The Determinants of Success in Black Economic Empowerment Transactions in South Africa

Joseph Hundah
Student number: 021-7800E

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements of the degree of Master of Business Administration.

Johannesburg, 2007

ABSTRACT

Black Economic Empowerment (BEE) has been hailed as a necessity and as absolutely critical to the country's development but it has also been scorned upon as apartheid in reverse. The complex socio-economic issues surrounding BEE make it a very difficult topic to research.

This study explores the determinants of success for BEE transactions. In-depth, semi-structured interviews were used to obtain the views of BEE participants, executives of acquired companies and BEE consultants. The main findings were that motives, the finance structure of transactions, effective leadership, the perceptions of BEE, cultural fit between partners, the operational influence of BEE participants and the structure of broad-based schemes were the main determinants of success for BEE transactions.

Finally, it was also found that BEE transactions are very diverse and as such it is important to determine the circumstances of each transaction and determine which determinants are most appropriate.

DECLARATION

I, Joseph Hundah, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirement for the degree of Masters of Business Administration in the university of the Witwatersrand, Johannesburg. It has not been submitted before for any degree examination in this or any other university.

Joseph Muchinesu Hundah

Date:

DEDICATION

To Angie, Ayanda and Tiger; without your love, support and patience, this research would never have been possible.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks to:

Dr Dominik Heil, my supervisor, for his time and direction;

Vedika Maharaj and Lola Ola for their tireless efforts; and

The respondents who agreed to sacrifice the time to discuss the research topic in detail.

TABLE OF DEFINITIONS

Black Economic Empowerment (BEE)

A working definition of BEE for the purposes of this study is:

An integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country's economy, as well as significant decreases in income equalities. (Department of Trade and Industry website, 2005)

Business Relationships

Business relationships are, for the purposes of this study, defined as relationships built up in the context of a business interaction or partnership. This interaction could be related to a merger or acquisition brought about by the traditional circumstances for entering into such transactions and those brought about by BEE.

Mergers

A merger in business or economics refers to the combination of two companies into one larger company. Such actions are commonly voluntary and often involve a share swap. In many instances a merger resembles a takeover but often results in a new company name (often combining the names of the original companies) and in new branding. (Wikipedia web encyclopedia, 2005)

Acquisitions

Acquisitions involve the acquiring of a company or companies by another company, in either a hostile takeover or amicable agreement. This will normally involve the acquiring of outstanding shares for an agreed upon consideration. (Wikipedia web encyclopedia, 2005).

Industry Charters

In the South African context, industry charters constitute a policy framework for the future BEE development of an industry. The charter provides to companies guidelines on meeting the BEE obligations set by an industry. A key component of a charter is the scorecard, which provides a framework for measuring the BEE process in the sector.

The scorecard can have many components to it but there are three core elements: direct empowerment through ownership and control of enterprises and assets; human resource development and employment equity; and indirect empowerment through preferential procurement and enterprise development. Not all industries have developed a charter but it is a framework, which is becoming imperative for doing business in South Africa. (Department of Trade and Industry, BEE Strategy document, 2005)

Successful BEE Transaction

A successful BEE transaction in the context of this research is defined as having had the effect of increasing wealth of the black participants, increasing the shareholding held by black participants in the company, as well increasing the overall shareholder value of the acquired entity.

White-owned Organisations

These are organisations, companies or institutions in which the majority of the shareholding resides under white people’s control.

Black-owned Organisations

These are organisations, companies or institutions in which the majority of the shareholding resides under black people’s control.

TABLE OF CONTENTS

LIST OF TABLES

1 INTRODUCTION

The last few years have been marked by an increase in BEE transactions. These transactions are expected to increase even further as South Africa becomes more aggressive in its economic transformation programmes.

The purpose of this study is to identify key success factors for BEE transactions in South Africa. Because the number of BEE transactions in South Africa is relatively small, it was decided that a methodology based on statistically testable hypotheses was not appropriate. As such, and owing to the context-rich nature of BEE transactions, it was decided to use a case study methodology, using one case study. This case study is analysed in the light of research propositions generated from a review of the relevant literature on BEE activity in South Africa. While this methodology should be able to identify the key success factors for BEE transactions in South Africa, the context-rich nature of the BEE phenomenon implies that caution needs to be exercised when generalising these key success factors to other BEE transactions.

The researcher proposes to determine, analyse and evaluate the determinants of success for BEE transactions with reference to a case study of a company that has concluded such a transaction and that has achieved proven increased business success subsequent to it.

The Department of Trade & Industry (DTI) has determined BEE to be a combination of criteria based on an empowerment scorecard consisting of equity ownership, employment equity, enterprise development, skills development, procurement, corporate social and investment, and management and control of entities. For purposes of this study the focus will be equity. This element of BEE has been the most contentious and has received more comment and scrutiny than the others. This could be a result of the enormous monetary value of equity transactions as well as issues related to the passing of valuable assets between individuals or institutions under close scrutiny from the general population.

1.1 Background to the Problem

South Africa's first democratic government was elected into office in 1994 after years of hardships suffered by the majority of the population because of the previous governments' policy of apartheid. The new government's mandate was to redress the inequalities of the past in every sphere: political, social and economic. Since 1994, legislation, policies and programmes have been put in place in order to meet this mandate. (Department of Trade and Industry, BEE strategy document, 2005) Apartheid systematically and purposefully restricted the majority of South Africans from participating in the economy meaningfully, resulting in access to skills and self-employment being restricted on racial lines. The creation of wealth was, therefore preserved for the white minority while black communities were left underdeveloped and poor. Property rights were withdrawn from black people and it became impossible for them to acquire assets that could assist in providing security for loans as well or share in the benefits of capital accumulation and economic growth. As a direct result of this policy, a section of South Africa's society is still excluded from enjoying the fruits of the country's riches. (Department of Trade and Industry, BEE strategy document, 2005)

It is widely believed that a society that is characterised by racial and ethnically defined disparities in wealth is not likely to succeed socially or politically.

(Department of Trade and Industry, BEE strategy document, 2005) The government had to introduce an economic transformation strategy in order to ensure that the economy is spread out equally among the racial groups. This strategy includes policies, charters, laws and the use of balanced scorecards to gauge the success of the government's efforts.

These policies and laws have resulted in a wave of BEE transactions in the last 10 years of South Africa's democracy. Among other functions and responsibilities, institutions such as the National Empowerment Fund (NEF), Industrial Development Corporation (IDC), Khula and Ntsika were set up to assist black people in acquiring shares in companies directly or indirectly. Investment companies owned by black people and black individuals were for the first time able to make investments in large white-owned companies and start acquiring and owning a piece of the economy.

White-owned companies are under increasing pressure to conclude BEE transactions for their organisations in order to meet stringent regulations set up by industry charters and industry regulators. Failure to do so is resulting in the loss of key government contracts and tenders because of the government's strict preferential procurement policies. This pressure has, therefore, resulted in a large number of companies selling a stake in their organisations in order to meet these regulations. This has, in essence, forced some companies to sell off a stake that they probably would not have sold in traditional circumstances, such as normal merger and acquisition (M & A) transactions. Companies have to seek a suitable BEE partner, in some cases assist in the financing of this partner to enable them to conclude the acquisition, and then eventually bringing them on board with full shareholder rights.

By their very nature, BEE transactions bring forth interesting dynamics, which could either make the transaction a success or a complete failure. The whole concept of a deal being struck as a result of legislation or regulation excludes the traditional rationale of entering into a business-combination transaction. To remain sustainable, though, some companies have to make this relationship work. Even in situations when a willing seller-and-buyer relationship exists, mergers and acquisitions have a very low success rate, with 55-70 per cent of them failing to meet their anticipated purpose (Carleton, 1997).

The failure of BEE transactions can, therefore, prevent the transfer of economic power and result in no economic transformation. It is, therefore, important for managers to understand the success factors of BEE transactions to ensure that success and ultimately the greater goal of national economic transformation are realised.

1.2 The Statement of the Problem

The research problem is to identify and evaluate the determinants of success in a BEE transaction.

1.3 The Sub-problems

The first sub-problem is to determine the impact of motive and culture on the success of BEE transactions.

The second sub-problem is to determine the effect of special BEE transaction structures such as financing options and delayed ownership or deferred shareholder benefits on the success of BEE transactions.

The third sub-problem is to determine if the operational influence of BEE partners has any impact on the success of the empowered organisation.

1.4 The Delimitations

The research does not provide a framework for BEE finance structures. Neither does it evaluate the appropriateness of BEE legislation or industry charters nor offer an opinion on the appropriateness of South Africa's process of economic transformation.

1.5 Assumptions

The first assumption is that BEE will continue in South Africa at least until the economic imbalances of the past are adequately addressed.

The second assumption is that BEE will continue to be mainly based on legislative or regulatory requirements.

The third assumption is that acquiring companies entering into BEE transactions are truly empowered according to the definitions included in the DTI's BEE Code of Good Practice.

1.6 The Importance of the Study

BEE is debated almost on a daily basis in the South African media. Several valid points are raised and differing views expressed on what BEE really is, who should be empowered, as well as general criticism of concluded or to-be-concluded empowerment deals.

Very little is written about what is regarded as a “good” BEE transaction and little is offered in the way of what constitutes BEE success.

This research can potentially enhance the understanding of the dynamics involved in BEE transactions and assist future potential partners to complete a fulfilling and successful BEE partnership.

2 LITERATURE REVIEW

The literature review focuses on the potential factors that could determine the success of BEE transactions.

2.1 Perceptions of BEE and the value added by BEE partners

2.1.1 Perception of BEE

An article titled “slow progress along a rocky road” written by Itumeleng Mahabane for the Business Times section of the Sunday Times perfectly encapsulated the perception of BEE among business people in South Africa. The article was essentially based on a recording of a panel discussion between five prominent business people, all with ranging views on BEE. Some of the criticism of BEE in the article included:

BEE is an enrichment exercise. BEE partners do not add value to acquired companies and BEE partners benefit from the work of others by buying companies at a discount.

Most BEE partners are usually politically connected individuals and the benefits of economic empowerment have not been transferred from the fortunate few to the broader population.

Mahabane (2005) criticises BEE and further highlights the negative perception of BEE by explaining that the rate of success is low and that he is not certain that the justification of the expenses of these transactions are warranted. He further notes that BEE has been converted into a socio-political issue with very vague economic context.

He criticises broad-based empowerment and regards it as a sham due to the inclusion of large arbitrary trusts and rent-a-communities with no real economic impact tittering through the masses.

This criticism has the filtering effect of reducing trust in BEE and/or BEE companies, thus making business success difficult. As earlier noted, an M & A relationship without trust will have a higher chance of failure.

An anonymous business opinion article in the Sunday Times of 24 April 2005 notes that current empowerment deals are creating a nation of shareholders. What South Africa needs instead is a nation of entrepreneurs. It is no good having people who have no real skills but are merely beneficiaries of share deals. Instead, entrepreneurs should be starting new and innovative businesses that create jobs and teach people how to do things. Business and government should be assisting them. They should be helping to educate people in skills that will stand them in good stead for the rest of their lives, and which they can teach to their children.

With all these criticisms is it possible that a positive perception of BEE will increase the desire to complete a BEE transaction and, as a result, increase the desire to ensure success of the transaction? Does the negative perception reduce the desire to ensure success?

2.1.2 Perception of value add by BEE parties

The primary task of any listed entity's management team is to create wealth for shareowners on a sustainable basis. It is through the creation of a sustainable value-adding business that all stakeholders can benefit and share in the wealth created (Cadle, 2004).

Koolen (2004) explains that BEE transactions appear to have had very little impact on the success of companies. He notes that there is no clear indication that empowered companies are more successful than companies that are not empowered.

Koolen (2004) also argues whether a BEE transaction improves relative competitive capability in the sectors in which these transactions occur. He notes that the most obvious expected impact would be the company's enhanced relative competitiveness in product or service markets where a set of clients rate supplier ownership as one of the key buying criteria. An example of this type of buyer would be the government and state-owned enterprises.

The reality is that most of the large, established BEE companies acquired stakes in the existing mainstream enterprises. In most cases, the net impact on jobs has been marginal, if not zero. To demonstrate that we are serious about employment creation, maybe we should give higher scores in the assessment of companies that can demonstrate new jobs created, including investments in skills and training, when the scoring is done for the various charters. There is no doubt that BEE has entered into a new phase. New generations of BEE companies or individual BEE partners are taking an active role in the daily operations of the companies, in which they now own equity, are adding value, and are being held accountable for achieving performance targets. (Maarsdorp, 2005)

Maarsdorp (2005) also adds that it not enough for BEE executives to use the new platforms in the boardrooms to promote softer issues such as employment equity, skills development, and preferential procurement. These were catered for by legislation expressly dealing with these issues in the Employment Equity Act of 1998, Skills Development Act of 1998, and the Preferential Procurement Act of 2000. Maarsdorp (2005) notes that there is a need to ensure that BEE affects the very structure of the economy by influencing the investment decisions of corporations. In this way, there is assurance that these transactions do not just contribute to the preservation of the existing structure of the economy.

Cadle (2004) explains that Market Value Added (MVA) is a good measure of wealth creation and is simply calculated by the difference between the company’s market value and its capital. Improving MVA should therefore be the primary task of management as growing the company’s market value and size does not necessarily increase wealth for shareholders.

By entering into a BEE transaction the company’s MVA should increase if doing the transaction is going to add value. Added value should then assist in ensuing business success. Cadle (2004) emphasises that the BEE sector of the Johannesburg Securities Exchange (JSE) has, however, shown a decline in MVA over the last few years. This decline has been ascribed to reduced confidence and optimism by shareholders, as well as reduced annual operating performance. The question is whether this loss of value is a result of BEE or of generic business underperformance?

For a business relationship to succeed it is critical that both parties understand and respect each other’s value and contributions. The perception of value-add by BEE partners, therefore, should be critical for business success.

Proposition 2

The perception of BEE is driven by the effectiveness of the operational influence of BEE partners. Professional influence leads to potential business expansion and is therefore a determinant of success for BEE transactions.

It is critical in a BEE transaction that the black partners have operational influence and feel part of the strategic direction and implementation process. Ownership, currently, is high priority but the literature notes that it is only through ownership that BEE partners can exert influence in a company and potentially affect the culture, business relationships and strategic direction.

2.2 The role of motives and culture on the success of a BEE transaction

2.2.1 Motives

BEE transactions in many respects resemble traditional M & As. Besides the imperatives driven by legislation and industry charters, the other motives for entering into BEE transactions should be similar to those of traditional M & As . How do these other motives affect the success of the transactions themselves?

Despite the popularity of the M & A strategy, research indicates that between 55% and 70% of traditional M & As fail to meet their anticipated purpose (Carleton, 1997). What does this statistic mean for BEE transactions, especially since they often have greater challenges than traditional M & As?

Longford (2002) makes the point that the acquiring entities in traditional M & As are often characterised by certain traits that increase the potential for success in a transaction.

These traits usually include:

Disciplined management processes that allow them to extract value out of a target company;

The ability to utilise synergies with the acquired company, thereby increasing efficiencies; and

A tendency to acquire the target company at the right price, ensuring potential for added value and, therefore, increased future company value.

Acquisitions are therefore seen as an avenue for strategic implementation.

Trautwein (1990) identifies the most common motives behind acquisitions as being:

The building of an empire by the transacting managers;

The potential to realise capital profits from the future resale of the business, based on the acquirer having better information about the target company than the stock market;

Internal strategic company processes giving rise to the need to acquire companies;

The achievement of financial, operational or managerial synergies between the transacting companies; and

The potential to achieve market power through a monopoly of the sector.

There are other minor motives for acquisitions such as raider and disturbance theory but these appear to be less plausible.

Although there are all these varying motives, ultimately the overriding reasoning for acquiring other companies is to increase overall performance and enhance the company's competitive advantage (Lubatkin, 1983). Consequently, to achieve this objective the transaction needs to be implemented from financial, legal and behavioural standpoints.

McDougall (1995) separates the motives for entering into M & As into three broad theories. These theories are described briefly in the paragraphs that follow.

Internalisation theory: This theory is based on the idea of intangible assets: in order for corporations to attract mergers or acquisitions, they must have intangible assets that make them profitable. These assets can include knowledge of a particular market, expertise in a particular technology, or an enviable reputation for product quality. Usually, these assets have two major characteristics: they must have the attributes of a public good (i.e. their running costs within the corporation must be zero) and they must have high transaction costs so that the most profitable way of acquiring them is through M & As rather than purchase or rental.

The internalisation theory assumes that the purchasers of the targeted corporations want to obtain their intangible assets. These assets will produce a competitive advantage that should eventually find expression in increased profit. When intangible assets are recognised, it is usually by competitors. As a result, the internalisation theory best explains horizontal mergers.

Technological competency theory: The mounting importance of technology has given rise to a new theory that is an extension of the internalisation theory. This indicates the technological competence theory recently developed by John Cantwell (Cantwell and Piscitello, 2000) and is based on the internalisation of intangible technological assets. The theory assumes that technology consists of two factors: one that can be codified (e.g. written information about the technology); and another that cannot be codified (e.g. certain abilities needed to operate it, and the ways in which it operates etc.). This latter factor constitutes technological competence. This theory has certain consequences; firstly, when targeted corporations are in industries with high technological coefficients, potential purchasers will be more inclined to install research and development capacity there, thus enhancing local innovation. Secondly, when local corporations have low technological capacities, M & As may increase the technological content of production. Thirdly, in intermediary cases when corporations engage in research but are not on the cutting edge of technology, M & As may result in the complete absorption of the targeted industry.

Transaction costs theory: A corporation may decide to acquire an important supplier in order to ensure that a particular input is available to reduce supply uncertainties or to reduce the cost of this input. This is the basis of the transaction cost theory, which applies primarily to vertical transactions. It is more likely to come into play if the number of buyers and sellers in the market are limited, information about costs and prices is limited, and the cost of changing suppliers is not negligible.

The literature on M & As is abundant and diverse. Some economists view M & As as a method for furthering antisocial activity such as monopoly power (Roll, 1986), management entrenchment (Shleifer and Vishny, 1989), rather than profit maximisation. Another group of researchers asserts that acquisitions are undertaken because managers of acquiring firms underestimate their ability to improve the acquired firms' performance (Roll, 1986). Still another group of researchers contends that firm efficiency is the motive for M & As. These researchers argue that only efficient firms survive while inefficient ones are taken over (Manne, 1965).

Ultimately, what is clear is that motives for M & As can be very divergent. Khemani (1991) expresses this very well by explaining that there are multiple reasons, motives, economic forces and institutional factors that can, taken together or in isolation, influence corporate decisions to engage in M & As. Over the last few years, the pressures emanating from international competition, financial innovation, economic growth and expansion, heightened political and economic integration, and technological change have all contributed to the increased pace of M & As.

M & As can still be motivated by such classic commercial and economic considerations as broadening the range of related products and the geographic market, diversification, and the risks and benefits of vertical integration. Finally, new or modified tax regimes, the cost of capital, and policy on such things as foreign property, economic regulations and privatisation also have an effect on the intersectoral/international variations in the number of M & As.

Traditionally, potential BEE partners often do not have the same attributes as the traditional M & A partners due, often, to the lack of experience in the particular sector of the target company and, therefore, they have to add value in other ways.

Are MacDougall's (1995) theories applicable to BEE transactions? It appears that a BEE company would have to be intricately involved in the industry itself before the theory is applicable to BEE transactions. This could have a significant impact on success bred by mutual professional respect and on the basis of the theory. A BEE partner not already involved in the industry would be seen as an investor and the MacDougall theorem could be irrelevant.

