into those prohibitive laws and the influence of trade unions on the Black Empowerment process. The need for Affirmative Action, the state of the black business and its historical

development, its contribution to Black Empowerment and reasons for participating in the Black Empowerment project are also investigated.

With the rapid democratisation of South Africa, it is appropriate to investigate opportunities to equalise society, both in terms of the economy and by means of production, and from a civil rights point of view.

### **1.3.3 What are the major successes and failures of Black Empowerment since 1994?**

The concept of Black Economic Empowerment seems to be coming under threat, since many people who are citizen intended to benefit from it, see it merely as an economic buzzword. The critics of the concept say it has become so because “western business practices” are impeding the effective implementation of black empowerment at the grassroots level. The Chamber of Mine’s first black CEO, Mzolisi Diliza (Sunday World, 1999. April 11: p. 14) argues that the concept of empowerment itself is still not clear. He says it is difficult to monitor the success of black empowerment since there is not yet economic freedom for blacks in South Africa.

The high-profile collapse of New Age Beverages (NAB) and the problems faced at JCI have prompted scepticism over the ability of black business to achieve success in the rough and tumultuous world of big business (Kincaid, 1997: p. 25).

One must, though, immediately realise that many white-owned businesses have also failed for the same reasons. On the other hand, several black-controlled businesses are showing strong signs of scaling the ladder to success.

Black Economic Empowerment companies are new and at this stage of their development it is difficult to measure their success but the study is going to. The pricing mechanism of the JSE acts as gauge by which

one can measure the relative success of listed black companies versus others in the market. The objective is to show the examples of success and failures of companies under Black Empowerment program as a benchmark for future needs of Black Empowerment.

#### **1.3.4 What should be done for the future?**

The final objective of this study is to come to a conclusion as to what should be done in South Africa about Black Economic Empowerment in future. From the preceding chapters, some important issues are identified and recommendations are made.

### **1.4 RESEARCH METHODOLOGY**

A literature survey leading to a descriptive exposition of the current state of Black Economic Empowerment measures being implemented in South Africa is conducted. This study consists of a literature study in the form of textbooks, business articles in magazines, newspapers, financial journals, professional research documents and other sources of information.

#### **1.4 LIMITATION OF THE STUDY**

Little formal academic literature exists on “Black Economic Empowerment”. This study focuses on what is meant by the phrase and how it is enhancing the chances of business ownership for the disadvantaged community groups in South Africa. As “Black Economic Empowerment” is a dynamic process and changes daily, this study will also cover Affirmative Action.

Affirmative Action is a process which is applicable to the advancement of workers within the formal environment of large corporations. Its application affirms minority or disadvantaged workers in positions of management within large corporations. In the United States context, Affirmative Action was a racial inequality centred on disadvantaged minority communities. In South Africa the reverse situation is true. The study will be limited to “Black Economic Empowerment” within the concept of business ownership.

## 1.6 OVERVIEW OF SUBSEQUENT CHAPTERS OF THE REPORT

Chapter Two of the study analyses what is meant by the concept Black Economic Empowerment and Affirmative Action. It analyses the nature of empowerment and definition of “Black Economic Empowerment” as articulated by business interest groups. Definitions of Empowerment, Black Economic Empowerment and Affirmative Action as concepts are investigated and discussed. Drawing from the Malaysian experience in empowerment and the Afrikaner Empowerment, this chapter indicates important lessons to be learned.

Chapter Three links to Chapter Two by presenting the importance of Black Economic Empowerment in South Africa. It encompasses the history of Black Economic Empowerment and the Government’s Strategy to Black Economic Empowerment since 1994. The contributions by business at large and specifically black business are discussed.

Chapter Four examines the major successes and failures of the Black Economic Empowerment companies. It also presents the criticism of Black Business within the concept of Black Economic Empowerment.

Chapter Five presents the study’s conclusions and recommendations.

## **CHAPTER TWO: WHAT IS MEANT BY BLACK EMPOWERMENT AND AFFIRMATIVE ACTION**

### **2.1 INTRODUCTION**

Black Economic Empowerment and Affirmative Action are terms that are frequently used in political and business discussions. They are seen as priorities in the new economic dispensation.

There are numerous perspectives of “Black Economic Empowerment” and it could well be that the concept holds different meanings for different people. Although it appears that the concept is gaining acceptance, a definition of what the concept really means has not yet been agreed upon. Therefore it appears that most authors assume that the meaning is understood or that most people share the same meaning.

### **2.2 DEFINITION OF EMPOWERMENT**

The Oxford English Dictionary defines the term “empower” as “authorise or enable”. It is the latter of these two definitions which will be used as a starting point of this research. However, it is necessary to elaborate on the definition when considering the empowerment process.

Conger and Kanungo (1998: p. 471) examine the empowerment process in the context of a manager-subordinate relationship. Although this context differs from the one being examined for the purpose of this research, their definition of empowerment is appropriate as a basis for the study. They (Conger and Kanungo) focus on the empowerment of the individual rather than the community, but this is appropriate because the empowerment of a community starts with the empowerment of the individuals in that community.

According to Conger and Kanungo, the process of empowerment leads to a situation in which an individual’s power needs are met. They say the following: “Individuals’ power needs are met when they perceive that they

have power or when they believe they can adequately cope with events, situations, and/or the people they confront. On the other hand, individual's power needs are frustrated when they feel powerless or when they believe that they are unable to cope with the physical and social demands of the environment" (Conger and Kanungo, 1998: p. 473).

Neighbors, et al (1990: p. 205) summarise the concept of empowerment as follows: It is "the process of increasing personal, interpersonal or political power (or all three) so that individuals or collectives can take action to improve their life situations". They define personal empowerment as an internal process in which one develops a feeling of increased power of control that is unrelated to actual changes in the social structure. Interpersonal empowerment involves the negotiation of power relationships that allows the individuals to function effectively and independently in social situations by having the ability to ward off the controlling influence of others.

Political empowerment attempts to deal with direct blocks to power such as inadequate resources and the denial of opportunities by social institutions. This level of collective empowerment is initiated when powerlessness is externally imposed and reinforced.

Neighbors, et al (1990: p. 205) quote extensive research that proves the potency of the empowerment process. They state that personal empowerment increases energy, motivation, effective coping, problem-solving skills, decision-making power, and internal resources such as self-esteem, self-sufficiency and self-determination.

However, the above definitions of empowerment may not be sufficient. It is clear that empowerment can assume many different forms, and that it has many different meanings depending on the context in which it is used. It can be economic, social, political or individual, or it can be the empowerment of workers in the workplace. A literal translation of the word empower is to "give power", which raises questions about what kind of power, and how to

empower. Smith (1992: p. 24) suggests that “real empowerment means control over real resources”, and this is a view that will be used in this study.

### 2.3 DEFINITION OF BLACK EMPOWERMENT

Mkhwanazi (1994: p.7) defines Black Economic Empowerment as the ownership and control of the country’s productive assets by the historically disadvantaged people. These productive assets comprise, in his view, the conventional factors of production such as land, labour and capital. To this he adds entrepreneurship and management. He broadens the definition of Black Economic Empowerment further to include the effective participation by blacks in the mainstream economy.

Naidoo (1994: p. 12) offers a broader definition. In his view, Black Economic Empowerment includes the restoration of human dignity of the formerly oppressed black majority, women and the disabled and rural communities. As far as he is concerned, “it is all well and good having proposals on empowerment at the corporate level but unless we meet the basic requirement of real empowerment, we will be failing in our efforts to advance the majority of South Africans and end up with an elitist strategy”.

Ramaphosa (1997, p. 18) argues that Black Economic Empowerment has become a code used to refer to the acquisition of formerly white-owned companies (traditional companies) by black-controlled companies. He argues further that this type of activity should rather be seen as Black Business Development and that Black Economic Empowerment should rather be defined in a much wider sense. He is of opinion that true Black Economic Empowerment is about the social, political and economical processes, which are needed to give meaningful economic power to historically disadvantaged South Africans. When a person who does not have a job finds employment, he or she has been economically empowered. Black Economic Empowerment must be unlocked from the parochial boundaries of share ownership and be properly placed within the broader net of empowerment processes which

include job creation, the transfer of skills through education and the granting of access to finance to enable entrepreneurs to start businesses.

The executive director of Thebe Investment, one of the leading Black Economic Empowerment companies, Litha Nyhonyha (Rabinowitz, 1998: p. 12) feels that Black Economic Empowerment is not an event, but a process that must be championed by all forms of business and not merely black business. It is a phenomenon that should underpin the democratisation of the political field. Nyhonyha believes that Black Economic Empowerment should focus on three areas in order to develop black business:

- \* The equity ownership should be democratised over a period of time, to allow people who were previously prevented from becoming shareholders in the economy to become active players in the market. There must be a deliberate process to create opportunities for the historically disadvantaged groups to participate in the equity ownership of the companies.
- \* The second aspect deals with the empowerment of black management. Deliberate steps must be taken to give opportunities to those previously denied an active role in the management of that company. Affirmative Action must be seen as a subset of Black Economic Empowerment.
- \* Thirdly, attention must be directed to the balancing of the staff. The emphasis must not focus solely on Affirmative Action programmes, but rather on the training and development of the staff already employed.

Black Economic Empowerment involves increasing the income- and wealth-generating capacity of black entrepreneurs (Browning, 1989: p. 23), giving preference to blacks in recruitment and promotional policies, preferential assistance by business institutions of the disadvantaged race groups, and taking deliberate and practical steps to eliminate inequalities which were created by deliberate design (Sonn, 1993: p. 14).



Nkuhlu (1993: p. 4) is of the opinion that Black Economic Empowerment involves affording blacks effective equality of opportunity, preferential support to enable them to attain higher levels of technological and managerial capability, opening access to economic resources and giving blacks the space and opportunity to make a contribution to the economy through access to positions of leadership and decision-making.

A common thread to all the definitions is that Black Economic Empowerment should be viewed in a wide sense and not be focused purely on equity ownership. Black Economic Empowerment will be achieved through blacks gaining control and influence over the productive systems of the country. The other way in which Black Economic Empowerment can be achieved is through meaningful training and by allowing the historically disadvantaged the opportunity to gain economic power. There are merits to all the above arguments and the definition of Black Economic Empowerment used hereafter in the report incorporates elements of each of them.

Black Economic Empowerment is therefore a term which refers to all meaningful processes that allow the historically disadvantaged the opportunity to gain economic power; whether that be through

1. acquiring new skills;
2. new jobs; or
3. Equity stakes in South Africa's economy.

Black Economic Empowerment entails implementing meaningful measures which will ensure that in a defined period there is a proportional relationship between the country's racial composition and the ownership and control of the economy.

#### **2.4 DEFINITION OF AFFIRMATIVE ACTION**

Since the United Nations ratified the Universal Declaration of Human Rights in 1964 and the American Civil Rights movement challenged white American values, Affirmative Action has become a popularised instrument to support

equality between different groups of people in many countries. The term Affirmative Action, however, has become more and more indifferent with each new country adopting such practices. This is no bad thing as Asbjorn Eide (1991: p. 2) from Norway states: "... different societies with very different social, ethnic and political conditions, can justifiably place the emphasis on different approaches".

A definition of Affirmative Action, based on the United Nations Committee on the Elimination of Racial Discrimination (CERD) article 1, paragraph 4, states: "Affirmative Action is preference, by way of special measures, for certain groups or members of such groups (typically defined by race, ethnic identity, or gender) for the purpose of securing adequate advancement of such groups or their individual members in order to ensure equal enjoyment of human rights and fundamental freedom".

The above definition agrees that Affirmative Action is a preference or special measure for the purpose of empowering a certain group or nation. Each nation or country differs about the definition due to social, ethnic, and political condition that prevail in the country.

Clark (1991: p. 3) defines Affirmative Action as "reliance on race conscious remedies, often of a numerical character, designed to achieve racial integration of a work force in a measurable time and at a defined place". He differs with the previous authors that Affirmative Action as a race remedy often has a numerical character. He also confines his definition to racial integration without any empowerment.

Njuguna (1992: p. 1) on the other hand, defines Affirmative Action in the workplace as "adapting management styles conducive to racial integration, and developing attitudes that enhance racial co-existence, racial tolerance and racial acceptance". He also agrees with Clark that Affirmative Action is about racial integration, tolerance and co-existence. The two (Clark and Njuguma) differs only on numerical character.

Williams (Finance Week, 25 June 1992) from IDASA believes affirmative action is about empowerment, “about creating opportunities, mechanisms and structures that allow disempowered groups to develop their educational, political, psychological and economical capacities in a sustainable manner”.

William’s definition is a reflection of the South African situation. This definition is based on the social, ethnic, and political conditions in South Africa.

Gawanas (1991: p. 1) from Namibia expresses her understanding of what Affirmative Action means and what it aims to achieve in Namibia: “Government policies on Affirmative Action must be aimed at putting those people who are disadvantaged in the positions they would have been in but for apartheid”. Gawanas also agrees with the other previous authors.

The individual argument for Affirmative Action states that in the reduction of visible disparities among groups, Affirmative Action promotes the development of a society in which individual achievement is recognised and awarded. The communal approach claims the opposite. Thus by recognising and stimulating group identity; Affirmative Action perpetuates invidious distinctions, thereby undermining recognition of individual achievement (Galanter, 1991: p. 21).

