Is Black Economic Empowerment a South African Growth Catalyst? (*Or* Could it Be…)

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Abstract: This study asks the question, "Is Black Economic Empowerment a South African growth catalyst?" It addresses the question with reference to the theoretical literature on economic and organizational structures. This literature argues that structures reflect values and influence patterns of behavior, empowerment and opportunities for economic growth. The paper shows that South Africa's economic structures have had negative influences on both racial access and economic opportunity, creativity and responsiveness. The proposition is that transformation and growth require change in economic structures; the same BEE-induced changes will work for both goals. However, some observe that BEE is not effecting change. This raises a counter proposition that BEE will not catalyze growth. The two propositions are examined in a study of BEE responses in twenty-five JSE listed firms. The basic finding is that while firms are actively responding to BEE requirements they are also doing so within a static structural context, where firms keep looking to established networks for solutions. This limits the number of beneficiaries of BEE. It also exacerbates constraints on the number of people in these groups—especially manifesting in added pressure on skilled groups. A number of firms are also not developing vertical connections that might open opportunities for entrepreneurs. Firms that are developing vertical connections are creating capacities to bridge the network divides that exist. The payoff seems very high in these initiatives, evident in trained and screened talent, new jobs and new enterprises. These findings lead the paper into a discussion of what could be done to improve BEE—such that it does become a policy that catalyzes growth.

Keywords: South Africa, Black Economic Empowerment (BEE), economic growth

JEL Codes: O16, O17, O25, O43, O55

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Introduction

Racial segregation has been South Africa's primary and defining characteristic. Non-whites were seriously disadvantaged because of structures that limited their economic and social opportunities, leaving few from this vast group in the formal economy. Black Economic Empowerment (BEE and its more recent Broad Based version) is a policy intervention driven from the economic and industrial complex in government. Aimed directly at addressing the economy's skewed racial profile, BEE calls the private sector to restructure itself and create opportunities for previously disadvantaged individuals (PDIs). The policy requires change to intra and inter-firm relational patterns of capital and control, personnel selection, promotion and development, supplier selection, enterprise development and social engagement.

Organizational theory argues that these kinds of intra and inter-firm relational structures and the networks they establish influence who participates in economies and how these people benefit. This argument supports the contention that BEE's focal changes are necessary to open the economy and adjust its racial composition. If the structures that have entrenched patterns of access to economic opportunities remain static they will not allow inclusion of previously excluded groups. The argument could also be used to view BEE as a potential South African growth catalyst.

Research suggests that the same structural variables that influence who participate in and benefit from an economy also impact what new ideas enter, what products are produced and what growth opportunities exist. Organizational arrangements prompt and constrain economic actors all the time, shaping what and how they produce. When favoring large firms and vertical relationships, for example, organizing structures offer opportunities for large scale undertakings that emphasize heavy capital investment. Such structures are less conducive to nimble adjustment in the face of changing global economics, however.

Many observers have noted links between the South African economy's organizing structures and its economic weaknesses. Limited new entry into markets is often explained, for example, as a result of high levels of capital concentration and vertical integration in key industries. Critics contend that these and other structural factors restrict the entry of new ideas, inclusion of outsiders (including budding entrepreneurs and low skilled workers) and development of a climate conducive to emerging business. Commentators increasingly identify these characteristics of South Africa's formal economy (limited new entrants and ideas, high levels of exclusion, low levels of innovation) as constraints to future growth that can only be overcome through active policy engagement.

Given this line of thinking a policy like BEE that focuses on changing South Africa's industrial relational structures could indeed also be a growth catalyst: If, in opening the economy to PDI's, it also opens the economy more broadly as well—to new ideas, entrepreneurs, and labor-absorbing, export-enhancing production activities. The primary question of this research is whether BEE is having such growth-enhancing impact on intra and inter-firm relational structures. It is asked against a stream of recent analysis that finds the policy either having limited impact or actually entrenching existing structures, albeit with some new PDI insiders.

These are important early findings that warrant closer inspection simply because many theorists would predict them. These theorists are not sanguine about the ability to change entrenched social or organizational structures, especially when these take on the qualities of organizing logics, macrocultures and institutions (established practices or sense-making constructs that inform conventions of what is appropriate, normal and reasonable). Even those with some confidence in the potential to change such structures warn of limits, heightened in the presence of entities interested in maintaining the status quo.

These literatures suggest that structural change is at worst extremely slow and at best open to significant obstruction and re-shaping, especially by elites. Some might say that the early findings in South Africa point to the validity of this suggestion (in best and worst forms) and accordingly raise a host of secondary research questions: Is BEE-led change possible at all? Is BEE-led change likely to entrench or exacerbate pre-existing structures and characteristics and actually constrain growth? What kinds of policy interventions (in substance and implementation modality) might increase the likelihood that BEE successfully influences structures and does so in a growth-catalyzing way?

These questions are second order issues related to the primary question of whether BEE is a growth catalyst. They are addressed in the current paper through six sections:

- The first presents a theoretical framework through which to ask the questions themselves. As introduced, this framework centers on the idea that social and organizational structures, often arising from established value sets, impact on who participates in the economy as well as what the economy looks like and what growth prospects it enjoys. Different structures accommodate different people, types of economic activity and degrees of economic opportunity and success.
- The second relates the framework to the South African context and shows that well documented ideas on the economy's structure can explain weaknesses in both racial inequality and economic constraints to growth.
- The third introduces the idea that BEE can indeed be a growth catalyst if it addresses the structural issues underpinning both racial and economic problems. It introduces the key research proposition that suggests BEE could impact growth if it impacts on economic structures.
- A fourth section discusses the concerns raised in early research on BEE (mentioned above) and introduces a counter-proposition that BEE may not actually be a growth (or transformation) catalyst.

- A fifth section provides an applied analysis of BEE response in South African firms. Using information gleaned from primary and secondary documents and some interviews, the analysis examines the validity of the research propositions. It does not purport to yield results that definitively support any proposition but does provide findings that suggest BEE is having some effects but that these could be strengthened.
- A sixth section introduces some propositions regarding the way BEE is implemented; ideas about how to ensure that BEE creates a new capitalist structure that fosters equity and growth.

The paper makes three primary contributions to those thinking about BEE-type social and organizational transformation in South Africa. Primarily, it introduces a new theoretical framework through which to examine such transformation. The theory explicitly shows how the transformation could impact on growth. Prior research on BEE and growth alludes to the idea that BEE addresses structural deficiencies in the economy but does not actually connect to the broader literature on this topic. The new approach could significantly enhance the dialog on BEE—providing the basis for assessing the value orientation of the policy and the fit of different elements to this orientation. Secondly, it provides a new approach to analyzing BEE impacts. Most of the research on this topic looks at single elements—ownership changes and employment equity being the most common—and relates BEE numbers (the size of deals and number of black managers) to other numbers (the post-deal value of shares or output of a firm, for instance). The current approach looks at all aspects of BEE (to assess the holistic organizational response to the policy) and attempts to go beyond numbers to the actual patterns of response—who the deals included, who the black managers are. This research approach will arguably allow for more insight into BEE impacts in the future—especially when matched to in-depth data collection processes. The final contribution is in the form of evidence about structural effects of BEE policies. Evidence emerges to provide guidance even for immediate policymaking.

Theorizing about economic relationships

The basic idea of this study is that all entities are in relationship with other entities. Organizations like firms exhibit internal and external relationships (between their own personnel and with suppliers, for example). These relationships form intra and inter firm webs or networks that connect different economic players in different ways. Research indicates that these structures matter. Network contacts are regularly seen as the reason why some individuals find work while others do not (Granovetter 1983, 1995; Langlois 1977). Network contacts are often the reason some firms get supplier contracts instead of others (Fafchamps and Minten 2001). Evidence even shows networks working across national barriers to open new business and trading opportunities in some settings (Saxenian 1999). These kinds of applications are discussed here and applied in the next section to suggest structural problems in the South African setting.

Economic structures reflect social values

The literature examines various kinds of inter-firm relational structures and networks. These include ownership patterns where the focus is on the way 'who-owns-whom' impacts organizational ties and economic activity. Management control is a second, related, arena for study in which research has centered on inter-firm connections arising from interlocking directorships. Intra and inter-firm personnel connections are a third focal area. Work here typically looks at how connections between people working in firm structures impact on who gets hired and promoted across industries. A fourth research dimension asks how firms engage with one another in production and supply, often involving the analysis of supplier networks and clusters.

Theory suggests that inter-firm network structures arise for a number of reasons. There is an element of purposeful involvement on the part of businesspeople themselves. Organizations enter into specific relationships in an effort to minimize transaction costs or assemble around a resource they are commonly dependent upon. Individual firms are attracted to established relational connections because these can significantly decrease search and screening costs associated with common trade engagements, for example. Most of the literature plays down this kind of purposeful selection in network structures, however, arguing that businesspeople select their relationships on the basis of an embedded understanding of the world that is established by larger social constructs. Jones, Hesterly and Borgatti (1997, 929) identify the “macroculture” as a “system of widely shared assumptions and values…that guide actions and create typical behavior patterns” for example. Woolsey-Biggart and Guillen (1999, 725) talk about broad social “organizing and institutional logics” as “taken-for-granted organizational arrangements that both prompt and constrain economic actors…and help to determine which social roles and strategies are conceivable, efficacious, and legitimate in a given setting.”

The basic idea behind the “macroculture” and “organizing logics” concepts is that broad social structures largely institutionalize behavior—including that within and between firms—yielding some engagements “typical” or “appropriate”. This is shown in Figure One, which emphasizes that behavioral patterns and relational structures between entities are in large part a product of society’s macroculture or organizing logics. The macroculture is important to understand because it constitutes the frame through which businesspeople view the world and establish relationships: businesspeople assume lower transactions costs in certain relationships because of the legitimacy afforded them by social structures. Figure One shows that the subsequent relational structures and networks firms engage in affect economic and social patterns (of access, exchange, ownership and such). They determine who participates and who does not, which products are produced and which are not and, most importantly, who is empowered and who is not (Fafchamps 2001, 110; Scott 1991, 182). They yield some people and organizations insiders and others outsiders and do the same for ideas and products.

Figure One. Macrocultures, inter-firm structures and economic and social patterns

Macroculture / social organizing logics	→	**Relational structures between entities**	→	**Economic, social patterns**	→	**Economic, social opportunities, results**
"widely shared assumptions and values"		Networks, other structural arrangements between firms, people		Insiders and outsiders, empowered and disempowered		Access to jobs, supplier contracts, economic growth trajectories

Economic structures influence social and growth patterns

Figure One indicates further that economic structures impact on economic opportunities and results. The literature is growing its inventory of stories about the ways structured relationships catalyze or constrain opportunities for individuals and firms. Many of these stories centre on the ability of individuals to gain employment through family and business ties. Research suggests that social structures of who one knows matter more than educational background in determining employment and that one's social structure either facilitates finding a job (for insiders) or constrains such (for outsiders) (see Erickson and Yancey, 1980, for instance). Similar research into supply relationships suggests that firms look to engage with other firms they know or have been referred to—even if this means accepting higher cost arrangements (Fafchamps 2001). A firm's opportunities to supply the market are catalyzed when they either have an existing presence or know people on the inside.

Capital is also often sourced through patterned relationships rather than pure free market systems, with networks playing a key role in firm entry and exit, growth and survival. African entrepreneurs with a formal education and some experience in the formal sector have an easier time obtaining capital than others, for example, because of the relational connections they enjoy in formal financial markets (McDade and Spring 1005). Similarly, Bearden et al (1975) found that interlocking directorship structures are often established to ensure firms have access to capital markets in the formal sector, something he called "financial hegemony". Scott (1991, 190) describes this as a dominant feature of British boardroom connections: "The majority of large enterprises are tied together into an extensive and cohesive network of personal, capital, and commercial relations focused on the activities of the inner circle of finance capitalists who sit on the boards of the major banks."

Research finds that those firms with director-level connections to banks tend to have easier access to capital than others. Interlocking directorship structures can also be important sources of opportunity because of information flows. Where directors sit on multiple boards of firms with different strategies, they have opportunities to learn about market threats and innovations and transfer the knowledge (Carpenter and Westphal 2001). This facilitates self discovery and also coordination that assists firms and industries in moving into new product markets (Hausmann and Rodrik 2006; Rodrik 2004). The relational structures can also constrain learning where directors sit on boards with strategies similar to their own focal company: "Similarity may reinforce existing managerial commitment to the current strategy and lead directors to ignore environmental changes that threaten [the focal firm's] long-term viability" (Carpenter and Westphal 2001, 643).

Beyond the impact relational structures can have in catalyzing or constraining opportunities for individuals and firms, research also shows that these structures matter for national growth and development. Some are now focusing on relational structures as a factor of production which Woolsey-Biggart and Guillen (1999, 727) calls "societal strategic advantage". They argue that different manifestations of this advantage, influenced by different systems of organizing logics, favor different kinds of development trajectories. With others, they contend for example that Korea's industrial structures favor large, vertically integrated firms with controlling links over smaller suppliers.[1] This is conducive to producing

[1] One should note the long history of competition policy in Korea and attempts to build both vigorous export-led industries and small business. Some of these initiatives have been successful, but the economy remains characterized by a macroculture that accommodates large business more easily than small. For broader and sometimes differing discussion see Roberts (2004) who argues (page 229) that Korea actually represents a domain South Africa can learn from in its emphasis on "active rivalry of firms."

standardized products through long production lines—like auto assembly plants (Hill 1996, 149; Rauch 2001, 1192; Woolsey-Biggart and Guillen 1999). Because suppliers are controlled by assemblers, however, they lack the nimbleness required to enter "export markets independently or learn from connections with higher-quality manufacturers" which has undermined the country's ability to establish an internationally competitive auto components presence (Woolsey-Biggart and Guillen 1999, 727). Taiwan, in contrast, is dominated by many small firms which are connected in horizontal networks and supply chains that have proved nimble in being able to listen to and respond to international demand, becoming a leading world supplier of auto components like brakes and mufflers. Taiwan's auto-assembly industry has waned since the 1970s, however, largely because of complications involved with forging heavy capital-intensive production processes in a de-concentrated economy (where standardized capital and production processes are not easily focused in ways required for heavy, capital-intensive industry—better suited to more concentrated settings).

Different structures yield different results

The Korean/Taiwanese comparison brings to the fore commonly identified extremes of how firms relate and economies are structured—the concentrated and closed relational model and the de-concentrated and open relational model (see Uzzi 1996 for discussion). The organizational networks literature presents these structures as occupying the space between traditional closed, single organization hierarchies where behavior is very controlled, and free markets where firms operate at arms-length from each other via the price mechanism (and the repeated social engagements embedded in network structures play a minimal role in driving behavior).[2] Figure Two shows the kind of continuum one could conceptualize between the hierarchy and free market models. Finite, close-knit (but not hierarchical) groups of firms are at one end and loosely-connected firms

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[2] Many track this approach to Ouchi (1980) who introduced the 'clan' model of organization as one in which relational structures provided the basis of motivation and control.

are at the other (where structures are loose but behavior is still shaped by some degree of ongoing social ties and structures).

Figure Two. A networked industrial structure continuum

	Finite, close-knit groups of firms	**Loose collections of many firms**
Capital	Concentrated, vertical and/or horizontal integration	De-concentrated, though often capital access through loose relationships
Control	Significantly interlocking directorships	Limited interlocks, but Some quality based coordination through supply chains and other social structures
Personnel	Fairly common and closed capture groups across industries	Often family connections; networks differ across industries
Supplier	Tight connections between sellers and suppliers; often ownership ties; restrictive and detailed contracting arrangements; control suppliers	Loose relationships; many suppliers, coordination through supply chains
Characteristics	Power concentration Many outsiders Conducive to high capital, heavy industries, control orientation	Many empowered Fewer outsiders Conducive to high knowledge, responsive, learning industries

Fafchamps (2001, 123) notes that the closed market structures are more likely to arise in situations where trade is driven by static comparative advantage whereas open structures are likely for commodities that are subject to constant innovation and entry by Schumpeterian competitors. He further points out the conventional wisdom that “closed-shop markets are more likely in poor, stagnant economies where patterns of trade remain dominated by commodities.” This is increasingly true in a more competitive globalized world. The challenge in these markets is often to change patterns of production away from low value-added primary commodities and towards higher value-added manufactured tradables.

The argument so far suggests that this kind of policy requires a move from tight corporate structures to looser structures. This kind of observation has thrust the issue of corporate structure into mainstream economic development dialog: “The nexus between corporate control and economic development is attracting increasing attention” (Chabane, Goldstein and Roberts 2006, 550).

Relating theory to South Africa’s economic structure

South Africa is certainly one of the countries attempting to move onto a more aggressive growth trajectory. The engagement of an international panel of experts has shown general agreement with Government’s ASGISA policy that such a trajectory would involve adjusting production profiles in favor of more dynamic tradables, soaking up the vast pool of unemployed—including discouraged new entrants to the labor pool, and generally opening the economy to emerging firms (DTI 2006). All of these interventions imply some degree of structural change to intra and inter-firm relationships, notably moving from the left to the right in Figure Two. From concentrated, closed relational structures to de-concentrated and open ones (even in key sectors like tourism and business process outsourcing, which often work best with competition and innovation). There is an element of ASGISA and related industrial policies that implies maintaining an optimal level of concentration in key industries like mining and motor vehicle assembly, but overall the policy framework is very focused on opening economic structures. This section briefly discusses why such change is needed, drawing in limited space from a vast literature on South Africa’s economic structural weaknesses.

South Africa’s concentrated economic structure

Many commentators have noted the traditionally high degree of concentration in South Africa’s formal economy—especially at the ‘commanding heights’ of big business (recent papers include Chabane, Goldstein and Roberts 2006; Goldstein 2000; Hirsch 2005; Murray 2000; and Southall 2005). Most cite the “Who Owns Whom market capitalization control figures” as evidence in this regard: Five companies have enjoyed control over much of the Johannesburg Stock Exchange (JSE) since the 1980s—at a high of 82 percent in 1987, dropping to 71 percent in 1996 and holding between 40 and 50 percent in recent years (declining lately because of some degree of horizontal unbundling, the increased role of institutional investors and re-entry of international firms). Concentration is also reflected in commentary about director interlocks between firms: over forty-one percent of boards had more than eight members in the late 1990s, more than many other countries, and many firms enjoyed seats on each other's boards (especially within the big conglomerate structures and involving connections to banks and other financial institutions) (Murray 2000). Some suggest that South Africa's board representation patterns reflect Britain's "financial hegemony" network structures, others use Chandler's relation-based "personal capitalism" to describe the structures and yet others reference Zeitlin's family-based "kinecon groups" as the most appropriate description of the close knit relationships (Chabane, Goldstein and Roberts 2006; Murray 2000).

The whiteness of South Africa's capital and control structures should be readily assumed. Prior to 1995 figures were not even available to show black participation in the market. In 1995 less than a half percent of the market was directly controlled by blacks. Blacks have also had a very small presence on boards and in management structures in South Africa. One should note, however, that the concentration was not just about race. Capital was controlled in the hands of just a few white elite families (and increasingly their senior management). Directorships and management positions were also closed to all but a few members who constituted a corporate or business elite, an "inner circle" of corporate decision-makers "with power and influence over the business system as a whole" (Scott 1991, 182; Useem 1984). This inner circle was heavily populated by men from elite secondary schools[3] and top traditionally white universities who typically enjoyed multiple directorships and boasted elite qualifications and a history of formal, big-business experience (Murray 2000).

Elite qualifications are important because of the access they give to business networks and the legitimacy they derive in a qualification-impressed society. In

[3] Especially in the most dominant conglomerates.

many senses elite qualifications show themselves as the most direct route to economic empowerment. Chartered accountants (CAs) have typically comprised over 30 percent of the JSE's top 200 firms' directors, with an extra 10 percent coming from MBAs and similar numbers from lawyers and engineers. Over 80 percent of the top 50 company Chief Financial Officers have commonly been CAs and between 30 and 50 percent of the Chairmen and CEOs have had the same designation (SAICA 2007). The training these individuals receive undoubtedly enhances their business ability. However, the influence of the designation arguably derives less from the training and more from the professional accreditation CAs have from and the membership they enjoy in the South African Institute of Chartered Accountants (SAICA).

Similar formal and informal associations of MBAs, lawyers and engineers are in fact key networks South African business looks to for talent. If SAICA allows someone into its ranks, that person enjoys broad business access in South Africa. If not, doors are more prone to be closed. This seems a significant characteristic of the South African economy's macro-culture—which gives greater value and credibility to people with elite, professionally accredited qualifications than it does to others. Given the apartheid history in South Africa, most of the qualified elite are white—something which creates a complicated barrier to entry for non-whites who face exclusion on the basis of race and qualification. This issue is also at the center of the current skills crisis in the country; limiting access to these professions to one racial group has significantly limited the potential skills base in these areas.[4] This is something entities like SAICA are attempting to address.