BEE transactions create different relationship dynamics among the partners, as the motives for entering into M & As are usually dependent on industry charter guidelines and/or political necessity. In essence, BEE transactions have the potential to enhance the company's competitive advantage, especially if the lack of a BEE partner in an organisation could result in loss of contracts or trading licences.

Recently, however, a new element of BEE has emerged, which is dependent on public perception of organisations that are perfectly placed to do a BEE deal but have not done so yet. A current example would be the retail sector, which currently does not have a charter despite the fact that there is mounting pressure to conclude one. Public perception and the need to be seen to be progressive and part of the nation-building process are spurring on several organisations to complete deals in the absence of regulation.

The main reasons for entering into BEE transactions are, therefore, mainly: a genuine desire to ensure the transformation of the economy; the desire to attract or protect lucrative government contracts; and the requirements of legislation.

These reasons, in essence, differ from those of traditional M & As and, therefore, leave the possibility that the reasons for transacting could impact the business success as the BEE transaction would be a transaction that the selling company would not have entered into were it not for regulations and the desire to prevent market share loss.

Other motives for entering into a BEE transaction include expanding the supplier base, increased competitiveness, lower prices, the attainment of a positive public image, reducing the risk of punitive government legislation, and reinforcing the company's commitment to social development.

On the face of it, it would appear that the motives for BEE transactions are varied and differ significantly from those of traditional M & As. But do they? Do BEE transactions not result in sustained growth in shareholder value? Do they not result in greater competitive advantage, growth into new markets or increased market share? These are some of the motives for traditional business combinations but certainly not all. No single business combination could attest to satisfying all the motives noted in the literature.

Proposition 3

The motive for entering into any M & A transaction (and therefore BEE transactions) influences the expectations from the transaction. Expectations are a critical determinant of transaction success.

2.2.2 Culture

Mckinsey and Company's Malan and Foulds (2004) argue that if a firm's culture and a BEE partner's culture do not fit, the new partly black-owned business is set for failure. If black ownership were viewed as a series of grudge equity transactions to meet empowerment charter requirements and to win lucrative state tenders, the costs would probably exceed the returns in the long run. Malan and Foulds (2004) argue that the new South African Company could be successful if an empowerment culture could be adopted, particularly one which emphasises the broad empowerment of its entire workforce (Malan & Foulds, 2004).

The high percentage of failure (of M & As) is mainly because they are still designed with business and financial fit as primary conditions, leaving psychological and cultural issues as secondary concerns. "A close examination of these issues could have brought about a learning process, directed at successfully managing such ventures" (Gilkey, 1991: 331).

In traditional M & As, there is increasing evidence that cultural incompatibility is the largest cause of lack of projected performance, departure of key executives, and time-consuming conflicts in the day-to-day consideration of businesses (Ernst & Young, 1994). One of the most important pre-merger considerations is which model of organisational culture to adopt (The Advisory Board Company, 1997).

Kanter & Corn (1994) take a completely different view. Their view is that cultural differences are over-rated and that tensions are caused by other structural factors. They go on to explain that once parties get to know each other beyond the first impressions, relationship dynamics are often determined by power rather than culture. Cultural values are utilised as a convenient explanation for other problems, both interpersonal and organisational, such as failure to respect people, group power and politics, resentment, poor strategic fit, limited communication and the inability to solve problems. Nothing succeeds like success, we are told. Organisations are willing to overlook cultural differences in relationships that bring clear benefits. Unsuccessful ventures produce squabbling even among people who are culturally similar.

Together with this, relationship strength, consisting of levels of trust, commitment, and relationalism perceived to exist within the relationship, affect the functionality and outcomes achieved by the relationship partners (Boyle & Dwyer, 1992; Mohr & Spekman, 1994; Morgan & Hunt, 1994). Although not empirically tested in combination, these constructs individually account for substantive differences in observed outcomes in business relationships (Boyle & Dwyer, 1992; Morgan & Hunt, 1994; Simpson & Mayo, 1997).

Despite the promise of most transaction relationships, most fail to achieve the joint outcomes envisioned by their organisers (Brown & Pattinson, 1995). The success of long-term relationships and the ability to survive long enough to produce tangible competitive outcomes seems, therefore, to be facilitated by some other factor or a combination of factors. These factors may assist in overcoming the challenges that arise from the external environment and may help to diffuse conflict that might develop a result of differing needs and goals of the individual stakeholders in the transaction.

Hamilton & Singh (1991) note that relationships formed to solve a specific problem or take advantage of a short-term opportunity appear to differ dramatically from those whose nature is more long term. Behavioural traits such as trust, commitment, dependence, relationalism, flexibility, communication, and power balance have the potential to affect inter-company success (Dwyer, Schurr and Oh, 1987; Mohr & Nevin, 1990; Morgan & Hunt, 1994; Cravens & Piercy, 1995; Achrol, 1997).

Once interest in organisational culture became widespread, attempts were made to define the abstract concept. “Culture refers to the deep structure of organisations, which is rooted in the values, beliefs, and assumptions held by organizational members“ (Denison, 1996:621). These deep structures appear to assume that organisational structure is a stable notion. Consistent with this view, Schein (1985) and Hatch (1993) believe culture is the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration. These assumptions have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to these problems. Schein (1985, 1990) expanded this definition by proposing that culture operates on three distinct levels: observable artifacts, values, and basic underlying assumptions. Artifacts are the symbols that are readily apparent in an organisation; for example, the company logo strewn throughout the company. Values are the norms and basic truths employees feel are important to their organisation. The basic underlying assumptions are those assumptions that are purely unconscious and only come to consciousness when some event occurs to challenge them. It is only once all three levels have been identified that the culture will be completely understood (Schein, 1985).

On the basis of the above, cultural considerations in the context of business relationships appear to be relevant when the transaction is taking place between two established entities who have developed this organisational culture as described in the literature referred to above. Traditional acquisitions usually do take place between two established entities that have developed a culture; however, BEE transactions normally take place between an established entity (the acquired company) and relatively young BEE company, which might not yet have established a culture of its own. The question then remains as to the relevance of cultural integration and culture overall in BEE transactions?

Even in the best of circumstances, M & As can so change the nature, orientation and character of one or both of the merger partners that five to seven years are typically needed for employees to feel truly assimilated in the merged entity (Covin, Kolenko, Sighter & Tudor, 1997). If one of the entities in the transaction has no established culture then logic would rule that culture would not play a role in the success dynamics of a BEE transaction.

Proposition 4

Culture plays an important role in developing business relationships and business relationships are critical in ensuring the success of both traditional M & As and of BEE transactions.

2.3 How does the Funding of Black Economic Empowerment Deals Affect Business Success?

BEE transactions are sometimes completed on terms below fair market value, with various schemes and finance structures that would not normally be used in a traditional M & A.

These schemes include Special Purpose Vehicles (SPVs), Joint Ventures and vendor financing at a discount. A vendor not obtaining a fair price might not be very willing to sell and, if forced to sell, might not have a normal cordial relationship with the buyer, which would impact on strategy consensus and effectively impact on business success. This might certainly be the case with BEE transactions.

The Mining Charter stipulates that the transfer of equity ownership in a BEE transaction must take place in a transparent manner and must be concluded at fair market value. New Acts or charters have not dealt with issues such as the concept of “fair market value” and exit mechanisms fully. It is doubtful whether a vendor, in fact, obtains the fair market value since the market perceives the sale as a forced transfer of assets into the hands of relatively inexperienced players in the industry. (DuMoulin, 2004).

Moeletsi Mbeki, the South African President’s brother, in obvious reference to BEE transactions not done at fair value, slated BEE by stating, “This transfer of assets is killing entrepreneurship. They (black businessmen) have to take risks; otherwise, you create this army of parasites who live in a world of smoke and mirrors." He goes on to say that "Black Economic Empowerment has been about shuffling ownership of assets from conglomerates to the emerging black middle class". (Lebelo, 2004)

In the first wave of empowerment in the mid-1990s, BEE deals typically involved giving empowerment partners special-class shares that held no voting rights and which held diluted value. The requirements of the BEE Act and industry charters, however, require full economic ownership and voting rights to be transferred to empowerment players. However, transferring full ownership and control is no easy task as there is a lack of capital for empowerment deals.

Fleischer (2004) writes that because prospective BEE partners have not been empowered in the past they have not had the opportunity to build the capital required to buy into business. As a result, their access to capital is through loans. However, BEE partners have not had the opportunity to build assets to offer security against such loans. As a result, BEE deals have had to use complex financing mechanisms whereby new partners are given company shares with full voting and economic rights and then use the dividends or capital appreciation of those shares to pay for them later. This can be effective but relies too much on market contingencies for success.

Dada (2004:14) writes that new BEE structures implement earnings targets as a way to fund share purchases. He notes that In these earnings-target models, the BEE partner has to make a contribution to earnings to raise the capital to purchase the shares. This gives BEE players concrete targets and allows them to influence the success of a deal instead of relying on how the company share price is moving.

The deals are often structured so that they are dependent on the company's performance rather than on the performance of its share price.

The literature highlights the importance and the prominence of funding structures in BEE deals. The funding methodology could play an important role in ensuring success or failure of the transaction. A burdensome structure could have a negative impact on the BEE partners while a structure heavily favouring the BEE partners could lead to resentment and, ultimately, business failure.

Proposition 5

Special finance structures for BEE transactions have the potential to affect the business relationship between partners and, ultimately, impact the success of the transaction.

2.4 BEE Partners and Operational Influence

Rumney (2004) notes in a Sunday Times column that empowerment deals made to date have brought about real empowerment and have been an exercise in reshuffling shares. He further emphasises that ownership rather than actual participation of BEE shareholders in the business is the focus of charters and empowerment scorecards.

Wu (2004), an Executive Director at Empowerdex, writes that ownership remains the key priority of BEE, which explains why there is an emphasis on the ownership and control measure in the BEE Code of Good Practice, published by the Department of Trade and Industry in 2003. Rumney (2004), however, still argues that ownership cannot be about holding 25% of a company's shares without having any operational involvement in running the business and generating profits. Ownership is meaningless without a translation into profits.

Vergunst (2004) argues that other empowerment prerogatives such as enterprise development, skill development and procurement have suffered because of the focus on ownership. He writes that BEE compliance has become a competitive advantage, especially when companies are dealing with government. He explains that companies have prioritized ownership details over other concerns because ownership can easily be terminated.

Companies conclude the ownership transaction first and then adapt their performance in other categories to suit their competitive needs, rather than embrace these categories upfront.

Chonco (2004) makes a critical point that ownership should be the number one concern for BEE, as it requires top-level decision makers to drive other areas. He explains that ownership is critical as it allows management to focus on ensuring that skills development; employment equity and procurement flows are a success.

The need for BEE transactions also increases the risk of “fronting”. The creation of business opportunities targeted specifically at the designated group may be hi-jacked by those in the non-designated groups. Insufficient skills and resources amongst the designated group provide an opportunity for the use of fronting, window-dressing and opportunistic mechanisms by non-designated individuals to take advantage of the opportunities. This will result in the inability of the initiatives to achieve sustainable economic empowerment in the long run. (Jack, 2002).

An anonymous writer in the Sunday Times of 14 November 2004 emphasised that most deals represent a continuation of the concentration of equity in the hands of a few individuals seen to be politically bankable by big business. No matter how alluring the potential for profit or power may be, these individuals should commit themselves to adding real value to a company – and forfeit the prospect of “grabbing” as much as they can.

The focus on ownership instead of adding operational value lends itself to decreasing the chances of operational success subsequent to the BEE transaction. The acquisition of skills that would be associated with a traditional business combination would be irrelevant in a BEE transaction as the transaction takes place at an ownership level and not an operational level. The attendance at board meetings and shareholders meetings by the BEE partners could compromise the potential operational efficiency that a business combination could bring. It is also often important that the BEE transaction extends its influence in ensuring that operationally the BEE partners and their representatives are involved. There are increased sensitivities related to black ownership but white control and management. The perception of empowering black people and its realities are becoming more and more important in winning new business.

Proposition 6

The perception of BEE is driven by the effectiveness of the operational influence of BEE partners. Professional influence leads to potential business expansion and is therefore a success factor for BEE transactions.

It is critical in a BEE transaction that the black partners have operational influence and feel part of the strategic direction and implementation process.

The operational influence of BEE partners also serves the function of improving or developing the perception of BEE and value added by BEE partners.

Positive perceptions ultimately enhance business relationships and create an environment conducive to business success.

2.5 Experiences from other Economic Empowerment Initiatives

2.5.1 The Malaysian experience

The Malaysian economic empowerment experience is fairly similar to that of South Africa and a comparison may be useful for determining factors for BEE success.

Malaysia has three ethnic groups: the Chinese, the Malays and the Indians. The Malays are in the majority but are the poorest, like the black population of South Africa, while the Chinese are the most economically successful but fewer in number. They can be compared to the white component of the South African population.

Morris & Marsh (1992: 252) state that “Malay participation in commerce and industry was negligible, reflecting their lack of institutions to mobilise capital and pool economic resources effectively”.

As in South Africa today with the black population, Klitgaard (1991: 30) notes that, “despite the Malay domination in politics and government decision-making, there was little tangible evidence of benefits.”

Faaland (1990: 30) states that

> After 1970, the state, led by a younger generation of Malay leaders, took a highly interventionist role in the economy under the banner of the ‘New Economic Policy’. This policy was introduced to accelerate the transfer

> of wealth to Malays, and to prevent the erosion of their already established political position. Targets were set so that by 1990 Malay corporate ownership would be 30 percent non-Malay, 40 percent Malay and foreign ownership 30 percent. The economic empowerment of all Malays did not take place, however, and instead a Malay high class society was created as a result of this policy.

One indicator of Malay economic advancement is the ownership of corporate assets. In 1970 the Malay share of these assets was 2%, but by 1990 this had reached nearly 20%. The government ultimately aims at 30%.

Income disparities are now greater within the Malay community than within any other ethnic group in Malaysia (Klitgaard, 1991: 32).

It is clear from the Malaysian situation that the redistribution of wealth along ethnic lines does not succeed if it is imposed upon people; instead it creates racial division. Economic empowerment can only be a success if it contributes to the proper redistribution of wealth among all ethnic groups. Can South Africa's approach work?

2.5.2 Economic History of Sanlam and Gencor as part Afrikaner empowerment

Today blacks in South Africa have political power but have no real economic power. In the 1940s the Afrikaners acquired political power also but did not have economic power.

In the 1960s the politically disempowered (the English) took the initiative to economically empower the Afrikaners. Marais (1995: 7) states that:

> Then, the small Afrikaner mining house Federale Mynbou (Fedmyn), which was best known for its collieries 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.

Marais (1995: 8) goes on to write that:

"General Mining with Fedmyn, won control of Union Corporation, bringing together two companies of contrasting cultures, one Afrikaans, and the other English. The union was concluded in 1980 with the formation of Gencor. By 1995, Gencor had become a giant industrial conglomerate with investments spread across the South African business spectrum".

Excepting that the Afrikaners had the means to mobilise capital in the 1960s, there are some similarities between empowerment then and now, such as political power without economic power.

Afrikaners were united in their desire to achieve economic success. They managed to build on what they already had in business and expanded their corporations through acquisition and diversification.

Potgieter (1970: 212) supports this view that Afrikaners had a desire to succeed, 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 share."

It took years of hard work on the part of the Afrikaners to build Gencor up into one of the biggest mining houses. Marais (1995: 9) explains:

> "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."

Concerns on the time frame available to make significant progress, worries over enriching a few black elite to join the white elite, the need for far reaching affirmative action, the formation of strategic alliances and joint venture partnerships and the development of small businesses are all issues that need attention and solutions. There are also concerns about when black businesses will be in a position to acquire big corporations with their own money without incurring unrealistic levels of debt, as well as the slow pace of the privatisation of State assets. Unbundling is a top-down approach whereas all the other factors are bottom-up approaches. All these factors need to be amalgamated to create one big process: the BEE process.

> On a study of the Afrikaner economic empowerment, Sishi (1998) comments that Afrikaaners were greatly concerned about the collective advancement as a nation even though they might have pursued individual interest.

A number of ambitious entrepreneurs among the Afrikaner tried different ideas and business ventures on a smaller scale before the English aided them, but more so later. After SANTAM-SANLAM was formed in 1918, Afrikaners gained confidence in business because of the funds they could mobilise through the two insurance companies. Once English aid stabilised them, they were on course to success and implemented a number of initiatives in order to promote economic independence.

The above account shows beyond doubt that even though Afrikaners were helped to enter the world of large businesses, they did this through their own will to succeed. They did not wait for success, but worked towards it themselves. Despite a number of failures they never gave up hope; they continued trying. The most important lesson here for blacks is that the Afrikaner learned at a very early stage that being individualistic would not work for them, since they did not have capital. They formed bodies to ensure that they succeeded as a nation and cared for one another's economic interest.

Education was an important issue for them, and they built their economic empowerment through education, unity and the sharing of a national goal.

When the Afrikaner came into power in 1948, a great deal had already been achieved economically. Their power ushered in a new period of economic development, when a strong impulse from the State encouraged development of the national economy through institutions which called for the investment of considerable State funds. These institutions included the Industrial Development Corporation (IDC), SASOL at Sasolburg in the Orange Free State, and the Phosphate Development Corporation in the Transvaal. In all these undertakings Afrikaners performed and still perform leading functions. Afrikaners played leading roles in economic commissions of inquiry and in the public service. When Afrikaners had set goals they always set out to achieve them collectively. Their government helped to further their aims and made a success of the Afrikaner nation.

In the Malaysian experience, the partial economic success of the Malays could be attributed to government policies, which included the introduction of the

NEP, whose structure was revised every five years. Unlike the Afrikaners, the Malays were very poor before they became the majority party in Government. They were also largely involved in farming in the rural areas where they were mostly based. They were uneducated and unemployment was high; consequently, poverty was rife. They needed interventionist policies in order to change their economic status (Sishi, 1998).

During the colonial period affirmative action programmes favoured Malays, but did not make a difference in their daily lives. After the political riots in 1969 followed by independence, the Malaysian government which was dominated by the Malays introduced more stringent policies that intensified affirmative action for the Malays. Affirmative actions in Malaysia only referred to ethnic groups, and not to religion, sexual orientation, gender disabled people or any of the previously disadvantaged people.

As did the Afrikaner, the Malays used the power of the government to create opportunities for themselves. The Malays were also involved in farming, which is mainly carried out in the rural areas. Since Malaysia's independence the situation of the Malay people has improved remarkably in terms of wealth distribution, and there is now full employment in Malaysia. In fact, with the economic boom in the country, there is now a workforce. Both positive and negative lessons were learnt from this experience, and these are summarised below. (Sishi, 1998)

2.6 Positive lessons

When the Malay-led majority party took over the government in 1969, policies were introduced which accelerated the transfer of wealth to the Malays.

Targets for affirmative action were set and progress monitored.

Land settlement schemes, agricultural credit and price support were introduced.

A larger proportion of civil service posts, university scholarships, business permits and licences were reserved for Malays.

Affirmative action in Malaysia contributed favourably to the redistribution of wealth and status of racial or ethnic groups.

Education policies were implemented, which resulted in the Malays being well educated.

Roads and bridges were built to connect the rural areas with infrastructure and enable rural dwellers to travel to the cities and render them reachable.

Special efforts were made to develop Malay's businesses through public trusts set up in the fields of engineering, construction, insurance and trade.

Public trusts were also set up for business ventures in hotel ownership, mining and container ownership.

Malay economic advancement was reflected in asset ownership which grew from 2% in 1970 to 20% in 1990.

2.7 Negative lessons

The Malaysian experience has shown that compensatory discrimination is counter productive in the effect it has on race relations.

Economic inequalities between ethnic groups have been contained but not reduced, while inequalities between each community have worsened.

The needs of the really poor members of all ethnic groups have been neglected.