To use the US experience as an example, civil rights and the consequential Affirmative Action practices shifted from the implementation of the principle of rights of minority individuals to the preferential treatment of minority groups. The implementation of the principle of equality of group rights can be seen as a direct result of the formal recognition of racial and ethnic groups by the state, as well as economic, educational and political rewards based on formulas of group membership (Gordon, 1981: p. 183).

Regarding the principle of equality of individual rights as manifested in the struggle during the 1960s, it was believed that equality could come about by appealing to the conscience of white Americans to uphold the American creed of equalitarianism and democracy. The efforts were thus focused on

eliminating Jim Crow segregation statutes through Supreme Court litigation, pressing for national legislation to outlaw discrimination in employment and housing and breaking down the extralegal obstacles to voting in the South.

The belief was held in the U.S A that rights of individual members of minority groups could best be protected by not formally giving rewards and punishments based on racial or ethnic categories, but that government should use anti-discrimination legislation to enhance individual freedom of choice in education, employment, voting and public accommodations. The individual, therefore, was “the unit of attribution for equity considerations and the ultimate goal was to reward each citizen based on merit and his accomplishment “ (Gordon, 1981: p. 183). Equality of opportunity thus meant equality for all citizens. This was done to ensure that people were not formally categorised on the basis of race. “Anti-discrimination legislation was designed to eliminate racial hatred without considering the actual percentage of minorities in certain positions” (Wilson, 1987: p. 113).

Based on the stated definitions of Black Empowerment and Affirmative Action, conclusion can be drawn that the two concepts have the same functions and purposes. Black Empowerment and Affirmative Action means the same and therefore have the same objective. Both deal with empowering a disadvantaged society, a group or individuals.

## **2.5 AFRIKANER EMPOWERMENT**

When the National Party came to power in 1948, it marked Afrikaner ascension to the political kingdom. However, it was accompanied swiftly and indignantly by the realisation that the hands holding the economic keys limit political power. A gulf had come to exist in the post-war years between the English-speaking businessmen and the Afrikaner politicians whose National Party government bestrode the country with an unchallenged authority and a confidence that would never be matched. The incumbent English businesses realised that they had to take action to make sure that those in power did not deal recklessly with their assets. South Africa’s isolation deepened when it

became a Republic and left the Commonwealth on May 13, 1961. The wiser amongst the English speaking knew that they must accept the reality and for the future benefit of their shareholders, try to keep some contacts with the white Afrikaner majority and with a government which had unprecedented influence over the allocation of contracts, leases and prices.

In the 1960s the politically disempowered (the English) took the initiative to economically empower the Afrikaners. Marais (1995: p. 7) gives evidence of that: "Then, the small Afrikaner mining house Federale Mynbou (Fedmyn), which was best known for its colliers and its coal expertise, chose to become a fully fledged mining house. With the support of Mr. Harry Oppenheimer and the Anglo-American Corporation, Fedmyn took control of General Mining in 1964".

While the Afrikaner had always (by virtue of their numerical superiority) been within grasp of political power, they had no control over the economic power. The Broederbond was established in 1920 and it was later realised that the Afrikaner could never be the effective political master of South Africa unless they become masters of its wealth. In accordance with its strategy of launching a simultaneous and co-ordinated empowerment struggle for Afrikaner power along a wider front, the Broederbond started to work for Afrikaner economic empowerment in 1934, and at the same time accelerated its intervention in the political and cultural fields (Jones, 1995: p. 25). "It plots, manipulates and influences the destiny of all millions of South Africa's black, white, coloured and Indian people, for as we demonstrate, the South African government is the Broederbond and the Broederbond is the government" (Wilkins and Strydom, 1978: p. 73).

During the *Ekonomiese Volkskongres*, a Broederbond congress in October 1939, the key to Afrikaner economic upliftment and success was discussed. Delegates were told that if every Afrikaans family contributed 25 cents, mighty financial power could be unleashed. With this aim in mind, the *Reddingsdaadbond* was formed. In the eleven years of its existence, the *Reddingsdaadbond* mobilised more than R30 million for Afrikaans business

enterprises. The number of Afrikaans businesses grew from 3 710 in 1939 to 13 047 in 1949. An overall index of this economic growth is shown by the fact that between 1939 and 1950, the Afrikaner's share of commerce rose from 8% to 30%, finance from 5% to 8%, and industry from 3% to 6%. The absolute Afrikaner position was therefore still extremely weak, but the rate at which the Afrikaner enterprises were growing was spectacular when compared to the economy as a whole (Bloomberg, 1990: p. 27).

The Broederbond, as a consequence of the Ekonomiese Volkskongres, started Federale Volksbeleggings, an Afrikaner giant in the business world. "The aim of the organisation was to pool Afrikaner capital (in one company) and make it available for the establishment of take-overs of commercial and industrial concerns" (Plezer, 1968: p. 107).

One of the Afrikaans business groups started by fifty-five Broeders from the Broederbond was Volkskas, which was seen as a challenge against the English-speaking monopoly in banking. From its humble beginnings from a home in Pretoria, it is now part of ABSA, the largest banking group in South Africa.

Even Dr. Anton Rupert's mighty Rembrandt Tobacco Empire had humble beginnings under Broederbond auspices. Older members still remember how Voorbrand Tobacco Corporation, Rembrandt's predecessor, distributed its products at Broederbond meetings where members were told to "smoke and cough for Volk and Vaderland" (Wilkins and Strydom, 1978: p. 91).

It is one of the many wonders of the Afrikaner Broederbond that it achieved so much on the economic front in only a few decades. On that strength alone, it has proved to be an organisation unique in today's world, with superb secret organisation, strict discipline and a determination seldom seen in any organisation in history.

It is as a direct result of the policies of the Afrikaner-led government that blacks find themselves in such a difficult position today. It is thus fitting that

predominantly Afrikaans business groups get the credit for getting Black Economic Empowerment off the ground, at a time that other groups shied away from it. Rabinowitz (1998: p. 73 - 74) shares Nyhonyha's view: "In the deals that we do, we find that the Afrikaner better understands what we want to do and achieve more than our English-speaking counterparts. I think the Afrikaner can relate to the process when they themselves have been through it".

## **2.6 ECONOMIC HISTORY OF SANLAM AND GENCOR AS PART OF AFRIKANER EMPOWERMENT**

Afrikaners had the means to mobilise capital in the 1960s and there are some similarities between empowerment then and now, such as political power without economic power. Another similarity is that no quotas were imposed, either by the Afrikaner government then or by the current government.

For Afrikaner empowerment, Potgieter (1970:p.203) notes: "One of the most important events which eventually led to the break-through of the Afrikaner in the world of finance was the establishment of an insurance company, the Suid-Afrikaanse Nasionale Trust en Assuransie Maatskappy, today known as Santam. The company was registered on March 28, 1918 with a capital of 200 000 one pound shares". It was founded with the help of an experienced Scotsman in banking and insurance, known as Mc Dowall. This demonstrates the assistance that was given to the Afrikaners.

Santam's prospectus prevented it (Santam) from engaging in all forms of insurance. When it became clear that there was a great demand for life assurance, the Suid-Afrikaanse Nasionale Lewens Assurance Maatskappy Bpk (Sanlam) was established on June 8, 1918 to conduct life assurance business on a mutual basis, Sanlam has consequently become one of the largest financial institutions in South Africa (Sishi, 1998:p.13).

Sishi states further that Afrikaners could mobilise funds easily because of the bond between them. They were united in their quest to achieve a great deal

economically. They were not involved in highly leveraged deals and they were already involved in business. They managed to build on what they already had and became big corporations through acquisition and diversification. Potgieter (1970:p.212) supports this view, noting: “Fedmyn was established in 1953 in Johannesburg by Federale Volksbeleggings (FVB), later Sanlam joined as a large investor. Mining gold, diamonds and coal used to be practically a monopoly of the great mining finance houses in which the Afrikaner had little or no shares”.

Through hard work and long years, the Afrikaner build Gencor into one of the biggest mining houses in South Africa. Marais (1995:p.9) states that: “Gencor could now claim to be the world’s leading producer of ferrochrome, one of the world’s largest platinum producers, the biggest exporter of steam-coal, a major gold producer and a leading source of titanium minerals”. Gencor decided in the 1980s to unbundle non-core, non-mining divisions, specifically to release asset value. This unbundling signalled Gencor’s intention to return its full focus to the business it knew best, which is mining. Unbundling can be seen as a means to tighten management control and release shareholder value. According to Gleason (1997:p.12) the reason for big business to unbundle is that “commercial gains from separating companies often built up and welded together over a period of time”. He argues further that, following world trends, corporate South Africa quickly learned that size and control did not count for everything. Since focus is emphasised over diversification, conglomerates are achieving this through selling non-core businesses to blacks. Unbundling therefore achieves two goals; focus on core business, and Black Empowerment.

## **2.7 MALAYSIAN EXPERIENCE**

There are many similarities between the Malaysian economic situation after Malaysia’s independence in 1957 and South Africa’s economic situation today. Firstly, the majority of the population, the ethnic Malays or Bumiputra, had a political majority in government, yet they controlled only 2% of the



listed equity on the Kuala Lumpur Stock Exchange (KLSE), and therefore lacked any significant economic control (Emsley, 1996: p. 26).

Secondly, following independence in 1957, the Malaysian government introduced strong Affirmative Action policies aimed at improving education and employment opportunities for Bumiputra.

They did not concentrate particularly on channelling economic wealth to the Bumiputra. By 1969 the economic imbalance in the country had led to great tension, culminating in serious riots. A state of emergency was imposed and it was decided that a radical policy for channelling economic wealth to the Bumiputra needed to be implemented in order to avoid further strife.

Following the riots, a National Consultative Council was established and aimed at brokering a deal to ensure that genuine economic change to facilitate ultimate long-term stability would take place within Malaysia. The economic empowerment policy was formulated. The New Economic Policy (NEP) is still in existence today and operates on all levels. It extends to almost all areas of business and the policy concentrates heavily on contractual procurement by Bumiputra businesses from government and its parastatals.

Although there are differences between the Malaysian situation both in 1957 and today, and South Africa today, it is likely that the South African government will draw on the Malaysian model when formulating its own empowerment policies. Since the 1994 election, Malaysia has become a significant investor in South Africa, ranked as the second-largest foreign investor, and the relationship between the two governments at the highest level appears exceptionally good (Financial Mail, 1996b: p. 43).

There is regular interchange of ideas and personnel between the two governments and it is for this reason that the South African government will probably look to the Malaysian experience for direction in formulating its own Black Economic Empowerment initiatives.

### **2.7.1 History of Malaysia**

Malaya (as it was called) was a British colony in the 19<sup>th</sup> century. The territory then included what is now Singapore, but did not include any of the territories of East Malaysia.

The Malays were rural people, living within a highly structured, traditional society, organised in terms of a strict hierarchy. The Chinese trading community in Malay, predated British rule, developed the commercial activities to the colonial economy. Many Chinese labourers were imported and they stayed on in Malaya once their initial contracts were terminated, forming ghetto communities with the well-established Chinese merchants. For more than fifty years, Chinese and Indian immigration was steady and continuous, so much so that by 1930 the Malay population was reduced to a minority in its own country. Contact between the races was limited.

British rule in Malaya was overthrown by the Japanese invasion in 1942, but the territory returned to the British at the end of the Second World War. At this time the Malays constituted only 41% of the total population. Once the British gave Malaysia independence, the United Malays National Organisation Party (UMNO) was formed. The UMNO was to gain significant political power, and with the expulsion of Singapore (with a Chinese majority) and the incorporation of the states of Sabah and Sarwak (with their Malay majorities) into Malaysia, the UMNO became sure of demographic domination of Malaysian political life. A UMNO coalition dominated heavily by Malays remains in political power, having won every election since 1951. The current population of Malaysia is roughly 20 million people made up of 55% ethnic Malays, 35% Chinese and 10% Indians and others (Emsley, 1996: p. 66).

### **2.7.2 The New Economic Policy**

After the 1969 election and riots, a National Consultative Council (NCC) was established. All the major parties were invited to nominate

representatives to participate. The NCC provided a forum for continuing inter-racial discussion and it was at this forum that a deal was brokered to ensure that genuine economic change would take place within Malaysia to facilitate long-term stability.

The deal was that a return to parliamentary democracy would be offered in return for further and more far-reaching Affirmative Action and empowerment processes, which would transform the position of the Bumiputra both socially and economically. It was felt that, unless the position of the Bumiputra could be transformed, the Chinese and Indians would never be comfortable and secure in Malaysia and they would constantly fear a repeat of the 1969 riots.

The product of the NCC was the formulation and adoption of an ambitious policy, the New Economic Policy (NEP). This was a bold twenty-year programme designed to redress racial imbalances within the country and to also achieve a radical transformation of the socio-economic structure of Malaysia.

According to the New Economic Policy, the creation of Bumiputra wealth was to come from growth in the economy and not from the redistribution of existing wealth. The NEP comprised a two-fold policy. The first one was to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second was to restructure Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race within the economic function. At the time, the Economic Planning Unit of the Prime Minister's Department estimated that 68% of the people in rural areas (dominated by Bumiputra) lived in poverty. The corporate sector's ownership was 60% by foreigners and more than 30% by Chinese. The Bumiputra owned in the region of 2% of the corporate sector (Emsley, 1996: p. 71).