In observing the influence of professional affiliation on who accesses economic opportunity Fafchamps (2001, 125) notes that the relationship between ethnicity and business networks is loose even when business networks are ethnically

[4] Sadler (2002, 160) examines the profile of black chartered accountants in South Africa, concluding that "the earlier exclusion of blacks from professional and managerial positions was having a serious effect on the availability of skills…[T]he total pool of experienced high-level human resources also appears to be too small to fulfill the current need of the country."

concentrated, because race is but one factor defining these networks. This is certainly evidenced in South Africa where the capital, control and management networks at the heights of business have traditionally comprised a very small, tightly knit group of whites who have gained entry through their family and professional networks (among others). Ethnicity is only part of the business networking and corporate structure story. Many formal and informal networks exist that are not directly based on race (but rather on qualification, for example) and are “functional in promotions and advancement” and determine the “prevailing corporate cultures…to which new recruits [black or white] are expected to assimilate” (Thomas 2002, 241).

Probably the tightest network of all—and hence the biggest structural factor defining how business works—centers on past experience in big, formal business. Very few managers and directors in South Africa’s big businesses have traditionally reached their positions without years of work in the conglomerates, banks or other financial institutions. It has been rare to find a manager or director coming from smaller and medium sized business into these large firms (even though most small and medium businesses have also traditionally been dominated by whites). It has been equally rare to find entrepreneurs from truly independent small and medium sized suppliers sitting on boards (regardless of the fact that the literature identifies exactly these types of individuals as useful information providers to large corporates). In contrast, specialized in-house sub-networks are evident in various industries where firms allocate management positions only to individuals with experience in the specific firm or its subsidiaries. Similar in-house networking is evident in the composition of many boards.

The prominence of in-house relational connection is also evident in the way large firms have organized production and commercial processes. South African firms have typically been bigger than other-country examples and have been more horizontally *and* vertically integrated—dominating markets, undermining local competition and effecting direct control over their supply chains (Hirsch 2005).

Research into the furniture sector shows, for example, that the average plant size of a South African firm in the early 1990s was more than twice that of the United Kingdom. Citing this evidence Kaplinsky, Morris and Readman (2002, 22-23) comment: “The furniture sector in South Africa has been dominated by large firms. This is true not just for production, but particularly also for retailing.” Evidence from other sectors corroborates this concentration. Williams (2005) writes that, “The domestic markets for wine and spirits have always been highly concentrated.” Kirsten and Rogerson (2002, 35) note that tourism—an ASGISA focal area—was subject to “the dominance of large enterprises.” Lewis (1995, 136) is conclusive: “The paper and pulp industry, the various sub-sectors engaged in minerals beneficiation, cement production, the furniture, footwear, poultry and wine industries, basic chemicals, and the production of white goods are all highly concentrated.”

Large South African firms in these and other industries have typically looked in-house for many services—from production through to retail finance. Owning key suppliers, financiers and retailers in a sector assured preferential relationships for these large firms—tight, controlled network relationships that minimized risk exposure. These relationships allowed capital concentration necessary for heavy industry development and fostered stability and standardization. Where the relationships were not established via direct ownership ties, they involved financing and preferential contracting mechanisms—much like Japan’s keiretsus.[5] Kaplinsky and Manning (1998, as presented in Hirsch 2005) cite the example of Anglo American in the clothing and footwear sectors: “The conglomerate owned three of the largest retailers, the largest manufacturing group, one of two dominant wood suppliers, and major financiers in the furniture sector.”

[5] Dana (1998) writes about these structures, arguing that they emerged from the cultural constructs in Japan and have had a major influence on the country’s economy. They have helped spawn the development of stable large industries but have also proved a barrier to new ideas and trade.

Concentration constrains the economy

Smaller downstream enterprises have faced major entry hurdles as a result of these preferential relationship structures, however; in industries as variant as furniture, textiles, tourism and in the core metals and engineering sector (FRIDGE, 2003, 3). Large firms started unbundling in the 1990s and focused on core activities, but in so doing simply traded their horizontal conglomeration for a more intense vertical presence in many industries: “A large proportion of mergers have been vertical, increasing control of dominant firms through production chains” (Chabane, Goldstein and Roberts 2006, 557).

One could expect this kind of vertical consolidation to exacerbate already-low levels of industrial competition in South Africa. Most commentators agree that it has, with non-integrated downstream suppliers having to deal with controlling conglomerates that make life especially difficult. Kirsten and Rogerson (2002, 35) say explicitly that the dominance of large enterprises creates “many constraints on SMME development in the tourism industry.” An interesting dimension of the issue in many industries was the limitation a closed and dominated corporate structure placed on the creation and success of non-conglomerate retailers. These retailers could have provided more competitive outlets for independent suppliers. Observers indicate that domestic competition in areas like furniture have become more about how well a firm provides hire-purchase financing to its customers than about the quality or cost of the product, however (Kaplinsky, Morris and Readman, 2002, 23). Large retailers have a competitive edge in this situation because they generally house their own financing arms (and invariably also enjoy interlocking board relationships with financial institutions). Smaller retail outfits have very limited ability to offer competitive hire purchase financing arrangements to customers, which is one reason why small furniture, clothing and other outlets are arguably less present in South Africa than elsewhere.

This automatically limits opportunities emerging firms have of selling their goods—the few big business outlets tend to continue working with established networks of suppliers, whom they have often captured.[6] Consider the comment arising from a USAID-funded initiative to strengthen emerging suppliers in the building materials sector (Sethna 2005, 7): "Large businesses have been able to establish favorable relationships at many levels, resulting in "closed" markets and "old boy networks" that have successfully kept out new, perhaps more efficient and competitive market entrants." Some commentators feel that closed markets of this kind are a major reason why SMMEs in South Africa contribute less to GDP (and employment) than they do in many other countries: Large firms constitute less than 5 percent of South Africa's corporations but account for 60 percent of the country's GDP (Lunsche 2007); while constituting more than 95 percent of corporate entities between 1990 and 2000, SMMEs employed only 55 percent of the country's labor and generated only about 40 percent of total remuneration (Sanchez 2006, 8 citing 1990-2000 data from the Registrar of Companies).[7]

The highly concentrated structures have not only limited competition and access, especially for smaller business; observers also point to them as reasons for South Africa's weak competitiveness. The declining entrepreneurship and competitiveness is reflected in the country's drop from 19th to 25th place (out of 35) in recent versions of the Global Entrepreneurship Monitor (GEM) indicating that "the country has failed to create a competitive climate in which emerging businesses can grow and thrive" (CDE 2004; Southall 2005, 476; Lunsche 2007). Hausmann and Klinger (2006) provide further evidence in their finding that South Africa's real exports grew at remarkably lower levels than in comparative countries between 1960 and 2004. This is partly explained by the drop in relative value of the primary commodities that dominated South Africa's export activity

[6] One can observe this in various industries including clothing and apparel and building products.
[7] All of this data should be carefully considered, especially because of weak data on informal micro and survivalist enterprises which arguably accounted for higher percentages of output, employment and remuneration. The numbers reproduced here are generally used with more than average levels of authority, however, and most commentators would agree with the pattern presented.

during the period. The other side of the story is that South Africa has not established itself as a major, creative and competitive player in other arenas.

Industry has not proved able to upgrade and adjust to the opportunities presented in global markets. Kaplinsky, Morris and Readman (2002, 23) speak of such a situation in the furniture industry. Because the dominant conglomerates produced a wide range of products they have found it difficult to concentrate on areas where they had comparative advantage. They focused on large batch production of standardized items and thus "failed to develop the capacities to design and change their product portfolios [in response to changing international demand]". Retreating into the domestic market, "competitive energies were focused on access to financial markets, rather than on product innovation and, hence, product design capabilities were relatively unimportant." The furniture sector actually saw increased exports in the period observed by the authors, but all in the lower value added product segment and mostly because of exchange rate depreciation. The authors conclude that,

> South African producers are only hanging into the market by virtue of price competitiveness…delivered by a continuously depreciating exchange rate, since their quality and delivery reliability were poor, they were distant from final markets and showed little capacity to develop related capabilities in other sectors (Kaplinsky, Morris and Readman, 2002, 27).

This echoes Woolsey-Biggart and Guillen's findings that concentrated and closed structures struggle to respond to change and opportunities that arise in competitive international markets. There are also uncomfortable echoes of Korea's inability to develop an internationally competitive auto-components sector because of the limits to learning and creativity a closed conglomerate structure imposed on suppliers.

There is further evidence that 'closed and concentrated' inter-firm relational structures hinder the ability of South African firms to establish a strong export presence. Although the metals and engineering export market has grown dramatically since 1994, industry surveys show that less than one fifth of companies have grown export revenues to greater than 10% of their turnover (FRIDGE 2003, 5).[8] "Factors impeding export market growth include a lack of market intelligence" about the kinds of domestically produced products threatened by growing import penetration as well as about products offering new export opportunities in other markets. The literature suggests that open and creatively staffed boards should provide exactly this information, but that boards comprising members from similarly-focused and closely-knit entities—like those that have dominated many South African firms—probably would not (Carpenter and Westphal 2001). Closed board interlock structures and the closed vertical control structures that make their decisions binding on a swathe of firms falling under their control could thus be argued as a reason why South African firms have struggled to gain knowledge and competitive ideas.[9] This issue is referenced by Hirsch (2005, Chapter 6 pages 1 and 2), who states that, "The South African conglomerate was sluggish and conservative." He quotes Derek Keys, a former Minister of Finance and conglomerate director, as saying that,

> The investment behaviour of the South African conglomerate, including large manufacturing groups, is akin to that of a trustee, reluctant to invest in large projects with long payback periods, or in risky small ventures.

What about structures below big business?

There is some evidence that looser-structured horizontal consortia of smaller downstream companies and some upstream suppliers have actually been able to identify new products and markets and compete internationally (FRIDGE 2003, 3). This suggests that loose inter-firm structures do exist in South Africa, especially among smaller and medium-sized producers, and supports Figure Two's perspective that looser horizontal networks are more responsive to change. This also resonates with various international studies (like Ellis and Pecotech

[8] See Roberts (2004) for a discussion of this sector and of competition policy issues arising. The current paper does not address competition policy in any detail (although it is discussed in a later section) but the link between competition policy and BEE is interesting to consider—both address structural constraints to access in the market.

[9] McEvily and Zaheer (1999, 1135) argue that while these kinds of "tight-knit communities are characterized by high levels of trust" that may enable knowledge sharing between their closely related entities, through webs of "dense and overlapping ties", "It is unclear how new ideas and information enter."

2001) that find “cosmopolitanism” derived through social networks has a significant influence on the initiation of exports in SMEs. SMEs, partly because of different relational structures, may have advantages over larger firms in a new globally-aware South Africa.

There is potentially more evidence of an SME advantage in Edwards’ (2004) findings that trade liberalization has wrought significantly more problems for larger firms than smaller firms in South Africa: Larger firms seem to have suffered higher losses in market share and price reductions than small firms and employment decreases have been more severe in the large firms. While the author cautions readers about how to interpret this data it seems that there is once again potential evidence that smaller firms in looser relational structures are more adaptable to change. There is anecdotal evidence of this in sectors like textiles, where the void left by a declining South African Clothing has been filled by smaller suppliers that network well amongst each other and look to value chain efficiency solutions to improve competitiveness against cheaper Chinese imports.[10] Morris, Bessant and Barnes (2006, 532) find that these kinds of loose networks are an effective means to develop “competitive strength both within firms and in the wider systems in which they participate.” Their experience in facilitating the emergence of clusters in the auto industry in KwaZulu-Natal suggests that, “Linkages within value chains increasingly…enable industrial upgrading.” Such upgrading is the ingredient sociologists find missing in vertically integrated settings that struggle in competitiveness.

These value chain relational structures are fairly novel in South Africa, however. The work of Barnes et al. setting up networks remains isolated and receives major attention because it creates inter-firm connections that have typically been

[10] A cluster of clothing companies exists in the Stamford Hill Road area in Durban for example. A number of firms have risen and learned together, fulfilling various roles in the production process and supplying big retailers—even against cheaper international competition.

lacking.[11] Loose and dynamic vertical relationships between independent firms are especially lacking—even between large firms and the small and medium enterprises (SMEs) in the formal economy. These SMEs have traditionally been dominated by whites as well but whether white or black, they are often structurally distanced from the big firms because their members lie outside of the elite networks represented atop the economy. As discussed, where connections exist between SMEs and the big firms it is usually because of established supply relationships that imply a significant degree of vertical control from the large firm downwards (through ownership, pricing, quality control and other means). The last decade has seen a migration of many white professionals from big firms into the SME sector, however, which some suggest is creating relational links between independent players in the two arenas, based on personal relationships rather than formal control.[12] These links will be interesting to observe, because they could open up opportunities for SMEs to connect dynamically to bigger corporations and facilitate learning in the larger firms.

SME networks one typically finds are dominated by family connections (many of these firms are family owned and managed[13]) and also by established inter-SME commercial engagements: It is common to find SMEs with long-standing preferential debt policies towards other SMEs, for example. These networks are often also geographically tight, reflecting cluster-type structures within and around major commercial hubs. They are often engaged in local business networks, sometimes informal and sometimes formalized as Chambers of

[11] Claire Bisseker highlights Justin Barnes' work in a July Financial Mail article (Bisseker 2007, 43). She notes that clothing industry "cluster initiatives" set up by Barnes "are flying" having increased numbers of participating manufacturers from 45 to 70 in the year and engaging all major retailers. She quotes Barnes as saying, "We are now bedding down operational alignment…that is extremely encouraging because that's when change really happens in an industry."

[12] Sanchez (2006, 8) notes that the rate of expansion in SMEs increased after 1994: "Many of these were initiated by white South Africans who were retrenched from big companies and who saw small business an escape from the effects of affirmative action and a hope for a better future." Other anecdotal evidence suggests that the whites moving to SMEs do not always do so because of a negative push (like retrenchment) but often do so because of the opportunities available to them in such entities.

[13] In 2004 Balshaw estimated that family businesses comprised over 84 percent of all registered businesses in South Africa. 1.1 million family businesses were registered at the time, 330,000 being economically active companies and 870,000 being sole proprietors and partnerships.

Commerce (which have a national presence in South Africa but are also highly decentralized).[14]

Connections from the big players downwards decrease to almost nothing as one progresses to consider the very small, micro and survivalist enterprises (often represented by the acronym MSE, standing for micro and small enterprises). While literature suggests that these entities engage horizontally with each other in small geographic and social networks, they have very limited backward and forward linkages to the rest of the economy, largely because of the fact that they lie well outside of the major networks. These lower rungs have been termed the second economy by the South African government, partly reflecting separation from the dominant players. Sanchez (2006, 15) comments that, "The smaller businesses that operate in the second economy…are constrained by weak demand in the second economy and by the lack of connections with the first economy." This separation can be attributed to many things, including "differing business cultures [and] negative perceptions about small and large firms" (Sethna 2005, 6). Sethna's comment raises the idea that perhaps South Africa's macroculture—the "widely shared assumptions and values…that guide actions and create typical behavior patterns"—make bigger firms seem more appropriate than smaller firms. Mazwai (2007, 18) also believes this, identifying "the biggest handicap to the growth of small business in SA" as "the national psyche regarding small business." With other commentators he observes that business associations typically focus on bigger businesses than smaller businesses and even that public policy aimed at small business is often really about making small entities big.

Small businesspeople in these second economy sectors obviously enjoy little respect and position in South African society because of these kinds of value sets. They also enjoy very little capital and market access. They are characterized differently from those who do enjoy such access. Most are black, and many are

[14] Sanchez (2006, 15) comments that these networks can provide entrepreneurs with information and support. The quality of network is important, however, and it is apparent that many networks are not effective in transmitting knowledge or facilitating support.

women with little education, especially lacking the formal accreditation symbols so important in the first economy, furthering their trade in isolated areas far from the commercial hubs and on a scale so small as to yield little attention from their bigger 'competition'—a panel beater serving two cars a week is of no interest to a large insurance company that must find service for two hundred cars a week. Their language of business is different, especially on the financial side—with a looser approach to maintaining financial information (often the key information in relationships further up the economy).[15]

Financial realities are different here as well—cash flow concerns arise weekly and even daily, for example (as opposed to monthly in SMEs and even less often for the big conglomerates). These entities typically engage in smaller networks and have close social ties with their customers, often through repeat business. In many senses they find themselves unable to escape their limited circles. One study of constraints facing black entrepreneurs in Soweto simply identified "Expanding beyond Soweto" as a dominant hurdle (CDE 2007, 7):

> Many of the profiled entrepreneurs believe they need to expand beyond the boundaries of Soweto in order to put their businesses on a more sustainable footing. This is a challenging prospect largely because the world outside Soweto remains very different and unfamiliar…Soweto offered them social networks and, in many ways, a protected environment which gave them a chance…Entrepreneurs need to build on this by developing business strategies that will allow them to survive in the more competitive and depersonalized environments that lie beyond Soweto.

Many MSEs (and survivalist enterprises) are located even further away from the key business centers than Soweto—geographically separated from the economic mainstream and from growing markets. This separation has a distinct racial basis to it, dating back to the apartheid structures in South Africa, and it again involves the structural constraint to effective commercial relationship building in the economy. Sanchez (2006, 16) vividly describes the implications of this separation:

[15] See Sindi Zilwa (2007) for an excellent discussion of the constraints a lack of financial process can bring for an emerging business.

> Although…fragmentations exist within South Africa as a whole, they are particularly evident in the disconnection and disparities that exist within the major urban centres and between the urban and rural areas. These divisions inevitably translate into a lack of appropriate socio-economic spaces where new businesses are more likely to flourish. The picture of vibrant city markets and streets filled with entrepreneurs providing goods and services to the broad range of people of all races and backgrounds that live in South Africa seems to remain an ideal.

As indicated, the challenge for very small, micro and survivalist enterprises is not just to grow and become SMEs and then large firms. It is to transcend a set of organizational and relational structures that currently characterize them as different and to penetrate a set of foreign business networks and structures. The challenge is particularly difficult because there appear to be very few bridges between these firms and those above them. From the discussion so far it should be apparent that there is a general lack of bridging ties between all levels of business in South Africa—ties that link one entity (firm of any size) “to contacts in economic, professional, and social circles not otherwise accessible” to that entity and provide a “path by means of which the persons [entities] (and their direct contacts) are joined” (McEvily and Zaheer 1999, 1136).

The lack of bridges or linkages yields MSEs outsiders in their own economy, with little way of getting on the inside.[16] This reinforces the concentration patterns already discussed, because the marginalization of these enterprises essentially centers economic power in a very small group of economic actors at the top of the economy (large firms and those SMEs they relate to vertically through tight capital and control structures or through established commercial relationships). Statistics vary on the number of firms in different categories but it is safe to say that large firms at the top of the economy comprise between 0.5 and 5 percent of the total number of firms yet account for 60 percent of the market production. SMEs probably make up another thirty to forty percent of the number of firms and

[16] In his study of building material suppliers, Sethna (2005, 5) describes MSEs as “operating at the margins of the industry.”

MSEs contribute the rest (up to 60 percent of all firms).[17] The MSE market share, however, is probably below twenty percent of total production.