Malaysian policies achieved co-operation rather than integration among the ethnic groups.

The Malays are, generally, administrators in the public service while the Chinese continue to make money.

There is a great deal of corruption including nepotism and bribery in the public sector, and in the allocation of government contracts. This corruption, which is rife in the whole Asian region, contributed to the recent collapse of most of the Asian economies. Chinese businesses that want to attract government contracts use Malay “front men” in their businesses and pay them off once the deal has been signed.

Malaysia’s efforts to create a more equal society economically have only created a more fragmented society.

This experience has shown that it is difficult to target disadvantaged groups and easy to benefit those who are already advantaged.

It is not easy to eliminate affirmative action once it has been legislated. The culture of entitlement lingers on indefinitely.

There is danger of ignoring other ethnic groups, even if they are poor, if they do not belong in the favoured group.

The ruling party could lose support from the “ignored’ and the poor who may lose confidence in the government’s ability or will to help them, and cause political instability.

The Malaysian experience also offers a variety of issues for South Africa to consider. It is not a perfect model but offers some useful lessons. It is clear that each country would have to customise its reform policies to suit its circumstances.

Although the Malay and Afrikaner experiences offer insights into the patented success of BEE in general, this could offer valuable assistance in determining the success factors of a singular transaction.

3 PROPOSITIONS

3.1 Proposition 1

The motive for entering into any M & A transaction (and, therefore, BEE transaction) influences the expectations from the transaction. Expectations are a critical determinant of transaction success.

This view is supported by Trautwein (1990); Langford (2004); Lubatkin (1983); McDougall (1995); Roll (1986); Shleifer and Vishny (1989); Manne (1965); and Khemani (1991).

3.2 Proposition 2

The perception of BEE is driven by the effectiveness of the operational influence of BEE partners, leads to potential business expansion, and is therefore a determinant of success for BEE transactions.

It is critical in a BEE transaction that the black partners have operational influence and feel part of the strategic direction and implementation process.

The operational influence of BEE partners also serves the function of improving or developing the perception of BEE and value added by BEE partners. This ultimately enhances business relationships and creates an environment conducive to business success.

This view is supported by Rumney (2004); Wu (2004); Vergunst (2004); Chonco (2004); and Jack (2002).

3.3 Proposition 3

Special finance structures for BEE transactions have the potential to affect the business relationship between partners and ultimately impact the success of the transaction.

BEE transactions are often not concluded on the same terms as normal or traditional acquisitions as money or asset value is not necessarily transferred between the parties initially. This could affect the business relationship between the buyer and seller.

The shareholders have effectively funded the reduction of their own control in the company. This could invariably put strain in the relationship between the parties, resulting in possible diminished strategy consensus and ultimately reduced possibilities of business success.

This view is supported by DuMoulin (2004); Lebelo (2004); Fleischer (2004); Dada (2004); and Schmid (2005).

3.4 Proposition 4

Culture plays an important role in developing business relationships and business relationships are critical in ensuring the success of BEE transactions.

This view is supported by Gilkey (1991); Ernst & Young (1994); Kanter & Corn (1994); The Advisory Board Company (1997); Boyle & Dwyer (1992); Mohr & Spekman (1994); Morgan & Hunt (1994); Brown & Pattinson (1995); Hamilton & Singh (1991); Dwyer et al (1987); Mohr & Nevin (1990); Morgan & Hunt

(1994); Cravens & Piercy (1995); Achrol (1997); Schein (1985); Hatch (1993); Covin (1997), and Kolenko, Sighter and Tuder (1997).

3.5 Summary and conclusions

This chapter introduced the theoretical framework for the research based on the available literature.

BEE as a subject was addressed in a number of areas in the literature with the most obvious association made with traditional M & As. It was noted in the research that the factors for success of normal M & As would most likely apply to BEE transactions as BEE transactions themselves are a form or type of M & A.

The importance of people's perceptions of BEE, as well as perceptions of the value added by BEE partners, was highlighted and it was shown that these perceptions affect the forming of normal business relationships and, therefore, affect the likelihood of success in BEE transactions.

The key to improving perceptions was noted as operational involvement in the business after the transactions. Involvement in day-to-day operations, as well as strategy setting, by the BEE partners improves relations and has a bearing on the success of the business.

The role of motives and culture was discussed and it was proposed that the motives for entering into transactions and the cultural integration between transacting parties was critical to success in BEE deals.

The varying funding mechanisms available to BEE transactions, especially those mechanisms that are concluded at below market prices, were discussed.

These include Special Purpose Vehicles and vendor financing at a discount. These special financing schemes impact on the perception of BEE and, therefore, business relationships and for this reason will ultimately impact on the possibility of success.

Finally, the experiences of Malaysia in the 1970s and the Afrikaner empowerment in the 1950s were discussed briefly. Although no propositions were formed out of this discussion it was interesting to note previous experiences of economic empowerment and the lessons that could be learnt in order to improve the likelihood of success in BEE transactions.

At various stages in the above theoretical discussions, propositions were put forward for testing. The following chapter discusses the research methodology that will be adopted to test the propositions and the experimental results.

4 RESEARCH METHODOLOGY

4.1 Case study method

This chapter deals with the research methodology used and adapted to test the propositions derived in the previous chapter

A case study approach was determined to be the most viable method of research to test the set propositions.

Yin (1984: 13) argues that

> In general case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within a real life context.

Yin (1993) states that the case study method is also appropriate to use when researchers desire to define topics broadly rather than narrowly, to cover contextual conditions and not just the phenomenon of the study, and to rely on multiple and not just singular sources of evidence. Yin goes on to emphasise the issue of context by stating that:

> The major rationale for using this method is then your investigation must cover both a particular phenomenon and the context within which the phenomenon is occurring, either because (a) the context is hypothesized to contain important explanatory variables about the phenomenon or (b) the boundaries between phenomenon and context are not clearly evident. (p31)

The case study method is a research strategy which focuses on understanding the dynamics prevailing within a chosen setting. Its versatility and flexibility facilitate the use of one or multiple data collection methods, ranging from observation to questionnaires (Stake, 1994). It is not limited by predetermined categories of analysis; it is applicable to all the required stages:

Designing an investigation;

Collecting the pertinent data;

Analysing the data, and;

Reporting the findings.

In addition, Benbasat, Goldstein & Mead (1987) cite case study research as being suitable to use in situations where the research and theory under consideration are at their early or formative stages. This set of circumstances applies comfortably to the current study, where the limited historical BEE activity has resulted in little or no research into this area.

4.1.1 Criteria for case study selection

Assuming that a case study approach was a viable research design for the research, it was necessary to select a suitable firm to analyse. The selection of a firm was dictated by certain requirements, which have been described here.

The case should be able to replicate or extend the emergent theory

Stake (1994) advocated the sampling of cases in accordance with attributes or range of intricate nest of activities, with provision of an ideal opportunity to learn. In contrast to statistical sampling, however, the object of theoretical sampling is to choose a case which is likely to replicate or extend the emergent theory.

The company should be or should have been empowered at the time of completion of the BEE transaction

As the research is dependent on an analysis of a BEE transaction, this criterion is critical to the research process. The company should have the potential to present interesting issues. An organisation with the potential to present interesting issues was selected among a number of carefully selected companies. Eisenhardt (1989) contends that random selection is either necessary or even preferable.

Access to relevant stakeholders and data

The selection of case study depended on the researcher’s access to relevant stakeholders who were also likely to provide truthful and insightful input.

4.1.2 Single versus multiple cases

There are no real guidelines to the number of cases to be included in case research, however, Yin (1994) argues that a single case is appropriate if it meets at least one of the following criteria:

The case is critical because it is the only one that meets all the conditions of the theory;

The case is rare or extreme and finding others is unlikely; and

The case provides unusual access for academic research and if it is not investigated it will result in lost opportunity.

Validity and generalisability are limited in case research and findings are tentative no matter how many cases are selected, leading one to question whether the benefits of multiple case research outweigh the costs in terms of time and resources required to research multiple cases (Perry, 2001). A single case was selected in this research on the basis that it met both the first and third of the criteria mention by Yin (1994).

4.2 Research population

The population for this research was any company in which corporate empowerment has occurred. A possible option consisted of a pay-television company – Electronic Media Network (M-Net) which undertook an empowerment scheme called Phuthuma in 1995. This scheme was launched at the time as fairly innovative and was one the first empowerment schemes after the first democratic elections in 1994. This scheme has been reported as successful and would provide data that could replicate the emergent theory. Access to senior management and relevant data could be obtained quite easily.

4.3 Method of sampling

BEE is a largely relatively un-researched topic in South Africa. This study was completed as a case study from which further study needs to be conducted.

Judgmental sampling was used in the selection of the interviewees. Since the research dealt broadly with corporate empowerment issues, the number of people interviewed in the organisation or outside of the organisation was of no real significance.

4.4 Method of data collection

One of the major advantages of the case study in research is its multifaceted nature, which enables the collection of data from various sources, such as semi-structured interviews, informal discussions and document perusal. Triangulation is the use of multiple methods to acquire broader data, providing stronger substantiation of constructs and hypothesis (Patton, 1990; Stake, 1994; Huberman & Mile, 1995). The synergy gained from utilisation of multiple instruments to source information and data is ascribed to the compensatory capacity of these approaches to increase both the validity and the reliability of evaluating data in a research project (Yin, 1993). Owing to the nature of the study it was deemed important to obtain as many different views as possible. For this reason, the following selection`1 of interviewees was made:

The chairperson of the selected empowerment scheme;

Two executive managers involved in the scheme at the time;

Four BEE experts

Six Phuthuma beneficiaries

Three BEE participants, investors (not related professionally to M-Net)

Table 1: Interviewed Respondents

INSTITUTION	SECTOR	NAME	DESIGNATION
DVM Metals Ltd	BEE investor (Mining)	Nqgupelelo Mazwu	Deputy CEO
Empowerdex	Consultancy	Vuyo Jack	Chairman
Multichoice (Pty) Ltd	Media	Nolo Letele	CEO
Johncom Limited	Media	Connie Molusi	Former CEO
Individual	Individual	Imtiaz Patel	Phuthuma Investor
Phuthuma Futhi	M-Net empowerment scheme	Advocate Kgomotso Moroka	Chairperson
Individual	Individual	Ivy Groot boom	Phuthuma Investor

Individual	Individual	Joey Chame	Phuthuma Investor
Individual	Individual	Jaya Naidoo	Phuthuma Investor
Individual	Individual	Herman Thapedi	Phuthuma Investor
Individual	Individual	Shamla Moodley	Phuthuma Investor
MIH Limited	Media	Clarrisa Mack	Regulatory Director, Board member ICT Charters committee
Empowerdex	Consultancy	Chia Chao Wu	Managing Director
Kaltezo Syzygy	Consultancy	Don Lindsay	CEO
Kaltezo Syzygy	Consultancy	Justin Spenser	Director

		Young	

Case study research usually draws on multiple sources of evidence. Yin (1994) maintains that the major rationale for using multiple sources of evidence is to achieve data triangulation; the aim being to develop converging lines of enquiry. To this end, this study used the following sources of evidence:

In-depth interviews with selected senior management of the selected company involved in the BEE transaction;

Interviews with financial analysts or BEE experts who could provide independent insight into BEE transaction success; and

Interviews with BEE transaction beneficiaries.

Argyris (1982 emphasises the importance of differentiating espoused theories from theories-in-use. He explains that the theory-in-use is what really happens. The espoused theory is what people say happens; it is the official version of how the programme or organisation operates. Interviewing managerial staff and administrators and analysing official documents reveal espoused theory, whereas directly observing the programme and interviewing independent people, including financial analysts, reveals the theory-in-use.

This research used interviews as the main tool for collecting data, with documentation used extensively to supplement data acquired through these interviews. Documentation was used for historical information to answer all the research questions.

The questionnaires were prepared for each set of interviews as set out in Appendix 4. However, in order to test the set propositions, each questionnaire included questions intended to provide answers for the verification of each proposition. The proposed questions (which are also included in the interviewee's questionnaire in Appendix 4) for each proposition are outlined below:

Proposition 1

The motives and therefore expectations from the transaction for entering into any BEE transaction are a critical factor of success:

What was the motive and expectation for entering into the BEE transaction?

If the motive and expectation were different do you think this would have affected success?

Is motive important in determining the success of transactions?

Would your company have entered into a BEE transaction without charter or legislation requirements?

Proposition 2

Operational influence of BEE partners leads to potential business expansion and is therefore a success factor for BEE transactions. Operational influence also improves perceptions of value add by BEE partners.

What kind of BEE partner were you looking for and why?

Does it matter if the BEE partner or head members of a consortium have any experience in the industry invested?

Do you expect or want your BEE partner to be involved in operations? Why?

How do you feel about BEE partners who hold stakes in many entities? Do they pay sufficient attention to your business and does this affect success?

What is your view of industry charters and/or BEE legislation?

Does BEE kill or promote entrepreneurship in that blacks no longer need to start up their own businesses?

What is your current perception of BEE in general and does this perception affect your business relationship with your BEE partners?

Do your BEE partners have set performance criteria?

What are the punitive measures, if any, for not reaching these targets. Does this impact on success?

Overall, does your BEE partner add value to the organisation?

Proposition 3

Special finance structures for BEE transactions have the potential to affect the business relationship between partners and ultimately impact on the organisational success.

How was the BEE deal financed?

Do special BEE financing structures affect business relationships and success?

What financing structure would make the most sense and increase the chances of transaction success?

Proposition 4

Culture plays an important role in developing business relationships and business relationships are critical in ensuring the success of both traditional M & As and BEE transactions.

How important is cultural fit in BEE transactions?

How do you deal with obvious cultural differences between yourself and your BEE partners?

Do cultural differences matter when the organisation is performing well?

When selecting a BEE partner does the issue of culture play a role in the selection process?

4.4.1 Interviews

Data was collected through personal interviews with two senior executives from the company selected, six scheme participants, the chairperson of the empowerment scheme, four BEE experts and three BEE investors not linked to M-Net. The views of four leading BEE experts and three non-related BEE investors were also elicited through interviews to obtain independent opinions on the question of success factors of corporate empowerment deals as well as insight into the selected transaction itself. The vehicle employed to elicit the data were open-ended questions.

The outline, composed of predetermined questions covering the BEE issues pertinent to this study, was prepared for each set of interviewees. Questions were prepared and each interviewee was asked a number of pertinent open-ended questions. Appendix B contains the appropriate questionnaires.

Care was taken to avoid leading questions, to respect the respondents' time constraints and to avoid losing focus during the in-depth interviews. The range of the open-ended questions was limited to the scope of this report. Consequently, the semi-structured interview schedule was concise and no longer than absolutely necessary. The duration of the interviews varied from

45 minutes to over an hour depending on the length of the answers given to the questions asked, as well as the time constraints of each interviewee.

The researcher acknowledges certain limitations inherent in the interviewing situation. The emotional state of the respondents could have caused distortion associated to personal bias, anger, anxiety, politics, self-serving interest or a simple lack of awareness.

The interview method also ensures that all questions posed are answered in sufficient depth and allows probing of any unclear responses. Interviews also ensure that the task of answering the questions is not delegated to a junior officer as the interview is set up with the desired respondent.

4.4.2 Documentation

The organisation's existing public documents and records were explored to find additional information of historic and/or unobservable data. Newspapers and financial journals that reported on BEE deals were used extensively. The researcher endeavoured to access a variety of records and documents as permitted in order to gain insights into the challenges and success of the BEE process.

The importance of negotiating access to documents and records at an early stage of the research is emphasised by Patton (1990), who suggests the following for perusal:

All routine records including financial and budget records;

Organisational policies;

Regulations;

Memoranda;

Charts; and

Other relevant documents.

Fontana & Frey (1994) state that documents serve a dual purpose: firstly, as a basic source of information and, secondly, in stimulating questions to be pursued through either direct observations or probing in the interview session.

4.4.3 Observation

In an effort to overcome the intrinsic bias that comes with a singular data-sourcing method, observation is an appropriate supplementary method to validate and verify data gained from interviews and documentation. The observation approach particularly provides a check on what is reported in the interview session and therefore enables the observer to validate and verify data in the process of gathering it.

This research project tried to "check out the consistency of the different data sources within the same method, that is, the triangulation of data sources" (Patton, 1990: 464). Triangulation is the strategy used to reduce systematic bias in the data.

However, this method has limitations as well, as noted by Webb (1995):

The observers may affect the monitored situation in unknown ways;

Observation can only focus on the external behaviours of the respondents;

Time constraints limit the sample of activities which can actually be observed; and

Owing to the limitations mentioned above about observation, the researcher did not use observation extensively.

Triangulation of qualitative data sources seldom leads to a single totally consistent picture (Stake, 1994). Hence, the emerging differences should prompt further questions and increase understanding as the case study unfolds. The accumulated data contributed significantly to the overall findings.

4.5 Data Analysis

The data analysis activity took place concurrently with the collection and interpretation of the data and the writing of the report. This is different from quantitative research, where the process is linear (Creswell, 2003).

The following procedure was used for analysing the data:

Descriptive codes were created in order to classify the words (Huberman & Miles, 1994). The codes were derived from the conceptual framework of the literature review that led to the propositions. Each proposition was allocated a master code. Sub-codes were also created and these sub-codes captured the issues linked to each other master code as stated in the propositions noted in Chapter 3. Finally, a third-level code was created to separate the details linked to each of the issues as classified by the sub-codes. New codes were created as and when new factors emerged (Refer to Appendix 5 for a copy of the list of codes and associated definitions).

The codes were used to organise the data, thereby facilitating retrieval and analysis. In order to do this, each concept articulated by the respondent was coded and all the ideas linked to each code were clustered together. Each concept generated by a respondent carried his or her initials alongside.

In addition, the frequency of each identifiable factor was tabulated. This informed the researcher as to the perceived importance of the identifiable factor across the respondents. For the frequency count, only statements per organisation were counted, in this way making the number of respondents equal to 20. The researcher chose to do the frequency count in this manner as respondents from the same organisation participated in the same interviews and in all cases held the same views. As such, the researcher thought that the counting of each respondent would cause the results to become skewed. No statistical analysis was performed on these results.

To provide additional insight into the meaning of the results, comments from the transcribed interviews were used as part of the discussion. The comments have been quoted verbatim, notwithstanding possible grammatical errors. The researcher has not attributed each quote to the relevant respondent. The reason for this is that it was felt that this would undermine the confidentiality requirement of the respondent.

4.6 Limitations of the Research

The researcher acknowledges certain limitations of the research:

The research findings cannot be generalised as this study involved one BEE case located in Gauteng. Yin (1994: 10) contends that this is a general concern about case studies and notes that, “case studies provide little basis for scientific generalization”.

The information on BEE is often confidential; merchant banks and financiers do not want all the details to be known by their competitors. However, all possible information was accessed, and appeared in such a form as to avoid breaching confidentiality.

There is danger that the researcher may have introduced bias when analysing data, because of the views espoused, although care was taken to avoid bias. The temptation which the logical analysis might pose is manipulation of the data to force it into the created categories in a particular way (Patton, 1990).

The researcher acknowledges that interviewees might not have been completely honest, especially as the questions may have prodded issues that could affect future business relationships between business partners. This could have introduced bias in the responses to the questionnaire.

With permission from the interviewee the interviews were taped. If permission was not granted then extensive notes were made directly after the interview, recording as much detail as possible to be able to capture the salient points made during the interview.

The interviews were based around the questions outlined in Appendix 4.

4.7 Validity and Reliability

> In a qualitative study, the interpretation of the data will inevitably be influenced by the researcher’s biases and values to some extent, reflecting the notion of researcher as instrument. (Leedy and Ormond, 2001:162).