One of the objectives of the NEP was to set about restructuring the corporate economy to ensure that 30% of the corporate sector was owned by Bumiputra, 40% by non-Bumiputra Malaysians, and the balance by foreigners within a twenty-year period.

After every five-year period following its inception, the NEP was examined and adjusted, where appropriate, to bring it up to date. In 1990, on the 20<sup>th</sup> anniversary of the adoption of the NEP, a new policy, the National Development Policy (NDP) was adopted and supplemented with a new statement of intent, namely Vision 2020. It is planned that by the year 2020 Malaysia will be a fully developed economy with no need for any form of racial preferences.

### **2.7.3 Contracts with government**

The area in which the government of Malaysia achieved success in the transfer of economic wealth to the Bumiputra was through contracts with government and its parastatals. Government took the view that effective economic empowerment could come about through preferential treatment of Bumiputra with respect to government and parastatal contracts. It is interesting to note that South Africa's government has taken a very similar view.

The parastatals in Malaysia consist of some significant companies, e.g. Petronas, the state-owned oil and gas company, and Telekom Malaysia Berhard, the partially privatised state-controlled telecommunication company.

Government contracts in Malaysia may only be awarded to businesses of which at least 51% is Bumiputra controlled. This means that business must be at least 51% owned by Bumiputra, and Bumiputra must constitute at least 51% of the board of directors, the management and employees of the company. In addition, the financial controller of the business must be Bumiputra. In respect of some smaller contracts and other lower-tech contracts, the 51% figure can escalate to as high

as 100%. Similar rules apply in respect to contracts granted by parastatals. Bumiputra businesses are also given price preference in respect of their contracts with the state and parastatals.

This price preference varies from as much as 10% for small contracts, to a lower figure for larger contracts. Petronas has contracts with more than 2 000 Bumiputra businesses, an indication of the substantial wealth derived from oil and gas that has been channelled to Bumiputra businesses through this policy (Future Bank, 1997a: p. 43).

#### **2.7.4 Problems with Malaysian Empowerment**

The common ills of protected ventures appear to apply also in Malaysia as much as everywhere. “Bumiputra contracts in general are described as being unentrepreneurial: unwilling to take risks and rather inactive” (Emsley, 1996: p. 64). Moreover, the rent that exists in protected contracts offers scope for corruption. This has been a feature of the Malaysian “money for politics” at the highest levels. For example, the contract for the North-South highway was awarded to an UMNO-controlled firm, United Engineers. It is probable that standard tendering procedures were not followed, given United Engineers’ absence of previous road construction experience (Emsley, 1996: p. 65).

If the experience of MARA (Majlis Amanah Rakyat), the state-owned institution established in the sixties to help develop Bumiputra business, is applicable, then much of their aid has not been successful. MARA subsidises the interest rate on its loans, but despite this, only 600 of a total of 5 500 loans granted have been repaid. Mr. Khor of the Third World Forum stated in an interview that: “I don’t think that we can call our [Government involved in Banking] a total success. We have had a lot of wastage; we have had corruption in our banking business. We have also lost a lot of money “ (Turok, et al, 1993: p. 202).

The prolonged protection in industries has led to the risk of insufficient competitive tendering and it is dangerous to exclude the economically dominant Chinese groups at the expense of establishing undynamic Bumiputra groups.

These Bumiputra groups actually pose an obstacle to the creation of an entrepreneurial community. Through their action they exclude potential new Bumiputra entrants. According to the fifth Malaysian plan of 1985 - 90, the solution lies in better management training, as well as using privatisation as a means of achieving Bumiputra ownership in an environment relatively free of government assistance.

The Ministry of Entrepreneurial Development (MED) and other governmental organisations do occasionally 'police' the Bumiputra business entities to which government and parastatal contracts are awarded. This is to ensure that no 'abuse' takes place with respect to fronting. It is clear that despite these fairly strict controls which are applied to ensure that this does not take place, fronting still occurs from time to time (Future Bank, 1997a: p. 32).

Income disparities are now greater within the Malay community than within any other ethnic group (Klitgaard, 1991: p. 32). As in South Africa, rich blacks have become richer and the poor are becoming poorer everyday.

#### **2.7.5 Lessons from the Malaysian experience**

The success of the Malaysian empowerment process has been impressive. Bumiputra ownership of listed shares constituted less than 3% in 1970, but by 1990 it constituted 20,3% of the much-enlarged Kuala Lumpur Stock Exchange (KLSE). While the figures fell short of government's objective of 30:40:30, the surge in living standards of all Malaysians, including Bumiputra, in the 1980s rendered the achievement of this target less urgent. The Malaysian people have generated a very special culture and patriotism around the NEP

empowerment programme. Even though many projects were attempted by the Malaysian government, not all successful, the policy has currently achieved a reduction of unemployment and poverty to almost zero and mobilised savings for almost all citizens (S.A. Department of Trade and Industry, 1997: p. 17).

The major difference between Malaysia and South Africa is the average growth rate in the economies. The average real growth rate in Malaysia over the last 17 years has been phenomenal, i.e. in the region of 7 - 8%, while the average real growth rate in South Africa over the last 17 years has been in the region of 1 - 2%. This has allowed growth to take place at all levels in Malaysia without much economic prejudice being suffered by the Chinese and Indian businessmen, notwithstanding the various policies designed to empower and enhance Bumiputra. South Africa cannot reasonably expect growth rates of this magnitude over the next few years, and should policies along the lines of the Bumiputra empowerment be introduced in South Africa? It will certainly be prejudicial to existing white businesses. Yet the government may argue that Malaysia's growth rate has come about as a result of the Malaysian empowerment process (Emsley, 1996: p. 90).

The South African Department of Trade and Industry has issued the following brief: "Asked what the Malaysian Government would change in their strategy if they were to start again, the following were their major points:

- \* Focus on education within a tight plan.
- \* Involve the private sector significantly, within clearly outlined policies which will achieve national objectives whilst generating profits.
- \* Strive for a win-win scenario between their historically disadvantaged and historically advantaged persons; e.g. joint ventures, technology transfers etc." (Department of Trade and Industry, 1997: p. 23).

## 2.8 MALAYSIA BEING DIFFERENT FROM SOUTH AFRICA

It is also relevant to point out that, notwithstanding many similarities between Malaysia immediately after independence and in 1970, and South Africa after the 1994 elections, there are substantial differences between the two countries.

The major difference between Malaysia and South Africa is the average growth rate in the economies. The average real growth rate in Malaysia over the last 17 years has been phenomenal in the region of 7 - 8%, while the average real growth rate in South Africa over the last 17 years has been in the region of 1 - 2% (Rabinowitz, 1997: p. 87). This has allowed growth to take place at all levels in Malaysia, without much economic prejudice being suffered by the Chinese and the Indians. Sufficient opportunities have still arisen for Chinese and Indian businessmen, notwithstanding the various policies designed to empower and enhance Bumiputra. South Africa cannot reasonably expect growth rates of this magnitude over the next few years, and accordingly should policies along the lines of the Bumiputra empowerment policies be introduced in South Africa, it will certainly be prejudicial to existing white businesses. Yet the government may argue that Malaysia's growth rate has come about as a result of the Malaysian empowerment process. Malaysia was able to create new wealth for the Bumiputra and did not have to remove wealth from the Chinese – “rob Peter to pay Paul” (Emsley, 1996: p. 90). South Africa will probably not have this luxury.

Another key to the Malaysian empowerment success has been their emphasis on education and training. It was accepted that empowerment could not occur successfully without a detailed education programme supporting the process. Education was seen as the principle means for ensuring social mobility and equality of opportunity. As a result of South Africa's apartheid educational policies, South African blacks lack both experience and skill. While the government accepts that education lends itself to empowerment, the establishment of a successful education programme is costly and the results are not apparent in the short term (Rabinowitz, 1997: p. 87).



The other less propitious conditions for South Africa are the regional economy and existing industrial structure. South Africa is not part of a dynamic regional economy. South Africa is seen by its neighbours as a means to foster their own development (Rabinowitz, 1997: p. 87). Development of the industrial economy may also be inherently more difficult as South Africa has for many years attempted to industrialise on the basis of self-sufficiency, and restructuring this industry may well be a painful and protracted task.

Comparisons between South Africa and Malaysia can be found in Appendix 1.

## 2.9 SUMMARY

It is clear that empowerment can take different forms and have different meanings. Empowerment depends on the context in which it is used. It can be economic, social, political, individual, and it can be empowerment at workplace. Therefore empowerment is about giving power and that power can be used in the context of the above mentioned situations.

Black Empowerment, therefore refers to giving power to Black people or the disadvantaged people of South Africa. As a result this concept means different thing to different people. The common thing about Black Empowerment is that it has to give disadvantaged people equal opportunities to gain economic power through the inter-alia following processes:

- Acquiring new skills through meaningful education and training,
- Acquiring new jobs,
- Acquiring equity stakes in South Africa's economy.

The central issue in all definitions of Affirmative Action is empowerment. Therefore, Affirmative Action is a preference or special measure for the purpose of empowering a certain group or a society in given nation. The definition differs according to the different countries' situations. The difference is due to social, ethnic, economical and political conditions that prevail in the giving society or country.

Although it is believed that the process of the empowerment of the Afrikaner in the forties, fifties and sixties is a similar phenomenon to Black Economic Empowerment in the nineties, there are many fundamental differences. Afrikaner empowerment was driven by government and the public sector, with the help from private sector initiatives. Today, Black Economic Empowerment is mostly driven by the private sector. There is legitimacy to Afrikaner Economic Empowerment, yet there was no legitimacy to Afrikaner and Black Economic Empowerment. A major difference between Afrikaner and Black Economic Empowerment is that the Afrikaner had the opportunity for over thirty years, with the help of the government and other organisations such as the Broederbond, to help build up Afrikanerdom and Afrikaner businesses from scratch. Black business has only been around since 1992/93, and many of these businesses are equity partnership or equity stakes purchased from existing companies, rather than being start-up initiatives.

The challenge for all South African companies is to be pro-active and to take positive and swift steps to achieve meaningful Black Economic Empowerment at all levels quickly enough to obviate the need for government to step in. This empowerment must be achieved on terms acceptable to the black nation and hopefully beneficial to the companies in question.

The Malaysian experience has shown the dangers that corruption can have on the empowerment process. Since 1994 government has shown that it is struggling to control corruption at all levels, and an inability to eradicate corruption will damage the empowerment process irrevocably. The government needs to issue realistic empowerment targets, because after thirty-three years the Malays have only 20% of the wealth. Expectations amongst the South African population are dangerously high and unrealistic; Black Economic Empowerment is a process that will unfortunately take a significant time to complete. South Africa is fortunate to have the Malaysian example to guide them and their experiences should be heeded.

## **CHAPTER THREE: WHY IS BLACK EMPOWERMENT NEEDED IN SOUTH AFRICA?**

### **3.1 INTRODUCTION**

South Africa's policy of apartheid excluded a large portion of its population from economic participation. This mainly consisted of black people and to a lesser extent Coloureds and Indians. Blacks received an inferior standard of education, which resulted in a poorly educated black population. The greater portion of blacks received no education at all and consequently possessed no useful skills.

The Trade Union Research Council (TURC) (1994, p. 49) states that "Historically in South Africa, the rich have got richer and the poor much poorer. Income discrepancies are among the highest in the world. Ownership of wealth is highly concentrated, both at personal and corporate level, and sectors of the economy are dominated by a few giant companies. Ownership of 85 percent of the land has been concentrated in the hands of 13 percent of the country's population. Almost 69 percent of the land is occupied or used by 50 000 white farmers and farming companies". On the other hand, majority of the population which are black have to share only 25 percent of the most unfertile land of their country. Most of the blacks are involved in the informal sector where there is not much wealth creation.

For the economy of the country to improve, every member of the population must be involved in building it up. There are serious concerns as to how this could be achieved with a large part of the population unable to contribute very much. However, there are no choices in this matter and it is a political and economical imperative that this occurs. Transformation has to take place and every member of the community must be involved in one way or another.

The new government wants the previously disadvantaged communities to be empowered. For the country to survive the hard times and be able to attract direct foreign investment, positive change has to be seen to be taking place.

The economy has to show potential and the whole population of the country needs to work together for a positive outcome.

Wilhelm, et al (1997, P. 18) state that “until as recently as 1993, only 13 percent of the population had the means of producing what made the economy work, with less than 2 percent of the shares listed on Johannesburg Stock Exchange (JSE) belonging to black businesses. Since the Black Economic Empowerment initiatives, 70 transactions have taken place, which involve 17 companies with an approximate market capitalisation of R38 billion. This, in percentage terms, amounts to 11 percent of the JSE capitalisation”. There has clearly been some increase in the black economic participation.

### **3.1.1 THE NEED FOR BLACK EMPOWERMENT**

Segal (1994: p. 11) states that, according to Wingrove, the challenge facing South Africa can be seen in the way morals, political and socio-economic ideals are perceived by different racial groups, interest groups and individuals. Those ideals, including justice, supporters of left and right, as well as social engineers that are eager to correct the shortcomings in South African society, have also used words like liberty and equality as references to Affirmative Action and Black Empowerment.

Affirmative Action has come at a time when some word or phrase is needed to describe an intervention to create a just and equal society. According to Segal (1994: p. 11) many black organisations in South Africa, such as the African National Congress (ANC), Pan African Congress (PAC), Black Management Forum (BMF), National African Federated Chamber of Commerce (NAFCOC) as well as Congress of South African Trade Unions (COSATU) have declared themselves in favour of Affirmative Action. The question is why?