Summarizing South Africa's economic structure

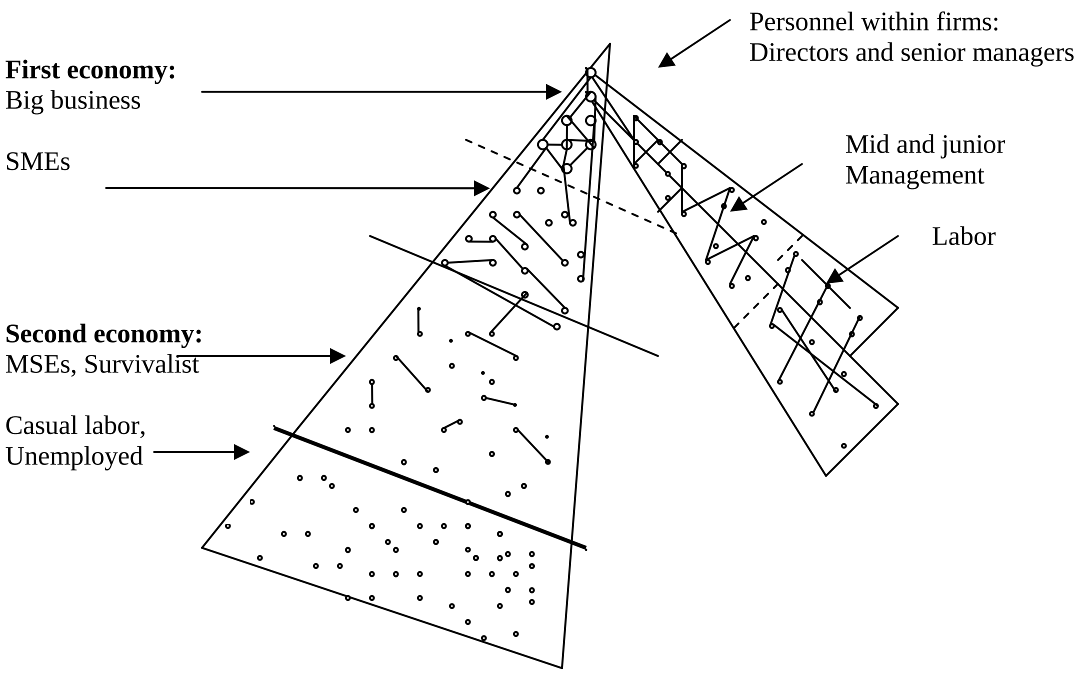
Figure Three shows the South African economy as a hierarchical structure with larger firms at the top and moving downwards through SMEs to MSEs and survivalist enterprises.[18] The personnel structure in each firm is also shown as a hierarchy. Only two of these are shown but the assumption is that all entities will have personnel structures looking like this—with board and senior management members at the top, passing through mid and junior management and to labor.[19]

Figure Three. A simple presentation of South Africa's economic structure

[17] Sanchez (2006, 8-9) cites various sources providing different firm numbers. The Registrar of Companies (now CIPRO) indicated that SMEs represented 97.5 percent of registered companies between 1990 and 2000. The Development Bank of Southern Africa's 2005 figures numbered total companies in South Africa at 906,700—and indicated that only 6,000 of these (0.7%) were large enterprises. Sanchez also cites the Financial Mail as stating that there are between 2 million and 3 million SMMEs in South Africa alone—with 60 percent being survivalist. CDE (2004, 16) cite other numbers provided by Ntsika. In 1999 large businesses numbered 6,500 out of 2.5 million. Large and medium-sized firms made up 0.7 percent of all firms, small firms accounted for 3 percent, very small and micro enterprises made up 14 percent each and owner-only micro and survivalist enterprises accounted for 20 percent and 48 percent of enterprises respectively. Lunsche (2007), a journalist with the Financial Mail, cites the DTI 2003 Small Business Monitor in stating that more than 80 percent of registered businesses in South Africa have sub-R5m revenue, that medium-sized companies account for a further 10 percent of all corporations, and that only 5 percent of corporate South Africa is considered 'large'.

[18] The use of a hierarchy to show the economy's structure is common. Menitjies has a version of this in his 2004 paper, as does Jack's 2003 and 2007 work on the topic. The international group Women in Informal Employment (WIEGO) uses this kind of triangle to show participation in the economy and inverts a triangle alongside it to show economic beneficiaries.

[19] Obviously firms have differing types of hierarchies. This assumption follows a general human resource management approach to grade staff at different levels. One would expect smaller personnel hierarchies moving down the economy (with SMEs having smaller staffs than large firms, for example).[19]



The figure also summarizes the above discussion about what intra and inter-firm structures look like, albeit in a highly stylized manner. Organizing logics in the macroculture seem to make big, concentrated firms with close relationships an appropriate economic structure at the top of the economy. Capital, control, commercial and even inter-personal relationships in big firms have been tight-knit and in many ways the domain was closed to those without experience in large organizations, particular professional qualifications and the right social and racial profile. There are some vertical relationships to small and mid-sized firms, which often take the shape of tight connection through vertical integration (ownership and control relationships). These vertical connections have been limited, however, which constrains domestic economic access even for many predominantly white-owned, formal SMEs. This situation is presented as an explanation why South Africa's economy exhibits sub-par levels of competition and why creativity and competitiveness are relatively lower than many would expect.

One does find horizontal linkages between some SMEs, however, which enhance competitiveness in some sectors. This kind of activity has seen the SME sector emerge as an increasing employer in recent years. Data shows that while only 44 percent of employed people were in formal SMMEs in 1995, this rose to 52 percent in 2000 and 68 percent in 2002 (Sanchez 2006, 8). Many believe these firms are the appropriate engine of growth for South Africa. Given that large firms still account for over 60 percent of the economy, however, one wonders how this can be so if vertical linkages are not increased and made more conducive to competition and creativity. Basically: The growth contribution one can expect from SMEs is limited by the degree to which economic structures at the top of the economy keep them as outsiders.

The large group of entities below the second economy barrier in Figure Three is comprised of more outsiders. These are MSEs and survivalist entities separated by significant barriers from the dominant economic action and players in bigger business. Business networks in this domain tend to be highly relational, limited by geography and the size of business, and basically very different to those one finds further up the economy. Below these entities one finds an even further isolated group—the unemployed and under-employed. This group continues to confound policymakers, especially the part of this population comprising young recently educated men—who don't work their first job until their late 20's.

Interestingly there is evidence that this is not just because of weak labor demand. It is common to find firms in the auto industry looking for mechanics. It is also not just a function of poor skills. There are many informal garages around South Africa where individuals have been hired informally to work on cars for years. Beyond demand and supply, there is evidence that closed employment networks (in the formal sector especially) limit opportunities for many job seekers. Formal experience and qualification is an important influence on determining who is hired as mechanic in the formal sector, for example. This 'organizing logic of the industry' yields members of the formally qualified network likely to find a job;

those without a formal qualification are outsiders. Formal sector employers often cannot find such people because of geographic and social barriers that separate their worlds. If they are found, formal business struggles to screen them, because they lack the kind of experience and qualification employers understand and accept as reliable.

Beyond the idea of a qualification barrier, Magruder (2007) finds that tight family networks also play a dominant role determining who gets a job and who does not. He looks at hiring behavior of males with fathers in the same industry and finds that a strong intergenerational network effect is important in explaining the likelihood that under-25 males will work. This supports earlier work by Standing, Sender and Weeks (1996) which reported that 41% of South African firms surveyed hired friends and relatives of employees when filling vacancies. Magruder notes the following in discussing his findings (2007, 13):

> If networks are now solving information problems endemic to liberalized labor markets, these may be compromising the ability of different groups to take full advantage of the opportunities generated by a free labor market.

Seekings and Nattrass (2005, 282) comment similarly:

> It is surely the case that the number of discouraged unemployed in South Africa is large in part because vacancies are so often filled using [network] channels. Thus it is likely that, among the unemployed, there are some with good prospects for employment and others with poor prospects and that the former are more likely to be members of households with working members.

These kinds of statements confirm the idea that the unemployed at the foot of the economic structure are true outsiders in the economy—largely because of the networks, and organizing logics behind networks, that determine who is empowered and who is not.[20] The problem South Africa has is that outsiders in this and other groups significantly outnumber insiders, the ones benefiting from

[20] It should be noted that networks even seem to trump education as an influence on employment likelihood. According to Magruder (2007, 13) intergenerational networks had a significant effect on getting a formal sector job but "by 2003, the marginal effect of an extra year of secondary schooling on the likelihood of getting a formal sector waged job had fallen by 60-75% for coloured men and for all blacks."

the new economic paradigm. Boosting the number of insiders seems a moral and economic imperative and the most basic definition one could give to 'economic empowerment' in the country.

Why BEE could be a South African growth catalyst

A vast literature discusses the historical roots of the economic structure presented in Figure Three, especially the concentration issues at the top of the economy (See Hirsch 2005). A full discussion of this is not necessary in the current paper, and is certainly beyond the parameters of the exercise. However, two fundamental influences should be mentioned; the influence of primary commodities and of apartheid.[21] Goldstein (2000, 1) comments on both:

> Resource endowment…had a tremendous impact in skewing corporate power in South Africa towards a handful of large-scale mining corporations. The apartheid system, in turn, gave rise to a peculiar business environment…[T]he strategy of economic self-sufficiency encouraged pervasive state ownership and concentration of financial wealth in the hands of few large-scale diversified economic conglomerates.

With Goldstein one can look back at the embeddedness of today's corporate structures in the country's resource endowment and race-based history. One could also look forwards at the way these two issues should frame policy in the future; particularly the need for structural change.

As discussed, Fafchamps (2001) notes that primary commodity-based countries generally tend to exhibit high levels of concentration. He also notes that closed-shop markets are more likely in poor, stagnant economies. Catalyzing growth in economies like South Africa will require a dose of structural change that shakes the primary commodity-based organizing logics that deem big, closed firms most appropriate. Fafchamps also notes that relational structures determine insiders and outsiders. Discussions of Zimbabwe indicate that ethnic and racial characteristics

[21] Fine and Rustomjee (1996, 8) merge both of these factors in their discussion of the Mineral-Energy Complex (MEC) influence on South African corporate society.

can be central determinants of who-is-whom.[22] Racial patterns in South Africa's economy cannot be adjusted without some structural change that challenges the race-based organizing logics that deem it appropriate for whites (and more particularly specific groups of whites) to be empowered insiders and other groups to disempowered outsiders.

The essential argument here is that the big business organizing logics that frustrate growth are much the same as those distorting racial empowerment. Structural constraints that yield many people, ideas and emerging firms outsiders harm growth, especially in the presence of dynamic global markets. The fact that many outsiders are black harms racial equity. A solution to one should overlap as a solution to the other. This is the theme of the current section, which presents an argument as to how the two could overlap. It concludes with a proposition for analyzing whether BEE is a South African growth catalyst (as well as a racial transformation mechanism).

BEE and structural change

The Black Economic Empowerment policy (BEE) comes into view as a potential mechanism for dealing jointly with structural issues affecting economic growth and racial access. This policy has its own history, which the current paper will not address in detail.[23] Main story-lines include the significant debate about the goals of BEE. All agree that the policy is fundamentally about empowering black people but it is also about economic empowerment; there is vibrant discussion about what this economic empowerment means and how it relates to black empowerment. A second story line involves the elements of this policy. Its initial frame—and one that still dominates in many respects—was the narrow focus on

[22] One should note, as already discussed, that Fafchamps finds ethnic issues only one determinant of entry to business networks. Business networks are much smaller than ethnic groups, leaving only a few from an even a dominant ethnic group in the truly empowered business networks.
[23] The history of BEE and many of its debates are well represented in the recent volume on BEE, edited by Mangcu et al. In concluding the volume, the editors reflect on how much discussion remains ongoing: "There is no common viewpoint on either the purpose or the outcomes of BEE…it is an evolving process that is increasingly taking root and significantly influencing all business decisions" (Marcus at al. 2007, 228). (Further reading on the topic includes Hirsch 2005 and Meintjies 2004).

transforming capital and control structures in big business.[24] This narrow frame leads to a third story line about the emergence of just a few black beneficiaries, and the question of how broad black economic empowerment should be (in numbers of beneficiaries as well as elements). The story lines inter-twine in the fairly recent agreement (from about 2003) that BEE should benefit a broader group than it did in initial years, which has led to the addition of elements in the new Broad-based Black Economic Empowerment policy (BBBEE).

The policy now requires firms to change capital and control structures, management structures, procurement relationships, activities involving enterprise development, and the way they engage with society more broadly. These requirements are reflected in Codes of Good Conduct and a scorecard for assessing status (shown in Table One). The scorecard forms the basis of assessing a firm's status when it requires licenses, concessions or authorizations, bids to provide goods and services to government, wishes to acquire state-owned enterprises, or tries to enter into public-private partnerships. At present firms not engaging in these activities do not need to comply with BEE requirements, making the policy more "carrot-based" than "stick-based". BEE compliance helps firms benefit from future engagements with the government, but failure to comply does not yield direct consequence: At least in a legal sense. In a business sense the BEE policy approach actually has much more reach and influence.

Table One. The generic BEE scorecard

Element	**Weighting**
Ownership	20%
Management Control	10%
Employment Equity	10%
Skills Development	20%
Preferential Procurement	20%

[24] Meintjies (2004) notes that this is still a dominant framework, entrenched by the media's lopsided coverage of BEE deals instead of other BEE elements. The media, he contends, have created the moguls.

Enterprise Development	10%
Residual Contributions	10%

Source: DTI (2007)

BEE focuses directly on big and medium sized business at the top of economy, with the generic scorecard applying officially to larger enterprises only. Firms with revenues between R5 million and R35 million are subject to a scaled down Qualifying Small Enterprises (QSE) version and firms with revenues below R5 million are "considered instantaneously compliant" (DTI 2007; Lunsche 2007). Being fully compliant allows a firm to class itself as a "level 4 contributor" which means that any goods and services it provides to other firms are valued at 100% when the other firms calculate their preferential procurement scores. Lower than level 4 contributors are a BEE cost to the firms they supply—because every rand of goods purchased is valued less than a rand. If a firm buys R100,000 worth of goods from a level 8 contributor[25] it can only claim R10,000 value when it calculates its own preferential procurement score, for example. If a firm is higher than a level 4 contributor (scoring more than 75 points on the scorecard) it is a BEE gain for the other firm—the goods and services it supplies are valued at more than 100%. If a firm buys R100,000 worth of goods from a level 2 contributor, for example,[26] it can claim R125,000 value when calculating its preferential procurement score.

This example is provided to illustrate the way in which BEE is configured to challenge existing inter-firm relational structures. Not only does it require changes to ownership and control structures (for example) if a firm wants to do business with government. It also implies the need to change ownership, control and other structures if a firm wants to do business with a firm that does business with government. Thus firms could gain or lose private sector business because of BEE status, making BEE status a competitive calling card and a new form of

[25] Scoring between 30 and 40 points on the scorecard.
[26] Scoring between 85 and 100 points on the scorecard.

relational currency in the corporate sector. Even small firms that are guaranteed a level 4 status might find the need to engage more formally in BEE because of competition from a larger firm that qualifies as a level 2 contributor (and thus constitutes a BEE gain to the customer being supplied). One can picture the potential network effects of such a policy, shown simply in Figure Four.

Figure Four. How BEE could effect change in inter-firm relational structures

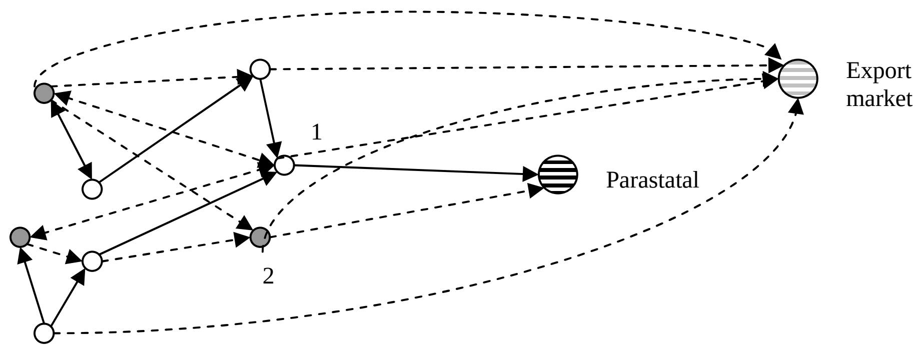


Figure Four shows a situation where a firm (1) traditionally supplies a parastatal through an established supply network. The firm is not on its own a strong BEE contributor (hence the white circle) and its suppliers are also not strong contributors (hence the white circles of all the entities connected through the solid lines). BEE could allow entry of a new competitor (2) perhaps previously disempowered because of the robust nature of the white firm's established supply chain. If this firm is a stronger BEE contributor (indicated by the grey circle) it has an edge in competing for the parastatal's work. One should note this is a marginal edge, amounting to probably between ten and twenty percent of the points a parastatal should consider when determining the winner of a bid (given that procurement legislation and the Constitution identify price and quality as the dominant elements to consider in determining contracts). The new competitor (2) could cause (1) to consider a raft of internal structural changes (to ownership and control patterns for instance) and external changes—reaching out to emerging (and again previously marginalized) black suppliers (through a variety of broken lines shown in the figure). These black suppliers might find themselves facing new joint venture opportunities with the established suppliers to firm 1 (who may even then consider supplying firm 2), or direct contracts to supply firm 1 (perhaps even with an enterprise development aspect to the contract) or even opportunities to supply firm 2 directly. Ultimately there are more firms providing more opportunities, more ideas and greater entry in a restructured setting. One could even imagine options emerging to access export markets (also shown in the figure). A risk would be that the parastatal itself—or firm 1—begins purchasing from international suppliers (not shown) as some classes of externally bought goods are not included in calculating the preferential procurement scores.

BEE and ASGISA overlap—catalyzing racial transformation and growth

One should note the overlap between the relational structures BEE targets for change (ownership, supply chain relationships, etc.) and the structures this paper identifies as defining South Africa's country's economic structure—and its problems. One should also note that the general idea behind BEE is to enhance access and openness—something that should be apparent from Figure Four. This, as argued, is the direction in which South Africa's ASGISA driven growth agenda generally points as well (shown as a move from left to right in Figure Two—from close-knit, closed relational structures with few insiders to more open, loose-structures with many insiders).

This kind of structural change is apparent even in narrow versions of BEE. The emphasis on transferring ownership and management of some large firms to new black entrants implies opening up capital and control structures. Even a few new entrants suggests some capital de-concentration and more black and female faces in board rooms bring possibilities for new ideas, new ways of thinking and new connections to new networks. (Addressing some of the capital concentration and board-room conservatism discussed earlier in this paper). Even in this narrow sense then, some have always seen the link between empowering black people and making the economy more conducive to growth. As Khehla Shubane (2007, 165) comments, "De-racializing these activities [formation, ownership and control of firms] is a crucial part of building a South Africa free of racial discrimination. To succeed economically and grow the economy further, the country must clearly harness the energies of as many people as possible from across the racial divide." In the same volume of papers on BEE Saki Macozama further connects BEE to growth-enhancing structural change (2007, 178):

> It has been said that the most significant potential strategic impact of BEE lies in new owners altering the strategies of their newly acquired businesses, typically raising the 'level of biodiversity' in an industry. These kinds of entrepreneurial interventions will alter the way South African capitalism functions and put it on a trajectory that will make it more efficient, to the benefit of the greatest number of our citizens.

Given this kind of thinking BEE is surely the perfect partner to ASGISA, the government's growth policy. The policy titles actually imply this link: BEE is about racial transformation and economic empowerment and ASGISA is about growth that is shared. ASGISA broadly covers macroeconomic issues, the need for infrastructure programs to overcome logistical bottlenecks, sector investment (or industrial) strategies, skills and education initiatives, second economy interventions and public administration improvement. Overlaps with BEE are strongest in thoughts about sector strategies, skills and education development and second economy interventions. ASGISA is explicit about this overlap in all these areas. Business process outsourcing (BPO), tourism and biofuels sectors are specifically targeted for development, for example, partly because of the synergies between growth and BEE-led transformation:

> What all of these industries have in common is that they are labour intensive, rapidly growing sectors world wide, suited to South African circumstances, and open to opportunities for Broad Based Black Economic Empowerment (BBBEE) and small business development (DTI 2006, 6).

Policymakers see the potential to enhance the BEE-ASGISA synergy. The Deputy President states as much in a 2006 media briefing (DTI 2006, 8), identifying the following as a cross-cutting issue requiring further attention: "Better use of BBBEE to encourage industry transformation, beyond the transfer of equity." The current paper focuses exactly on this issue of industry transformation, and sees

BEE and ASGISA overlaps in the kinds of structural changes their programs and goals imply:

1. Generally both imply an opening of the formal economy to new entrants and new ideas. This calls for a deconcentration of capital, control and management structures that will allow more insiders at the top of the economy. These insiders should predominantly be previously disadvantaged individuals and groups to redress racial imbalances, enhance sharing and create opportunities for new "cosmopolitanism" in boards, companies, supply relationships, and so forth. There is an aspect of both policies that does center on what one could call optimal concentration, however. DTI's growth policies include support for capital intensive industries like the motor vehicle assembly sector (and perhaps also biofuels) where the industry will require capital concentration and control. BEE similarly does call for a degree of capital concentration to facilitate real market transformation—black capital needs some muscle if it is to have impact. As stated by Shubane (2007, 166), "As a tool to move markets, capital appears to be a lot more useful if it is concentrated." The key is to ensure capital is concentrated in areas where necessary, and in ways that foster specific development goals with minimal impact on others. In all other areas, deconcentration is favored and a hallmark of both BEE and ASGISA.
2. Both imply changing inter and intra-firm structures that define human resources management. Both call for firms to alter their approach to staff and build skills better than they have done before. They also jointly emphasize the need for more managers in the economy, though BEE is the more aggressive in promoting an approach to dealing with this policy—focused on the adjustment of firm approaches to hiring and promoting managers, such that more PDIs occupy these positions.
3. Both focus on stimulating new business, particularly smaller business and even more particularly through greater connections between the first and second economies. This is largely reflected in the BEE enterprise development element and is at the forefront of the ASGISA intention to leverage the first economy to eliminate the second economy. Both policies

involve opening economic opportunities to smaller businesses. As Maseko says (2007, 88): “More than anything else, BEE policies should attempt to foster [that] entrepreneurial culture.” Trade and Industry Minister Mandisi Mphalwa has stated similarly (2005), “SMMEs will play a prominent role in the second decade of our democracy and beyond as we seek to accelerate economic growth, reduce unemployment and bridge the gap between the first and second economies.”