The validity of an instrument is how well it measures what it is supposed to be measuring, while reliability refers to the accuracy and consistency with which the instrument produces results Leedy and Ormond. (2001:162)

4.7.1 Internal Validity

Leedy and Ormond (2001) explain that: Internal validity is the freedom from bias in forming conclusions in view of the data. Internal validity seeks to ascertain that the changes in the dependent variable are the result of the influence of the independent variable rather than the manner in which the research was designed.

The main purpose of the in-depth interview study is to provide evidence of whether the success factors for BEE transactions identified through the literature review adequately cover those experienced in practice. The in-depth interview technique ensures internal validity by directing respondents to identify and rate the success factors for the BEE transactions that their organisations entered into.

4.7.2 External Validity

Leedy (1989) suggests that external validity is concerned with whether the conclusions drawn from the selected sample can be generalised to other cases.

The sample used in the in-depth interview was small and purposive in nature and was not intended to be representative of the population. It was therefore not possible to generalise the views and opinions of this sample across the population concerned. The researcher sought diversity and expert opinion rather than coverage during the study in order to challenge the potential success factors for BEE transactions, as well as to address the research questions. The aim of this study was not to generalise but to draw conclusions relevant to the South African context. Further study would invariably have to be conducted in order to develop a general view of success factors for BEE.

4.7.3 Reliability

In order to improve reliability, questionnaires used for communication with the interviewee included explicit explanations and definitions. In order to ensure equivalence the researcher personally conducted the interviews.

There were multiple perspectives held by different individuals, each having validity and truth. One goal of the qualitative study is to reveal the nature of the multiple perspectives.

The analysis of the data was to look for patterns in complex phenomena and for whether the researcher had brought subjectivity to his or her observations, as is often the case with social scientists. In order to minimise the extent of prior expectations and opinions that the researcher may have in the analysis, multiple and varying perspectives on the success factors of BEE were obtained. Any evidence that contradicts the propositions was actively probed and recorded.

5 DESCRIPTION OF THE CASE

Electronic Media Network (M-Net) is a Pay-TV broadcaster started in 1986 by Koos Bekker. Although his early life is not well documented, Bekker grew up on a farm in the Cape and was schooled there. He left South Africa to go and study at Columbia University in New York in the early 1980s and, as part of his MBA, he wrote a thesis on Pay-TV. Home Box Office (HBO) had just launched in the United States at the time and Bekker realised that the Pay-TV idea could work in South Africa. He approached Ton Vosloo of Nasionale Pers (Naspers) with the idea for a Pay-TV channel. It is no secret that in the mid 1980s there was extreme political unrest within the country and at that time English language press was under siege from all sorts of Afrikaner media. Naspers had a very strong link to the Afrikaner Broederbond and had access to the National Party Government. Therefore, it was extremely easy for Bekker and Vosloo to convince the state broadcaster SABC that a Pay-TV channel was not going to be a threat to their advertising revenues as the Pay-TV model relied heavily on subscription revenue. Another factor that was positive for the setup of Pay-TV was the fact that it would only deal with general entertainment and would not cover news. Pik Botha, the then minister of broadcasting, was highly impressed with the young Bekker and his ideas and duly awarded the Pay-TV licence to him. (Paul, 2003)

In the first year of operation M-Net’s revenues were only R500 000 against expenses of about R3, 5 million. But within two years M-Net had turned around and in 1990 was listed with MultiChoice as a subscriber management entity and digital services subsidiary. MultiChoice Africa was created in 1995 and now today, the Pay TV group reaches about 1.4 million households in more than 40 countries across Africa. (Paul, 2003). Bekker took over from Vosloo in 1995 as CEO of Naspers (M-Net's parent company). Most of Naspers's revenue presently is derived from this Pay-TV business.

M-Net has realised steady growth in revenues, averaging about 13% per annum. This has been driven mainly by a number of factors including: the advent of digital television meaning that higher subscription revenues could be charged for a multi-channel product offering. This revenue has resulted in a steady increase in operating profit of between 15% to 20%, but this growth has recently been slowed down by the Rand/USD exchange rate fluctuations. (M-Net SuperSport Annual Report, 2001).

The M-Net business, however, generates a lot of cash from subscription payments received in advance on a monthly basis. M-Net's early business model depended solely on analogue subscribers but, with the introduction of digital technology, the multi-channel product offering has resulted in steady growth of digital subscribers. Some of this growth was a direct result of analogue subscribers migrating to the digital bouquet with M-Net and MultiChoice facilitating this migration because of the higher margins achieved from digital subscribers. (M-Net Budget Business Plan, 2003)

South Africa has gone through a significant shift of not only economic power (arguable) but political power in the last 10 years. This changing climate has also meant that management has had to make significant programming choices to suit different markets. As early as 1994 the percentage of black subscribers was only 4% of total subscribers, yet now in 2007 this number has risen to as much as 25%. This can be directly attributed to the programming changes made as well as to the growing black market. The Afrikaner market, however, remains dominant within the subscriber profile of MultiChoice and M-Net and, as a result, the strategy will, in the short term, always be to ensure that this market remains satisfied with the content. (M-Net Budget Business Plan, 2003)

The content strategy has been effective not only because of the increase in the number of black subscribers but also the fact that the Afrikaner market has not actually felt this change in programming strategy. The audience ratings, which are measured on a regular basis, reflect that all the content within the existing channels that was introduced to attract the black market consistently achieves high ratings in that specific target market and that the channels and programs that have been selected to cater for the Afrikaner market also achieve very high ratings in that specific Afrikaner target market. It is not inconceivable that in the future (± 10 years) the programming strategy will lean more towards black content as the percentage of black subscribers became stronger and the Afrikaans market possibly begins to dwindle. The ideal would be for the Afrikaans market possibly to remain static and the black market to grow as this will result in subscriber growth. (M-net Budget Business Plan, 2003)

The regulatory environment has also shifted since the change in political power. This began with the allocation of a second public broadcasting or free-to-air broadcasting license to e-TV and although e-TV began very slowly, it has gained significant market share since its inception.

5.1 The Black Economic Empowerment Transaction

In 1995 M-net announced a revolutionary and innovative empowerment scheme called Phuthuma.

Some 8000 previously disadvantaged South Africans acquired R70 million worth of shares that amounted to 5% of the market value of M-net at the time. The Phuthuma scheme was 35% over subscribed when applications were called. These shares were made available by the original major shareholders, MIH Ltd and Multichoice. (business.iafrica.com, 2006)

Black South Africans were offered shares at R2.50/share, with participants required to pay 10% deposit on the cost of the shares. The outstanding balance would be payable at the end of three years. At the end of the three years shareholders were expected to exercise any of three options open to them which were:

Participants could pay off the balance owed on their shares from their own funds;

Participants could sell a portion of their shares, raise money to pay off the balance and acquire full ownership of the remaining shares; or

Participants could elect to sell off their shares (business.iafrica.com; 2006).

At the end of the initial Phuthuma scheme (September 1998) another scheme named Phuthuma Futhi was introduced on the same basis as Phuthuma, but with the aim of offering more shares to previously disadvantaged participants. The aim was to sell 28 million shares at R4/per share. This price was determined using a 30-day average to January 28 1998, reduced by ceding the dividends on the linked shares to Multichoice Africa (the major shareholder at the time) over a three-year period. (business.iafrica.com; 2006)

M-Net announced the reasoning behind the second scheme as:

To allow members of historically disadvantaged communities to participate in the growth of quality assets such as M-Net and SuperSport, to broaden the spread of the M-Net and SuperSport shareholder base and thus improve the liquidity of M-Net and SuperSport shares on the Johannesburg Securities Exchange.

To enable people who did not participate in the first Phuthuma offer the opportunity to participate in the Phuthuma Futhi share offer.

5.2 Funding Structure of the Phuthuma and Phuthuma Futhi Scheme

Multichoice disposed of 28 million linked units to the Phuthuma Futhi Trust (a special purpose vehicle) at a price of R4.00 per linked unit. The acquisition price was calculated based on the average price at which the M-net shares traded on the JSE for the 30 days to 28 January 1998 and was reduced by the present value of the expected future dividends of M-net and SSIH for the next three years, which were ceded by the participants to Multichoice in terms of the Phuthuma Futhi Share Offer.

The Phuthuma Futhi Trust simultaneously offered for sale the 28 million linked units to members of the historically disadvantaged community.

The participants were required to pay a non-refundable upfront deposit of 10% of the acquisition price to the Phuthuma Futhi Trust and the balance of the acquisition price plus financing costs on the third anniversary of the implementation date, which was anticipated to be 14 April 2001.

The Phuthuma Futhi Trust paid Multichoice the acquisition price by utilising the 10% deposit paid by the participants and by issuing preference shares to third party financiers for the 90% balance of the acquisition price. The participants pledged the linked units to the Phuthuma Futhi Trust as security for the outstanding balance.

On the third anniversary of the implementation date of the Phuthuma Futhi Share Offer, participants were required to make an election pursuant to which a participant could do one of two things:

Pay the outstanding balance of the purchase price of the linked units by repaying the outstanding balance either in cash or through alternative financing, or through the sale of sufficient linked units. On full settlement of the outstanding balance, the linked units would be delivered to the participant.

The participant could elect not to discharge the outstanding balance of the purchase price of the linked units, in which event a sufficient number of the participants' linked units would be realised and the net proceeds from the sale applied in set-off against the outstanding balance payable by the participant for the linked units. Thereafter, the balance of the linked units would be delivered to the participant. The participant would not be liable for any shortfall or realisation.

Participants at the time were encouraged to save money in order to pay for the shares and not to rely on the movement of the share price. Shares were not tradable and had to be registered in the participant's name until the end of the three years. A minimum number of linked shares that could be purchased was 100 shares and, thereafter, blocks of a 100 shares each. The maximum number of linked shares that an individual could purchase was 500 000. The maximum number of shares that an organisation could purchase was 3 million.

In order to protect the participants, the shareholders (Multichoice) agreed with the preference shareholders that they would buy back the shares if the share price fell below the original sale price level after three years. The loss to the participant would therefore be the 10% deposit paid.

5.3 The Success of the Scheme

The first scheme (Phuthuma) lasted three years and settlement date was marked as April 1 1998. These shares were sold at R2.50 to participants; therefore, the share price would have to trade at above this level in order for the participants to make money. At closure the share was trading at R4.00/share. Therefore, it can safely be concluded that these participants were comfortably able to settle their debts and either keep their shares or sell them in the open market for a handsome profit.

To illustrate this, if a participant had brought 100 shares for R2.50 and sold them all on scheme closure date he or she would have made (R4.00 – R2.50) x 100 shares = R150 a 60% return on investment. This is a very good return considering the initial cash outlay of R25 made at the commencement of the scheme.

The Phuthuma Futhi scheme has shares selling at R4.00 each with a 10% deposit required (40c). This scheme was also due to have a duration of three years with a closure date in April 2001. The M-Net share price had not performed well and at the time of closure the share price was trading below the original price of R4.00. The trustees of the shares then decided to extend the scheme for a year; however, at the next closure date the share price was still trading below the original price. This required a further extension to October 2005 in order for participants to realise a profit on settlement.

The M-net share price started performing in the years 2003 and 2004; however, a decision by the then M-net shareholders, Naspers, Multichoice and Johncom, to de-list the company on 15 April 2004 meant that Phuthuma and Phuthuma Futhi participants had the option of either a cash settlement of R8.50 a share (the prevailing market price at the time) or receive one Naspers share for every 4.5 M-net shares (based on the Naspers share price at the time).

This offer would have been lucrative for participants either holding Phuthuma or Phuthuma Futhi shares as illustrated below:

Participant buys 100 shares at R4.00/share as part of Phuthuma Futhi scheme;

(R8.50 – 4.00) x 100 = R450 profit ---- 112, 5% return.

This participant would have realised a return of 112% based on the initial price of R4.00 and even greater if one considers the initial risk outlay of 40 cents required.

Even greater returns would have been realised by the participant who opted to take up Naspers shares and is still holding them today. One Naspers share was offered for every 4.5 M-net shares. This participant would have benefited as follows:

Total consideration required at time of closure = R4.00 x 100 = R400;

Total debt to Phuthuma Share trust at time of closure – R3.6 x 100 = R360;

Number of shares sold to settle Phuthuma debt = 42.35 shares (say 43 shares);

Remaining shares held = 100 – 43 shares = 57 shares;

Naspers shares held in exchange of the 57 M-net shares = 12, 67 shares.

These 12, 67 shares are effectively held for nothing as they were acquired from profit obtained as a result of the scheme. These 12,67 shares based on the closing Naspers as at 8 January 2007 would be worth R2103. This is a combined Phuthuma scheme return of 525% .

These Rand values might appear low; however, they are benchmarked against the minimum Phuthuma take up of 100 shares. If the maximum take up is utilised then 500 000 shares would be used as an example. The previously calculated monetary return of R2103 would be R10, 7million on an initial cash outlay of R200 000 or initial cost of shares of R2 million.

From a participant point of view there can be no doubt that the scheme was an enormous success and can be regarded as having led to real economic empowerment of previously disadvantaged people. This would have led to a solid contribution to decreasing income disparities in South Africa's society. From an ownership perspective, however, some former Phuthuma participants are still shareholders in Naspers. Most participants sold their shares and are no longer shareholders and, therefore, they cannot be regarded as owning a piece of the economy directly as a consequence of the scheme. This is, however, a choice they made themselves.

With reference to the definition of BEE (noted on page vi) this scheme can be considered a success.

From a company (M-Net) perspective this scheme was seemingly successful for a number of reasons:

Both the Phuthuma and Phuthuma Futhi schemes were over subscribed on offer;

Participants experienced a good return;

BEE transactions at the time were not commonplace and, therefore, these schemes were regarded as setting the pace for BEE;

There were no charters or legislation governing the broadcasting industry in place when Phuthuma was launched, increasing the weight of the transactions in the hearts and minds of the government and regulators; and

The schemes increased black participation in the economy and increased the number of black shareholders in the business.

In 2006 one of M-Net's shareholders launched Phuthuma Nathi – a similar scheme to encourage black participation in the shareholding of Multichoice. This scheme is based more or less on the same premise as the original Phuthuma schemes with similar terms of payments but differing deposit and settlement terms. The introduction of this scheme is testament to the belief, among shareholders of M-Net, that the Phuthuma BEE model was a good platform for other perhaps slightly improved BEE models.

5.4 Criticism of the Scheme

Despite the overall success of the Phuthuma schemes there were a number of elements within the scheme that could be regarded as not ideal in the BEE realm. These include:

The schemes encouraged profit taking from participants, thereby reducing the continuous flow of black ownership among shareholders of M-net. Sold shares could have been sold to other black shareholders.

The participants were not involved in the business directly and were merely passive shareholders. Few participants attended AGMs and few understood how the company was actually performing during the period.

The participants were largely from poor backgrounds, only buying a few shares and not adding meaningful value to the business.

Few of the participants actually understood the business; neither could they read the financial statements. This was, however, negated by Phuthuma trustees who were independent prominent businesspeople who looked after the interests of the participants throughout the scheme.

6 PRESENTATION AND DISCUSSION OF RESULTS

6.1 Introduction

The objective of this chapter is to present and discuss the results of the in-depth, semi-structured interviews conducted with the respondents. Comments from the interviews are used to seek meaning in the results as well as to obtain insight into the determinants of success for BEE transactions.

All but one of the interviews was recorded and, therefore, quotations noted are set out verbatim and may contain grammatical errors.

The chapter begins with a look at motive for entering into transactions and how this plays a hand in determining the success of BEE transactions. The second section of the chapter looks at the finance structure of BEE transactions and how this impacts on success of the transactions. This is followed by an analysis of the operational influence of BEE partners and a review of whether this involvement in operations influences success in ways that are referred to in the literature review. Finally, the chapter closes off by identifying other determinants of success for transactions that were noted or mentioned by respondents and that do not fall into the category of the main areas of focus.

The end of each sub-section (such as motive) also ends with a table highlighting the tally of issues mentioned by respondents related to the topic of that sub-section. These include tables 2, 3, 4 and 5.

6.2 Motive

The majority of respondents identified the motive for entering into a BEE transaction as being critical to determining the success of BEE transactions. The issues related to motive in the context of BEE success included:

- The need for gaining personal wealth, either long term or short term;
- The redistribution of wealth in the economy either through returns or company ownership;
- Legislation and the need to satisfy regulatory requirements; and
- Strategic or pure business reasoning behind entering into a transaction.

6.2.1 Personal Wealth

Respondents indicated that the accumulation of wealth as part of BEE has a significant bearing on whether a transaction is successful or not. BEE participants ultimately want to accumulate wealth whether in a small way through broad-based consortiums or as individuals.

A respondent indicated that often participants want ownership either from an egotistical point of view, for example, “I own 10% of SANLAM” or they want returns or any form of ownership. The failure to realise returns often leads to BEE participant individual failure as their profits are often utilised to finance BEE company structures or service loans. These failures ultimately lead to overall transaction failure. One respondent who belongs to a broad-based empowerment scheme noted that for him returns were permanent, especially since he had no or very little risk of losing his initial investment. Guaranteed returns ensured his loyalty towards the transaction and, therefore, contributed towards its success.

A respondent heading up a major broad-based scheme also mentioned that her scheme was successful as a result of black people achieving good returns. In separate interviews, the participants of this same scheme highlighted the importance of returns to them, no matter how small. “It was going to be an investment to make more bucks; I was hoping to make a good return.”

A respondent explained that:

> *In determining motives, expectations of both partners are critical to determining success. If a white partner’s view is that he needs a partner for convenience and he does not genuinely want to see the black participant make good returns, while the empowerment company is there to acquire a stake and reap good returns, then there is divergence in objectives leading to serious problems. White negativity and black greed is a recipe for disaster. One often has to accept that blacks generally are coming from nothing so they want to make returns quickly.*

6.2.2 Wealth Redistribution

Respondents were in agreement that, ultimately, the objective of BEE is to redistribute wealth among black people.

The term “wealth redistribution” seemed to occur often among respondents in their reference to broad-based schemes.

> *I don’t think broad-based ownership works necessarily well in all cases; it depends on the types of companies.*

Is the purpose of broad-based scheme to integrate the people into the mainstream of economy or is it a redistribution scheme? Most respondents felt that it is a redistribution scheme because there is no likelihood of broad-based participants ever going into the mainstream of the economy.

One respondent noted that the intentions of BEE and redistribution were noble and would definitely lead to successful transactions. This was in the context of broad-based schemes and not individual holdings:

> *Schemes that support broad-based redistribution are receiving the best response from government and economic stakeholders. This positive appreciation of such deals helps to serve the overall objective of BEE.*

This respondent made the point that these broad-based schemes did not really offer blacks control of the company but at least they help redistribute the economy. She continued that:

> *If you really want BEE to give people control then take the required percentage higher instead of the current 25.1% which is in essence a minority stake in a company where there are multiple shareholders. Increasing the stake above the 25.1% will give you more power. BEE is really about redistribution and because of that, I prefer broad-based schemes.*

6.2.3 Blacks owning a piece of the economy

One of the motives for entering into BEE transactions among broad-based participants and individual BEE players is the desire to own a piece of the economy.

An interesting phenomenon was noted by one of the respondents who mentioned that many participants were acquiring assets simply because they were high-profile assets for egotistical reasons. This type of investment was set to fail or to be problematic as the reason for acquiring the asset is misguided.

A respondent who is the chairman of a leading broad-based scheme and represents the “white company” noted that politics played a hand in deciding to go the broad-based route. She stated:

> *We decided to get our economic act right and it’s difficult to do that with essentially 90% of the economy in white hands. We needed to make sure that blacks have economic status in the country.*

The feeling of ownership also came out strongly in some respondents and a source of pride in owning shares. This was particularly so with a respondent who owned her shares wholly, with no loan or any sort of encumbrance attached to these shares.