Innes, et al (1993: p. 8) supply the following facts:

1. Only 20% of the total assets in the private sector are owned by blacks;
2. over 90% of top managerial positions in the economy are held by whites; and
3. although approximately one out of every seven people in South Africa is white, nine out of every ten managers are white.

They further quote the following figures supplied by Eskom, which is a breakdown of the percentages of managerial positions that were held by blacks in 1989:

- 5% of the total in multinationals;
- 2,8% of the total in large semi-government organisations
- 2,4% of the total in large companies (i.e. those with more than 500 employees); and
- 1,9% of the total in small/medium companies (i.e. those with less than 100 employees).

According to Ryan (1994: p. 34 - 38), of the 680-odd companies listed on the Johannesburg Stock Exchange in 1994, none were owned by blacks. The only sizeable company in South Africa to claim black ownership was the unlisted National Sorghum Breweries, which was privatised in 1990. In 1998 Sankorp sold control of Metropolitan Life to black shareholders, which is the country's fifth-largest life assurer.

Considering the above-mentioned facts and statistics, it is clear that the unequal access to opportunities for blacks has to change. There is therefore a need for Affirmative Action and Black Empowerment to remedy the existing inequalities. Ryan (1994: p. 34 - 38) concludes that "whilst black political empowerment may be just around the corner, the economy will remain firmly in the hands of the whites for the foreseeable future despite the best efforts of the new government to redress the imbalance, that has potentially explosive consequences".

The above argument still holds water today. Blacks have gain political empowerment, but no economic power. The irony of the situation is that quiet a number of Afrikaner (whites) are now in the same situation as the majority of Blacks.

### **3.2 THE SUCCESS OF THE MALAYSIAN EMPOWERMENT**

The success of the Malaysian empowerment process has been impressive. Bumiputra ownership of listed shares constituted less than 30% in 1970, but by 1990 constituted 20,3% of the much enlarged Kuala Lumpur Stock Exchange (KLSE). While these figures fell short of the Malaysian government's objective of 30:40:30, the surge in living standards of all Malaysians, including Bumiputra, in the later 1980s rendered the achievement of this target less urgent. The Malaysian people have generated a very special culture and patriotism around the National Economic Policy (NEP) empowerment programme. Even though there were many projects that the Malaysian government attempted, not all successful, the policy has currently achieved a reduction of unemployment and poverty to almost zero, and mobilised saving for almost all citizens (S.A. Department of Trade and Industry, 1997:p.17).

It seems likely that the South African government will adopt extensive empowerment programmes, policies and legislation within many spheres, ranging from education and jobs to black ownership of South African companies and businesses in the near future. The specifics of the programmes are difficult to anticipate, but it is reasonable to expect a policy requiring minimum black shareholding at some point in the future. This is borne out by statements made by influential black interest groups in the recent past (FABCOS, NAFCOC and BMF) to the effect that similar policies should be introduced by government. In terms of NAFCOC's 3/4/5/6 programme, they recommend that 30% of board seats in listed companies, 40% of the JSE equity, 50% of supply contracts to listed companies, and 60% of all managerial posts, should be held by blacks by the year 2000 (Emsley, 1996: p.90).

It seems unlikely that the South African government will be as patient as the Malaysian government, given the urgent need to address the social imbalances in South Africa. It is highly unlikely that the black community would settle for the ownership levels found in Malaysia after twenty years. The levels achieved in Malaysia must be reviewed, taking into consideration that the ethnic Malays account for approximately only 55% of the population, which is significantly lower than South Africa's black population.

The success of Malaysian Empowerment is one example that the South African government can follow, but not in totality. The above-mentioned success also justifies the need for Black Empowerment in South Africa.

### 3.3 **EMPOWERMENT OF BLACK AFRICAN ENTREPRENEURS**

The South African economy was agrarian before the discovery of diamonds and gold around 1860. Mabeta (1991, P.31) states that the discovery of minerals changed the economy to a modern, industrial economy which was based on a highly profitable mining industry.

During the diamond and gold rush, black entrepreneurs emerged as commercial farmers when the ox-drawn iron hoe was introduced (Mabeta, 1991:p.31). These entrepreneurs supplied agricultural products to Kimberley and the Rand. Leatt *et al* (1986: p.96) state further that during the early stages of the development of Johannesburg, Zulu men exploited opportunities in the transport field, e.g. laundry, hiring water rights from farmers, arranging and collecting laundry. Louw and Kendall (1986: p. 57) note the success of black entrepreneurs as commercial farmers during the 19<sup>th</sup> century. Louw and Kendall's study points out that the Mfengu tribes were natural entrepreneurs in the Cape who competed successfully with white farmers at agricultural exhibitions and won numerous prizes. Furthermore, this study quotes a missionary who testified to a commissioner of native affairs that in one particular exhibition the Fingo tribe's produce on exhibition was far better than the Europeans' in terms of volume and quality. Their incomes also rose

to levels that enabled them to make substantial contributions to the development of infrastructure, while their produce was extremely diversified.

Towards the close of the 19<sup>th</sup> century, black entrepreneurship development was eclipsed by wage labour when it started to dominate other forms of business (Mabeta, 1991: p.32). From this period onwards, various forces restricted the development of economic potential black entrepreneurs. In describing the history of black entrepreneurs, most studies do not address the activities of the entrepreneurs, but they characterise history as being that of denial and as a consequence they focus on entrepreneurial restrictions. This history of black entrepreneurs motivates the needs and importance of Black Economic Empowerment in South Africa.

### **3.4 RESTRICTIONS ON BLACK ENTREPRENEURSHIP**

The following restrictions were embodied in national legislation and by-laws of local authorities. The following are the most frequently quoted Acts, which restricted the development of black entrepreneurs:

- The Land Act (1913 and 1936)
- The Mines and Workers Act of 1941
- The Group Areas Act of 1950
- The Bantu Building Workers Act of 1951
- The Motor Transportation Amendment Act of 1955

Source: Robertson, 1986:p104-114

Today Black entrepreneurship is synonymous with black business, and government and big business have been frequently accused of restricting and controlling its participation in the mainstream economy. According to some analyst, many of the people who operate in small business are force into this sector as a result of the political policies and practices which exclude blacks from participating in the mainstream economy (Mabete, 1990: p.39). He further stated Khoza's argument that black business does not and at most is an insignificant player in the economy. Khoza sees the relaxation and scrapping



of restrictive regulations, as well as the creation of small business agencies as a good step in the right direction.

Black entrepreneurship was not encouraged in South Africa, but instead measures were taken to eradicate, restrict and control its growth. At present the black entrepreneur seems to be unable to compete even though most restrictive legislation has been scrapped. History also bears testimony that black people can be as enterprising as other groups. What is therefore needed is a Black Empowerment programme, now that all forms of discrimination have been scrapped and declared illegal in South Africa.

### **3.5 HISTORY OF BLACK EMPOWERMENT**

After the democratisation of South Africa, it was immediately apparent that when a governing group does not have a meaningful stake in the national economy, this is bound to become an area of conflict in the future (Kobokoane, 1997: p.8).

Sanlam initiated the first major Black Economic Empowerment transaction in 1993. Sanlam sold 30% of their 50% holding in Metropolitan Life to a black group called New African Investments Limited (NAIL). NAIL borrowed the necessary finance from the Industrial Development Corporation and Sanlam and the first black-controlled listed company came into existence (Financial Mail, 1995: p.22)

Since then several other high-profile Black Economic Empowerment transactions have been successfully concluded. In August 1996 a sixty member grouping, the National Empowerment Consortium (NEC) bought control of the R10 billion industrial group Johnic from Anglo American for R2,7 billion at a seven percent discount to the Johnic share price at the time (Financial Mail, 1996: P.32). In November 1996 Anglo American concluded a R2,8 billion deal with the black-controlled African Mining Group to sell control of the mining house JCI, a deal which commanded a 17 percent premium on the share price at the time. The large deal has been through Real

African Investment Limited's (RAIL) acquisition of 50% plus one share of Persetel Q Data Africa (PQ Africa) from PQ holdings for R2,1 billion (Rabinowitz, 1998: p.14). The success of this transaction has motivated the disadvantaged community to call for more Black Economic Empowerment at a faster rate.

The growth in the empowerment process can easily be seen when one acknowledges that in the first year of the new South Africa (1994) a mere 20 empowerment transactions occurred. In 1997 an average of 20 empowerment transactions occurred each month (Cargill, 1997: p.1).

By November 1997, 26 JSE listed companies were black controlled, with a market capitalisation of R52 billion. This compares to eleven companies with a market capitalisation of R4,6 billion in September 1995. There were in 1997, an additional 37 companies with a market capitalisation of R6,06 billion over which black shareholders have an influential but not a controlling stake (Cargill, 1997: p.1).

There are now sizeable black businesses that are capable of giving leadership to Black Economic Empowerment and of strengthening and building the empowerment foundation. These companies can be broadly categorised into three generations. The first generation of black corporations, which were the pioneers in the empowerment process, are beginning to consolidate and expand their dominance within black business. They have attempted to move away from debt financing and are attempting to raise equity finance on the JSE (Segal, 1997: p.17).

### **3.6 CONTRIBUTION OF BLACK BUSINESS TO BLACK EMPOWERMENT**

#### **3.6.1 PSYCHOLOGICAL EFFECT**

Black-controlled companies have been successful in dispelling the misconception that black business is synonymous with instant failure. High profile, multi-billion rand Black Economic Empowerment

ventures such as RAIL and NAIL have had significant psychological value. They have changed the mindset of people. The previously disadvantaged blacks have been empowered to believe that they are able to own major corporations and whites have realised that blacks are able to add value to companies (Rabinowitz, 1998: p.20).

The National Sorghum Breweries, New Age Beverages and New Nations are reminders of the failed black initiatives, but they are the exception rather than the norm. The NAIL, RAILS, THEBES and Capital Alliances are established and will continue to make an impact.

In assessing the contribution that black business has made at grassroots level, it is necessary to examine the structure of these Black Economic Empowerment companies. Most of the media attention has focused on the large listed companies (JCI, Johnic, RAIL, and NAIL). It must be noted that the majority of the Black Economic Empowerment companies are not companies with institutional shareholders as the ultimate beneficiaries, but they are rather investment trusts or companies with trusts as major shareholders (Ngcobo, 1997: p.3). These trusts are normally formed with the objective of empowering the broader community, and this is one of the reasons why Black Economic Empowerment is needed in South Africa. There are more such companies, two of the most prominent being Thebe and Nozala Investment Corporation.

### **3.6.2 CREATING A BLACK CORPORATE CULTURE**

It is through the efforts of the large black businesses that a black corporate culture is beginning to develop. Many of the black companies make use of black auditors, lawyers and consultants. Economic development must start at the top (Sikhakhane, 1997, p.19), and big black business is allowing smaller black business and professionals to gain exposure at the highest corporate level. Big black business can facilitate meaningful participation by medium and small

businesses at operational level, which will enable black people to acquire the necessary skills to make an effective and meaningful entry into the economy. Black businesses are also developing into significant concerns that will be able to participate in the major privatisations such as Telkom.

Big black businesses have recognised their responsibility to the broader black community and most of the major firms have included this responsibility in their mission statements. For example, NAIL's mission statement (NAIL Annual Report, 1996: p3) includes the following:

- "Our mission is to ensure black economic advancement by promoting constructive black led business partnerships with leading business entities, unions and leaders of commerce and industry
- Our mission is to maximise existing shareholder wealth and facilitate greater direct black shareholder participation.
- Our mission is to ensure that black entrepreneurship is universally fostered in the South African Economy".

Mission statements are vague as far as definition is concerned. Nevertheless, few white-owned firms can claim to have incorporated their Black Economic Empowerment objectives into their corporate mission. This is in contrast to a Black Economic Empowerment group such as Capital Alliance, who through their corporate objective have recognised their responsibility to build a broadly based, truly South African financial services group that initiates the need for Black Economic Empowerment in South Africa (Capital Alliance Annual Report, 1997: p.1).

### **3.7 INFLUENCE OF TRADE UNIONS**

South Africa's black trade unions are crossing an ideological Rubicon from the militant struggles against imperialism and capitalism itself in the nineties. This was unbelievable just a few years ago, when a number of the country's most powerful unions have made a swift transition into the world of business, setting up their own investment companies.

Traditional businesses believe that the introduction of the trade unions as equity partners is a means to facilitate meaningful Black Economic Empowerment on a broader scale, as the trade unions represent those most often in need of empowerment initiatives (Rabinowitz, 1998:p.33).

The question remains whether union investors, as players in the corporate decision-making field, may be able to strengthen the introduction of empowerment and affirmative action initiatives within the corporations in which they are involved. Unions need to determine whether their primary objective is to realise maximum profits from their investments, or add value to their members' base by virtue of their strategic position in influencing empowerment and affirmative action initiatives. It seems that only those running the investment company themselves are at present being empowered (Brown & Segal, 1997: p45).

#### **3.7.1 UNION INVESTMENTS IN BLACK EMPOWERMENT**

The trade unions investment in business is the core of the turnaround history of trade unions in South Africa. This type of investment is the backbone of Black Economic Empowerment and the need of empowerment that disadvantaged workers need. The trade unions' investment assumes two forms (Golding, 1997: p.27).