4. Finally, both policies explicitly include elements focused on uplifting the bottom of the economy through community engagement and job creation. BEE’s social development element deals with this directly (even though it is unfortunately labeled ‘residual contributions’ in Table One’s Codes of Good Conduct). ASGISA’s second economy interventions similarly focus on the issue, and define potential links with BEE in the process (DTI 2006, 9):

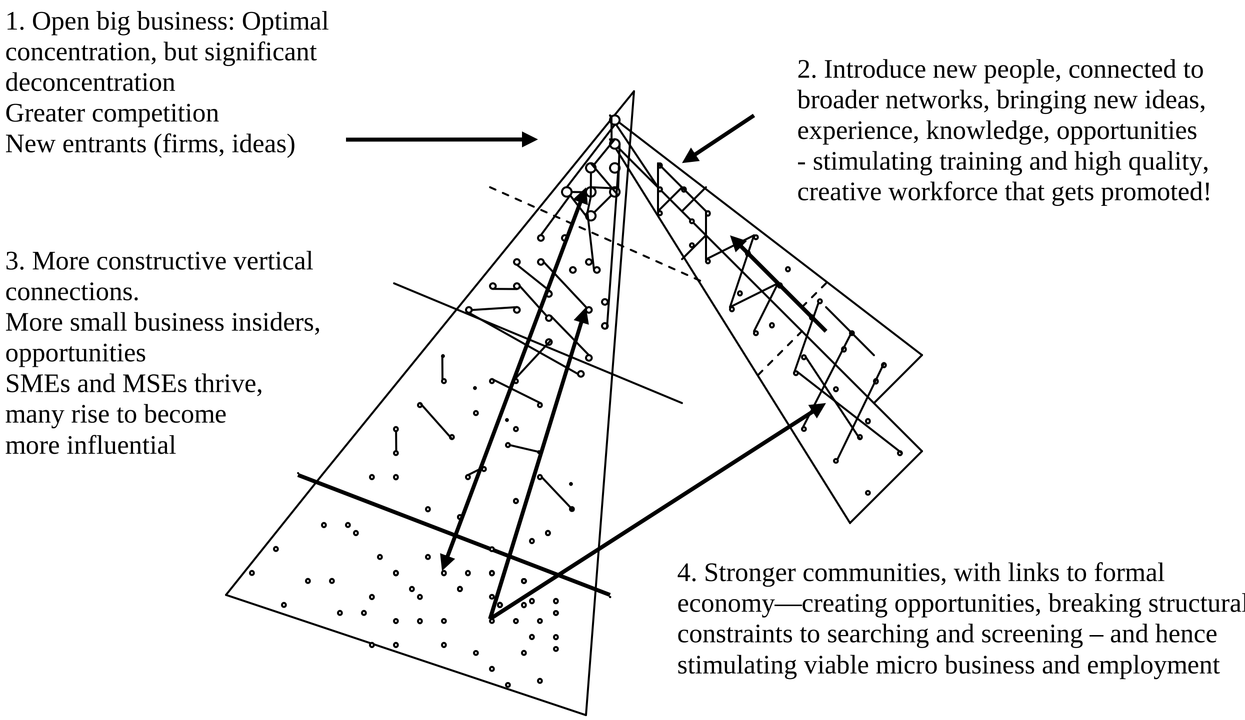
    > There are several other components of BBBEE which will be leveraged to support shared growth. These include:
    > • Provisions for access to finance for women and youths,
    > • Funding commitments for housing and small business loans,
    > • Skills development commitments,
    > • Social responsibility commitments, and
    > • Other commitments to enterprise development.

    The job creation aspect of this structural change is important to note. Mlambo-Ngcuka has stated that, “The elite benefiting from the first economy must intervene and help people in the second economy” and that “new BEE partners” must see their deals and activities as “a mechanism” to “create more jobs for those who are outside the mainstream” (Daily Tenders 2005).

These four areas of structural change allow a central proposition of this research:

> *Proposition 1:* BEE will catalyze growth if it facilitates the changes listed above and shown in Figure Five. It will be particularly successful if, in opening the economy to PDI’s, it also opens the economy to new ideas, entrepreneurs, and labor-absorbing, export-enhancing activities.

Figure Five. Structural impacts that will make BEE a growth catalyst



There are a number of observers that would take issue with the breadth of the four proposed change areas implied in the proposition. They argue that BEE should not try to be a policy that deals with empowerment broadly, but should center on structural change at the top of the economy only. Meintjies (2004) distinguishes BEE from economic empowerment that takes place through "social change" for example, which he explains is to be accomplished through government's interventions in housing, education and other social programs. He concentrates on BEE as the redistribution of resources at the apex and upper levels of the economy. Other observers might question the idea that BEE should facilitate structural change that stimulates entrepreneurial activity, leaving that to competition policy. The idea in this paper is that BEE's potential is different to these other policies—in that it induces real change in the way firms relate to each other and more importantly in the cultural constructs informing relationships.

This kind of change is arguably already most visible in the BEE Charters that preceded the Codes. The Financial Sector Charter, for example, saw private firms engaging with government and labor to arrive at a sector-specific idea of the kinds of structural changes BEE requires. These included different patterns of lending, different patterns of locating retail outlets, different approaches to thinking about small black business, and so forth. These material adjustments to the way a sector thinks about itself and its corporate and social engagements are seldom achieved through government programs to build houses or through policies that impose top-down rules on what firms can and cannot do. These changes imply a new level of receptivity and openness on the part of firms, to new networks and new network members. Jack (2007, 111) identifies this as central to BEE success:

> The biggest pay-off of the third wave [of BEE] is job creation and the development of basic skills. The key drivers of this black enterprise creation will tend to be younger people or people who may not have extensive business or political networks. They will be starting to build those networks from scratch to open the doors to opportunities…The key to the success of these new black enterprises lies in the receptivity of existing enterprises to provide opportunities to the new ones.

Why BEE may not be a South African growth catalyst

Some observers identify the charter development process just discussed as evidence that firms are actually not receptive to change. They propose that white firms engage in charter development to minimize BEE impact. In line with this thinking, some observers suggest that BEE is not a catalyst for transformation—racial or economic—or is a limited catalyst at best. These observers provide a counter to the proposition presented above. This section explores what this proposition might be.

Negative perspectives on BEE

In moving towards this counter proposition one might start by acknowledging some of the negative perspectives on BEE experience. Meintjies (2004, 1), for instance, believes that: "Black economic empowerment (BEE) has had mixed results, with very little being achieved in terms of changing the structures of ownership and control within the economy." Even Jack, one of the biggest proponents of Broad Based BEE, expresses reservations about the policy's transformational impact (2007, 114): "Most companies in South Africa are still in the bargaining stage of BEE, where the bottom line for them is: 'What is the least I can do, regardless of the ultimate effect and quality, that would earn us most points on the BEE scorecard?" As with some others he sees "this attitude" reflected "in the level of fronting that takes place, and the unsustainability of BEE deals and initiatives that are being implemented."

The most negative perspective yet comes from the recent Presidential Black Business Working Group. It found BEE performance lacking and described the private sector as "its own worst enemy…showing a complete lack of regard for the need for transformation of society" (Pressly 2007). It advised the government to "Go back to the drawing board and find ways of giving BEE significant teeth, with possible penalties if firms refuse to transform rapidly."

The early history of BEE certainly did not inspire confidence in the policy's ability to transform South Africa's corporate structures. The flurry of ownership transactions in the mid to late 1990s unraveled spectacularly when world markets declined in 1998, for example. Many saw this as proof that white business did not take the transformation process seriously enough to secure their new relationships. Black ownership figures on the JSE were assessed at around 9 percent in 1997 and 1998 and dropped to about half that in 1999. Numbers have not risen significantly since then, with an estimated 5% black ownership of companies on the JSE in 2006.[27] Ownership levels are lower in some sectors than others, with manufacturing generally trailing to the frustration of many (Simkins 2007).

[27] The exact figures are disputed, partly because of different perspectives on what constitutes nominal and effective black ownership. The 5% figure here is that provided by McGregors in their 2007 Who Owns Whom in South Africa. The BusinessMap Foundation (2007, 18) estimate a 6% black ownership level. The National Empowerment Fund put the number at 2.5% (Ensor, 2007) reflecting some estimates that the 5% level broadly cited is nominal and only half of this is probably effective. The figures also differentiate differently between the value of deals and realized ownership (the difference between deal value and outstanding debt).

Beyond ownership, commentators decry the slow entry of blacks into firm control and management structures, as well as limited evidence of real change in procurement patterns. In 2002 only 13 percent of directors in the top 100 JSE companies were black and only 5.2 percent of these were executive directors (EmpowerDEX 2003). 16.6 percent of the total number of JSE directors were black in 2004 but only 7.7 percent of executive directors were black (EmpowerDEX 2005). In 2001 only 13 percent of top managers in the private sector were black, with only a one percent increase since 2000 (Hirsch 2005).[28]

The numbers suggest something about the deficiency of change. Commentary from qualitative studies about organizational change is even more interesting. Two studies in particular focus on the early stage of BEE (prior to 2002) and indicate that structural transformation was slow and problematic. Improved access for new black directors, professionals and managers was not always matched with improved treatment and empowerment. Sadler (2001, 171-175) conducted surveys of black Chartered Accountants (CAs), an elite professional group in South Africa. A question asked about career barriers the new CAs faced. The majority identified limited experience and the limited nature of work assigned to them as the major barrier, followed by racial bias of supervisors, the lack of black mentors and the resistance of clients to having a black auditor.[29] In interpreting these responses Sadler indirectly references the idea of a dominant and stubborn, institutionalized macroculture that seemed to make it appropriate to treat the CAs differently because they were black and inexperienced; even though there was a shared elite educational background and professional affiliation. Reflecting on the stubbornness of pre-existing organizing logics, a new black director interviewed in a separate study in 1997 by Georgina Murray, said:

[28] The numbers were similar for women until recently.
[29] One should note that limiting new candidates' access to meaningful work limits these candidates' ability to develop experience, which an earlier section described as a key to accessing 'in house' networks. Thomas (2002, 240) confirms the kind of experience described here and the link to network barriers in her comment that beneficiaries of affirmative action are often sabotaged by those already in the organization—through "withholding of information" and exclusion "from formal and informal networks and systems that assist in job progress."

> They (white directors) don't look for new ways they believe in mechanical ways of doing things. We call them 'School Principals'. We know that when we have a guy who is so brave as to list all of the things that have to be done and is prepared to say so. They'll say "No there is a proper way to do this." But if we say "No let's discuss this here as there are a number of issues around this that we could look at". They'll say "No! We are going to do it this way" (Murray 2000, 196).

This kind of sentiment is reflected in many commentaries. Stories like this led Peter Vundla to commission research in 2005 assessing progress with BEE (Gqubule 2006, 90). The results were disconcerting. Only five companies on the JSE could be called 'black' at the time. Even in these firms, Vundla's team found little of the company value-added ending up in black hands. Other voices of concern note that beneficiaries in these kinds of firms remain a small group, and many cite concerns about crony capitalism and elite capture in the BEE process. Consider Kehla Shubane's perspective (2007, 166):

> Many have also expressed disquiet about the fact that there are too many politically well-connected individuals who have benefited from empowerment transactions. On the evidence of the media, there appears to be merit in this charge. However, recent empowerment transactions point to a growing involvement of black employees among others as equity beneficiaries.

Concerns over narrow gains have been informed by data that shows (controversially) an expanding gap between income groups in South Africa. Disputed Gini coefficient figures increased from 0.56 in 1995 to 0.64 in 2005. The rise in the national figure was driven by the widening income gap within the black population, which rose from 0.50 to 0.62 (Deutsche Bank 2006). In relation to this, authors like Blade Nzimande (2007) and Moeletsi Mbeki (2007) decry the narrow ownership transactions of the early BEE period and warn about an elitist approach to change that minimizes change itself. Meintjies (2004, 1) joins in this concern and suggests that BEE's early manifestation was something created and driven by the elite in government and white business. If one has any faith in the Gini coefficients it could be said that the structural gap between the insiders and elites and the outsiders has grown since BEE was introduced. This could be the result of increased empowerment at the top of the economy, increased disempowerment at the bottom of the economy or a mixture of the two.

Sanchez (2006, 6) indicates the belief that BEE's slow start should have been expected because it is such a difficult initiative.[30] Southall (2005, 461) has a similar perspective and identifies the entrenched structural impediments in the economy as the main reason for difficulties: "It is in retrospect far from surprising that the impact of any initial black assault upon the South African corporate structure should have been so limited." He goes into some detail, identifying the structural constraints targeted for change as the constraints to change themselves (Southall 2005, 461):

> The high level of concentration and centralisation of South African capital has posed enormous problems for BEE. There have been major obstacles to black empowerment, including the desperate lack of blacks who have acquired the necessary training and skills to assume middle- and high-management positions in business.

A counter proposition: BEE may not catalyze growth (or transformation)

Many organizational and institutional theorists would have predicted the situation Southall describes. Woolsey-Biggart and Guillen (1999) argue that relational structures are entrenched because of the institutionalized organizing logics that underpin them. These logics are similar to the macroculture identified by Jones, Hesterly and Borgatti (1997) and referenced at various points in this paper. These are the institutionalized cultural and social understandings that underpin patterns of relationship. Many theorists feel that they do not change easily or in any reasonable time frame. Woolsey-Biggart and Guillen (1999, 725) in fact argue that they should be taken as a given when plotting development trajectories for countries—not as something to alter through policy: "Logics are the product of historical development, are deeply rooted in collective understandings and cultural practices, and are resilient in the face of changing circumstances." The authors would look at the young black CA experience cited earlier—of being

[30] She states for example that, "The adjustments made to BEE over recent years illustrate the complex nature of transformation."

outsiders even within accounting firms—and probably comment that adding some individuals into a system does not change the underlying organizing logics in that system.[31] One should thus expect that systems and people within them will tend to relate in established ways.

Even those theorists who are not as dogmatic in questioning the potential for significant change argue that change is difficult and dangerous. Fafchamps (2001, 126) suggests that "business networks for the most part result from business interaction itself" so it is difficult to move from one kind of network to another in short periods. He also argues (2001, 122-123) that dominant, elite networks have a tendency to reproduce themselves over time and to reinforce their grip over business—at least as long as they maintain their cohesion: "If newcomers find it difficult to enter, one must then ask the question of how networks renew themselves over time. One possibility is no renewal: membership to the network is constant; the business community is a closed group." He also suggests an "intermediate solution" whereby elite network members co-opt new members: "New entry is reduced and competition minimized, thereby increasing the returns to the group's social capital while ensuring that sufficient entry takes place for the group to reproduce itself." In short, when elites are forced to change they will do so at the margin, introducing new entrants that look as much like the pre-existing members as possible in as limited number as possible, so as to adjust the network as little as possible and preserve control, access and benefit patterns. [32]

This is certainly a relevant concern for BEE, given the early perspectives on policy implementation and also the fact that the country has been dominated by

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[31] Thomas (2002, 251) notes similarly that compliance to affirmative action "is one thing; effective utilisation of those recruited through affirmative action strategies is quite another." She observes that research typically cites "the propensity of people to select and include those who evidence attributes similar to themselves," implicitly referencing the idea that established values in the macroculture drive behavior.

[32] Thomas (2002, 51) emphasizes the important role of elite networks in South Africa's affirmative action implementation, citing the well established "tendency of established groups to prefer the status quo and to experience selective perception." She states that success in South Africa will lie in "breaking" the "code of the "old boy's network" that has ensured that the dominant group in the South African case—white males—succeed in business."

elites. Macozama (2007, 177) comments accordingly: “While many critics of BEE accept this imperative, they also argue that the process has ‘elitist consequences’. They suggest that BEE does not alleviate poverty, but enriches the few. What did they expect?” His expectation seems to be that adding faces to networks does not change the network—in theoretical terms the macroculture remains the same, still institutionalizing the old approach to making sense of the world, people, ideas and opportunities. This preserves most dimensions of the pre-existing patterns of insiders and outsiders, empowered and disempowered. Apparently reflecting concern about this, Kgalema Motlanthe says that BEE could facilitate a transfer of economic power but not a transformation of economic power (Meintjies 2004). Joel Netshitenze reflects a similar concern in asking: “How do you ensure that the people drawn into business do not merely get co-opted into the culture they find there, but rather that they help to find a better form of SA capitalism?” (Boyle 2004).

The less than sanguine voices of BEE referenced here would not provide Netshitenze with a positive answer. Neither, perhaps, would theorists like Woolsey-Biggart, Guillen and Fafchamps. Rather, they would provide a “what do you expect” counter proposition to the first proposition that BEE can indeed be a growth catalyst. Their proposition might read:

> *Proposition 2:* BEE will not catalyze growth because it will not lead to effective structural change in the South African economy. Institutional macrostructures that underlie the economic patterns limiting racial transformation and growth are rigid and do not change easily; they are especially protected by elites with an interest to maintain them.

SO, Is BEE a South African growth catalyst? Analysis and evidence

The BEE picture is rosier than citations in the prior section would suggest. Especially of late, there has been an increase in the number of deals, breadth of beneficiaries, and variety of activities firms are undertaking. The number of reported BEE deals increased from 23 in 1995 to 132 in 1999, dipping between

1999 and 2002 and increasing again in 2003—to 238 in 2005 and 221 in 2006 (Ernst and Young 2007). The value of reported deals was R56 billion in both 2005 and 2006, and R285 billion in total since 1995.[33] The deals are involving more beneficiaries than before (especially women) and firms seem to be paying increased attention to the other BEE elements as well. JSE listed firms have upped their performance on the BEE scorecard every year since 2004, for example, with the average score achieved by the top 50 BEE-ranked companies improving from 35 percent in 2004 to almost 60 percent in 2006 (Wu 2006, 11).

It is difficult to get beyond these numbers, however, and see whether structures, mindsets and behavioral patterns are really changing or whether the macroculture is holding firm and elites are making minor adjustments at the edges of their networks. In short, BEE numbers do not indicate which of the two propositions presented most accurately describes the South African situation. Which raises the question: So, after all the theory, Is BEE a South African growth catalyst or not?

The question is difficult to answer, partly for the same reason that all BEE research is difficult at present. The policy is still relatively new—especially in its broader version—making much analytical work premature. Gathering information on BEE is difficult because many firms are sensitive to measurement (and are fatigued by the great amount of measurement they are undergoing, for various regulatory purposes). Even with the measurement taking place there is no formal central repository in which BEE information is stored. A dataset is held by EmpowerDEX, a pioneering verification agency, and underlies the annual *Financial Mail* "Top Empowerment Companies" report. It includes Code of Good Conduct scores for many listed JSE firms. The BusinessMap Foundation and various financial organizations hold other datasets of BEE deals. These record the size and dates of deals.

[33] The BusinessMap Foundation (2007, 14) cite slightly different numbers. For 2006, they indicate that "about 317 BEE deals were announced…with only about 173 of these indicating the value ofthe transaction. These latter transactions represent some R75 billion worth of BEE deals."

This data has been used in various studies; to assess the effect of BEE deal-making on firm share price, for example. The studies are of various strengths but do not attempt to address detail behind the deals or Code scores. This kind of detail is arguably more important than the numbers. The details suggest whether deals are resulting in new relational structures, for example, or are just facilitating elite co-option at the margins of existing relational structures. Given that this kind of question is at the heart of the propositions suggested in this paper, basic data is insufficient for the study at hand. An original, more qualitative research approach was thus required—to try and get at details of BEE responses. This approach involved the analysis of BEE responses in a selection of listed firms.

A research methodology

As mentioned, data on BEE responses tends to be at a high level showing aggregate firm scores against requirements in the seven Code of Good Conduct elements. This data does not show the details of how the scores were achieved. It is impossible to see if firms have changed their modalities for hiring directors, for example, or whether points for procurement have been gained through real attempts to engage with new small black businesses. Beyond the datasets, other information from research papers and media reports on the subject can be criticized as anecdotal and tend to espouse one or other extreme perspective on the subject. A research design was adopted to try and gain information on the details behind firm responses to BEE requirements. This design was constrained by limited research time (the entire project lasted only six months) and access problems. It involved assessing BEE responses in a manageable set of twenty-five firms, each with a significant volume of publicly available information. The sample is not representative of all South African firms but does represent a test of the propositions in a set of BEE-engaged firms, some of which have been lauded and some criticized. The findings should thus be treated with care but not discarded as irrelevant because of the sample size or focus. Studies like this are quite common in organizational research, falling between the detailed individual case study approach and the broad quantitative analysis.