> *It gave us the opportunity to own part of an international company in an unencumbered manner. Now an encumbered meaning I owe nobody nothing. That 31% that we bought is mine to do with as I see fit in any given point in time.*

There is, therefore, a sense that ownership attached to encumbered assets is not ideal and brings to bear all sorts of complications and dynamics that could lead to failure of transactions. The easier it is for the participants to acquire unencumbered assets, the more successful a transaction is most likely to be.

6.2.4 Legislation

One of the major reasons or motivations for entering into empowerment has been the requirement to fulfil legislative imperatives. This could be considered arguably the major reason for BEE and the transactions attached to it. The failure to comply with industry charters or laws governing empowerment has, in most instances, dire consequences for unempowered companies including possible revoking of licences or permission to trade.

As one respondent noted:

> *We knew we had to find an empowerment partner and that it will be a condition of our licence and, more recently, we have seen drafts of the codes and the charter which gave us an indication of what the required black equity was going to be; so our motive first and foremost is to be comply with the charter.*

Some entities have, however, entered into agreements without any legal imperatives. This is most likely driven either by proactiveness or a desire to contribute to the betterment of black people in the country, driven even sometimes by guilt or genuine concern over current economic disparities.

A respondent deftly put it as “the company says it’s going to lose market access if it’s not empowered.” It was noted that doing transactions is an expensive process but, compared to the possibilities of losing customers or a base of the market, these costs begin to look significantly reasonable.

Most black respondents noted a desire by white companies to protect their business by bringing in a black partner. This then drives the need to acquire a partner who may be politically connected in order to pave the way into government- or related contracts. This has also been described as the main reason why young people have not been heavily involved in doing transactions because the majority of influential politicians are of the older set.

One element noted from all black respondents involved in broad-based schemes was the feeling that very few companies, if any, would enter into BEE transactions if there was no legislative imperative. One respondent explained the situation in this way:

> *I am of that opinion and this is purely based on my own personal views. I think the charters and BEE legislation affected the decision quite materially in how the deal was structured. You don't do BEE and find that it doesn't count as BEE.*

A strong statement was noted from one of the respondents who indicated a similar view. The respondent further commented that beside white companies not doing BEE deals, they would probably "claim to be employing so many black people" and find a reason to justify why they are not doing an equity deal.

Ultimately, these feelings of resentment from black people about white companies only doing transactions a result of legal requirements has to impact success to an extent. White companies, on the other hand, also feel resentment towards having to sell entities because of legislation. It therefore stands to reason that, if partners in a transaction are driven to conclude the deal by such an external variable, the approach to the transaction would be significantly different to a voluntary transaction made, for example, by parties desiring operational efficiency and some other economic imperative.

As one respondent said:

> *The debate related to motive driven by legislation is a highly contentious one. How does BEE legislation differs from any other*

form of legislation? Is it not merely a strategic move than to bring on BEE partners? Then why is this process viewed with so much resentment and negativity? Do white companies have a choice? Either way, what is clear is that BEE is necessary and motive related to legislation is perhaps the main driver behind it and will, therefore, have the largest impact on determining success.

The importance of legislation drives the importance of BEE charters. They play a powerful role in the minds of the top business people ensuring that BEE issues are addressed. Charters provide a documented guide to what is required.

While charters were unanimously agreed as being necessary, some respondents felt that they had come too late when most big deals had already been done. These deals would cost millions to unwind in order for them to be compliant to current charter requirements. They also felt that having different DTI BEE codes could also cause confusion among participants and the overall objectives of the BEE could be lost, leading to massive failure of many transactions.

You are going to get a lot of fragmentation and a complete lack of harmonisation and you are not going to get accurate figures for the economy. Can you imagine if you have seven different charters each with their own definition of Equity Codes bring about harmonisation of the different pieces of legislation around BEE, and allow for one interpretation and maybe we will be able to measure the economy successfully.

Another respondent explained that charters and legislation should be proper guidelines:

They should reduce risk and uncertainty which will provide a platform for economic prosperity and ultimately lead to the success of many transactions.

Table 2: Frequency Count of Motive-Related Issues

THEME MENTIONED BY RESPONDENTS	N=14	Percentage
PERSONAL WEALTH BEE participants also want to be wealthy and invest for long term returns	10	70%
BEE participants also want to be wealthy and invest for short-term returns	9	64%
WEALTH REDISTRIBUTION BEE is all about wealth redistribution, a scheme which promotes redistribution is more likely to succeed	6	43%
OWNING A PIECE OF THE ECONOMY One of the major motives for BEE is the ability of black people to own a piece of the economy. If a transaction promotes this, it will have a good chance of being successful.	3	21%
LEGISLATION Legislation drives BEE transactions to succeed as a result of the imperatives set by the government as	13	80%

regulators.		
STRATEGIC IMPERATIVE BEE transactions driven by strategic imperatives often succeed as there are fewer external factors to be considered.	3	21%

6.3 Finance Structure

Finance structures are fundamental to any successful M & A transaction. All respondents with a deep enough understanding of finance, finance structures and mergers & acquisitions acknowledged that a finance structure could be a factor to determining the success of BEE transaction.

The major issues that could impact on this success were highlighted as: the level of discount offered on the transaction; the dividend flow arising out of the transaction; attitude and objective of the involved financial institutions; and business relationship existing between the BEE partner and the white company

6.3.1 Level of discounting

Discounts were highlighted by most respondents as being critical in ensuring the success of a transaction. Most felt that the level of discount could impact on the behaviour of the empowerment partner and the management of the acquired entity. Aptly put, a respondent commented;

> *If you give something totally for free, you will find the recipient sometimes despises you for it or certainly doesn't appreciate it.*

With this comment, the respondent also noted that the strongest partner is the one who puts his money down. Discounted shares always come with onerous targets and conditions, some of which are difficult to meet. It was noted that often, it is the shareholders who have the power to create a vehicle to facilitate the participation of black people. “They hold the cards.”

Another respondent explained that “nobody must feel they are giving anything away or being compromised”.

If partners feel this way, they are creating an environment of potential failure. Empowerment partners must contribute something to the transaction, especially at contract commencement. A deposit of 10% can strengthen relations with BEE partners and create a sense of ownership and risk on the part of empowerment partners. The other 90% can then be held in trust to be settled over a period of time out of cash flows from dividends.

One divergent view that came from two respondents was that empowerment partners are actually not really paying a discount even if they are paying a price that is below market. This was analysed on the basis that a business should review its business model, review its five-year plan based on normal business environment, and then compare that same five-year plan with one based on having no BEE partner whilst withstanding heavy political or legislative pressure to do a BEE deal.

One could find these two five-year plans quite different, favouring most likely the plan that includes having a BEE partner. Companies should, therefore, compare this forecasted profit difference with the level of discount offered to a BEE partner. Any disparities will reflect either a real premium or a real discount level for the empowerment stake.

An empowerment partner can bring revenue levels back on track by increasing exposure to new contracts and tenders. These factors also need to be considered in determining whether a discount is being granted or not.

A view held by respondents was that discounted schemes, besides possibly having a negative impact on business relationships, actually speed up empowerment. They lower the entry points of most black entrants and promote the success of transactions. These schemes ensure that disadvantaged people participate in the mainstream of the economy and, therefore, encourage the success of BEE transactions.

One respondent noted:

> *BEE terms have to be completely soft or else, it's not going to work. When I participated, I was not earning a great deal of money so if I was asked to pay more, I would not have taken part and I was better off than the majority of the so-called people who really needed empowerment. Anything beyond what I paid would have been contrary to the objective of this scheme.*

6.3.2 Dividend flows

Most respondents noted that a major function of success for any transaction is the financial success of the empowerment partner. Financial success for most empowerment partners is the ability to settle debt incurred to acquire assets and also the ability to fund operational working capital for the BEE entity.

> *It takes a long time for anything to come to them unless you negotiate a dividend structure. Even if then, you have to negotiate how to pay off all your debt before you can expect to make any money but in that time how do you survive?*

Respondents added that most schemes have been built around the ability of BEE partners to repay their debts through dividends. In this way, the responsibility of ensuring that the company delivers profits is spread to the BEE partners as well. The ability to repay debts then ensures that the partners add value to the entity and improves the business relationship between parties, ensuring a higher chance of business success.

6.3.3 Finance Institutions' Impact on Finance structure

The majority of respondents heavily criticised the finance institutions funding BEE transactions. The general feeling was that of all the parties involved in BEE transactions the institutions were the ones most benefiting. Whether a transaction fails or not, the institution always makes its returns.

One respondent explained that special finance structures are normally driven by the financial service companies because it helps them tie in the BEE entity and the acquired company. Special purpose vehicles are not always ideal; the finance structures are important for ensuring the deal is done but not really critical from a business relationship perspective.

Financial service companies were criticised by one respondent for being too focused on profit for themselves as opposed to a desire to see the transactions success. In doing BEE transactions, these companies were accused of not taking risks. Charges such as 5% of the deal value are common over and above the profit made on the interest charged as well as, in some cases, equity in the deal. These costs simply proliferate a feeling of resentment from both partners as the cost of doing the transactions becomes very high and thus impacts on the possibility of success for the transaction.

An example was demonstrated by a respondent:

> *Take for instance the Telkom privatisation. A company was given a stake in Telkom shares. They went and sought funding at ridiculous rates that were given. The price on the transaction was based on the risk the banks felt they were taking. When the transaction was done, the black entity didn't end up with anything because they owed the bank so much money. The bank took all the shares. The Telkom share was lower than anticipated but in the next months, it shot up*

> *and the banks made good returns while the empowerment partners were left licking their wounds.*

Financial institutions were heavily criticised by respondents. Their demands accounted for failure of some transactions as dividend flows and any form of distribution were first directed to the banks while BEE entities were left to worry about basic operational expenses and the settlement of their outstanding loans. As a result, the BEE partners' focus is not clear, which reduces the chances of business and transactional success.

The effects of the finance structure on business relationships

The finance structure of a transaction was noted by respondents as having a major impact on the business relationship between BEE transaction partners.

Financial institutions are, however, noted for not considering the business relationship aspects of BEE transactions and are more interested in having as many transactions completed as possible. One respondent noted the friction caused by finance structures.

> *Yes, there is resentment between management and the black shareholders. You overnight become a millionaire while white people have been working at this company for ages and I am not going to get this kind of benefit that you do, it's that kind of resentment."*

> *Sometimes it's very subtle; sometimes it's quite open, and when its open, it creates friction in the relationship and you find that the BEE deals don't actually work.*

Some respondents also commented that the discounted finance transactions often have heavy burdens placed on the black partners. Value will normally be expected from participants. Discounts are normally given to “big names” knowing that there is value that you will be bringing to the party through contracts, association and new business.

> *If I started company years ago and I have seen the company grow to a stable company, why should I just give away the value that I’ve invested for nothing, unless there is something in it for me? They must make me less badly off or better off. I am not going to give things away at a discount or preferential terms. If I am forced to do this, the relationship will not be conducive for a successful transaction.*

A more conservative view was highlighted by a respondent who explained that any transaction that brings about redistribution should be encouraged. Respondents noted that any scheme that benefits blacks or whites only should be avoided. Special discounts and schemes became important for black people because they do not have access to security for loans or to acquire finance at good rates. White people should, therefore, embrace them and not be resistant because this is what makes black people angry. A happy medium, however, needs to be struck between pleasing blacks and pleasing the whites.

One divergent view though, was:

> *Currently, we do not see any relationship between success and bad blood caused by a finance structure. Finance structures are important for ensuring the deal is done but not really critical from a business relationship point perspective.*

The majority of respondents noted the importance of the finance structure; therefore, it is highly probable that the finance structure of any BEE transaction is critical to its success.

The result of a good finance structure would then be debt-free ownership of assets, ensuring prosperity and success of transactions. The acquired company would then also have no hold over the black investor, which could improve relationships within the parties.

Table 3: Frequency Count of Finance-structure Related Issues

THEME MENTIONED BY RESPONDENTS	N=14	PERCENTAGE
DISCOUNTS Discounts are necessary for BEE transactions to be successful; they reduce the financial burden on BEE participants.	6	43%
Discounts cause resentment among owners of the acquired company. This reduces chances of success.	4	28%
Discounts are not really discounts as acquired companies do acquire benefits	1	7%
DIVIDEND PAYMENTS Transactions that include dividend payments to assist participants to repay debts are more likely to succeed.	3	21%
FINANCIAL INSTITUTIONS Financial institutions are the major cause of transaction failure as a result of the high returns and expensive transaction costs.	6	43%

BUSINESS RELATIONSHIPS Expensive or discounted – Finance structures impact on business relationships which impact on the success of transactions	10	71%
INSUFFICIENT KNOWLEDGE OF FINANCIAL STRUCTURES Most BEE participants don’t understand finance structures and engineering; therefore, they fall prey to ridiculous finance structures which lead to transaction failures	12	86%

6.4 Operational Influence

A mixture of views was noted from respondents as to whether operational involvement by BEE participants in the acquired company is critical to the success of the BEE transaction. Largely, it seems that operational involvement can impact only certain types of terms of transactions but not necessarily all.

Issues referred to by respondents included:

- The impact of a management fee on success;
- BEE shareholders often being minorities;
- Impact of a BEE partner's industry experience;
- Objective of both partners; and
- The impact of broad-based empowerment schemes on optional involvement.

6.4.1 Management fee

The contention of some respondents was that the only reason empowerment companies should get involved in operations is if there is a management fee paid. A majority of empowerment companies struggle to raise working capital for day-to-day operations within the BEE entity. The attraction of the operational involvement results from the desire to attract this fee and therefore settle operational costs and possibly assist in settling debts accumulated. This type of involvement might be beneficial for BEE success because the empowerment company would be assured of survival and, therefore, remain a shareholder. This would be different from involvement that results in or is done in order to acquire new business for the acquired entity. Often, however, the operational involvement is dependent on the size of the company. Some companies are too small to absorb any sort of operational involvement.

A respondent explained that a scaling option would be ideal, with the numbers in the management team dependent on the size of the deal. The respondent felt that acquired entities should even create positions in the structure to include the black participants in management. This structure needs to be negotiated at the beginning of the agreement as part of the terms of transaction.

Besides the management fee for operational involvement, some respondents also commented that black participants should get operationally involved for purposes of management upskilling. The view was that black management was not developed well enough and operational involvement would be an ideal way to enhance the skills of black people and increase black management exposure in different sectors.

A hybrid management involvement structure was proposed by one of the respondents. This would involve involvement but not on an everyday level and would include intervention, interaction, or merely influence in day-to-day operational issues. This would be a hybrid structure that would require a management fee but not at a level that would be unaffordable to smaller companies.

6.4.2 Empowerment companies are often minority equity investors

The majority of respondents acknowledged that, in essence, BEE companies are equity investors holdings one or several shareholders in different entities. Further to that, not only are they equity investors but, in more cases than not, they are minority shareholders. Put succinctly, a respondent said:

> *If you are a 15% shareholder, and a BEE partner and you have another 20% institutional investor, are you going to give the institutional investor operational exposure? If not, why do it for the BEE partner? Operational involvement shouldn't have anything to do with BEE at all... I think it's neither necessary nor ideal. You are giving this BEE shareholder rights which you are denying to other shareholders. The issue of other operational involvement is ridiculous.*

Other respondents supported this view, with one respondent noting that there are two types of investors: one looking to increase asset base value and another investor who is trying to do the same thing but that has a particular interest in the sector and hopes to leverage his or her presence in the sector. The intention for BEE partners should be to acquire returns and not get involved operationally.

6.4.3 Do BEE partners add value?

One of the critical questions asked of respondents was how important the industry experience of BEE partners is to the success of transactions.

Some respondents felt that value could still be added by BEE partners if they did not have experience in the sector in which they acquired a stake.

I have never thought about that. I don't think so because I think in business you should be able to walk into any kind of business, whether it's the hotel industry, whether its mining, whether its media and learn the ropes and be able to add value in that same industry and know what you want from it.

Competence versus capabilities was referred to by one of the respondents, who felt that people have the capability of learning anything new.

I don't have the skill but I am capable of learning how to do that. So if you have the skill or competence it's a bonus. If you don't have, it shouldn't be necessary.

Similarly, another respondent felt:

The ability to succeed has far more to do with the acceptance by the existing shareholders that it had to do with a person's skill.

In support of operational experience, another respondent noted that there are advantages of having experience in the sector invested. These included understanding the dynamics of the business so as not to be deceived by partners. It was noted, though, that industry experience is not a guarantee of success but that it made transactions smoother.

This was supported by another respondent who felt that the experience also gave the impression of value add through active participation and experience. The same respondent, however, noted that not having experience could enhance the chances of success as a new perspective would be introduced to the acquired entity.

A respondent added that operational experience is dependent on the objectives of the transactions. She likened a BEE transaction to any other equity investment, either on the stock exchange or even unit trusts.

> *Like I invest in insurance and I don’t know a thing about insurance; experience does not matter at all.*

In conclusion, operational experience received divergent viewers as to its importance in ensuring the success of transactions. Some felt it had no impact at all while others felt it was critical to value add and to a good business relationship.

6.4.4 Objectives of BEE Partners

The objectives of BEE partners are important in determining the relationship between BEE partners and, therefore, could have an influence on how successful these transactions are.

If the selling entity requires a BEE partner mainly for purposes of increasing market or maintaining market, then operational involvement could be critical as the BEE partner would then be intricately involved in the day-to-day running of the business and effectively add value. The BEE partner then gets to grips with the business itself, understands the business dynamics and key business drivers and, therefore, also assists in developing new ideas on business expansion.

Our respondent stated that:

> *The entire spirit of BEE is to result in value for both parties and value might not just be retention of existing value for the seller but might also be additional business.*

Respondents also noted that, often, partners that are expected to deliver new markets are often the ones obtaining discounts from entities and, therefore, they often face huge pressures to deliver. If they fail to deliver these new markets, this invariably results in failure of the transaction.

Our respondent explained that when putting together transactions, the sellers almost insist on the BEE partner getting involved in the operation. The respondents also noted that undue pressure to deliver too soon, however, led to failure of transactions. It was stated that partners should be allowed to understand what they had invested in but that this could take time. While BEE partners learn the barriers, they still add value in that they remove any problems that could arise from not having the correct ownership structure. Respondents concluded by noting that a period of two years should be allowed for delivery of value to the seller.

Some respondents, however, commented that often the BEE partner's operational involvement is not necessary and is sometimes unwanted. The head of a leading company that had just completed a BEE transaction explained:

> *In terms of getting partners that are local and getting involved in the business and add value on a day-to-day basis to the operations of the business that has not been our intention. We are not prone to a mischievous partner turning rogue on you and I have seen this happen so many times which can completely sour the relationship and hurt the business. I think the negative of that is you are not calling upon your partners to stand up and go and win regulatory cases and you are not taking advantages of the particular partnership.*

The objective of this particular transaction was then purely protection of current markets through an appropriate ownership structure and not operational involvement or contribution.

Ultimately, it appears the respondent's main consensus is that the level of operational involvement depends largely on the objectives of the partners and the objectives of the transaction. These objectives should be clearly spelt out to allow for a clear understanding between the parties.

6.4.5 Operational influences in a broad-based scheme transactions

For respondents whose firm belief was that operational influence from BEE partners is essential to the success of the transaction, broad-based schemes have to make this view limited. The nature of broad-based schemes is that there is usually not one single voice that is the BEE partner. Some schemes, however, do have a leader in their consortium who represents the consortium but usually this figure is just a representative utilised to assist in meetings or in communicating decisions and cannot be regarded as the BEE partner.

With broad-based schemes, BEE partners really have no say as individuals; the decisions are made by a group. The nature of broad-based schemes also does not allow for management involvement as most broad-based participants are ordinary workers with no management understanding.