**(A) PENSION FUND INVESTMENTS**

Unions have a say over the investment of substantial sums of money, through their role as trustees of their members' pension and provident funds. Through such investments, unions hope to have some impact on corporate governance and particularly on the labour and social policies of the companies in which they invest.

**(B) UNION INVESTMENT COMPANIES**

The second form of business is via separate investment companies. The labour body of note to form its own investment company on behalf of its members is Cosatu's Affiliated South African Clothing and Allied Workers' Union (SACTWA). It was involved in the formation of NAIL and other union investment companies. The representatives of the trade unions are usually board members and are in a position to make important decisions.

The creation of investment companies by trade unions remains a contentious issue within Cosatu ranks, even though it (Cosatu) has its own investment company called Kopano Ke Matla (Rabinowitz, 1998: p.34). There are some who contend that unions should not become capitalistic in nature by investing in the market mechanisms. Marcel Golding (1997: p.27), former National Union of Mineworkers (NUM) leader and ANC MP, contends that he sees no contradiction in these activities. Trade union investment companies are tools for advancing the interests of workers through the transformation of the economy and improving the life of their members.

The main reason supporting the launch of such investment companies is the need for unions to acquire financial self-sustainability. Before 1994 unions depended on donor funding from non-government organisations, particularly overseas grants. Unions cannot sustain themselves on their members' subscriptions alone. By definition their

members are not wealthy and therefore Black Economic Empowerment is a necessity to generate sustainability and economic empowerment for their members.

### **3.8 GOVERNMENT STRATEGY TO BLACK EMPOWERMENT**

The government has recognised that there is a need to develop a national consensus on the definition of Black Empowerment and to have a clear strategy in place (Department of Trade & Industry, 1997: p.7). The ANC realises that Black Economic Empowerment is more than simply shared acquisition. The ANC does articulate that a blanket dismissal of the first generation of black companies is overly simplistic. It asks for a more accurate definition which will contextualise share acquisition and its relevance within the empowerment process and explore how shareholders could maximise their control and influence (Brown, 1997: p.13). The ANC has raised the question and it is submitted that it is the ANC's responsibility to answer this question.

The ANC clearly emphasises entrepreneurial development as the key to the future success of Black Economic Empowerment. It recognises that financial constraints are a major hindrance to empowerment financing or support mechanisms such as the National Empowerment Fund (NEF), as well as a need to examine National Development Finance Institutions and their role. The ANC argues that although private sector participation in empowerment needs encouragement, strategies can only be implemented once there is consensus on the way in which empowerment is to be achieved (Radebe, 1997: p. 79-80).

Skills development and training programmes are identified as a priority. Ideas include special placement schemes. This emphasis on education as a key source of empowerment is important, but it does require a different and new effort to get the country's education system established. The ANC recognises that transformation of the public service to ensure fast delivery and that the implementation of empowerment strategies is necessary. This would include

restructuring of the Tender Board and the implementation or creation of an effective monitoring and evaluation programme (Rabinowitz, 1998: p.41).

The government policy of affirmative procurement hopes to give preference to businesses with black and/or women equity ownership in the awarding of tenders. Some elements of the new procurement approach which are targeted to meet Black Economic Empowerment aims are:

- The development of tender advice centres
- Broadening the participants' base for contracts less than R7 500
- Waiving security on construction projects less than R1 million
- Unbundling of larger projects into smaller projects
- Promotion of early payment cycles by the government
- Preference for black- and female-owned companies
- Simplification of tender submission requirement
- Appointment of a procurement ombudsman

(Department of Trade and Industry, 1997: p27)

### 3.8.1 NATIONAL EMPOWERMENT FUND (NEF)

The government has set aside part of the shares of privatised companies to pool in a NEF. The fund hopes to encourage a wide distribution of ownership and to support savings through investment and provide some education in this regard. Shares of Telkom and Sun Air as the first privatisations have been set aside for the NEF. More can be expected from other privatisations and restructuring initiatives.

The NEF is not replacing all other initiatives in government and the private sector, but it is a highly visible and intensive programme. Empowerment can benefit from what is being done throughout government and can draw skills and experience from the private sector and co-operate with the organised civil society.



Government is driving the National Empowerment Fund while also allowing the private sector to be involved. The NEF constitute of three trusts (Department of Trade & Industry, 1997: p15).

- Trust 1 - A trust that finances previously disadvantaged people through equity and venture capital. The trust started to be operational in 1999.
- Trust 2 - A trust that acts as a wholesaler. It keep shares to be allocated to the historically disadvantaged until selling of shares can be done redistributively to groups with plans to engage in business activities, especially those whose business plans are in the same sector as the underlying assets.
- Trust 3 - The Unit Investment Trust targeted new and small investors who have the opportunity to invest for as little as R20. This trust is also being targeted as an effective vehicle to provide a savings campaign for the country.

Given the ANC's desire to give Black Economic Empowerment greater application than seen to date, the NEF is the most important tool in the government's empowerment armoury, particularly in countering criticism that empowerment has in the main served the emerging black elite. To some extent, the likely reliance on the NEF contradicts the ANC's stated desire to move away from share acquisition as a dominant form of empowerment.

It is estimated that the three trusts can be able to reach a minimum of one million people over three years. Besides the NEF, an employee share ownership scheme is also being established by some parastatals, e.g. Telkom.

### **3.8.2 FUTURE ACTION**

The ANC should enter the debate on the meaning of Black Economic Empowerment and redirect it. It must link the empowerment thrust to the national economic objectives, which incorporate development. Black Economic Empowerment must not be a stand-alone activity, which does not relate to the broad goals of the Reconstruction and Development Programme (RDP) (Naidoo, 1994: p.5).

The most important intervention that the government can make is to broaden empowerment beyond business ventures and to emphasise education as a most sustainable form of empowerment. South Africa finds itself where it is as a result of extreme government intervention during the apartheid years. It is not possible to correct the imbalances without further government intervention. Government has seen the period until the 1999 election as a honeymoon period. After the 1999 election the government must assess what has been achieved through the current Black Economic Empowerment initiatives. Thereafter they will almost certainly have to enact legislation (similar to those of Malaysia) to hasten the empowerment process (Rabinowitz, 1998:p. 44)

### **3.9 REASONS FOR PARTICIPATING IN BLACK EMPOWERMENT PROJECTS**

The reasons and motivation behind the Black Economic Empowerment deals have changed. Initially, companies entered into these deals to obviate the feared nationalisation of their assets under the ANC-led government. Other deals were struck under the premise of rectifying the social and economic injustices of the past. Many white-owned companies have entered into Black Economic Empowerment transactions as they fear that government may force (following the Malaysian example) recalcitrant companies, whether directly or indirectly, to do so. Most of the deals were, however, conducted in recognition of the current business environment and the opportunities that can

be exploited by bringing in a black equity partner (Mail & Guardian, June, 1997).

### **3.9.1 BUSINESS OPPORTUNITIES**

The urbanisation rate of black South Africans grew at a rapid 3,8% per annum between 1986 and 1995 (Rabinowitz, 1998: p.25). According to the 1996 Census, 55,4% of the population is now urbanised. The increase in urbanisation is associated with a growing consumer market at the lower end of the income distribution. Many black South Africans are establishing themselves in the business world. As their lifestyles change, they will be introduced to new goods and services such as banking, health schemes and insurance products. However, spending will probably be concentrated on the consumption of semi-durable and durable goods (Nathan, 1997: p.5).

Black women are having fewer children. The fertility rate fell from 4,3 in 1991 to 4,0 in 1996 and is projected to drop further to 3,5 by 2001. Women are choosing to have fewer children in order to pursue better careers and education for their children. This, in other words, means a need for a higher quality of life. If this momentum is maintained, the country should expect to see a more rapid development of a black middle class. It bodes well for businesses currently operating in mature markets which have historically targeted the white middle to upper income groups (Deutsche Morgan Grenfell, 1997: s).

The 1996 Census showed another significant economic issue that will drive the growth prospects of those companies exposed to the black consumer market. Black people's urban disposable income increased from 41,3% in 1985 to 48,3% in 1996 (Rabinowitz, 1998: p.26). These levels are expected to continue to increase as affirmative action policies are implemented and the development of black business succeeds.

Where the company provides or intends to provide products or services to the black consumer market, the introduction of black shareholders should prove valuable in a number of respects, ranging from the knowledge and experience of the black markets which such black shareholders will bring, to the credible image the company will enjoy among its black customers (Bruce, 1997: p88 – 89). The latter is a particular concern given the size and expected growth of the black consumer market. It seems reasonable to expect that in almost all cases in the future, inwardly focused South African companies (non-exporters) will be providing substantial products and services to the black consumer market.

### **3.9.2 GOVERNMENT CONTRACTS**

An additional advantage to Black Empowerment companies will be an improvement in the ability of the company to be involved in domestic and cross-border transactions. There is growing evidence of pressure on international investors to ensure that their strategic acquisitions in South Africa include an empowerment angle.

The other factor which has added to the increase in Black Empowerment deals is the influence exerted by government expenditure. The government has moved to legislate an environment whereby the allocation of public sector contracts should have black equity component of the bidding companies. The National State Tender Board now awards ten points out of a possible hundred to a company which has black shareholders. The major parastatals (Transnet, Telkom and Eskom) have also implemented similar mandatory criteria for contracts (Sikhakhane, 1997b: p.3)

The government accounts for about 26% of South Africa's total consumption expenditure (Deutsche Morgan Grenfell, 1997: p10). The state and its parastatals spend more than R60 billion annually on goods and services from the private sector (Sikhakhane, 1997d: p.5). The

government recognises the role that it has to play in this regard. The 1997 budget states that the government is the single largest purchaser in the country, and it therefore has a responsibility to ensure its procurement policy supports other economic objectives.

### 3.10 EMPOWERMENT INITIATIVES

#### 3.10.1 GOVERNMENT AND THE PRIVATE SECTOR

Over the past years there have been two broad thrusts to empowerment (Department of trade and Industry, 1996: p. 12)

- **Private sector:** The private sector has taken the initiative to transfer, through various means of financial engineering, equity shares in South Africa's major corporations to black business.
- **Government:** Government has begun to look at means of formulating and implementing policies which specifically address the needs of black business and management (attention has so far been focused mainly on small businesses).

The primary responsibility for the success of Black Economic Empowerment lies with the government and not the private sector of black business (Barohwitz, 1997: p. 16). The government has begun to recognise this fact and attempts are being made to catalyse the empowerment process. President Thabo Mbeki has been particularly sympathetic to the agendas of black business. His articulation of an African Renaissance provides an important political philosophy that precipitates the economic process of Black Economic Empowerment (Sowetan, 1998: p. 5).

In 1997 the government has brought practical muscle to Black Economic Empowerment through its tender procurement and privatisation policies (Department of Trade and Industry, 1997: p. 17).

Every business knows that it will not enter the door without an empowerment component to bid, whether it be for contracts to provide services or goods, or for delivery of infrastructure in the form of public sector partnership. In addition, Affirmative Action has been legislated. The government is the key to the future success of Black Economic Empowerment and is likely to be a major source of black business growth over the next few years.

The private sector should recognise that it has a virtual role to play in the economic empowerment process. The private sector owns the majority of the assets and wealth of the country and occupies the senior management position (Rabinowitz, 1997: p. 17). In order to sustain political democracy, the private sector must create the opportunities and environment in which black business can flourish. The challenge for South Africa's private sector is to obtain and procure meaningful Black Economic Empowerment at shareholder level and operational level, in a manner in which they are in control of the process, rather than have the South African government impose their own policies in this regard (Rabinowitz, 1997: p. 17).

### **3.10.2 ENRICHMENT VERSUS EMPOWERMENT**

By viewing Black Economic Empowerment as the transfer of share ownership to black companies, the perception exists that emerging black companies are not fulfilling the ideals of broader empowerment of black people at grassroots levels, but they are promoting the enrichment of a select few. Black Economic Empowerment has resulted in a few black business leaders becoming very wealthy, but this enrichment is akin to that of white business leaders. High salaries and lucrative share options are a normal and accepted practice of non-racial capitalism (Lunsche, 1997: p. 5). Yet the Koseffs, Gordons and Ruperts are seen as extremely successful entrepreneurs who have contributed to the success of the South African economy while the

Motlanas, Ramaphosas and Ncubes are criticised for enriching themselves rather than the community at large.

### **3.10.3 BUSINESS CONTRIBUTION**

Business in general should develop the tradition of being good corporate citizens and promote empowerment through measures such as:

- Entering partnerships with the government to attain national goals;
- assisting in the development of new entrepreneurs;
- promoting education and health services;
- supporting environmental improvements;
- developing comprehensive training programmes;
- providing acceptable conditions of employment; and
- Creating new jobs.

Source: (Rabinowitz, 1997: p. 18)

### **3.10.4 BLACK BUSINESS**

There are sizeable black businesses which are capable of giving leadership to black empowerment and of building and strengthening the empowerment foundation. Black business has in most cases contributed significantly to the empowerment of the masses. Black business finds itself in a dilemma, as on the one hand they are trying to develop a sound financial base, whilst on the other hand they face intense pressure to filter their profits to those at grassroots level (Sowetan, 1999 March 12: p. 17).