The firm sample was identified through an approach that blended intensity sampling with snowball or chain sampling.[34] This began with a search for information rich firms that exhibited a strong engagement with BEE (intensity sampling). These firms were identified with reference to data in the *Financial Mail's* "Top Empowerment Companies" publication (for 2006), media articles and personal correspondence with members of the verification community and in firms engaged in the stock market and government. A preliminary set of fifteen firms was identified in this manner. Ten firms were added to this number as contacts recommended cases of specific interest.

The full list of companies is shown in Table Two. The companies' annual reports were analyzed in depth as the primary documentary evidence of BEE response. These reports dated back to at least 2004 (or the starting date of the organization)[35] but in more than half the cases to before 2002. Other information was gathered from SENS reports, financial statements, and a variety of documents available on corporate web sites. In some cases this documentary information was augmented by interviews and documents in the media. In all cases evidence was also gathered from firms that have been involved in BEE engagements with these firms—new BEE owners in particular, and BEE suppliers where possible. Information was also collected on individuals with BEE connections to the firms (mostly directors). Information was collected and coded as it related to different propositions. This data included both numbers and words—important indicators of the cultural response to BEE.

Table Two. Full list of companies in sample

Company	**Sector**	**Listed**
ABSA	Banks	1986

[34] Thomas and Bendixen (2000) explain snowball sampling, which they adopt as a technique to study personnel management in South Africa.
[35] In the case of Dialogue, for example, which only opened its doors after 2004.

Adcorp	Business support services	1987
Astral	Farming and Fishing	2001
Basil Read	Heavy construction	1987
Bell Equipment	Commercial vehicles and trucks	1995
Barloworld	Diversified industrials	1941
Bidvest	Business support services	1954
Cargo Carriers	Trucking	1987
Dialogue	Business support services	2006
Digicore	Electronic Equipment	1998
Distell	Distillers & vintners	1988
Ellerines	Home improvement retailers	1960
Gold Reef Resorts	Gambling	1994
Grindrod	Marine Transportation	2006
Group 5	Heavy construction	1974
Nu-World	Consumer electronics	1987
Oceana	Farming & Fishing	1947
Old Mutual (including Nedcor and Mutual and Federal)	Life Insurance, Banking	1999
Onelogix	Business support	2000
Paracon	Computer services	1999
PSG	Investment services	1991
Reunert	Electrical components and Equipment	1948
SQ1	Computer services	2000
Sun International	Gambling	2004
Woolworths	Broadline retailers	1997

The research approach has obvious weaknesses. Financial reports, the primary documents used for obtaining evidence, are obviously written for public consumption by shareholders and also by regulatory bodies. They thus present a certain face of the company and not necessarily its real face. This and other concerns suggest that the research may be biased. Attempts to triangulate the evidence with other sources should ameliorate this concern to some degree. A more thorough research protocol involving structured interviews and in-depth organizational analysis would be preferred to the approach taken here, and is recommended as a next step for research. This said; the findings from even the current study are extremely interesting and helpful for academics studying BEE and policymakers attempting to ensure a positive BEE growth effect.

Evidence from firm responses to BEE

The analysis focused on directly assessing whether the BEE responses of the firms in question were growth-enhancing. This involved looking at the degree to which these responses are:

1. Opening the formal economy to new entrants (especially PDIs) and new ideas through deconcentrating capital, control and management structures;
2. Introducing new people (especially PDIs), connected to broader networks, bringing new ideas, experience, knowledge and opportunities. Stimulating training and creating a high quality, creative workforce;
3. Forging more constructive vertical connections that accommodate more PDI and small business insiders and foster more business opportunities in lower echelons of the economy, allowing SMEs and MSEs to thrive and become more influential (and a bigger employer) and more connected to the first economy;
4. Fostering stronger communities with links to the formal economy; creating opportunities, breaking structural constraints to searching and screening – and hence stimulating viable micro business and employment of those unemployed and not seeking work in the formal economy.

1. Is BEE opening big business?

Twenty out of the twenty-five firms have already transferred some of their equity to BEE owners (and two more are in the final stages of a BEE deal).[36] This aspect of BEE seems the most dominant: It is the element most commonly referenced in Chairman Reports, for example (evidenced in thirteen of the twenty-five companies' Annual Reports in 2005 and 2006). Oceana gives six full paragraphs to the issue in its 2006 Chairman's Report, closing with the statement that, "This

[36] There are some discrepancies between information in Financial Reports and BEE ownership information in the Financial (FM) mail Top Empowerment Companies publication. There is no evidence of direct BEE ownership in some of the companies' annual reports (and no other documents support such ownership) but the FM provides some figure for black economic interest. The study here only reflects explicit mention of BEE ownership by the companies themselves. It must be noted that at least three of the firms have entered into multiple deals over time. These are taken into consideration.

transaction demonstrates Oceana's continued commitment to broad-based BEE." The paragraphs detail the various transactions Oceana has embarked upon since the late 1990s and how these have changed over the period, culminating in a deal involving "current and future black employees." Sun International's Chairman also leads his company's 2006 discussion of BEE with this issue: "We have enhanced our transformation through the introduction of the Dinokana consortium…and have increased the participation of employees in the Sun International Employee Share Trust." In a similar vein to Oceana's comment (and that in various other companies) the Chairman concludes emphatically: "The transaction is testament to our commitment to the transformation of the group through broad based empowerment."

Big business capital transformation thus appears the major symbol of BEE. Being broad-based (involving employees in the above two deals, for instance) is seen as a particularly important symbolic act. Many argue that this in itself is a form of de-concentration and of 'opening big business' to new players. Certainly it is, but the question posed in earlier sections is whether the new owners themselves are inclusive and connected to broader networks? The alternative is that the new owners are an extremely narrow subset and are not connected to new networks (even where they include employee groups). Some suggest that this is indeed the case, with the media and other commentators claiming that BEE beneficiary groups are narrow and elitist. Many of these commentators also note the likeness of BEE beneficiaries and established big business: Have elites co-opted new members at the margin rather than actually changing structures?

The first approach to addressing this question was to ask about the concentration of ownership in the BEE deals themselves. This is revealing in that it says something about the degree to which South African business is either adding numbers at the margin or truly opening to new owners. Concentration would be severe if there was only one BEE beneficiary for each company (a sum of 20). It would be even more severe if each company engaged with the same beneficiary (so there was only one BEE partner). A simple BEE benefit de-concentration ratio can be calculated on the basis of such thinking. It looks at the relationship between the number of different beneficiaries across all companies and the sum total of all beneficiaries (in the example this is 1/20, which is close to zero). This can be transformed into a concentration ratio by subtracting the number from one (in the example this would yield a number very close to 1, indicating high BEE beneficiary concentration—all the benefit accrues to one party!).

BEE ownership data was collected on the basis of annual reports and the 2006 "Who owns whom in South Africa." This data was augmented by details of BEE deals in SENS and media reports. The goal was to get a static picture of the number of black partners in each business.[37] This picture is summarized in Table Three. There were thirty-four different beneficiaries out of a total of 46 beneficiaries (spread over twenty companies). Prominent BEE entities Wiphold, Mvelaphanda, Amabubesi, WDBIH and Brimstone were multiple beneficiaries. The concentration ratio was 26 percent, suggesting more than seventy percent of beneficiaries were distinct from each other. This may surprise some.

Table Three. Measuring concentrating in BEE ownership

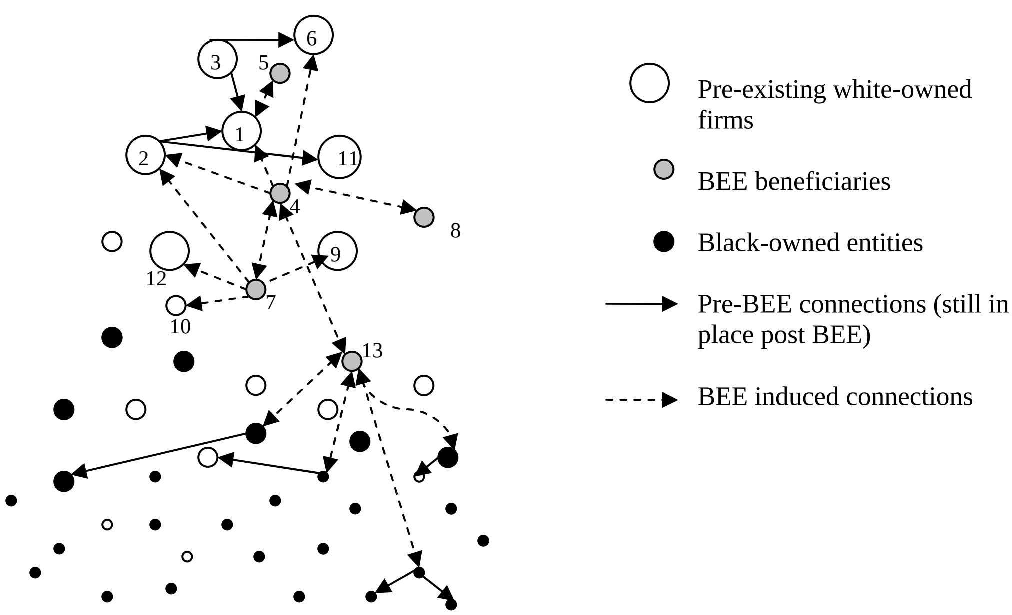
Sum of all direct beneficiaries	Total different direct beneficiaries	BEE benefit concentration ratio[38]
46	34	26 %

[37] Note that these details do change over time, with black partners selling shares and necessitating new deals, for example (in the case of Oceana and of PSG for example). The accuracy of this data is subject to change over time and is also complicated by the fact that some direct shareholding (by individuals in particular) is not always disclosed. It is difficult to know how many direct small shareholders there are in some cases. The numbers are also complicated because most of the companies have significant subsidiaries which have been party to their own deals. The assessment here looks at direct deals by the companies.

[38] Calculated as 1-(total different beneficiaries/sum of beneficiaries). If there are no repeat beneficiaries—meaning that all beneficiaries are only party to one deal each.—the ratio will be zero. If there was only one beneficiary in each deal and that beneficiary was the same person in each deal, the ratio would be 1. Essentially, concentration is higher where the total number of different beneficiaries is low relative to the sum of all beneficiaries. The measure is extremely rough and does not consider the levels of benefit different parties enjoy. If this was the case, it would probably be higher—given that the dominant beneficiaries that feature repeatedly seem to have greater ownership shares than other beneficiaries.

The apparent de-concentration is largely because more than half of the companies created staff trusts as part of the BEE process (like Oceana and Sun International, noted above). Woolworths only created a staff trust (and indicates that 90 percent of staff are PDI beneficiaries). The de-concentration figure may also be very different in other samples, because a number of beneficiaries appearing just once here are well known as BEE power groups. These include Izingwe, Peotona, Lereko and Ditikeni, all of which enjoy ownership stakes in multiple South African companies. Only Ditikeni features on the "Who owns whom" list of fifty top power groups, of which forty percent are BEE groups. All of these entities enjoy multiple investments and in many cases the different groups engage together in deals (Brimstone and Wiphold in the Old Mutual deals, for example) or engage at arms length (Mtha-we-Mpumelelo was part of the Brimstone Consortium in the Old Mutual deal and comprises Chestnut Hill and Izingwe Financial Investments—which are owned by Amabubesi and Izingwe Capital, BEE power groups). Figure Six attempts to capture the concentration effects of these second and third degree relationships involving BEE beneficiaries.

Figure Six. Is BEE opening big business?



The figure shows a white-owned company (1) starting with concentrated direct ownership by two other white-owned entities (families, corporates, consortiums shown by the solid line ties from 2 and 3). These two entities (2 and 3) also own equity in firms 6 and 11 (again shown as solid line ties). Pre-BEE ownership ties thus connect 1,2,3,6 and 11 in a fairly concentrated structure representative of South Africa's legacy structures. There are no connections further down the economy. Firm 1 now enters into a BEE deal with two beneficiaries—4 and 5:

- Entity 5 is a staff trust fund, administered by firm 1 (like the Woolworths fund, or that in Adcorp, Distell and Group 5). This employee trust has no ownership beyond firm 1.
- Entity 4 is a BEE consortium with various members (7, 8 and 13) (much like the Dinatla Consortium in the Bidvest deal, or consortia involved in the Old Mutual and ABSA initiatives). Consortium 4 is also a beneficiary of other BEE deals, with firms 2 and 6, and consortium member 7 has also entered independently into deals (with 2, 9, 10 and 12). Consortium member 13 is a community trust created by the consortium 4. It counts among its legal beneficiaries numerous emerging business and bottom-of-the-economy community groups. The trust's beneficiaries have their own established ties (shown as solid lines in the bottom section of the figure).

The positive aspects of this common scenario include de-concentration of the initial ownership in firm 1 (with 4 direct owners post BEE compared with 2 before BEE). The firm 1 BEE deal is considered broad-based because it has two direct beneficiaries (consortium 4 and staff trust 5). The breadth of the deal is enhanced by the number of consortium members (7, 8 and 13) and especially by the fact that one member is a community trust with various owners at the bottom of the economy. There are also various concerns and questions about these structures. First, there are no new entry firms—the BEE groups are investment consortiums. Second, the direct and indirect ownership-based links between industry firms are now actually more concentrated. Firms 1,2,3,6,9,10, 11 and 12 are tied directly to each other or indirectly through the BEE beneficiaries. Finally, vertical connections between 4 and the bottom of the economy (through trust 13) are often opaque and difficult to verify (this will be discussed in detail later).

The complex post-BEE situation in Figure Six suggests that second and third degree connections involving BEE power groups and other firms could actually result in greater market concentration. This kind of situation was evidenced in a variety of the cases analyzed. There were even defined BEE ownership-based connections created between the twenty-five companies themselves—Old Mutual and Oceana, Basil Read and Digicore; ABSA and Group 5. The ties are often strengthened by interlocking directorships (discussed below). Are BEE deals and the Power Groups they establish creating old-style South African conglomerates?

The evidence here is inconclusive but commentary on the topic certainly suggests this may be happening. Goldstein (2000, 18) writes that, “The re-creation of industrial conglomerates, albeit under a different racial ownership, does not seem to make sense following the opening of the South African economy.” Conglomerate structures may make sense in capital intensive industries like mining (and could legitimate new BEE conglomerates in such sectors, like Mvelaphanda) but many of the power groups are concentrating ownership in sectors that one would prefer not be concentrated (health and business services being two examples). The suggestion therefore is that BEE has not yet materially changed the concentration aspect of big business ownership in South Africa. Elites—old and new—continue to behave similarly.

Evidence also suggests that old and new elites look similar and that BEE is introducing only a few new, different players into big business. Sixteen of the twenty firms that have already concluded deals did so with established figures or groups; with significant experience in big organizations and strong ties to government, business or both. They were all headed by prominent individuals that few would say are not in the social elite. Many of the firms are explicit about these kinds of connections. They routinely describe looking for partners that will understand the business and provide connections that assist in future business development. This is evident in Digicore's approach to finding partners, expressed in the 2005 Annual Report (after a previous partner had sold up): "We will continue to search for a new BEE partner that can add value to our business." In the 2006 Annual Report the new partner was announced with the statement, "This will give us the required equity credentials, and add real value to this business in future with the expertise our partners bring." Nu-World had a similar perspective on its search for a partner (in 2005): "At this time, we continue negotiations with preferred black empowerment partners, remaining committed to bringing the right partners of value into the Group." Old Mutual explains that Brimstone is a good selection because the directors "have long and extensive experience across the financial services sector." Group 5 describes its selection of Mvelaphanda as BEE partner in similar terms: "Mvelephanda Group Limited, was selected as a strategic partner, with clear value to be added through their comprehensive African network," ostensibly through the connections afforded by the new partner's CEO.

Looking for established figures, who have the contacts and abilities to add instant value to the business, is an understandable approach to finding partners. The problem is that an established mind-set regarding what these kinds of partners should look like constrains their number and limits the degree to which big business opens itself up. Not one firm in the sample truly introduced a new entrant. Dialogue's introduction of MSG Africa and its CEO (rising business communications star Given Mkhari) is probably the closest. But in fairness Mkhari is an emerging figure and the company he founded had existing relationships with both Dialogue and a number of its clients. Dialogue itself indicates that the deal is with an "established" partner.

Other firms do claim to introduce new firms but closer reflection shows these entities are actually established players with 'elite-friendly' characteristics. The best example is Group Five, which entered into a deal with Mvelaphanda and

Ilima in 2005.[39] It described Ilima as an exciting new entrant to BEE in the construction sector when the company was in fact created in 2003 by Basil Read (another construction sector company) and had an established pedigree. Ilima was a minority party to the Bombela Consortium which won the Gautrain contract and a party to a COEGA bid. Ilima was headed by prominent individuals with industry and political contacts and holding directorships in various companies.

It is revealing that many firms look to established consortiums for BEE partners. The fact that the likes of Mvelephanda, Wiphold and WDBIH have already engaged in deals indicates that they have already been deemed acceptable partners. They have already been accommodated by the financial sector. They are ‘safe bets’ for partnership, implicitly referred by existing members of the big business network. Firms indicate that they prefer such choices over new entrants because (1) new entrants are hard to find, (2) even if new entrants are found, they are almost impossible to screen, (3) there is a risk that new entrants will not be able to muster the financial support needed to conclude a deal. BEE as currently configured does not balance the perceived risk of engaging with new entrants—it only allocates one point to such activity. This combination of firms looking to minimize risk and BEE not compensating them for risk limits the degree that BEE deals open the economy to newcomers.

This limit is also evident when one looks at the identity of new board members introduced through BEE deals (and related initiatives). The twenty-five firms had five non-executive directors on average, reflecting a range from two to twelve. The median number of executive directors was four, with a range from two to twelve. Table Four shows that one third of non-executive directors was black. Blacks only accounted for eighteen percent of executive directors, however. These numbers are comparable with overall figures for listed firms on the JSE. More interesting than these numbers, however, is how companies found these

[39] It is interesting to note that Group 5 went through “An extremely vigorous process” in making its choice of BEE partner. Submissions were “received from more than twenty consortiums.”

directors and who they are. A tentative answer is the best possible for the first part of this question (on the basis of interviews and some documented evidence): It seems that black directors come from three main sources. (1) the directors enter with new black partners (or come from other established BEE groups); (2) the directors are accessed through industry associations or other big organizations; (3) the directors are accessed through professional associations where they meet existing white directors (associations of accountants, engineers and lawyers, for example).

Distell has three non-executive directors drawn from its BEE shareholder and one from another BEE power group. Adcorp's one black executive director was Managing Director of an investments company with significant BEE dealings, was a major figure in provincial government and also has an MBA. Adcorp's non-executive director holds the same professional accreditation and is associated with a black power group. Gold Reef Resorts' one black director in 2006 held two international business qualifications and sat on the boards of other large JSE companies (including a leading bank).

The pattern holds across all of the companies in the sample. It is an unsurprising pattern and one that is totally appropriate in the South African context. The individuals chosen as directors are excellent in what they do and obviously have the connections, credibility and qualifications to contribute. One should note, however, that this pattern shows South African companies are looking in tried and trusted networks for directors—much as they are for owners. Is this simply entrenching established non-racial structures? Where are the new network connections? What does this dependence on connected and qualified individuals mean for the potential that BEE can open big business to newcomers?

Some answers are hinted at by just looking at the numbers. Seventy-five percent of the black non-executive directors and eighty percent of the black executive directors were from elite professions—Chartered Accountants, MBAs, Lawyers and Engineers. Eighty-five percent of the black directors had significant prior experience in a big organization (most commonly a parastatal, government, political or labor entity). These profiles are important because they suggest that South African firms may be changing the racial profile of their boards (gradually) but are appointing members that in every other respect look like they did in the past. The inner circle of decision-makers is still drawn from trusted professional networks like SAICA and on the strength of established acceptance by other big organizations.

Table Four. Profiles of black directors

Proportion of black non-executive directors	Proportion of black non-executive directors from elite professions	Proportion of black executive directors	Proportion of black executive directors from elite professions	Proportion of black directors from big organization background
32 %	65 % (47 % CAs)	18 %	75 % (55 % CAs)	90 %

One is reminded of Fafchamps' comment that business networks are about much more than ethnicity: If the ethic barrier to entry in the inner circle falls but the other barriers are left up, does the network really expand? Racial barriers are falling, as are gender and political barriers (with new political voices entering this circle) but in other respects most companies in the sample cannot claim to have enhanced the cosmopolitanism of their boards.[40] This suggests that the highest rungs of big business will remain closed to most, as defined by pre-existing network configurations. One has to wonder if these big business decision-making rungs will also be closed to new ideas and thus limit economic growth as well. Chabane, Goldstein and Roberts (2006, 567) certainly suggest it might in commenting, "There is no discernible evidence that changing the composition of South African boards influences corporate strategies."