Once again, the objective of the scheme and the BEE transactions are paramount in determining whether a consortium should have a leader or not. However, most schemes do not have a leader; each consortium member represents himself or herself.

Most respondents noted that the best broad-based schemes normally involve staff. Most of the respondents who belonged to the M-Net empowerment scheme agreed that as a result of their involvement in the scheme, they were more motivated to work.

> *As a staff member though, I think I contributed operationally because I was more motivated.*

These respondents felt that they actually owned a piece of the company, so their everyday functions were contributing to its success. Ownership seems to have driven passion among the participants and, therefore, probably resulted in increased efficiency.

A respondent consolidated this comment by explaining that any broad-based scheme would only work if the participants of that scheme were somehow connected to the company value chain. This would drive a sense of ownership and responsibility among the participants, which would commonly benefit the entity.

Broad-based scheme members need to be brought closer to the cash flows. Some respondents even suggested providing empowerment on a project level as opposed to shares and equity empowerment. This would provide direct benefit to the participants.

Supporters of broad-based empowerment also advocate that if a company is well run, there is no need to have a partner that wants or requires to be operationally involved, In these situations, a broad-based scheme is ideal because there is a need to be empowered and this can be best achieved by having a politically correct broad approach to empowerment, which satisfies government imperatives and objectives.

One of the other criticisms of broad-based schemes, though, was the small returns usually achieved by broad-based participants. Small returns defeat the purpose of BEE unless the numbers are achieved that make a difference in people lives. Broad-based empowerment in that regard is not achieving what it should be achieving.

Even in terms of broad-based schemes, respondents affirmed that, ultimately, even broad-based BEE partners have to add value. BEE schemes must have a socio-economic benefit to them, as well as satisfy the requirements of the legislation that requires the business to be empowered. Buyers should also end up with a significant stake in the business. They should end up with as close to what they purchased in the business as possible. Participants need to carefully assess how they will draw individuals from the scheme. The funding structure must be such that, from day one, dividends should accrue to the participants.

The initial entry point was also highlighted by entrants as critical to success in broad-based schemes. This entry point must be affordable, as was the case in the M-Net scheme when people had to put down 10% of the value of the shares. One of the successes of the M-Net scheme was its profitability for participants.

Broad-based-scheme respondents also highlighted the lack of knowledge of schemes by participants themselves. This was further confirmed by other participants as a possible cause of failure in transactions.

Comments from participants included:

> *To be honest, the main reason I bought it was because my brother worked at the bank and he told me about it. He said it was a good investment and how much it costs. It was like a savings for me.*

Another explained:

> *I know nothing about it. It was never explained to us. We know it was being offered to black people. Our senior colleagues knew about it and they virtually completed all the forms, all I did was sign them.*

In most broad-based schemes, the level of sophistication among participants is low and this needs to be recognised. Participants need to understand what risks they are carrying and the possible returns. This would increase loyalty and enthusiasm in the scheme. Most respondents also did not understand charters and legislation governing BEE and how these can work for them. In these circumstances, it is very easy for participants to be manipulated and this could result in the negative perception of BEE.

Most participants also commented about how they were afraid the schemes were exploitative and they really believed in a good honest scheme. Communication, therefore, is crucial in broad-based schemes and allows participants to understand the transaction.

Table 4: Frequency Count of Operational-Influence Issues

THEME MENTIONED BY RESPONDENTS	N=14	PERCENTAGE
MINORITY SHAREHOLDERS BEE investors are normally minority shareholders and, therefore, they should not expect any privileges afforded to the majority	2	14%
MANAGEMENT FEE If BEE participants get operationally involved, they should only do so in exchange for a management fee which will assist them in covering debt and operational expenses	3	21%
If BEE participants get operationally involved, they should only do so if they want to acquire management experience.	4	29%
UPSKILLING Management involvement in the acquired entity can also be for purposes of upskilling the BEE participants.	2	14%
INCREASING MARKETS Management involvement in the acquired entity should	1	7%

happen if it will lead to the increase of customers or overall markets		
OBJECTIVES Depending on the objectives of the BEE participants, their involvement can be as a passive partner, an active one, or because they have industry experience and can add value	13	93%
BROAD-BASED SCHEMES In broad-based schemes, participants can't really get involved a result of the large numbers	2	14%
Employees in broad-based schemes, including employers in broad-based schemes will increase efficiency and is another law of participant operational influence	7	50%
PERCEPTION To reduce the perception of lack of value add, BEE participants should get operationally involved	2	14%

6.5 Other Success Factors Identified

In the process of discussing the relevance of success factors identified from the literature, respondents also noted other factors that were not identified in the literature review. The level of impact these factors have on success of BEE transactions varied from high impact to low; however, most respondents agreed that these factors had some impact on overall success.

6.5.1 Political Connections

The issue of politically connected BEE participants arose several times in interviews with respondents.

Some respondents felt that to be politically connected does not really have an impact on success. The view was that government changes all the time and when there is a change of government, companies would have to change their BEE partners.

> *In 2009, South Africa will get a whole new government that could be totally anti the establishment that currently exists. I would feel sorry for companies that chose their BEE partner totally based on the current government.*

Some respondents, however, noted that political connections were largely based on the circumstances in the entity. If the entity requires high-level government intervention, the politically connected BEE parties are absolutely essential.

6.5.2 *Comparison to normal Mergers and Acquisitions*

Respondents fairly often referred to comparisons between BEE transactions and normal mergers and acquisitions. Some respondents felt that BEE transactions could not really be compared to M & As as these often have no ownership threshold while BEE transactions usually have a threshold of 25%. Levels of discounts often differ depending on reasons for the transaction.

Inter-company integration and full business due diligence exercises were identified as critical to success but it was stated that they are often not thought off during the transaction phase. The lack of due diligence exercises often results in skeletons being discovered subsequent to the transactions, often leading to discontent and failure.

M & As are more commercially driven while in BEE transactions the main focus is maximising the BEE score. Buyers and sellers then often have very different leverage in the transaction. Funding models also often differ. The assertion that all these differences exist between BEE transactions and M & As led most respondents to also conclude that success factors have to be different.

Some respondents noted that, in fact, the success factors for M & As are only the minimum requirements for BEE success as BEE is a lot more complex than M & As.

In M and As, buyers are rarely faced with questions of value add. These transactions are often judged on whether the purchase price is fair or not. Questions like who are you? What value will you bring and the price of the transaction are not as frequently asked as in BEE transactions.

6.5.3 Broad-based Empowerment Schemes

Most respondents indicated in their responses the importance of broad-based empowerment schemes and how these schemes were the most likely to succeed. Broad-based schemes were seen as most likely to succeed. Broad-based schemes were seen as most likely to be accepted by both blacks and whites; they were regarded as more inclusive and optimised the real intentions of black empowerment. While a broad-based approach was identified as essential for success of BEE, the feeling among respondents was that these schemes need to be meaningful for each individual participant:

> *Small returns defeat the purpose of BEE unless if we get a number that makes a difference in people's lives.*

With respect to the M-Net schemes, as an example, a respondent noted the following:

> *Because of regulatory imperatives, we thought we needed to do something that made good business sense. To do it this way, we thought lets be broad-based instead of targeting a small group of people, it was much more exciting and I think it was much better received.*

A broad-based scheme on its own was, however, identified as not being sufficient, but a hybrid version of a broad-based scheme was suggested by some respondents. A hybrid BEE structure essentially means getting the general public, staff and employees of the company, as well as prominent entrepreneurs or politically connected individuals, involved in the deal. One respondent noted:

Broad-based schemes, including employees, also need to be carefully structured to make sure the power lies with the employees ultimately and also what is the best structure to involve entrepreneurs, to involve to a certain extent broad-based groups if it makes sense to the business and thirdly employees. I think it's non-negotiable, you always have to involve employees. To have employees only, however, is not going to work because there is a master and servant relationship between management and employees, and the employees are not going to tell the CEO 'we want to fire you' because the CEO will not allow that.

Respondents also explained that delivery of set objectives is often difficult in a broad-based scheme, but that this is made possible in a hybrid scheme. A broad-based scheme with a prominent leader can deliver value. One respondent explained:

To ensure that whatever value needs to be delivered (by a BEE partner) is delivered, the lead member of the consortium will be held responsible or should be held responsible if that value is not delivered and generally, the lead member of the consortium will be the major shareholder in the consortium and for that reason, they should be the ones coming up with the most value.

In the M-Net scheme, a structured mixed bag of participants was selected. As the CEO of MultiChoice noted:

With about 120 investors, there is also a handful of hand-picked partners that have been and will be allocated the maximum amount permissible. They are value adding and of strategic importance to the business.

6.5.4 Cultural fit

Cultural fit was identified by most respondents as an essential component of success for BEE. The importance of the relationship between the BEE parties and the acquired companies cannot be underestimated. Most respondents mentioned how many transactions had failed as a result of lack of a constructive and mutual respect relationship between partners.

> *It's amazing how much a business has to do with relationships; it has to do with individuals, common goals. Often, the goals and the whole vision are made at that level and massive problems are resolved easier. I think culture and relationships are very beneficial and I think if you don't have that, you are not going to succeed.*

Another respondent explained the importance of relationships in BEE success:

> *There is no time spent understanding each other. Depending on the deal, there is no time spent on understanding and training each other, integrating company culture, empowerment partners, nothing like that. This will definitely lead to transaction failure. The starting point is that from a point of ignorance.*

Some respondents also felt that culture only plays a role if the objective of entering into a transaction requires cultural integration; otherwise, culture is not critical at all.

This view was further supported by respondents who supported broad-based schemes. Cultural differences or cultural integration are less of a factor in broad-based schemes. In these schemes, broad-based participants do not really integrate with the white members of the acquired company. This lack of interaction makes cultural integration less of a requirement.

Ultimately, it seems that culture plays a role depending on the nature of the transaction. Broad-based schemes do not require cultural integration as greatly as schemes where one or two BEE partners are involved or, and even more so, where BEE partners are going to be operationally involved.

6.5.5 Leadership

Respondents who are members of broad-based consortiums were unanimous that leadership of the consortium or of the acquired company was critical to the success of broad-based schemes.

Members of the Phuthuma Phuti scheme especially felt that one of the main reasons for the success of the scheme was the leadership at M-Net.

A respondent remarked:

> *The management of the scheme needs to be good and it must be easy to understand how the scheme is structured. We have to be able to trust the management of the scheme.*

Respondents also felt that a well-run company with good leadership should result in a successful transaction. Shares were most likely to do well as a result and BEE participants would most likely obtain good returns.

6.5.6 Perception of BEE

The perception of BEE, especially by white companies, was identified as a key ingredient to the success of BEE transactions. Largely, black BEE participants felt that white companies would not be selling a stake to black people if it were not for legislation requiring them to do so..

> *Because of legislation, the white companies are now forced to make sure they have BEE and as an incentive, they sell schemes at a discount which benefits the blacks in terms of possible good returns.*

If white companies see no value in black BEE participation, then the motive to make the transaction successful is significantly reduced. Respondents noted, though, that the negative perception of BEE could be reduced by blacks becoming operationally involved or demonstrating value add. The feeling by one respondent was that white management frustrates the black participants, forcing them to withdraw or deliver significantly reduced returns:

> *Whites don't want to do BEE anyway so you came in, you clinch the transaction, it's registered, you comply and tomorrow they will frustrate the hell out of you and you get out of there.*

Respondents also noted that while success was more likely if the white company's attitude to BEE was positive, success would also be more likely if blacks did not view the white company's altitude too negatively. Clearly, both parties therefore have to have positive altitude towards BEE for a transaction to succeed.

Table 5: Frequency Count of Other Success Factors

THEME MENTIONED BY RESPONDENTS	N=14	PERCENTAGE
ADEQUATE RETURNS The success of BEE transaction is dependent on adequate returns for both partners. If returns are sufficient, the transaction will be successful	5	36%
POLITICAL CONNECTIONS Politically connected BEE partners are only useful if the acquired company is dependent on Government contracts or the company is in a highly regulated sector	2	11%
MERGERS AND ACQUISITIONS BEE transactions are another form of mergers and acquisitions and therefore if, as a minimum, the success factors of M & As are applied to BEE transactions, they will be successful. BEE transactions are more complex, however, and may require other factors to be in play	4	29%
HYBRID BROAD-BASED SCHEME Broad-based schemes are more acceptable than	11	79%

individual schemes. The broad-based schemes must have a leader or leadership to be successful. These leaders will be responsible for deliverables. These schemes are hybrid – between pure broad-based schemes and individual schemes.		
LACK OF UNDERSTANDING Broad-based scheme members often don't understand how they fit into the picture and how they can add value.	1	7%
BUSINESS MODEL Most BEE participants don't attempt to address traditional business evaluations models before acquisition. If BEE transactions are approached as annual investments with full due diligence, this will result in more successful transactions.	4	29%
FREE OWNERSHIP Debt free ownership of a BEE stake is always ideal and allows for a normal business relationship. This is an important determinant of success.	2	14%
MANAGEMENT COMMITMENT If management of the acquired entity is committed to	3	21%

the transaction, it is likely to succeed.		
BUSINESS RELATIONSHIP AND FIT Transactions where both parties have a sound and normal business relationship and a good fit have a higher chance of success.	2	14%
VALUE CHAIN Including the value chain on broad-based schemes have a higher chance of success if they involve people in the value chain; employees, suppliers, etc.	10	71%
NEGATIVITY TOWARDS BEE Blacks often are very negative towards whites and their perception of BEE. This negativity affects business relationships which can impact the success of transactions.	12	86%
CULTURAL FIT Cultural fits impacts on business relationships, which impact on success of the transaction.	4	29%
LEADERSHIP The leadership of the BEE participant is critical in	6	43%

determining the success of the transaction.		
PREFERENCE SHARES Preference shares are a good method of financing as they allow the withdrawal of dividends to pay debts for the BEE participant.	2	14%

6.6 Summary

From the evaluation of the results, it is apparent that there are several factors that could lead to the success of BEE transactions. In this summary, these factors have been grouped according to the level of influence they could have over the success of transactions.

Level-one factors are those that will most likely lead to success while level-two could influence success but are dependent on the circumstances. Below, level-two success factors are these factors that are thought not to be critical to success but are, nevertheless, important to achieving success.

6.6.1 Level-one Factors of Success

a Motive

Motive was clearly noted by most respondents as being key to success. Motives were identified as driving the behaviour of BEE participants as well as the management of the acquired company. This behaviour is ultimately what results in failed or successful transactions.

Especially critical to success as regard motive is the communication of these motives between the parties. Communicating motives will set out each party's objectives, ultimately ensuring that the parties assist each other in obtaining these goals.

b Finance Structure

Pivotal to all transactions, whether BEE or not, is often the finance structure of the transaction. Respondents highlighted how these finance structures can lead to either the success or failure of transactions. The level of discounts granted to the black participants, the level of dividend payments, and the profits or returns earned by the finance institution all contributed to the level of cash flow accruing to the black participants.

Cash flows were noted as being the single most important contributor of success from a BEE participant's point of view. Lack of cash flow could result in added demands from the transaction by the participants and ultimately affect success or failure. It is critical that any BEE finance structure should have the ability to allow the participants to make adequate returns, maintain a steady cash flow, and also ensure that the acquired company is not resentful of BEE and what it is trying to achieve.

c Broad-based Empowerment Schemes

The final dominant factor emerging from the discussions with respondents relates to broad-based schemes. Broad-based schemes were noted as ideal in concluding successful transactions. These schemes were more acceptable not only to the black population overall but also to the white companies. Both parties view broad-based schemes as more fitting for satisfying the ultimate aim of BEE. They were viewed as more inclusive and, therefore, more acceptable, reducing the level of resentment towards BEE and, simultaneously, increasing the chance of success.

Critical to the broad-based schemes, however, was the need for returns to participants to be meaningful. Some respondents suggested that a hybrid broad-based scheme is best. This essentially would mean a broad-based scheme but with consortium leaders who are politically connected, influential or simply astute business people. These leaders would provide guidance to consortium members but also carry the risk of delivering BEE objectives set by the buying and selling parties.

Respondents did, however, also note that broad-based schemes are more suited to larger transactions and would not work in small- to medium transactions.

6.6.2 Level-two factors of success

A second level of factors was identified by respondents as being critical to success. Some of these factors were noted as important by some respondents while other respondents felt they were not critical. These factors tend to suit certain transactions and were less important in other types of transactions.

a Cultural fit

Some transactions which require operational involvement of BEE participants also require a cultural fit between parties for the transaction to succeed. This lack of cultural fit and lack of adequate business relationship have often resulted in failed transactions, with participants often separating based on the lack of the ability to work together.

b Operational influence

Respondents differed on whether this was really a factor related to success. Again, most felt it depended on the transaction. In a broad-based scheme, as an example, operational influence was unlikely to be necessary, while in other transactions, the lack of operational involvement by BEE partners could be viewed as the lack of BEE value add and lead to resentment and failure of the transaction.

c *Political connections of the BEE partner*

In some organisations where an acquired company relies heavily on government work, or is in a heavily regulated industry, the political connections of the BEE partner could lead to an increase in business volumes and ultimately in increased business success and success of the BEE transaction. In entities where political connections are not so critical, this factor might not really contribute to BEE success.

d *Leadership*

Some respondents felt that effective leadership of the BEE entity and the acquired company was critical to success. Effective leadership was identified as resulting in good company returns and, ultimately, in a successful transaction.

e *Perceptions of BEE*

Positive perceptions of BEE were identified in the discussion as being important for the BEE success. This was particularly so if these perceptions could influence both sides of the BEE transaction and influence the returns generated by the BEE parties.

Finally, the literature captured most of the possible factors of success for business transactions. Although some factors noted in the literature were not relevant to all BEE transactions, they were relevant to some. The circumstances of the transactions and the objectives of the participants were critical in determining the real business factors.

This chapter has provided insight into the factors related to the success of BEE transactions.

The conclusions linked to the evaluation and discussion of results and the testing of the research propositions are set out in the next chapter.

7 CONCLUSIONS

7.1 Introduction

In this final chapter, the results are tested against the four broad propositions formulated before the research was undertaken. More specifically, these four propositions are tested against the findings of Chapter 6.

The findings are followed by recommendations, which are based on insight gained from the evaluation and discussion of the results. This chapter closes with recommendations on areas for further research.

7.2 Support for Proposition 1

The motive for entering into any M & A transaction (and therefore BEE transaction) influences the expectations from the transaction. Expectations are a critical determinant of transaction success.

Correspondents in the interviews provided various levels of support for motive as a determinant of success for BEE transactions. This first proposition is therefore supported.

The findings noted in Chapter 6 included additional examples of factors affecting success not present in the literature review.

Respondents supported the proposition that the overriding reason for entering into BEE is to increase overall performance and enhance the company's competitive advantage, as referred to by Lubatkin (1983). The literature review noted that the transaction needed to be implemented from a financial, legal and behavioural stand point.

The three broad categories of motives noted by MacDougall (1995) in the literature review were internalisation, technological competence, and transaction cost. These were not strongly supported by the findings in Chapter 6.

A further finding, noted by respondents, but not raised adequately in the literature review argues that BEE participants simply want to be wealthy and that the broad-based principles of nation building and redistribution of wealth are often ignored. The need to be wealthy is definitely a motive which can determine the conduct of a BEE participant and impact on the success of the transaction. This view was supported by the respondents.

The case study of M-Net supports Proposition 1. The motive for entering into the Phuthuma Scheme was noble and generally for the betterment of the society as a whole. This type of motive allows both the acquiring and the acquired entity to have a meeting of the minds that is critical to the transaction's success; most respondents felt that the scheme succeeded as a result of the genuine motives of M-Met.