Clearly, there are many diverse views on what is meant by the term “Black Economic Empowerment”. It is argued that this whole debate is merely semantics and deflects attention away from efforts to achieve true Black Economic Empowerment (Mail & Guardian, 1999 May 21: p. 46). It is, however, vital to view Black Economic Empowerment in a

wide sense and to delineate the ways in which the private sector and black business can contribute. The emergence of black business should be seen as a small but integral part of the total process of economic empowerment (Rabinowitz, 1997: p. 17).

By defining Black Economic Empowerment incorrectly and overemphasising the role that black business can play in the process, the Black Empowerment process will not achieve its objectives. Already attempts are being made to measure the success of Black Economic Empowerment and these measures are focusing mainly on the role that black business is playing. This is a limited measure and will again result in perceptions of failure.

### **3.11 SUMMARY**

The need for Affirmative Action and Black Empowerment in South Africa is long overdue. To redress the imbalance of the past history, the ANC-led government needs to aggressively drive the bandwagon of Affirmative Action or Black Empowerment. The success of the Malaysian empowerment process has been impressive. The Malaysian people have generated a very special culture and patriotism around the National Economic Policy (NEP) empowerment programme.

The Malaysian empowerment took quite a long time, and it seems unlikely that the South Africans will be as patient as the Malaysians, given the urgent need to address the social imbalances in South Africa. The levels of achievement in Malaysia must be viewed taking into consideration that the ethnic Malays account for approximately 55% of the population, which is significantly lower than South Africa's black population. Therefore, the success of Malaysian empowerment is one example that South Africa can follow, but not in totality.

Blacks appeared to have been successful as commercial farmers during the 19<sup>th</sup> century, but the growth of these entrepreneurs was discouraged because of



the need for black labour. Through the enactment of restrictive and prohibitive laws, black entrepreneurs were either eradicated or marginalised and most black businesses are mainly represented in the small and informal sectors. Therefore the restrictions on the development of black entrepreneurs and the history of Black Economic Empowerment have necessitated the need for Black Economic Empowerment in South Africa.

The label “Black Empowerment” does not save companies from the vagaries of the market or from unethical business practice, but forces directors to excel in fairness while remembering their duty to assist their fellow men. Black-controlled companies have been successful in dispelling the misconception that black business is synonymous with instant failure. The high-profile, multi-billion rand Black Economic Empowerment ventures such as RAIL, Thebe and NAIL have had significant psychological value in the mindset of previously disadvantaged people.

It is through the good efforts of the large black businesses that a black corporate culture is beginning to develop. Black businesses have recognised their responsibility to the broader black community and most of the major firms have included this responsibility in their mission statements and many (black business) have made use of black auditors, lawyers and consultants.

There is a paradigm shift in South African’s black trade unions from a militant struggle against capitalism in the seventies and eighties to the ranks of capitalism in the nineties. The number of the most socialist unions has made a swift transition into the world of business, whereby they have set up their own investment companies. Traditional businesses believe that the introduction of the trade unions as equity partners is a means to facilitate meaningful Black Economic Empowerment on a broader scale, as the trade unions represent those most often in need of empowerment initiatives.

The motivation for participating in a Black Empowerment project varies from one person to the other. Deals were struck under the premise of rectifying the social and economic injustices of the past. Most deals were, however;

conducted in recognition of the current business environment and the opportunities that can be exploited by bringing in a black equity partner. Another factor which added to the increase in Black Empowerment deals, is the influence exerted by the government contracts. The State Tender Board requires a company to reflect the demography of the country to be awarded a contract in the government procurement contracts. The company must have black shareholders (male and female) or have them in senior management levels.



## **CHAPTER FOUR: SUCCESSES AND FAILURES OF BLACK EMPOWERMENT**

### **4.1 INTRODUCTION**

“Black Economic Empowerment” is a desired social product. It has often been said that the future is a product of the past and the present. Therefore, “Black Economic Empowerment” would also be shaped by the history of black business, its initial success and failures, the reasons for its failures and the role of business development organisations. Views on small businesses are also important because this is where black business is concentrated.

Harry Oppenheimer, cited in NAIL Annual Report, 1995 said: “It’s extremely dangerous to be ruled by people who have no material stake in the country. We’ve got to see that people in the majority have as large a share in the material aspects of the country as we can”.

This chapter examines the role of the small business in Black Empowerment and the success of the process of Black Economic Empowerment. It also discusses the failure of the Black Economic Empowerment and its criticism.

### **4.2 ROLE OF SMALL AND MEDIUM-SIZE ENTERPRISES**

Whilst significant contributions can be made to Black Economic Empowerment by the large conglomerates, the role that small, medium and micro-enterprises (SMME) can play in the process must not be overlooked. Small, medium and micro-enterprises are enterprises with less than 200 employees (Makgatho, 1997: p.104).

The strategic importance of SMMEs is acknowledged internationally for a number of reasons:

- SMMEs are contributing to employment at a greater rate than large companies.

- In the large economies of the world, SMMEs account for more than 60% of the mainstream economic activity.
- Japan has more entrepreneurs per head of population than any other big industrial economy because of its many small businesses (F & T Weekly, 1997:p.60).

David Morebe (1997:p.60), manager for the former Small Business Development Corporation which is now known as Business Partners, says international experience demonstrated that the answer to empowerment lies in business creation and expansion, particularly in the small, medium and micro-enterprise sector. Significant Black Economic Empowerment involves business development and a concerted effort to facilitate the entry of black-owned business into the mainstream economy.

In 1993 the government put into place the enabling environment for the development of the small business sector through the National Strategy for the Development of Small Business in South Africa. This legislation outlined government's vision for transforming the small business sector into a driving force behind job creation via the development of the small business development unit within the Department of Trade and Industry (Kobokoane, 1997:p.10).

Government's first Black Empowerment strategy was almost exclusively focused on the development of SMMEs and in particular those that are black owned. An individual structure was set up to support the development of SMMEs, particularly in the realm of financing (White Paper on Small Business in South Africa; 1995: p. 11).

Government can also use the tendering process for government expenditure to develop black SMMEs. For example, a R20 million contract can be split into 5 contracts of R4 million each. Through this, black SMMEs will develop the capacity and the experience to obtain larger contracts and they are often able to use the contract as security to raise finance.

There has however, been criticism of the government's SMME approach in that it has been too theoretically based with little of practical value to benefit small business (Brown, 1997a:p.7). The government must continue to recognise that SMMEs are a vital empowerment tool and are part of any strategy designed for job creation.

### 4.3 **BLACK EMPOWERMENT: A SUCCESS STRORY**

Critics of Black Empowerment have argued that many Black Economic Empowerment companies currently cannot offer more than their blackness as a source of their value. Cyril Ramaphosa and Wiseman Nkuhlu both emphasise that Black Economic Empowerment means more than a passive portfolio investment. Black business must be actively involved in unlocking value for all shareholders (Enterprise, 1996: p. 28-33)

Black Economic Empowerment companies are new and at this stage of their development it is difficult to measure their success. The pricing mechanism of the JSE acts as a gauge by which one can measure the relative success of listed black companies versus others in the market.

The typical pattern seems to have been that these companies did not perform very well in the early stages of their change of control or listing, but picked up strongly thereafter. It seems to indicate that investors were initially sceptical but has re-rated the shares once the companies have proved themselves. They (investors) have become more positive about such deals and are now realising the synergistic value of such black/white ventures (Segal, 1997a: p.14)

It is too early to proclaim a-rating of black-owned companies in general, however numerous factors can be cited for their solid performance based on the market in which they operate:

- Black-owned companies have to overcome a historical legacy of deep prejudice against blacks. This prejudice wears thinner as track records and reputations are built up.

- Starting off as little more than asset swaps from white ownership to black ownership, these larger black firms are now showing an ability to add value and stand on their own feet.
- A stronger explanation for this performance is perhaps that it is becoming increasingly clear that black-owned companies are being hugely favoured in terms of the government policies and practices in areas such as tenders, procurements and licences. The performance of the black-owned companies listed on the Johannesburg Stock Exchange largely reflects anticipation and windfalls from such policies (Segal, 1997:p.14).

#### **4.3.1 SUCCESSFUL PERFORMANCE**

It is not only the presence and size of these black companies that have expanded. Over the past four years the majority of companies has consistently and comprehensively outperformed the Johannesburg Stock Exchange and enjoys price earnings ratings.

Of the 17 black-owned companies on the Johannesburg Stock Exchange,

- Eleven have a better price per earning rating in 1997 more than their sectoral average compared to only two in September 1995;
- ten have seen their share price outperform the Johannesburg Stock Exchange (JSE) All-share index (previous only 4);
- the star holding were RAIL up 613% to 1140c, NAIL up 242% and Carson Pharmaceuticals up 460% to 560c (Segal, 1997a:p.15); and
- share price movements must also be treated with caution as many are off thin trade, taken at a single period and thus easily distorted. Johnic, JCI and Metlife, all started by whites, account for 63% of the

total market capitalisation of black controlled companies (Segal, 1997a:p.15).

Many of these companies were not black- controlled five years ago. In addition, share price movements say little about what would have happened had a white group, as opposed to a black group, taken control.

The value of Black Economic Empowerment transactions showed a remarkable growth in 1998 despite the market crisis in the same period. According to a “Business Map Report: Empowerment 99”, the total value of the empowerment transactions increased to R21 billion, compared with R5 billion in 1997 and R1, 6 billion in 1996. The figure covers all black-controlled companies, including the established companies such as Johnic (Sowetan, 1999: p.17).

According to Moledi, cited in Sowetan (1999 March 12, p17), black ownership on the local market showed that in January 1999 16,3 percent (R58, 7 billion) of the market capitalisation of all JSE listed companies was either under black control or black influence. This was only 1 percent (R4, 6 billion) in September 1995, when Business Map started the survey.

Growth in black companies will in future replicate the situation prevailing amongst predominantly white companies. Some will be successful, whilst other will fail.

#### **4.4 BLACK EMPOWERMENT: A FAILURE STORY.**

Litha Nyhonyha, cited by Deutsche Morgan Grenfell (1997, p.1), said: “Black Economic Empowerment and Affirmative Action is a deliberate process giving people the opportunity to both succeed and fail”. The high profile collapse of New Age Beverages (NAB) and the problems faced at JCI have prompted scepticism over the ability of black business to achieve success in

the rough and tumultuous world of big business (Kincaid, 1997:p.25). One must, though, immediately realise that many white-owned businesses have also failed for the same reasons, while on the other hand several black-controlled businesses are showing strong signs of scaling the ladder to success.

Kincaid (1997:p.25) argues that current Black Economic Empowerment companies have an additional role to play for they are clearly role models to new businesses. There is no doubt that the actions of the black icons will be carefully perused by those with ambition. New Age Beverages failed for many reasons, amongst others the guerrilla tactics employed by Amalgamated Beverages Industries (ABI) . Pepsi was up against a market already entrenched with monopolies. Possibly of most concern was that Pepsi emasculated its South African management team in favour of its foreign team. Its Durban factory often operated for only two days a week because Indian distributors were used to selling the product to a predominantly Zulu market, ignoring the cultural differences between them, a mistake that a South African management team probably would not have made (Kincaid, 1997:p.25). History could well recount that NAB's failure was not a failure of black business, but that it was rather a reflection of an American management's fear to allow a management, who understands the complexities of the local market, to run the company.

The history of big prominent black businesses is too short to arrive at any definitive conclusions other than to note that because the history is so short, due allowance must be made for a lack of experience. Mokoena (1997:p.25) draws a distinction between groomed and appointed leadership. He feels that the leadership of most emerging enterprises have been appointed by white people from a pool of trusted blacks from the political struggle. He believes that these people did not have any business experience, or any professional desire to be in business, often resulting in the failure of these businesses. On the other side, the real entrepreneur and successful businessman was neither appointed nor given opportunities. They had eked out an existence and gained business experience under unforgiving apartheid conditions. Mokoena believes that "the good thing about the private sector is that it is unforgiving;



its judgement on incompetence is swift and brutal. We can learn more quickly from it. If we don't, South Africa will swiftly slip into third world status" (Mokoena, 1997: p.25).

The other high-profile quasi failure has been that of JCI. Whilst JCI has certainly been unfortunate with respect of the falling gold price, there have been other strategic mistakes (Rabinowitz, 1998:p.49). Analysts feel that the African Mining Consortium (AMC) overpaid in buying their share in JCI and that JCI's best assets have now been sold. It is highly vulnerable to a hostile take-over and is more of a cash shell than anything else (Walker and Klein, 1997:p.1).

Duma Gqubule, cited in Financial Mail (1999:p.4), said: "already there are signs that the empowerment movement as we know it has had its day; that black empowerment is self-correcting after excesses of the past few years. Investors are unhappy with investment trust and holding companies that are so popular with empowerment companies". Most of the empowerment companies are trading at discounts to the value of their underlying assets.

Financiers, fed up with having to shoulder all the risk in empowerment transactions, are devising new ways of passing some of the risks to the black empowerment groups and their target companies. Some have gone so far as to ask merchant bankers for upfront fees for doing a deal. Merchant bankers are up in arms over the onerous conditions and are simply refusing to do more Black Empowerment deals (Financial Mail, 1999: p 51).

For New Africa Investment Ltd (NAIL) the challenges are more immediate because of the size of the discount at which its shares traded relative to the group's underlying assets. The discount, which has ballooned to more than 40%, is a clear vote of no confidence in the group, its capital structure and the ability of its management to add value to and extract synergies from its investments in insurance (Metlife), merchant banking (African Merchant Bank (AMB) and micro-lending (Theta) (Financial Mail, June 4, 1999:p.44).