[40] Exceptions include Dialogue (with entrepreneurs Given Mkhari and Kopana Mangena arguably bringing freshness to the company) and PSG (where KK Combi is an elite figure but also one that started business with a self service café in Gugulethu).

2. Is BEE introducing and building South Africa's talent?

Table Four also provides important information for considering the degree to which BEE-induced changes are translating into new intra-firm human resource decisions and relationships. The table shows that—beyond racial characteristics—board members reflect pre-existing patterns in South African control structures. It is argued that these patterns, which favor appointments of individuals with profession-based qualifications and prior experience in big organizations, emerge from established value sets. They are completely appropriate, given the way business perceives talent and personnel quality. The same value sets dominate management appointments.

The pace at which these appointments have risen equates with that of appointing new executive directors. Thirteen firms showed data on staffing structures. Numbers differed significantly across firms but on average ten to fifteen percent of top and senior managers and "professionally qualified" employees were PDIs, up from below five percent prior to BEE.[41] Gold Reef City Resorts had eleven black senior managers out of 129 in 2006 (nine percent). This was up from four out of 128 in 2003 (three percent).[42] Bidvest's performance is better than this: Thirteen and a half percent of top management were black in 2006, as compared with ten and a half percent in 2002. Twenty-one percent of senior managers were black in 2006, up from about fourteen percent in 2002. The other companies sit in this kind of range. The most interesting observation is the increase in black top and senior management hires since 2002.

It is hard to identify exactly who new hires are, but information garnered through interviews and other sources suggests they also have many attributes of their

[41] This was assessed in only four companies providing information this far back. It does equate with figures in the literature. Horwitz, Bowmaker-Falconer and Searll (2000, 135) indicate that blacks constituted three percent of the management and professional resources in South Africa in 1995.

[42] There were seventeen senior managers who were either black, asian or coloured in 2006 (thirteen percent of the total). Women made up twenty-nine of the 129 senior managers (twenty-two percent).

white predecessors. Most notably, one finds an emphasis on finding talent with professional qualifications (CAs, lawyers and engineers) and past experience in big organizations. Firms find this talent through specialized BEE personnel agencies, in other large firms, or through professional affiliations. In some cases senior managers also rise through the ranks. This is a preferred approach to hiring managers in general. Gold Reef Resorts state as much in its 2006 Annual Report: "Wherever possible the group recruits and promotes internally and relevant training is provided to help identify and fast-track suitable HDI candidates." Sun International has actually focused its BEE employee trust on providing incentives to retain future managers: "The SIBEMT was also established to attract and retain black management thereby sustaining black leadership within the group."[43] While most of the top and senior white managers in the firms seemed to have risen through the ranks, there is limited evidence that firms are finding this an effective way of sourcing PDI senior managers (yet).

Advertisements for BEE managers (placed by firms and personnel agencies) are thus an interesting way of assessing what these firms are looking for. These advertisements typically emphasize the professional and experience elements—even for jobs that the professions would not match (SAICA 2007). It is interesting to note that the emphasis on these kinds of attributes seems more intense for new black entrants. Table Four shows that CAs make up about half of the black directors in this sample, for instance, whereas the ratio of CAs to all directors is actually only thirty percent for the whole JSE (SAICA 2007). It seems that firms use professional qualification as a vital screen for PDI talent, especially in senior management and board appointments.

Again this is understandable and appropriate—and few would question big business for such behavior. But one must realize that this reflects an existing set of values and structures that is continuing to drive decisions in the new non-racial South African corporate culture. It could be problematic on a number of levels:

[43] Other firms doing this include Woolworths and Old Mutual.

- It does not necessarily foster significant change in the type of person admitted into management, which could undermine the freshness of ideas new people could bring. These managers draw form a stable network that has always been represented in large numbers and may be seen to have a fairly static approach to business (and a series of bias in favor of bigger, more formal business, for example).
- It also suggests a very rigid PDI talent barrier at the top of the economy. The pool of PDI professionals is small; if PDI managers are drawn from this pool only there simply are not many managers available and BEE will fail to effectively open big business up to a large group.
- It also exacerbates the skills constraint already evident in these key areas. Consider Table Five showing numbers of CAs since 2002.

Table Five. Accountants and the South African skills constraint

	Number of Chartered Accountants					Ratios: Different group numbers/total		
	Black	Coloured	Indian	White	Total	Black/total	PDI/total	White/total
January 2002	259	188	905	18524	19876	1.40%	6.80%	93.20%
January 2003	325	222	1038	19322	20907	1.68%	7.58%	92.42%
January 2004	403	257	1179	19971	21810	2.02%	8.43%	91.57%
January 2005	486	317	1395	20850	23048	2.33%	9.54%	90.46%
January 2006	615	383	1583	21694	24275	2.83%	10.63%	89.37%
January 2007	773	447	1803	22653	25676	3.41%	11.77%	88.23 %
June 2007	857	478	1927	23091	26353	3.71%	12.38%	87.62%

Source: Official SAICA statistics

The number of black CAs increased from 259 in 2002 to 857 in June 2007. This is a growth of 230 percent in the five and a half years, with a steady 25 percent growth rate in the past two years. The number of non-white (PDI) CAs grew by 141 percent over the period, at a rate of about 17 percent per annum in the past two years. But numbers of Black and PDI CAs are still relatively low. 857 Black CAs is less than four percent of the total number, which is dominated by whites at 23,091 or close to eighty-eight percent. Numbers are similar for other ‘trusted’ professions like engineering and law.

If firms continue to look to these groups for their executives, there simply is not much chance of materially changing executive profiles in the short or medium term. This completely compromises the ability to attain Code of Good Conduct goals. Consider the kind of performance needed to produce enough PDI accountants to ensure that three quarters of this group are non-white by 2014: If the white total was held static (23,091) 92,364 CAs would be required in total; 69,000 new CAs would have to be produced before 2014; This would mean raising the rate of growth in PDI CAs to 56.5 percent every year; At this rate there would still only be 11,357 black CAs in South Africa.

This is obviously a problematic scenario, created by the rigidity of the BEE Codes. The pressure to meet the Codes creates a number of negative incentives. First, there is pressure to hire as many of the small pool as possible, which leads to artificially high demand for an already high demand group of people. Most of the firms in the sample shared this as a problem manifesting in extremely high salaries for professional people and a lot of job-hopping by these groups. Second is the pressure to push these individuals through the education system without sufficient training, undermining confidence in the qualification. Firms also indicated concerns about this. Finally, there is an incentive to not only slow down production of white professionals but to actually stop hiring those already in the system (meeting the quota may require this). These people are skilled enough to find international jobs; their mobility makes them easy to lose.

This is of great concern to many, including at least half of the firms—which cited such in Annual Reports. Solving the problem requires action by both firms and government. Firms will need to start bridging to new networks of potential executives—without the trusted professional qualifications and big business experience. People with talent surely exist in various areas of the economy—running informal companies for instance—and these need to be found. Once found, however, there needs to be a new way of screening. This will call firms to re-think what they need in managers, building new profiles on different, emerging value sets. Some observe that ‘out-of-the-mold’ leaders have proved successful in other areas of the economy (Trevor Manuel and Tito Mboweni are often cited). Unfortunately it seems that firms have not yet tried these new leaders out. Jackson commented as such in 2001 (p.316), citing the challenge “to develop recruitment, selection and training programmes which can identify and develop the capabilities within the community and organization.” Beyond the apparent difficulty big business has had in meeting this challenge, it is even more unfortunate (and surprising) that bridging entities (like employment agencies) have not started aggressively filling this gap (by ‘finding’ talent and working out how to package it to firms).

Government will also need to enter the fray. The Codes are simply too rigid in the face of the strong qualification-bias in the economy and the reality that skills are short. Quotas will not solve this problem; they will only exacerbate it. Policy should focus primarily on growing skills at the top of the economy and should relax the emphasis on who these people are. This is simply because low-skilled jobs are a complement of high skilled jobs and having many skilled at the top accommodates people at the bottom.

It is likely that the constraints on finding PDIs to fill top and senior managers will ease in coming years as junior and mid-level managers rise through the ranks. As stated, most of the firms have a preference of hiring from within (the ‘in-house’ network discussed in an earlier section). It seems that this is the way a number of firms have tried to build these mid-level ranks in the past few years. Reunert has sourced a number of its junior managers from its late 1990s Reunert College graduates, for instance. An Executive Summary of the Reunert Academic Advancement Program calls the College “a cornerstone of the group’s Employment Equity program” with the aim “to employ as many as possible of the students, once graduated, in the group.” The same document indicates that “More than fifty individuals who graduated through the system are currently employed within the group, mostly in junior managerial positions.” Grindrod explicitly adopts a similar "developmental approach…to affirmative action" to "assist previously disadvantaged individuals to occupy more skilled and responsible positions within the group." Bidvest's comments in the 2006 Sustainability Report also suggest an approach that tries to develop internal talent for management:

> A new generation of Bidvest managers is emerging…A reliance predominantly on promotions within the business has enabled some divisions to progress further than others in increasing affirmative action at junior, middle management and directorship levels.

One should notice again that firms are depending on pre-existing structures as solutions for new BEE hiring. Internal promotion is an understandable and established approach to finding new managers (and implicitly screening these) but it also limits the pool of new managers. The approach suffers similar problems to the traditional dependence on limited pools of CAs, lawyers and engineers as well. Among these problems is the fact that it seems harder to hold onto those individuals a firm is grooming for management. Consider Bidvest's comment: "In spite of efforts to retain talented staff who benefit from development opportunities, competition in the market for skills results in loss of staff which is a setback to achieving targets."

While the companies all formally reflect positively on their skills development programs, it seems they share Bidvest's reservation about training PDIs who might then leave. It seems this creates a disincentive to producing general business skills in staff. Better to train them in company specific skills that are less transferable. This being said, all of the firms have training as a central element in their empowerment programs. Gold Reef City Resorts includes training on "computer and communication skills, management development, customer service, labour law, whistle-blowing, life skills and VIP payroll training" and employees are "encouraged to further their personal education with incentives including bursaries and study loans for courses ranging from advanced skills training to professional qualifications and advanced degree." This range of skills development opportunities was offered in most of the companies, at least half of which actually integrated the programs into business plans and strategies. Adcorp had developed this approach as early as 2000 when it commented that,

> The transformation framework…used the strategic business plan of the group and its companies as the point of departure and is focused primarily on building capacity through focused development and skills transfer. This is aimed at achieving sustained growth and profitability both now and in the future. In order to achieve strategic business objectives, the above transformation process is supported with a performance measurement system focused on measuring key objectives at all levels throughout the group. The system facilitates effective planning, implementation and monitoring at board level and reflects the individual and collective commitment of all directors and senior managers to the process.

Companies like Adcorp, Dialogue and Reunert match training with mentoring in holistic development programs. These programs are again focused on promoting internal talent and it seems that this is happening—albeit slowly. Firms do note that these programs are time consuming and demanding on senior staff and further that training opportunities are undermined by weaknesses in publicly available training programs—notably the SETAs. The financial sector SETAs do not attract this kind of criticism, partly because firms in the sector seem to have taken control of the SETAs to ensure effective and appropriate training opportunities are made available.

One cannot deny that the proportion of previously disadvantaged individuals has grown in the firms analyzed, even with the noted weaknesses in training and skills development and the limits to access for PDIs (because of the reliance of existing hiring and promotion structures and the narrow dependence on tried-and-tested networks for talent). The firms indicate that PDIs now account for at least half of all new management appointees.[44] The unanswered questions are whether this group is enough of a talent pool for a non-racial South Africa and whether they represent a true opening of big business to new people and ideas?

[44] Nine of the firms made such comments in various documents. The other sixteen firms do not release such data.

3. Is BEE creating vertical connections in the economy?

These kinds of appointments have buoyed the numbers of middle class blacks in South Africa. A recent study on this group, the 'black diamond' research by the University of Cape Town Unilever Institute, numbers this class at 2.5 million people, or about ten percent of black adults. The study finds this group is varied in make-up but has mostly taken up positions in the formal economy. Many have recently also transitioned from their township homes into the cities and many seem to be adopting more middle-class lives. One of the interesting questions the research implicitly raises is whether, as this group takes up its position as a genuine middle class, it will facilitate connections between bigger business and smaller black businesses and between the first and second economies.[45] This question is also central to BEE—where firms are meant to engage vertically with new companies and PDIs, to open up opportunities for SME and even MSEs. They are meant to do this by engaging with new preferred suppliers and also through enterprise development programs.

Firms in the sample generally indicate that they have bought into the idea of engaging with new suppliers, especially small businesses. At least half of the firms have created BEE procurement committees or review processes to ensure that their supplier pools are transformed or transforming. Adcorp communicates this in its 2006 Annual Report: "The Group places significant importance on the use of empowered suppliers and sourcing of services and supplies from empowered companies is encouraged and maintained." Dialogue has a "formal procurement policy [which] includes guidelines for affirmative procurement and, when selecting new suppliers, criteria such as the suppliers' support of BEE are taken into account. The group further encourages the use of small, historically disadvantaged and women owned businesses, wherever possible." Onelogix launched an initiative in 2005 "to increase expenditure with enterprises that have

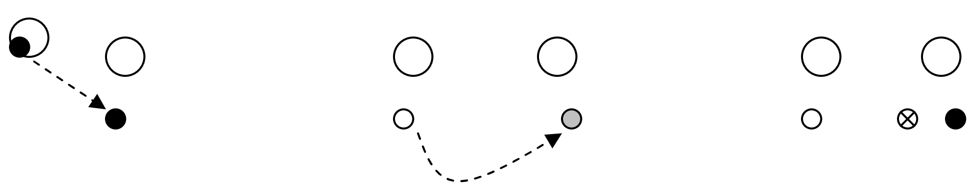
[45] Luhabe (2007, 24) raises this question explicitly: "What has not been measured is whether, as a result of this estimated one million, our extended family members have somehow benefited from this new class of capitalists through, for example, assistance with education and making sure we provide appropriate mentorship and assistance for less fortunate relatives."

made significant progress in the area of BEE.” It has also conducted “an extensive review of the group’s existing supplier base” and formalized policies and procedures, “to allow for more black-owned companies to participate in the group’s discretionary procurement spend.”

Firms are adopting a variety of approaches to satisfy the BEE preferential procurement requirements. These are shown in Figure Seven below. The first model is an insourcing/outsourcing model. Insourcing occurs where firms take staff performing a service in-house (typically truck driving, maintenance and catering) and set them up into SMME operations to provide the corporation with the services. Outsourcing occurs where staff was performing a service in-house but this is now produced by a BEE firm outside (the difference between this and insourcing is that the new firm does not include any of the old staff in it). The second model is where firms put pressure on their existing white suppliers to change their BEE status. The firm keeps the same supplier but it is now BEE compliant. The third model is where firms actually replace a traditional non-BEE supplier with a new BEE supplier.

Figure Seven. Different models of response to preferential procurement

Outsourcing/Insourcing *Suppliers BEE status change* *New supplier*



These models are all variously practiced by the companies analyzed. It appears that most companies prefer outsourcing and insourcing and having existing suppliers change their status. These options have been described as ‘low hanging fruit’. In many respect they are similar responses to those observed regarding identifying new owners, board members and managers because they involve the least structural change possible. The suppliers are people enjoying existing relationships with the firm in all of these cases, meaning that opportunity is not really being opened to new entrants and also that new vertical relationships are not truly being forged. This was the case even in some of the cases where firms embraced new black suppliers. The suppliers were identified by and related to the power groups with which the white companies were engaging in ownership transactions; referral from within the established and trusted network is again central to the relationship. Kirsten and Rogerson comment as such in their discussion of supplier arrangements in the tourism industry (2002, 38):

> Cost cutting through hiving-off and outsourcing non-core business undoubtedly results in possible opportunities for emerging SMME entrepreneurs…Nevertheless, these opportunities are by no means guaranteed since, in many cases, outsourcing…will produce business linkages with established SMMEs rather than groups of emerging SMMEs.

The authors cite Sun International in particular, where security has been outsourced to a large security company rather than a local SMME.

It is totally understandable for firms to behave in this manner. New supplier relationships are risky and sometimes costly to establish. Engaging with pre-existing partners involves no additional search and screening costs. This seems to be one of the reasons why firms engage in quasi-fronting behavior—where they work with a black owned company that is co-owned or managed by a white person. In many of these cases the white person is from big business as well and is thus ‘network-familiar’ to the big corporation. In some instances it is even apparent that these people are formally dispatched by the big corporate to enable its relationship with the new supplier. In other instances the white partner is simply entrepreneurial or left big business through retrenchment in the late 1990s. These multi-racial partnerships are thus not always negative and do not always constitute fronting—even where the white partner seems to take the lead in the supplier relationship. However, they may constitute barriers to new black entrants.

It is interesting that BEE points are allocated based on amounts spent, with a small credit to procurement from small businesses. Beyond the warning about fronting there is little in the codes that delves into the detail of who the new suppliers are, whether they are repeat suppliers, or whether they are new entrants. It appears thus that the BEE codes do not specify enough that new entrants are preferred or compensate firms for the risk of dealing with new entrants (through significantly higher points allocations for small business engagements). This is a weakness of the Codes, which could allow companies to progress successfully without actually developing vertical relationships to new entrants. A number of firms cited another concern with the Codes and how they are being implemented: That procurement from international sources is not subject to the same BEE requirements, giving international firms a competitive advantage over local firms. Some firms even indicated that parastatals preferred buying from international firms because the transactions did not require complex questions about BEE compliance.

In the limited number of interviews conducted some firm representatives expressed frustration with the idea of finding new small, black suppliers as well. The major concern was that these new entrants could not be found or were not reliable, trustworthy or proficient in business. In one case a firm expressed concern that they had a natural ceiling on their preferential procurement score because of a lack of black panel beaters—a significant type of supplier to after-service auto firms and to the insurance industry. Interestingly enough, this sector has recently received significant attention because of this problem. Black panel beaters do exist but complain themselves about "high entry barriers exacted by the industry" (Mushwana 2007, 51). Their gripe is simply that they cannot get the "motor manufacturing and insurance accreditation" required to obtain "the "right" to handle lucrative and guaranteed work" from big business (Ibid). The black panel beaters cite specific problems with accessing opportunities from big business, including (all quotes Mushwana 2007, 49-54):

- Not being in key networks. ("If I were on the panel of manufacturers and insurance companies, my business would be in a much better situation.")
- Being separated by location. ("Being based in Soweto is a disadvantage because we are serving the poorest of the poor…")
- Having limited capacity. ("While an average township panel-beating shop handles about three to five cars a day, white-owned establishments in Johannesburg handle an average of 200 cars a day at an average of R25 000 per car, while their township counterparts average R15 000 per vehicle").
- Lack of capital. ("Lack of financial capital is a hindrance to the emergence of sophisticated black-owned panel beaters.")

Against the complaints of exclusion by black panel-beaters, one finds white companies commenting that, "We are desperate to appoint black-owned shops." The question is why, given the desperate demand and the obvious supply, vertical relationships are not being developed? In particular, why is BEE not facilitating the development of these networks?

One explanation is that big business and small black business occupy different economies, characterized by different structures, networks and value systems. There are no bridges between these different economies and players in both are reluctant to engage over uncertain chasms. Big white business, for example, cannot seem to move to Soweto (and beyond) to find black panel-beaters, or beyond its 'accredited networks' to try and develop a screening model for non-accredited but obviously experienced black entrepreneurs.[46] The black panel-beaters themselves cannot seem to make the investment necessary to get accredited. One owner was asked why he would not invest in new chassis-straightening equipment "in spite of having been granted a facility by a financial institution." His answer was, "I am scared of taking the loan."

[46] Kirsten and Rogerson (2002, 38) provide a similar explanation for why Sun International hired large security firms rather than local SMMEs: "Small security companies do not, according to Sun International…have sufficient scale to provide unfaultable security services" (in other words, they lack credibility).

There is talk of a demonstration project involving Daimler-Chrysler and black owners and other manufacturers also indicate a willingness to participate. They all suggest that the manufacturers' industry forum should be a connector between the two groups. This is an exciting development. The idea of a bridge between the two networks is just a start, however. Both sets of role players need to work hard to better understand each other and enable sustainable engagement.