7.3 Support for Proposition 2

The perception of BEE is driven by the effectiveness of the operational influence of BEE partners. Professional influence leads to potential business expansion and is, therefore, a determinant of success of BEE transactions.

From the results noted in Chapter 5, it was clear that this proposition was not fully supported. Most respondents felt that the perception of value add was driven by an inherent negative perception of BEE and not by the lack of operational involvement from BEE partners. Most felt that while operational involvement could improve perception, it was not critical and in some instances, it was not even desired.

The assertion from the literature review that BEE is an enrichment exercise and that there is no value add from BEE participants was partially agreed to by some respondents but not by all respondents. Some felt that there was no reason why blacks could not become rich and that enrichment was one of the objectives of BEE. This perception could, however, be reduced by entering into broad-based schemes, paying market prices for shares, and demonstrating objectives that would enhance the company's profitability.

Views that broad-based schemes were a sham (Mahabane, 2005) were not supported and, in fact, most respondents felt that broad-based schemes were the epitome of wealth re-distribution. Respondents also commented, though, that broad-based schemes should involve either staff or people along the company's value chain and that the returns from the transaction should be meaningful for them.

The inclusion of broad-based participants along the value chain (such as staff) was also clearly demonstrated in the M-Net Phuthuma scheme. Phuthuma scheme respondents were clear that the ownership of shares contributed significantly to their loyalty to the company as well as to their overall productivity as they felt they owned the company. This sense of ownership has the effect of increasing shareholder value and enhancing transaction success.

The literature also noted that any listed entity's primary task was to increase wealth for shareholders and that this was the objective of BEE and BEE participants. Increased wealth would improve the perceptions of BEE transactions (Cadle, 2004). This view found agreement among respondents, who also explained that negative perceptions would not exist as long as value was delivered as a result of the transaction.

Koolen (2004) commented that the performance of empowered companies was not higher than that of non-empowered companies on the JSE. One of the respondents who had done a study of the relative performance noted that, in fact, empowered listed companies had outperformed non-empowered companies on the JSE. The data to verify this study was not presented therefore it was difficult to determine if indeed non-empowered companies outperformed empowered companies.

Other issues noted by respondents that were not referred to in the literature reviewed are discussed briefly below.

Most BEE participants are usually minority shareholders in acquired entities. Respondents felt that minority shareholders should not get any preferential treatment. If majority shareholders were not operationally involved why should minorities? This operational involvement of minorities could have the impact of causing further negative perceptions of BEE.

Some respondents also explained that operational involvement would really only make sense if a management fee was paid as this would assist the BEE partners to cover their BEE company cash flows. Better cash flow, they argued, would ensure sustained BEE companies and that transactions were successful.

Some respondents also commented in their interviews that, often, operational involvement was going to be impossible in small companies, even though BEE transactions in these companies have to succeed too. Operational involvement, therefore, as it relates to smaller companies could not be a determinant of success. Respondents also explained that, perhaps, a hybrid version of operational involvement could work. This could be involvement on a weekly or monthly basis at important strategic meetings or board meetings. This involvement could give BEE participants exposure to the company, allow them to contribute, but remove all the other trappings of day-to-day involvement.

In some instances, respondents actually felt that some entities do not want the BEE participants to be involved. This sentiment could be because they were well run and BEE participants would not be able to add value in any capacity. This being the case, it could hardly be possible that this lack of involvement could be perceived as lack of value add because the transaction was likely to have been concluded for other reasons.

In closing, it appears that Proposition 2 was not completely supported. Respondents felt that perception was critical to success but that these positive perceptions are not necessarily driven by operational involvement. What is critical is to determine the objectives of each party and find a way of satisfying each other's objectives. If this was done, then perceptions would be positive.

Every transaction is different and every transaction has different imperatives that must be met. The need for operational involvement depends on circumstances and would not necessarily impact on perceptions.

7.4 Support for Proposition 3

Special finance structures for BEE transactions have the potential to affect the business relationship between partners and ultimately impact on the success of the transaction.

The results discussed in Chapter 6 indicate that finance structures such as special purpose vehicles, special discounts or delayed settlement schemes definitely have the potential to affect business relationships and, therefore, impact on the success of BEE transactions. Proposition 3 was therefore supported.

Respondents concurred that any special finance structure was likely to cause relationship problems, which could then cause problems with transaction schemes. Some respondents felt that despite these discounts, special finance structures were appropriate and that these structures encouraged black participation. The absence of such structures was noted as creating a problem for BEE, possibly resulting in significantly reduced participation in BEE.

Resentment and the negative perception of BEE had to be reduced and selling parties had to understand that discounts awarded to BEE participants could, in fact, be cheaper than the consequences of not doing a BEE transaction. Some consequences could be loss of business or market share.

The M-Net Phutuma scheme also demonstrated the importance of a sound finance structure. The finance structure scheme was based on a discount for participants, which allowed the entry into the scheme of ordinary black South Africans. Most Phuthuma respondents indicated that without the discount scheme, they would have not managed to become members of the scheme.

This would have been disastrous for M-Net and would have led to the failure of the empowerment scheme.

The findings in Chapter 6 also highlighted some issues not covered in the literature review. These issues are described below.

Dividend flows were critical in ensuring the financial success of BEE participants. This success can be directly aligned to the success of BEE transactions. Deals based on a steady stream of dividends to the black participants, allowing them to settle any debts or operational costs, would be the most likely to succeed as the success of the participants was guaranteed (Fleisher, 2004; Dada, 2004; Schmid, 2005)

Most respondents heavily criticised finance institutions for heavy profit taking on BEE transactions. These finance structures, set up by finance institutions had the impact of placing a heavy burden on the black participants as they had to settle high-interest loans in order to survive and therefore reducing the possibility of transaction success.

Respondents blamed the high cost of finance for the failure of some transactions. Dividend flows are then used to settle heavy debts; operational costs then remained unpaid and BEE companies fail.

7.5 Support for Proposition 4

Culture plays an important role in developing business relationships and business relationships are critical in ensuring the success of BEE transactions.

The results gathered in the previous chapter indicate partial support for this proposition. Respondents commented in the interviews that culture was relevant only in certain circumstances but not in all BEE transactions. It was also felt that culture, while important, was not considered a high-level determinant of success.

Culture was thought to be important in instances where integration between organisations was critical or expected. If integration is not really essential in broad-based schemes, then culture plays a very limited role.

Respondents commented, however, about several transactions that did not succeed, purely as a result of lack of integration and a lack of a constructive and mutual respect in the relationship between partners brought about by a lack of cultural misunderstanding. Partners had to spend time knowing each other's objectives and goals in order to work together.

Culture did not play a significant role in the Phutuma Scheme. None of the Phuthuma respondents mentioned the importance of culture. The lack of discussion around culture can be expected because the scheme was broad-based. Culture does not play a significant role in broad-based schemes.

These results were partially supported by the literature review (Gilkey 1991:331; Ernst & Young, 1994; Kanter & Corn, 1994; The Advisory Board Company, 1997; Boyle & Dwyer, 1992; Mohr & Spekman, 1994; Morgan & Huat , 1994; Brown & Pattison, 1995; Hamilton & Singh, 1991; Dwyer et al, 1987; Mohr & Nevin 1990; Morgan & Hunt, 1994; Cravens & Piercy, 1995; Achrol, 1997; Schein, 1985; Hatch, 1993; Covin, Kolenko, Sighter and Tudor, 1997).

7.6 Recommendations

BEE has become a permanent fixture in our business lives in South Africa. While difficult to implement effectively, its main objectives are noble and it is clear that some sort of action had to be taken to redress the economic imbalances of the past.

Owing to the nature of BEE (in terms of socio-economic issues), it is a very contentious exercise or policy, but ultimately it has to work. If the right approach is used, BEE can be successful.

Findings suggest that for BEE to work, several issues need to be considered. These issues are summarised briefly below.

BEE participants need to be clear on what their motive for entering into the transaction is. Motive will drive their objectives and, ultimately, their behaviour with regard to the transaction. These objectives need to be spelt out with the other party before the transaction is concluded thereby reducing miscommunication and ensure that objectives are aligned. Misaligned objectives lead to relationship problems between parties, which we have now learned leads to transaction failure.

Respondents commented that while the main thrust of BEE was wealth redistribution, there is really no harm in some individuals becoming wealthy from the transactions. In society, there must always be different levels of success and wealth and segregation should not be frowned upon simply because the people becoming wealthy are black.

Respondents indicated that the minimum shareholding needs to be reviewed to give blacks more control but that this could be rationalised by affordability. Would participants be able to afford acquiring higher percentages? Results also showed that even if participants had control, this control should not always come with operational involvement.

Operational involvement should only be necessitated by a need to upskill the BEE participants' management team and in order to pay a management fee to the participants to ease their operational cash flows. Involvement could also be encouraged if a genuine need for skills existed in the entity, irrespective of the transaction. Operational involvement should not be considered a right for BEE participants unless this type of involvement is offered to all other shareholders. Some respondents even felt that participants should only see themselves as equity investors with investments in various companies, seeking to make equity returns and nothing else. Ultimately, operational involvement needs to be assessed as to its necessity for every transaction.

Results indicated that charters and legislation need to be uniform and provide proper guidance for BEE to be effective. Legislation needs to be comprehensive and cover all major contentious issues. Legislation can also play a role in reducing the level of resentment, especially from white-owned companies.

Results overwhelmingly indicated that the finance structure of the transaction is one of the most important determinants of success for BEE. Legislation needs to be introduced to curb the profits generated by the banks. The banks were identified as the entities that have the most to gain from BEE transactions to the detriment of BEE participants.

Discounted selling prices for shares were also identified as critical to transaction success both for individuals and broad-based schemes. They were rated as being the most effective way to introduce black shareholders over and above ensuring that participants' cash outflows were reduced.

Some respondents, however, noted that discounts can reduce the perceived value of shares. Fully paying for shares owned was ideal but unlikely, considering the lack of surety or resources for most black people to do so. Fully owned shares with no encumbrances reduce the chance of negative perceptions for black participants, level the playing field between the parties, and increase the chances of success.

Results shown in Chapter 6 encouraged the formation of broad-based schemes as a method of doing BEE transactions. Broad-based schemes are highly recommended as they are:

- More acceptable to Government;
- Encourages distribution of wealth; and
- Can include staff of the organisation, which was seen as a strength by the respondents.

Broad-based schemes sometimes require leadership and, therefore, the other suggestion from respondents was to have a hybrid version of broad-based schemes where there is a leader of the consortium who has a majority stake in the consortium and is responsible for ensuring that the consortium's objectives are met, that the consortium delivers the objective of the acquired entity, and that communication with the consortium members occurs regularly.

Critical to a successful consortium is ensuring that the members have a stake in the value chain of the company. This would include staff, suppliers or customers. The incentive for the company to perform would then be higher and this could encourage productivity and increase the chances of transaction success.

Other recommendations emanating from the respondents interviews included:

Ensuring that your BEE partner is well connected, especially if the line of business of the acquired entity requires government contracts or is heavily regulated.

Treating each BEE transaction as a normal M & A with a full due diligence, a clear understanding of the entity and its business, assurance that there is a cultural fit, as well as ensuring that the BEE party can add value. This will reduce chances of failure and ensure that both parties feel comfortable with each other.

Culture sometimes plays a role and sometimes not but it is safer to ensure that a normal business relationship is possible with the other party. Cultural fit is therefore normally relevant in transactions that require integration of companies or a high level of interaction between BEE participants and the acquired entity.

The negative perception of BEE by white companies needs to be addressed through communication. A militant and legislative approach is not ideal although most respondents felt that a lack of legislature could only reduce the impact and the need to BEE in most companies

Effective leadership was raised as an important ingredient to success especially when participants might not be so sophisticated.

Ultimately, many issues were raised on BEE transactions. What is clear however is that there are many different ways to deal with BEE and those various strategies depend largely on the circumstances of each transaction. In attempting to ensure that each transaction succeeds, participants have to evaluate their own personal situation and decide what is the best approach.

There is no one size fits all approach to BEE.

7.7 Areas of further research

7.7.1 Finance Structures for BEE Transactions

Finance structures were highlighted as the most problematic area of BEE transactions. Further studies into this area could be very useful. These studies could cover areas such as:

- The ideal finance structures for BEE transactions;
- The role of financial institutions in BEE transactions; and
- The general cost of financing BEE transactions as opposed to normal M & As.

7.7.2 Business Relationships in BEE Transactions

BEE deals are by their very nature contentious transactions because of the human elements associated with them. The socio-political issues arising out of BEE transactions require further study, which could include an investigation of the impact of culture and business relationships on the success of BEE transactions

7.7.3 Afrikaner and Malaysian Economic Empowerment

Economic empowerment has occurred before in South Africa in the 1950s for Afrikaners, as well as in the 1970s for Malaysians. These two occasions of the last century could offer a bedrock of information that could assist in improving the chances of success for BEE in South Africa.

A useful study could investigate the lessons that could be learnt from the history of Afrikaner and Malaysian empowerment.

7.7.4 The Effect of Empowerment on Company Success

One of the respondents in the interview noted that BEE companies listed on the JSE were not necessarily more successful (from a shareholder returns point of view) than non-empowered companies. This was disputed by another respondent and therefore this topic could be an interesting test for quantitative research. Ideally, the research sample or population would have to be listed entities with shareholder returns over the last five years. The quantitative study would have to investigate companies that have been empowered (or not empowered) as opposed to those that have very little empowerment. For purposes of this study, empowerment would have to be equity empowerment only.

LIST OF REFERENCES

Achrol, R.S. (1997): Changes in the theory of inter-organisational relations in marketing: toward a network paradigm, Journal of the Academy of Marketing Science, 25, (1), 56-71.

The Advisory Board Company (1997): Staffing redundancies following mergers, Corporate Leadership Council, Fact Brief. [http://www.advisoryboardcompany.com/public/staffing-red.asp] (Accessed 21 November 2005).

Argyris, C (1982): Reasoning, Learning and Action Individual and Organization, San Francisco: Jossey-Bass.

Benbasat, I., Goldstein, D.K., & Mead, M. (1987): The case research strategy in studies of information systems, vol. II, (3) 369-386.

Boyle, B., Dwyer, F.R. (1995): Power bureaucracy, influence, and performance: their relationships in industrial distribution channels, Journal of Business Research, 32,(3) 189-200.

Brown, L., Pattison, H (1995): Information technology and telecommunications impacts on strategic alliance formation and management. Management decisions, 33, 4, 41 – 51.

business.iafrica.com (2006): business news. [http://business.iafrica.com/news/212504.htm] [Accessed in 18 December 206]

Cadle, M. (2004): BEE: A Performance Overview, Empowerment 2004, Black Ownership: Risk or Opportunity? Business Map Foundation Report, iv.

Cantwell, J. & Piscitello, L. (2000): Accumulating Technological Competence: Its Changing Impact on Corporate Change, 2000, Vol 9, Issue 1, Page 21-51

Carleton, R.J. (1997): Cultural due diligence: Training, 34th issue, 67-80.

Chonco, N. (2004): Shuffling Shares is Hardly the Real Deal, Sunday Times. 20 June 2004.

Covin, T.J., Kolenko, T.A., Sighter, J.W., Tudor, R.K. (1997): Leadership style and post-merger satisfaction, Journal of Management Development, 16, 1, 22-23.

Cravens, D.W., Piercy, N.F. (1995): The network paradigm and the marketing organization: developing a new management agenda, European Journal of Marketing, 29, (3), 7-34.

Creswell, J.W. (2003): Research design, Qualitative, Quantitative and Mixed Methods Appproaches. Sage Publications, London, Second Edition.

Dada, A. (2004). BEE a driving force. Sunday Times, 6 June 2004, 14.

Deal, T.E. & Kennedy, A.A. (1982): Corporate Cultures, Perseus Books, Reading.M.A.

Denison, D.R., (1996): What is the difference between organizational culture and organizational climate? A native’s point of view on a decade of paradigm wars. Academy of Management Review, 21, 3, 619.

Department of Trade and Industry (2005): Black Economic Empowerment. [http://www.thedti.gov.za/bee/bee.tm] (Accessed 16 January 2006) Department of Trade and Industry BEE Strategy Document

DuMoulin, F.M. (2004), how is Black Economic Empowerment Participation Financed.

Dwyer, F.R., Schurr, P.P., Oh, S. (1987): Developing buyer-seller relationships, Journal of Marketing, 51st issue, 11-27.

Eisenhardt, K.M. (1989): Building theories from case study research: Academy of management review, 532 – 550.

Ernst and Young (1994): Mergers and Acquisitions, John Wiley and Sons, New York, NY.

Faaland, J, Parkinson, J.R. and Sanimaa, R. (1990): “Growth and Ethnic Inequality: Malaysia’s New Economic Policy”, London: Hurst

Fleischer, M. (2004): BEE a driving force. Sunday Times, 6 June 2004, 14.

Fontana, A and Frey H.J. (1994): “Interviewing the Art of Science”, in Handbook of qualitative research, Deazin, K.N. & Lincoln, D.R (editor) London: Sage Publishers.

Formby, H., Schmid, P. (2005): “Black empowerment can’t always go to the bank”. Sunday Times, 13 March 2005, 14.

Marais, J (1995): Gencor: A century of growth, Gencor Annual Report, 3 – 13.

Gilkey, R. (1991): The Psychodynamics of Upheaval: Intervening in Merger and Acquisition Transitions, Organisations on the Couch, Jossey-Bass, San Francisco, CA.

Haggert, P. (1975): Geography: A Modern Synthesis, Harper & Row, New York.

Hamilton, W., Singh, H. (1991): Strategic alliances in technological innovation: co-operation in biotechnology, The journal of high technology management research, Vol 2 no 2, 211-21.

Hatch, M.J. (1993): The dynamics of organizational culture, Academy of Management Review, 18, 4,657-70.

Huberman, M.S. & Mile.G. (1994): Data Management and Analysis Methods, Handbook of Qualitative Research, Denzin, K.N. & Lincoln, D.R. (editor), London: Sage Publishers, 428-441.

Irons, K.(1983): Managing Services Companies: Strategies for Success, EIU, Workingham.

Jack, V. (2002): Government study: A decade of Black Economic Empowerment 1992-2002. Unpublished research report.

[http://www.sarpa.org.za/documents/d0000875/docs/From The Sterling Block Decade of BEE – The Progress of Economic Empowerment] (Accessed 2 November 2005).

Kanter, R.M., Corn, R.I. (1994): Do Cultural differences make a business difference? Harvard Business School, Journal of Management Development, Vol, 13, 5-23.

Khemani, R.S. (1990): Recent Trends in Merger and Acquisition Activity in Canada and Selected Countries, paper presented at the Investment Canada conference, Corporate Globalization through Mergers and Acquisitions, Toronto.

Klitgaard, B. (1991): Affirmative action in Malaysia, Indicator S.A., 9, 1. 129-32.

Kotter, J.P. & Heskett, J.L (1992): Corporate Culture and Performance, Free Press, New York.

Koolen, J. (2004): When do Black Economic Empowerment Deals Result in Black Economic Empowerment Ownership? Black Economic Empowerment: A Strategic View, 1.

Krippendorff, K (1980): Content analysis: An Introduction to its Methodology, London: Sage Publishers.

Langford, Brown, C 111. (2002): Making M and A pay: lessons from the world's most successful acquirers. Strategy and Leadership.

Lebelo, M. (2004): Charting way forward for Black Economic Empowerment. Finance24, economy section.

Leedy, P.D. and Ormond, J.E. (2001): Practical Research: Planning and Design, seventh edition, Upper Saddle River: Merrill Prentice Hall.

Lubatkin, M. (1983): Mergers and the performance of the acquiring firm, Academy of Management Review, Vol, 8 No.2, 218-25.

Maarsdorp, L. (2004): BEE: Not just business as usual in the boardroom. Sunday Times, 20 March 2005, page 15.