The downside to all of this timely soul-searching about Black Empowerment is that market judgements can be harsh during corrections, tarring every empowerment company with the same brush. There could even be a temporary halt on new entrants to the empowerment arena as financial institutions and established companies tighten the screws. When the going gets tough, investors ask difficult questions that they tend to overlook when the going is good.

Whilst high-profile failures have a negative impact on the overall Black Economic Empowerment initiatives, these failures must be seen as part of the learning curve and a normal concomitant of a free market economy. These failures may be very valuable, for blacks or disadvantaged people to benefiting from the mistakes of others as the quickest means of achieving success. In a few years blacks may reflect that these failures were integral to the success of Black Economic Empowerment. Black Economic Empowerment is a deliberate process to redress the imbalances of the past. People must be given the opportunity to succeed but also the opportunity to fail.

#### **4.5 THE MANIPULATION OF BLACK BUSINESS**

The majority of Black Economic Empowerment transactions are authentic and real empowerment will emerge. There is also an element of manipulation encroaching on real attempts at empowerment. Many companies are using black directors and shareholders as a front in bidding for government contracts. The information technology (IT) industry is particularly vulnerable in this respect, because of the scarcity of skills amongst the previously disadvantaged (Citizen, 1997:p.29).

The only real beneficiaries of such transactions are the black executives who get paid upfront to influence key decision-makers in government and the financiers of the company (most of these companies purport to be black owned). Lufuno Nevhutaly(1997: p.5) advocates that government should take cognisance, when awarding a particular tender, of how much genuine skills development will take place and monitor the tender accordingly. He feels that

while points are awarded in the tender process for shareholdings, they should also be given for skill transfers.

There is a growing concern that black business is being exploited in many Black Empowerment transactions. For many years conglomerates were forced to accumulate local assets in non-core businesses, a consequence of being prevented from investing offshore as a result of foreign exchange restrictions. As South Africa's rigid exchange control regime is being dismantled, the companies are disposing of non-core or mature companies ahead of expected moves in exchange control legislation (Deutsche Morgan Grenfell, 1997:p.10).

Many black empowerment companies are selling non-core assets picked up during the buying frenzy of the past years, to focus on a few key investments. The majority of these companies are no longer offering significant value and traditional companies are seeing black business as a soft target to buy these ageing businesses. Inexperienced black management is buying into companies at prices that are not affordable. Black business is forced to finance the deals at onerous rates and face difficulties in repaying the financing. Most of the Black Empowerment transactions are concluded in a seller's market with the sellers dictating the terms. For example, Anglo-American stipulated in the Johnic sale that they were only prepared to sell to a consortium of black business. Thus, the sixty strong NEC was formed. Such a large consortium has at times made management unwieldy (Financial Mail, 1998: p.186).

According to Phinda Madi (1998: p. 30-32) black companies had been set up largely at the behest of white companies for which the new company would front when there were lucrative government contracts up for grabs. "Mobile" executives are used in this regard where they would pose as empowerment partners during the bid for a particular contract, and then collect their commission upon awarding of the contract, without any process of skill transfer having occurred.

This essentially means the economic empowerment of the common man who have been victim of previous socio-political and economic disempowerment,

have been manipulated and taken away by a clearly enunciated programme. It is now up to the black business people whether they allow themselves to be used, or whether they remain true to the pure objective of the Black Economic Empowerment.

#### 4.6 CRITICISM OF BLACK BUSINESS

Despite having organised itself under the banner of the Black Business Council, a think-tank business organisation comprising of powerful black business personalities and professionals, black business still finds it difficult to establish a mechanism to enhance proper co-ordination among themselves. Black business analysts believe the continued fragmentation and lack of vision among black business individuals and organisations have been a serious setback to their development. This has resulted in a lack of initiatives to chart their own destiny and carry forward government's development programmes (Sowetan, 1999:p.11).

According to Wendy Luhabe, cited in Sowetan(1999: p.11) the major weakness of black business is the incapability of defining their own agenda for what must be done. She does not think the relationship between black business and government has improved primarily because black business continues to work in a fragmented manner. There is no doubt that black businesses need one another, but how that gets to translate into visible strategy still needs to be explored.

Renel Khoza cited by Business Times (1997: p5), severely criticised his fellow black businessmen in his speech regarding the above-mentioned issue. "Our empowerment agenda is driven by corporations that seek to do business with us, along with the assorted advisers and financiers who in fact stand to benefit more from these initiatives than ourselves. Many of our decisions are characterised more by short-sightedness, expediency, greed and vanity" (Lunsche, 1997:p.5). She argues that black business simply follows the dictates and agendas of others. He argues further that black executives have taken business in South Africa backwards. They are recreating conglomerates

and pyramids, whilst world-wide conglomerates are unbundling, restructuring and focusing on core competencies and industries.

Soweto businessman Pat Mogashoa (Sowetan, 1999: p. 11) believes that organised black business failed their constituencies by not including small business in their programmes by promulgating the 1997 Small Business Enabling Act, while the government has shown its seriousness about small business development. However, Mogashoa argued that black business leaders failed to synchronise their activities to use the Act to empower the disadvantaged township business people. Hence the collapse of their businesses.

Mogashoa believes the neglect of small business and a lack of proper communication between black business leaders and their grassroots are among the reasons that led to the collapse of a government agency such as the National Small Business Council. The ineffectiveness of schemes such as Khula Enterprise and Ntsika in the development of small businesses is also a concern.

National Empowerment Trust chairman Don Mkwanazi, cited in Sowetan (1999, March 9:p.11), says: “Black people will find it difficult to compete on a capitalist terrain while they do not have capital”. He feels that the main objective should be the control and management of the country’s capital before they can even think of empowering the people.

According to Mkwanazi there is hardly a black business executive or leader with enough clout to influence the market’s sentiments. He feels that if black business had such people, they could have saved the rand.

Renel Khoza’s argument holds some truth. Black businesses do seem to lack a clear and focused direction. Investments are made in a wide variety of industries, each of which require a different management approach. Black business may be forced to rationalise their approach in the future in order to maintain investments which complement their managerial expertise. On the

other hand, Khoza's condemnation of the use of pyramids appears harsh. He also bemoans the lack of individuality among black corporations who spend a lot of time observing each other's business manoeuvres and chasing the same deals or trying to emulate what others have put together.

Unfortunately very few black-controlled companies can escape this accusation of fronting (Lunsche, 1997:p.5). Some executives at Johnic are complaining that NEC executives spend more time exploiting new ventures than adding value and strategy to the existing operations. In the same light at JCI, Mzi Khumalo had devoted a lot of time to his bid for Lourho, whilst it can be argued that his company was facing a severe financial crisis.

All of the above contribute to the concern that there is a trendiness to Black Empowerment that threatens to devalue it. There is a danger that its application will be conducted only on a superficial level. A major concern is that Black Empowerment could end up simply being an expression of white corporate largesse to a handful of high-profile black companies and individuals in a bid to satisfy political pressure. The fact that there is only a handful of Black businesses dominating the empowerment initiatives underwrites this concern (Cumming, 1996:p.4). There is a market's perception that current empowerment initiatives may result in the "enrichment" of a select few and not the wider "empowerment" of the majority of the black population is a concern that black business will have to overcome in order for Black Empowerment to be seen as a success.

#### **4.7 SUMMARY**

Small business development organisations are some of the key role players who facilitate the development of black entrepreneurs and Black Empowerment. Some development agencies see small business as an entry point into formal business or the mainstream economy. Although some black business analysts acknowledge the role of small business in the economy, these analysts perceive the channelling of resources mainly to this sector as diverting the attention of black people away from the mainstream economy.

The impact of small business and the informal sector on economic empowerment is perceived to be negligible by certain black business interest groups. However, they regard small business as the embodiment of economic freedom and individual liberty, and as a practical way of solving problems and enhancing economic growth.

There has been a significant growth in black-owned capital. The value of Black Economic Empowerment transactions has showed a remarkable growth despite the market crisis. The number of black groups either listing or buying into listed companies continues to gain momentum. Despite the large first-generation companies such as NAIL, Real Africa and Thebe remaining strong players, other small companies such as the South African Railways and Harbours Workers Union investment arm, Sarhwu Investment Holdings, COSATU's Kopano Ke Matla, Molope Group and Wiphold, remained most active throughout the years.

Many people agree that for black business to move forward division among themselves must be sorted out first and the organisations must define their role in the economy. The past year has exposed the vulnerability of the more high-profile black empowerment deals.

The collapse of New Age Beverages (NAB) and the problems faced by JCI have prompted scepticism over the ability of black business to achieve success. JCI has been unfortunate with the respect to the falling gold price. There have been other strategic mistakes with the leadership at the top. New Age Beverages failed for many reasons, amongst which were the guerrilla tactics employed by the competitors.

The government is making sure the playing fields are being levelled by removing obstacles that impede black business development. Black business leaders on the other hand are not doing enough, sometimes expecting unrealistic preferential treatment from the government without rising to the occasion. Black business needs to come up with a blueprint which has

practical solutions on what else the government can do to accelerate black control of capital.





## **CHAPTER FIVE: SUMMARY AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

Black Advancement and Affirmative Action are concepts, which became identified with endeavours in South Africa to increase the participation of black people in business and the mainstream economy. In recent years, a more all-encompassing construct combining the objectives and attributes of both Black Advancement and Affirmative Action, has gained popularity. This new construct is Black Empowerment.

In chapter one, the key objective of the study was stated as finding a commonly understood meaning of the concept “Black Empowerment”. The study had also drawn the parallels between Affirmative Action and Black Empowerment. Therefore, the key objectives of the study are to find answers to the following questions:

1. What is meant by the concept Black Empowerment?
2. Why is Black Empowerment important in South Africa?
3. What are the major successes and failures of Black Empowerment from 1994?
4. What should be done for the future?

### **5.2 CONCLUSION**

In chapter two a literature study was undertaken to investigate what is meant by the concept Black Empowerment? The study has examined the Afrikaner empowerment and Malaysian empowerment experiences in order to gain an insight into the process and to formulate a clearer understanding of the concept and approach for future Black Empowerment. The two-empowerment experiences were drawn as examples, seeking to understand the meaning of the concept empowerment. Black Empowerment and Affirmative Action are two concepts with one mission and objective. They both have racial, social, ethnic and political connotations to the empowerment process. The two concepts are therefore the same and have the same meaning.

Therefore, the study found that the commonly understood meaning of the concept Black Advancement, Affirmative Action and Black Empowerment could be summarised as follows:

To accord meaningful processes that allow the historically disadvantaged people the opportunity to gain economic power through the following inter-alia processes:

(1) **Meaningful education and training**

This will facilitate the opportunity to acquire knowledge, new skills and managerial experience.

(2) **Job creation**

This will facilitates more jobs and better income.

(3) **Acquiring equity stakes in South Africa's economy.**

Black Empowerment entails the implementation of meaningful measures that will ensure that in a defined period, there is a proportional relationship between the country's demographic composition and the ownership, and control of the economy as a whole.

Therefore this study believes that Black Empowerment will probably turn out to be South Africa's most significant event in the new millennium.

Chapter three answered the question, why is Black Empowerment important in South Africa? South Africa's policy of apartheid excluded a large portion of its population from meaningful economic participation. This majority mainly consisted of Blacks and to lesser extent Coloureds and Indians. This chapter examined the reasons why blacks were not empowered, using the success of the Malaysian empowerment as an example. It found that Black people received an inferior standard of education, which resulted in a poorly educated black population. The greater portion of blacks received no education at all and consequently possessed no useful skills. As a result blacks were not adequately trained for meaningful positions (managerial) at workplace, were

not paid the same as their white counterpart and were socially confined to the rural areas.

Through the enactment of restrictive and prohibitive laws, black businesses were marginalised and restricted to the informal sector of business. With the abolishment of these laws and rapid democratisation of South Africa, it is appropriate to equalise society, in terms of the economy, education and training, health wise, socially and from civil a rights point of view.

In chapter four the objective was to investigate the successes and failures of Black Empowerment. The need to redistribute wealth is a given factor, but how to do so without impoverishing the wealth creators and destroying the potential for growth, is not known. Therefore, every process or programme is bound to have success and failures along the way.

It is therefore imperative to seek ways of joining the two ends of the economic spectrum negating, to a practical extent, and political ideologies. Emphasis should be place on efforts to forge ties between big, established corporate business and those at the semi and informal end of the economic spectrum. Resulting benefits will accrue to the big and small sides of the partnership, and ultimately to the economy as a whole.

There has been a significant growth in black-owned business. The value of Black Empowerment transactions has shown a positive growth despite the market crisis. The number of black groups or consortiums either listing or buying into listed companies continues to gain momentum. Beside the first generation of companies such as Nail, Real Africa Investment and Thebe, remaining strong players, other small companies such as Cosatu's Kopano ke Matla, Molope group, Nozola and Wiphold, remained most active throughout the years.

One must accept that along with the many successes there will be failures. The collapses of New Age Beverages, National Sorghum Breweries, New Nation and the problems facing JCI are big blows to Black Empowerment. Pepsi was

up against a market already entrenched with monopolies and it was difficult to break through, while JCI has certainly been unfortunate with respect to the falling price of gold. Other than these, there have been some strategic mistakes at the top management levels of other Black Empowerment companies. One must also realise that some white-owned business have also failed for the same reasons. The history of prominent black business is too short to make any definitive conclusion other than, to note that; because of short history, due allowance must be made for a lack of experience.