Bridges are also needed to account for different levels of financial literacy. Black panel-beaters are criticized as being "back-yard and scrapyard operations" for example, because "bookkeeping tends to be poor": "As a result you cannot use the balance sheet to raise capital because you can't prove the viability of the business" (Mushwana 2007, 56). This problem was expressed in experiences beyond panel-beating as well, with a number of the firms finding smaller black suppliers difficult to engage with from a financial perspective. Three firms indicated that the BEE supplier ran out of money quickly and could not continue business, even though they had given it sizeable contracts, for example. One of the firms explained that, upon discussing the problem with the BEE supplier, they were informed that the BEE supplier had not been paid for its services. Two problems were identified: (1) the BEE supplier had not invoiced the larger firm; (2) the BEE supplier was not aware that the larger firm would only have paid it on a thirty day cycle anyway.

This example is reflective of the different types of financial engagement in different areas of the economy. Larger firms cannot just expect that smaller firms will understand how their billing system works, or even that this billing system will work for the smaller firm. In a basic way such thinking is a barrier to entry for smaller firms and a key to entry into business networks. In the spirit of the Financial Services Charter, Nedbank appointed a special unit to work on procurement from small black businesses. This unit manages financial transactions in a manner that works for the small businesses; it pays weekly, for example, and helps the businesses keep books, develop invoices and such. ABSA has similar schemes, which are proving very effective in connecting to small businesses. This kind of activity is evidence of a practical bridge from one network to another—that facilitates active vertical relationships in the economy. It is also an example of a blended approach between preferential procurement and enterprise development, something emphasized in the Financial Services Charter.

This blended approach has been used by a number of companies to stimulate vertical relationships in the economy. Paracon's engagement with Zenzele Recruitment is a good example. Paracon owns part of Zenzele and supplies financial support, operational guidance and infrastructure to Zenzele. Cargo Carriers is another excellent example. The company has not performed well on the ownership aspect of BEE but is making a huge imprint on various communities through the vertical networks it is establishing with various new entrants:

- It started the Buhle-Betfu (B-B) Sugar Cane haulage company in Malelane and Komatipoort in 2003. B-B involves a strategic partnership with small emerging cane growers, which has grown into a significant logistics company. Cargo Carriers assisted the cane growers in buying vehicles and setting up their business, including winning a large medium-term contract with SAPPI in 2006.[47] Cargo Carriers is now replicating the initiative in two other small towns.
- Carriers also established Ezethu Logistics as a joint venture in 2003. It assisted the company in developing transport capacity and accessing a major deal to deliver Total products. The company doubled its turnover in 2006.
- Finally, an owner drivers operation was set up in 2001. Drivers were not simply in-sourced or out-sourced. Rather, Cargo Carriers opened opportunities to the program but screened applicants carefully. Once

[47] One should note that B-B is now owned partly by various firms including Bidvest and BEE groups Dinatla, Shanduka and WDBIH.

selected, the small group was taught about entrepreneurship and so forth, given contracts with Cargo Carriers and assisted in accessing other contracts (with Bulk Mining Explosives, for instance).

In all three of these initiatives Cargo Carriers noted the important role played by long-standing white employees in ensuring success. One of these was called “the pivot and our key man” but he could also have been termed a bridge or connector between big business and emerging business. This seems to be a key to building effective vertical connections in the economy—especially if these connections are to open the economy to new entrants (essentially having someone trusted in both the big business network setting and the ‘second economy local setting). A second key seems to have been the decentralized structure of Cargo Carriers itself. Having a presence in lower income areas like Malelane allowed the company access to the communities in these areas. This seems to have allowed a transfer of information regarding the urgent poverty reduction needs of these areas to senior management and also allowed easy engagement between the company and local citizens.

These connections were also evident in other cases, including Nedbank and ABSA (as discussed, a dedicated team in Nedbank assured links and understanding between different parties). Oceana began these kinds of initiatives in the late 1990s. In 2002 it had a variety of local joint ventures and supply agreements in place in the fishing industry.[48] These were located in small, poor towns on both coasts and appear to have effectively opened the industry to new players. The local presence of Oceana in poorer areas was important in bridging first and second economies. Kirsten and Rogerson (2002, 41) identify this as a standard fact: “The greater the degree of decentralization of authority to the local-level, the greater the likelihood of local business linkages.” The impact of these linkages, where they have transcended traditional network boundaries, seems

[48] In 2002 Oceana had over 25 joint ventures and a number of supply and agency agreements in place “in which other fishing organisations, mainly SMMEs, made use of specific services or opportunities offered by Oceana subsidiaries.”

significant—in both the opening of the economy to new entrants and the creation of jobs. If one agrees with Goldstein (2000, 36) that “the most empowering thing for most black South Africans would be a job” these kinds of interventions should be further encouraged.

4. Is BEE opening the economy at the bottom?

Job creation is a major issue at the bottom of the economy. Most observers indicate that it has not received enough attention from BEE. This is indeed the opinion of a number of Chairmen and CEOs in the firms analyzed. The Chairman of Bell Equipment, for example, noted as early as 2004 that he was “concerned about the lack of recognition in the Charters and codes to job creation” which he described as “the sharp end for many previously disadvantaged people.”

While vertical business connections (via supply chains and enterprise development) seem to have a high payoff for those at the foot of the economy when done well, most of these interventions do not seem to be done well. As discussed, this is partly because the BEE Codes do not specify what such interventions should look like or create the right incentive for true engagement with new entrants in lower-level networks. Similarly, it can be argued that firms have limited reason to implement the Corporate Social Responsibility aspects of the Code in an aggressive manner (notably, this is marginalized in name as well—termed the residual element in many tables).

All of the twenty-five firms in the sample had active social programs. Most of these programs resembled poorly coordinated charity engagements—the support of an orphanage in one area and a clinic in another or a Foundation of some or other sort. Many of these initiatives pre-dated BEE by a number of years. In at least half of the cases there was evidence that the initiatives were not coordinated with other engagements involving beneficiaries. A crèche would be sponsored by one firm for example, but that firm would not talk to the local council to limit duplication of support.

This commentary sounds altogether negative and this is unfortunate, because the firms in question are at least engaging with communities. They score BEE points for the amount they spend. The concern is that spending on charity may not be the same as empowerment. Depending on charity may indeed be a form of disempowerment. Corporate Social Responsibility (CSR) should have an element of charity but in the BEE context it should have a much greater element of coordinated community empowerment, including job creation. In particular, CSR should involve interventions that bridge the first and second economies.

There are some examples of this kind of intervention, especially focused on what could be called 'public good' training and one facilitating search and screening of excluded unemployed individuals. The Reunert Academy is an example of this. Located on the outskirts of two townships, the academy locations allow access to networks of black school leavers. These school leavers are introduced into the academy and given formal training and teaching to sharpen their social, business and academic skills. Graduates are then given access to further education or to job opportunities in Reunert or other companies. The Academy provides a bridge between those who are languishing in the second economy and those who are in the first economy and training that all companies can benefit from. This kind of training attracts only a few BEE points, however, as it is not a skills development activity (which is, according to the BEE Codes, an activity internal to the firm). Most companies in the sample expressed the need for more of this kind of training—especially with its link to actual job creation in a wide group of firms. The Academy is a named beneficiary in the Reunert BEE deal with Peotona, ensuring its continued existence.

Group 5 has a similar program called the "People at the Gate" skills program. This is "aimed at unemployed job seekers who arrive at construction sites in the hope of securing work." It involves training these job seekers in basic construction skills. "Successful learners are then employed on the construction sites on limited duration contracts.” The program allows entry to the formal economy for first time job seekers. The lack of entry is considered a major constraint on employment creation and also a major barrier between first and second economies. This kind of intervention, which has the dual benefit of training and job creation, is thus very empowering. As with the Reunert program the intervention enhances the ability of industry to ‘find’, ‘prepare’ and ‘screen’ people it would not have connected with in the past.

Some of the other CSR initiatives that seem to be facilitating empowerment in local communities include programs where firms ‘adopt’ communities. Oceana and some other companies engage in various coordinated ways with local communities in which it has joint ventures with local fishermen, for instance. Other interesting initiatives involve subsidized supplier relationships firms like Woolworths develops with local groups of women—weaving baskets, for example. These initiatives again have the benefit of training, employment creation and establishing real connections between first and second economy participants. Bell Equipment’s philosophy about this echoes such ideas:

> Where possible Bell Equipment’s approach has been to empower the community to encourage sustainability, well-being and a sense of self worth. Some of these initiatives not only benefit the recipients but have a claw-back benefit for the company. An example is the company’s support of a number of institutions in the Zululand area, such as Thuthukani Special School and Jabulani Skills Training Centre, that exist to uplift and support those people whose opportunities are limited.

This kind of connection was suggested in Figure Six, as potentially existing between BEE consortiums and local communities. The link between the two is potentially established in the figure through a Trust—indicated as a beneficiary of a BEE deal. This kind of trust is evident in various BEE deals in the sample. WDBIH, a beneficiary in the Paracon deal, has operated a trust since 1997. WDBIH repatriates profits from the investment portfolio to the trust for disbursement to the group’s social partners. WDBIH indicates that more than R40 million has been disbursed to date, benefiting 15 000 women and creating thousands of jobs.

It is difficult to verify this, but certainly the idea deserves the label ‘Broad based BEE’. Other power groups also have trusts and there is a growing interest in seeing how the newly empowered groups connect to local, second economy groups.[49] Fazel Randera, trustee of the Sexwale Family Foundation, comments that, “When you are living in a capitalist society, there will always be individuals who amass a large amount of money. The question is how they utilise that money to open society further” (as cited in Salgado 2007). Luhabe (2007, 24) is skeptical: “Our poorly conceived intention to spread the fruits of BEE as widely as possible has made us dishonest people with many trusts that have fictitious structures that cannot be accounted for.” Shubane has an interesting solution, arguing that, “The public should be entitled to insist on how the assets of some BEE beneficiaries should be used.”

The bottom-line is that BEE should empower people at the base of the economy. Where BEE is called ‘broad-based’ it should especially do this. Having specific key performance indicators (KPIs) for funds may be an approach to this. Firms and funds alike should be encouraged to engage in a more accountable, sustained and coordinated fashion with the poor.

Ideas to ensure BEE could be a South African growth catalyst

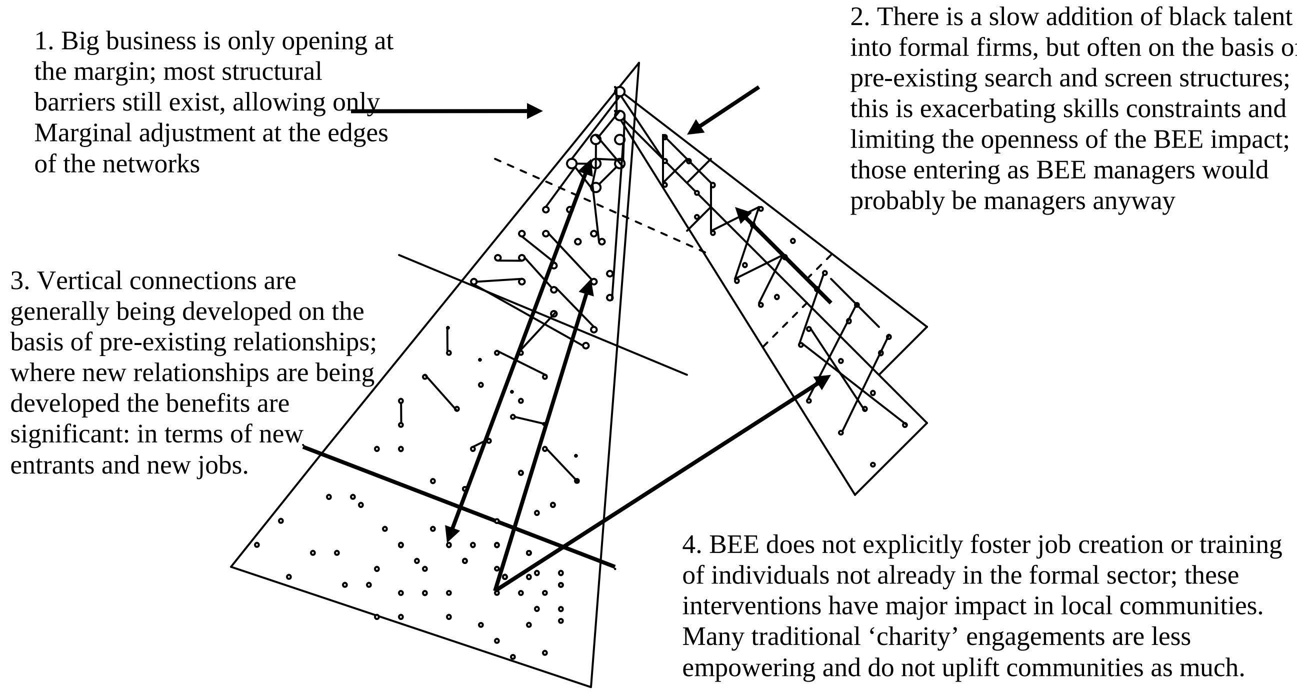
The discussion of firm responses to BEE is limited by the fact that many details of these responses are unknown. A serious assessment of responses would involve more detailed analysis through more structured interviews and site visits. With this caveat in mind, the observations are still interesting. Combined, they yield a

[49] Salgado (2007) comments that, “South Africa’s new black philanthropists, most of whom were the first beneficiaries of black economic empowerment (BEE), are coming under increasing pressure to share their wealth through structured channels. In addition to deals that include broad-based BEE components, some black philanthropists are setting up foundations.”

perspective on firms' response to BEE that is neither overly positive nor negative. All twenty-five firms are obviously engaged in BEE to various degrees. The majority is fully engaged and shows commitment in all BEE areas. However, most of the firms' responses still seem limited by existing economic structures and the macrocultures and value systems that underlie these structures. Firms look to partners with big organization experience, for instance, hire directors that have similar professional accreditation as traditional directors have had, and look for 'new' suppliers that have connections with the old suppliers.

Figure Eight shows thus that structures may not be changing as much as proposition 1 suggested they would need to, to ensure BEE is a growth catalyst. Indeed, there is an argument that BEE as currently practiced is actually a constraint on growth. Mostly, this argument points to the fact that BEE exacerbates the skills crisis in South Africa. The excess demand for skilled people and managers creates a set of problematic incentives that could limit growth in the future. This problem is partly explained by the fact that firms continue to base employment decisions on established hiring patterns; they rely on professional groups in their search and professional qualification in their screening of applicants. This kind of dependence could be seen to confirm proposition 2, that BEE is either not changing extant structures or that BEE changes are being 'managed' by elites to ensure as small a change as possible. (The face of management may change, but not its core anatomy).

Figure Eight. A basic summary of BEE effects on economic structures



This finding, though hardly based on absolute evidence, should concern government. It requires asking questions about implementation and design approaches government might consider in its attempt to ensure that BEE has the desired effects and not the dominant ones observed. Such lessons and ideas arise here from a mixture of theory and practice. They draw from a divergent set of thinking which includes institutional theory, thinking about social and organizational change and work on BEE-type policy initiatives around the globe and in South Africa. Many of the ideas are already present in the country's BEE discussion.

1. Would an emerging values emphasis yield more effective change?

The first idea is simply that BEE-type policies catalyze change more effectively when they are embedded in an appropriate emerging value orientation. Moore (2000, 190) argues that value conceptions are at the heart of all organizational engagement and manifest in "the mission" which "creates the organization's purpose." Peters and Waterman (1982) identify values as the essence of corporate culture and shared values within firms as the key to company success. Kotter (1995, 63) emphasizes the importance of value-based vision in change processes, arguing implicitly that people can be led into a change orientation when they see the underlying value of the change. He states that this "goes beyond the numbers" we use to plan and measure change. Desegregation of the health system in the United States was considered relatively more successful than desegregation in other sectors partly because a new shared value system had begun to emerge that made the changes appropriate and core to the organizational mission: "Unlike desegregating the public schools, desegregation of health care began after a strong national consensus had begun to solidify" (Smith 1998, 84).[50]

Thomas (2002, 250-251) finds this experience common in affirmative action experiences around the globe. She focuses on employment equity in particular in saying that transformation "must necessarily be embarked upon as an holistic process." The structures that BEE targets for adjustment are products of the South African economic macroculture and its holistic value systems. BEE has arisen out of emerging counter-values in society that have effected a political change already and are increasingly challenging firms to think differently about their roles and behavior. It is logical to think that if BEE focuses on the value change itself, and not the behavioral patterns it attempts to quantify in the Codes of Good Conduct, it will be more successful. This is certainly how Fakude (2007, 204) sees the situation, believing that an emerging set of shared values does underlie BEE and should be the motivator of change:

> What the broad-based approach does…is take note of the social context of development…it fits in neatly with the values and objectives of our new society. We want to be inclusive. We want to empower. We want to grow. We want more opportunities for more people. We want to see communities blossom and our children thrive. *There is nothing artificial or imposed about broad-based empowerment; it is merely acknowledging the beliefs and spirit that is already there.*

[50] Smith notes that this desegregation effort was far from perfect but was comparably smoother, quicker and more effective than other efforts.

Marcus et al. (2007) have a different impression; that there is no common viewpoint and value set surrounding BEE and it is really a set of instrumental actions for firms to undertake. The reality is probably a mixture of both perspectives, with some firms approaching the policy from a value orientation and others in an instrumental fashion. Even Jones, Hesterly and Borgatti (1997) argue that value-based macrocultures vary in type and intensity between firms and industries, suggesting that the more structurally embedded the industry participants are, the more widely they share their values, assumptions and role understandings and are influenced by these. They emphasize that people play a major role in facilitating the diffusion of emerging values, arguing that the inter-firm movement of participants diffuses norms, values, and expectations among those within an industry.

In their work on learning networks, Morris, Bessant and Barnes (2006) reinforce this argument in a different way, finding that inter-firm engagement (and not necessarily movement) can facilitate the diffusion of emerging value systems (in this case a value-orientation that emphasizes knowledge and participation). The argument is simply that firms more readily embrace emerging values (and the changes implied by these) in settings characterized by more active engagement of people around these emerging values. Justine Burns' (2004, 18) research suggests that trust levels between racial groups in Cape Town schools are higher where the students are engaged together in class and other social contexts. The implication is that vibrant engagement between different groups stimulates the diffusion of emerging values (in this case manifesting in improved inter-racial trust).
This discussion leads to the following propositions:

> *Proposition 3:* BEE will catalyze structural change more effectively when driven from an emerging value orientation supporting the change; the impact will be less effective when an instrumental, technical approach is taken.
> *Proposition 3a:* Firms with broad internal and external engagements will exhibit a stronger emerging values orientation in their BEE approach, which will enhance likelihood of effective structural change.

There is certainly some evidence supporting this in the twenty-five studies. The main observation in this view is that references to BEE seemed more creative prior to 2004 (when a Code-based dialog was initiated). Many of the more interesting ideas and activities, especially those focused on creating vertical connections and strengthening local communities, originated before this date. Since 2004 the discussion has become much more about compliance with codes. Firms now seem more instrumental in how they are dealing with this challenge.

Companies that began earliest, like Oceana and Cargo Carriers, also seemed to have been influenced in their endeavors. Their connections to local communities seemed to have enthused them to adopt an approach focused on job creation and people empowerment. Reunert initiated the Reunert College in the early 1990s when one of the company's executives returned from a period of work in Namibia where affirmative action programs were high on the agenda. Having rubbed shoulders with decision-makers in Namibia, he bought the ideas over to Reunert. Interestingly enough, various firms observed that while they were grateful to have the new codes, the 'values' they ascribed to BEE are not fully reflected in the Codes. Bell Equipment's concern about job creation and training being omitted from the codes is one example.

One can also see emerging values in the approaches of other firms. PSG speaks of businesses being embedded in societies and the Chairman notes (in 2005) the "responsibility of businesses in terms of meeting the country's national goals (including increased employment, economic growth/wealth creation and meaningful black participation in the economy)." One can contrast this to PSG's 2007 discussion of its BEE response, which concludes with the statement, "We have done our duty." The former approach seems more enthusiastic and constructive than the latter—possibly because it was driven by an appeal to emerging values and not to regulatory conformance.[51]

[51] The latter statement was also a reference to a third BEE deal PSG entered into. Two prior deals unraveled and the level of frustration at the situation seems apparent in the Report.