Martin, J. & Meyerson, D. (1988): Organisational Culture and the Denial, Channeling and Acknowledgement of Ambiguity, in Pondy.L.P. Boland, Jr, R.J & Thomas, H. (Eds), Managing Ambiguity and change, John Wiley & Sons, New York.NY.

MacDougall, G. (1995): The Economic Impact of Mergers and Acquisitions', Micro-Economic Policy Analysis, Industry Canada, working paper Number 4:

Mahabane, I. (2005): BEE's abysmal returns do our futures little good. Sunday Times, 01 may 2005, 13.

Malan, J. & Foulds, S. (2004): Empowerment 2004, Black Ownership: Risk or Opportunity?: Business Map Foundation Report, IV.

Manne, H.G. (1965): Mergers and the Market for Corporate Control, Journal of Political Economy, No. 73, April, 110-20.

McGrath, J.E., Martin, J., Kulka, R.A. (1982): Judgment Call in Research, London: Sage Publications

Mohr, J., Nevin, J.R. (1990): Communication strategies in marketing channels: a theoretical perspective, Journal of Marketing, 35-51.

Mohr, J., Spekman, R. (1994): Characteristic of partnership success: partnership attributes, communication behaviour, and conflict resolution techniques, Strategic Marketing Journal, 15,135-52.

Morgan, R.M. and Hunt, S.D. (1994). The commitment trust theory of relationship marketing. Journal of marketing, 58, 20 – 38.

M-Net Budget Business Plan, (2003): Business Strategy Section, October 2003.

M-Net/SuperSport Annual Financial Report, (2001) Chairperson Review Section.

Morris, P & March, C. (1992): "Curriculum patterns and issues in East Asia: a comparative study of seven East Asian societies". Journal of Education policy, 7, 3, 251 – 266.

Patton, M.Q. (1990): Qualitative evaluation and research methods, London, Sage Publications

Paul, D. (2003): Naspers: Bigger Brother, The Media, February 2003, 10-14.

Peters, T.J & Waterman, R.H. (1982): In search of Excellence, Harper Collins Trade, New York, NY.

P.row, P.C.(1990) How to do Business Research, Jatas Publishers Information Service. ISBN 0-7021-2439-7.

Potgieter, D.J. (1970): “Afrikaners in Business”, standard encyclopedia of Southern Africa, Du Plessis, P.C. (editor), Cape Town: National Commercial Publishers, 202 – 214.

Roll, R. (1986): The Hubris Hypothesis of Corporate Takeovers, Journal of Business, No. 59, April, 197-216.

Rumney, R. (2004): Shuffling Shares is Hardly the Real Deal, Sunday Times, Sunday Times. 20 June 2004.

Sales, A.L. and Mirvis, P.H. (1984): “When cultures collide: issues in acquisition”

Schein, E.H. (1991): Organisational Culture and Leadership, 2nd Ed., Josses-Bass, San Francisco, CA.

Schein, E.H. (1985): Organisational Culture and Leadership, 2nd ed., Josses-Bass, San Francisco, CA.

Schein, E.H. (1990): “Organisational Culture,” American Psychologist, 45,2,109-19.

Schneider, B. (1998): Notes on Climate and Culture, in Lovelock, C., Managing Services, Prentice-Hall, Englewood Cliffs, NJ.

Shleiffer, A. and R.W. Vishney (1989): Management Entrenchment: The Case of Manager-Specific Investments, Journal of Financial Economics, Vol. (25) 1989, 123-39.

Simpson, J.T., Mayo, D.T. (1997): Relationship management: a call for fewer influence attempts, Journal of Business Research, 39, 3,209-18.

Sishi, L (1998): Corporate Black Economic Empowerment, unpublished MBA research report, Johannesburg University of Witwatersrand.

Stake, R.E. (1994): “The art of case study research. Handbook of qualitative research.

Story, V., Hurdley, L., Smith, G & Saker, J. (2001): Methodological and Practical implications of the Delphi Technique in marketing Decision-Making: A Re-Assessment, The Marketing Review, 1, 487-504.

Trautwein, F. (1990): Mergers motives and merger prescriptions, Strategic Management Journal, Vol.11, 283-295.

Webb, E.J. (1995): Environment disclosure a preliminary investigation of current corporate reporting practices. Unpublished MBA research report, Johannesburg: University of Witwatersrand.

Wikipedia web encyclopedia (2005): Mergers and acquisitions. [http://en.wikipedia.org/wiki/mergers] (Accessed 16 January 2006)

Yin R.K. (1984): Case study research: design and methods, applied social research methods, volume 5.

Appendix 1

Telephone Protocol

The purpose of the call: to set up an in-depth interview with the respondent

Discussion with Personal Assistant

Hello, my name is Joseph Hundah. I am an MBA student at Wits Business School and I am currently conducting research among BEE participants and consultants in South Africa. To this end Mr. /Ms...................... at/in......................has recommended that I speak to Mr./Ms......................about the possibility of him/her contributing to the research. Would it be possible for me to speak to Mr./Mrs./Ms......................now? [If yes go to Q3. If No go to Q2]

When would it be convenient to call Mr. /Ms......................? Thank you. I will call back later. [end]

Discussion with referred respondent

Hello Mr./Ms......................, my name is Joseph Hundah. I am an MBA student at the Wits Business School and I am currently conducting research on the determinants of success for BEE transactions. To this end Mr./Ms..................... at/......................in...................... has recommended that I speak to you about the possibility of your contributing to the research given your understanding of the subject. The research I am conducting explores on the various factors impacting on the success of BEE transactions. The research is based on in-depth interviews with key players and the experts in this field.

In any event I would very much welcome the opportunity to discuss these issues with you. The discussion will take about an hour of your time. Your contributions will be anonymous. Neither your name nor company will be linked to any statements or comments made.

A very exciting aspect of the research is the fact that no academic research currently exists on this particular aspect of BEE. I do think, therefore, that the results have a very valuable contribution to make. For helping out in this research, you will receive a copy of the research findings.

Based on this, would you be interested in participating? [If yes, schedule date, time, place of interview, and parking. If no, explore reasons for objections and if necessary, request referral.

Appendix 2

E-mail confirmation

Dear Mr............,

Thank you for agreeing to contribute to the research study “Determinants of success for BEE transactions”.

This email serves to confirm the following interview details:

Date: ....

Time: ....

Venue: ....

....

Please note that your contributions will be anonymous. Neither your name nor company will be linked to any statements or comments made. Furthermore, the interview will be taped to ensure that findings are based on an accurate and reliable account of the interview. In the event that you do not wish the interview to be recorded, please contact me as soon as possible so that an alternative recording mechanism can be arranged.

If you require any further information please do not hesitate in contacting me.

Regards

Joseph Hundah

In our discussion, we will be tackling these sources one by one. If appropriate, additional factor of success will be addressed later in the interview.

Appendix 3

Interview Protocol

SUCCESS OF BEE TRANSACTIONS

Details of the respondent

Respondents Name:

Title:

Organisation:

Contact Telephone Number:

Email Address:

Date:

Time:

Duration of interview:

The research is focused on finding the determinants of success for BEE transactions. The main focus of the research is on the equity elements of BEE. Research covered in the relevant literature seems to indicate that there are four determinants of success for BEE transactions being:

Motive for entering into the transaction

The finance structure of the transaction

Operational involvement in the acquired entity

Appendix 4

Questionnaire used to interview respondents

4.1 Questionnaire to the management of the acquired entity

What was the motive and expectations of entering into the scheme?

If the motives and expectations were different do you think this would have affected success?

Would your company have entered into the scheme without charter or legislative requirements?

What kind of BEE partner/s were you looking for and why?

When selecting a BEE partner did the issue of culture play a hand in the selection process?

Do cultural differences between partners matter when the business is performing well?

How do you deal with obvious cultural differences between yourself and your BEE partners?

Does it matter if the partner or head members of the consortium have any experience in the industry invested?

Do you expect or want your BEE partners to be involved in operations? Why?

How do you feel about BEE partners who hold stakes in many entities. Do they pay sufficient attention to your business and does this effect success?

What is your current perception of BEE in general and does this perception affect you business relationship with your BEE partners?

What is your view of industry charters and/or BEE legislation?

Did this scheme increase shareholder value – if so how?

Did this scheme increase operational efficiency and operational value – how?

How was the scheme financed?

Do special BEE financing structures affect business relationships and success?

What is your view on BEE partners setting off their acquired state to other empowerment players or to Non-empowerment Company’s (once empowered, always empowered)? Is there real value in non-tradable BEE shares?

What do you think are the key success factors of BEE transactions, for the scheme specifically and generally?

How would your partnership relationship have differed if this transaction was with a normal merger and acquisition partner?

Do you feel BEE is more politics than economics?

Did BEE partners have set performance criteria? Do you think BEE partners should have performance criteria?

What are the punitive measures, if any, for not reaching these targets. Do these measures impact on success?

4.2 Questionnaire to the management of the BEE entity

What was the motive and therefore your expectation of entering into the BEE scheme?

What is your view of industry charters and/or BEE legislation?

Without legislation or regulatory pressure, do you feel that you could have acquired a stake in the same company?

Do/did special finance structures affect the business relationship and success of the scheme?

Do you think this scheme increased shareholder value – if so how?

Do you think this scheme increased operational efficiency and operational value – how?

Does culture play a role in broad-based schemes? If so how do you deal with cultural differences?

Do cultural differences matter when the organisation is performing well?

What do you think were the key success factors of the scheme?

What do you think are the key success factors of any BEE transaction?

Do you feel BEE is more politics than economics?

What is your view on the selling of BEE shares to other BEE players or to non-empowered companies? Is there value in non-tradable shares?

4.3 Questionnaire to financial analysts or BEE experts intricately involved in BEE transactions

What do you find to be the overarching motive for entering into BEE transactions for both the BEE partners and acquired entity?

Is motive important in determining the success of transactions?

How does BEE differ from normal mergers and acquisition transactions?

Would you say that the success factors of normal M & A's differ from BEE success factors?

How important is it for a BEE partner to be operationally active in the acquired entity?

What do you think are the key success factors of a BEE transaction?

Do you think BEE assists more in shareholder value protection or shareholder value creation?

Can broad-based empowerment work? Is it the ideal empowerment structure?

Is broad-based empowerment real empowerment. Is it meaningful enough for the individuals involved?

Does it matter if the BEE partner or head members of a consortium have any experience in the industry invested?

Do you feel BEE is more politics than economics?

Does BEE kill or promote entrepreneurship in that blacks no longer need to start up their own businesses?

Do delayed payment schemes and special finance structures affect business relationships in BEE transactions and therefore impact on success?

What financing structure would make the most sense and increase the chances of transaction success?

What is your view on the selling of BEE shares to other BEE players or to non-empowered companies (once empowered, always empowered?) Is there value in non-tradable shares?

How important is the perception of BEE as a whole to ensuring its success?

Appendix 5

List of Codes and Associated Definitions

CODE TYPE	**CODE**	**DEFINITION**
Master Code	M	Motive
Sub Code	M-PW	Motive - Personal wealth
Third level Code	M-PW-LT	Motive - Personal wealth, Long-term returns
Third Level Code	M-PW-ST	Motive - Personal wealth, Short-term returns
Sub Code	M-WR	Motive - Wealth redistribution
Sub Code	M-PE	Motive - Owning a piece of the economy
Sub Code	M-E	Motive - Entrepreneurship
Sub Code	M-L	Motive - Legislation
Sub Code	M-L-CD	Motive – Legislation - Charter

		deadline
Third Level Code	M-L-NC	Motive – Legislation - No charter
Third Level Code	M-L-S	Motive - Strategic imperative

CODE TYPE	**CODE**	**DEFINITION**
Master Code	SF	Other Success Factors of BEE
Sub Code	SF-R	Success Factor-Returns for both parties
Sub Code	SF-PC	Success factor-political connections
Sub Code	SF-M+A	Success factor- mergers + acquisitions
Third Level Code	SF-MA-BEE	Success Factor-Merger & Acquisition-Difference between MA and BEE
Sub-Code	SF-BB	Success Factor-Broad-based

		Scheme
Third Level Code	SF-BB-H	Success factor - broad-based scheme - hybrid
Third Level Code	SF-BB-DU	Success factor - M & A - don’t understand
Third Level Code	SF-V	Success factor - broad-based scheme value chain Inclusion?
Sub Code	SF-BM	Success factor - business model
Sub Code	SF-DF	Success factor – debt-free ownership
Sub Code	SF-MC	Success factor - management commitment
Sub Code	SF-BR	Success factor - business relationships
Third Level Code	SF-BR-F	Success factor - business relationships - fit
Sub Code	SF-L	Success factor - leadership

Sub Code	SF-PS	Success factor - preference shares
Sub Code	SF-BN	Success factor - black negativity towards whites

CODE TYPE	**CODE**	**DEFINITION**
Master Code	FS	Finance structure
Sub Code	FS-D	Finance structure - discounts
Third Level Code	FS-D-RD	Finance structure - dividend-based payments
Sub-Code	FS-DP	Finance structure - dividend-based payments
Sub-Code	FS-FIR	Finance structure - finance institution’s returns
Sub-Code	FS-BR	Finance structure - business relationships

Third Level Code	FS-BR-P	Finance structure - business relationship payment
Sub Code	FS-IK	Finance structure - insufficient knowledge

CODE TYPE	**CODE**	**DEFINITION**
MASTER CODE	OI	Operational influence
Sub Code	OI-MS	Operational influence - minority shareholders
Sub Code	OI-MF	Operational influence - management fee
Third-Level Code	OI-MF-CF	Operational influence - management fee - cash flows
Third Level Code	OI-MF-MT	Operational influence - management fee - management team

Sub Code	OI-U	Operational influence - upskilling
Sub Code	OI-IM	Operational influence - increasing markets
Sub Code	OI-O	Operational influence - objectives
Third Level Code	OI-O-PP	Operational influence – objectives - passive partner
Third Level Code	OI-O-AP	Operational influence – objectives - active partner
Third Level Code	OI-O-IE	Operational influence – objectives - industry experience
Sub Code	OI-BB	Operational influence - broad-based scheme
Third Level Code	OI-BB-NI	Operational influence - broad-based scheme - no involvement
Third Level Code	OI-BB-E	Operational influence - broad-

		based scheme - efficiency
Third Level Code	OI-BB-R	Operational influence - broad-based scheme - Long-term and short-term returns

CODE TYPE	**CODE**	**DEFINITION**
Master Code	C	Culture
Sub Code	C-R	Is culture relevant?
Sub Code	C-NR	Is culture not relevant?
Sub Code	C-BR	How does culture affect business relationships?

Appendix 6

Validity Request

Dear Mr…………..,

Attached please find a copy of Chapter 6: Evaluation and Discussion Results. This is a chapter to be found in the research report: The chapter discusses the results of the interviews conducted with the respondents who contributed to the abovementioned research.

As part of the research validation process, the researcher would like to ensure that the results of the research accurately reflect the views of the respondents. Thus, if as a respondent, you wish to comment on any of the findings contained within chapter 6: Evaluation and discussion of the results, please provide me with these comments by no later than 31 October 2007.

Please note that the results are an aggregated account of the interviews. Therefore, they cover the contributions of 15 respondents across 13 organisations. As such, respondents may find diverging views represented in the findings. If so, rather than noting the divergent views please restrict your comments to highlighted views which have not been taken account of in this chapter, or which you believe the researcher to have misinterpreted.

I would like to bring to your attention that this is only one of the chapters of the research report. A copy of the full research report, detailing the literature review, research methodology, propositions, evaluations and discussion of results and conclusions will be sent to you.

Appendix 7

CONSISTENCY MATRIX

The Research problem: The research problem is to identify and evaluate the success factors of a BEE transaction.

Sub Problem	**Proposition Number**	**Proposition**	**Source of Proposition**	**Source of Data**	**Analysis**
The first sub-problem is to determine the impact of motives and culture on the success of a BEE transaction	1	The motives for entering into a BEE transaction can affect the business success of the transaction	Trautwein (1990) Longford (2004) Lubatkin (1983) McDougall (1995) Roll, (1986) Shleifer and Vishny, (1989) (Manne, (1965) Khemani	In-depth open ended interviews with representatives of the acquired entity and BEE representatives	1. Data recorded into database & transcripts prepared and analysed 2. Perused for preliminary interpretation 3. Descriptive codes were

			(1991)		created in order to classify the words
					4. Codes were used to recognise dates and facilitate retrieval and analysis 5. Frequency of factors were tabulated and informed the researcher as to the importance of the identifiable factor 6. Factors

					were utilised to determine findings 7. Synthesised findings related back to propositions and theory

Sub Problem	Proposition Number	Proposition	Source of Proposition	Source of Data	Analysis
The second sub problem is to determine if the operational influence of BEE partners has any impact on the success of the empowered organisation.	2	The operational influence of BEE partners lead to potential business expansion which ultimately results in business success.	Rumney, R., (2004) Wu, C.C., (2004) Vergunst, M., (2004) Chonco, N., (2004) Jack, V., (2002	In-depth open ended interviews with representatives of the acquired entity and BEE representatives	1. Data recorded into database & transcripts prepared and analyzed 2. Perused for preliminary interpretation 3. Descriptive codes were created in order to classify the words 4. Codes were used to recognise

					dates and facilitate retrieval and analysis
					5. Frequency of factors were tabulated and informed the researcher as to the importance of the identifiable factor 6. Factors were utilised to determine findings 7. Synthesised findings

					related back to propositions and theory

Sub Problem	**Proposition Number**	**Proposition**	**Source of Proposition**	**Source of Data**	**Analysis**
The third sub-problem is to determine the effect of special BEE transaction structures such as financing options, delayed ownership or deferred shareholder benefits on the success of BEE transactions	3	Special finance structures for BEE transactions have the potential to affect the business relationship between partners and ultimately impact on the organisational success	DuMoulin, F.M., 2004 Lebelo,M., (2004) Fleischer (2004) Dada (2004) Schmid (2005)	In-depth open-ended interviews with representatives of the acquired entity, BEE representatives and BEE experts. Review of public documents, records and financial data.	1. Data recorded into database & transcripts prepared and analyzed 2. Perused for preliminary interpretation 3. Descriptive codes were created in order to classify the words 4. Codes

					were used to recognise dates and facilitate retrieval and analysis
					5. Frequency of factors were tabulated and informed the researcher as to the importance of the identifiable factor 6. Factors were utilised to determine findings 7. Synthesised

					findings related back to propositions and theory

Sub Problem	Proposition Number	Proposition	Source of Proposition	Source of Data	Analysis
	4	If BEE transactions do not add value to the current shareholders (and additionally are enforced by law), this will increase business tension and disrupt the possibility business success.	(Gilkey, 1991, p.331) (Ernst & Young, 1994) Kanter & Corn, (1994) (The Advisory Board Company, 1997). 1990; Morgan & Hunt, 1994; Cravens & Piercy, 1995;	In-depth open-ended interviews with representatives of the acquired entity and BEE representatives	1. Data recorded into database & transcripts prepared and analysed 2. Perused for preliminary interpretation 3. Descriptive codes were created in order to classify the words

			Achrol, 1997.). Schein (1985) and Hatch (1993 (Covin et al., 1997). (Boyle, B.,)		
			Dwyer, and F.R. 1992; Mohr & Spekman, 1994; Morgan & Hunt, 1994(Brown & Pattinson, 1995) Hamilton & Singh, (1991) (Dwyer et		4. Codes were used to recognise dates and facilitate retrieval and analysis 5. Frequency of factors were tabulated and informed the researcher as to the importance

			al., 1987; Mohr & Nevin,		of the identifiable factor 6. Factors were utilised to determine findings
					7. Synthesised findings related back to propositions and theory