### **5.3 ADDITIONAL INSIGHTS**

The investigation has revealed that the pressure on black businessmen as well as Black Empowerment companies to succeed is enormous. In the first instance, pressure is felt from government who is calling on black businessmen to embrace the concept of an African Renaissance and to contribute to its success.

In addition, government's privatisation schemes, already heavily reliant on overseas equity partners, will be hard pressed to find new ways to bring empowerment players into the game. Alongside the extremely induced pressures, there are internal challenges facing empowerment groups.

First, there is the imperative of transforming consortiums from random groups into strategically cohesive organisations. For many groups, realistic governance and effective management is bedevilled by conflicting goals, divergent strategic focus and worst of all, personality battles.

Second, there is the challenge of transforming the businesses acquitted. One of the areas of obvious change expected is through human resource development. Black Empowerment companies know they will be asked: What have you done to develop black expertise? How many black people are employed to share in running the company, and

at what level? So far, black human resource experts say, there has not been much movement.

Third is the need to develop dynamic linkages within black business. Such linkages are vital to help overcome the hurdles faced by small businesses. There are examples, but far too few, where black businessmen involved in big ventures commit themselves to helping small and medium-sized businesses.

Fourth is the challenge to increase the beneficiaries of black business development. The main beneficiaries of Black Empowerment remain an extremely narrow group. Groups may be excluded because they are poorly networked on grounds of geographic location, ethnicity or gender considerations.

Successful black empowerment players cannot easily remain cold to those excluded. Black Economic Empowerment has made headway by rallying against institutional and social barriers to involvement in the economy.

In conclusion, South Africa will have to stand firmly on three pillars: economic growth, political stability and the uplifting of socially underprivileged communities. These elements need to be in symbiotic relationships with each other in order to successfully creating a new nation.

South Africa's new economy is on the horizon. When it blossoms, it will give rise to tremendous energy and opportunities that have been shackled too long by apartheid. Our responsibility lies in managing and channelling this energy effectively to generate capital expertise and economic growth.

## 5.4 RECOMMENDATIONS

Further research could be undertaken to:

1. Examine the essential leadership attributes needed to bring about successful transformation within empowerment companies. Leadership at the top is considered an essential element for the success of empowerment companies. It is also regarded as an essential characteristic needed in times of cultural transformation within companies.
2. To look at the role of the state in the present economic environment and to identify the avenues of positive change through which Black Economic Empowerment can take place, and evaluate the role of the informal sector in a South African dual economy system.
3. Find the meaning of African values, and the extent to which companies have succeeded in introducing such values. African values are seen to differ from existing organisational values and the methods employed in introducing such values would be of use to management, particularly in those companies that are considering an empowerment deal as an option.
4. Determine whether Black Economic Empowerment is only about equity ownership, or is it about black owners also having management and operational control of the companies in which they have invested?
5. Explore the effect that culture has on the performance of those empowerment companies which have been in existence for a period exceeding three years and are considered to be successful. By contrast, the effect of culture on those empowerment companies, which are regarded as poor performers, can also be researched.

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## APPENDIX 1

### Graphs and tables

- 1) An analysis of the economic situation in Malaysia and South Africa at selected dates.

<u>Key Economic Statistics</u>	<u>Malaysia</u>		<u>South Africa</u>
	1970	1990	1997
Inflation Rate	2.5%	2.7%	+ -10%
Bank overdraft (lending) rate	8.1%	7.2%	20.25%
Poverty #	4.6 million (49% of the population)	2.5 million (17% of the population)	
Gini coefficient"	0.41	.48	.54
Population	10.9 million	20.5 million	38 million
GDP per capita	US \$ 380	US \$ 4 600	US \$ 280
Infant mortality rate (per 1000)	45	12.0	48
Bumiputra below poverty line	64.8%	23.8%	
Consumption/GDP (%)	78.0%	67.4%	78.1%
Investment/GDP (%)	20.3%	32.1%	19.1%

(Source: South African Seminar, London, Thebe Investment Corporation (PTY) Ltd, Litha Nyhonyha)

≠ The poverty figure represents the number of people who live under the official poverty line.

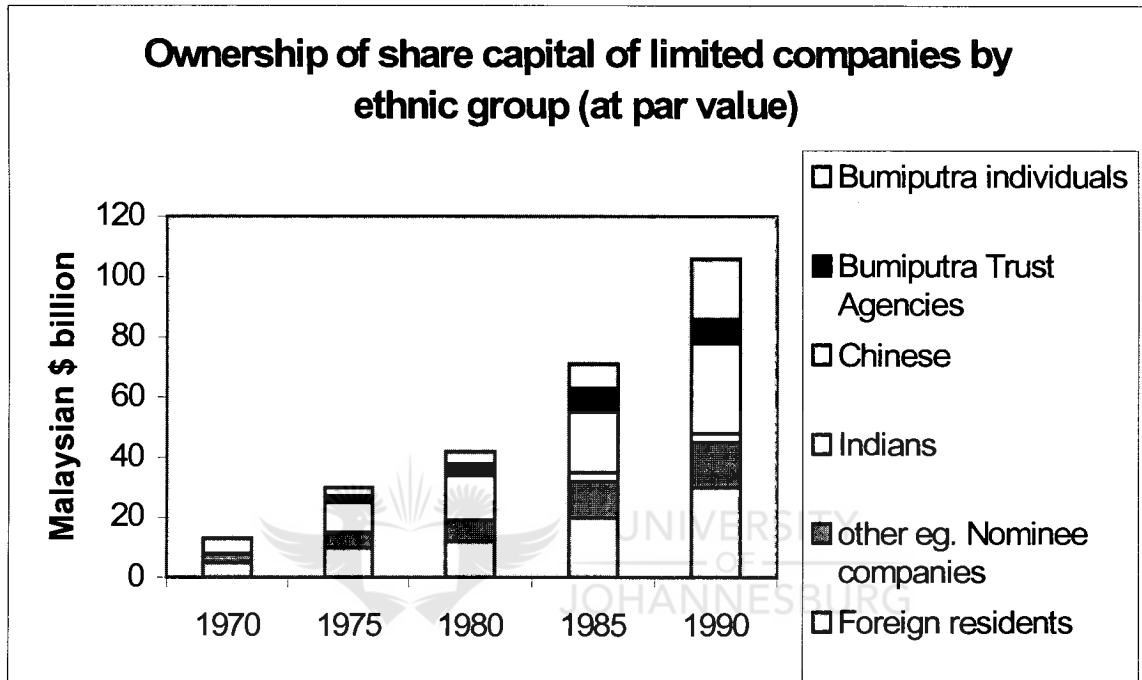
" The Gini coefficient is a measure of income disparity between people in a country. 0.0 represents no income disparity in a country, and 1.0 represents complete income disparity. Neither is achievable in practice.

## Some comparative figures – Malaysia vs. South Africa

	MALAYSIA	SOUTH AFRICA
Average Annual Gross Domestic Product Growth		
1980 – 1990	5.2%	1.3%
1990 – 1995	8.4%	0.5%
Population Growth per annum	2.4%	2.2%
People per doctor	2063	1750
Telephones per 100 people	6.8%	6.9%
Literacy rate	89.3%	+60%
%share of income – 1995		
Lowest 10%	1.9%	1.4%
Lowest 29%	4.6%	3.3%
Highest 10%	37.9%	51.3%

(Source: South African Seminar, London, Thebe Investment Corporation (PTY) Ltd, Litha Nyhonyha).



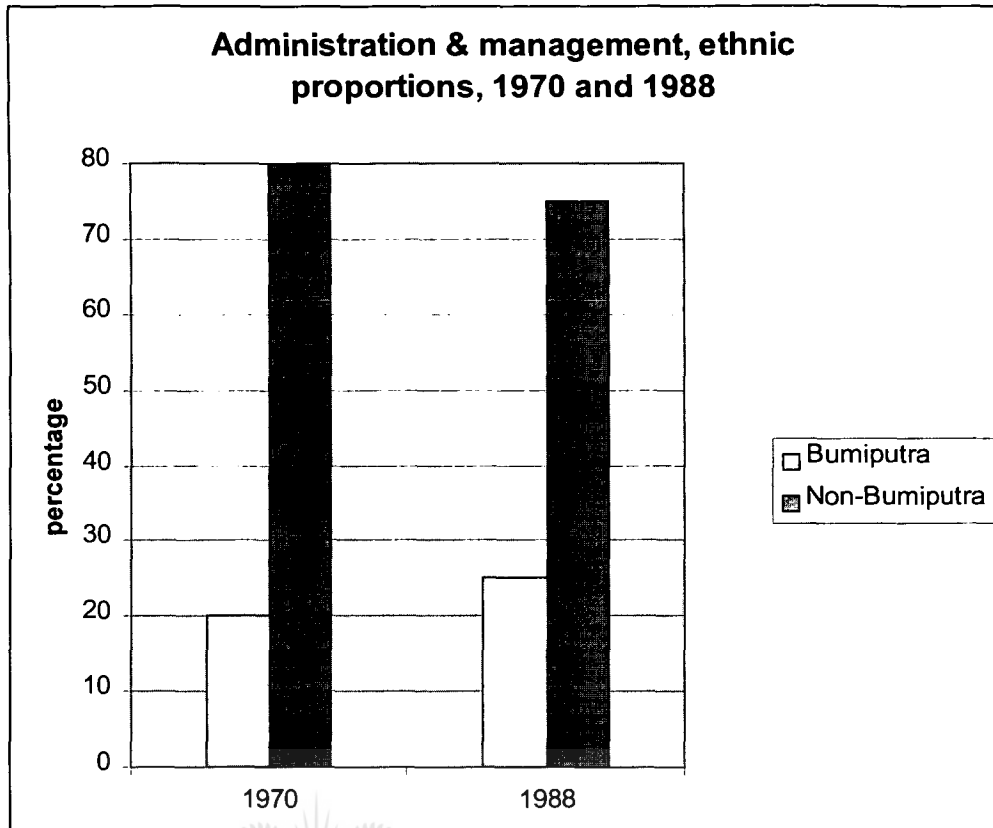


(Emsley, 1996, pg. 60)

**Ethnic identification of employers by sector (5), 1973, 1987**

	1973			1987		
	<u>MALAY</u>	<u>CHINESE</u>	<u>INDIAN</u>	<u>MALAY</u>	<u>CHINESE</u>	<u>INDIAN</u>
PRIMARY	29.5	67.2	3.3	39.8	48	12.2
MANUFACTURE	13.2	86.3	0	25.8	70.9	3.3
UTILITIES AND TRANSPORT	30	60	10	33.3	55.6	11.1
CONSTITUTION	21.7	78.8	0	40.2	53.6	6.2
COMMERCE	8.6	81.9	9.5	36.8	56.4	6.8
FINANCE	0	22.2	77.8	27.5	50	22.5
HEALTH, EDUCATION SERVICES	50	50	0	0	100	0
	0	91.4	8	14.2	76.7	9.2
<b>TOTAL %</b>	<b>14.2</b>	<b>78.1</b>	<b>7.7</b>	<b>32.7</b>	<b>59.2</b>	<b>8.1</b>

(Emsley, 1996, pg. 64)



This graph appears to be unimpressive in view of the efforts made to rectify imbalances. It is important; however, not to focus on aggregate proportions, but rather to look at incremental proportionally, i.e. the ethnic origin of those entering these occupations. Bumiputra share of incoming 'administrators and managers' over the period 1973-87 is higher at 38.1% than the overall proportion of 34.5%. In a static situation i.e., where the occupation is not growing in size and incumbents remain in that occupation for life, it takes forty years to change the aggregate characteristic solely by means of changed incremental characteristics.

(Source: Emsley 1996, pg. 67)

**Appendix 2****Black Controlled Companies Listed on JSE**

COMPANY	SECTOR	MARKET CAPITALISATION
Nail	Financial Services	347 000 000
Metlife	Insurance	6 594 000 000
Johnic	Investment Trust	6 643 000 000
African Life	Insurance	6 074 000 000
Rahold	Financial Services	5 095 000 000
FBC Holdings	Bank & other	1 566 000 000
AMB	Financial Services	3 498 000 000
Thebe	Financial Services	1 032 000 000
AF Harv.	Redevelopment	4 626 000 000
RAD	Financial Services	3 756 000 000
Botrest	Metal/Mining	3 000 000
Yabeng	Investment Trust	36 000 000
Lion	Diver Ind.	365 000 000
Mawenzi	Property	61 000 000
KG Media	Media	420 000 000
Kun Tec.	Info. Tech	192 000 000
AMM	Clothing	42 000 000
S. A. Empowerment	Redevelopment	216 000 000
Fedics	Food Services	378 000 000
Molope	Food Services	1 148 000 000
Theta	Banking	10 989 000 000
Infiniti	Info Tech	179 000 000
LA Store	Retail	498 000 000
Moribo	Hotel	110 000 000
Esic	Retail	23 000 000
Wiphold	Investment Trust	631 000 000
Af Part	Redevelopment	537 000 000
Brim-N	Redevelopment	382 000 000

Cape Em	Redevelopment	105 000 000
Wit Nig	Min Hse	33 000 000
Casey	Dev Cap	27 000 000
Maxtel	Ven Cap	6 000 000

Source. (Financial Mail, Top Companies, 1999: p. 188).