2. Does 'space for change' yield more effective change?

A second type of proposition arises from observing Malaysia's affirmative action policies. These policies took two different shapes in different time periods—the New Economic Policy (NEP) between 1970 and 1985 and the National Development Policy (NDP) after 1985 (Athukorala and Menon 1999; Haque 2003). The NEP actually looked a lot like BEE, but with an explicit growth policy tagged to it focused on promoting heavy industry. The BEE-type components include "long-term targets" for "Malay ownership of share capital in limited companies, and the proportion of Malays employed in manufacturing and occupying managerial positions" (Athukorala and Menon 1999, 1122-23). The program had many problems and contributed to budget and current account deficits. A faltering economy—unassisted by the deficits—frustrated NEP progress. The NDP replaced it in 1986, "with a view to putting creating wealth ahead of redistributing it" (Athukorala and Menon 1999, 1123). Some of the ethnic requirements of the NEP were relaxed, work permit requirements for foreigners were eased, and authorities adopted a more overt approach to address racial imbalance, consisting of "various initiatives geared to entrepreneurship, managerial expertise and skills development in the Malay community" (Ibid). The NDP was more successful than the NEP, facilitating growth and structural change: Inequality dropped, Malay engagement in the economy increased, the manufacturing sector grew, and the economy flourished.

Authors offer various explanations for the different policy impacts. One is that the policies were more growth oriented in the second period than the first and supported by growth in this second period. The growth buoyed the economy and provided economic room for transformation and stimulation of a restructured economy—especially reflected in the emergence of small and medium sized businesses. Put crudely, the economic space created more to share and thus allowed room for more sharing.[52] This is not a crude observation, however, as many change processes that do not involve sharing also succeed more readily under positive economic conditions. When the money side is going well organizations are often more willing and able to adopt new policies, management approaches and such. When economic times are bad organizations often close down and retreat to the basics they know.[53] Thomas (2002, 248) takes this approach in her explanation of Malaysian affirmative action experience in particular: "The relative success that the implementation of employment equity has enjoyed in Malaysia…is due to the relative stability in the economy coupled to which there has been economic growth."

A related line of explanation is that the affirmative action policies of the second period were less prescriptive on firms. There was less emphasis on ownership quotas, for instance. It appears as if firms had more decision space to work out how they would engage in transformation.[54] Research increasingly finds this kind of space important for many kinds of organizational change, from public sector reform (Andrews 2004) to firms' strategic adjustments. Space accommodates self discovery, coordination and creativity in the face of change (issues Rodrik and Hausmann (2006) hold as important for firms establishing new production capacities). The BEE Charters, especially in the Minerals and Energy and Financial Services areas, are arguably more creative than the BEE Codes of Good Conduct because they emerged from a creative policy space in which sectoral parties engaged to identify real structural measures they could implement in the name of transformation. The processes were arguably also driven by emerging value sets which helped define the decision space. Initiatives arising from these

[52] Another way of saying this could be that economic rents were more forthcoming in the second period and more rents accommodate more rent-sharing.
[53] Andrews (2004) alludes to this in his discussion of performance budgeting reform in the US States. States like Florida embraced the reform when the economy was in an upswing and backtracked when the economy went into decline.
[54] The level of Malay engagement in ownership deals at the top of the economy was lower in the second period than the first, partly reflecting the decreased pressure in this are and partly reflecting the fact that other measures were being adopted in the name of transformation.

processes involve value-based structural changes that are more directly empowering than the numbers-based measures in the Codes: The Financial Services sector provides new lending products to previously redlined groups, for example, and has electronic banking sectors in isolated areas.

The following propositions emerge from these ideas:

> *Proposition 4a:* BEE will catalyze structural change more effectively when there is economic space—facilitated by growth and opportunity.
>
> *Proposition 4b:* BEE will catalyze structural change more effectively when there is decision space for organizations and sectors to dialogue and self discover the appropriate change for their setting, and how to implement it.

Again, there is some support for these propositions in the experience of the firms reviewed. First is the basic observation that BEE deals went up between 1996 and 1998 when the economy was on the way up. Deals in firms like PSG fell apart in 1999 (when PSG describes the market as “not playing along”). BEE activity—especially deal-making—increased again when the economy started growing. The tie between share price and/or dividend flows to finance deals ensures a tight link between ownership transactions and economic growth. It seems that firms in buoyant sectors performed better in meeting BEE Codes—especially ownership goals. Sectors like manufacturing seemed to perform worse in results and BEE compliance. Some firms also expressed a lack of space that may or may not have been related to industrial performance. The Ellerines merger with Relyant took up time and reduced space for BEE, for example; it is one of the main reasons Ellerines provides for not having engaged in a BEE ownership transaction to date. The management of Bell Equipment noted that their weak economic situation in 2004 decreased their BEE deal options:

> Bell Equipment continues to explore opportunities created by the Government’s Black Economic Empowerment (BEE) policies. Our negative cash flows and relative low exposure to direct Government purchases makes us an unattractive BEE opportunity.

Interestingly, Bell has recently turned an economic corner and is also poised to enter into a BEE deal. Beyond deal-making, Thomas (2002, 248) points out that employment equity goals have been undermined by weak economics: “The lack of job creation has, in many cases, resulted in white males subtly sabotaging progress towards employment equity for designated groups.”

The argument above already suggested that decision space afforded to participants in the various Charters has facilitated greater quality and creativeness in the BEE process. This certainly seems the case if one considers the interesting and empowering ways Nedbank and ABSA have embarked on the BEE process. Their approach is not rote and instrumental as many approaches now seem to be—“ticking boxes” rather than exploring serious empowerment opportunities. It is apparent that these firms have thought hard about how their sector should contribute to South Africa’s empowerment process. Companies like Cargo Carriers also seem to have enjoyed space to consider the best approaches to BEE. It is interesting that they do not focus on the Codes as much as other companies do and they have not embarked on the routine ownership routes like the others. They have adopted interventions that are empowering smaller business but that may not bring them more than about twenty points on the Codes of Good Conduct.

3. Do self-set targets yield more effective change than quotas?

A third set of propositions emerges in relation to target setting in change processes (and organizational performance more generally). Reflecting a growing literature on the importance of organizational targets Hanushek and Raymond (2004) find that setting targets improves performance in United States schools, regardless of design flaws in the target setting or monitoring process. Successful businesses know this as true and businesses in general (successful and otherwise) are increasingly moving towards goal-oriented performance management. Targets focus organizations on their goals—guiding the organizations in producing value.

Introducing targets into social transformation processes is akin to getting organizations to treat this transformation in the same way they treat other business issues. Thomas (2002, 250) comments thus that "Numerical target setting is essential" in affirmative action. She cites Jain's research (Jain 1999) into affirmative action implementation by 69,000 federal contractors in the United States and says, "An affirmative action goal is the single best predictor of the subsequent employment of women and minorities."[55]

Interestingly, Thomas differentiates between quotas and targets, as does Jain in the US contractor study. Jain (1999, iii) notes that targets work even when they are not met while quotas have a rigidity that requires attainment. Targets are much more allied to an emerging value-led approach and a commitment arising from decision space. They guide organizational direction; even if they sometimes do not constitute the final organizational destination. Quotas define a destination that must be reached no matter the means, and thus often entrench a behavioral direction with unexpected outcomes. Thomas (1993) indicates that rigid quotas in Malaysia resulted in non-Malay students leaving the country and also links the quota system to the frequency of fronting (where Chinese and Indians ran businesses behind Malays, meeting quotas without really changing structures). In contrast to these quotas, goals are often not fulfilled but embody organization-specific intentions and, "While employers promise more than they deliver, the ones that promise (set specific goals) do deliver more than those who do not" (Jain 1999, iii).

The value of self-set targets is certainly higher where the targets are effectively monitored and reported upon (Thomas 2002, 250). Such monitoring should focus on targets and strategies, ensuring that both are progressing appropriately, "remain relevant and do not become counterproductive." Such monitoring is about more than accountability for effective transformation implementation; it is also about ensuring that managers implementing change have up-to-date

[55] The original study is Jain (1999), which is cited independently on Thomas as well.

information on progress. Wheeler and Elkington (2001, 6) emphasize that such "feedback loops…can contribute to effective performance" in Corporate Social Responsibility initiatives.

So one must ask who does the monitoring? While not providing an identity the answer is simple: the most credible, consistent and capacitated entity available. This could be government but government has also sometimes failed in such role. Smith (1998, 86) indicates that public health transformation in the USA lost its impetus when the agency responsible for overseeing it "disengaged from direct monitoring and certification…and was buried under a complex array of diverse and ill-defined responsibilities." This is likely the case in South Africa where DTI has multiple responsibilities and no established monitoring capabilities. BEE verification agencies have varying levels of credibility and conflicts of interest in the monitoring role and thus should not be seen as the automatic answer to the question either. Industries involved in charter processes provide their own monitoring, coupled with transparent reporting, which could be the best approach. Firms themselves could also do their own monitoring. Variation in experiences across firms allows comparison of approaches, given the basic propositions:

> *Proposition 5a:* BEE will catalyze structural change more effectively when targets of change (firms) set their own BEE targets; quotas will likely result in less change.
>
> *Proposition 5b:* BEE will catalyze structural change more effectively when targets are monitored and reported on by a credible, consistent and capacitated entity.

A number of firms do set their own BEE targets, including Adcorp, Bidvest, Cargo Carriers, and Grindrod. These firms explain that they tie the BEE goals into internal performance goals. These are then measured as part of the standard performance measurement approach. A number of the companies outsource assessment to verification agencies; more-so since the Code of Good Conduct was released for comment in 2004/05. The reports by these agencies are quite basic, however, and do not tie very well to some of the firms' BEE programs. This has been a challenge for some of the firms who, while welcoming the certainty of the

Codes, find them quite rigid. The Charters are again the best example of firms setting their own targets and assessing these in a credible, consistent manner. The Charters were set by the industry and all firms have to report annually into an industry-wide process. This ensures accountability and even introduces a degree of competition.

4. Do elements focused away from elites yield more effective change?

A fourth proposition arises again from the Malaysian experience with racial transformation. It centers on the type of change focus implied in BEE-type policies. As already stated, Malaysia had two racial transformation periods with two different types of change focus. The first focus was on consolidation at the top of the economy—through development of heavy industries owned increasingly by Malays. It had a 'trickle-down' element of thinking in it. The second focus was on opening the economy from the middle and bottom-up, to new firms, new people, and new ideas. The second focus was much more successful than the first with the most noteworthy contrast being the creation of growth and jobs through entrepreneurial development by Malays. Ownership at the top of the economy did not transform as much as the NEP had deigned it would, but inequality fell nonetheless.[56]

There are many possible explanations for these differences. One builds on the earlier discussion that elites protect their structures, making these structures very difficult to change. Change initiatives that focus on these top of the economy structures are thus bound to be less rewarding than initiatives focused on effecting change to less protected and rigid structures at other points of the economy. A second explanation arises from the idea that change is fostered by emerging values and that emerging values are shared in more open organizational settings.

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[56] Malay ownership in share capital increased from 2.4 percent in 1970 to 19.1 percent in 1985 to 20.6 percent in 1995 (below the 30 percent quotas). One should note that Chinese ownership actually also increased in the period, from 27.2 percent to 40.9 percent. Haque (2003, 255) contends that social change thus did not change ownership patterns. He says that the policies did, however, accelerate "social mobility among Malays" and create "a pool of Malaysian entrepreneurs" and expand the Malay middle class.

Organizations at the top of the economy are often more ‘closed’ than those below them. They may thus be less amenable to change. A third explanation relates to the idea of economic space. Malaysia’s transformational success emerged when policies focused on growth-enhancing change in the middle of the economy, rather than growth-constraining initiatives at the top. Readers may disagree with all of these perspectives, but they do logically suggest an important proposition for the design of BEE-type policies.

> *Proposition 6:* BEE will catalyze structural change more effectively through the elements that focus on initiatives below the top of the economy. Elements at the top of the economy are likely to be addressed in a more limited, instrumental fashion (because of greater resistance to their change, a lower emerging value basis to the change, and the fact that such change is less of an economic stimulant).

This proposition is arguably well supported by the firm analysis. It seems that elite access points—ownership, control and management structures—are particularly resistant to change. The firms seem to have introduced new owners, directors and managers who may be of a different race and/or gender than prior owners, directors and managers, but are very similar in every other way. The firms are understandably engaging with groups that they understand the best and that pose the smallest risk to them. They are trying to minimize the degree to which they move away from their trusted networks. In this way they minimize search and screening costs they would incur if actually engaging different groups.

One of the results of this behavior is that beneficiaries will be narrowly defined. This is true of owners (especially those with voting rights) and especially true of directors and managers. A further consequence of this behavior is the exacerbation of skills constraints in the economy, and the increased cost of these skills. This arises out of the increased demand for black managers and professionals with the kinds of qualifications white people would have needed to be hired. It is arguable that these individuals do not really need BEE to get ahead. Black CAs will get hired, as will black engineers. Similarly, entrepreneurs who are black and who can bring business to a firm will benefit from ownership deals.

The ones who need help are further down the economy. Where firms have taken initiatives focused at the bottom of the economy seriously, the empowerment results have arguably been better than they have at the top. More people have been empowered through job creation and new business creation by Cargo Carriers and others, for instance. Reunert and Group 5 training for unemployed youth is surely very empowering.

5. Does certainty matter to BEE change?

The last proposition also speaks to the substance of change, though not its focus. It is more basically about the clarity of transformation policy, especially regarding time and timing. There are interesting observations about health sector reform timing in the United States that suggests social transformation policies have a time limit. Smith (1998, 85) notes this directly: “It is generally acknowledged that after 1968, the energy in these initiatives dissipated. What had been described…as a “potentially powerful engine of social change” ran out of steam.” He provides various reasons for this situation, including implying a natural sunset for these reforms—where they have either stimulated an adjustment to values in the macroculture or they have not. The US reforms continued in a formal sense beyond 1968, but with limited additional success. They became a frustrating and costly exercise firms had to endure and government had to monitor.

The experience raises a question for BEE which Marcus et al. have already asked explicitly (2007, 228): “The length of time the policy framework promoting BEE needs be in place requires examination. If the purpose is to create an enabling environment, when can it be said that this has been achieved?” This question is important because aspects of BEE could constrain social and economic behavior, especially if they are implemented for too long a period. Wendy Lucas-Bull (2007, 134) notes the ownership element as one of these:

> At some point, insisting on specific levels of black ownership in companies, particularly in listed companies, will have to be discarded,

> since equity markets are by nature very liquid and dynamic and it is unreasonable and a further investment hurdle to expect companies to ensure that a particular class of shareholder always has a precise shareholding at any given time.

There is currently no real sunset clause for BEE. The current codes enjoy an implicit ten-year tenure but government discretion is open on their real horizon. Furthermore, the time horizons for individual firms are not clear. There is a lack of clarity as to what will happen to a firm that fully satisfies some BEE criteria in 2009 but does not in 2011 because of situational changes beyond its control (black senior managers move on and only white replacements are available, or black owners sell shares to white buyers, for example). One could expect these timing issues to frustrate firm responses to BEE and encourage firms to respond in a defensive manner—which may limit real structural change. One could further expect more effective BEE responses from firms with greater certainty that real change will soon be acknowledged and that the regulatory nature of BEE will be changed in a separate time-frame. An emerging proposition could thus state:

> *Proposition 7:* BEE will catalyze structural change more effectively when firms believe the policy has a defined end-point; specifically where firms believe that real BEE change will result in the end of BEE regulation.

Again there is arguably support for this proposition. PSG’s 2007 comment that it had done its duty followed an explanation of its third round of BEE deals. The first round fell apart because the market dropped in 1999. The second round came to a conclusion when the BEE partner cashed in. By 2007 the PSG management appeared frustrated and an approach that two years earlier reflected real commitment to change turned into one of “duty done”.

Three other firms went through similar experiences. They obviously have to keep on making deals to satisfy BEE requirements that seem unquenchable. The firms do not explicitly question the time frame for BEE, but it does seem like many of them have adopted a cautious position with regard to the future. This is certainly the kind of behavioral product one would expect from frustration with the policy and also from fatigue, which already seems to be setting in in some firms.

Conclusion and recommendations for future research and policy adjustment

This study asks the question, “Is BEE a South African growth catalyst?” It addresses the question with reference to the theoretical literature on economic and organizational structures. This literature argues that structures reflect values and influence patterns of behavior, empowerment and opportunities for economic growth. The paper shows that South Africa’s economic structures have had negative influences on racial access and equity and economic opportunity, creativity and responsiveness. The argument that arises is simply that transformation and growth require change in economic structures; the same changes could work for both goals.

Necessary structural changes overlap in BEE and ASGISA and focus on opening the economy to new entrants (particularly Previously Disadvantaged Individuals or PDIs) and new ideas. The central research proposition is simply that BEE would catalyze growth if it were to open the economy in this way. However, there are many observations that BEE is not having this effect. These suggest that BEE beneficiaries are from a small closed group, for example. There are also persuasive arguments that economic structures simply do not change in the time frame and manner that a BEE policy would suggest—especially when structures are protected by elites. This raises a counter proposition that BEE will not catalyze growth.

The two propositions are examined in a study of BEE responses in twenty-five JSE listed firms. The firm responses are analyzed on the basis of public documents like Annual Reports. This approach has its limits but does yield interesting observations that could stimulate further academic research and raises some interesting questions for policymakers.

The basic finding is that while firms are actively responding to BEE requirements they are also doing so within a fairly static macro-structural context. Ownership, control and management initiatives reflect a minimal change approach whereby firms are adding PDI partners at the margin, with the PDIs looking very much like old white owners, directors and managers. This limits the number of beneficiaries of BEE. It also exacerbates constraints on the number of people in these groups—especially manifesting in added pressure on skilled groups.

A number of firms are also not developing vertical connections through the economy that might open opportunities for entrepreneurs in the SMME sector. Those firms that are developing vertical connections are having to create capacities to bridge the network divides that exist. The payoff seems very high in these initiatives, especially those at the bottom of the economy, where gains are felt in 'found', trained and screened talent, new jobs and new enterprises.

These basic findings lead the paper into a discussion of what could be done to improve BEE—such that it does become a policy that catalyzes growth. A few ideas are discussed and information from the firm studies is provided to show how these ideas might be relevant. It is argued that BEE should be led from an emerging values basis (rather than a list of rigid requirements); BEE responses should be allowed to arise out of 'space'—economic and decision space such as is created in the industry charter development processes; Firms should be allowed to set their own targets and not be subject to rigid quotas, and targets should be measured by credible entities—possibly industry based; BEE should focus less at the top of the economy where there are skills constraints and defensive elites limiting the effect of the BEE interventions—it should rather focus at the middle and bottom of the economy, getting big firms to reach down and invest in training and jobs; finally, BEE should be subject to a sunset clause that states seriously when the policy will be considered successful enough to end (for the policy as a whole and for firms subject to the policy).

Specific ideas for policymakers include:

- Government should increase the number of points it rewards firms for doing BEE deals with new entrants. New entrants are vital to new ideas and products yet are also riskier to engage with than established partners, so firms should have an incentive to take the risk.
- Instead of focusing employment equity issues at the top management levels, where limited numbers of PDIs with elite qualifications limit the pool of talent, government should (i) focus on building the pools of elites (training PDI CAs for instance) and (ii) focus on creating jobs at the bottom end and ensuring that these individuals are moving up the organizations.
- Government should focus its BEE policy on the middle and bottom of the economy. It should include new elements to the Code of Good Conduct that reward firms for employing (especially from unemployed groups) and for training unemployed people. At present the points for these activities are earned as a residual and are not substantive. Firms should be given up to twenty points each for these interventions, given their importance for the economy (twenty points would establish this element as an equal to the ownership component which currently has more symbolic vale than it deserves).
- An open architecture approach to BEE would be highly beneficial. This approach would emphasize the emerging values behind BEE and provide an indicative Code of Good Conduct with options adding up to 140-150 (including the employment creation and training elements). Firms would be allowed to choose which elements they intend to score their points in (still being assessed out of 100). Firms would also be required to provide strategies with key performance indicators that could be assessed within industries.
- BEE beneficiaries claiming to be broad based, especially those managing funds, should be called upon to report. They should be required to identify

key performance indicators and to show annually (or even more often) how they are performing against these indicators.

- Government should lead the way in some demonstration projects aimed at establishing vertical connections in key sectors. For example, government could assist auto and insurance firms and panel-beaters in coming together by bridging the groups. This would involve gathering information on black panel-beaters, brokering meetings between these entrepreneurs and big business representatives, assist the groups in understanding their differences, and forge entry engagements that can allow relationships to develop. Demonstration projects could also be run for bridging recruitment agencies for new entry employees—unemployed and informally employed individuals who either cannot access the formal sector or cannot be effectively ‘screened’. Network bridges are potentially public goods in South Africa right now and thus government may need to take the initiative to create them.
- Finally, government should define what it is trying to achieve through the BEE policy. It should stipulate what success will look like and it should set terms for business about when success will be declared and the policy reach its conclusion (for business as a whole and as individual entities).

Beyond these policy recommendations, the study is intended to provide the basis for further thought about BEE and its connection to growth. It is hoped that future studies might delve in even greater depth into the details of what individual firms are doing in response to BEE. High quality research is needed for this important social transformation policy. BEE could be a South African growth catalyst.

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